



Final Pre-Feasibility Report

Construction of Njiro Market in Arusha City (Engutoto Ward), Arusha City Council



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List of Acronyms and Abbreviations

| Acronyms | Description |
|----------|-----------------------------------------------------------------|
| ACC | Arusha City Council (ACC) |
| BOT | Build Operate Transfer |
| DSCR | Debt Service Coverage Ratio |
| EIA | Environmental Impact Assessment |
| EIAAR | Environmental Impact Assessment and Audit Regulations |
| EIRR | Economic Internal Rate of Return |
| EIR | Environmental Impact Review |
| EIS | Environmental Impact Statement |
| EMA | Environmental Management Act |
| EMP | Environmental Management Plan |
| ESIA | Environmental and Social Impact Assessment |
| IBC | International Building Code |
| IFC | International Finance Corporation |
| IMF | International Monetary Fund |
| IRR | Internal Rate of Return |
| LAPF | Local Authorities Pension Fund |
| LGA | Local Government Authority |
| NBDC | National Building Design Code |
| NHC | National Housing Corporation |
| NHIF | National Health Insurance Fund |
| NEMC | National Environment Management Council |
| NPV | Net Present Value (NPV) |
| OSHA | Occupational Safety and Health Authority |
| PPF | Parastatal Pensions Fund |
| PO-RALG | President's Office Regional Administration and Local Government |
| PPP | Public Private Partnership |
| RFQ | Request for Qualification |

| Acronyms | Description |
|-------------|------------------------------------|
| RFP | Request for Proposal |
| SDR | Social Discount Rate |
| SIR | Social impact Review |
| HBS | Tanzania Household Budget Survey |
| TTCL | Tanzania Telecommunication Company |
| ToR | Terms of Reference |
| VfM | Value for Money |
| WB | World Bank |

1 Executive Summary

1.1 Background of the Engagement

The World Bank Group contracted the Deloitte consortium to undertake Pre-Feasibility studies of 14 municipal projects. Deloitte Consulting Limited (Tanzania) leads the consortium.

In line with the identified interventions required for successfully delivering the 14 identified projects, the objective of the consultancy is two-fold:

- Determine the viability of the shortlisted projects on the basis of demand assessment, site assessment and infrastructure assessment and prepare a commercially viable and bankable PPP project.
- Build capacity of the LGAs in the aspects relevant to PPPs

The subject of this Pre-Feasibility study is to assess the viability of the development of a new market in the Arusha Njiro Engutoto ward, one of the 14 projects being studied under the engagement. The Project aims to develop a new public market to serve the daily and convenience based needs of the low and medium income segment of the target population. The objective of the study is to assess this project in terms of their strategic, economic, commercial, financial, institutional viability, and highlight key constraints and possible challenges and actions for the way forward.

As per the Concept Note this report focus on the development of a new Market in Njiro, however, at a late stage of the study it was suggested to add a new daladala terminal next to the market. This was out of scope to the assignment, however, using the financial data provided by the World Bank the potential impact on the Market, essentially would it contribute or detract from the market, has been calculated.

1.2 Summary of the findings of this report

In addition to the comments from the World Bank, the Pre-Feasibility report has been prepared in consultation with the LGA, interactions with various stakeholders, regional and site assessment as well as best practices from similar projects implemented regionally and internationally.

Based on the market assessment and interaction with the stakeholders, cost and revenue assumptions have been made and the project viability has been accordingly assessed from various perspectives and procurement options, such as PPPs.

1.2.1 Strategic Case

It was noted that at present there are no established markets around the Engutoto ward and residents need to travel to Central Market and Kilombero Market located near the City Centre (~eight km away) for their daily shopping needs. This is corroborated by the market demand assessment, which concludes that there is significant demand in terms of gross lettable retail area

The stakeholders for the project include Arusha City Council (ACC, the Contracting Authority), the PPP Node, World Bank, Traders who shall use the facility, the Concessionaire / Special Purpose Vehicle (SPV), financial institutions and also the consumers who shall potentially use the market for their shopping needs.

As per our legal review, the land is owned by the Arusha City Council and it is in possession of a title deed for the area confirming the right of occupancy of the land parcel by the council. Further, based on the evaluation of the site is suitable for development.

1.2.2 Economic Case

There are three different options considered for project configuration. Based on various constraints, the selected development option outlines development on a part of the plot in order to meet the need for the

project as well as meet the objective of financial feasibility without any financial support from the government.

In order to assess the economic feasibility of the project, the evaluation is done using an incremental approach wherein the “with-project” scenario is compared with the “without-project” or the present scenario, such that only the differences in costs and benefits of the two scenarios are considered in examining the economic viability of the project. The following table summarises the key results of the economic analysis

Table 1: Economic Returns of the Project

| Planned Project in Arusha City Council | Estimated Economic IRR |
|-----------------------------------------------------------|------------------------|
| Construction of Njiro Market | 24.3% |
| Construction of Njiro Market and daladala terminal | 25.2% |

The economic assessment meets the hurdle rates Economic Internal Rate or Return (EIRR) is greater than the Social Discount Rate (SDR) of 12%. However, in order to complete the viability analysis the financial implications need to be understood and these are explained below.

1.2.3 Commercial Case

In line with the overall objective of the larger programme, the project is proposed to be developed as a PPP.

In order to determine the most-suited mode of procurement, the project has been measured against certain norms. These are:

- Funding capacity of LGA
- Optimality of Risk Sharing with regards to capacity to bear delivery and operations risk of project
- Nature of project—Greenfield with a strong capital investment focus
- Financial affordability

Based on the above considerations, Build Operate Transfer Mode of PPPs with User Pays was found to be the most suitable commercial arrangement.

1.2.4 Financial Case

The financial assessment was carried out for the selected PPP commercial arrangement of Build Operate Transfer (BOT) with User Pays principle. The financial analysis also draws upon the project configuration. As identified under the legal review, ‘small-scale’ PPP projects (total project value less than USD 70 million) may have a duration of 15 years (upper limit). Accordingly, a project duration of 15 years was considered.

The following table summarizes the results of the financial analysis:

Table 2: Project Indicator Scenarios – Under PPP model

| Indicator | PPP Model | |
|--------------------------------------------------------------------|--------------------------------|----------------------------------------------|
| | Scenario: Njiro market | Scenario: Njiro market and daladala terminal |
| Parameters | | |
| Project IRR | 19.83% | 20.15% |
| Equity IRR | 23.83% | 23.69% |
| Affordability/ Net financial implication for the Government | No Grant/Viability Gap Funding | |

The project is financially viable. Further, the project financial internal rate of returns are higher in the bundled daladala terminal option than the standalone market and thus, preferred option from the financial viability standpoint.

Table 3: Summary of financial project data – PPP (in mn TZS)

| Parameters | Total | Construction Period | | Operations Period | | | |
|-----------------------------------|-------|---------------------|-------|-------------------|-------|-------|-------|
| | | 2020 | 2021 | 2022 | 2027 | 2032 | 2034 |
| CAPEX | 3,631 | 2,181 | 1,450 | -- | -- | -- | -- |
| Revenue per annum | -- | -- | -- | 761 | 1,042 | 1,629 | 2,037 |
| O&M Expenses per annum | -- | -- | -- | 89 | 112 | 139 | 151 |

The analysis shows that based on the assumptions used the Project is financially viable, and relies on Users to fund the Development (Capex) and Operational Costs (OPEX).

1.2.5 Management Case

As per our legal review, we understand that the necessary land use clearance has already been undertaken and that the Contracting Authority (the LGA in case of this project) has the rights to license / lease this land to the Concessionaire for the development of the project.

From an institutional standpoint, to assess the maturity of the Contracting Authority – the Arusha City Council (ACC, LGA of Arusha City), a detailed assessment was conducted. It revealed that Arusha City Council is currently at 'developing' level (with an average score of 5.8 points out of 12 points as per our analysis). ACC scored the maximum on Financial Management and Sustainability (8 points) mostly contributed by automated financial process, clean audit report, and achievements in own revenue collection. Due to un-institutionalized succession planning, inadequate staff meetings, and limited use of data in decision-making, the lowest score was on Leadership and Governance (4 points).

The results of the analysis of the LGA's finances further showed that Council is more dependent on external budgetary/financial support than its own sources of revenue.

1.3 Conclusion

Given the above findings of the study, it may be concluded that the 'development of a new market facility' in Engutoto ward, Arusha City project is feasible under the mentioned configuration and conditions outlined in this report. The financial analysis indicates an IRR of 19.83% under the BOT (User Pays) mode of procurement and the economic analysis indicates an EIRR of 24.3% with a benefit to cost ratio of 2.6.

Further, the project financial and economic internal rate of returns are higher in the bundled daladala terminal option than the standalone market and thus, preferred option from the financial and economic viability standpoint.

As a next step forward, the report also presents an indicative risk allocation framework and highlights the way ahead from the Contracting Authority's viewpoint for successful implementation of this project in the chapter titled 'Conclusion and Way forward'

2 Background

This chapter introduces the project and provides an overview of the report's structure.

2.1 Background of the Assignment and the Project

Government of Tanzania has prioritized advancement of its economy via National Development Plans such as 'Long Term Perspective Plan (2011/12-2025/26)' and 'Tanzania Development Vision 2025'. The latter aims to achieve high quality livelihood for its people, good governance and a strong and competitive economy. One of the means of achieving these goals is improving the national and/or municipal level public infrastructure and services. In order to help realize this, the World Bank Group has implemented a Consulting Engagement for undertaking Pre-Feasibility studies of 14 municipal projects. These projects concern development/expansion of bus terminals, truck terminals, markets, city parks and abattoirs across the cities of Arusha, Mbeya, Moshi and Mwanza.

These projects shall help improve the standard of living in these cities and ideally generate new revenue streams for the Local Government Authorities (LGAs), as envisioned in the concept notes of the respective projects, thus providing resources for further investments.

Following is the list of the 14 identified projects:

Table 4: List of 14 Projects which form part of the Consulting Engagement

| No. | Name of Project | LGA of City/District | Type of Project |
|-----|----------------------------------------------------------------------------------|-------------------------|-----------------------------------------|
| 1. | Development of a new market facility in Baraa ward | Arusha City Council | Market |
| 2. | Development of a new market facility in Njiro area, Engutoto Ward | Arusha City Council | Market <i>Subject of this report</i> |
| 3. | Development of a new modern abattoir in Ilemi ward | Mbeya City Council | Abattoir |
| 4. | Development of a City Park in Sisimba Ward | Mbeya City Council | City Park |
| 5. | Re-development and expansion of existing bus terminal in Sisimba ward | Mbeya City Council | Bus Terminal |
| 6. | Development of a new market facility at Sisimba ward | Mbeya City Council | Market |
| 7. | Re-development and expansion of existing bus terminal in Uyole ward | Mbeya City Council | Bus Terminal |
| 8. | Re-development of an existing slaughterhouse in Korongoni Ward | Moshi Municipal Council | Abattoir |
| 9. | Development of a new market facility at the Shanty Town, Kilimanjaro Ward | Moshi Municipal Council | Market |
| 10. | Re-development and expansion of existing Central market facility in Bondeni Ward | Moshi Municipal Council | Market |
| 11. | Re-development and expansion of existing Mbuyuni market facility in Bondeni Ward | Moshi Municipal Council | Market |

| No. | Name of Project | LGA of City/District | Type of Project |
|-----|------------------------------------------------------------------|-------------------------|-----------------|
| 12. | Development of a new International bus terminal in Mfumuni ward | Moshi Municipal Council | Bus Terminal |
| 13. | Re-development and expansion of existing bus terminal at Nyegezi | Mwanza City Council | Bus Terminal |
| 14. | Development of a Truck terminal at Buhongwa | Mwanza City Council | Truck Terminal |

With this background, the World Bank Group has contracted the Deloitte consortium to undertake Pre-Feasibility studies of the 14 municipal projects. In line with the identified interventions required for successfully delivering the 14 identified projects, the objective of the consultancy is two-fold:

- Determine the viability of the shortlisted projects on the basis of demand assessment, site assessment and infrastructure assessment and prepare a commercially viable and bankable PPP project.
- Build capacity of the LGAs in the aspects relevant to PPPs

Project Background

Arusha City Council (ACC), the LGA of Arusha, has envisioned the construction of new market in Arusha to provide safe and hygienic commercial market space. The City is accessible by all income groups, especially the lower bracket ones. Thus, this development is expected to address basic retail related needs of the larger community.

While the retail sector in Tanzania majorly comprises informal open-air markets, there has been a growth in demand for relatively more organized market space and formal retail formats. In the short term, increasing development in the organized retail sector is expected to drive the investment in retail. For example, new formal and modern retail spaces are being developed in Dar es Salaam, which have attracted a range of retailers.

Illustration – Growth of shopping centers in Dar es Salaam: Increase in organized retail

A number of shopping centers have arisen in Dar es Salaam, catering for the large expatriate population, the growing middle class, as well as the international tourism market.

Vibrant shopping centers in Dar es Salaam include **Viva Towers, Oyster Bay, Mlimini City** (the largest in the country), **Sea Cliff Village** and **Slipway**. **Msasani City Mall** is the newest addition and offers a range of stores in a modern retail space. **Mkuki Mall** opened in 2016 offering leisure and entertainment facilities along with various retail offerings.

With this context, the subject of this Pre-Feasibility study is to assess the viability of development of a new market in Njiro Engutoto ward in the Arusha City on Public Private Partnership (PPP) basis. The objective of the study is to assess this project in terms of their strategic, economic, commercial, financial, institutional viability, and highlight key constraints and possible challenges and actions for the way forward.

2.2 Scope and structure of this Pre-Feasibility Report

2.2.1 Scope of the report

Overview of the scope of this report is as follows:

- Review of the work undertaken in the project to date by the LGA. LGAs have prepared preliminary project concept note for each project, detailing the market only. Understanding of the LGA's concept plans and aims have been enhanced via site visits, stakeholder interactions, secondary research, and analysis
- Conduct city infrastructure assessment

- Assess features of the project site and comment on its suitability
- Conduct assessment of the location of the project site—with focus on the surrounding commercial area
- Conduct market demand assessment of the project
- Develop suitable configuration and concept of the project, in line with the estimated demand
- Conduct a legal, regulatory and institutional review of the project
- Conduct an economic review to assess the impact of the project on the economy of the community
- Assess financial viability of the project through financial modelling, risk assessment, PPP structuring, and value for money analysis—based on the proposed project concept
- Propose a preliminary implementation plan for the project

2.2.2 Structure of the report

The structure of this report is as follows:

- **Background:** covers an overview of the consulting engagement along with the project being studied. It also includes the scope and structure of this report.
- **Strategic Case:** covers the need driving the project, conceptual background, and a brief description of the sector and the relevant stakeholders.
- **Economic Case:** covers the project concept selected followed by assessment of the economic benefits and cost, and the output indicators.
- **Commercial Case:** This chapter includes the design considerations and provides concept plans/layout for the facility. It also presents evaluation of various development options and suggestions for the one best suited to the project
- **Financial Case:** covers the financial assessment of the project under the suggested mode of procurement. The financial cost and revenue have been projected to assess the financial returns, and sensitivity analysis.
- **Management Case:** covers the policy framework and guidelines existing in Tanzania for Public Private Partnerships. The institutional framework is further divided into institutions established for PPP and Urban Planning in the country.
- **Conclusions and Way Forward:** covers a summary for the project's feasibility, identifies the constraints that could be encountered in the preparatory as well as implementation phases of the project. It also include a preliminary Implementation plan covering the key activities and approvals needed to proceed.
- **Annexures:** include supporting details of the report.

2.3 Study Execution

This Pre-Feasibility report presents a preliminary analysis on the feasibility and project structure for the proposed 'Development of a Njiro Market in Arusha City' project. It contains analysis of the project's site and market assessment, product mix and conceptualization, project financials, statutory legal framework, indicative environmental and social impacts and PPP structuring and project packaging. The report suggests a broad project structure and highlights an approach to take this project forward.

The first report concerning this project was the 'Project Configuration/Conceptual Report' submitted in February 2018. It outlined demand for the project and broad contours of its configuration/concept plan. Following this, comments and inputs received from the World Bank and the LGA were incorporated to finalize the Project Configuration Report and a draft Pre-Feasibility Report was submitted in April 2018. This report recommended using PPP as the development option for the project. This recommendation was further refined in light of comments received from the World Bank and a revised version of the draft Pre-Feasibility Report

was submitted in June 2018. As per the World Bank's guidance, this version recommended a scaled down version of the market configuration with development option as a mix of PPP and Commercial Lease. The PPP part of the project comprised a lower configuration 'pro-poor' structure while the Commercial Lease comprised a relatively higher configuration market structure—to be developed and operated entirely by a private entity.

Post submission of this report, we received further comments from the World Bank in September 2018. These comments require an even further scaled down configuration under pure PPP mode of procurement, with minimal to no funding requirement from the Government (given the present fiscal condition of the Contracting Authorities). Accordingly, this report presents the case for development this project as per the latest set of comments.

3 Strategic Case

The chapter provides an overview for the project in light of the LGA's concept note and discusses the strategic need for the facility. It also discusses the state of the existing facility and the prevalent issues.

3.1 Context and project objectives

The objective of this project stems from the need for a public market facilities in the Engutoto Ward of Arusha City and adjoining areas. The Local Government Authority prepared a 'Concept Note' for this project. It lays down the vision for the project and describes important parameters of the project including:

- **Expected output of project:** creation of modern area for shopping and availing other services. Project is expected to have a positive socio-economic impact on Arusha City.
- **Location and plot size:** Engutoto Ward; size of 9,641 m²¹ owned entirely by the Arusha City Council
- **Physical configuration of the market:** Market with facilities and services such as main market, outdoor market, shops, chicken slaughter facilities, food vendors, parking spaces and washrooms.

Based on the Concept Note and interactions with various stakeholders, the needs have been broadly redefined to develop a market that caters to the daily and convenience needs of the residents around the proposed site. The market is envisioned to be equipped with features such as designated spaces for small and big traders, hygienic washroom facilities, parking spaces etc. In addition, there shall be provisions for utilities, waste collection, proper drainage and internal pavements etc.

- **Main Market Area and Trading spaces** – The main market area is expected to serve both small as well as medium scale traders with stalls of two different sizes being constructed². A total of 1171 traders have been estimated to be accommodated in the proposed market.
- **Parking Space** – A part of the plot shall be utilized for developing a parking space for cars and delivery trucks. The space shall be a part of the larger market complex and be adequately paved for use of vehicles.
- **Support / Other Infrastructure** – The market complex shall also feature spaces for utilities such as electricity distribution area/substation, solid and other waste collection areas, water pump area, security personnel area etc. The market will be developed with a proper drainage network and lighting facilities.
- **Adequate circulation:** Adequate circulation to be provided for both horizontal movement (corridors) and vertical movement (stairs, ramps, elevators), if required. Adequately wide corridors and stairs are to be provided to allow convenient and safe movement of many people in one moment.
- **Washrooms:** Separate toilets for men and women. Men should be provided with urinals but same type of toilet is considered for both sexes for disabled people.

¹ It is observed that there is a discrepancy in the plot area between the title deed and the project's concept note shared by LGA. As per the title deed, the plot area is 9,641 m² whereas as per the project's concept note it is 11,460 m². The plot area mentioned in the title deed has been considered for project configuration and viability finalization.

² Note: Definition of facilities in the context of this project:

Definition of 'Stand' / 'Stands': Sales tables built in the market, wherein each table is a concrete slab/bed (100mm thick) with cement mortar finish on top. The top of each table is ~0.9m from the floor level and width of table is be 0.9m. Each stand will be ~1.5m wide (for one trader) and can have shelves/cabinets underneath for storing goods / groceries. The construction will be a combination of masonry walls and concrete bed with plaster wall finishes and mortar table top finish. Alternatively, stall may be is a temporary facility for selling goods.

Definition of 'Frames' / Large stalls: an enclosed room with an area of about 10 – 15 m², depending on available space. The shops shall have a door (of steel) at front covering entire width of the shop.

3.2 Stakeholders

The key stakeholders associated to the project have been described/outlined below:

- Arusha City Council (LGA of Arusha City) – The Arusha City Council is the Contracting Authority (CA) of the project from the Government’s side. It is responsible for implementation of the project and construction supervision.
- PPP Node – The PPP Node is the approving agency for all projects taken under PPP mode in Tanzania. Accordingly, the Arusha City Council shall submit its proposal for the project to the PPP Node for final approvals.
- World Bank – The World Bank has collaborated with the PPP Node and Government of Tanzania to undertake the due diligence studies on the projects envisioned under this consultancy. The World Bank is funding the consultancy for pre-feasibility study and shall play an important role in selection of transaction advisor for preparation and procurement for select projects.
- Traders/ Farmers/ Food Vendors – Traders are crucial stakeholders to the project as the facility is to primarily to boost the trade opportunities and provide the general population with access to everyday commodities.
- Transporters – They are an essential part of the ecosystem of a marketplace. Transporters include truck drivers and the unions, which support the backend logistics for traders. There is a requirement of dedicated area/ internal pavement for loading/unloading of goods, to ensure unhindered supply and avoiding congestions on the main roads.
- The Concessionaire / Special Purpose Vehicle (SPV) - The Concessionaire is the private party responsible for developing the project. The private proponent shall be expected to design, finance, build, operate and maintain the facilities under the arrangement with the Contracting Authority for the duration of the arrangement.
- Financial institutions – These are the banks and lending agency, which will finance the Project SPV/Developer and are critical to success of the PPP.

3.3 Sector Overview and Policy Context

3.3.1 Strategic Alignment

The project is in line with the National Development Plans; such as Sustainable Development Plan 2016-2020 and Tanzania Development Vision 2025 that place emphasis on poverty reduction and sustainability since the project is expected to create more employment opportunities for City residents and others outside the City and shall help in the improvement of these people’s livelihood.

Further, the project is expected to provide organized space for shopping and daily needs of Engutoto ward and nearby wards. The project shall also promote community engagement and civic pride, as it shall attract people of varied age groups. This shall make the City more vibrant.

It is also expected that LGA, through rents and other charges, shall have access to revenue that shall enable in the improvement of other socio-economic services, hence helping in the larger poverty reduction mandate.

3.3.2 Concept of the ‘Markets’

A market is a structured set of tangible and intangible exchanges. It consists of a system of exchange for collection and redistribution of goods and services. The level of standardization of goods, access to credit and nature of transactions are factors which determine the volatility of prices, volume and quality in a market. Availability of products, accessibility and price are some of the commercial criteria based on which markets create a network of places of exchange.

As per the applicable planning standards applicable in Tanzania context and prevalent models, Markets can be classified as follows:

- **Public and/or Farmer's Market:** are markets with frames and stalls that cater to relatively lower income groups. They provide outlets for selling low-cost necessary goods and services.
- **Local convenience shopping centres:** are convenience based centres, comprising few shops and services. Typical sizes vary from 500 to 2,000 m².
- **Neighborhood shopping centres:** are mainly convenience based centres. The key tenant or anchor tenant is a supermarket. Other typical tenants/line shops include butchery, green grocer, non-food general goods, clothing, furniture, hardware, chemist, and post office. Services may include fast food or restaurant, hair dressing, financial, medical and offices. The design varies from a simple open plain strip to that of an enclosed mall for bigger centres. Typical sizes vary from 2,000 to 10,000 m².

**Applicable norm for Arusha
—as defined in the Urban
Planning Act (2011)**

Size of market at
neighbourhood level: 2,000-
2,500 m².
- **Community shopping centres:** function as places where a greater variety of merchandise is offered to a substantially larger population than that served by a Neighbourhood Centre. Typical sizes vary from 10,000 to 30,000 m² and the typical catchment population from 40,000 to 150,000 (both vary as per the region in question). Supermarkets and department stores may be part of the tenant mix of such a center. National and regional retailers may be well represented. Configuration is mall-type, with parking arrangements.

**Applicable norm for Arusha
—as defined in the Urban
Planning Act (2011)**

Size of market at community
level: 5,000-15,000 m².
- **Regional shopping centres:** provide full variety of retail services, with a wide range of tenant participation. Typical size varies from 30,000 to 100,000 m² and typical trade area population exceeds 150,000 (both vary as per the region in question). The design is usually enclosed mall(s) with the inclusion of department stores/supermarkets and specialized traders. Entertainment facilities (such as movie theatres) also feature in the tenant mix. Accessibility from a wide catchment area is critical and hence these centres may be located close to intersections of major national roads, and /or major urban arterials.

**Applicable norm for Arusha
—as defined in the Urban
Planning Act (2011)**

Size of market at district level:
20,000 m².

The proposed market is conceptualized as public markets and is well covered as neighborhood market under the Urban Planning Act (2011).

3.4 Need and Demand for the Project

The project is driven by the lack of market space. There is a prevalence of individual retail stores in the Njiro area. However, there is a lack of public markets which would cater to the daily shopping needs of the nearby areas. There is no established market within eight km radius of the project site especially for fresh food products. The residents need to travel to the Central Market and Kilombero Market located near the City Centre (eight km away) for their daily shopping needs.

Rapid urbanization in Tanzania, especially in the Arusha region, enhances the need to set up relatively higher-end shopping malls and shopping centres to meet the needs of the evolving society.

3.4.1 Location relevance

Rapid urbanization in Tanzania, especially in the Arusha region, establishes a strong need to set up markets and shopping centers to meet the needs of the evolving society. The proposed project is primarily driven by the proximity to residential areas and lack of commercial space and market in and around Engutoto ward in Arusha city.

Ward and Neighbourhood Overview

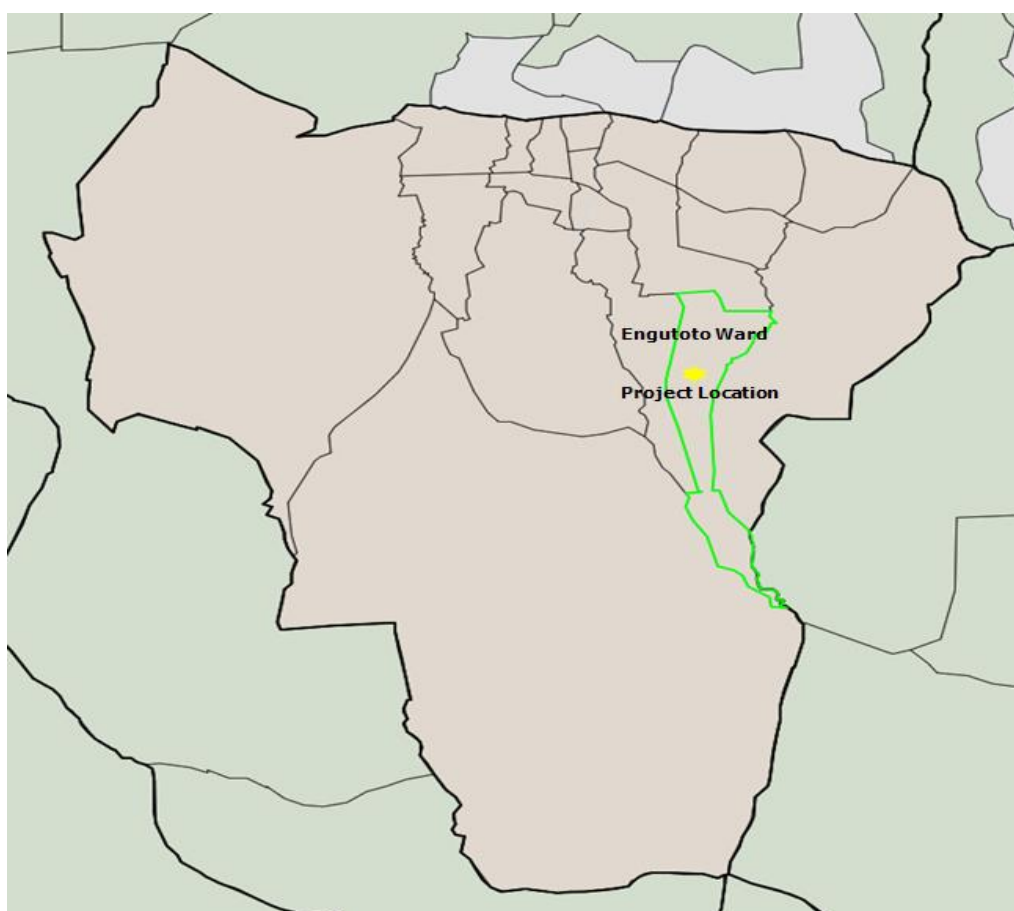


Figure 1: Map depicting Project Location in Engutoto Ward in Arusha City

The proposed Market is to cater principally the residents of the Engutoto ward residents.. The ward is approximately eight kilometres away from the city council or the city centre. The ward is in the Njiro area, which comprises of residential areas with a significant portion of the population comprising middle income

households and the remaining comprising low income households. As per the 2012 census, the area has a population of 9,994³ with 2,910⁴ households.

Location with respect to other markets

Arusha city is served well by multiple public markets and retail space. Central market on Bondeni Street is one of biggest and diverse markets in Arusha, selling clothes, retail and food items. There are over 150 small and medium shops and over a 100 stalls and carts in central market. Kilombero market is approximately eight kilometers and is primarily a wholesale market for food and other commodities.

Table 5: Select Focal Market in Arusha City

| Sl. | Market | Aerial distance relative to Project Site | Type |
|-----|------------------------|------------------------------------------|-----------------------------------------------------------------|
| 1. | Central Market | ~7 Kms south west of project site | Convenience Public market |
| 2. | Kilombero Market | ~7.5 Kms west of project site | Convenience Public market |
| 3. | AIM Mall | ~11 Kms south west of project site | High end shopping center with focus on Retail, Food and leisure |
| 4. | Njiro Complex | ~8 Kms south west of project site | Food and retail |
| 5. | Tengeru Farmers Market | ~8 Kms east of project site | Horticultural Produce |
| 6. | Engutoto Complex | ~11 Kms south of project site | Food and household commodities |

As can be seen from the exhibit above, there are no established markets within an eight kilometer radius of the project site. Currently, the residents need to travel to Central Market and Kilombero Market located near the City Centre (~eight km away) for their daily shopping needs. There is a prevalence of markets in the city, some of which are popular for dealing in specific commodities and in wholesale such as the Kilombero market.

3.4.2 Demand for market in Engutoto ward, Arusha City

The project is driven by the lack of commercial space within the city. There is a prevalence of individual retail stores in the Njiro area. However, there is a lack of public markets which would cater to the daily vicinity shopping needs. Currently, there is no established market within 8 km radius of the project site especially for fresh food products. The residents need to travel to the Central Market and Kilombero Market located near the City Centre (eight km away) for their needs.

Rapid urbanization in Tanzania, especially in the Arusha region, enhances the need to set up relatively higher-end shopping malls and shopping centres to meet the needs of the evolving society.

3.5 Existing Arrangements

3.5.1 Ownership and Availability of Title

The land provided for the project is owned by the Arusha City Council. As per interactions with LGA during in March 2018, the title is said to be in place.

³ Based on data collected from primary research

⁴ Based on data collected from primary research

3.5.2 Authority of the Arusha City Council for undertaking the Project on PPP basis

The current project falls within the mandate of the PPP Act (as amended) and its governing regulations. There is a constitutional and statutory basis for LGA to participate and handle the proposed Project on PPP basis. Further, the projects under consideration can be handled and administered by LGA as per the project value threshold set under the laws (i.e. USD 70 million). The LGA have power to engage in the project subject to complying with the law.

The provisions of the Local Government (Urban Authorities) (Development Control) Regulations, 2008 indicates that the main licensing authority of the PPP projects in reference to markets is the LGA. Markets need permit from LGA under Regulation 99.

Further, while dealing with applications for licenses, licensing authorities are obliged under section 29(2) of the Urban Planning Act, 2007 to consider planning consents as a condition precedent for issuance of licenses.

Also, Regulation 100 of the Local Government (Urban Authorities) (Development Control) Regulations, 2008 provides that "the Authority (LGA) shall regulate and control all markets and shall in every market appoint a Market Officer and such other persons as it may consider necessary to regulate or control the market". The words "control" which are used in the cited Regulation imply that no private person is allowed to manage Markets. However, reading Regulation 99 (1) and (2) which provides that a person shall not establish any market without the permission of the authority" it means a private person may establish a market provided the authority issues a permit to that effect.

Thus, in terms of the Project cost and authority of the ACC, the Project is a good fit for PPP mode of development.

3.5.3 Tariff/fee setting

The ACC by virtue of section 63 of the Local Government (Urban Authorities) Act, 1982, is vested with express powers to enter into contractual relationship with any other person so as to discharge any of its functions under the Local Government (Urban Authorities) Act), 1982. In addition to the powers of procurements, under section 66 (1) of the Local Government (Urban Authorities) Act of 1982, ACC has powers to charge fees for various services or facilities offered by the authority. To better exercise its powers to charge fees, ACC been given statutory mandate to make by laws as per section 88 of the Local Government (Urban Authorities) Act of 1982. Therefore, once the PPP projects under review becomes operational, it may be necessary for the responsible LGAs to agree with the private party on the applicable fees, and the mechanism so devised can be enshrined in the PPP Agreement.

3.5.4 Land use, encroachment, encumbrances, legal claims and permits required

As per the City Master Plan, the project site is located in a commercial residential area. A couple of years back the City Council had started constructing shops with the help of individual traders who were willing to be a part of the shopping area in the market. However, the project did not take off and the structure of the market was abandoned. As per the LGA, the shop owners have been duly compensated. However, the Council has not been able to produce the evidence of compensation as of the date of this report.

Also, the shifting of utilities and uprooting of trees would need to be considered as part of the Social and Environmental Impact Assessments, prior to the commencement of the project. As previously highlighted, the shop owners and city dwellers who have occupied the project site at different points in time might need to be compensated prior to the commencement of the project. Should the PPP project be approved, the private party would have to secure the relevant permissions from the relevant offices.

3.6 Site relevance

The site is located about eight km south of the City Centre in the Njiro suburb of the City which is developing as middle and high income area. The plot which is owned by the Arusha City Council and covers an area of

about 9,641 m²⁵. It is semi developed with some commercial structures in the perimeter of the plot which are not completed and not in use.



Figure 2: Satellite Image of the Project Site

As shown in Figure above, the plot is located about 200 m from the Njiro road on east side. Njiro road connects Njiro suburb to the City Centre and other parts of the City.

3.6.1 Planning considerations

3.6.1.1 Classification of Site as per Master Plan

According to the proposed Arusha City Master Plan, the site is located in a commercial residential area to which the proposed project complies.

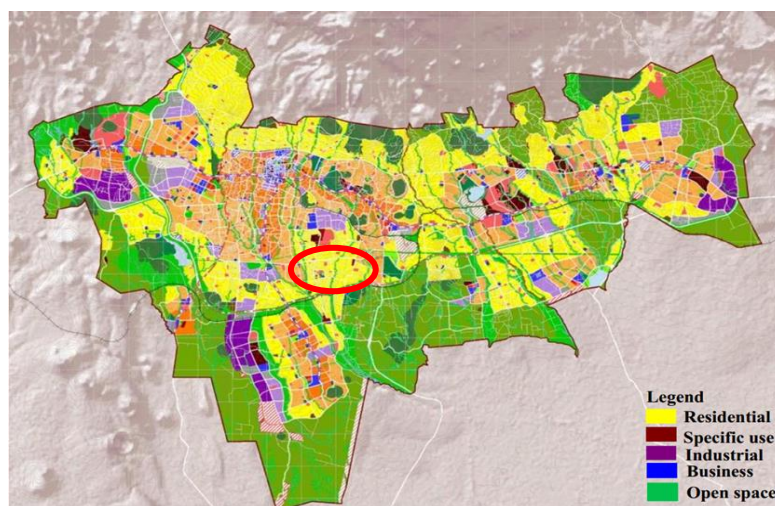


Figure 3: Classification of Site as per Master Plan

⁵ It is observed that there is a discrepancy in the plot area between the title deed and the project’s concept note shared by LGA. As per the title deed, the plot area is 9,641 m² whereas as per the project’s concept note it is 11,460 m². The plot area mentioned in the title deed has been considered for project configuration and viability finalization.

3.6.1.2 Present use of Site

A couple of years back the City Council had started constructing shops with the help of individual traders who were willing to be a part of the shopping area in the market. However, the project did not take off and the structure of the market was abandoned.

A market was then envisaged as mentioned in this report. Meanwhile, certain homeless city dwellers occupied the abandoned shops in the project site. These inhabitants would need to be relocated prior to the commencement of the project and the structures will have to be demolished to give room for the proposed project.

3.6.1.3 Land Availability vis-a-vis Requirement

The plot has an area of about 9,641 m²⁶. The space is sufficient to meet the project requirements

3.6.1.4 Consistency with the master plan / zoning

The proposed project of Njiro market is in line with the land use of the area according to the proposed Master Plan, which is commercial / residential.

3.6.2 Site Characteristics

3.6.2.1 Existing Physical Infrastructure at Site

Some development was taking involving construction some shop structures has been undertaken along the perimeter of the plot but has been abandoned. These will have to be demolished to give room for the proposed project.



Figure 4: Unfinished Structures on the Plot

3.6.2.2 Topography

The area around the plot is relatively flat with gentle slope in north-south direction.

3.6.2.3 Drainage

The terrain is favorable for construction and drainage purposes.

3.6.2.4 Soil/Substructure

The geology of Arusha region shows subsoils consists mostly of volcanic sands (volcanic rocks) that have originated Mount Meru volcanic residuals. The sandy strata have good drainage and load bearing properties.

⁶ It is observed that there is a discrepancy in the plot area between the title deed and the project's concept note shared by LGA. As per the title deed, the plot area is 9,641 m² whereas as per the project's concept note it is 11,460 m². The plot area mentioned in the title deed has been considered for project configuration and viability finalization.

Experience from constructed buildings in the area shows that the subsoil conditions have good foundation properties.

Some geotechnical investigations will need to be done during detailed design of the structures where subsoil bearing capacity and presence of hard rock if any can be established.

3.6.2.5 Vegetation

Arusha City natural vegetation can only be seen in protected hill areas such as areas surrounding Arumeru plateaus. Also they occur in areas abandoned by farmers where natural regeneration takes place. Natural vegetation in the City can be divided into hilltop Miombo found on rocky hills mainly in protected areas and Miombo woodland found on hills and middle to lower slopes mainly in uncultivated or abandoned land.

There is little vegetation on the plot which include few shrubs and grass cover.

3.6.2.6 Any other site constraint

The natural condition of the site does not pose any significant challenge or constraint to the proposed development.

3.6.3 Site Accessibility

Njiro area is proximity to the newly constructed East African bypass (road), very close to City Council Hospital, VETA Collage, Atomic Energy Agency office, near Themi industrial area. Established education institution/schools East and Southern Africa Management Institute (ESAMI), Njiro Secondary, Naura Secondary, Nalopa Schools and Notre Dam.

3.6.3.1 Transportation

The site is located in an area with a fairly well developed road network which is well connected to the other parts of the City.

Road transport is the only means of accessing the site from different parts of the City. The site is located in the Njiro suburb about eight km from the City Centre which is linked by good road network.

3.6.3.2 Road Connectivity

The site can be accessed via the Njiro road towards the west which joins the A104 highway in Arusha.

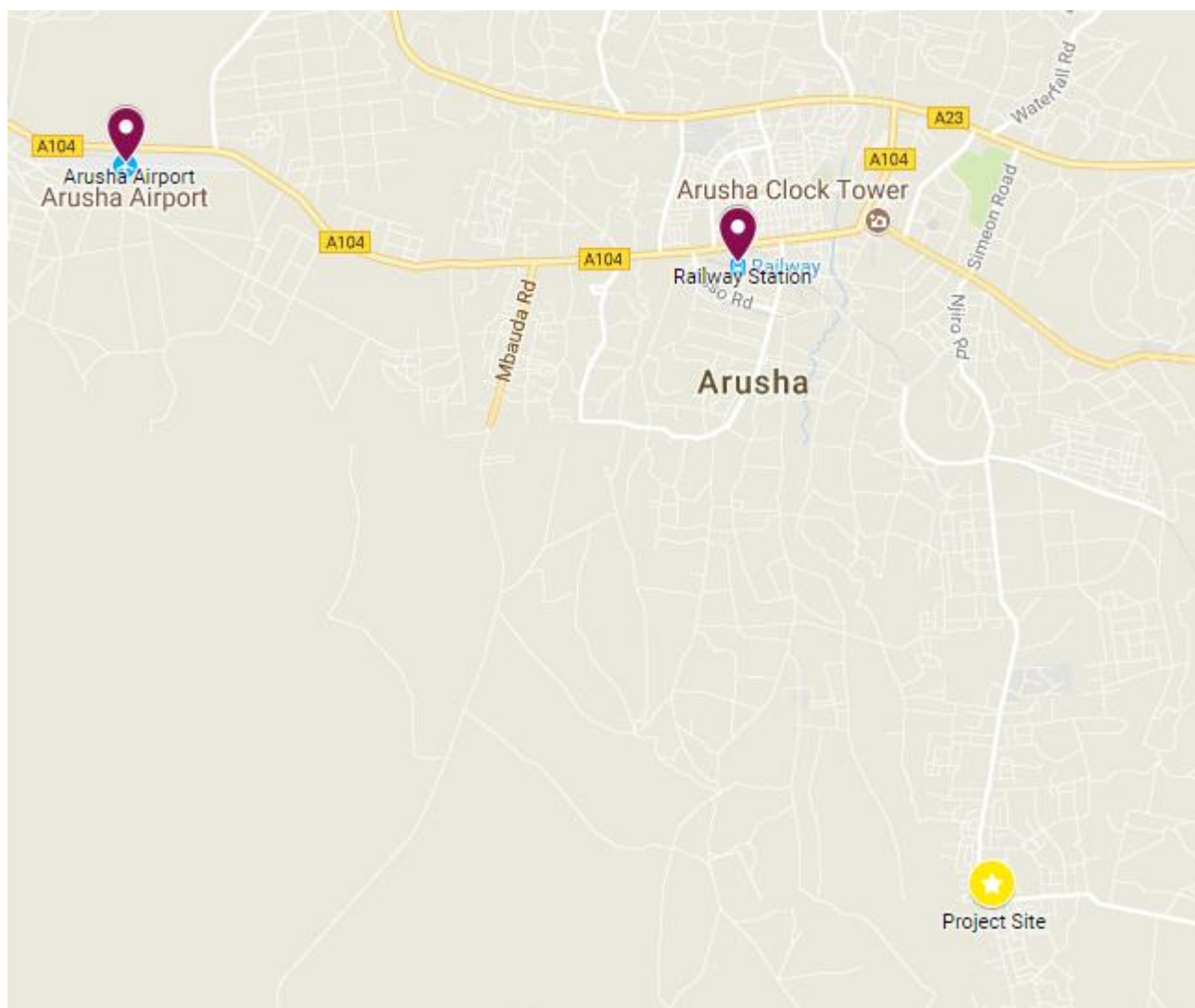


Figure 5: Connectivity of Project Site

3.6.3.3 Bus Connectivity

The main bus station is near the Sheikh Aman Abeid Karume Stadium and is served by the Wachaga street. The site is also accessible via private vehicles, buses and daladalas thus establishing inter as well as intra city connectivity. Arusha bus station is about nine kilometers from the proposed market site.

3.6.3.4 Rail Connectivity

Arusha Railway Station is nine km to the east of the project site.

3.6.3.5 Air Connectivity

Six kilometre ahead of the railway station is the Arusha Airport. Arusha airport is 15 km to the east of the Market via highway A104.

3.6.3.6 Site Access

The site main road access is through Njiro road which is linked to the A-104 Arusha- Himo highway through Simeon road. The project site is bordered by two gravel roads on the north and south sides which link it to the Njiro road on west side.

3.6.3.7 Public transportation

The available modes of public transport to the site are small and medium buses (daladala) which originate different parts of the City. The site can also be accessed also by taxis, tricycles, motorcycles and on foot. It

has been proposed to consider the construction of a daladala terminal adjacent to the market, however, this falls outside the scope of this report.

3.6.4 Access to utilities

3.6.4.1 Power

Arusha city is connected to the National Grid System to which the connectivity is estimated at about 42%.

The backbone of Arusha is the 132 kV link connected to the 220 kV network in Njiro substation. The 132 kV line between Njiro –Kiyungi is loaded at 35 MW. A second 132 kV line from Arusha to Moshi is necessary to face the fast growing demand in the region and for reliability of supply reasons. A new 132/33/11 kV substation has been installed close to the Kilimanjaro International Airport. This substation will release load from the Njiro and Kiyungi 132 kV or 33 kV transformers and the 33 kV distribution system.

The envisaged development will require to be connected to nearby 33Kv power line and a step down transformer to provide the required voltage. With consideration of unreliable power supply which is common in many parts of the country connected to the national grid, a standby generator should be considered.

3.6.4.2 Water supply

Water supply in Arusha City is considered adequate to cater for current and future demand for the developing City. Water supply for the sufficient for the needs of the planned facility are guaranteed.

3.6.4.3 Sanitation

Currently, Arusha City has 4,703 sewage connections including domestic, commercial, institutional, industrial customers. In 2016, 2269 of these connections are for domestic users. The number of sewerage customers is small because the sewerage network only covers the central area, Unga Limited and the areas surrounding the Lemara waste water stabilization ponds.

Newly developing areas of Njiro depend on individual sewage system in form of septic tank and soak pit. Proper means of sewage disposal will have to be considered during detailed design of the facility.

3.6.4.4 Communication

The project site can readily be connected to the Tanzania Telecommunication Company (TTCL) telephony services. The site is also within excellent coverage of mobile phone providers.

3.6.5 Access to supporting infrastructure and amenities

3.6.5.1 Health

The site has good access to the health facilities available in the City. These include referral, regional, district hospitals as well as health facilities, health centres and dispensaries

3.6.5.2 Education

The site has good access to the education institutions in the City.

3.6.5.3 Banks

Existing banks and other financial institutions are in close proximity of the site. Space for banking services will also be provided in the planned facility.

3.6.6 Environmental and Social consideration

3.6.6.1 Resettlement and Relocation Needs

The site visits revealed the occupancy of abandoned shops by homeless city dwellers on the project site. It shall be crucial to ensure that these city dwellers occupying the shops are resettled or relocated to another

area for the project to commence smoothly. In the absence of this, the project might encounter legal and political disputes in the implementation of the Njiro Market project.

3.6.6.2 Environmental consideration

The site is located in a developing residential area of the City and no environmental issues of significant concern have been identified.

It is considered that some environmental impacts which may result from the proposed project can be mitigated adequately.

3.6.6.3 Expected Social Impacts

Socially, the project revenue creation is a medium-to-long term impact of moderate significance. Jobs creation and increased income of the local community are the most positive significant impact to the local community. Thus, the earlier two impacts have local and regional effect. Other impacts are improved local community living standards, improved accessibility, and increased property and land values. These are positive short-to-long term impacts that have high significance. However, negative impacts include child labour, and diseases such as HIV/AIDS spread. The aforementioned impacts are negative social impacts of low and medium significance.

3.6.6.4 Expected Environmental Impacts

The proposed project shall have multiple impact of varying spatial and temporal significance. These impacts include alteration of scenery view, increased dust and air pollution, increased noise, increased waste generation during construction and overwhelmed administrative authority.

Other environmental impacts include risk to workers and their safety, debris deposition in storm water drains and associated floods, increased runoff and soil erosion on construction site, contamination of surface and ground water from operating machinery leakages, and impact from camps/asphalt plant operation.

Geographically all environmental impacts identified are local except risk to workers and their safety whose impacts go beyond project sites (regional). Again, impact such as overwhelmed administrative authority and contamination of surface and ground water are midterm impact, the rest of identified impacts are short-lived. Impacts that are negative, low-to-High and of low-to-moderate significance are increased dust and air pollution, increased waste generation, and damage to existing public utilities and services. Others are overwhelmed administrative authority, risk to workers and their safety, debris deposition in storm water drains and associated floods, contamination of surface and ground water and resulting impact from operation of asphalt plant and camps operation. A long-term positive impact includes aesthetic view and improved services of the new market, which is of high significance.

However, negative impacts include child labour, and diseases such as HIV/AIDS spread. The aforementioned impacts are negative social impacts of low and medium significance.

3.6.6.5 Summary of environmental and social considerations

- Most negative impacts associated with projects' implementation could be mitigated to maximize positive impact that projects will bring.
- Arusha City Council's plan for the aforementioned development project is a right move to meet current and future demands in its areas of jurisdiction. However, before implementing this project it is vital to assess multiple parameters that constitute its viability.
- This chapter has provided one perspective of the assessment of the viability of the Njiro market project. This study proposes that a holistic approach to assessment of the viability of this project be made to inform its viability. Therefore, Engineering, economic, legal, and institutional perspectives should constitute criteria for assessing its viability.
- From environmental and social perspectives, it is recommended that when decisions over which projects are most viable have been made, a fully-fledged Environmental and Social Impact Assessment should be conducted as required by the law.

3.6.7 Overall Site Suitability to the Project

The suitability of the site was done by weighing the suitability parameters. The criteria that have been assessed in the site suitability study are:

- Legal suitability
- Planning criteria, with consideration of compliance with land use plan and zoning in accordance with applicable master plan
- Site characteristics
- Site accessibility and transport infrastructure
- Access to utilities
- Access to supporting infrastructure and amenities
- Environmental considerations

Based on our evaluation of the site on these parameters and their sub-parameters described above, the site is well suitable for proposed development.

4 Economic Case

From the public sector perspective, economic assessment is the key test which demonstrates the public use and public justification for the project. The project which offers an economic return greater than the threshold provides an economic rationale for undertaking the project irrespective the delivery model.

4.1 Critical Success Factors

Project demand

Ability of Project to attract consumer base and ensure offtake of trading space is an important factor which impact the viability of the Project and ensuring private sector interest. The Project demand alignment of Project concept to user preferences; for instance, there is a clear preference for trading spaces on the ground floor and stalls at higher floors do not generate same level of interest or revenue.

Another aspect which will be important for ensuring Project demand is regulation of stalls in the vicinity of proposed market. Setup of unorganized and unlicensed stalls in immediate catchment of the Public market will have significant impact on the demand.

Willingness to pay

Willingness of traders to pay incremental charges for better services and facilities is foundation of the User pay PPP. The Consultant, along with ACC representatives, undertook a willingness to pay survey and the same was separately validation by the LGA through consultations. The survey details and observations are detailed in the annexure along with other consultations undertaken by the LGA.

Funding gap and affordability

Ability of the Project to generate sufficient revenue to ensure cost recovery will be critical given the fact that LGAs in Tanzania are heavily dependent on central government funding for financing of developmental projects and operational requirements⁷. A report from the National Audit Office reveals that most of the LGAs could finance themselves by only 9% and this, coupled with under release of capital development grants by 61% of the approved budget⁸, and underlines the importance of the Projects to be self-funding.

Optimum risk allocation

The underlying essence of PPP is allocation of risk to the party best suited to undertake the risk. The value for money in this PPP projects is contingent on ability of Private sector in better managing the Project development and operations leading to lower cost overruns

Bankability

Willingness of banks to fund LGA promoted PPP Projects is a key factor which will determine the success of the PPP program for the municipal projects. We have interacted interaction with various banks and financing institutions and the key concern in terms of bankability remains (i) Unencumbered availability of land free of any third party claims; (ii) ring fencing of the Project revenues; (iii) Clear support obligations of LGAs in terms of regulations; and most importantly (iv) Payment mechanism backed by PO RALG.

Institutional capacity of LGAs to manage the post-award phase

As clearly highlighted in earlier points, the role of LGAs post the award of the PPP agreement in terms of regulations, public awareness and communication, contract management, meeting contractual obligations

⁷ Source: Final Report - A study on LGAs own source revenue collection, PMO-RALG, Tanzania

⁸ Source: Report of the National Audit Office titled "The annual general report of the controller and auditor general on the financial statements for the financial year ended 30th June, 2016 – Local Government"; Published March 2017

etc. will be critical to the success of the PPP project. As per the Institutional assessment undertaken by the Consultant, PPP contract management is identified as one of the capacity building need.

4.2 Project configuration options

As established above, the site is suitable for development of the project. This subsection discusses the various project configuration/development options.

4.2.1 Option 1: Do not develop any facility

This option shall retain the current situation of lack of commercial area in Engutoto ward. Having already established a strong business and strategic need for the project supported by a sound demand analysis it is safe to conclude that if a shopping facility is not provided the gap between demands and actual infrastructure provided shall only widen in the coming years. Hence, this option shall not be considered further.

4.2.2 Option 2: Maximum Development

Based on the feedback from the interactions with the stakeholder, competition assessment and as corroborated by the market demand assessment, it may be concluded that there is significant demand potential in terms of gross lettable retail area for retail consumption i.e. shops, stalls and other convenience etc. and excluding circulation, recreational as well as administrative areas.. Accordingly, the development may utilize the entire plot area available.

This configuration with utilization of the entire plot was presented in our earlier iteration of this Pre-Feasibility Report submitted in June, 2018. However, this configuration required support from the government in form of viability gap funding in order to maintain financial feasibility. Given the poor fiscal performance of the Contracting Authority, its dependence on the central funds and an overall developing economy of Tanzania with other pressing capital requirements, it is unaffordable for the government to fund a municipal level project. According to the comments received on the previous iteration of the report in September 2018, it was advised by the World Bank that a scaled down development option is provided which is can be financially feasible without the need for a viability gap funding/grant from the government. Hence this development option is being discarded.

4.2.3 Option 3: Least Cost Development

As per the comments received on our earlier iteration (mentioned above), and the discussion held in the context of affordability of projects, a revised project configuration has been proposed. This configuration considers only part development of the plot keeping in view financial feasibility without the need for fiscal support/contribution from the government.

A portion of the plot shall be developed with facilities such as designated spaces for traders, car parking and utilities as described in the report.

4.2.4 Option 4: Additional Development option - Market with Daladala terminal

As per the comments received on our earlier iteration (mentioned above), the World Bank has provided financial case for a daladala terminal which may be bundled along with proposed market. While, a detailed site and other due diligence has not been undertaken by the consultant⁹, bundling option from an economic standpoint based on the information made available. This option has been separately discussed.

4.3 Economic assessment of proposed technical option

The Arusha City Council has identified and earmarked Njiro area in Engutoto Ward for development of a new market facility. Being an investment undertaking in the public sector, an assessment of its comprehensive economic benefits versus its costs is necessary in order to determine economic viability of the project.

The economic analysis model reflects the economic merit in pursuing a particular project. The economic analysis is a key determinant in deciding whether a project contributes positively towards the economy of

⁹ The subject daladala terminal is not part of the original concept.

the country. Government agencies base their decision on whether to develop the project based on the outcome of the economic analysis. There are many ways of looking at economic viability, and in the method proposed and adopted here; the evaluation is done using incremental approach wherein the “with-project” scenario is compared with the “without-project” or the present scenario, such that only the differences in costs and benefits of the two scenarios are considered in examining the economic viability of the project

Unlike the private sector which accounts for only costs and benefits occurring inside an investment project, the Public sector takes into account all the costs and benefits accrued inside and outside the project, i.e. economic and non-economic costs and benefits accruing to the project and all the third part. Therefore, economic viability of the planned market facility in Njiro area in Arusha City includes financial and non-financial costs and benefits, which have been consolidated to determine the internal rate of return of the project – both financial and economic, and the benefit cost ratio. To that effect, several plausible assumptions have been made to gauge the shadow prices of some of the costs and benefits.

4.3.1 Approach for Economic Analysis

The envisaged new market in Engutoto ward will have two types of costs and benefits. On one side, there will be capital and operating costs – the direct economic costs of the project, and project revenue – or direct revenue from the project. The direct economic costs and benefits will be directly attributable to the project and thus accrued to the project owner. These have been estimated for the entire estimated project useful economic life considered as 30 years. Since the financial flows relating directly to the project do not reflect the true opportunity costs or their economic value as explained earlier; adjustments have been made accordingly to get their economic values.

The indirect costs and benefits of the project, on the other hand, include the direct and indirect employment benefits, which have been identified and analyzed and projected throughout the project lifetime. Therefore, assessment of economic viability in the context of the envisaged project includes both economic indices – for the direct costs and benefits, and economic indices – for more comprehensive costs and benefits to the community at large.

Economic Costs: The first step in undertaking the Economic Analysis for the proposed project involves estimating the project’s economic costs. For this, the financial costs associated with the project under various phases were first adjusted to reflect the project’s true cost to the economy. This involved incorporating the effects of applicable economic externalities such as foreign exchange component of the capital costs, skilled and unskilled labour, etc. Transfer payments such as taxes and debt service were excluded from the financial costs. Further, because economic costs are to be calculated in real terms or constant prices, the accounting for inflationary impacts as embedded in price contingencies was also ignored.

To arrive at the economic costs, the financial capital costs were translated into constant prices and VAT, other indirect taxes are excluded. The resultant costs are segregated into materials, labour and equipment components, which are further segregated into local and foreign exchange components for shadow pricing purposes. To arrive at the economic costs, VAT and of other indirect taxes are excluded and a standard exchange rate factor of 1.1 and shadow age factor of 0.65 was used in line with accepted practice in the region.

Economic Benefits: Subsequently, the project’s true benefits to the society were assessed and quantified. This involved identifying the benefits purely attributable to the project under the “with-project” scenario as compared with the “without-project” scenario. Such benefits were then quantified by assessing the value-add to the society through direct measurement and / or using proxy references.

The estimates of economic benefits are based on constant values because it is assumed that nominal growth will be born from inflation. As such, all the estimates are free from inflation because they are benchmarked on the first year of the project. The financial flows of the project have been converted into economic values to adjust for market and tax distortions of economic values. It is anticipated that 20% of the construction costs will be imports while the remaining 80% will be domestic resources. To this effect, the imported portion has been multiplied by 0.95, which is the standard conversion factor for imported capital goods in Tanzania.

The domestic inputs have been multiplied by 0.85, which is the applicable conversion factor for construction costs.

Discount rate: A Social Discount Rate (SDR) of 12% was used to discount the net stream of economic benefits attributable to the project. The SDR is the rate at which the social value of project costs and benefits decline over time

The overall economic desirability of the project was then assessed by comparing the stream of economic benefits vis-à-vis the economic costs using three indicators, namely:

- a) **Benefit-Cost Ratio (B/C)** – The B/C ratio is the ratio of the NPV of economic benefits to the NPV of the economic costs, discounted using the social discount rate. The B/C ratio indicates the economic return per TZS of expenditure. The decision rule is to accept a project with B/C ratio greater than 1.
- b) **Net Present Value (NPV)** – The NPV of economic flows is the discounted stream of net economic benefits (i.e., benefits minus costs) arising from the project. The decision rule is to accept projects with significant positive NPV.
- c) **Economic Internal Rate of Return (EIRR)** – This is the discount rate at which the annual stream of net benefits due to the project is equal to zero. The SDR of 12% is the hurdle rate for a project's EIRR for the project to be considered economically viable.

4.4 Assessment of the Economic Cost and Benefits

4.4.1 Economic Benefits of the Project

The project has an outstanding potential for serving a large number of stakeholders. In estimating the economic benefits, guidance approach shared by the World Bank has been considered. A conservative approach has adopted to ensure that the benefits that were not mutually exhaustive or unquantifiable were excluded from the benefit stream. As such, for the purpose of quantification of economic benefits, following economic benefits were assessed, namely:

- **Traders surplus:**
 - a. With provision of better infrastructure in the proposed project, the traders will have an improved spatial environment for their business which will increase their willingness to pay rent relative to the situation 'before the improvement'.
 - b. Thus, in case of Greenfield markets, some of the traders will relocate to the new market facility while at the same time new retailers will venture into business in the facility. Their willingness to pay rent will be higher than in their previous business premises (for the relocating retailers) because of the new market facility and the expected volume of business. Similarly for redevelopment and modernization of markets, retailers are willing to pay more for rent for the improved facility
 - c. Consumers' willingness to pay will increase because of the improved shopping environment and traders will sell more if price remains the same because of the improvement of the shopping facility or the reduced traveling costs and time to previous sources of shopping in case of new markets.
 - d. At the same time some traders will lose part their business either because they cannot match the new shopping facility or because of distance and price incentives. Therefore, they will lose some of their customers – and hence lose part of their business
- **Consumer surplus:** There will be benefits to consumers including health, environment, safety and availability of other services at one point – such as banking facilities, etc. However, since provision of these benefits will also result in increased disposable income and propensity to shop at the market resulting in increased sales for the traders.
- **Developer surplus:** The developer of the Project facility will get benefits in terms of the overall profits generated from the Project.

- **Additional wages:** In addition to above, there would be direct and indirect jobs that would be created and are not accounted for elsewhere. For the purpose of this assessment, we have considered the additional direct jobs only.

All economic benefits have been considered in real terms.

4.4.2 Key Assumptions

- Traders have indicated that they are willing to pay between 1% and 15% of their total sales as rental cost with a conservative blended estimate of 5% of the total sales. The willingness to pay increased rent of ~50% blended rent and service fee has been considered as incremental benefit.
- It is assumed that consumers' willingness to buy in the new facility will be around 110% of the prices in the new facility. By implication, consumers' surplus will be 10% of the total retailers' sales.
- Expected Loss by Competitors due to the Planned New Business Facilities in Selected LGAs: The onset of a new business facility creates competition with the existing businesses – thereby leading to reduced or closed business operations. This will happen when the new business facility starts to operate; in such a way that there will be some customers who will shift to the new created businesses while other won't or will remain partially – and shop in both the old and the new facility. The shifting customers, and presumably in addition to new products, will create business opportunities to the business operators in the new facility – this will produce services which will add on the economic benefits of that particular community.
- It takes time (assumed to be five years) before a new business facility becomes fully operational. The loss made by competitors will gradually decline as they make adjustment to get new customers/market and change their business strategies – may include relocation of the business to high demand areas. It is assumed that the decline will be gradual and diminishing with time to zero percent after five years:
- Additional sales of 10% have been considered on account of consumer willingness to shop and as a conservative estimate, it has been assumed that 10% of the additional sales will accrue towards Consumer surplus.
- Developer surplus: Profit after tax has been considered in real terms.

4.4.3 Economic costs of the Project

The economic costs for implementing the Project have been considered in terms of economic cost towards the capital costs of the proposed project and the cost of operating and maintaining the project facilities.

For determining the economic cost from operations and maintenance, only the incremental operating and maintenance costs due to the operation of the project were considered. The incremental O&M costs thus arrived were converted into their economic equivalents using the same methodology as defined above for capital costs, using the standard conversion factors.

4.4.4 Results

The results are depicted in the table below.

Table 6: Economic IRR and Benefit – Cost Ratio

| Planned Project in Arusha City Council | Estimated Economic IRR | Benefit/ Cost Ratio |
|---------------------------------------------|------------------------|---------------------|
| Construction of Njiro Market in Arusha City | 24.3% | 2.6 |

The assessment of the economic viability, based on the quantifiable costs and benefits, is depicted in the table above, which shows the viability indices for the envisaged Njiro market project. The economic internal rate of return (IRR) for the Njiro ward market project is higher than the SDR of 12% and is economically viable.

4.5 Non Quantifiable Benefit of the Project

It's worth highlighting some of the wider benefits which will be generated by the Project and may not be quantifiable at this stage.

While the direct employment has been considered for estimation of economic benefits, there would other categories of indirect employment that will be induced due to the project. This may consist of taxi drivers, garbage collectors and hawkers.

Further, the project will have impact on the health status of people because of the consequential improvement in hygiene in handling food staffs. The new market is expected to have modern standardized facilities with regard to outdoor market services, shops, food vending, parking spaces and washrooms. This will potentially improve food handling services, cleanness and consequently health status of people in the area. There will be an indirect business generation for small and medium enterprises and increase in trade in the area.

The new market is expected to provide customers with a wide range of choices to products as there will be varieties of products homogeneous and heterogeneous from different whole and retail sellers; this will increase competitiveness in production and supply chain in general.

In addition, the proposed market is also expected to save time of the consumers as they will not have to travel long distances for convenience shopping. It is further expected to generate income for transport service providers from transporting customers and purchases to and from the market.

4.6 Economic Assessment of Development option 4: Njiro market bundled with daladala terminal

4.6.1 Approach

Assessment economic viability for the bundled development option has been undertaken as an incremental approach wherein the economic benefits and cost due to daladala terminal are estimated as per earlier stated methodology and are additionally considered along with that for the market.

Residual value at the end of fifteen year period has been considered as accrued economic benefit.

4.6.2 Economic Benefits of the Project

The project has an outstanding potential for serving a large number of stakeholders. In line with earlier stated methodology, guidance approach shared by the World Bank has been considered. As such, for the purpose of quantification of economic benefits, following additional economic benefits were assessed, namely:

- **Consumer surplus:** The daladala terminal serves both the daladala operators as well as the passengers. There will be benefits to consumers including time saving from efficient terminal operations, health, environment, safety etc. However, since provision of these benefits will also result in willingness of daladala operators to pay for higher terminal entry and parking fee, or willingness of passengers to bear the resultant increase in bus fares should the impact is transferred to passengers. Further, improved retail space and passenger amenities will result in higher propensity to spend by passengers.

The daladala operators are willing to pay increased terminal charges. Considering the prevailing of TZS 500 as entry charges and levied charge of TZS 1000 for a better facility, a blended increase of 50% has been considered.

- **Traders surplus:** Same assumptions as earlier detailed in assessment.
- **Developer surplus:** Same assumptions as earlier detailed in assessment.
- **Additional wages:** For the purpose of this assessment, we have considered wages on account of the additional direct jobs equivalent to 25% of the total operational expenditure.

All economic benefits have been considered in real terms.

4.6.3 Economic costs of the Project

For determining the economic cost from operations and maintenance, only the incremental operating and maintenance costs due to the operation of the daladala terminal have been considered. The incremental O&M converted into their economic equivalents using the same methodology as defined earlier in the assessment.

4.6.4 Results

The assessment of the economic viability of bundled option, based on the quantifiable costs and benefits, is depicted in the table below, which shows the viability indices for the envisaged Njiro market bundled with daladala terminal project.

The economic internal rate of return (IRR) is higher than the standalone market and thus, preferred option from the economic viability standpoint.

Table 7: Economic IRR and Benefit – Cost Ratio

| Planned Project in Arusha City Council | Estimated Economic IRR | Benefit/ Cost Ratio |
|---------------------------------------------|------------------------|---------------------|
| Construction of Njiro Market in Arusha City | 25.2% | 2.3 |

4.7 Key Results and Conclusion

The envisaged project is economically viable. The expected benefits to the community outweigh the costs involved by more than twice. The economic viability of the Project was assessed on the following parameters and benchmark / threshold values mentioned above:

- The EIRR for the project should exceed the hurdle rate - Social Discount Rate - of 12%
- The Benefit-Cost ratio should exceed the hurdle value of 1

Both of these conditions are met for this Project.

5 Commercial case

The infrastructure sector globally has been a front-runner in terms of experimenting with various procurement options. Given the project concept, this chapter presents the analysis of different procurement options for the project and discusses their suitability in context of the Njiro Market project.

5.1 Procurement Strategy and Route

5.1.1 Procurement modalities being considered

The main objective of this project is to provide a well-built, safe and hygienic public facility that is accessible and useful to all income classes.

The main objective of this project is to provide a well-built, safe and hygienic public facility that is accessible by and useful to all income classes.

The key determinant of the delivery model is risk-sharing partnership between the public and the private sector to deliver a project. Considering the prevalent models, which have been deployed for delivering similar projects, following approaches can be considered for delivering the Njiro Market project:

1. Traditional delivery model where the project is financed, constructed and managed by the public authority; and
2. PPP delivery models.

For the purpose of this assessment, the PPP models allowed under the National PPP Policy of Tanzania have been considered and assessed for their suitability in context of the project. Keeping this as the underlying principle, following procurement modalities have been considered. Each option involves varying degrees of the private sector's involvement, which is primarily dependent on the project's commercial potential.

- (i) **Public sector's involvement only - Traditional Procurement:** in this case the project is financed, constructed and managed by the public authority such as the LGA.

This mode is pertinent for projects that, once developed, shall provide important public service/facility; however, they may not be commercially lucrative enough to attract the private sector.

- (ii) **Public Private Partnerships (PPPs):** In the case of PPP delivery options, a project is developed via contributions from both public and private entities. The division of responsibility and risks between the two parties depends on the chosen PPP mode. For example, the private entity may assume responsibility for design, construction, maintenance and operation of the facility for a pre-defined period of time, while the public entity provides the land and assumes risks related to natural disasters and political upheaval.

This mode is useful for developing projects that provide important public services and have sufficient revenue potential to attract the private sector. PPP projects also have the option of getting funding/grants from the concerned public entity and/or other agencies to enhance their viability.

- (iii) **Private sector's involvement only - Commercial lease:** the land is leased to a private party that constructs and operates the facility. The private party maybe given some flexibility in terms of timing, construction and design of the facility by the concerned public authority.

This mode is pertinent for projects that have high revenue potential but do not provide a public service/facility. Such a project will serve select parts of the community only—mostly middle to upper income classes. This option has not been considered given the proposed concept of the project

focussing on development of public market catering to low and medium income sections of the society.

For the purpose of this assessment, the PPP models allowed under the National PPP Policy of Tanzania have been considered and assessed for their suitability in context of the project. Based on the assessment, relevant procurement options have been shortlisted and have been further evaluated for:

- Financial viability and affordability; and
- The resultant Value for Money from the Government perspective

5.1.2 Relevant procurement options

The traditional delivery models include publicly funded contracts and, depending on the contractual arrangement, there may be some degree of risk transfer to the private contractor. Usually via some form of Engineering Procurement contract (EPC) of a fixed price or turn-key nature. However, in general the public authority is responsible for financing the project, retains operations & maintenance, and attendant risks. On the other hand, in the case of PPP delivery options, the private sector retains a greater degree of risk. There are many modes of PPPs, which may be adopted depending on the requirements of the project and best risk management practices.

The National PPP Policy of Tanzania allows for the following PPP options:

Table 8: PPP Options

| Project Structure | Description |
|--------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Option 1: Service, Management, Leasing Contracts and Concessions | For existing public assets: <ul style="list-style-type: none"> • Service Contract: Government engages a private entity to provide services the Government previously performed • Management Contract: Government engages a private entity to be responsible for all aspects of operation and maintenance of the facility under contract • Lease Contract: Government grants a private entity a lease hold interest in an asset and the private partner operates and maintains the assets in accordance with the terms of the lease |
| Option 2: Design-Build (DB) | Government engages a private partner to design and build a facility in accordance with the requirements set by the Government. Post completion of construction, the Government assumes responsibility for operating and maintaining the facility. |
| Option 3: Design-Build-Operate (DBO) | Government engages a private partner to design and build a facility in accordance with the requirements set by the Government. Post completion of construction, the ownership of the facility remains with the Government while the private partner operates the facility according to public performance requirements. The private partner is also responsible for replacing the assets whose life has expired. |
| Option 4: Design-Build-Operate-Maintain (DBOM) / Build-Operate-Transfer (BOT) | This combines the Design-Build (DB) model with the operations and maintenance of a facility, for a specified period, by the private sector partner. At the end of that period, the facility is transferred back to the Government. |
| Option 5: Build-Lease-Transfer (BLT) | After building the asset, the Concessionaire rents or leases it from the Government and eventually transfers it back again. |

| Project Structure | Description |
|-----------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Option 6: Design-Build-Finance-Operate/Maintain (DBFO or DBFM) | Private sector designs, builds, finances, operates/or maintains a new facility under a long term lease. At the end of the lease term, the facility is transferred back to the Government. |
| Option 7: Build-Own-Operate (BOO) | Government grants the right to finance, design, build, operate and maintain a project to a private entity that retains ownership of the project. The private entity is not required to transfer the facility back to the Government. |
| Option 8: Build-Own-Operate-Transfer (BOOT) | Government grants a franchise to a private partner to finance, design, build and operate a facility for a specified period of time. Ownership of the facility is transferred back to the Government at the end of that period. |
| Option 9: Buy-Build-Operate (BBO) | This is a form of asset sale that includes rehabilitation or expansion of an existing facility. The Government sells the asset to the private sector entity, which then makes the improvements necessary to operate the facility in a profitable manner. |

The main emphasis of PPP structuring is on **risk sharing**, however there are variations in terms of user charges, concession periods, asset ownership, delivery of public service etc. Thus, in terms of allocation of roles and responsibilities across key elements of the project lifecycle, these delivery models can be represented as in the table below.

Table 9: Role of Public and Private Entities

| Risk Responsibility | Public Funded | | Private Funded | | | | | | |
|----------------------------------------------------------------------------------|---------------------|---------|----------------|-----------|-----|------------|-----|------|--------------------|
| | Item Rate Contracts | DB | DBO | DBOM /BOT | BLT | DBFO/ DBFM | BOO | BOOT | BBO |
| Design | Public | Public | Private | | | Private | | | Private/ Public |
| Build/ Construct | Private | Private | Private | | | Private | | | Private/ Public |
| Finance | Public | Public | Private* | | | Private | | | Private |
| Operations | Public | Public | Private | | | Private | | | Private |
| Maintain | Public | Public | Public | | | Private | | | Private |
| * Private sector financing for construction period only, then publicly financed. | | | | | | | | | |

Delivery models for the project need to be evaluated in terms of the outlined procurement objectives to determine their suitability. The selected delivery model should be that which best suits the Government's requirements and best addresses the project risks and challenges and Government's ability to manage the contract.

The key determinants of relevant PPP procurement options, in context of the markets, are as follows:

- Funding capacity of LGAs:**

Availability of funding is a critical factor when selecting a procurement modality. LGAs in Tanzania are heavily dependent on central government funding for financing of developmental projects and

operational requirements¹⁰. A report from the National Audit Office reveals that most of the LGAs could finance themselves by only 9% and this, coupled with under release of capital development grants by 61% of the approved budget¹¹, implies that there is need to look for alternate sources of funding than the traditional government funding for the purpose of the project.

Accordingly, Traditional Procurement options (such as item rate contracts and Engineering-Procurement-Construction contracts) are not feasible in this context.

- **Optimality of Risk Sharing:**

As is evident from the multiple reports published by various authorities on performance of capital projects and performance of LGAs in Tanzania, the private sector, prima facie, is better equipped to manage risks associated with delivery and operations of the capital project. LGAs face issues on two fronts:

- i. **In Delivery** – Report by the PPRA, Tanzania, highlights this issue in their report of procurement audits in seventy-six procuring authorities for FY 2013-14. It states “The audits revealed significant performance gaps on contracts management which had serious negative consequences in the delivery of services, goods and infrastructure facilities including; delivery delays, cost overrun, poor quality of services, goods and works, and loss of public funds”. For infrastructure project closure and completion it further adds that the overall score on project completion and closure was assessed at 40.6% - which is significantly below the threshold mentioned in the report.
- ii. **In Operations** – Operations are affected by inefficiencies in managing the contracts, especially in collection of revenues. For example, out of the total expected revenue to be collected and remitted to the councils by contracted collectors, only 67% was remitted to the audited councils¹². Further the overall score for work supervision and contract administration of the audited LGAs was assessed to be low at 48.4%¹³.

Given the above, there is a strong preference for integrated construction and operation risk transfer to the private sector. Such a transfer can occur in a PPP project.

- **Ownership of the assets:**

Considering the development of project on public land, pro-poor focus of the facility, transfer of ownership and/or exclusive possession is not preferred. Instead, grant of usufructuary rights or right to use the project asset will be a preferred scenario.

Thus, models such as Lease, Build–Own–Operate–Transfer, Build–Own–Operate, Build–Lease–Transfer, etc. may not be preferred

- **Nature of project—Greenfield with a strong capital investment focus:**

The project requires development of a Greenfield asset. Thus, the PPP model must be suitable for construction of greenfield assets and not rehabilitation.

- **Prevalent models and acceptability by the private sector**

Globally, various PPP models have been discussed and experimented with for development of markets. Amongst the various service-sharing options that have been implemented internationally, predominantly Design Build Finance Operate Maintain Transfer gain prominence.

¹⁰ Source: Final Report - A study on LGAs own source revenue collection, PMO-RALG, Tanzania

¹¹ Source: Report of the National Audit Office titled “The annual general report of the controller and auditor general on the financial statements for the financial year ended 30th June, 2016 – Local Government”; Published March 2017

¹² Source: Report of procurement audits in seventy six procuring authorities, Public procurement regulatory authority (PPRA) Tanzania, for FY 2013/14

¹³ Source: Report of procurement audits in seventy six procuring authorities, Public procurement regulatory authority (PPRA) Tanzania, for FY 2013/14

The other options which have also been successful include option in which the private proponent provides for all the services except operation services and the public authority assumes the operation services. In this option, the payments to the private proponent are linked to performance and service/facility availability. It may also be noted that demand and revenue risks are not assumed by the private sector

5.1.3 Selected procurement modality and role allocation

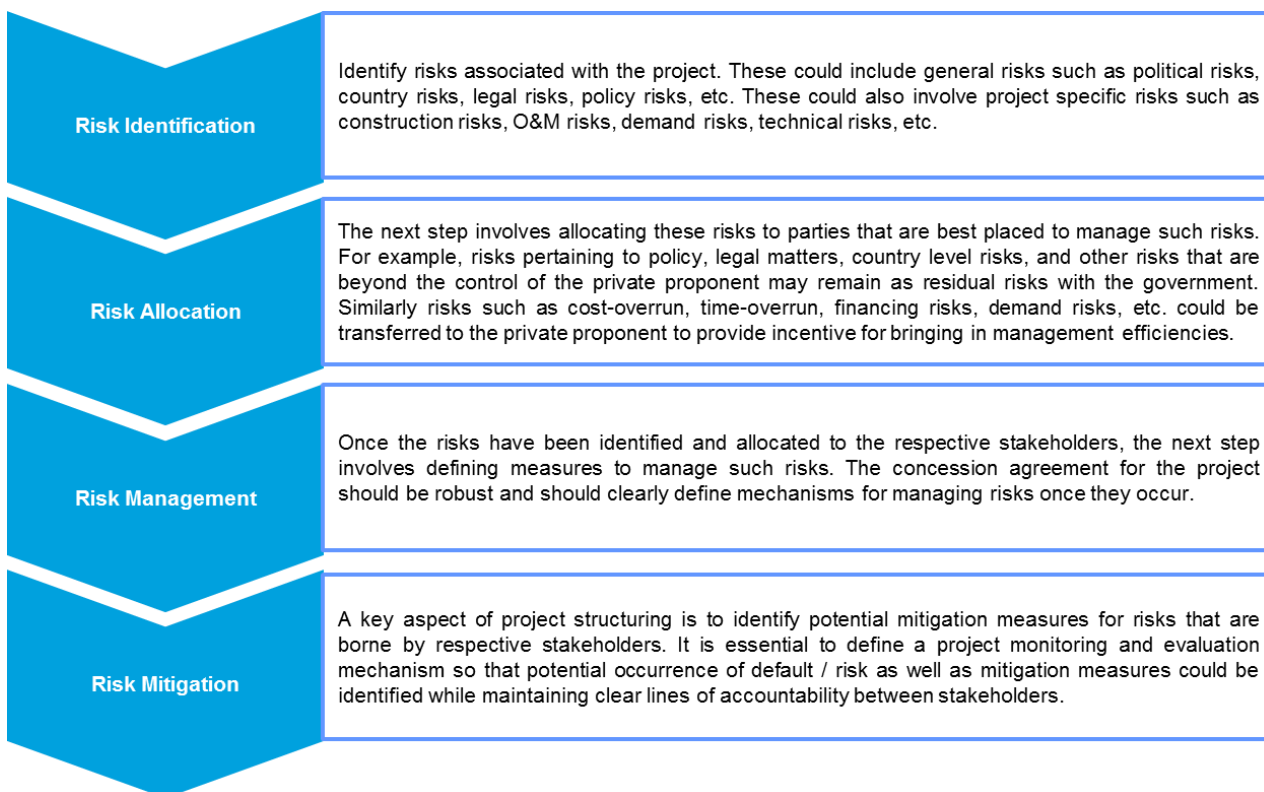
Based on the above discussion, the **Build, Operate and Transfer (BOT)** may be considered as the preferred procurement option. This combines the Design-Build (DB) model with the operations and maintenance of a facility, for a specified period, by the private sector partner. At the end of that period, the facility is transferred back to the Government.

Table 10: Suggested Procurement Modality

| Operating Model | Description |
|-------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p>Build, Operate and Transfer (BOT)</p> | <p>In this procurement option the Private Party is responsible for Design, Construction, Finance, Operation and Maintenance of the project. This include responsibility for:</p> <ul style="list-style-type: none"> ▪ Hard infrastructure (new or refurbished facilities) ▪ Associated hard infrastructure lifecycle maintenance services including 'hard' facility management services including equipment and facility maintenance ▪ Soft or facility management services such as cleaning, catering and other support services ▪ Commercial operations including tenancy management, marketing and sale function <p>The services are offered by the private proponent as per the performance parameters set by the public authority and the authority assumes performance monitoring.</p> <p>The private sector is allowed to lease out the market lettable area or outright sale based on the agreed parameters. In this option, the demand risk and/or revenue risk may be assumed by the private sector</p> <p>Financing support mechanism: Marginal Viability Gap Funding in form of capital grant (if required)</p> |

5.2 Risk Allocation framework

Risk assessment for a PPP project essentially involves the following key steps:



5.2.1 Risk Identification

The risks associated with the project can be broadly classified into four categories:

- (i) **Project specific risks:** These risks are project specific and to some extent are controllable by the project proponent/private party. These risks include design risks, site risks, construction risks, operation risks, insurance risks, etc.
- (ii) **Sponsor or counterparty risks:** These risks to some extent can be mitigated by the Authority/Public party and the sponsors
- (iii) **Economic and Financing risks:** These risks impact the project financials and returns
- (iv) **General and country risks:** These risks are associated with the political, economic and legal environment of the host country and over which the private party would have little or no control

These risks have been further detailed in context of the project in following sections.

5.2.2 Risk Allocation

Once the risks have been identified, they have to be allocated and managed efficiently to ensure the success of the project. There are three overriding considerations when deciding upon the risk allocation for a PPP project:

- a) Risks should be borne by the party most suited to deal with it, in terms of control or influence and costs.
- b) All substantial project risks that have been identified earlier should be allocated optimally between the parties and should be bound by contractual obligations.
- c) The risk structure has to be sufficiently sound to cope with a combination of pessimistic scenarios for the project.

Risks involved in the project have to be allocated and managed on a case-by-case basis. Normally, however, the private sector party will agree to bear the risks that they are familiar with, such as most development risks, construction and completion risks and operating risks. The private sector party will hesitate to bear uninsurable risks that are unquantifiable and outside their control, such as some political risks, indeterminate demand risks and uninsurable force majeure risks. If the LGA still wishes to transfer some of these risks to the private sector, the private sector will factor in the costs associated with such risks and price the same into their financial bids to the extent it does not impact their 'go' / 'no-go' decision on the project. This will make the project more expensive and will offer lower value for money to the LGA.

For instance, in case of the Njiro market the risk pertaining to regulation of unlicensed traders and enforcement by-laws and rent/tariffs has been identified as key risk which shall be borne by the LGA.

5.2.3 Risk Management

The basic allocation of risk would need to be defined in the Concession Agreement between the Private Party and the LGA. This agreement would need to define the commitments of each party, including how risks are to be allocated or shared between them. Subsequently, the Private Party will proceed to negotiate and sign a series of contracts with other project participants. These contracts will also define how the risks allocated to the project will be distributed between the other project participants. The set of contracts relevant for risk allocation normally include the following:

- a) The shareholders agreement;
- b) Various credit agreements with project lenders;
- c) The construction contract;
- d) Equipment supply contracts;
- e) Where applicable, long-term materials supply contracts; and
- f) The operations and maintenance contract with the facility manager.

The combination of the concession agreement and all of the additional contracts will define the basic risk structure of the project.

5.2.4 Risk Mitigation

While developing the PPP structure, it may be possible to provide for certain risk mitigation mechanisms so as to improve the general attractiveness of the project and ensure its bankability and interest from potential private sector partners.

Following is an overview of the allocation and mitigation measures for the shortlisted project structure:

Table 11: Risk Allocation and Mitigation Measures

| Type of Risk | Brief description | Distribution of risks based on procurement option BOT (PPP) | Mitigation Measure |
|-------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Project specific risks | | | |
| <u>Design risks</u> | These risks are primarily associated with the design phase of the project life cycle and include risks pertaining to change in design standards, output specifications, failure of design, delays in design approvals, etc. Most of these risks could be mitigated by the Private Party and the exposure to risks depends upon the capability of the Private Party. In some cases, risks associated with the approvals required from the Authority’s counterpart would be allocated to the Authority and those related to procuring approval from other government bodies may lie primarily with the Private Party. | Private Party | <ul style="list-style-type: none"> • Design approvals / consents: The Authority can provide reasonable assistance to the Private Party for obtaining any consents / approvals after signing of the Concession Agreement. • Risk of delay in design approval: If the Authority does not grant such approval within a specified time period or provide any observations, the approval could be deemed to have been provided. • Change in design and construction standards: The period between contract signing and start of construction should be relatively short, minimizing the risk of changes in standards affecting the project. However, if a change in design is required on account of an issue with the original design of the concessionaire then that risk would have to lie with the Private Sector. • Output specifications not being met: The Private Party could be required to furnish a design warranty vis-à-vis approved output specifications. An Independent Engineer (IE) could determine if the proposed design meets the approved specifications. • Failure of design: The desired specifications and design standards shall be set in the contract. Failure of design is likely to reduce the payment available to the Private Party. The design shall be vetted by IE and Authority. |
| <u>Site risks</u> | These include risks pertaining to land acquisition, right of way, title claims, access rights, ground conditions, discovery of hazardous materials, etc. The Private Party | LGA | <ul style="list-style-type: none"> • Land acquisition including Right of Way: This risk is highly significant. The land acquisition process should be started immediately. |

| Type of Risk | Brief description | Distribution of risks based on procurement option BOT (PPP) | Mitigation Measure |
|-----------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| | <p>may not be able to control or mitigate such risks and these risks could substantially impact the project viability.</p> <p>Delay in land acquisition is one of the major issues for delays or termination of infrastructure projects. The Authority has to play a significant role to ensure that land acquisition is smooth and that encumbrance-free land is provided to the Private Party.</p> | | <ul style="list-style-type: none"> • Title risk: This includes risk of any adverse title claims or any other encumbrances affecting the smooth possession of land. To avoid such risks, sufficient due diligence to be performed on local sites prior to land acquisition. • Access rights and site security: It should be ensured that suitable access rights are granted to the Private Party. If additional access rights are required after contract signing which were not requested by the Private Party, this should be a Private Party risk. • Site / ground conditions: Under the Concession Agreement, the Private Party shall undertake that it has satisfied itself to the site conditions and that it shall have no recourse against the Authority in the event of finding of any such inadequacy at a later date. At the RFP stage, the shortlisted bidders shall be given access to the Project Site to conduct necessary due diligence and inspection as the bidders may deem fit at their own cost. • Discovery of hazardous material: The discovery of any hazardous substance which makes the project unviable shall be treated as a force majeure event. Regular caveats shall be included to provide that the event is “beyond reasonable control of a party or is unavoidable despite the exercise of due diligence”. |
| <p><u>Construction risks</u></p> | <p>These risks are associated with the construction phase of the project life cycle and include risks pertaining to time overruns, cost overruns, failure to meet technical specifications, etc. Most of these risks could be mitigated by the Private Party except in cases where the risks such as overruns</p> | <p>Private Party</p> | <ul style="list-style-type: none"> • Cost overrun – not force majeure: Contracts to be at pre-estimated price and should limit circumstances in which variations to that price may be permitted (i.e. such as variations requested by the Authority). • Cost overrun due to variations: The Authority shall pay for variations it instigates – the risk is mitigated by having certainty of design / output before contract signing. • Cost overrun – force majeure: Force Majeure due to political events in the country, from where a lot of support and project inputs shall be sourced, can be |

| Type of Risk | Brief description | Distribution of risks based on procurement option BOT (PPP) | Mitigation Measure |
|------------------------|-----------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| | are due to factors beyond the control of the Private Sector (for example, in case of force majeure or relief events). | | <p>considered to be moderately likely. Need to consider the magnitude of cost sharing between the Private Sector and the Authority.</p> <ul style="list-style-type: none"> • Delay in completion: Performance bond to be provided by the Private Party during the construction period to secure proper performance of construction works. In consequence of delay and / or non-completion, there would be a penalty for delay in achievement of the construction milestones as well as completion of construction, in the form of liquidated damages. Delay of more than specified months shall be a Private Sector event of default enabling the Authority to terminate the agreement. However, the Private Party shall be liable for delay only for the items that are under its control. The Concessionaire shall require appropriate relief and / or extension of time where the delay is caused by the Authority. • Failure to meet technical specification: Failure to do so could be linked to defined penalty. • Relief events: During a relief event, the Private Party shall be entitled to relief from its obligations under the Project Agreement to the extent its ability to perform them is adversely affected by the event. There may be limited recourse for compensation, which shall be calculated in accordance with agreed compensation principles. The Private Party shall not be subjected to Key Performance Indicator (KPI) deductions which otherwise arose as a result of the relief event and shall not be liable to the Authority for any losses or claims arising directly from the relief event. • Compensation events: Category of risks to be limited to specific instances which cannot be expected to be borne by the Private Party. |
| Operation risks | The risks include performance / availability risks, demand, tariff | Private Party | <ul style="list-style-type: none"> • Operation and maintenance (performance / availability risks): Incorporate appropriate criteria to ensure selection of experienced operators / entities for the |

| Type of Risk | Brief description | Distribution of risks based on procurement option BOT (PPP) | Mitigation Measure |
|--------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| | risks, etc. The Private Party is required to meet the performance / availability standards for the project. Such risks could be mitigated by ensuring selection of capable and efficient private party for the project and setting criteria for penalties in case the Private Party does not meet the performance / availability requirements. | | concession. Specifying equity lock-in period for key sponsors who participated in the bidding process ("Evaluated Entities") during the implementation of the project. Specifying output specifications in the CA to monitor the performance of the Private Party and imposing penalties in case of failure to comply. <ul style="list-style-type: none"> • Demand risk: In the present arrangement, the demand risk is to be retained by the Private Sector. Thus the demand risks pertaining to the project is mitigated. • Tariff risk: In the present arrangement, the revenue risk is retained by the Private Party. The Private Party has the flexibility of changing the tariff rates in compliance to government norms for the selected project concept. Thus tariff risks pertaining to the project is mitigated, however in many cases the tariffs are set via amendment of by-laws and this involves a political process, so this risk might revert back to the LGA. |
| <u>Insurance risks</u> | The project must be suitably insured during both the construction and O&M phases of the project. The insurance should ensure sufficient coverage of all project assets. | Private Party | Insurance policies to be subject to lender review for the project. |
| Others | | | |
| <u>Economic and financing risks</u> | These include risks pertaining to inflation, foreign exchange, interest rates and financial closure of projects. These risks could have substantial impact on the project returns and financial viability of the project. For instance, if the | Private Party | <ul style="list-style-type: none"> • Inflation: Private Party to bear the risk except beyond a level where an indexation may be considered by reference to indices. Tariff rates to be inflation indexed – to be passed on to users. • Foreign exchange: Payments are expected to be denominated in local currency. In case any foreign currency is used, necessary forex hedge may be procured by respective parties. |

| Type of Risk | Brief description | Distribution of risks based on procurement option BOT (PPP) | Mitigation Measure |
|----------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| | project assumes substantial financing from foreign debt market, it may become prone to foreign exchange risk. | | <ul style="list-style-type: none"> • Financing risk: Financing risk to be mitigated through proper structuring of the project. |
| General and country level risks | These risks include country level risks, change in law, political sabotage/terrorism, force majeure, etc. While generally such risks are unlikely to occur during the course of the project, certain steps and measures need to be taken to assure the interest and active participation from the bidders. For instance, the mechanism and amount for termination payments in case of force majeure should be transparent and as per industry best practices. | LGA | <ul style="list-style-type: none"> • Change in law risk: The Authority shall be responsible for any additional costs arising due to a change in law after the execution date, provided such change was not reasonably foreseeable on the execution date. If the financial impact of the project specific change in law is more than a pre-agreed threshold, then the Authority shall compensate the Private Sector. The method of compensation shall be mutually decided and can be any of the following: <ul style="list-style-type: none"> ○ Rescheduling of the construction schedule ○ Extension of the concession period ○ Any other mutually agreed remedy agreed upon by the Parties • Force majeure: The affected party shall be relieved from performing the affected obligations. There may be monetary compensation, if stipulated in the Concession Agreement. • Country risk: The Authority shall be required to compensate the Private Sector through a pre-estimated damage amount (as agreed in the Concession Agreement), as well as giving it termination rights. |

Given the above discussion, the following chapter assess the suggested procurement mode from a financial viewpoint. The financial assessment provides valuable insights into the funding and affordability of the project. Given a certain project configuration, a financial return greater than the required threshold indicates that the project cash flows over the project lifecycle can recover the capital costs and sustain the operating costs. Lower financial returns may indicate funding gap.

5.3 Output Specifications

This sub-section provides indicative output specifications for the Private Party/Concessionaire, which are expected to be fulfilled/met under the agreement with the Contracting Authority (LGA). The overall output standards and specifications have been aligned to the lifecycle of the Project and have been categorized in four stages i.e. Project concept and description, Planning and design, Construction, Operation and Management.

It is pertinent to note that Output Specification and standards shall be finalized based on the detailed feasibility undertaken in the subsequent stages, and need to be incorporated in the final project agreements, the following may be used as an indicative reference.

5.3.1 Project Concept and Description

The Private Party/Concessionaire shall be responsible for financing, designing, building, operating and maintaining the Project facilities. The Project will be a Greenfield development, expected to be constructed in a [two-year] period.

The aim of the Project is to develop a market that caters to the daily and convenience needs of the residents around the proposed site. The market is envisioned to be equipped with features such as designated spaces for small and big traders, hygienic washroom facilities, parking spaces etc. In addition, there shall be provisions for utilities, waste collection, proper drainage and internal pavements etc.¹⁴

Minimum Development Obligations:

The Private Party/Concessionaire shall be responsible for development of Project Facilities in consultation and input from the LGA /LGA's Engineer/ Market Officer, according to Good Industry Practices and as per provisions of relevant design standards, specifications and local by-laws. However, design risk remains with the Private Party/ Concessionaire. Such Project Facilities shall include but would not be limited to:

- **Main Market Area and Trading spaces** – The main market area is expected to serve both small as well as medium scale traders with stalls of two different sizes being constructed. A total of 1171 traders have been estimated to be accommodated in the proposed market. Keeping in view the affordability of the Project, a market building with single floor has been proposed.

There are no specific space guidelines for market stalls and frames. In line with existing practices, following may be adopted:

- **'Stand' / 'Stands'**: Sales tables built in the market, wherein each table is a concrete slab/bed (100mm thick) with cement mortar finish on top. The top of each table is ~0.9m from the floor level and width of table is be 0.9m. Each stand will be ~1.5m wide (for one trader) and can have shelves/cabinets underneath for storing goods / groceries. The construction will be a combination of masonry walls and concrete bed with plaster wall finishes and mortar table top finish. Alternatively, stall may be is a temporary facility for selling goods. The area required for stalls may be approximately 2 - 3 sq. m
- **'Frames' / Large stalls**: an enclosed room with an area of about 10 – 15 sq. m, depending on available space. The shops shall have a door (of steel) at front covering entire width of the shop
- **Internal movement area**: Adequate internal movement area to be provided for both horizontal movement (corridors) and vertical movement (stairs, ramps, elevators), if required. Adequately wide corridors and stairs are to be provided to allow convenient and safe movement of many people in one moment, for example space for the Stand holder to stand/ sit behind the counter while allowing space for customers to circulate.

¹⁴ The high level Concept Plan is provided in the annexure as guidance, bidders will need to develop their own designs in order to meet the final Output Specifications and assume the risks relating to their designs throughout the entire project lifecycle.

- **Parking Space** – A part of the plot shall be utilized for developing a parking space for cars and delivery trucks. The space shall be a part of the larger market complex and be adequately paved for use of vehicles. The parking area shall be primarily used by cars during the market operation hours and shall be used for truck parking, loading and unloading in off-peak hours.

Passenger and utility vehicles may be considered in the design, which require minimum space of 2.5m x 5.0m including turning movements.

- **Support / Other Infrastructure** – The market complex shall also feature spaces for utilities such as electricity distribution area/substation, solid and other waste collection areas, water pump area, security personnel area etc. The market will be developed with a proper drainage network and lighting facilities.
- **Washrooms:** Separate toilets for men and women. While both the type of toilets shall have toilet seats, additionally in Men toilet, urinals would have to be provided. Both the toilets shall have facility for disabled people also.
- **Administration:** a suitable space/ offices for the market manager should be contemplated to facilitate the efficient operations of the market, for example, a cashier's office could be included.

The Project area and proposed planning details are tabulated below:

Table 12: Proposed planning details

| Sl. | Parameter | Details |
|-----|-----------------------------------------------|---------------------------------------------|
| 1. | Total Plot size | 9,641 m ² ¹⁵ |
| 2. | Minimum plot size considered for development | 4,383 m ² |
| 3. | Total floor built-up area for market building | 2,849 m ² |
| 4. | Parking capacity | 30 car bays (day) and 15 truck bays (night) |

Table 13: Area statement

| Area Statement | % of Land | Total Ground Floor built-up area (sqm) | Floor | Total built-up area (sqm) |
|-------------------------------------------------------------------------|-----------------------------|----------------------------------------|-------|---------------------------|
| Market building | 65.00% | 2,849 | 1 | 2,849 |
| | % of Market Building | | | |
| Stalls | 80% | 2,288 | - | |
| Frames | 14% | 405 | - | |
| Administration Block | 2% | 43 | - | |
| Electrical room | 0% | 14 | - | |
| Toilets | 4% | 100 | - | |
| Other Facilities | | | | |
| Parking area | 15.74% | 690 | - | 690 |
| Internal movement space | 16.24% | 712 | - | 712 |
| Solid waste collection unit | 0.50% | 22 | - | 22 |
| Other utilities - water supply, drainage, plumbing, overhead tank, etc. | 2.51% | 110 | - | 110 |
| Total | 100% | 4,383 | | 4,383 |

¹⁵ It is observed that there is a discrepancy in the plot area between the title deed and the project's concept note shared by LGA. As per the title deed, the plot area is 9,641 m² whereas as per the project's concept note it is 11,460 m². The plot area mentioned in the title deed has been considered for project configuration and viability finalization.

Project Facilities forming part of the Project should be completed on or before the Project Completion Date. Construction, development and maintenance of the Project Facilities forming part of the Project shall be the responsibility of the Private Party/Concessionaire as per the applicable norms, local or national laws and prevalent rules and regulations.

An indicative concept plan has been provided in the Annexure to this report for reference.

5.3.2 Planning and Design Aspects

5.3.2.1 Design philosophy

The philosophy of the conceptual shall give due consideration to

- **Quality of the design:** The design must meet the minimum development obligations and good industry practices. The design should take into account the balance between immediate construction costs versus efficient operating costs over the life of the contract.
- **Adoption of appropriate standards:** The design must follow the guidelines established in the local authority's Master Plan as well as other guidelines/ by-laws. In the event of a conflict between standards established in a Master Plan and other documents, national regulations followed by by-laws them Master Plan then other guidelines shall govern.
- **Operation and maintenance of the facility:** Systems and materials to be incorporated into buildings should be selected on the basis of long term operations and maintenance costs. The design has incorporated ease and efficiency of operation and allowance for easy and cost effective maintenance and repair.
- **Sustainability and Energy performance:** The design of the facility shall also incorporate established principles of sustainable design and energy efficiency.

5.3.2.2 Design standards

Building design and construction are guided by a Building Code (also building control or building regulations). These are set of rules that specify the standards for building construction. Buildings must conform to the code to obtain planning permission, usually from Municipal or Town Council. The main purpose of building codes is to protect public health, safety and general welfare as they relate to the construction and occupancy of buildings and structures. The building code becomes law of a particular jurisdiction when formally enacted by the Local Authorities through by-laws.

Building codes are generally used by architects, engineers, interior designers, constructors and regulators but are also used for various purposes by safety inspectors, environmental scientists, real estate developers, subcontractors, manufacturers of building products and materials, insurance companies, facility managers, tenants, and others. Codes regulating the design and construction of structures are normally adopted into by-laws by the Local Authorities.

Following may be considered for design purpose:

| S.No. | Document | Remarks |
|-------|----------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 1. | Building code and Basic Data for the Design of Buildings | Given that Arusha City Council like many other local city and municipal authorities in Tanzania does not have its own Building Design Code. Under these circumstances, relevant British Standards may be adopted for basic data for the Design of Buildings. |
| 2. | Local Master Plan Guide | Proposed Arusha Master Plan |
| 3. | Technical Guide for Design | Tanzania Building Research Unit – Technical Guide – Loads for Structural Design |

5.3.2.3 Land development works required

The land development works which may be required are based on the assessment of the site. The terrain of the site and project area in general is relatively flat and would not require significant earthworks e.g. levelling of the site. There is no significant vegetation cover and soil conditions are good for the envisaged construction.

5.3.3 Project Construction Aspects

1. The Private Party/Concessionaire shall construct buildings, internal pavement/ roads, onsite infrastructure and all other facilities in the Project area as per the detailed drawings and design prepared by Private Party/Concessionaire and approved by LGA or LGA's Engineer/ Market Officer. The Private party/Concessionaire has to finalize the detail drawings and Detailed Project Report(DPR) based on the design and drawings and site plan provided by LGA for the Project. For this purpose, the relevant Tanzania Standards/Specifications shall be followed and if such Tanzania Standard/specifications are not available International standard/ specifications shall be followed.
2. The Project report and other information collected/prepared by Feasibility Consultant and provided by the LGA shall be used by the Private Party/Concessionaire only for reference and for carrying out further investigations. The Private Party/Concessionaire shall be solely responsible for undertaking all the necessary surveys, investigations and other data with due diligence, and shall have no claim against LGA for any loss, damage, risk, costs, liabilities or obligations arising out of or in relation to the project report and other information provided by LGA.
3. The Private Party/Concessionaire shall draw up a Quality Assurance Manual (QAM) covering the Quality System (QS), Quality Assurance Plan (QAP) and documentation for all aspects of work. Quality Assurance Plan of the Private Party/Concessionaire will also include the tests for materials, responsibilities of key personnel involved, adequate control and checking procedures and the operation and maintenance of the building. The Private Party/Concessionaire shall submit work plan and manpower deployment chart and also a chart listing major equipment to be used at different stages of the Project development, this is also to track local labour used.
4. The Private Party/Concessionaire has to comply with all the relevant Acts, Regulations and Codes/ Standards and Specifications for approval and the design/ development of the Project. Such Acts, Regulations and Codes/ Standards and Specifications shall include the following but not limited to:
 - i. Urban Planning Act, 2007
 - ii. Urban Planning and Space Standards Regulations, 2011
 - iii. Local Government (Urban Authorities) (Development Control) Regulations, 2008
 - iv. Approved Master Plan
 - v. Relevant Building Codes and By-laws
 - vi. Tanzania Building Research Unit – Technical Guide – Loads for Structural Design
 - vii. Relevant British Standards or International Standards
 - viii. International Building Code (IBC)
 - ix. Tanzania Road Geometric Design Manual (2012)
 - x. Tanzania Pavement and Materials Design Manual (1999) and the American Association of State Highway Transport Officials (AASHTO)
 - xi. Tanzania Standard Specifications for Road Works (2000)
 - xii. Arusha Master Plan
 - xiii. Tanzania Building Research Unit – Technical Guide – Loads for Structural Design

- xiv. British Standards e.g. BS 8110, CP110
 - xv. Metric Handbook by David Littlefield
 - xvi. Fire and Rescue Act Cap 427
 - xvii. Environmental Management Act, 2004
 - xviii. Employment and Labour Relations Act, 2004 (ELRA)
 - xix. Occupational safety and Health Act, 2003 (OSHA)
 - xx. Workers Compensation Act, 2008 (WCA)
 - xxi. Any supplement issued with the bid document
5. In the absence of any specific provision on any particular issue in the aforesaid Acts, Regulations, Codes or Specifications read in conjunction with this Specifications and Standards contained in the relevant Schedule of the Agreement, the international standards (British or American standards) or any other specifications/ standards as proposed by the Private Party/Concessionaire shall apply with prior approval from the LGA/ LGA's Engineer/ Market Officer.
 6. The Private Party/Concessionaire shall ensure that materials and finished products are tested and comply with prescribed in relevant codes.
 7. Review and Comments by LGA/ LGA's Engineer/ Market Officer: Private Party/Concessionaire is required to send all designs, drawings and documents to the LGA or LGA's Engineer for review and comments, and in the event such comments are received by the Private Party/Concessionaire, it shall be duly considered in accordance with the Public Private Partnership Agreement and Good Industry Practice for taking appropriate action thereon.
 8. Design of all component of the Project shall confirm to the relevant codes. All the final design and drawings for the Project will have to be submitted and approved by LGA through the relevant approval process.
 9. Mix designs for concrete to be used for the Project shall be certified from a government approved laboratory. Samples of all materials used for the design mix must be kept in a Project sample room. No concreting shall be carried out unless the LGA or LGA's Engineer has inspected the reinforcement and certified in writing that concreting may proceed. Proper records for all pours along with cube test reports, etc. shall be maintained.
 10. The material to be incorporated in the building for various items of works shall be procured by the Private Party/Concessionaire in advance and samples thereof reviewed by the LGA/ LGA's Engineer/ Market Officer. All materials shall be the best of its kind designated in the contract.
 11. The approved sample shall be retained in a sample room constructed at site of work by the Private Party/Concessionaire till completion of work. Normally no deviation in size, grade and quality of material shall be made by the Private Party/Concessionaire during construction.
 12. The LGA or LGA's Engineer shall be entitled, at any time, to inspect and examine any materials intended to be used in or on the works, either on the site or at the factory or workshop or other place(s) where such materials are assembled, fabricated or manufactured and the Private Party/Concessionaire shall provide for such facilities as may be required for such inspection and examination.
 13. Notwithstanding the fact that the Project is being overseen by LGA/ LGA's Engineer/ Market Officer from time to time, the overall responsibility for structural soundness and quality of the Project facilities/ components will rest with the Private Party/Concessionaire.
 14. Post Construction Inspection and Testing: After completion of the work and during maintenance period, the work shall also be subjected to 'Post construction inspection and testing'. In case the materials or articles incorporated in the work are found to be inferior, though the sample collected

for the same might have been passed at the time of execution, it shall be the responsibility of the Private Party/Concessionaire to replace the same at his own cost, failing which the Authority may rectify the same at the risk and cost of the Private Party/Concessionaire.

15. All necessary statutory clearances, approvals and permits shall be obtained by the Private Party/Concessionaire prior to execution of work. The entire quality standard, tolerances and other technical requirements shall be strictly adhered to by the Private Party/Concessionaire.
16. Obtaining the water supply and electric connections for above structures from the LGA and payment of water supply and electric energy charges to the concerned authorities shall be the responsibility of the Private Party/Concessionaire which he shall discharge at his own cost for the entire Project period.

5.3.4 Operation & Maintenance Requirements

5.3.4.1 General

1. The Private Party/Concessionaire will be responsible for maintenance, up gradation, repairs, replacement and operations, of all works of the project facilities and site area during the Project period as per the maintenance requirement mentioned in the maintenance manual and final service levels. Private Party/Concessionaire will be responsible for procurement and supply of all consumables required at the Project for all equipment and components including but not limited to diesel, oil, fixtures and fittings for water supply, sanitation and electrical work, etc., Supply of required water and payment of Water usage charges, Supply of required power and payment of Electricity usage, cable connectivity usage charges, other Local authority charges etc.
2. Private Party/Concessionaire will be responsible for supplying the required qualified manpower as required for the works of the Project during the Project period and the Private Party/Concessionaire will also be responsible for the employees and payment of their wages deputed on project and compliance of the employment acts and provisions.
3. Operation and Maintenance (O&M) Requirement
 - i. In the design, planning and implementation of all works and functions associated with the operation and maintenance of the Project and Project Facilities, the Private Party/Concessionaire shall take all such actions and do all such things (including without limitation, organizing itself, adopting measures and standards, executing procedures including inspection procedures and engaging contractors, if any, agents and employees) in such manner, as will:
 - Ensure the safety of personnel deployed on and users of the Project and Project Facilities or part thereof;
 - Permit unimpaired performance of statutory duties and functions of any party in relation to the Project and Project Facilities;
 - ii. During the Project period, the Private Party/Concessionaire shall ensure that:
 - Applicable and adequate safety measures are taken;
 - Minimum delay is caused to users of the Project and Project Facilities;
 - Adverse effects on the environment and to the owners and occupiers of property and/or land in the vicinity of the Project and Project Facilities, due to any of its actions, are minimized;
 - Elected members of the public are treated with due courtesy and consideration by its employees/agents;
 - Users are provided with adequate information and forewarned of any event or any other matter affecting the Project and Project Facilities to enable them to control/minimize any adverse consequences by such event or matter;

- Registers to be maintained to record grievances or appreciations of members of public in relation to the operation and maintenance of Project and Project Facilities.
 - All materials used in the maintenance, repair and replacement of any of the Project and Project Facilities shall meet the Design Requirements /standards and approved by Authority.
 - The personnel assigned by the Private Party/Concessionaire have the requisite qualifications and experience and are given the training necessary to enable the Private Party/Concessionaire meet the O&M Requirements.
4. O&M Manual and O&M Plans: Prior to making application for the Completion certificate for the Project the Private Party/Concessionaire shall finalize in consultation with the LGA/ LGA's Engineer/ Market Officer:
- The O&M Manual
 - The O&M Plan for the first year of operations (to be prepared and submitted each year of the Project period)
- i. The O&M Manual prepared by the Private Party/Concessionaire shall set out the operations and maintenance standards and details of the operations and maintenance activities to be undertaken during the Project Period; so that the Project and Project Facilities shall at all times conform to the Requirements prescribed in this schedule.

The Manual shall include without limitation the following aspects:

- Organization structure with responsibilities of key personnel;
 - Project facility Management Plan;
 - Safety Management Program including the Emergency Response Protocol;
 - Inspection Procedures;
 - Maintenance Intervention Levels;
 - Asset Management Project Deliverables and Tolerance Criteria;
 - Environment Management Plan;
 - Maintenance Programme;
 - Management information system;
 - Report Formats
- ii. The O&M Manual shall have two sections viz. a) Operations and b) Maintenance.
- a. Operations:
- It shall prescribe procedures and systems for activities including but not be limited to the following for the regular and emergency operations of the Project and Project Facilities thereon.
- Functioning of the all buildings, service apartments, Electronic & IT systems for all and other facilities
 - Functioning of Administrative, Security system, Parking, Water supply, sanitation, sewerage and waste disposal and all other Project facilities
 - Functioning of Electrical, HVAC and lift Work, Building Management System (BMS) etc., as applicable
- b. Maintenance:

- This section shall include the activities described here-in-under amongst other activities required for the regular and preventive maintenance of the equipment during the operations period, so that the Project and Project Facilities is maintained in a manner that at all times it complies with the specifications and standards prescribed in the Concession Agreement with sound, durable and functional condition.
- The Private Party/Concessionaire shall maintain the Project and Project Facilities in usable condition throughout the Project Period or any extension thereof in terms of the PPP Agreement through regular maintenance and preventive maintenance of the various items and elements of the Project and Project Facilities.

iii. Routine Maintenance

In order to ensure smooth functioning during normal operating conditions for all [24]¹⁶ hours of a day, routine maintenance of the Project and Project Facilities shall include but not be limited to:

- Prompt repairs of building parts, leakages or damages to any part in the buildings and other Project facilities.
- Prompt repairs of concrete joints, road side drains, lane/road marking, signage, patching, raised beams, barricades, railing, drain cleaning, etc.
- Replacement of equipment/consumables and repairs to equipment and other civil works which are part of the Project and Project Facilities.
- Maintenance of the roads and cross drainages within the Site in accordance with Good Industry Practice;
- Keeping the Site/Project Facilities in a clean, tidy and orderly condition free of litter and debris and taking all practical measures to prevent damage to the Project Facilities or any other property on or near the Site;
- Taking all reasonable measures for the safety of all the workmen, material, supplies and equipment brought to the Site. Explosives/ flammables, if any, shall be stored, transported and disposed of by the Private Party/Concessionaire in accordance with Applicable Laws/Applicable Permits.
- For routine maintenance works of the buildings and other Project facilities, the Private Party/Concessionaire shall generally follow the operational and performance criteria specified in the respective Tanzania Standard Codes, Specifications and standards. Where such criteria are not specified in the Tanzania Codes, Specifications and standards, the Private Party/Concessionaire, for the purpose of routine maintenance shall set forth such criteria as to conform to good international standards and Good Industry Practice for sound maintenance practices in consultation with the LGA/ LGA's Engineer/ Market Officer.
- Replacement of lighting equipment/consumables, bulb/tube lights, fans, light fitting, poles, wires, cables or any equipment etc. and other electrical works which are part of the Project;
- Repair / replacement of all electrical and electronic equipment or any other equipment and other works which are part of the Project;
- Repair / replacement of all computer , hardware, networking , consumables or any other equipment / works which are part of the Project;

¹⁶ Final Operating hours to be agreed, can be split between full operations and after hour operations

- Repair/replacement of fixture and fastening, polishing of Interior and Furniture Works which are part of Project;
- Maintenance, repairs and replacement of equipment, pavements, culverts, structures and other works which are part of the Project;

iv. Periodic Maintenance

The Private Party/Concessionaire shall carry out periodic maintenance of the Project facilities. The Private Party/Concessionaire shall generally follow the operational and performance criteria specified in the respective Tanzania Standard Codes, Specifications and standards/ guidelines. Where such criteria are not specified in the Tanzania Codes, Specifications and standards/ guidelines, the Private Party/Concessionaire, for the purpose of periodic maintenance shall set forth such criteria as to conform to good international standards and Good Industry Practice. The periodic maintenance of the Project and Project Facilities shall include but not be limited to:

- All Project buildings
- Road markings, carriageway and lanes
- Culverts and drains
- Landscaping
- Electrical equipment and lighting
- Computer hardware, software & networking
- Electrical & electronics equipment

5. Inspections & Frequency: The Private Party/Concessionaire shall plan and carry out the inspection programme (visual inspection, close inspection, thorough inspection, etc.) for the Project and Project Facilities for its smooth operations. The type of inspection and related frequency of various items of Project and Project Facilities shall be prepared in consultation with the LGA/ LGA's Engineer/ Market Officer and shall be adhered to.
6. Reporting Requirements: The format of reports and recording requirements would be finalized in consultation with the LGA/ LGA's Engineer/ Market Officer. The periodicity of inspections for maintenance activities by the Private Party/Concessionaire shall be set out in the O&M Manual and regular reports on the same shall be, sent to the LGA/ LGA's Engineer/ Market Officer. Where required, the Private Party/Concessionaire shall carry out any maintenance, repair or rehabilitation works found necessary as a result of such inspections. During the Project Period, the Private Party/Concessionaire shall provide to the Authority a Monthly report (Monthly O&M Report) which shall contain the following minimum information:
- Inspections undertaken by the Private Party/Concessionaire during last three months and action taken/ proposed thereafter;
 - Details of all reports submitted to the LGA/ LGA's Engineer/ Market Officer during the monthly O&M inspection compliance report
 - Maintenance activities undertaken during the month ended,
 - Details of any Emergency and action taken
7. Inventory: The Private Party/Concessionaire shall maintain an inventory of all items comprised in the Project and Project Facilities in a format to be developed in consultation with the LGA or LGA's Engineer. Throughout the Concession Period the Private Party/Concessionaire shall keep the Inventory updated to take account of works carried out on and other changes made to the Project and Project Facilities.

5.3.4.2 Indicative O&M SLAs

5.3.4.2.1 Routine Maintenance

5.3.4.2.2 Maintenance of market and other building

The market and other buildings require routine and periodic maintenance. Timely intervention is to be done to main the structural adequacy and the aesthetics of the structural elements.

Table 14: Maintenance Standards for market and other buildings

| Item | Service Quality Criteria | Time allowed for repairs or Tolerance permitted |
|---------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Building Exterior and Interior | There should be no cracks, paint wearing, scaling of plaster, deflection of any structural elements like walls, roofs, columns etc. Maximum tolerance of 5% per 1000 sqm area | Timely intervention within two days of detection of any defects and permanent restoration within fifteen days to maintain structural adequacy and facade beauty. |
| Housekeeping | There should be no accumulation of dust on the floors, furniture, racks, cupboards, etc. of the offices, and other rooms | The floors in all the trading area, offices, shall be cleaned/wiped daily. Furniture, doors and windows, cupboards shall be dusted daily. |
| Washrooms | Washrooms must be clean, serviceable and well stocked | Washrooms must be inspected hourly, for repairs temporary measures within two hours, permanent restoration within [seven] days, depending on nature and intensity of work required |
| Electricity gadgets like bulbs/lamp shades/wiring, etc. | Operational at all times | Temporary measures within eight hours, permanent restoration within [seven] days, depending on nature and intensity of work required |
| Utilities like water supply/tap/tap connections/ pipe/tanks & overflow/ glasses/ window panes/all other building furniture | Operational at all times | Timely intervention with Temporary measures within eight hours, permanent restoration within [seven] days, depending on nature and intensity of work required |
| Ventilation | The natural ventilation and air circulation shall not be blocked. The artificial ventilation installations like exhausts, fans, blowers shall function properly. | The ventilators, sky-lites, exhausts, fans, blowers, etc. shall be cleaned after every two days. Any damage shall be repaired and rectified within [seven] days. |
| Power Supply, Electrical | Power supply shall be for | Timely intervention with Temporary |

| Item | Service Quality Criteria | Time allowed for repairs or Tolerance permitted |
|---------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Installations, Electrical Equipment | <p>24 hours. The electrical systems and arrangements shall be maintained as per the instructions of the installation, operation and maintenance manual of the particular system. Routine maintenance for earthing systems and meters indicating overloading of electrical installations</p> <p>No loose, open, un-insulated wiring in these areas. Switch Boards, Electric meters are enclosed in boxes and access to authorized persons only.</p> | <p>measures within eight hours, permanent restoration within [seven] days, depending on nature and intensity of work required.</p> <p>Standby power supply by DG sets shall be ready to be operated and should be available 24 hours</p> |
| Common Lighting area | Operational at all times | Temporary measures within eight hours and permanent restoration within [seven] days of detection. |
| Water Supply, Plumbing Installations | Water Supply shall be for 24 hours. The water conveyance network, shall be checked periodically. If any leakage, corrosion, damages etc. is found, it should be replaced. | Timely intervention with Temporary measures within eight hours, permanent restoration within [seven] days, depending on nature and intensity of work required. |
| Internal Drainage | All internal drainage pipes and fittings shall be of material approved by the LGA engineer and shall comply with standard specifications. All the pipes and joints shall be checked periodically to detect any leakage | Any blockage, silting in these installations shall be rectified within [two] days of detection. Any damage to sewer system shall be rectified within [seven] days of detection. |
| External Drainage | All the pipes shall be of shall be of material approved by the LGA engineer and shall comply with standard specifications. All the manhole frames and covers shall be of cast iron of required size and shall comply with standard specifications. Periodical | |

| Item | Service Quality Criteria | Time allowed for repairs or Tolerance permitted |
|--------------------------------------|-------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| | checks shall be carried out for any overflow, breakage or cracking of pipes, blockage, etc. through inspection chamber. | |
| Fire Fighting Equipment | Operational at all times | Any damage to fire fighting equipment installed in the project area shall be rectified within two days of detection. Fire extinguishers shall be recertified before the end of its expiry date. The water tank meant for fire fighting purpose shall remain flooded with water to its capacity at all the times |
| Water Tank | Functional and clean at all times | Water tank shall be cleaned and disinfected every two months (by usage of approved chemicals) to ensure that no inorganic sedimentation takes place. |
| Solid Waste Management System | Functional and clean at all times | Solid waste/ garbage must be removed daily |

5.3.4.2.3 Maintenance of internal pavement/ roads, parking area & circulation area

The maintenance of the open area, internal pavement/ roads, parking area & circulation area shall include the planned on-going works and activities required to ensure safety, repair, small defects and to maintain the facilities in the required condition. It also includes carrying out of unscheduled maintenance works occasioned by irregular events such as accidents, natural failures, abnormal weather and the like.

The activities of management and maintenance of internal pavement/ roads and circulation area shall be carried out by the Concessionaire such that the vehicles are able to circulate at a certain level of comfort and safety to achieve the required service time at the bays.

Table 15: Maintenance Standards for main market area (stalls), internal pavement/ roads, parking area & circulation area

| Item | Service Quality Criteria | Time allowed for repairs or Tolerance permitted |
|-----------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------|
| Potholes | Maximum [five] numbers in the parking area, internal pavement/ roads and circulation area. | Potholes must be repaired within [seven] days after their detection. |
| Patching | Patches (i) shall be square or rectangular, (ii) shall be level with surrounding pavement, (iii) shall be made using materials with specifications same as those used for the surrounding pavement, and (iv) shall not have cracks wider than three (3) mm. | Non-complying patches must be repaired within [seven] days after their detection. |
| Cracking in pavement | There shall not be cracks more than 3 mm wide. Maximum allowable | Cracks more than 3 mm wide must be sealed within [seven] days after their |

| Item | Service Quality Criteria | Time allowed for repairs or Tolerance permitted |
|----------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| | cracking shall be 5.0% in the circulation area | detection. |
| Rutting | Rutting shall not be more than 20 mm. Measured on a 2m straight edge. Maximum allowable rutting shall be 1.0% in the circulation area. | Rutting above threshold value must be eliminated within [fifteen] days. |
| Cleanliness of the pavement surface, road surface | The area must always be clean and free of soil, debris, trash, spill off Oil/Lubricants, dead animals and other objects etc. There should not be any standing water on the pavement. | <p>The area must be cleaned daily. Dirt, debris and obstacles must be removed:</p> <ul style="list-style-type: none"> - Within four hour if they pose a danger to traffic safety - Within eight hours if they do not pose any danger to traffic safety. |
| Pavement Surface Drainage | No water logging or standing water | Temporary restoration within [one] day and permanent restoration within [seven] days. |
| Traffic Signs, Road/Pavement Markings | These shall be legible, clean and visible at all times. | Any damages/wearing shall be repaired and rectified within [three] days. The damaged and missing signs shall be replaced within [fifteen] days. |
| Storm Water Drainage System | There should be no silting and blockage in drains. The drains shall be free of any obstacles, solid waste. The drainage appurtenances shall be without any cracks. There shall be no leakages from the pipes. Thorough inspection shall be done before and during the monsoon season. | <p>Obstructions must be cleared within [two] days after detection.</p> <p>Damages must be repaired within [seven] days after detection by reconstructing to the adequate shape and size.</p> <p>De-silting operations should be done once in a month with minor repairs if needed.</p> <p>During rainy season, any blocked vent ways shall be cleaned as soon as possible</p> |
| Damage/Breach to the Compound Wall | No Damage / Breach allowed | Any damage / breach to the boundary wall of the terminal shall be rectified within eight hours for temporary fix and [seven] days for a permanent solution. |

6 Financial Case

This chapter discusses the financial viability for undertaking the Engutoto ward (Arusha City) market project. As mentioned in the economic case, the World Bank has provided financial case for a daladala terminal which may be bundled along with proposed market. The bundling option from a financial standpoint based on the information made available has been considered and has been presented as a separate scenario.

6.1 Financial Analysis of Suggested Procurement Modality

The aim of the financial assessment is to do an initial assessment of the viability of developing the project through PPP, provide inputs for funding and affordability analysis. The financial analysis draws upon the project configuration presented in the report.

The approach behind the development of a financial model to assess the viability consists of the following elements:

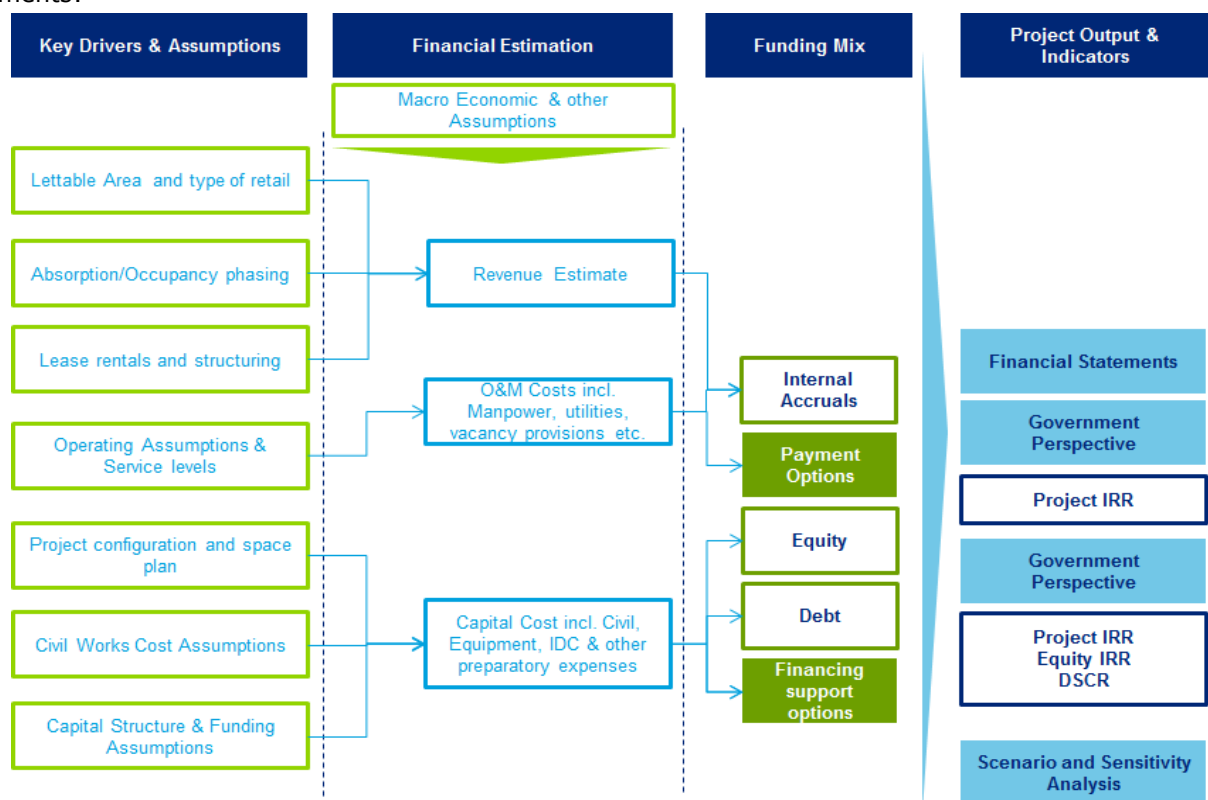


Figure 6 Financial Analysis Methodology

For the purpose of financial viability analysis, financial estimates have been based on applicable benchmarks drawn from similar projects undertaken previously and prevailing market dynamics. For instance, the capital structuring for the project has been based on benchmarks observed across infrastructure projects of similar scale and modality as well as market feedback. Similarly, revenue assumptions have been incorporated in analysis based on evaluation of market demand, observed market dynamics with respect to existing frameworks, competing developments, etc. The assumptions related to financing costs have been also drawn from the study of prevailing financial arrangements, accounting principles for similar infrastructure projects undertaken in the country. The key considerations include:

- Components forming part of assumptions related to costs are development assumptions of commercial and administration components, capital expenditure assumptions, operating costs assumptions, financing costs assumptions and construction timeline assumptions.
- The capital costs have been met through equity financing in addition to debt borrowings.
- As per the information provided by the respective LGA, the land is owned by them and accordingly, land acquisition cost have not been considered for financial viability assessment.
- Applicable corporate and withholding tax on interest payments in Tanzania have been considered
- To estimate the approximate revenues accruing to the project, the assumptions related to absorption phasing, construction timeline and other assumptions relating to the estimation of revenues such as leasing rates, leasing/rent revision rates and time duration, have been undertaken.
- Other macroeconomic assumptions related to inflation etc. also have been taken as per reasonable estimates from benchmark values.

The project's capital expenditure, operational expenditure, and the debt repayment form the total outflows of the project. The indicators used to assess private sector interest include estimation of Net Present Value (NPV) of the project and Internal Rate of Return (IRR). While a positive NPV shows that the project is viable, the IRR calculation helps in assessing if the returns are adequately above the hurdle rate prevailing in the region.

The sub-sections below discuss the above considerations and present the key assumptions for the financial viability assessment of the project. Key assumptions considered for financial assessment for the proposed project are based on market studies, interactions with financial institutions, and industry benchmarks.

6.1.1 Key assumptions for financial viability assessment

6.1.1.1 Project Duration (Concession Period)

Project duration has to be assessed keeping in perspective number of parameters, including (i) Life of underlying asset; (ii) Applicable regulation (if any); and (iii) Demand saturation and/or capacity constraint.

In the case of PPP projects, Regulation 76(2) of the PPP Regulations 2015 provides that 'small-scale' PPP projects (total project value less than USD 70 million) may have a duration up to 15 years (upper limit). Given the regulatory constraint, a base case of 15 year concession period has been considered for evaluation.

6.1.1.2 Project Description – Development Assumptions

The commercial development on this site is expected to comprise an integrated market development featuring small retail stalls/stands and large stall/frames. These assumptions are based on the latent demand potential and preferences stated by the sample resident population of the city. The market analysis findings and the goal of providing a pro-poor service have been kept in view to arrive at the mix and the quantum of spaces. The marked absence of such nature of developments in the stated locality, coupled with the good linkages of the site with other parts of the city, lend the site good potential for such quantum of supply of retail spaces/stands and large retail stalls/ frames.

The breakup of the total area across various components is provided above. It may be highlighted here that the proposed area breakups represent a preliminary understanding of the most suitable combination of anchor, retail, and other spaces, considering the market feedback and the market analysis. Area allocations across components may vary depending upon the actual product mix conceptualized by the developer undertaking the construction.

6.1.1.3 Project Construction Costs

Project construction costs for the project has been estimated using the following approach:

- Based on the development plan, undertake a detailed listing of product mix with expected expansion requirement;

- Derive base cost assumptions based on Quantity Surveyor's estimate and estimate the base capital cost;
- Decide on the capital phasing of the construction works;
- Estimate the financing norms based on the industry benchmark and practices; and
- Estimate the total project cost taking into account the base civil cost, capital phasing, escalation and financing cost.

6.1.1.3.1 Cost Assumptions

The cost assumptions have been considered based on the guidance provided by Architects and Quantity Surveyors Registration Board for the organized retail developments of similar nature. The base costs have been duly adjusted for variation for the respective city. For the purpose of the cost estimation, following base rates and cost assumptions have been considered:

Table 16: Cost Assumptions

| Cost | Details |
|-----------------------------------------------|--------------------------------------|
| Base construction cost | As per estimate of Quantity Surveyor |
| Other building services and facilities | As per estimate of Quantity Surveyor |
| External works | As per estimate of Quantity Surveyor |

6.1.1.3.2 Base Capital Cost

The base capital cost include the civil construction cost of various project facilities as well as well as other costs such as ancillary facilities and cost of external works.

The major capital costs associated with project are tabulated below:

Table 17: Base Capital Cost

| S. No. | Project Component | Capital Cost (mn TZS) |
|----------|--------------------------------|-----------------------|
| A | Civil Construction Cost | 1,757 |
| B | Building Services | 218 |
| C | External Works | 235 |
| D | Total Capital Cost | 2,211 |

6.1.1.3.3 Construction Phasing

The construction period for the project is assumed to be 24 months. The construction phasing of the project components is tabulated below:

Table 18: Construction/Capital Phasing Timeline for Proposed Development on Project Site

| Construction Phasing | Without Delay (%) | FY Months |
|----------------------|-------------------|-----------|
| FY 2020 | 65% | 12 |
| FY 2021 | 35% | 12 |
| Total | 100% | |

6.1.1.3.4 Financing Assumption

a. Capital Structure

In case of PPP procurement, the capex financing requirement has been considered to be met by equity financing in addition to debt borrowings. In case of PPP procurement, 70:30 Debt to Equity ratio has been considered based on the prevalent market practices.

The capital structure for the project PPP procurement options is tabulated below:

Table 19: Capital Structure

| Particulars | % |
|-------------|-----|
| Equity | 30% |
| Debt | 70% |

b. Interest Rates

As per our discussions with key lenders, lending rate of 16% has been considered.

c. Target Equity return – Hurdle rate

It may be noted that the private sector values its own risks and has its own expectations for return. In a competitive bidding, private sector would factor its expectations (high or low w.r.t. to government benchmark) and the same would be reflected in the financial bids. As per interactions with different stakeholders, it is observed that a return on equity of at least 20% is preferred in the Tanzanian market.

In a PPP model, the test of how private sector shall handle a particular risk is the cost that it would assign for managing it. Experience suggests that private sector puts a high premium on risk in areas where it has little or no information or control to make a considered assessment of future possibilities.

Further a detailed computation of the target equity return, including assumptions related to risk free rate, asset beta and market risk premium etc., was also undertaken. This analysis has been presented in the annexure of this report.

d. Corporate and withholding taxes

For PPP procurement, the corporate tax rates applicable in Tanzania have been considered as per rate below:

Table 20: Corporate Tax rates

| Years | |
|------------------------------|------------------|
| Base tax rate | 30% |
| Alternate Minimum Tax | 0.3% of Turnover |

e. Other Costs

- Professional Fee**

Professional fee shall cover the costs for engagement of consultants for activities such as preparation of detailed engineering design plans and technical specifications, preparation of related documents and assistance in conducting bidding and construction management and supervision. These costs are paid up upfront and are taken as 12.5% of base capital cost.

- General Costs**

The General costs have been considered as 0.50% of the base capital cost. These costs will be required during construction period and the associated costs are equally distributed over the construction period.

- **Contingencies**

Contingency costs are considered to reflect any possible increase in estimated construction costs due to changes in quantities or implementation procedures or any increases in the estimated base costs for increase in unit price of the project components beyond the estimation prices for the planning year. Based on the project risks and uncertainties, the cost of contingencies is taken as 10.0% of the base capital cost of the project.

- **Value added Tax (VAT)**

Value added tax (VAT) on the construction has been considered as 18% as per the applicable tax laws.

Table 21 Total Capital cost

| S. No. | Project Component | Capital Cost (mn TZS) |
|--------|--------------------------------------------|-----------------------|
| A | Civil Construction Cost | 1,757 |
| B | Building Services | 218 |
| C | External Works | 235 |
| D | Base Capital Cost (A+B+C) | 2210 |
| E | General | 9.88 |
| F | Contingency | 197.58 |
| G | Professional Fees | 246.97 |
| H | Total Capital Cost (D+E+F+G) | 2665 |
| I | Total Market building Built-up Area | 2849 |
| J | Base Cost per unit Area (H/I) | 0.93 |

6.1.1.3.5 Total Project Cost

Based on the assumptions mentioned above, the total escalated project cost is tabulated below:

Table 22: Construction Related Assumptions for Proposed Development on Project Site

| S. No. | Project Component | Capital Cost (mn TZS) |
|--------|----------------------------------------|-----------------------|
| A | Civil Construction Cost | |
| | Building | 1,836 |
| B | Other Cost | |
| 1. | Other building services and facilities | 228 |
| 2. | External works | 246 |
| C | Base Capital Cost | 2,310 |
| D | Other Development Costs | |
| 1. | Professional Fee | 289 |
| 2. | General Costs | 12 |
| 3. | Contingencies | 231 |

| S. No. | Project Component | Capital Cost (mn TZS) |
|----------|------------------------------|-----------------------|
| 4. | Interest During Construction | 278 |
| 5. | VAT | 511 |
| E | Total Project Cost | 3631 |

6.1.1.4 Revenue Assumptions

6.1.1.4.1 Lease Revenue

Base lease charges

The price realization for a commercial development is dependent on aspects such as the type of development, the prevailing market rates, the location of the development, pricing levels in competing developments, market potential, etc. The rentals achieved are therefore a reflection of the market based realization for space within the proposed development

As evident from the market analysis, the leasing rates/rentals are observed to vary significantly depending upon the perception of developer, tenant category, the floor location, preference for revenue sharing, timing of transaction, etc., with higher rentals being allocated to prime space. For the site, the prevailing market rates as identified in the market assessment have been assumed as the rates for leasing.

In addition to the lease charge considered, a service charge per trader has been considered to account for common area maintenance charges.

Table 23: Leasing Revenue Assumptions for Proposed Development on Project Site

| Type of Rental Space | Per Unit per Day Base Rental (In TZS) |
|----------------------------------|---------------------------------------|
| Stall | 500 |
| Stand/ Frame | 5000 |
| Service charge per trader | 250 |

The revenue numbers are based on 20% increase on our demand assessment and tested in the willingness to pay.

Lease duration and charge revision

It has also been assumed that the rent would be revised after every three year at the rate of 25.0%.

6.1.1.4.2 Additional revenue streams

In the case of this project, the following additional revenue streams have been considered.

Table 24 Additional Revenue Stream Assumptions

| Revenue Stream | Unit | Rental/Fee |
|----------------------------------|------------|------------|
| Car Parking | TZS/visit | 200 |
| Cargo Truck Entry | TZS/ Visit | 10,000 |
| Washroom Fees | TZS/ Visit | 200 |
| Fees from shower facility | TZS/Visit | 300 |

| Revenue Stream | Unit | Rental/Fee |
|--------------------|-----------|------------|
| Advertisement Fees | TZS/month | 50,00,000 |

The projected numbers are within 10% of the current applicable market rates

6.1.1.4.3 Absorption Phasing for the Project Site

The revenue source is lease revenue of shops and the revenues for different years would depend on the number of stalls/shops allotted. For this purpose, an absorption phasing schedule has been prepared where the percentage allotment of shops for different years has been estimated.

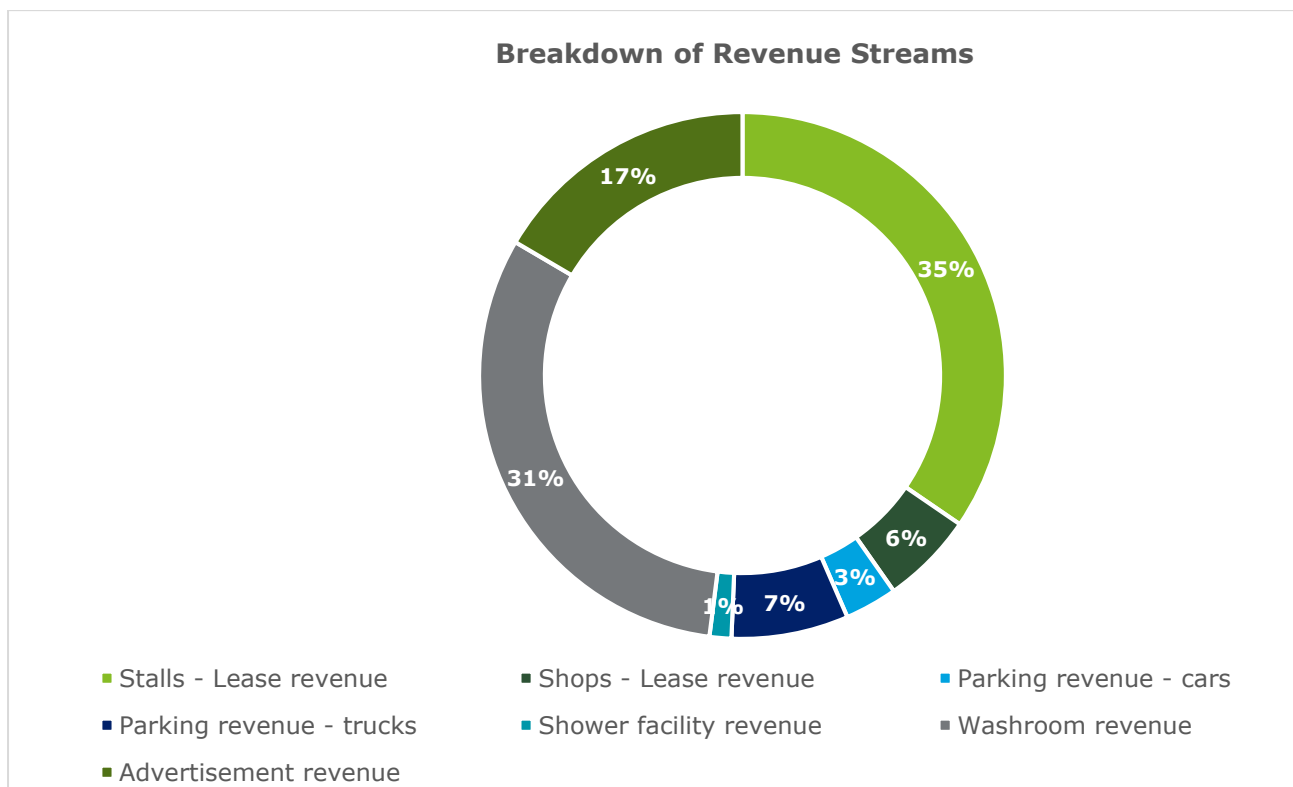
Considering the location and accessibility of the side, it is expected that the absorption would lag behind the prime commercial areas and a total period of four years has been assumed for absorption/booking of space within the proposed facility. The off-take of stalls and frames has been provided in the table below:

Table 25: Absorption Phasing Assumptions for Proposed Development on Project Site

| | 2022 (Year 1 of Operation) | 2023 (Year 2 of Operation) | 2024 (Year 3 of Operation) | 2025 (Year 4 of Operation onwards) |
|-------------|----------------------------|----------------------------|----------------------------|------------------------------------|
| Market Area | 80% | 85% | 90% | 90% |

It may be noteworthy that the assumptions considered are based on the relative market appetite assessed for the commercial spaces and the expected pace of development of the site. The absorption levels may vary depending upon other factors.

The following exhibit provides a breakup of the various revenue sources for the project.



6.1.1.5 Operating Cost Assumptions

The key operational costs comprise cost of staff for the management and facility operation, utilities based on the consumption, maintenance of the infrastructure, local government taxes and levies such as property tax and rent, other costs such as insurance and vacancy provision.

Operating costs assumptions as shown below have been taken as per prevalent industry norms and typical market practices relevant to similar projects. It may be noted that the operating cost is getting recovered through the service charges levied for the commercial development.

6.1.1.5.1 Staff salaries and wages

Table 26: Staff salaries and wages

| Staff salaries & wages | Number | Monthly Salary (Base 2020) (in TZS) | Assumption |
|-------------------------------------|--------|-------------------------------------|---------------------------------------------------|
| Market Manager | 1 | 500000 | 1 FTE per market |
| Other support management/supervisor | 1 | 450000 | 1 FTE per market |
| Admin support staff | 1 | 400000 | 1 FTE per market per shift; One shift |
| Security Guard | 2 | 300000 | 1 FTE for the market; Two shifts |
| Cleaning and Sweeping | 1 | 200000 | 1 FTE for every 5000 m ² cleaning area |
| Casual workers | 1 | 200000 | 1 FTE per market |

6.1.1.5.2 Utilities

Table 27: Electricity and Water consumption

| Type | Daily Consumption | Tariff (Base year 2020) |
|--------------------------------|-------------------|----------------------------------|
| Electricity consumption | | |
| Building load | 92 units | Per unit charge: TZS 349.5/unit |
| Open area | 21 units | Monthly service charge: TZS 6086 |
| Water consumption | | |
| Total consumption | 0.5% of Capex | |

6.1.1.5.3 Other costs

Table 28: Other Operating Costs

| Sl. | Component | Rate | Basis |
|-----|------------------------|-------|----------------------------------------|
| 1. | Repair and Maintenance | 0.75% | % of escalated civil cost |
| 2. | Insurance | 0.15% | % of written down value of assets |
| 3. | Property taxes | 0.20% | % of the property value (project cost) |

| Sl. | Component | Rate | Basis |
|-----|------------------------|-------|-------------------------------|
| 4. | Land Rent (Government) | 5,000 | Yearly rent as per title deed |

6.1.1.6 General Assumption

6.1.1.6.1 Inflation assumption

As per Bank of Tanzania, the inflation rate as of 2017 was around 5.4%. Medium term target of 5% has been considered as per International Monetary Fund (IMF) forecast.

6.1.1.6.2 Depreciation Assumptions

Depreciation rates have been used as per applicable tax laws and are mentioned below:

Table 29: Depreciation Assumptions

| Sl. No. | Asset Class | Rate | Method |
|---------|-------------------------------------------------------------|------------------|--------|
| 1. | Buildings, structures, or any other asset | 5.0% | SLM |
| 2. | Buildings, structures, dams, reservoirs –agriculture sector | 20.0% | SLM |
| 3. | Furniture, Fixture and Equipment | 12.5% | WDV |
| 4. | Intangible Asset | Over useful life | SLM |

6.1.2 Key Indicators of Financial Analysis

This section analyses the viability of the project, drawing together inputs from earlier sections and sub-sections on projected demand as well as construction costs, operation and maintenance expenses, and estimated revenues.

Table 30: Key financial project indicators – PPP

| Particulars | Build, Operate and Transfer (BOT) – User Pays (15 years) |
|--------------------------------------------------------------------|----------------------------------------------------------|
| Project IRR | 19.83% |
| Equity IRR | 23.83% |
| Affordability/ Net financial implication for the Government | No Grant/Viability Gap Funding |

It can be seen from the key project indicators that the project is financially viable.

6.1.3 Sensitivity Analysis

The objective of the sensitivity analysis exercise is to examine the effect of the main revenue levers on the project's financial viability.

For the purpose of the present Pre-Feasibility study, the impact of changes in equity IRR of the project were examined with change in variation in lease revenues.

Commonly, as part of sensitivity analysis, the sensitivity of the project indicators is tested on key variables such as demand, financial terms, capital investments and operation and maintenance costs. For the purpose of the present pre-feasibility study, the impact of changes in projections, and thereby the impact on the project indicators, were examined for the following variables:

- (i) Capital cost;

- (ii) Lease rentals; and
- (iii) Operating expenditure.

The impact of different sensitivity factors from the levels considered in the financial analyses above was analysed for impact on Project Financial Indicators

Impact due to sensitivity factors

The results of the sensitivity analyses are presented below.

Table 31 Impact due to sensitivity factors

| Sensitivity | | Base Case value | Sensitivity Value | Project IRR |
|-------------|------------------------------|-----------------|-------------------|-------------|
| A | Capital Cost | Base Case | Base Case | 19.83% |
| | | | 10% Higher | 18.3% |
| | | | 10% Lower | 21.6% |
| B | Operation & Maintenance Cost | Base Case | Base Case | 19.83% |
| | | | 10% Higher | 19.7% |
| | | | 10% Lower | 20.0% |
| C | Lease Rentals | Base Case | Base Case | 19.83% |
| | | | 10% Higher | 20.5% |
| | | | 10% Lower | 19.1% |

The above sensitivity analysis shows that project's return is sensitive to capital cost substantially. It is evident from the table that the rental and capex related variables have the maximum impact on project IRR and therefore the viability of the Project would depend significantly on the timely construction to minimize cost overruns as well effectiveness of leasing to minimize the leakages. These will be the key determinants of value for money as well.

6.1.4 Scenario: Bundling of nearby Daladala terminal with Market

This scenario assess the bundling potential of a daladala terminal. As per the World Bank inputs, there is consensus with the LGA that the proposed market and daladala terminal can be bundled as one PPP to ensure a good integration and use of the site. Accordingly, this section describes this option/scenario.

While, a detailed site and other due diligence has not been undertaken by the consultant¹⁷.

6.1.4.1 Project Description – Development Assumptions

Following is the breakup of the total area across various components:

Table 32: Development mix

| Development mix | Sqm per unit | Number | Total built-up area (sqm) |
|-----------------------------|--------------|--------|---------------------------|
| Bus terminal infrastructure | | | |

¹⁷ The subject daladala terminal is not part of the original concept. It is to be noted that this information was not made available to the Deloitte consortium during the site visits conducted in mid-2017 or during any of the multiple interactions with LGAs since. Based on the comments received in October 2018, following is the analysis for the scenario of bundling the daladala terminal with proposed Njiro market. Given that details required for assessment of the terminal are available only in the model provided by the World Bank in October 2018, the configuration and assumptions have been adopted from the same.

| Development mix | Sqm per unit | Number | Total built-up area (sqm) |
|----------------------------------|--------------|--------|---------------------------|
| Daladala departure/arrival bays | 90.0 | 11.0 | 1,005 |
| Daladala parking bays | 50.0 | 6.0 | 280 |
| Feeder vehicle bays | 35.0 | 21.0 | 730 |
| Commercial infrastructure | | | |
| Retail kiosks/shops | 10.0 | 2.0 | 19 |
| Food stalls | 15.0 | 1.0 | 19 |

Table 33: Area Statement for daladala terminal

| Area Statement | % of land | Ground coverage (sqm) | Floors/Storeys | Total built-up area (sqm) |
|--------------------------------|---------------|-----------------------|----------------|---------------------------|
| Terminal building | 2.3% | 55 | 1 | 55 |
| Daladala departure/arrival bay | 41.7% | 1,005 | 1 | 1,005 |
| Daladala parking bay | 11.6% | 280 | 1 | 280 |
| Feeder vehicle bays | 30.3% | 730 | 1 | 730 |
| Internal movement space | 12.5% | 301 | 1 | 301 |
| Retail kiosks/shops | 0.8% | 19 | 1 | 19 |
| Food stalls | 0.8% | 19 | 1 | 19 |
| Total | 100.0% | 2,410 | NA | 2,410 |

6.1.4.2 Project Construction Costs

6.1.4.2.1 Cost Assumptions

Table 34: Cost assumptions

| Capex of the Project | Ground coverage (sqm) | Total built-up area (sqm) | Unit Cost (TZS/sqm) | Total Cost (TZS million) |
|---------------------------------------------------------------|-----------------------|---------------------------|---------------------|--------------------------|
| Site development | 2,410 | - | 5,681 | 14 |
| Civil cost of terminal building, retail shops and food stalls | 94 | 94 | 15,32,603 | 144 |
| Civil cost of daladala departure/arrival bay | 1,005 | 1,005 | 2,18,504 | 220 |
| Civil cost of daladala parking bay | 280 | 280 | 2,18,504 | 61 |
| Civil cost of feeder vehicle bays | 730 | 730 | 2,18,504 | 160 |
| Civil cost of internal movement area | 301 | 301 | 2,18,504 | 66 |
| Sub-total (1) | | | | 664 |

| Capex of the Project | Ground coverage (sqm) | Total built-up area (sqm) | Unit Cost (TZS/sqm) | Total Cost (TZS million) |
|--------------------------------------------------------------------|-----------------------|---------------------------|---------------------|--------------------------|
| Common utilities, plant & machinery, safety, electrical work, etc. | - | - | 79,787 | 192 |
| Sub-total (2) | | | | 856 |
| Consultancy fee @12.5% | 12.5% | | of sub-total 2 | 107 |
| Contingency @10% | 10.0% | | of sub-total 2 | 86 |
| Sub-total (3) | | | | 1,049 |
| VAT @18% | 18.0% | | of sub-total 3 | 189 |
| Total capex | | | | 1,238 |

6.1.4.2.2 Financing Assumption

Table 35: Financing assumptions

| Financing assumptions | Unit | Figure |
|-----------------------------------------------|------------|--------|
| Percentage of capital cost financed by equity | Percentage | 30.0% |
| Percentage of capital cost financed by debt | Percentage | 70.0% |
| Funding required in year 1 | Percentage | 30.0% |
| Funding required in year 2 | Percentage | 70.0% |
| Principal moratorium | Years | 2.0 |
| Repayment period | Years | 8.0 |
| Debt interest rate | Percentage | 16.0% |
| Tax rate | Percentage | 30.0% |

6.1.4.3 Revenue Assumptions

Table 36: Revenue assumptions

| Inputs for sensitivity analysis | Unit | Figure |
|---------------------------------|-----------------|--------|
| Entry fees of Daladala | TZS/day | 1,000 |
| Parking fees | TZS/day | 1,000 |
| Escalation period | Number of years | 3.0 |
| Escalation | Percentage | 25% |

6.1.4.4 Operating Cost Assumptions

Table 37: Opex Assumptions

| Operating cost assumptions | Unit | Figure |
|--------------------------------------|------------|--------|
| O&M expenses as % of capex | Percentage | 4.4% |
| Periodic repair and maintenance cost | Percentage | 5.0% |

6.1.5 Key Indicators of Financial Analysis of Market and Daladala Terminal Combined Development

Table 38: Key financial project indicators

| Particulars | Build, Operate and Transfer (BOT) – User Pays (15 years) |
|-------------------------------------------------------------|----------------------------------------------------------|
| Project IRR | 20.15% |
| Equity IRR | 23.69% |
| Affordability/ Net financial implication for the Government | No Grant/Viability Gap Funding |

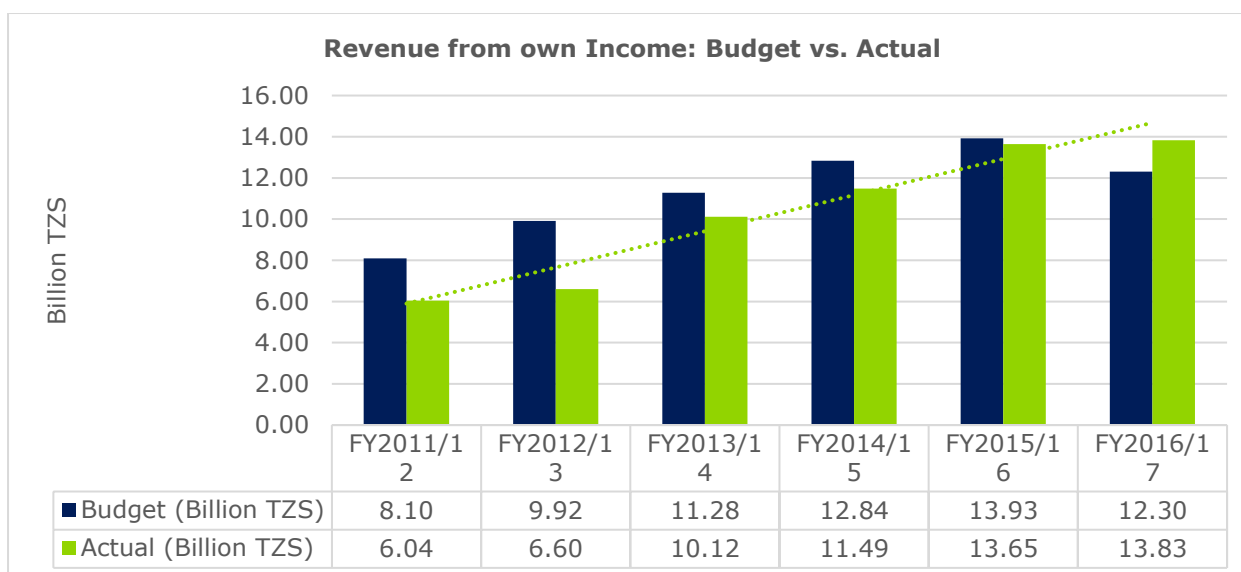
It can be seen from the key project indicators that the bundled project comprising proposed Njiro market and daladala terminal is financially viable.

6.2 Affordability Analysis of the Project from LGA’s viewpoint

This section explores the ability of the LGA to support the project through its current budget allocations and revenue sources.

Financial Performance:

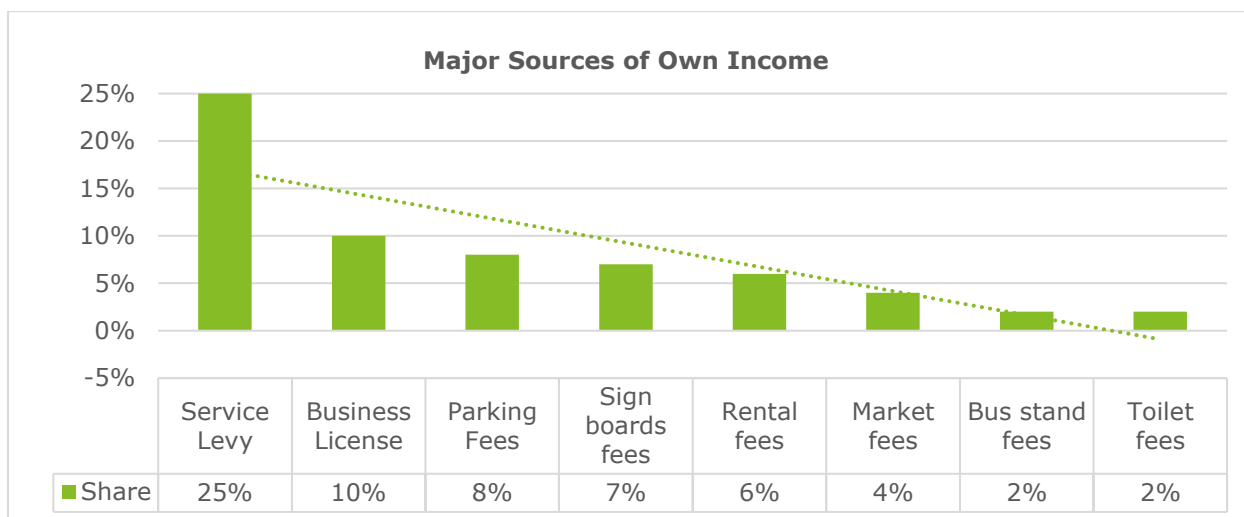
Arusha City Council’s (ACC) dependency on central government and development partners (81%) is very high. At the moment revenue from own sources (19%) is not adequate to finance its annual budget. In the last 6 years, ACC’ annual revenue from own sources have grown by 129% from TZS 6.04 billion in FY2011/12 to TZS 13.83 billion in FY2016/17 with an average annual growth of 19%.



Despite great achievement in revenue collection, ACC does not have a clearly articulated revenue collection & resource mobilization strategy. ACC has the potential to grow its revenue from own sources if it puts down clear strategies for revenue collection. CAG in FY2015/16 noted ineffectiveness in revenue collection system (LGRCIS). For example, service levy was not collected from 1218 corporations.

In the last three years (FY2013/14, FY2014/15, FY2015/16), ACC have been receiving a clean audit report with unqualified opinion from CAG.

ACC in FY 2016/17 had a revenue budget of TZS 64.89 billion of which TZS 12.30 billion (19% of the total budget) was from own source. Actual collection for FY2016/17 is TZS 54.77 billion (84% of the target) of which TZS 13.83 billion (112% of the target) is from own sources. Main sources of own revenue in FY2016/17 are as indicated in the figure below:



Collection of property tax and signboard fees was recently centralized and is now been collected by Tanzania Revenue Authority (TRA). It is not clear yet on a percentage share of the collections supposed to be remitted back to ACC.

Table 39: Council's 2016-17 Budget

| Category | Personnel Emolument (PE) | Other Charges (OC) | | Development | | | Total |
|------------------|--------------------------|--------------------|----------------|----------------|----------------|-----------------|------------------------|
| | Basket Grant | Block Grant | Own Source | Foreign | Local | Own Source | |
| ARUSHA CC | 35,53,23,01,000 | 3,01,80,34,000 | 6,81,87,32,000 | 7,31,77,89,000 | 1,55,05,66,000 | 10,48,31,45,000 | 64,72,05,67,000 |

Summary

The above analysis shows that the LGA is more dependent on external sources of revenue than its own. Accordingly, the capacity of the LGA to provide grant/Viability Gap Funding without external support is limited.

6.3 Value for Money (VfM) analysis

In order to assess which mode of procurement will provide maximum value for money for the government, Value for Money (VfM) analysis has been undertaken. The Value for money assessment for a project is undertaken to assess whether a PPP mode of procurement offers more value for money in comparison with the traditional (public) procurement model. This can be achieved using quantitative analysis, qualitative analysis or both.

6.3.1 Quantitative VfM

With an objective of assessing which mode of procurement will provide maximum value for money for the government, a VfM assessment helps in addressing whether PPP Procurement option offer higher value for money as compared to traditional procurement option.

To undertake a value for money analysis, the total costs and risks borne by the government under two modes of procurement namely; public procurement/traditional government procurement and PPP procurement is compared to find the difference, which quantifies the value for money for the government under the preferred mode of procurement.

The costs and risks borne by the government under traditional procurement are estimated by developing a public sector comparator (PSC). In case of a PPP procurement, the same are estimated as the NPV of total amount invested by the public sector, in the form of upfront VGF and/or annual payments made by the Contracting Authority over the entire concession period plus the portion of retained risk by the public sector.

6.3.1.1 Estimation of Public Sector Comparator (PSC)

The PSC estimates the hypothetical rather than actual risk-adjusted cost if a project were to be financed, owned and implemented by the Government. PSC estimates full life-cycle risk adjusted cost to the Government in order to achieve stated service delivery parameters of the project. Following are four important aspects of PSC:

1. **Base PSC Costs** – Base PSC costs include all direct and indirect cost for the entire project. It includes capital costs (design and construction activities) as well as operational and maintenance costs. Any revenue from the project needs to be deducted from Base PSC Costs. It does not include any valuation of risks.
2. **Competitive Neutrality** – In order to eliminate the additional benefits enjoyed by a publicly procured project as compared with PPP procurement, the value of such benefits are added to arrive at the full cost to Government to ensure fair comparison. Competitive Neutrality removes the net competitive advantages that accrue to a Government entity by virtue of its public sector ownership.
3. **Retained Risk** – An important aspect of PSC is the proposed risk allocation and its valuation. Retained risks are those risks that the Government proposes to bear itself. Value of risks retained by the Government is added to the cost of the project.
4. **Transferable Risk¹⁸** – These risks are likely to be transferred to private bidders. The value of this risk in a PSC measures the cost the government is expected to pay for that risk over the term of the project.



Figure: Public Sector Comparator

Once the PSC costs are ascertained, Value for Money (VfM) framework is used to evaluate public mode of project delivery against PPP modes.

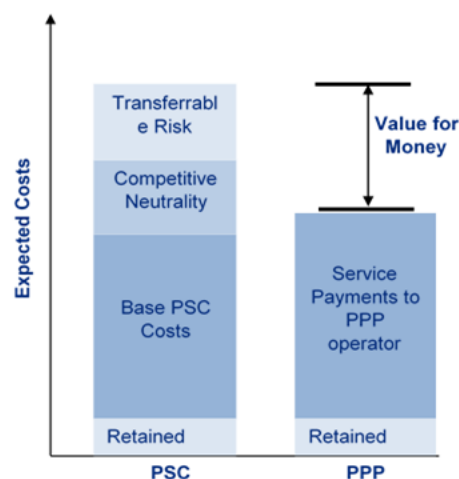
¹⁸ The government may choose to contract out certain aspects of a project such as O&M to a private party in traditional / public procurement. The value of such transferred risk would be equal to the price the private party would request for accepting that risk. However, for the project, no such transferable risks have been considered in the traditional procurement and thus transferable risks have not been considered in estimation of PSC

6.3.1.2 Value for Money assessment

VfM is defined as the difference in the whole life cycle costs (in terms of cost, price, quality, quantity, appropriate risk transfer or a combination thereof) between a publicly and a privately procured project. VfM compares different modes of project delivery under common parameters in order to identify the appropriate and economical option. As presented in the adjacent figure, a VfM framework is used to compare PSC costs with PPP bid cost in order to get the best value for money for the project. VfM is defined as the difference in costs of these options.

In assessing and delivering VfM, it is also important to note that VfM is a relative concept which requires comparison of the potential or actual outcomes of alternative procurement options.

It may be pertinent to note that the VfM analysis is a data contingent exercise. It must thus be recognized that carrying out a VfM analysis in any given context is not easy as reliable VfM results are dependent on availability and reliability of data on possible performance by private sector, past track records of delays & cost escalations, identification & measurement of efficiencies etc. It may be noted that considering the limited availability of sufficient historical data to conduct the PSC and VfM analysis, the analysis presented herein draws heavily on based on the experience from other sectors and published report.



Performance of public development contract

As is evident from the multiple reports published by various authorities on performance of capital projects and performance of LGAs in Tanzania, the private sector, prima facie, is better equipped to manage risks associated with delivery and operations of the capital project. LGAs face issues on two fronts:

- i. **Risks during development period**– Report by the PPRA, Tanzania, highlights this issue in their report of procurement audits in seventy-six procuring authorities for FY 2013-14. It states “The audits revealed significant performance gaps on contracts management which had serious negative consequences in the delivery of services, goods and infrastructure facilities including; delivery delays, cost overrun, poor quality of services, goods and works, and loss of public funds”.

Further, a study on Cost and Time Overrun of Road Construction Projects in Tanzania Road projects¹⁹ indicates that the total cost and time overrun rates were an average of 44% and 26% respectively. Further, the cost escalation due to time delay is ~7% and remaining 37% cost overrun can be attributed to design & other factors. The observations are consistent with the PPRA reports.

Accordingly, Cost overrun of 35%, time delay of 6 month resulting in cost escalation of 7% has been considered for public funded contracts.

- ii. **Risk during Operations** – Operations are affected by inefficiencies in managing the contracts, especially in collection of revenues. For example, out of the total expected revenue to be collected and remitted to the councils by contracted collectors, only 67% was remitted to the audited councils²⁰. Accordingly, a revenue collection loss of 35% has been considered for public funded method.

¹⁹ Effect of Inadequate Design on Cost and Time Overrun of Road Construction Projects in Tanzania, Eradius E. Rwakarehe and David A. Mfinanga, 2013

²⁰ Source: Report of procurement audits in seventy six procuring authorities, Public procurement regulatory authority (PPRA) Tanzania, for FY 2013/14

6.3.1.3 VfM Output Analysis

Based on the assumptions and the methodology suggested above, VfM analysis has been carried out for the shortlisted of procurement options and the results are as below:

Table 40. VfM Analysis Outputs

| Value for Money Framework | PSC (In mn TZS) |
|---------------------------------------------------------------|-----------------|
| Base PSC costs (A) | -533.9 |
| Capital expenditure | 3,475.36 |
| Operational cost | 634.07 |
| Interest | 1,743.20 |
| Government Support Savings | - |
| Revenue | 6,386 |
| Competitive Neutrality (B) | 956 |
| On account of Tax incidence | 956 |
| Retained Risk (C) | 3,773 |
| Increase in Capex due to delay in construction (C1) | 194 |
| Loss in Operational revenue due to delay in construction (C2) | 303 |
| Construction cost overrun (C3) | 1,216 |
| Loss in Operational revenue due to leakages (C4) | 1,825 |
| Increased Expenses due to delay in construction (C5) | 234.55 |
| Value for Money (A+B+C+D) | 2,284 |

As can be seen from the table, the PPP mode is most preferred from the VfM viewpoint and is the most affordable option from the Government perspective.

6.3.2 Qualitative VfM

While quantitative VfM has its merits, its applicability in context of emerging economies. The quantitative assessment is based on multiple assumptions that may alter as the project progresses and also, is contingent on the availability and quality of data related to performance of public procurement.

In absence of reliable and representative sample data, the quantitative assessment may not be preferred.

In Tanzania context, value for money procurement audit has been undertaken by the Public Procurement Regulatory Authority for capital project in the following reports:

- Report of Procurement Audits in Seventy Six Procuring Entities, 2014
- Value for Money Audits of 137 Construction Contracts, 2012

While these reports highlight and substantiate the occurrence of cost and time overruns, it does not dwell on the consequent impact of such delays and overruns. Thus, for the purpose of this assessment, qualitative Value for Money assessment has been preferred.

The qualitative assessment of the VfM analysis takes into consideration the aspects of the project that are relevant and may not necessarily be quantifiable. Qualitative VfM²¹ assesses the project from three viewpoints:

²¹ Methodology adapted from 'Value for Money Assessment Guidance' issued by HM Treasury, UK

- (i) **Viability:** Can the desired outcomes of the PPP project be translated outputs that can be defined contractually?
- (ii) **Desirability:** Can the PPP project provide better risk management and produce incentives to develop innovative approaches to output delivery?
- (iii) **Achievability:** Is PPP procurement achievable, given attractiveness of the project and availability of LGA resources?

Following is an assessment of expected benefits of the project and how they test against each of the above evaluation criteria.

Table 41: Qualitative Assessment of VfM

| Evaluation criteria | Value for Money Is a PPP model preferable to traditional procurement in the case of this project? |
|-------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p>Viability</p> <p>Can the desired outcomes of the PPP project be translated outputs that can be defined contractually?</p> | <ul style="list-style-type: none"> • Possibility of objective drafting/framing of contract: In the case of this project, the requirements in the contract can be identified, quantified/qualified and specified in contractual terms. <p>The scope of the assignment is largely design, construction and operations and management of a market. Each of these dimensions can be further sub-divided into clearly definable and measurable contractual items²² and defined in ways that will make them (1) easy to monitor; (2) negate/mitigate risks; and (3) require low level of contract variation in later years of the contract.</p> <p>The amount of 'non-contractual' items and risks are expected to be few and mostly related to unprecedented natural disasters and political turmoil.</p> <ul style="list-style-type: none"> • Possibility of development of a long-term contract for the project: The project comprises a mix of assets and services that are vital and shall be required by the public over the long run. Hence the project can be considered for a long-term contract. This becomes important in the case of PPPs because, conditional on the type of model being used, cost recovery and subsequent profitability of the project require a long-term duration. <p>Further, regulation 76(2) of the PPP Regulations 2015 provides that even for 'small-scale' PPP projects (total project value less than USD 70 million) may have a duration of 15 years (upper limit).</p> <p>Given the long duration of the contract, the probable pitfalls of a long-term contract shall need to be ascertained, costed and mitigated at the contractual stage of the project itself. Pitfalls may include unforeseen natural calamities/political unrest, time and cost overruns, need for contract variations, termination, etc.</p> |
| <p>Desirability</p> <p>Can the PPP project provide better risk management and</p> | <ul style="list-style-type: none"> • Ability of private sector to price and manage pertinent risks: The concerned private sector player is expected to have past experience of similar past projects and thus be well-equipped to estimate, price and manage the risks of the project. Further, the |

²² The effectiveness of the contract shall depend extensively on the deftness of its drafting. It is suggested that multiple international examples should be explored and best practices should be derived from them that may be used to mitigate risks in the contract.

| Evaluation criteria | Value for Money Is a PPP model preferable to traditional procurement in the case of this project? |
|----------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p>produce incentives to develop innovative approaches to output delivery?</p> | <p>contract for this project can be developed in such a way so as to incentivize effective risk management.</p> <ul style="list-style-type: none"> • Scope for innovation in construction and/or service delivery: This project shall require its operator to respond constantly to changing/evolving demand trends, product developments and customer preferences. Given this, it would be potent to get an experienced private party to deliver and manage the project instead of the LGA because such services are not part of the LGA’s core skill-set/services. • Scope for effective utilization of the assets created: the premise of the payment mechanism/revenue sharing for this project is based on the effectiveness of licensing, leasing, renting spaces for use by third parties. Given this, the private entity shall be incentivized to ensure effective utilization of the assets. • Maintenance of operational flexibility during contract term at acceptable cost: Given that the project concerns a market facility that is expected to provide public recreation service to Arusha City, the operations and maintenance of the facility become important. Operational management of a market shall require flexibilities such as being able to respond to changing demand patterns/customer preferences by advertising differently or promoting certain businesses, to address deficient lessees by altering or terminating their contracts. As discussed above, the private sector is expected to be more skilled at managing and pricing such flexibilities as compared to LGAs. Flexibilities can be worked into the contract in the case of Njiro, Arusha City Market; subject to cost, frequency and necessity of such occurrences. • Other desirable benefits - development of skill-set of the procuring Authority/LGA: the LGA is expected to develop/enhance its skill-set as a result of managing and monitoring the PPP contract and due to the constant interactions with the private entity, LGA counterparts and other stakeholders. |
| <p>Achievability Is PPP procurement achievable, given attractiveness of the project and availability of LGA resources?</p> | <p>As observed above, the LGAs face issues with time and cost overruns while managing infrastructure projects and would benefit from leveraging the expertise of the private sector. These issues, coupled with the above viability analysis, makes a case for undertaking procurement of private entities to develop and manage the project.</p> <ul style="list-style-type: none"> • Attractiveness of the project: The above financial analysis showcases that there exists market demand for the proposed market. This is supported by the clarity of the legal and regulatory requirements and the preparedness of the project in terms of availability of title deeds and few relocation needs. • Ability of the LGA to procure private parties and managing PPP contracts: While the LGA may not best equipped to handle complex PPP projects as of now, there are multiple capacity building initiatives |

| Evaluation criteria | Value for Money Is a PPP model preferable to traditional procurement in the case of this project? |
|---------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| | that are being undertaken to enhance this capability. This can be further supported by structuring this PPP project well and preparing a sound and well-rounded Concession Agreement. |

Thus, based on the above assessment, it is observed that there exists Value for Money in undertaking this project on PPP basis.

6.4 Conclusion

In view of the above, it is recommended that under the extant regulatory restrictions²³, PPP mode may be preferred for the Project. Based on the financial assessment, the net present value of LGA commitment is as below:

Table 42 Financial Results

| Indicator | PPP Model |
|--------------------------------------------------------------------|-------------------------------------------------------------------|
| Parameters | Market Development Only: Concession Period of 15 years |
| Project IRR | 19.83% |
| Equity IRR | 23.83% |
| Affordability/ Net financial implication for the Government | No Grant/Viability Gap Funding |

Further, the project and equity internal rate of return is higher in the bundled daladala terminal option than the standalone market and thus, preferred option from the financial viability standpoint.

²³ Regulation 76(2) of the PPP Regulations 2015 provides that for 'small-scale' PPP projects (total project value less than USD 70 million) may have a duration upto 15 years (upper limit)

7 Management Case

This chapter covers a review of the institutions in place for PPP and Urban Planning, which shall manage the development of the market. It also provides an overview of the applicable laws and policies in Tanzania related to PPPs and development of markets. Further, it also assesses the impact of such regulations on the project.

7.1 Arusha City Institutional Framework

As part of the PPP Pre-Feasibility study, an institutional review of the Arusha City Council (ACC) with a particular focus on benchmarking its institutional maturity level to manage the proposed PPP projects was conducted. Further a detailed assessment of the LGA's finances, including identifying key source of its revenues, leakages (if any) and potential sources of enhancing the revenues etc., was also undertaken. This analysis has been presented in the chapter on financial case.

The institutional assessment was carried out using participatory processes that allowed positive engagement with Council members. A collaborative and results-driven approach was used to generate consensus on the maturity level. More specifically, focused group discussions and one-on-one interviews using capacity and maturity assessment framework and tools to drive and measure organizational performance and capacity improvements were facilitated. ACC was assessed in six domains along the PPP project lifecycle as indicated below:

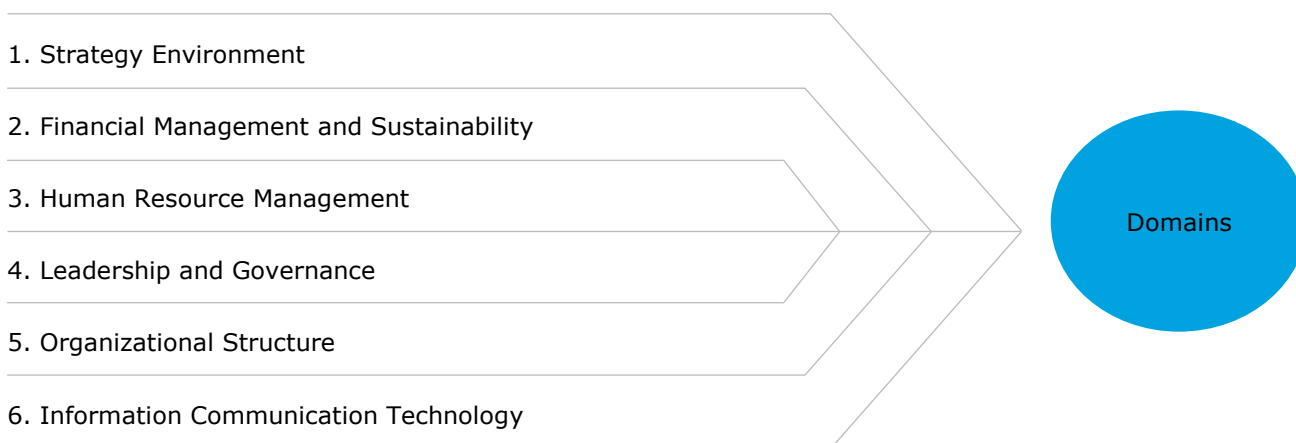


Figure 7: Domains for Maturity Assessment

ACC is currently at developing level with an average score of 5.8 out of 12 points signifying that capacity is evident but lacking in critical areas. The highest score is on Financial Management and Sustainability (8 points) mostly contributed with automated financial process, clean audit report, and achievements in own revenue collection. The lowest score is on Leadership and Governance (4 points) due to un-institutionalized succession planning, inadequate staff meetings, and limited use of data in decision making.

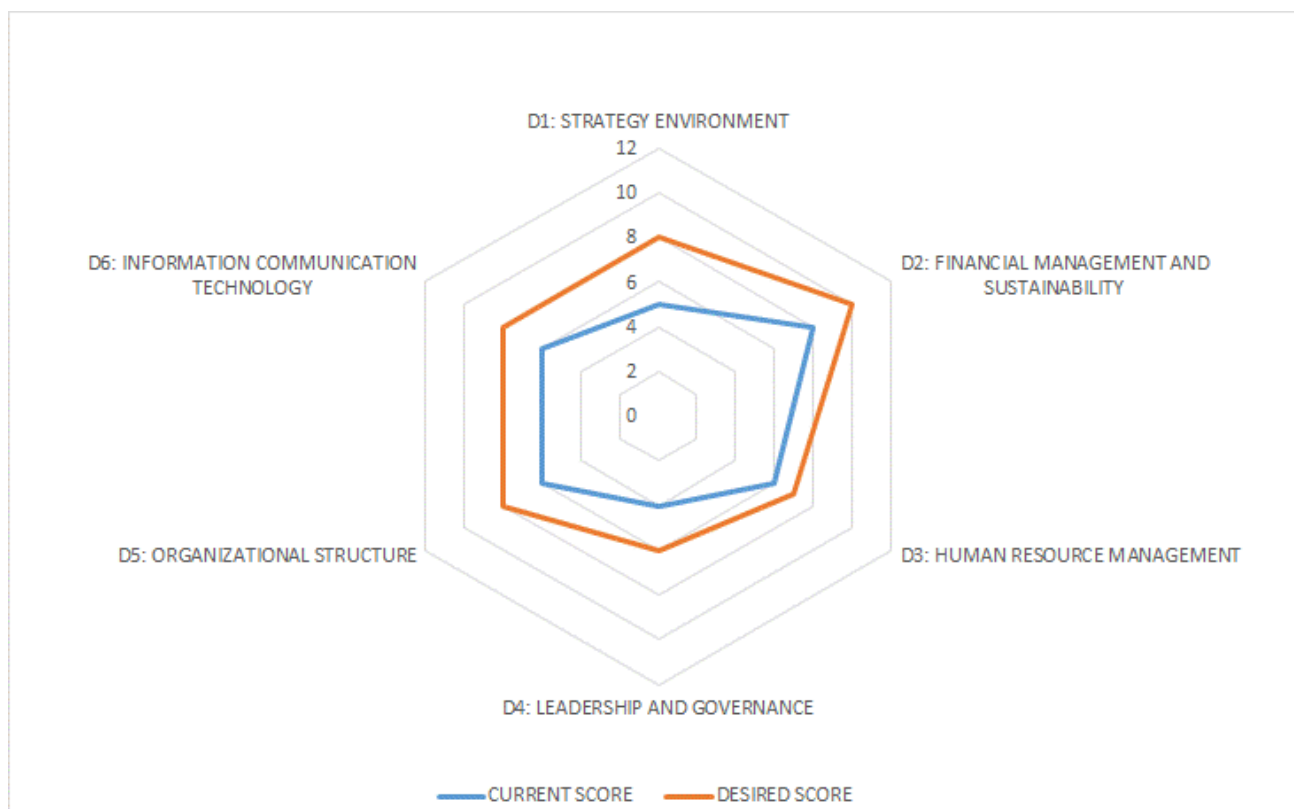


Figure 8: Radar Chart showing score obtained by ACC on Maturity Assessment

7.2 Overview of Applicable Legal Laws and Regulations

7.2.1 Public Private Partnership

As per Tanzania PPP Policy 2009, Public Private Partnerships are viable means to address constraints of financing, management, and maintenance of public goods and services. They enable the government to fulfil its responsibilities in efficient delivery of socio-economic goods and services by ensuring efficiency, effectiveness, accountability, quality and outreach of services.

Public Private Partnership Act No. 18 of 2010 was brought into force in 2010 as the main governing act regarding PPPs in mainland Tanzania.

Section 11(1) of the Public Private Partnership Act, 2010 provides an opportunity for the Contracting Authorities (LGAs inclusive) to enter into contracts with private parties in the provision of services which were primarily in their portfolio of services. The provision provides that a contracting authority may enter into an agreement with a private party for the performance of one or more of the functions of that contracting authority. This means the project under study is eligible for PPP provided it meets the other requirements.

As per the legal review, there is a constitutional and statutory basis for LGAs to participate and manage the project under review. This is reinforced by the project value threshold set under the laws (i.e. USD 70 million). The LGAs have the power to engage in the projects subject to compliance with the law, particularly the PPP Act and its regulations. The projects beyond the threshold set by the law are handled by other contracting authorities as defined under section 3 of the PPP Act.

The project falls into sectors or areas that qualify for PPP, subject to meeting other requirements and criteria set out in various laws and regulations. In terms of method of procurement, the project shall be subjected to an open and competitive bid.

7.2.1.1 Implementation of Project

In the implementation of the PPP project, the parties shall comply with the laws related to construction, licensing and other legal requirements. The implementation of the project shall also need to comply with

laws that regulate the establishment and operation of the project, and incidental regulatory matters. These laws might change with time; private parties shall keep themselves updated of the changes.

7.2.1.2 Establishments related to PPP

The PPP Centre

- Provides PPP technical assistance to the Government.
- Develops operating guidelines for contracting authorities.
- Assesses proposed PPP projects and forwards those projects it deems appropriate to the Ministry responsible for Finance.
- Submits PPP projects to the PPP Technical Committee once approved by the Ministry responsible for Finance.

It shall be noted that, as per the procurement guidelines under the PPP Regulations, in the PPP project under review, the Centre shall have the statutory mandate to ensure that the LGA procures the required services for the implementation of the project in a fair, transparent, competitive and cost effective manner.

The Facilitation Fund

The PPP Amendment Act (2014) - 10c, establishes a facilitation fund, to be known as the PPP Facilitation Fund. Upon approval by the PPP Technical Committee, the Facilitation Fund shall be used to:

- Finance feasibility studies and other project preparation costs as may be required by a contracting authority; and
- Provide resources to assist projects with limited financial viability and high economic benefit.

The PPP Technical Committee

- Considers and approves PPP proposals made to it by the PPP Centre.
- Submits approved PPP proposals to the National Investment Steering Committee for scrutiny.
- Approves allocation of funds from the Public Private Partnership Facilitation Fund.
- Assigns to contracting authorities terms and conditions for utilization of the Facilitation Fund.

The PPP Technical Committee will be made up of a series of public officials including the permanent secretaries of the ministries of finance and land, the Deputy Attorney General and the Commissioner General of the Tanzania Revenue Authority among other members. The PPP Technical Committee will also include two persons from the private sector. These persons will be selected by the Minister for Investment upon the recommendation of the Tanzania Private Sector Foundation.

The figure below depicts the key supervisory and executive institutions relevant to the project.

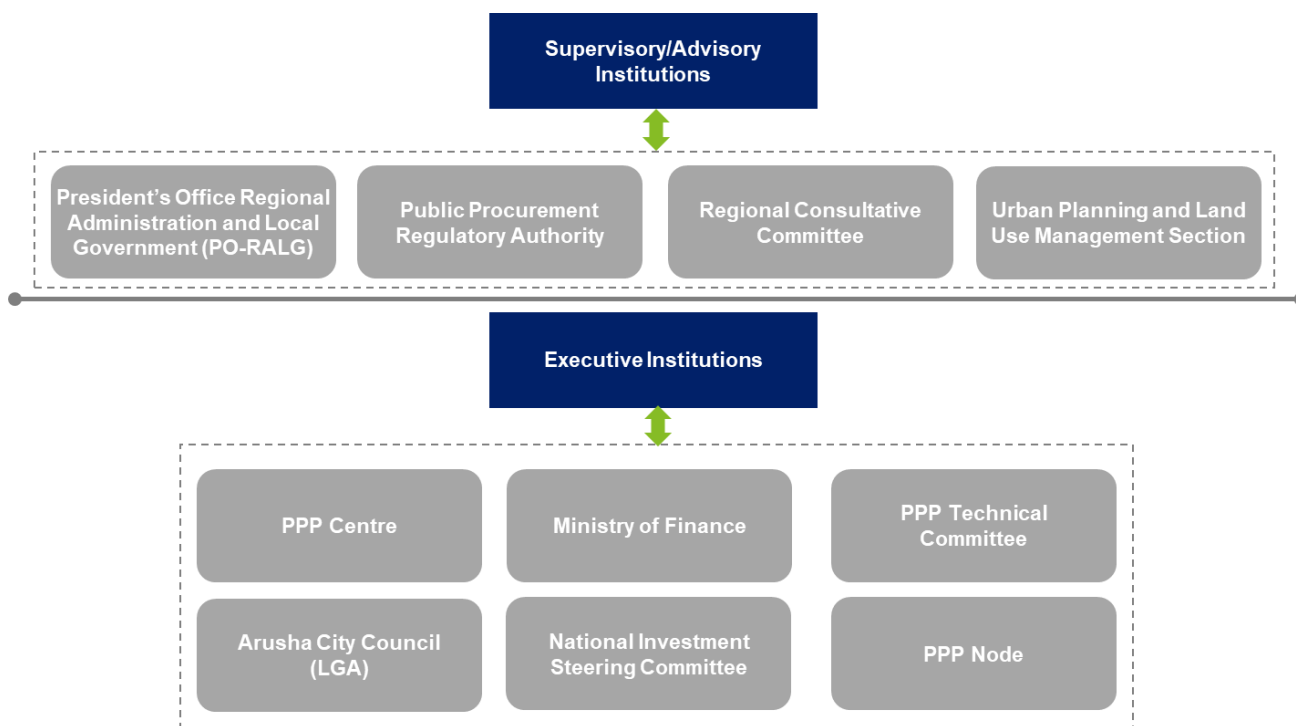


Figure 9: Key Supervisory and Executive Institutions for the Project

The proposed project will have to necessarily secure the requisite approvals for being undertaken as a PPP project, as required under the PPP Act. The implementation plan covered in a subsequent chapter further details the actions and steps that would be required to be undertaken to secure necessary approvals.

7.2.1.3 Land Acquisition and Compensation

PPP Act anticipated situations where a PPP project may entail acquisition of land from their true owners for purposes of investment or development. In this regard, section 13 of the Act provides: "Where the project requires acquisition of land for its implementation, the acquisition shall be carried on in accordance with the Land Act, Village Land Act, the Land User Planning Act, Land Acquisition Act and any other relevant laws".

The land acquisition must be in the interest of the public. The procedure essentially involves:

- Acquisition of land may be by agreement between the parties. If this is not preferred or adopted, the following procedure may be followed;
- Issuance of notice of acquisition of the respective land
- Valuation of the land and developments in the land to be acquired
- Consultation with the land owner
- Payment of fair and prompt compensation
- Disputes as to compensation to be resolved by parties concerned within six weeks. If the dispute is not so resolved, either party is at liberty to send the dispute to court for determination
- If dissatisfied, parties can appeal the decision of the Court
- Payment as per the court order discharges the Minister of all obligations in this regard

In assessing compensation for land acquired in the manner provided for in the Land Act and Land Acquisition Act, the concept of opportunity shall be based on the following:

- market value of the real property
- disturbance allowance
- transport allowance

- loss of profits or accommodation
- cost of acquiring or getting the subject land
- any other cost loss or capital expenditure incurred to the development of the subject land; and
- interest at market rate will be charged

7.2.1.4 Environmental impact considerations

It is a requirement of the law to conduct an Environmental Impact Assessment (EIA) of all PPP projects before construction.

Markets must be subjected to a mandatory EIA as stipulated in part A of the schedule to the Environmental Impact Assessment and Audit Regulations, 2005, GN 349. Section 81(2) of the Environmental Management Act, 2004 provides that EIA shall be done prior to the commencement or financing of a project or undertaking.

7.2.2 Urban Planning and Development

As per a Notice issued by the President of the United Republic of Tanzania in December 2010, the President's Office-Regional Administration and Local Government Authority (PO-RALG) has reviewed its organization structure and functions in order to strengthen the quality of internal operations. As a result of this, PO-RALG has been divided into eight divisions, six units and five affiliate institutions.

Out of these, the **Division of Urban Development** shall provide services and technical advice on land use and guide urban planning and land development. This division shall be led by a Director and have two sections, each led by an Assistant Director, namely:

1. Urban Planning and Land Use Management Section; and
2. Urban Development Control and Housing Infrastructure Section.

The project to construct a market in Arusha city falls under the purview of the **Urban Planning and Land Use Management Section**.

Section 62(1) of the Local Government (Urban Authorities) Act imposes specific **duties on LGAs** for the provision and management of **Public Markets** and **Public Parking**. LGAs have also been given powers to charge fees for various services or facilities offered by the authority and make by laws for the same. Further, Section 6 mentions that all money received in the form of fees paid in respect of rent of shop, butcheries, market stalls, user charges, service charges and entertainment taxes form a part of the sources of revenue of the LGA. For this purpose, the LGA is also empowered to make by-laws imposing such charges on inhabitants.

In addition to this, the LGA by-laws on Property Tax hold the owner or occupier of a building liable to pay tax as may be applicable.

As per Regulation 103 (1) The Local Government (Urban Authorities) (Development Control) Regulations, 2008, **every market shall be divided into stalls or stands** (booths or compartments) for sale of goods in the market as shall be decided by the authority. Regulation 100 of the same provides for the **appointment of a Market Officer** to regulate or control the market.

7.3 Project Specific Legal Review

7.3.1 Legal Suitability of Project Site

7.3.1.1 Ownership of Plot

As per the legal review, the project is proposed to be developed over 9,641 m²²⁴ of land.

The land is owned by Arusha City Council. The LGA is in possession of a title deed for the area confirming the right of occupancy of the land parcel by the council.

It is a surveyed land with the Certificate of Title No. 56699, Plot NO. 532, LO. NO. 314609, located at Block D, in Njiro sub ward. The term of lease is for ninety-nine years, commencing from 1st July 2017²⁵.

7.3.1.2 State of Project Site

The City Council informed that the initial plan (structure) of the market was abandoned and the City is planning to have a different structure of the market which will fit all the facilities envisioned. It was further confirmed that the shop owners were compensated and that no trader has any pending claim against the City Council.

7.3.1.3 Third Party Interests

There are no third party claims or interests on the site. The City Council is in possession of a Certificate of Title confirming the ownership of land in their name. Also, as confirmed by the LGA the shop owners have been compensated and that no trader has any pending claim against the City Council.

7.3.1.4 Development Permissions

Building Permits for Construction of the Facility

The Local Government (Urban Authorities) (Development Control) Regulations, 2008 empowers the LGAs to issue building permits where any construction is to be undertaken in their area of jurisdiction. Regulation 2 defines the term "building" to mean "any structure of whatsoever material constructed and includes billboards and telecommunication towers". This means therefore that all the intended PPP projects for markets need to be constructed only after obtaining the requisite permit as provided under Regulation 104 of the Local Government (Urban Authorities) (Development Control) Regulations, 2008. The LGA will see whether the specific drawings and other documents submitted during application for permits comply with the requirements and standards of the particular PPP intended project.

Regulation 126 of the Local Government (Urban Authorities) (Development Control) Regulations, 2008 requires every intending builder to submit a building plan with clearly drawn details. This building plan shall show the position, form, and dimension of the foundations, wall, floor, roofs, chimney and several other parts of the building. The building plan indicates whether the intended plan is for a Bus Terminal or a Market.

Construction/development must follow all set up procedures—get the relevant drawings approved by LGA, Occupational Safety and Health Authority (OSHA), and Fire and Rescue Department; obtain building permits/planning consent from the Council; and permits from specialized sector offices, if that is required. OSHA registration and NEMC approvals are also required.

7.3.1.5 Labour Laws

In Tanzania new labour law regulations were gazette and came into effect on 24 February 2017: Regarding Immigration laws, the private partner has to comply with rules for obtaining work permits, resident permits, and transfer of knowledge/ succession by locals. Employment And Labour Relations (General) Regulations 2017 (GN 47 2017)

²⁴ It is observed that there is a discrepancy in the plot area between the title deed and the project's concept note shared by LGA. As per the title deed, the plot area is 9,641 m² whereas as per the project's concept note it is 11,460 m². The plot area mentioned in the title deed has been considered for project configuration and viability finalization.

²⁵ Source: Consultation by PPP Node and World Bank with LGAs

7.3.1.6 Rents and Rates

According to regulation of GN No 374 of 2011 (ACC bylaws on Property Tax), every owner or occupier of building within the ACC has to pay property tax as per the rates stated in the schedule to the GN. For unsurveyed areas (high density) the rate is TZS 60,000 for commercial and 80,000 for industries.

7.3.1.7 Resettlement

The law in Tanzania is explicit about compensation but it is silent on relocation and/or resettlement. So, there is no express legal duty on the part of the government to resettle the occupants of the areas affected by the project. However, the government has discretion to opt for a relocation or resettlement in cases of land acquisition, and has done that in some projects in the past especially in the light of some of the current structures being used by the homeless.

In terms of process, the resettlement shall involve identifying affected persons and their properties, identifying the alternative location, consulting the affected persons and their leaders on the projects and options available to them, conducting valuation of their properties, consulting and sharing of the valuation findings, effecting compensation, resettling the affected persons and demolishing the affected structures.

7.3.1.8 Competition

The private party has to respect the law regarding competition. In particular he must refrain from making or concluding anti-competitive agreements, abusing dominant position, misuse of market power, and avoid unconscionable conduct. According to section 8(l) of the Fair Competition Act, 2003 "A person shall not make or give effect to an agreement if the object, effect or likely effect of the agreement is to appreciably prevent, restrict or distort competition."

Section 9(I) of the Act further provides that "A person shall not make or give effect to an agreement if the object, effect or likely effect of the agreement is: (a) price fixing between competitors; (b) a collective boycott by competitors; or (c) collusive bidding or tendering."

Additionally, section 10(1) of the Act is also relevant when it provides: "A person with a dominant position in a market shall not use his position of dominance if the object, effect or likely effect of the conduct is to appreciably prevent, restrict or distort competition".

On the available materials, the project under review does not violate competition law. Once the project is fully set out and terms of engagement known, then the project needs to be assessed particularly to see if the same complies with Competition law.

8 Conclusion and Way forward

8.1 Conclusion

8.1.1 Technical Assessment and Project Configuration

The study shows that the facility to be developed at Njiro, Arusha City is technically feasible as it has positive market demand (assessed quantitatively and via interactions during site visits) and in terms of project configuration (conversant with the Master Plan of Arusha City).

8.1.1.1 Market Demand

After considering the commercial and retail competition in proximity to the site for the proposed Njiro Market, it is assessed that there is substantial demand in terms of gross letting area for retail area as part of the project concept. This demand is for retail consumption i.e. stalls, frames, other consumer goods etc.

8.1.1.2 Project Configuration

Location of the project is Engutoto Ward of Arusha City. The available plot covers an area of about 9,641 m²²⁶. It is part of the built up area of the City, which is accessed by roads in all directions.

Upon assessing the need and market potential of this project, the study proposes that the facility focus on catering to small retail; and include facilities such as vehicle parking areas. The facility maybe designed as a building, accommodating the following:

- Small Stalls/Stand
- Large Stalls/frames
- Car park
- Washrooms

It is proposed that Arusha City and Tanzania specific design considerations and specifications be used to develop this market.

8.1.1.3 Site Assessment

Site assessment has revealed that presently the site is occupied partially by individuals who are habiting the abandoned structures around the site. The City Council informed that the initial plan (structure) of the market was abandoned and the City is planning to have a different structure of the market which will fit all the facilities envisioned.

8.1.1.4 Environmental and Social Impact Assessment

The preliminary environmental and social impact assessment shows that the project will have local/regional social and environmental impacts, most of them are expected to be short to medium-term impacts. The level of these impacts may vary across different stages of the project—pre, during and after construction.

From an environmental perspective, few important impacts may include the following: loss of flora and soil fauna species, alteration of scenery view, increased dust and air pollution, increased noise, increased waste generation during construction, traffic congestion, and overwhelmed administrative authority. Other impacts

²⁶ It is observed that there is a discrepancy in the plot area between the title deed and the project's concept note shared by LGA. As per the title deed, the plot area is 9,641 m² whereas as per the project's concept note it is 11,460 m². The plot area mentioned in the title deed has been considered for project configuration and viability finalization.

include debris deposition in storm water drains and associated floods, contamination of surface and ground water and adverse effects from operation of asphalt plant and camps operation.

From a social perspective, the project is expected to lead to job creation and increased income of the local community as local community members might be employed to work on different tasks in the project. Other impacts may include improved local community living standards; improved accessibility, and increased property and land values.

There may be some adverse social repercussions as well. For example, the project may lead to conflicts with the affected persons including traders relocated from the site.

The study shows that it is possible to mitigate most negative impacts associated with the project's implementation so as to maximize positive impact that the project is expected to have. It is also recommended that once decisions over the project's viability have been made and the project design is finalized by the PPP operator/developer/Concessionaire, a detailed Environmental and Social Impact Assessment should be conducted as required by Environmental Management Act (EMA), 2004 (Act No. 20 of 2004) (Made Under Sections 82(i) and 230(2)(h)) and the Environmental Impact Assessment and Audit Regulations (EIAAR), 2005.

8.1.2 Financial and Economic Assessment

The results of financial and economic assessment have been presented in the table below.

Table 43: Financial assessment

| Indicator | PPP Model |
|-------------------------------------------------------------|--------------------------------|
| Parameters | Concession Period of 15 years |
| Project IRR | 19.83% |
| Equity IRR | 23.83% |
| Affordability/ Net financial implication for the Government | No Grant/Viability Gap Funding |

Table 44: Economic assessment

| Planned Project in Arusha City Council | Estimated Economic IRR | Benefit/ Cost Ratio |
|---------------------------------------------|------------------------|---------------------|
| Construction of Njiro Market in Arusha City | 24.3% | 2.3 |

Based on the tabulated results, following conclusions and takeaways can be considered for project viability, scoping and structuring:

- **Project Financial viability:** It can be seen from the key project indicators that the project is financially feasible.
- **Project Economic viability:** It can also be observed that the project demonstrates economic benefits and the economic IRR is much higher than the threshold of 12%, generally considered for similar projects. Further the economic benefits derived from the project needs to be viewed in context the intended project objective of providing a pro-poor market facility to the city of Arusha. The economic benefits identified for the project clearly align with the intended objectives of the project and provides a strong justification for taking the project forward.

Further, the project financial and economic internal rate of returns are higher in the bundled daladala terminal option than the standalone market and thus, preferred option from the financial and economic viability standpoint.

8.1.3 Legal, Institutional and Regulatory Assessment

Legal and Regulatory Assessment

The legal review shows that ownership of the plot is with the City Council and the required title deed has been acquired.

During site visits, it was noted that the City Council had started erecting shops around the site through individuals who were expecting to trade on the market area. The City Council informed that the initial plan (structure) of the market was abandoned and the City is planning to have a different structure of the market which will fit all the facilities envisioned (as mentioned above in the section 'project concept proposed by LGA'). It was further confirmed that the shop owners were compensated and that no trader has any pending claim against the City Council.

As way forward, the Concessionaire/developer shall need to secure relevant permissions/permits from the relevant offices/agencies. These shall include license for operating markets and building permits for construction of the facility and compliance with rules for obtaining work permits and resident permits.

Institutional Assessment

The institutional assessment revealed that Arusha City Council is currently at 'developing' level (with an average score of 5.8 points out of 12 points as per our analysis). The highest score is on Financial Management and Sustainability (8 points) mostly contributed with automated financial process, clean audit report, and achievements in own revenue collection. The lowest score is on Leadership and Governance (4 points) due to un-institutionalized succession planning, inadequate staff meetings, and limited use of data in decision-making. All these domains have a huge impact on PPP initiatives within the Council.

The results of the analysis of the LGA's finances shows that Council is more dependence on external budgetary/financial support than its own sources of revenue.

8.2 Way Forward and Implementation Plan

8.2.1 Support required by PO-RALG

Regulation 76(2) of the PPP Regulations 2015 provide for the involvement of LGAs in small-scale PPPs, these being PPPs whose total project value does not exceed USD 70 million and which entail an agreement not exceeding a maximum duration of 15 years.

As is evident from the financial assessment of the PPP options, 15 year duration may not be sufficient to ensure cost recovery of the project and may necessitate funding support from the LGA, thereby making the project unaffordable for the LGAs.

Given the above, mechanism may be devised for allowing longer tenure for the municipal PPPs.

8.2.2 Key approvals and support required to proceed

Based on interactions with stakeholders, and the research and analysis conducted, there might be some areas that may require government support and/or approvals for the project to be successful:

- As identified in Institutional Assessment, capacity building of LGA might be required for financial, procurement and contract management of PPPs.
- A qualified Transaction Advisor should be engaged to further develop the feasibility study, support the approval process required under the PPP Act and assist in project procurement.
- The encroachments on the site needs to be cleared prior to procurement and rehabilitation and resettlement plan for the affected persons needs to be executed.

8.2.3 Tentative Activity Plan

In addition to the matters set out in this report, the implementing agencies and stakeholders may consider undertaking the tasks in the near future:

1st Phase Pre-Procurement Phase

- Identification and Scoping the project by LGA
- LGA Submission of Project to PPP Node
- Screening and Recommendations the project as a PPP Node and Center
- Pre-Feasibility Study approval by PPP Node and Center to LGA
- Feasibility Study Approval by by PPP Node and Center to LGA

2nd Phase Procurement Phase

- LGA define procurement strategy/route
- LGA define the final structure of the project contract (PPP Node/Centre, etc)
- EOI bidders Qualification and Shortlist
- LGA Prepare and Issue RFP (Submission and Recommendations required from the PPP Node/Centre and and TZ MoF)
- Issue and Evaluate RFP. Stakeholders include TZ Tender Board, PPP Node and Center

3rd Phase- Negotiation of the Agreement / Contracting

- Negotiate proposals — by a 5 Member LGA Team
- Awarding and calling for contract signature (Stakeholders LGA, Ministry of Finance, Attorney General,
- Checking precedent conditions (PPP Node and Center, PPRA) and signing the agreement
- Commercial Close
- Financial close.

4th Phase Contract Management Phase – Construction

- LGA Establishes and executing contract administration
- LGA Technical committee Oversight and managing site handover, permits and design;
- LGA Monitoring private party’s compliance and performance during construction;
- LGA Managing delays; communication and stakeholders; Managing changes
- Commissioning/acceptance and start of operations.

The tables below summarise the Legal, Regulatory, Institutional requirements as well as those of the Private Sector where applicable in the four phases.

We have further highlighted the core activities, legal status / timeline as well as carried out a current assessment

8.2.3.1 Pre-procurement phase

| Step | Activity required to be undertaken | Legal Status / Timeline | Remarks / Compliance |
|----------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------|
| 1st Phase- pre-procurement phase (Highlight: Green – Activities completed to Date, Amber – Ongoing Activities, No fill – Not yet commenced) | | | |
| 1. | Identification of the Project by the LGA before beginning of the Budget circle | <ul style="list-style-type: none"> • Regulation 3 of the PPP ACT • 60 days before budget circle | The LGA Investment Committee has endorsed the project. Supporting document includes an LGA Concept Note in place. Note Shared with the PPP Node. |

| Step | Activity required to be undertaken | Legal Status / Timeline | Remarks / Compliance |
|------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 2. | <p>Submission of the identified potential project to the PPP Node by the LGA (Contracting Authority).</p> <p>Note: LGA submit small scale projects whose value does not exceed USD 70million</p> | <ul style="list-style-type: none"> Regulation 3(4) read together with Regulation 76 No time indicated expressly, by implication within 60 days before budget circle | <p>Project Shared with the PPP Node for Review.</p> <p>The PPP Regulations empower the PPP Node of the Local Government Department of the President's Office (PO-RALG) to oversee local government PPP and to act as the approval authority for small PPP (involving projects with a value of less than US\$ 70m).</p> |
| 3. | The PPP Node to scrutinize the project and submit to the PPP Centre for recommendations, if any. | <ul style="list-style-type: none"> Regulation 3(5) No time is indicated | <p>The PPP Node have scrutinized the Long list of Proposed Municipal Projects.</p> <p>List of potential projects to be undertaken in partnership with the private sector shared with PPP Centre</p> |
| 4. | PPP Centre to analyze the project and return to the PPP Node with recommendations, if any. | <ul style="list-style-type: none"> Regulation 3(5) 30 days from receipt of the project from the PPP Node | The PPP Centre have carried out a review of the proposed Local Government authority Projects and have recommended a shortlist to the PPP Node. |
| 5 | PPP Node to communicate to the LGA on whether or not to prepare a prefeasibility study | <ul style="list-style-type: none"> Regulation 3(7) No indication of time | Following the detailed review, the PPP node have endorsed progression of 14 Municipal Concepts to pre-feasibility stage in Arusha, Moshi, Mwanza and Mbeya |
| 6 | Submission of the pre-feasibility study For Small Scale projects, the LGA (CA) has to submit a pre-feasibility study to the PPP Node | <ul style="list-style-type: none"> Regulation 78 (1) and Regulation 3(8) No time is indicated but it has to be after the CA has worked on the recommendations in step 4 | <p>a) Consultant (Deloitte Tanzania) are currently carrying out the Pre-feasibility stage.</p> <p>b) N/A</p> |
| 7 | <p>Review of the pre-feasibility study</p> <p>a) PPP Node to review the prefeasibility study submitted by the</p> <p>b) PPP Centre to review prefeasibility study submitted by the CA</p> | <p>a) Regulation 78 (2) ; 30 days from receipt</p> <p>b) Regulation 3 (9); 14 days from receipt</p> | <p>a) Consultant (Deloitte Tanzania) are currently carrying out Pre-feasibility stage.</p> <p>b) N/A</p> |
| 8 | Full Feasibility Study: Upon approval of the prefeasibility study, the LGA to prepare and submit to the PPP Node a full feasibility Study | <ul style="list-style-type: none"> Regulation 78 (3) and 79 (1); No time indication | Refer to Project Status highlighted in Step 7 |

| Step | Activity required to be undertaken | Legal Status / Timeline | Remarks / Compliance |
|------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------|-----------------------------------------------|
| | | <ul style="list-style-type: none"> Regulation 3 (10); No time indication | |
| 9 | For Small Scale projects, the PPP Node to submit the pre-feasibility study and the feasibility study to the PPP Centre and Ministry of Finance for recommendations | <ul style="list-style-type: none"> Regulation 79 (1) No time indicated | Refer to Project Status highlighted in Step 7 |
| 10 | PPP Centre and the Ministry of Finance to evaluate and return feedback to the PPP Node on the pre-feasibility and feasibility studies. | <ul style="list-style-type: none"> Regulation 79 (2) 30 days from receipt of the two studies | Refer to Project Status highlighted in Step 7 |
| 11 | The PPP Node to write to the LGA on the recommendations from PPP Centre and MoF | <ul style="list-style-type: none"> Regulation 79 No time indicated | Refer to Project Status highlighted in Step 7 |
| 12 | The LGA to work on the consolidated recommendations from the PPP Node, PPP Centre and the Ministry of Finance | <ul style="list-style-type: none"> Regulation 79 No time indicated | Refer to Project Status highlighted in Step 7 |

8.2.3.2 Procurement phase

| Step | Activity required to be undertaken | Legal Status / Timeline |
|------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 2nd Phase- Procurement phase | | |
| 1 | The Feasibility Study has to be submitted and approved by the Technical Committee before procurement commences | <ul style="list-style-type: none"> Regulation 28 No time frame indicated |
| 2 | The approved project has to be submitted to the Public Procurement Regulatory Authority for advertisement of a request for qualification. | <ul style="list-style-type: none"> Regulation 29 No time frame indicated |
| 3 | The CA, LGA for this matter has to prepare pre-qualification documents for the potential bidders, the documents have to be approved by the CA Tender Board | <ul style="list-style-type: none"> Regulation 32 (3) No time frame indicated |
| 4 | An invitation for Expression of Interest to participate in a pre-qualification (Application for qualification) has to be advertised in the following: - Tanzania procurement journal; CA's website; PPP Centre; One newspaper of wide TZ circulation; International media, if there is need for international competitive bidding | <ul style="list-style-type: none"> Regulation 29 (2) and (3) Time is set in the request for pre-qualification documents and has to give reasonable time |
| 5 | Appointment of an Evaluation Team to do the evaluation of applications for pre-qualification | <ul style="list-style-type: none"> Regulation 36 No indication of time |
| 6 | Evaluation of applications for expression of interest for prequalification, preparation of report by the evaluation team and get an approval of the Tender Board | <ul style="list-style-type: none"> Regulation 37 30 days |

| Step | Activity required to be undertaken | Legal Status / Timeline |
|------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------|
| 7 | Short listing of qualified potential bidders and issue notice to the qualified potential bidders. | <ul style="list-style-type: none"> Regulation 38 Time frame indicated in the pre-qualification docs |
| 8 | CA to prepare bid documents of Request for Proposal and get the approval from its tender board. These include Detailed Design and preparation of specific Tender Documents, (Supporting documents will include site and Services, Roads and Traffic, Architecture and Structural Engineering, Building Services Engineering, Quantity Surveying, etc) | <ul style="list-style-type: none"> Regulation 39 and 40 No time indication |
| 9 | Submitting of the Request for Proposal Documents to the PPP Node, PPP Centre and the Ministry of Finance for recommendations | <ul style="list-style-type: none"> Regulation 40(1) No time frame |
| 10 | CA to issue approved Request for Proposal Documents to all approved pre-qualified bidders | <ul style="list-style-type: none"> Regulation 40(2) No time frame |
| 11 | Submission of bids (proposals) by the pre-qualified bidders to the CA | <ul style="list-style-type: none"> Regulation 45 Time indicated in the bid |
| 12 | Evaluation of the Proposals by the Evaluation Team, and prepare an Report bearing the names of Preferred and Reserve bidders | <ul style="list-style-type: none"> Regulation 49 60 days from the date of submission of proposals |
| 13 | Submitting the Evaluation Report to the Tender Board for approval and forwarding to the Accounting officer of the CA | <ul style="list-style-type: none"> Regulation 49 (5) No time indication |
| 14 | The CA to receive a report with preferred bidder and reserve bidder then notify the names to the PPP Node, PPP Center and the Preferred and Reserve Bidders. | <ul style="list-style-type: none"> Regulation 50 No time indication |
| 15 | The CA to conduct and prepare a due diligence report of the bidder who is recommended to be awarded a Contract | <ul style="list-style-type: none"> Regulation 51(1) and (4) No time frame |
| 16 | The CA to prepare a Value for Money Report | <ul style="list-style-type: none"> Regulation 52 No time frame |
| 17 | The Tender Board to review the Evaluation Report, Due Diligence Report and Value for Money Report and thereafter recommend for the CA to accept the tender or advice for the fresh tender or fresh report. | <ul style="list-style-type: none"> Regulation 53 No time frame |
| 18 | The Accounting officer to forward the Tender Board's evaluation report to PPP Center or the PPP Node for verification and recommendations | <ul style="list-style-type: none"> Regulation 54(1) No time frame |
| 19 | Upon working on the PPP Node's recommendations, the CA to issue a notice of intention to award a contract to the bidder. The notice has to be issued to all bidders who participated | <ul style="list-style-type: none"> Regulation 55(1) 5 days from the date of recommendations |
| 20 | Bidders who Participated may submit complaints in accordance with the Procurement Regulations | <ul style="list-style-type: none"> Regulation 55(2) Within 10 days |
| 21 | The CA to issue a Notice of Acceptance and a Provisional Award to the preferred Bidder | <ul style="list-style-type: none"> Regulation 55(4) and (7) Time set in tender docs |

| Step | Activity required to be undertaken | Legal Status / Timeline |
|------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------|
| 22 | The notice of provisional Award to be copied to the PPP Center, Ministry of Finance, Auditor General, PPRA, Attorney General Chambers, Internal Auditor General and PPP Node for information | <ul style="list-style-type: none"> Regulation 55(6) No time frame |
| 23 | CA to notify Reserve Bidders that their appointment is subject to unsuccessful negotiation with the Preferred Bidder | <ul style="list-style-type: none"> Regulation 55(9) Time in the bid documents |

8.2.3.3 Negotiation and contracting phase

| Step | Activity required to be undertaken | Legal Status / Timeline |
|-------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------|
| 3rd Phase- Negotiation of the Agreement / Contracting | | |
| 1 | The CA to send a notice inviting the preferred bidder for final negotiation of the agreement upon completing the competitive selection process | <ul style="list-style-type: none"> Regulation 55(10) No time frame |
| 2 | The CA to form a 5 members negotiation team | <ul style="list-style-type: none"> Regulation 64 21 days from award notification |
| 3 | Negotiation to commence with the Preferred Bidder, if terminated the Reserve Bidder will be invited until the list of Reserved bidders is exhausted. | <ul style="list-style-type: none"> Regulation 65 (1 & 2) No time indication |
| 4 | Drafting of the Contract and submitting to the PPP Centre and Ministry of Finance for Recommendations | <ul style="list-style-type: none"> Regulation 66 The PPP Centre and MoF to work on the draft within 14 days |
| 5 | The Agreement to be submitted to the Technical Committee for approval | <ul style="list-style-type: none"> Regulation 65 (3) No time indication |
| 6 | The project as approved by the Technical Committee to be submitted to the Attorney General for vetting | <ul style="list-style-type: none"> Regulation 67 (1) No time indication |
| 7 | The Attorney General to vet and issue a Legal Opinion on the Agreement | <ul style="list-style-type: none"> Regulation 67 (3) Opinion to be issued within 21 days |
| 8 | CA to call the Private Party on the new terms depending on the Legal Opinion | <ul style="list-style-type: none"> Regulation 67(5) No time indication |
| 9 | Preparing Final Agreement by all parties | <ul style="list-style-type: none"> Regulation 67(6) No time indication |
| 10 | Signing of the Agreement by the parties, copies to be sent to the PPP Node, PPP Center, Ministry of Finance, PPRA, AG, Attorney General chambers | <ul style="list-style-type: none"> Regulation 68(1) and 69 No time indication |
| 11 | Contract signature or "commercial close" (from decision to award to the effective date of contract) – financial close may occur at the end of this period or at a later time after contract signature. | <ul style="list-style-type: none"> Regulation 68 No time indication |
| 12 | Financial Close - Occurs when all the project and financing agreements have been signed and all the required conditions contained in them have been met. It enables | <ul style="list-style-type: none"> Regulation 68 No time indication |

| Step | Activity required to be undertaken | Legal Status / Timeline |
|------|--------------------------------------------------------------------------------------------------------|-------------------------|
| | funds (e.g. loans, equity, grants) to start flowing so that project implementation can actually start. | |

8.2.3.4 Contract Management Phase

| Step | Activity required to be undertaken | Legal Status / Timeline |
|-------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Phase Contract Management Phase – Construction | | |
| 1 | Establishing governance and a contract management team; | <p>The LGA must establish a contract management team. In recognition of the long-term nature of the PPP, the LGA must put in place both knowledge and succession management procedures.</p> <p>Performance management during the delivery phase requires confirming that the outputs are delivered in line with the contract</p> <p>The Institution must prepare an exit strategy, in coordination with the private party to ensure the Institution's capacity to take over service provision upon agreement expiry. PPP contracts may provide for an extension of the term of the PPP contract.</p> |
| 2 | Establishing and executing contract administration – including the development of a contract management manual (initially focused on the Construction Phase); | |
| 3 | Oversight and managing site handover, permits and design; | |
| 4 | Monitoring private party's compliance and performance during construction; | |
| 5 | Managing delays; | |
| 6 | Managing communication and stakeholders; | |
| 7 | Managing changes, claims (due to retained or shared risk events) | |
| 8 | Administrating payments during construction in co-financed projects | |
| 9 | Commissioning/acceptance and start of operations. | |

8.2.4 Required Stakeholder Consultations

Stakeholder identification and management is vital for all projects, however in PPPs it is all the more important to communicate to the stakeholders that the project is a PPP and possible implications which may follow. This ensures smooth implementation and success of the project in addition to avoiding rumors that may hinder progress. The LGA shall consider the interest of different stakeholder groups and engage them by seeking their views and answering their queries to achieve complete acceptance.

The type of interaction may vary depending upon its purpose. If the purpose is collecting information relevant to the project, different methods of primary research could be adopted such as interview, survey etc. If the government intends to provide information, it could use mediums like press release, printed materials (flyers, banners and billboards) etc. If the purpose is to provide consultation, there might be a dialogue over problem identification, offering alternate solutions and receiving feedback for the same. The government might also intend to integrate certain categories of stakeholders in the designing, decision-making, and implementation phases of the project. For this purpose, different mediums of communication shall be used with different stakeholders.

In this project, there are two categories of stakeholders: internal and external. The internal stakeholders would comprise the government agency responsible for the project and bidders for the project. The external stakeholders would include financial institutions (such as banks, investment funds and government and multilateral funders), public service users, society (impacted by the project), other government agencies (including the federal government, auditors, monitoring agencies, regulatory agencies, legislators, and labour unions), Non-Government Organizations (NGOs).

9 Annexure A: Willingness to Pay

Market Engagement

In order to establish the willingness to pay for the proposed facility service, we consulted with a wide range of stakeholder. These included members of by PPP Node, the WB, the LGA, current stall traders, transporters, suppliers, potential investors as well as customers.

During the individual interviews, our discussions covered the Financial, Social, Political as well as Environmental aspects.

Cognisant for the project to financially viable, traders were willing to accept and increase in the daily / monthly rates for a well demarcated, lit, safe and easily accessible area. They strongly believed having a hygienic facility would help attract a larger customer base. A further aspiration of the traders, is to have a facility that offers complemented services that ease the retail experience.

Larger investors believed the projects would offer better returns should the operations be more efficient, with support of adequate LGA by-laws.

Survey Results

This sub-section presents the specific findings from surveys conducted by the market assessment team for data gathering with regard to the 'development of Njiro market' project in Arusha City. The survey involved many stakeholders being interviewed on a comprehensive set of questions covering aspects such as willingness to pay, rates/rents and preferences.

Between 8th and 14th August 2017, following discussions with the LGA investment committee and key officers the Deloitte team in partnership with the City Economic Planning department (Ms. Patricia Fredy and Ntuli Mwakilembe) embarked on data collection activities in Arusha area.

The City Economic Planning department appointed Two LGA officers were appointed to support the Deloitte Team for the field work. Deloitte provided the survey sheets and explained the objectives of conducting field data collection to members involved.

- **Local stakeholders interviewed:** Data collection activities included interviews with customers, traders, retailers, shop owners, hawkers, potential customers, small business owners, landlords etc.
- **Sample size:** A total of about 150 stakeholders/people were interviewed which included about owners of 20 retail outlets in Njiro area, 20 traders at the Arusha main market, 20 retailers including owners of the stalls and outlets at Kilombero market, 20 shop owners in surrounding areas, 30 customers, 8 hawkers, 15 potential customers and 20 retailers
- **Areas visited:** Engutoto business complex, Panoni supermarket, Usoke complex, Greenhut and various mini markets in Njiro area, Arusha main market, Kilombero market, Moshono recreational area, various areas surrounding the proposed market including Kwa Mrefu along Moshi road, Kambi ya Chupa, Mferejini, Siara, Iroshi and Ilkiroa.

Both qualitative and quantitative information was gathered during the surveys. Local traders and retailers were able to disclose average number of customers they served on a daily and weekly basis including the peak times and days. In addition, they were also able to share general profiles of the customers they serve such as average amount they would spend, gender, average age, areas they come from etc. Furthermore, the retailers and traders disclosed the amount of rent they are required to pay by the Arusha City Council,

challenges they faced, what would they like to see improved by their property owners and facilities they would like to see in the new proposed market in Njiro. However, most traders and retailers refused to share or disclose information such as average daily, weekly or monthly sales.

The management team responsible for running the market facility was able to disclose information pertaining to occupancy rates, rent charges per stall/shop, challenges they face etc.

9.1 Overview of markets surveyed

For comparable analysis Kilombero Market and Central (Main) Market were studied. The following table summarizes features of these markets.

Table 45: General features of select markets in Arusha

| Name of Market | Question and Response |
|----------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Main market | <ul style="list-style-type: none"> • Condition of the building: Old ~1.5 acres • Location area and characteristic: Prime, central market • Year of launch: 1962 • Type and number of facilities: 179 small and medium shops: 20-30 sqm (rent 200k-300k). 110 carts and stalls (rent: 10k and 20k). • Branded retail, if any (%) and brands: Not disclosed • Any specialty or specialization of the market (Concentration of trade or activity): Not disclosed • Which shops have the maximum footfall: Food, clothing, retail • % Occupancy as on date: 100% |
| Kilombero | <ul style="list-style-type: none"> • Condition of the building: Old • Location area and characteristic: Prime, food wholesale market • Year of launch: 1970s • Type and number of facilities: Small food vendors • Branded retail, if any (%) and brands: None • Any specialty or specialization of the market (Concentration of trade or activity): Food, clothing, retail • % Occupancy as on date: 100% |
| Engutoto Shopping complex | <ul style="list-style-type: none"> • Condition of the building: Renovated • Location area and characteristic: Non-prime • Year of launch: 2011 • Type and number of facilities: 13 Small retail/ Medium Retail; 1 Super markets and 1 Bar; No official parking bay • Branded retail, if any (%) and brands: None • Any specialty or specialization of the market (Concentration of trade or activity): Small and medium retail • % Occupancy as on date: 80% |

9.2 Perspective of Traders

For comparable analysis, Engutoto Complex, Kilombero Market, and Central (Main) Market were studied. The shopkeepers included distinct sectors ranging from food items and restaurants to cosmetics, and groceries.

Table 46: Details of Markets in Arusha as per Shopkeepers²⁷

| Sl. No. | Name of Market | Occupancy | Footfall/Day ²⁸ |
|---------|-----------------------|-----------|----------------------------|
| 1. | Central (Main) Market | 100% | 10 – 70 |
| 2. | Engutoto Complex | 80% | 10 – 150 |
| 3. | Kilombero Market | 100% | 10 – 50 |

- **Current Status of Competing Markets as per Shopkeepers**

- All the shops, stalls and supermarkets surveyed were found to be on lease/rental model. Further, most shops were found to be on a short term lease period of six month duration for Central Market and Engutoto Complex.
- The market prices of shops and stalls typically vary depending on location (area in which the market is located) and year of purchase. It was attempted to capture the breakup and value of the common area maintenance charges for markets. However, due to certain limitations, the data showed that charges were being levied for trash collection which amounted to approximately 5,000 shillings for Engutoto Complex. In Central Market, 25,000 shillings per month are spent on maintenance charges.

- **Preferences of Shopkeepers for Njiro Market**

- Shopkeepers and stand/stall owners from Central and Kilombero markets are keen on shifting if the Njiro market is constructed in Engutoto ward given the rent is affordable and the market is well organized. However, shopkeepers of Engutoto Complex (situated right across the project site) and wholesalers of Kilombero Market (preference to operate from a wholesale market) would not want to shift to the market.
- Retailers of Engutoto Complex have shown a preference for the Njiro market to be a facility for commercial, banking and retail activities. While the retailers in Central and Kilombero markets have shown a preference for the Njiro market to be a facility for retail activities. The retailers of Central Market also prefer dedicated areas for specific kind of commodities such as textile products. All retailers surveyed are expecting the market to comprise retail (including small and medium retail, and supermarkets), restaurants and food vendors, and parking in the same order of preference. As is prevalent in other markets, retailers have expressed a preference for leasehold model with the average lease period ranging from one to two years with the exception of a textile trader in Central Market who preferred a long term lease given that his business would flourish. Further, all retailers surveyed would prefer shops to be placed on the ground floor. This is in line with consumers' expectations as well (highlighted in the previous section).

The following tables provide details of the interactions with the traders.

Table 47: List of select Traders interviewed in Arusha

| S. No. | Name of Trader/Shop | Name of Market | Type of Shop | Size of Shop (sq m) |
|--------|---------------------|----------------|-----------------------------------------------------------------------------------------------------|---------------------|
| 1. | Juma | Central | Food vendor (40 customers/day) | 4 |
| 2. | Abdalla Omar | Central | Fish seller (20 customers/day) | 5 |
| 3. | Ali | Central | Potato seller (wholesaler) (~10 customers/day) | 5 |
| 4. | Amer Nassor | Central | Textile trader (30-50 customers a day/ Busiest days – Mondays and Saturdays – up to 70 customers/) | 5 |
| 5. | David | Central | General merchandise | 4 |

²⁷ Based on data collected from primary research

²⁸ Varies depending on the type of retail outlet

| S. No. | Name of Trader/Shop | Name of Market | Type of Shop | Size of Shop (sq m) |
|--------|----------------------------|------------------|-----------------------------------------------|---------------------|
| 6. | Abedi Iddi | Central | Grain seller | 4 |
| 7. | Julius Mosha | Central | General merchandise | 4 |
| 8. | Juma Ali | Central | Food vendor | 4 |
| 9. | Mustapha M. | Central | Food vendor | 4 |
| 10. | Michael Mushi | Central | Clothing store | 4 |
| 11. | Florence | Central | Grocery store | 4 |
| 12. | Giviness Ezekiel | Kilombero | Food vendor (40 customers/day) | 4 |
| 13. | Abdalla Omar | Kilombero | Fish seller (20 customers/day) | 5 |
| 14. | Ibrahim Idd Kimario | Kilombero | Rice seller (wholesaler) (~10 customers/day) | 5 |
| 15. | Emmanuel Massawe | Kilombero | Carrot whole seller (50 a day) | Open space |
| 16. | Jonas Tarimo | Kilombero | Bar/restaurant operator (40) | 6 |
| 17. | Victor | Kilombero | Food vendor (up to 40 daily) | 4 |
| 18. | Jumaa | Kilombero | Grain seller (up to 40 daily) | 4 |
| 19. | Ali Kimario | Kilombero | Fruits and vegetables (30 daily) | 4 |
| 20. | Said Juma | Kilombero | Grain (30-45 daily) | 5 |
| 21. | Michael | Kilombero | Rice shop (40) | 4 |
| 22. | John Aloyce | Kilombero | Cooking oil/various commodities (30-50 daily) | 5 |
| 23. | Happiness Molel | Kilombero | Food vendor (30 daily) | 3 |
| 24. | Fantastic Mini Supermarket | Engutoto Complex | Mini supermarket | 100 |
| 25. | Corona QuickStore | Engutoto Complex | Stationery, Internet, Cosmetics | 10 |
| 26. | Hair salon | Engutoto Complex | Hair dressing | 5 |
| 27. | Retail store | Engutoto Complex | General merchandise | 5 |
| 28. | Grocery store | Engutoto complex | Groceries, wines, beers and spirits | 10 |

Table 48: Responses from traders of Central Market, Arusha

| S. No. | Item | Comments |
|-------------------------|----------------------------------------------------------|---------------------------------------------------------------------------------|
| Current scenario | | |
| 1. | Daily sale (TSH/day) | All shopkeepers were reluctant to disclose details pertaining to sales |
| 2. | Do you follow a lease model or outright ownership model? | All shopkeepers above have leased the stores |
| 3. | For lease model: | a) 50,000 TZS/month for frames, paid monthly. b) Planned to double next year |

| S. No. | Item | Comments |
|--------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| | a) In case of lease, what are the lease / rental charges paid and lease period presently? b) What is the escalation period for lease charges? c) Is there any requirement for a security deposit? If yes, how much? | c) No security deposit is required for all shopkeepers above |
| 4. | In case of ownership model, <ul style="list-style-type: none"> Market price paid Year of purchase | N/A Average up to 25,000 shillings is spent on monthly maintenance charges. |
| Preferences – About proposed market | | |
| 5. | What type of development would you prefer (mixed of commercial & retail, retail only, retail+ leisure such as movie theater) | Retail. Also there should be different areas designated for specific types of goods or commodities. For example, there should be a section/wing for textile products only, another one for hardware goods etc. |
| 6. | What facilities would you expect in the proposed development (Mention top 3) | a. Retail(Small retail/ Medium Retail/ Super markets/Corporate offices/ Restaurant): (5) b. Commercial(Independent offices / Commercial offices/ Showrooms) (not disclosed) c. Restaurant/Food Vendor (5) d. Parking (number of bays and average time spent) (2) e. Movie theater (2) f. Chicken slaughter house (1) g. Others (not disclosed) |
| 7. | Preference for shops on: <ul style="list-style-type: none"> Ground floor First floor Higher floors | All shopkeepers preferred Ground floor |
| 8. | Do you prefer: <ul style="list-style-type: none"> Outright ownership Short term lease(1-2 years) Long term lease (> 2 years) | Majority of the business owners preferred Short term leases Amer Nassor preferred long term lease in case the business will thrive |

Table 49: Responses from traders of Kilombero Market, Arusha

| S. No. | Item | Comments |
|-------------------------|---------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Current scenario | | |
| 1. | Daily sale (TSH/day) | Almost all of them refused to disclose information pertaining to the daily sales |
| 2. | Do you follow a lease model or outright ownership model? | Lease |
| 3. | For lease model: a) In case of lease, what are the lease / rental charges paid and lease period presently? | a) The lease is 50,000TZS per month for frames, paid monthly. b) Planned to double next year c) No security deposit required for all traders/operators |

| S. No. | Item | Comments |
|--------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| | b) What is the escalation period for lease charges? c) Is there any requirement for a security deposit? If yes, how much? | |
| 4. | In case of ownership model, <ul style="list-style-type: none"> Market price paid Year of purchase | N/A |
| Preferences – About proposed market | | |
| 5. | What type of development would you prefer (mixed of commercial & retail, retail only, retail+ leisure such as movie theater) | Retail |
| 6. | What facilities would you expect in the proposed development (Mention top 3) | a. Retail(Small retail/ Medium Retail/ Super markets/Corporate offices/ Restaurant): (3) b. Commercial(Independent offices / Commercial offices/ Showrooms): c. Restaurant/Food Vendor (3) d. Parking (number of bays and average time spent) (2) e. Movie theater f. Chicken slaughter house (1) g. Others (public toilets, bathrooms etc.) |
| 7. | Preference for shops on: <ul style="list-style-type: none"> Ground floor First floor Higher floors | Ground |
| 8. | Do you prefer: <ul style="list-style-type: none"> Outright ownership Short term lease(1-2 years) Long term lease (> 2 years) | Short term |

Table 50: Responses from traders Enguototo Market Complex, Arusha

| S. no. | Name of shop | Type of shop | Size of shop (Sq m.) |
|-------------------------|----------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------|----------------------|
| i. | Fantastic Mini Supermarket | Mini supermarket | 100 sqm |
| ii. | Corona QuickStore | Stationery, Internet, Cosmetics | 100 sqm |
| iii. | Hair salon | Hair dressing | 5 sqm |
| iv. | Retail store | General merchandise | 5 sqm |
| v. | Grocery store | Groceries, wines, beers and spirits | 10 sqm |
| S. No. | Item | Comments | |
| Current scenario | | | |
| 1. | Daily sale (TSH/day) | Not disclosed for all of the above | |
| 2. | Do you follow a lease model or outright ownership model? | All shopkeepers above have leased the stores | |
| 3. | For lease model: | <ul style="list-style-type: none"> The other three locations didn't know the amount of rent their employers pay | |

| | | |
|--------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| | <ul style="list-style-type: none"> In case of lease, what are the lease / rental charges paid and lease period presently? What is the escalation period for lease charges? Is there any requirement for a security deposit? If yes, how much? | <ul style="list-style-type: none"> None No security deposit is required |
| 4. | In case of ownership model, <ul style="list-style-type: none"> Market price paid Year of purchase | N/A |
| 5. | What are the common area maintenance charges? Are these charges included in lease? | 5k/month for trash collection for all outlets |
| 6. | What is the breakup of common area maintenance charges and their period of escalation? | None |
| Preferences – About proposed market | | |
| 7. | If a shopping mall is constructed in Njiro ward, would you be willing to move your shop there? Why / why not? | <p>Fantastic Mini Supermarket and Corona QuickStore said they won't move. Current position is just across from the proposed market.</p> <p>The other three outlets said it will depend on variety of circumstances, but they are open to the move</p> |
| 8. | What type of development would you prefer (mixed of commercial & retail, retail only, retail+ leisure such as movie theater) | Retail, Offices, banking, food market, fish market, ATMs, Sports bars |
| 9. | What facilities would you expect in the proposed development (Mention top 3) | <ul style="list-style-type: none"> Small retail/ Medium Retail/ Super markets/Corporate offices Commercial offices Restaurant/Food Vendor Parking |
| 10. | Preference for shops on: <ul style="list-style-type: none"> Ground floor First floor Higher floors | Ground floor |
| 11. | Do you prefer: <ul style="list-style-type: none"> Outright ownership Short term lease(1-2 years) Long term lease (> 2 years) | Short term lease(1-2 years) |

9.3 Perspective of Consumers

The key observations based on interactions include:

- It has been observed that people visit markets primarily for purchase of food, groceries and household commodities. This makes convenience based shopping the main reason for people to spend most of their time and money under leisure activities. The main markets visited by the sample in order of preference has been covered in the below table.

Table 51: Details of Markets in Arusha City as per Consumers²⁹

| S. No. | Name of Market | Average Spend per trip at the Market (in TZS) | Distance Travelled | Facilities Offered |
|--------|------------------|-----------------------------------------------|--------------------|-------------------------------------------------------|
| 1. | Central Market | 20,000 to 50,000 | Up to 10 km | Small shops and stands Medium shops Restaurants |
| 2. | Kilombero Market | | | |
| 3. | Tengeru Market | | | |

- These markets are visited once or twice a week based on convenience shopping needs. The seasonality of visit to these markets has been largely minimal due to their nature. However, people visit markets mostly on weekends and market days (Tuesday and Thursday).
- Product mix preference: Consumers prefer facilities such as retail spaces (including small and medium retail), commercial consumption driven markets, restaurants and parking which are lacking in the city.. They would prefer the development of a mix of commercial and retail stores. Further, all respondents indicated willingness to travel to visit the Njiro Market in Engutoto ward given that there are no major markets within an eight km radius of the project site.
- There is a strong preference for shops to be constructed on the ground floor of the market.

The list of customers who were interviewed is provided below.

Table 52: List of select customers interviewed in Arusha

| S. No. | Name of the Customer / Shopper | Age | Occupation | Place of Stay |
|--------|--------------------------------|-----|-------------------------|---------------|
| 1. | Loisi Ligaki | 90 | Retired | Baraa |
| 2. | Yuda Shine, | 30 | shopkeeper | Baraa |
| 3. | Lawrence Macha | 50 | hardware store owner | Baraa |
| 4. | Josephine Gwacha | 30 | housewife | Baraa |
| 5. | Naimah Tarimo | 34 | banker | Moshono |
| 6. | Casmir Lengama | 36 | mechanic | Baraa |
| 7. | Faraja Woiso | 33 | office clerk | Baraa |
| 8. | Wilbroad | 30 | Accountant | Baraa |
| 9. | Abdiel | 45 | medical assistant | Baraa |
| 10. | Kashenge Mtui | 37 | small business owner | Baraa |
| 11. | Abdi Hassan | 28 | tailor | Baraa |
| 12. | Jumanne Ali | 40 | shop owner | Moshono |
| 13. | John Mollel | 35 | grocery business owner, | Moshono |
| 14. | Amani Halid | 26 | shop owner | Baraa |
| 15. | John Tesha | 46 | hardware business owner | Baraa |

²⁹ Based on data collected from primary research

10 Annexure B: Social Due Diligence by World Bank

This sub section³⁰ presents the findings from consultations conducted by the World Bank Safeguards team for data gathering with regard to the 'development of Njiro market' project in Arusha City. The survey involved many stakeholders being interviewed covering aspects related to social due diligence of the project.

It shall be noted that this survey was carried out by The World Bank and the PPP Node about a year later than the site visits presented in the report, due to which its findings may vary when compared to those of the report.

10.1 Introduction

World Bank Safeguards team together with PPP Node Team from President's Office, Regional Administration and Local Government (PO-RLG) Team carried out a social due diligence assessment of the proposed Njiro market in Arusha City Council (ACC). The table below lists the World Bank Safeguard Team along with government officials they met in Arusha region which conducted this exercise.

Table 53: Information on World Bank Safeguards Team and Arusha government officials

| S. No. | Name | Position | Contact information |
|--------|-------------------|----------------------------------------------------------------------------------------------------------------------|---------------------------------|
| 1. | Alexander Songoro | Social Development Consultant, World Bank | N.A. |
| 2. | Ms. Mridula Singh | Senior Social Development Specialist, World Bank | N.A. |
| 3. | Hella Mlimanazi | Lawyer, PPP Node Dar es Salaam, President's Office, Regional Administration and Local Government (PO-RLG) | N.A. |
| 4. | Gabriel Hango | Financial Advisor, PPP Node Dar es Salaam, President's Office, Regional Administration and Local Government (PO-RLG) | N.A. |
| 5. | Mr. Chitukuro | Ag. Regional Administrative Secretary, Arusha. | 0767263523 kchituk@yahoo.com |

The objective was to assess potential social risks associated with the proposed investment. These risks are related to social inclusion (gender and vulnerability), participation, accountability, transparency, land requirement (adverse impact on individual and community), grievance management, labour influx, and gender-based violence. The assessment is expected to guide the project team to undertake detailed assessment and develop mitigation measures for the specific issues identified. The findings will help prepare the social safeguard documents that complies with the standards laid down in the national laws and policies and the World Bank Operational Policy 4.12 on Involuntary Resettlement.

³⁰ Source: Consultation by PPP Node and World Bank with LGAs

The team held discussions with the leaders representing the sub-ward, ward, municipalities, districts and regional officials. The sites that are currently under operation, the team met with the leaders, communities residing adjacent to the sites to understand the existing situation and their opinion regarding the proposed projects. Below are the extracts of the list of stakeholders consulted for this purpose.

SOCIAL DUE DILIGENCE STAKHOLDERS ENGAGEMENT AT ARUSHA CITY COUNCIL ON DATE 20/09/2018

| S/N | NAME | POSITION | ORGANIZATION | EMAIL | SIGNATURE |
|-----|---------------------|--------------------|---------------------|---------------------------|-------------|
| 1 | Saloni Kijana | Ag. CUPO | A.CC | kijana_saloni@yahoo.com | [Signature] |
| 2 | Abdallah Mvungi | Economist | Arusha City Council | mvungi24@yahoo.com | [Signature] |
| 3 | MURU TINANA | ECONOMIST | ARUSHA CITY | ginananuru@gmail.com | [Signature] |
| 4 | EMMANUEL S. MHAUKA | Economist | ACC | emhauka@gmail.com | [Signature] |
| 5 | ROBERT MUSAKISIA | Investment Manager | ACC | robertmusa@gmail.com | [Signature] |
| 6 | Arch YASSIN MAKANGI | CITY ARCHITECT | ACC | terrestrial2009@gmail.com | [Signature] |
| 7 | Simon H. Mlay | CIVIL ENGINEER | Arusha City Council | simonmlay976@gmail.com | [Signature] |
| 8 | GRAYSON A. ORCADO | CS | - // - | 0757765971 | [Signature] |

SOCIAL DUE DILIGENCE STAKHOLDERS ENGAGEMENT AT ARUSHA CITY COUNCIL ON DATE 20/09/2018

| S/N | NAME | POSITION | ORGANIZATION | EMAIL | SIGNATURE |
|-----|----------------|------------|----------------|-------------|-------------|
| 1 | LLANER | WEO | NJIRO-ENGUTOTO | 0759-534052 | [Signature] |
| 2 | N.E. QWARSE | M/KITI B/F | NJIRO-ENGUTOTO | | [Signature] |
| 3 | SAMINA MUSA | WEO | ENGUTOTO | 0784-476705 | [Signature] |
| 4 | LILIAN WAKURWA | M/KITI | NJIRO ENGUTOTO | 0767 672324 | [Signature] |

10.2 Assessment of Arusha Municipal Council

The findings of the preliminary social risk assessment of Moshi, Arusha, Mwanza, and Mbeya Municipal Councils conducted by the World Bank Safeguards team are summarised below:

Table 54: Social Risks and Preliminary Assessment – Moshi, Arusha, Mwanza and Mbeya Municipal Councils

| S. No. | Potential risks | Findings from Viability Study | Findings from Field visit | Risk Category |
|--------|--------------------------------------------------------------------|-------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------|
| 1. | Social Inclusion | No information | There are different categories of people using the facilities – registered and unregistered commercial activities, labour, etc. Need to assess the impact on different groups to ensure that people are not excluded from accessing the potential benefits. | H |
| 2. | Accessibility to facilities - by differently abled people, old and | Not recognised as an issue. | Detailed drawings are yet to be prepared. The design needs to include facilities to ensure that they do not create barriers to accessibility. | M |

| S. No. | Potential risks | Findings from Viability Study | Findings from Field visit | Risk Category |
|--------|--------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------|
| | infirm, women and children | | | |
| 3. | Gender, children – safety and security, sexual harassment, and gender-based violence at public places. | Description is limited to positive and negative impacts. | Even though women constitute a large proportion of traders at the markets, however, measures to address risks associated with safety and security and on Gender Based Violence and harassment is weak | H |
| 4. | Stakeholders Consultations - throughout the sub-project cycle and Citizen Feedback. | Mentions that there are commercial activities, residential and other institutional buildings adjacent to the area. | Traders, some local leaders and others have limited information of proposed investment. There are others who do not seem to be aware of the proposed investment. | H |
| 5. | Governance - accountability and Transparency | Principles and systems to develop is not included | There seems to be limited understanding of the mechanisms required to enhance accountability and transparency through the project cycle. | S |
| 6. | Grievance Redress Mechanisms (GRM) | It is not mentioned as a requirement | It seems that registering, tracking, resolving and documenting grievances is weak across all projects. | H |
| 7. | Loss of livelihood, shelter – adverse impact on land owners, squatters and displacement. | Lack of information on the likely impact on the people using the sub-project sites. The mentions that traders shall be relocated to undertake expansion of the current market space. | The documents on land for all sites are available. At one site, there is litigation on ownership of land, short duration of leased land. Loss of livelihood during construction stage, temporary relocation of traders and other business operators, relocation and rehabilitation of squatters. | H |
| 8. | Construction induced impact on adjacent settlements | The document indicates the project will have low negative social impacts | The construction site if not protected from access to locals, children increases risks related to accident at work site, other impacts relate to noise, dust, health hazards | M |
| 9. | Labour influx and compliance with labour laws | Issue of labour influx is not recognised. | There will be adverse impact on host communities at locations due to labour influx. | H |
| 10. | Institutional capacity | There is no information | Lack of capacity with the PPP team and Municipalities will lead to weak compliance | H |

10.3 Assessment of Proposed Investment for construction of Njiro Market

10.3.1 Summary of findings

A preliminary assessment was carried out of the project site for the proposed market. The market at Njiro, will lead to displacement of homeless 45 families who reside either in abandoned structures or pay rent to owners of the structures. Approximately, 43 of these families are women headed households who are either widows or abandoned.

10.3.2 Construction of Njiro Market

The proposed Njiro Market is in Engutoto ward. In this ward, there is no formal and organized market where traders can carry out commercial activity. The site is accessible and well connected by highway.



Figure 10 Commercial Shops at Njiro Market Site, owned by Private Traders

The Arusha City Council (ACC) is proposing to construct the new market. The market will be designed to accommodate all categories of traders. It is proposed to provide stalls for vendors to carry out retail trade and sell food. It will also include a main market for selling food items, vegetables, and household items. There is a proposal to include facilities for medium sized shops, supermarket, and restaurants. The market will also have parking area, washrooms and waste disposal facilities.

Land tenure: The proposed site area is 9,641 square meters owned by Arusha City Council. It is a surveyed land with the Certificate of Title No. 56699, Plot NO. 532, LO. NO. 314609, located at Block D, in Njiro sub ward. The term of lease is for ninety-nine years, commencing from 1st July 2017.

Following the decision of ACC to open a market at the site in 2010/2011, 132 shops were built. These are privately owned. The structures are at different stages of construction.

However, it failed since many structures were of poor design and quality. The abandoned structures are occupied by homeless women. A total of 43 families, majority of which are headed by women, live in these abandoned structures with their children. On an average, each woman supports two to three children. Many have reported to have been abandoned by their spouses.



Figure 11 Homeless families at the proposed Njiro Market site

While responding to the query, few said that they have been given these structures by owners while the majority confirmed to have occupied the structures without permission. They have occupied the structures despite lack of basic facilities like toilets, water, and electricity.

The sub-ward leaders informed that women use the structures as shelters at night. Attempts to vacate them have failed.

Privately owned Engutoto market Complex with 25 shops is adjacent to the site. The ground rent per month in this complex ranges from TZS 250,000 to TZS 300,000 (USD114 to USD136) which is relatively high. Thus, traders are optimistic that the rent may come down with increased supply of commercial shops.

Valuation of 132 shops: The Arusha PPP coordinator informed that the Council has conducted a valuation survey but the valuation report was not available.

Stakeholders Consultations and Engagement: Stakeholders at local, municipal and regional levels are well informed about the investment. The investment is also in consistency with the Arusha Investment Guide. Discussion with local leaders at Njiro sub-ward reported that traders are eagerly waiting for the market. The team was provided with a list of 53 potential traders who aspire to open their shops at the proposed market.

Grievance Management: There is lack of a mechanism to register complaints.

10.3.3 Recommendations

In order to minimise anticipated impacts, the investment team should put in place the following before commencement of this investment:

- i. Prepare a Resettlement Action Plan to include compensation and relocation for 132 commercial shop owners, relocation and rehabilitation of 43 families and livelihood programs for women and youth.
- ii. Map potential traders for appropriate design of the project.
- iii. Prepare Labour Influx Management Plan.
- iv. Strengthen PPP Investment teams' capacity to coordinate social safeguard preparation, implementation and monitoring.
- v. Set up a GRM system.

11 Annexure C: Market Demand Assessment

This chapter assesses the location and competition of the project relative to other facilities, and undertakes a demand assessment.

11.1 Assessment of Location

11.1.1 Location overview

The site earmarked for the development of the market is located in Njiro area, Engutoto Ward of Arusha City. It is eight km from the City Centre and has access to the Njiro road.

As for markets, Arusha city features few markets, comprising commercial markets, wholesale markets, specialised markets and local/roadside markets.

In addition to these markets, there are other types of structures—related to residents, offices, institutions, government, entertainment, sports—around the project site that are important to be studied in relation to the project.

Accordingly, following is an overview of the location of the project site. It showcases features of the area surrounding the project site and also comments on the connectivity of the project site to important modes of transportation in Arusha city.

11.1.2 Relative position and profile of project site

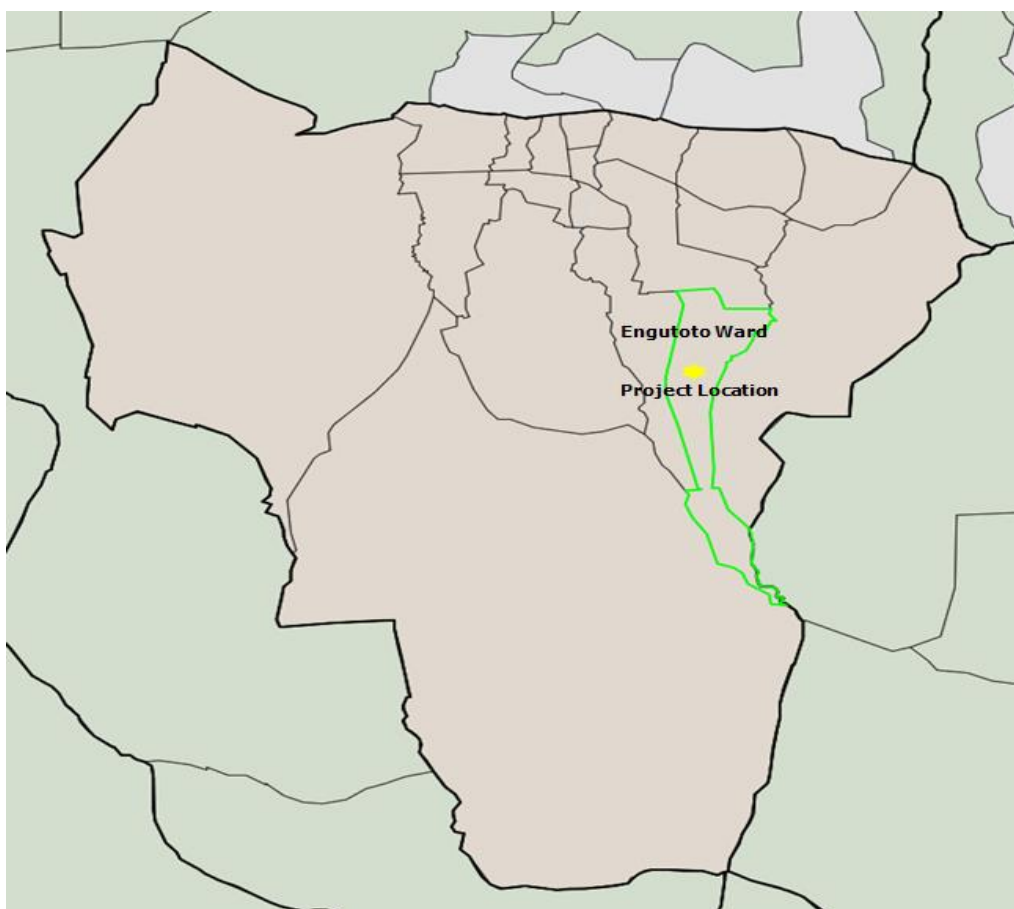


Figure 12: Map depicting Project 8 Location in Engutoto Ward in Arusha City

The project site is located in the Njiro area. It is roughly 11,400 m² in size and is owned wholly by the Arusha City Council. It is across the Engutoto Complex. The plot is located closer to government offices, religious sites, educational institutions and residential areas. Government offices include Engutoto ward offices located just across the project site. Religious sites comprise of Hindu temples and churches in the area. Educational institutions include primary and secondary schools and colleges. Residential areas include six areas, majority of which are middle income groups. The plot is approximately eight km away from the City Centre.

Presently, the site is vacant with no development. However, some traders have erected temporary structures had have setup shops around the market area.

Following is a description of the surrounding infrastructure.

11.1.3 Overview of neighborhood of surrounding project site

This section provides an outline of the enabling ecosystem for commercial development in Arusha city. It covers the commercial, residential and recreational facilities with a focus on areas surrounding the project site.

11.1.3.1 Focal markets in Arusha City

The project site has multiple markets/ commercial infrastructure around a radius of ~10 Kms. Following is an overview:

| Sl. | Market | Aerial distance relative to Project Site | Type |
|-----|----------------|------------------------------------------|---------------------------|
| 1. | Central Market | ~9 Km south of project site | Convenience Public market |

| | | | |
|----|-------------------------------|-----------------------------------|-----------------------------------------------------------------|
| 2. | Kilombero Market | ~8 Km south of project site | Convenience Public market |
| 3. | AIM Mall | ~4 Km south of project site | High end shopping center with focus on Retail, Food and leisure |
| 4. | Njiro Complex | ~3 Km east of project site | Food and retail |
| 5. | Tengeru Farmers Market | ~17 Km north-west of project site | Vegetable Market |
| 6. | Engutoto Complex | ~300 meters from project site | Food and household commodities |

11.1.3.2 Residential Area

The proposed Market is expected to cater to Njiro area in Engutoto ward of Arusha city being the first market in the area. Njiro comprises residential areas with a significant portion of the population comprising middle income households and the remaining comprising low income households as depicted in Table 2. As per the 2012 census, the area has a population of 9,994³¹ with 2,910³² households.

Table 55: Residential Areas with Income Classification in Njiro, Engutoto Ward

| Sl. No. | Name of Area | Income Classification |
|---------|--------------|-----------------------|
| 1. | Block C1 | Low income |
| 2. | Block C2 | Middle income |
| 3. | Block D | Middle income |
| 4. | Block F | Middle income |
| 5. | Block H | Middle income |
| 6. | Block J | Low income |

11.1.3.3 Institutional Area

The surrounding office spaces mainly include government areas, educational institutions and an electric substation.

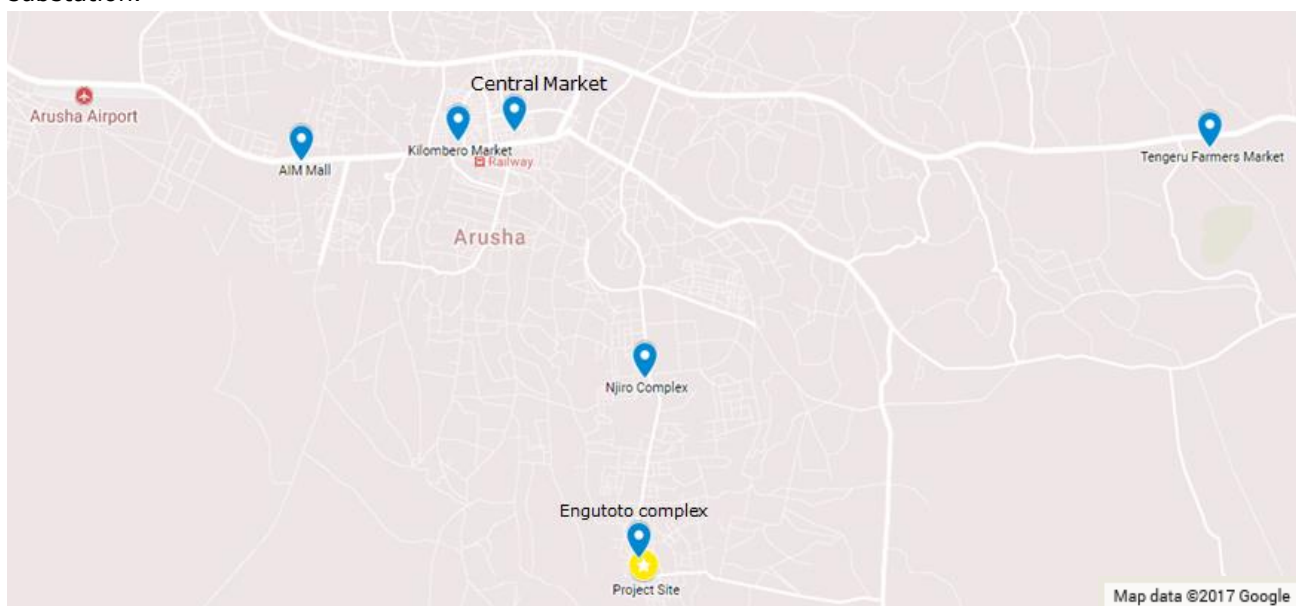


Figure 13: Other markets/surrounding commercial infrastructure in Arusha City

³¹ Based on data collected from primary research

³² Based on data collected from primary research



Figure 14: Institutional Infrastructure near Njiro Market in Arusha City

- **Educational Institutions:** To the north of the project site is a college, and to the east of the college are the primary and secondary schools of Njiro. These are located within a 400 m radius of the project site. There are established education institution/schools in the vicinity such as East and Southern Africa Management Institute (ESAMI), Njiro Secondary, Naura Secondary, Nalopa Schools and Notre Dam
- **Government Areas:** The government areas are located adjacent to the left of the project site. These include the Engutoto ward offices.
- **Electric Substation:** An electric substation is located approximately 200 m to the north of the project site.
- **Banking services :** There are Banking facilities within a radius 3 km such as ATM, Banks Agents and mobile money transfer

In addition, Njiro area is in close proximity to the newly constructed East African by pass (road), very close to City Council Hospital, VETA Collage, Atomic Energy Agency office and is near the Themu industrial area.

11.1.3.4 Entertainment and Recreational Infrastructure

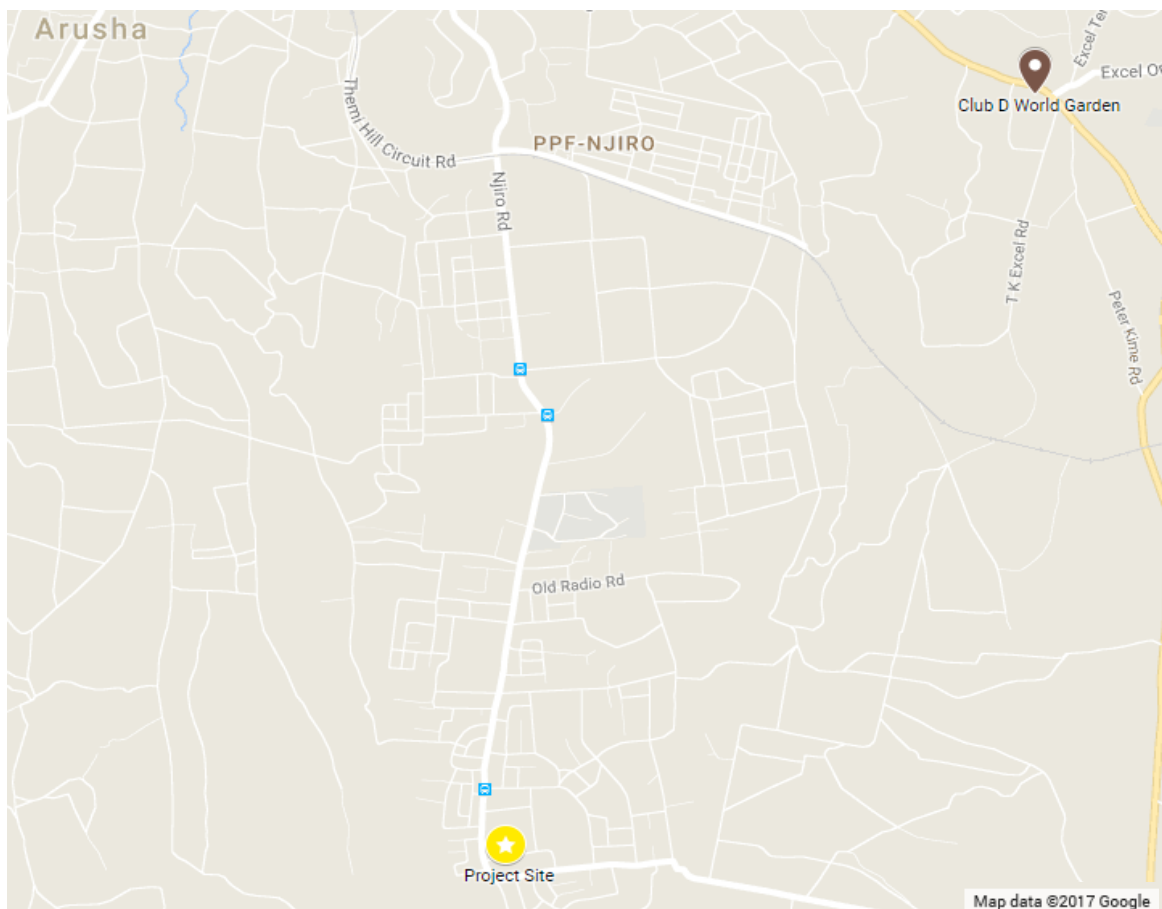


Figure 15: Entertainment and Recreational Infrastructure near Njiro Market in Arusha City

World Garden in Arusha portrays itself as a one stop shop for entertainment and recreation. It is located in the Moshono area 10 km from the project site. It includes a Garden lounge, Kids area, Club D and indoor and outdoor functional halls. The lounge offers barbeque and grill along with drinks. The kids' area comprises baby pool and swings for children. Club D is a recreational facility hosting events - The indoor functional hall has a capacity to host 1,200 people as opposed to 2,000 of the outdoor hall. Weddings and wedding photoshoots can also held in the halls.

There are no major hotels and resorts in the area.

11.1.3.5 Social Infrastructure and Other Supporting Amenities

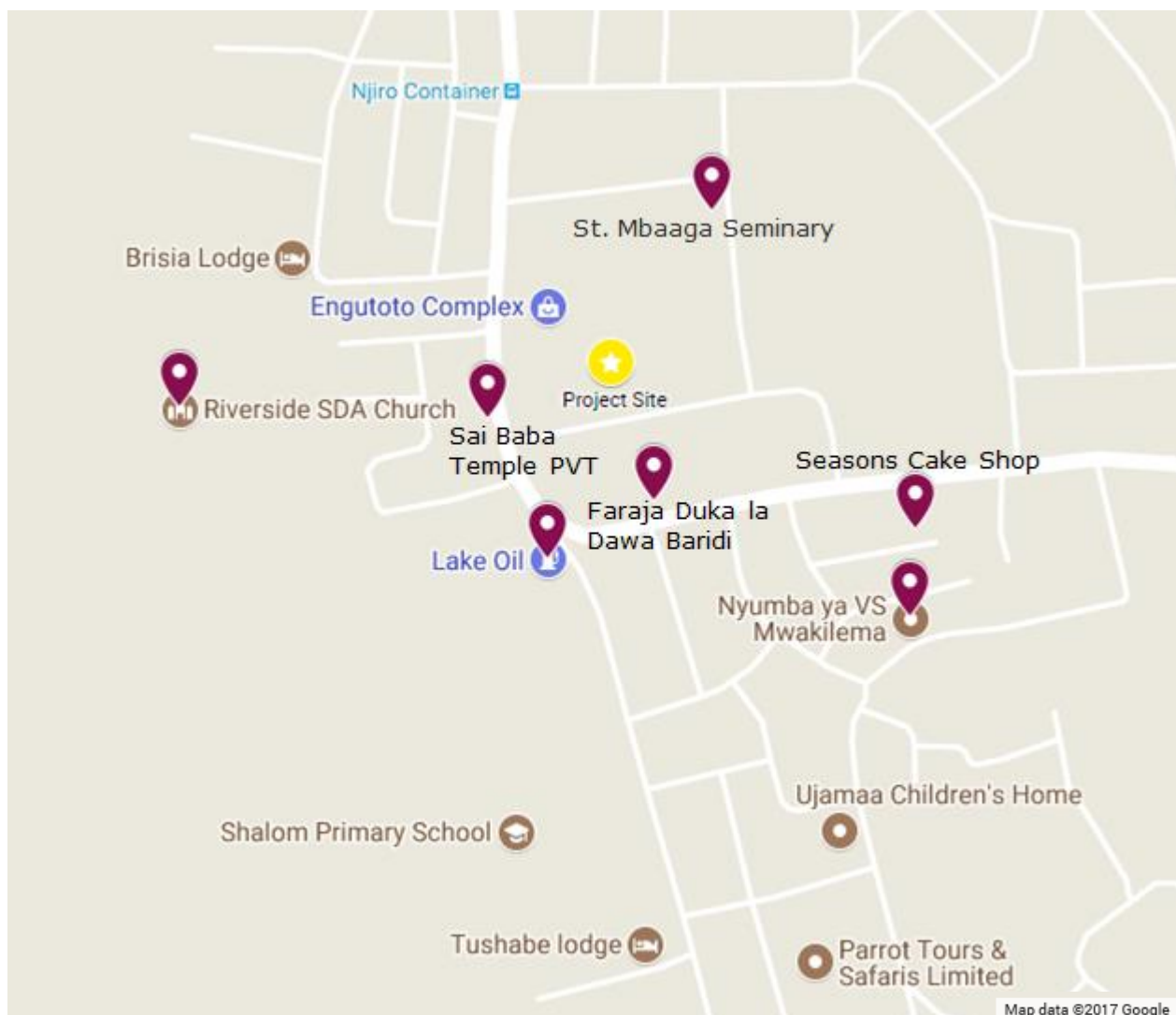


Figure 16: Social and Other Infrastructure near Njiro Market in Arusha City

There is a pharmacy named Faraja Duka la Dawa Baridi and a petrol pump Lake Oil within 300 m radius of the project site. Also, Sai Baba Temple PVT is a Hindu temple opposite to the project site on the other side of Njiro road. Similarly, St. Mbaaga Seminary is a church to the right side of the project site. Going further south of the project site, there is a bakery and a gym named Seasons Cake Shop and Nyumba ya V S Mwakilema, respectively.

It has been brought to the knowledge during site visits that the LGA is planning to construct a bus terminal adjacent to Njiro market. In case the bus station is constructed, this shall improve the commercial viability of the market multifold due to improved connectivity to the market.

11.2 Demand assessment approach

The objective of the demand assessment is twofold:

- (i) Assess the potential of market retail space in terms of built up area that can be developed; and
- (ii) Study the preferences of potential end users who may use the markets and derive inferences for the type of commercial space that may be developed based on the preferences.

The demand for shops/stalls is governed by demographics of the region, consumption spend, propensity to spend, and work patterns of the population. It is also dependent upon the leisure behavior of the population.

There are various approach for demand assessment of commercial spaces. Following section summarizes the relevant approaches and discusses their relevance in context of demand assessment of market in Arusha.

11.2.1 Consumption spend assessment

This approach involves analysis of spend and household expenditure pattern of the target population. The key household spend items are assessed and segregated into consumption and other spend. The consumption spend may include key drivers of demand of retail spaces such as food and grocery, apparel, footwear, consumer durables, telecom equipment and other electronic appliances etc. This approach is extremely useful in quantifying the demand potential for market area. The key limitation of this approach is that it is dependent on availability of reliable data on household budget and consumer spend.

11.2.2 Preference surveys

This approach is based on identification of the immediate users of the proposed project. In this case, direct users could comprise consumers, real estate developer, project financier, retailers and employees at the market. This is followed by conducting preference surveys of a sample representing these identified users. In the survey, the demand for proposed services and preferences for the same is assessed. The key limitation of this method is being unable to assess the approach to identify the exact immediate users of the project, especially in case of Greenfield projects. Thus, preference surveys are not effective in case the sample is not representative and statistically significant. Further, the primary research might not provide sufficient information where the sample is apprehensive about sharing consumption details.

11.2.3 Competition Benchmarking

This approach is based on assessment of market demand based on comparable facilities. Here, the first step is to identify comparable markets in the vicinity of the project site. Once comparable markets have been identified, the absorption and occupancy rate of these markets is ascertained. Absorption rate is the rate at which the area of a commercial land is leased as compared to the total area of that land. The absorption rate could be a function of location, size, connectivity, surrounding developments etc. of the identified markets. This involves a subjective assessment of site related constraints as well.

11.2.4 Approach considered for demand assessment of the Project

In Tanzania context, a Household Budget survey³³ was undertaken in 2010/11 and the results were published in 2012. The survey categorized the population into three broad categories viz. other urban, rural and Dar es Salaam. The survey also provide itemized household spend on food and non-food sub-categories for the urban areas including the study cities of Mbeya, Moshi, Arusha and Mwanza.

Further, in case of the study cities, it has been observed that the organized retail is in nascent stage of development and there is a strong reliance on free standing shops as well as informal markets for convenience needs. Also, based on our primary interactions, it was observed that the preferences stated by the users were heavily influenced by the existing setup and preference of organized retail may be considered as a latent need. Considering these limitations, the competition and preference based approach may not be reliable for demand assessment of the project.

Given the availability of reliable data on consumption spend, consumption spend approach has been preferred over the others for market demand assessment. However, competition assessment and primary interactions have been undertaken to assess the phasing of the demand as well as suitability of product mix.

The overall approach for demand potential assessment is presented in the figure overleaf:

³³ Source: Household Budget Survey Main Report, 2011/12, National Bureau of Statistics, Ministry of Finance (July 2014)

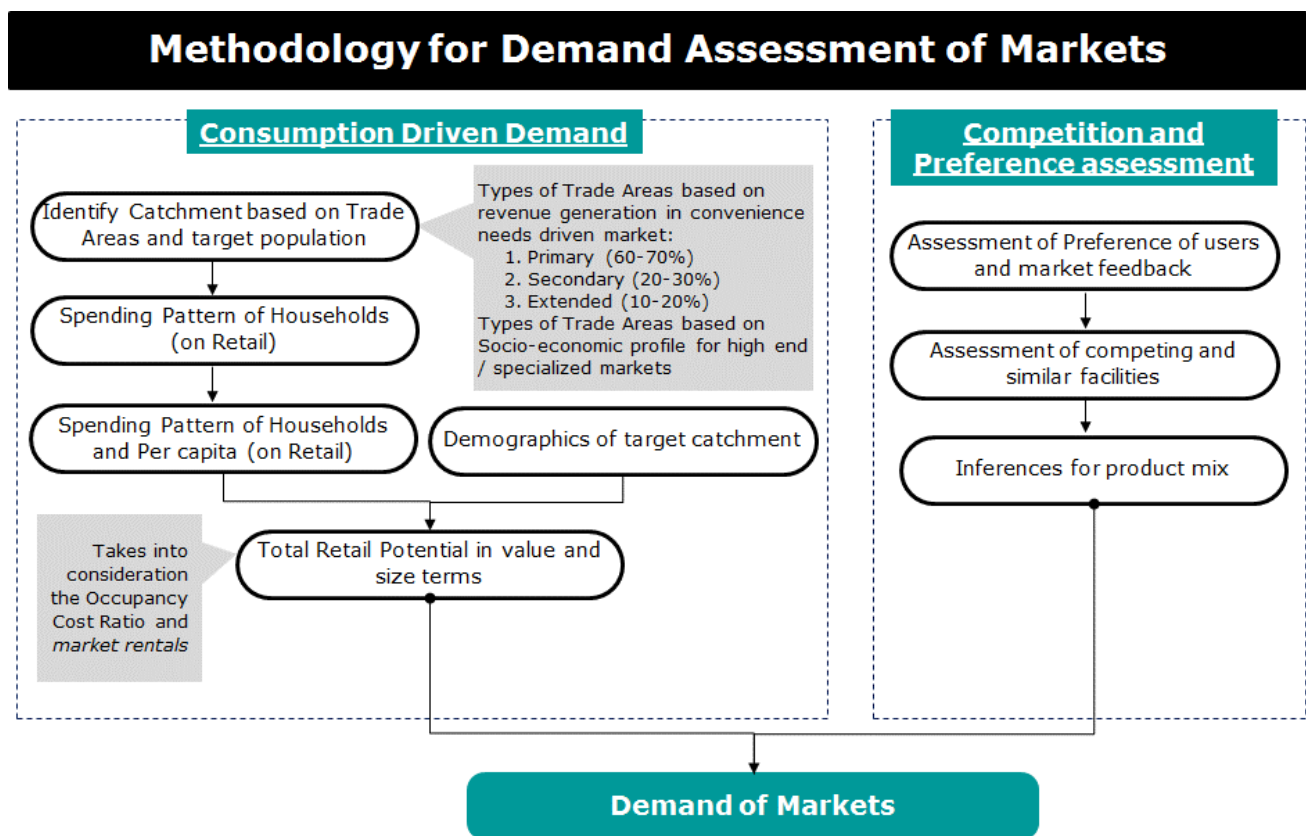


Figure 17: Methodology for Market Demand Assessment of Markets

11.3 Estimation of demand potential

11.3.1 Identification of the target catchment

The Primary Market Area (PMA) or Trade Area refers to the areas and their population to which the project would cater to or from where the majority of users/shoppers are drawn. The project may cater to population beyond the trade area as well. However, the command over the site and its use would mostly be limited to the defined catchment area.

The trade or market area is dependent on the nature of retail development. Depending on the nature of development, the trade or market area may be contingent on factors such as driving time or distance, competition, physical or regulatory barriers, socio-economic factors, spending habits as well as consumer preferences.

In case of regional or neighborhood markets catering to convenience based needs, the primary market area and the target population is influenced by distance from the market as well as retail saturation. The market area intensity diminishes with distance from the site as availability of competing facilities in the same market area. For such markets, some of the methods for identifying the catchment include:

Table 56: Methods Available for Identification of Catchment for Markets

| Method name | Key determinant |
|---------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------|
| 1. Customer spotting – PMA defined based on the existing clientele | Feedback from the customer of the existing or competing facility |
| 2. Drive time of consumers | Driving distance – takes into account layout of road systems, different speed limits and geographic barriers. |
| 3. Trade radii | Radial distance mapping |
| 4. Census tract tabulation | Based on the proximity to census tracts |

| Method name | Key determinant |
|-------------------------|----------------------------------------------------------------------------------------------------------|
| 5. Gravity model | Spatial distribution of locations and its relative attractiveness with respect to the competing facility |

In case of specialized or high end market, the target catchment is not necessarily influenced by the distance but the catchment is driven primarily by socio-economic factors such as purchasing power, propensity to spend etc. and availability of substitute and/or competition.

In Tanzania context, the 2012 Tanzania Mainland Basic Demographic and Socio-Economic Profile provides an analysis of demographic profile of the country as well as key indicators of economic profile such as economic activity, housing condition, household assets and amenities etc. It is pertinent to note that there is no segregation based on the household income or purchasing power.

With this background, we have considered population segregation of the urban population based on daily spend from the World Bank Consumption database³⁴. As per the database, spend based population segregation is as below:

Table 57: Categorization of Population on the basis of spend

| | Lowest | Low | Middle | High |
|------------------------------------|-------------------------------|--------------------------------------------|---------------------------------------------|--------------------------------|
| Spend per day | below \$2.97 per capita a day | between \$2.97 and \$8.44 per capita a day | between \$8.44 and \$23.03 per capita a day | above \$23.03 per capita a day |
| Percent of urban population | 84.85% | 14.16% | 0.97% | 0.03% |

11.3.1.1 Target catchment

The proposed market is expected to be similar to a community market driven primarily by convenience based demand of the target population. For the purpose of demand assessment, it is considered that the population catchment or the market/trade area is segregated into primary, secondary and tertiary. The wards of the Arusha city have been segregated into these categories based on the following principles:

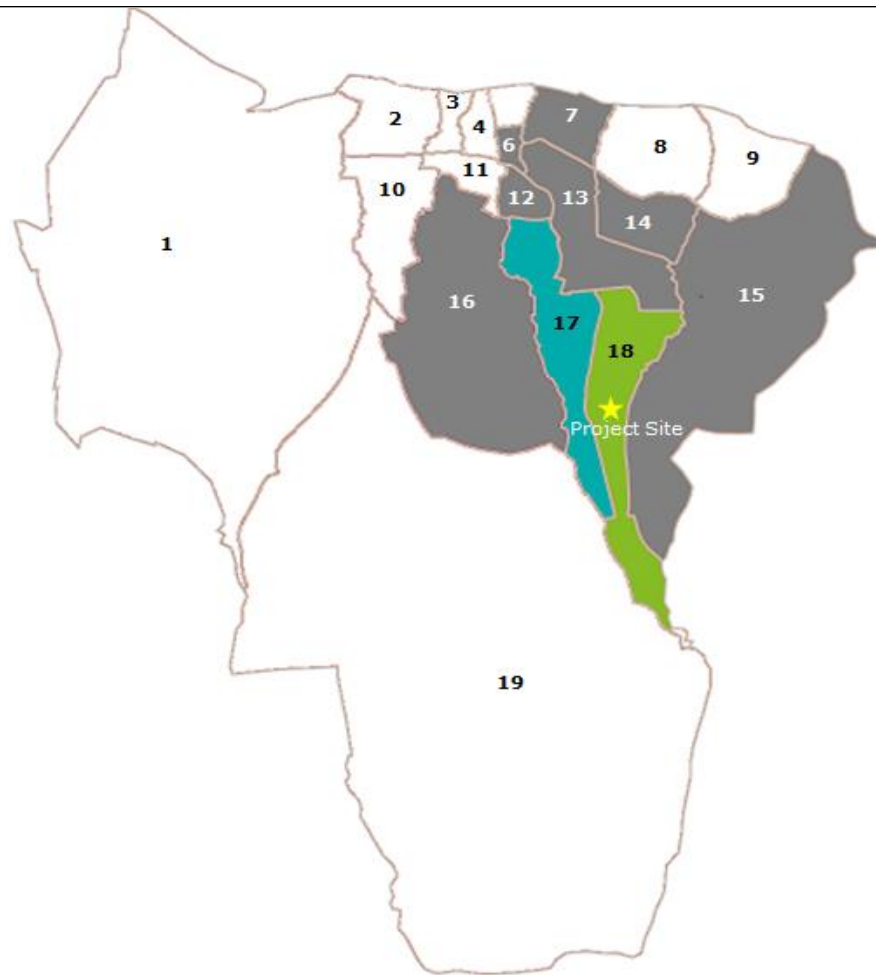
- i. Distance from the site – Based on the market feedback from the prospective consumers, the intensity of demand decreases with the distance from the market. Most buyers prefer to travel up to 2 km for their convenience needs and are comfortable to travel up to 5 km for their shopping needs. Accordingly, wards within 2 km radius have been earmarked as primary. Wards within 2-5 km and beyond 5 km have been considered as secondary and tertiary respectively.
- ii. Retail saturation: In case there are no competing retail establishments or there is a clear preference from consumers, the wards have been marked as primary or secondary, irrespective of the distance from the Project site.

It has been assumed that demand will be primarily driven by population of the primary market area. However, there may be certain sections of secondary and tertiary market area population which may also frequent the market and contribute to the demand.

It is noted that the composition of the target catchment shall comprise lowest and low income categories, along with members from middle to higher income groups. Thus, the market should serve the public requirement of pro-poor convenience (for example, food and related items/other necessities) and also higher-income level consumption driven demands (non-food/necessity items) of the community. This aspect has been discussed in the following sections of this chapter.

Accordingly, the target population considered for demand potential assessment is as overleaf:

³⁴ Source: World Bank Global Consumption Database – Tanzania, Accessed in October 2017



| Legend | | | |
|--------------------------------------------------------------------------------------------------------------------------|---------------------|--------------------------------------------------------------------------------------------------------------------------|--------------------|
| | Primary Catchment | | Tertiary Catchment |
| | Secondary Catchment | | Not in Catchment |

| Wards in Arusha City ³⁵ | |
|------------------------------------|--------------|
| 1. | Olasiti |
| 2. | Elerai |
| 3. | Ngarenaro |
| 4. | Levolosi |
| 5. | Kaloleni |
| 6. | Kati |
| 7. | Sekei |
| 8. | Kimandolu |
| 9. | Baraa |
| 10. | Sombetini |
| 11. | Unga Ltd. |
| 12. | Daraja Mbili |
| 13. | Themi |
| 14. | Oloirieni |
| 15. | Moshono |
| 16. | Sokoni I |
| 17. | Lemara |
| 18. | Engutoto |
| 19. | Terrat |

Figure 18: Map of Arusha City identifying Catchment for Njiro Market

³⁵ Source: This map has been adapted from the City Population website (www.citypopulation.de) accessed in April 2018. As per LGA comments received in April 2018, there are 25 wards (including Sinon, Murriet, Olmot, Osunyai, Moivaro and Sakina) instead of the 19 mentioned in the figure above. However, due to unavailability of the latest map/data on the official website of the City Council or any relevant websites, the above figure has been retained for the purpose of this report.

Table 58: Arusha City - Catchment of the Njiro Market

| | Primary | Secondary | Tertiary |
|---------------------------------------------------------------------|---------|-----------|----------|
| Target population as % of the population of the respective category | 80% | 40% | 20% |

11.3.2 Consumption spend of target population

As highlighted in the earlier sections, there are established studies for household budget survey and consumption expenditure, which can be translated into direct or indirect retail demand. The two prominent studies include the Tanzania Household Budget Survey (HBS) 2012 and World Bank Consumption database which draws on the HBS 2012 data.

- **Tanzania Household Budget Survey 2011-12**

The HBS provides household expenditure estimates at the national level further segregating them into Dar es Salaam, Other Urban Areas and Rural Areas. The analysis focuses on poverty relevant indicators by conducting a survey for seeking information on economic activities, household income and expenditure, housing characteristics, and asset ownership of private households. The survey also provides details of key expenditure heads in the Food as well as Non Food categories.

Earmarking the expenditure heads into consumption and other spend, the mean consumption expenditure per capita in Tanzania Mainland has increased from 26,550³⁶ shillings in 2007 to 51,689³⁷ shillings in 2011-12. The mean national consumption expenditure level has increased by approximately 14.52% per annum³⁸. This increase has been driven by the increasing urban share of population.

The average household consumption pattern suggested that food dominates the consumption basket. Food comprised 44%³⁹, 50.4%⁴⁰ and 62%⁴¹ of the consumption baskets in Dar es Salaam, Other Urban Areas, and Rural Areas, respectively.

For the other urban areas, the Mean Per Capita Retail Consumption Spend per month is estimated to be 43,516 TZS for 2010-11. For the year 2020, taking into account the inflation, average household size and increased propensity to spend, the Mean Per Capita Retail Consumption Spend per month is estimated to be 1,12,706 TZS⁴².

- **World Bank Global Consumption Database**

The Global Consumption Database, depending on data availability, uses different types of surveys – household budget surveys, living standards measurement surveys, and other country specific socioeconomic surveys. These surveys measure consumption at household level. The market in each country has been segmented into four consumption segments based on global income distribution data. The segments are: lowest, low, middle, and higher. These segments have been described in the table 3 above which represents the categorization of population on the basis of spend taken from the World Bank Consumption Database.

Based on the analysis of spend of different spend categories of population, the spending pattern of different income categories across sectors have been presented in the chart overleaf.

³⁶ Source: Household Budget Survey Main Report 2011/12, National Bureau of Statistics, Ministry of Finance, Published in July 2014

³⁷ Source: Household Budget Survey Main Report 2011/12, National Bureau of Statistics, Ministry of Finance, Published in July 2014

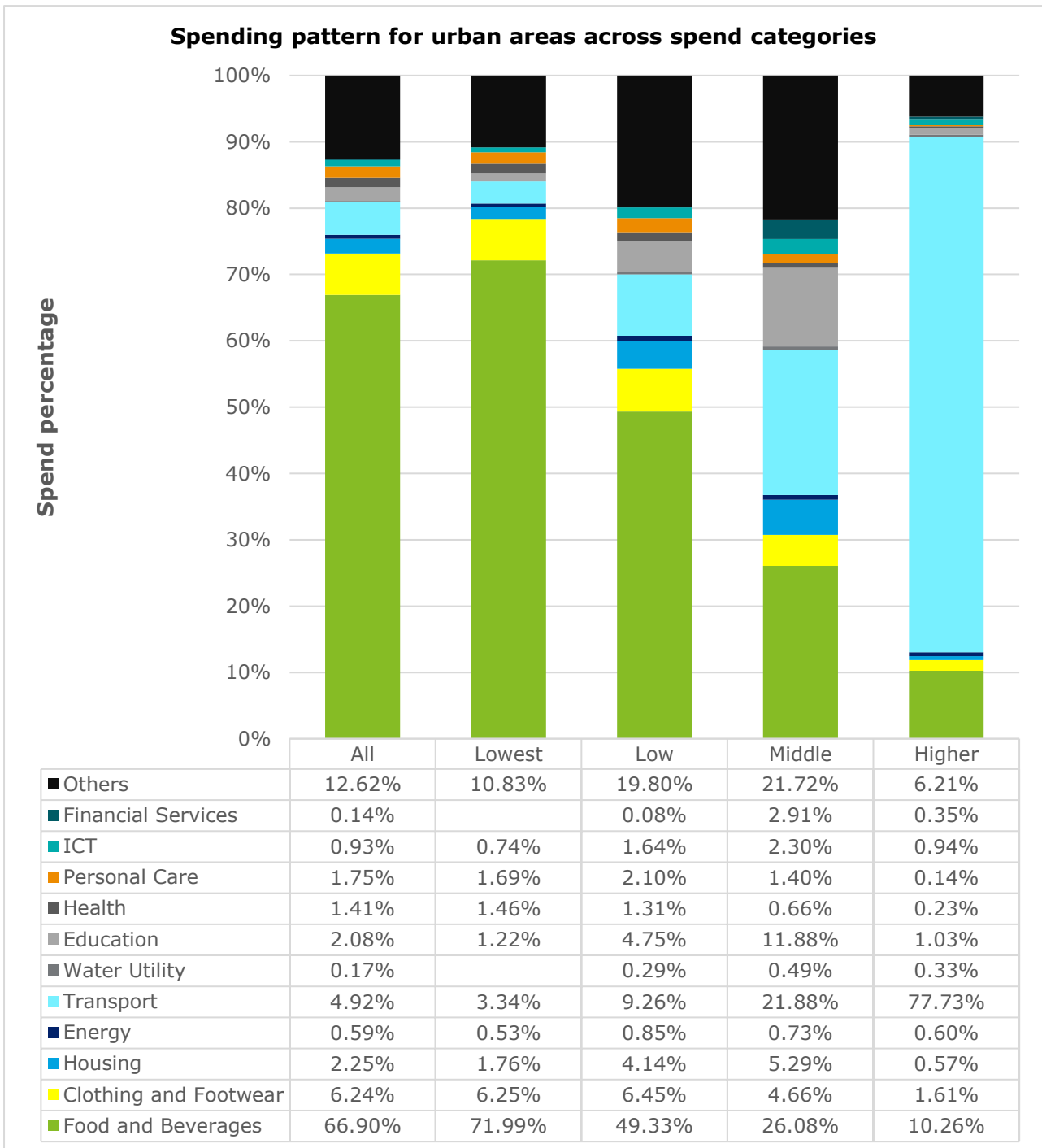
³⁸ Source: Household Budget Survey Main Report 2011/12, National Bureau of Statistics, Ministry of Finance, Published in July 2014

³⁹ Source: Household Budget Survey Main Report 2011/12, National Bureau of Statistics, Ministry of Finance, Published in July 2014

⁴⁰ Source: Household Budget Survey Main Report 2011/12, National Bureau of Statistics, Ministry of Finance, Published in July 2014

⁴¹ Source: Household Budget Survey Main Report 2011/12, National Bureau of Statistics, Ministry of Finance, Published in July 2014

⁴² Source: Deloitte analysis



Source: World Bank Global Consumption Database – Tanzania, Accessed in October 2017

Based on the spending pattern, it has been observed that 66.90%⁴³ of the expenditure of households is on direct and indirect food supply making it the biggest contributor to household consumption for all consumption segments. This is also reflected in the real estate trends which suggest supermarkets and food outlets as key anchor tenants

It is observed that the lowest and low income groups of society spend the most on food and related items i.e. ~72% and 49% respectively. As we move up the income groups, middle and higher income group's spend pattern shows substantial spend in categories other than food such as transportation, education etc. It may be inferred from the data that while the lowest and low income groups spend more on convenience based goods, the middle and higher income groups have a more consumption driven spending pattern.

⁴³ Source: World Bank Global Consumption Database – Tanzania, Accessed in October 2017

Accordingly, the proposed facility should accommodate the needs and demands of all the income categories—akin to a blended demand.

As per the World Bank Global Consumption Database, the Per Capita Retail Consumption Spend per month by various income categories (lowest, lower, middle, and higher) adjusted for escalation and increased propensity to spend is presented overleaf:

| | Lowest | Low | Middle | High |
|----------------------------------------------|-------------------|---------------------|---------------------|----------------------|
| Per capita consumption spend (2020 E) | TZS 69,217 | TZS 1,68,698 | TZS 3,19,277 | TZS 13,13,126 |

The HBS 2012 provides insightful information on the household consumption pattern in Tanzania. However, to estimate retail demand of the catchment, it would be prudent to consider per capita consumption spend across various socio-economic categorization. Such categorization has not been provided under the HBS 2012 and hence, World Bank Consumption database has been used as basis for demand estimation.

11.3.3 Estimation of retail demand potential

The aggregate consumption spend of the target population translates into retail sale potential.

Further, empirical studies suggest that there is a strong relationship between retail sales and market rents. Such a relationship is depicted by 'Occupancy Cost ratio'⁴⁴.

Studies also suggest variation in the Occupancy Cost w.r.t. nature of business, type of market, nature of tenants, target population etc.

The Occupancy Cost Ratio generally ranges from 1% to 15%. Based on our discussion with retailers, it was observed that in context of public markets in Arusha, the Occupancy Cost Ratio of ~5% can be considered for demand potential estimate.

Case point – Occupancy Cost Ratio trends

- As per Retail Trends Statistics published by South African Property Owners Association (SAPOA), the gross rent to sales ratio ranges from ~ 5% to 11% depending on nature of development



| Category | Ratio |
|----------------|-------|
| Super Regional | 10.4 |
| Regional | 8.7 |
| Small Regional | 7.2 |
| Community | 5.6 |
| Neighbourhood | 5.3 |

For estimating the retail demand potential, the other key estimate required is the indicative market rentals. The rentals also vary with respect to the location, neighborhood, retail saturation as well as type of retail concept. For instance, studies suggest that stores attracting affluent customers tend to pay less while retailers who depend on passing-by traffic need to pay higher rents.

Based on our discussion with retailers, dalalis and inputs from developers, the monthly rentals in Arusha are lower than other subject cities. They vary from TZS 9,000 per m² to TZS 20,000 per m² for established markets.

Considering the prime location of the Njiro market and existing rental profile, the monthly rentals of TZS 15,000 per m² has been considered for demand estimation.

11.3.4 Competition and impact on demand potential

As discussed earlier in this chapter, the Njiro market is in a commercially active area and primary catchment of the proposed Njiro market is shared by other competing markets as well as free standing market establishments. The key competing markets in the primary catchment include:

⁴⁴ Occupancy cost ration is the ratio of Gross sales to gross occupancy cost for a retail center.

- **Engutoto Complex** is the nearest commercial facility to the project site. It is located exactly across the project site for Njiro market. It was launched in 2011 and is housed in a renovated building at a non-prime location. The Complex comprises of a supermarket, an inside car wash and a bar. These facilities are surrounded by 13 small and medium retail shops on the periphery of the Complex. These shops offer products and services ranging from groceries to stationery, cosmetics and salons. There is no designated parking space for the Complex. The Complex has an occupancy of 80% currently.
- **Kilombero Market** is a wholesale market located approximately eight km to the south of the project site. It was launched in the 1970s and is thus housed in an old building. The market offers food and household commodities ranging from curtains, plastic chairs, hardware, and clothes and so on. The market premises have two floors. On the ground floor, there are retail outlets selling consumer lifestyle products. The first and second floor comprise a bar, eating outlets and government offices. The market is fully occupied currently. The prevailing rent for shops ranges from 200,000 TZS to 250,000 TZS per month for an area of 100 m². The market has a paid street parking with a fees of 500 TZS.
- **Central Market** near the City Centre deals in food, clothing and household commodities. The Central Market is also referred to as the Main Market. It is approximately nine km to the south of the project site. The market was launched in 1962 at a prime location. The market is housed in an old building considering the year of its commencement and is fully occupied. The market is 15,000 m² in size with 179 shops (size 20-30 m²) and 110 carts and stalls. The market is known for its food and clothing products. The prevailing rent for shops ranges from 200,000 TZS to 250,000 TZS per month for an area of 100 m². The market has a paid street parking with a fees of 500 TZS.

At present, the residents of Njiro travel to the Central and Kilombero Market to cater to their shopping needs.

- **Tengeru Market** is approximately 17 km to the north-west of the project site. The market primarily deals in the trade of fresh food products such as vegetables.
- **Njiro Complex** is a high end market three km away to the east of the project site. The market comprises of supermarket, movie theater and restaurants. It typically caters to high income and affluent households of the area.
- **AIM Mall** is one of the few development in Arusha with a comprehensive offering of a supermarket, department store, movie theatres, banquet hall, restaurants and food court. This mixed-use mall spans about 15,154 m².

The retail demand potential assessed for the proposed project will be impacted by the competing facilities. For the demand potential assessment, it has been assumed that the competing facilities in the primary catchment will retain the existing demand and the rentable or lettable area of the competing facilities may accordingly be excluded from the demand potential for arriving at the share of the proposed project.

Accordingly, the following table presents the competing facilities in the primary catchment of the project site. The list of these facilities and information pertaining to occupancy as well as lettable area based on visual surveys and qualitative interactions with the stakeholders is presented in the table below.

| Sl. | Market | Aerial distance and direction relative to Project Site | Occupancy | Indicative lettable area (m ²) |
|--------------|-------------------------|--------------------------------------------------------|-----------|--------------------------------------------|
| 1. | Engutoto Complex | ~300 meters from project site | High | ~2312 |
| 2. | Njiro Complex | ~3 Km east of project site | High | ~4364 |
| Total | | | | ~6,676 m² |

11.3.5 Demand potential for Njiro market

Based on the assumptions outlined in the earlier sections, the demand potential the proposed market has been estimated as below:

Table 59: Estimation of demand potential for Njiro market

| Particular | Detail | Unit |
|-----------------------------------------------|---------------|------------------------|
| Total Catchment Revenue Potential | 4,050,975,537 | TZS per month |
| Monthly Rent | 15,000 | TZS per m ² |
| Occupancy cost ratio | 5% | % |
| Estimated sales (per m²) | 300,000 | per m ² |
| Retail Demand - Gross Lettable Area | 13,503 | m ² |
| Lettable area of Competing facilities | ~6,676 | m ² |
| Total demand potential for the project | ~6,827 | |

It can be concluded that there is a demand potential of ~6,827 m² of gross lettable retail area as part of the project concept. This demand is for retail consumption i.e. shops, stands, stalls, restaurants, other consumer goods etc. and exclude circulation, recreational as well as administrative areas.

12 Annexure D: Site Suitability Analysis

The suitability analysis of the site with consideration of the above mentioned six criteria is done in the following tables.

Table 60: Site Suitability Analysis

| Sl. No. | Criteria | Rating | Criteria for Rating | Remarks |
|-----------------------------------|-------------------------------------|-------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------|
| 1. Legal Suitability | | | | |
| 1.a | Title and ownership | High | Clear ownership and possession of Title Deed = High Clear ownership and no possession of Title Deed = Medium No ownership and no possession of Title Deed = Low | Plot is owned by the City Council, who are in possession of a valid title deed. |
| 1.b | Legal claims | High | No legal claims = High Potential legal claims = Medium Existing legal claims = Low | As per our legal review, there is no present legal claim. |
| | Overall rating | High | | |
| 2. Planning Considerations | | | | |
| 2.a | Existing Zoning | Low | Zoned for intended use = High Zoned for non-residential use = Medium Zoned agricultural/residential = Low | As per proposed Arusha Master Plan, the site is commercial / residential area |
| 2.b | Adjacent Land Use | Low | Adjacent uses office/mixed use = High Adjacent uses non-residential = Medium Adjacent uses residential/agricultural = Low | The site is surrounded by residential buildings |
| 2.c | Consistency with Comprehensive Plan | Low | Specific use consistent with master plan = High General use consistent with master plan = Medium Use not consistent with master plan = Low | Some amendments need to be done in land use |
| | Overall rating | Low | | |
| 3. Site Characteristics | | | | |
| 3.a | Topography | High | Relatively flat site < 5% = High Moderate slope constraints 5%-15% = Medium Significant slope constraints > 15% = Low | The terrain of site has gentle slope |
| 3.b | Drainage | High | Single drainage shade = High Several drainage sheds = Medium Numerous drainage sheds = Low | The site has slope in one direction. |
| 3.c | Soils/ Substructure | High | Minimum grading/excavation problems anticipated = High | |

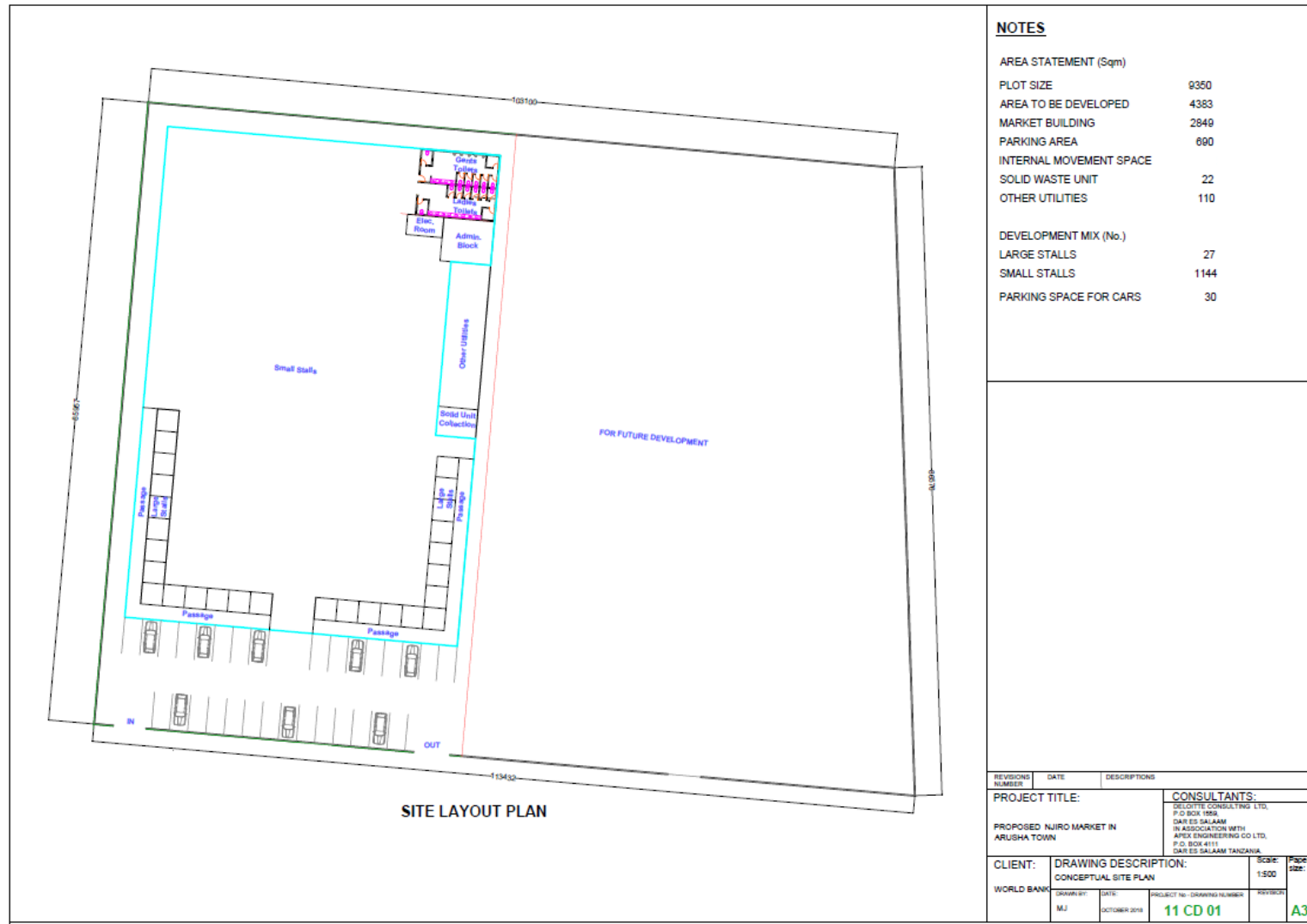
| Sl. No. | Criteria | Rating | Criteria for Rating | Remarks |
|------------------------------|-------------------------|---------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------|
| | | | Moderate grading/excavation problems anticipated = Medium Significant grading/excavation problems anticipated = Low | The terrain does not need substantial grading/excavation. Favourable subsoil conditions are expected |
| 3.d | Vegetation | Medium | Significant native vegetation for landscape buffer/character = Low Moderate native vegetation for landscape buffer/character = Medium No native vegetation for landscape buffer/character = High | The site has moderate vegetation cover |
| 3.e | Structures | Medium | No existing on-site structures = High Existing structures of marginal value/concern = Medium Existing structures of significant value/concern = Low | A couple of complete and uncompleted structures exist on the plot. |
| | Overall rating | High | | |
| 4. Site Accessibility | | | | |
| 4.a | Existing Road | Low | Two or more existing roads available to access major regional /trunk road in close proximity = High Two or more existing roads available to access/egress site = Medium One existing road available to access/egress site = Low | The site is accessed by one road which is connected to the A23 Arusha – Moshi – Highway |
| 4.b | Site Access | Medium | No encumbrances to two points of access/egress = High Limited encumbrances to two points of access/egress = Medium Both access/egress points significantly encumbered = Low | The site is near fairly good access road |
| 4.c | Proposed/Existing Roads | Low | Multiple Master-Planned or existing roads adjacent to development area and regional /trunk road in close proximity = High Two Master-Planned roads or existing roads adjacent to Development Area = Medium One Master-Planned road or existing road adjacent to Development Area = Low | One existing road adjacent to the site |
| 4.d | Mass Transit | Medium | Rail and Bus Available = High Bus Available = Medium No Mass Transit Available = Low | Public transport (bus) pass near the site |
| 4.e | Flight Path | High | No flight Path nearby = High Flight Path Near Site but High Altitude = Medium Flight Path Nearby and Low Altitude = Low | There is no flight path near the site |
| | Overall rating | Medium | | |

| Sl. No. | Criteria | Rating | Criteria for Rating | Remarks |
|--------------------------------------------------------------|-----------------------|---------------|--------------------------------------------------------------------|----------------------------------------------------------------------------------|
| 5. Access to Utilities | | | | |
| 5.a | Power | Low | Available capacity on-site or immediate proximity = High | The area is still developing and utility services have to be brought to the site |
| 5.b | Water Supply | | Available in general vicinity = Medium | |
| 5.c | Sanitary Sewer | | Capacity not available in general vicinity = Low | |
| 5.d | Communications | | | |
| | Overall rating | Low | | |
| 6. Access to Supporting Infrastructure and Facilities | | | | |
| 6.a | Health | Medium | Available capacity on-site or immediate proximity = High | City's social infrastructure and other amenities are available in general |
| 6.b | Education | | Available in general vicinity = Medium | |
| 6.c | Banks | | Capacity not available in general vicinity = Low | |
| 6.d | Others | | | |
| | Overall rating | Medium | | |
| 7. Environmental Considerations | | | | |
| 7.a | Wetlands | High | Minimum wetlands constraints (- < 1 acre of care area) = High | No wetland or flood problems in the vicinity of the site |
| | | | Moderate wetlands constraints (-1-10 acres of care area) = Medium | |
| | | | Significant wetlands constraints (- > 10 acres of care area) = Low | |
| 7.b | Flood Plain | High | No Floodplain = High | No flood plain in the vicinity of the site |
| | | | Floodplain but no impact on development area = Medium | |
| | | | Floodplain within development area = Low | |
| | Overall rating | High | | |

12.1.1 Benchmarking of the site

Based on the evaluation of the site on the six parameters and their sub-parameters described above, the aggregate rating of the site is 'Medium', which indicates that the site is suitable for development.

13 Annexure E: Conceptual Designs



14 Annexure F: Methodology for assessing basic construction costs

14.1 CAPEX Cost Methodology

The methodology used to obtain the cost is comparison of construction cost of completed project of similar nature and magnitude in the recent past five years.

The rates have however been adjusted for price fluctuation of materials and labour and different government policies and regulations.

A small adjustment of around 5% was used to upscale the cost for upcountry project though not in all elements of the works.

In conversion of currencies, we have adopted 1 USD equals to TZS 2,235.00 and 1 Euro Equals to TZS 2,787.80.

The estimates do not include cost escalation (both pre and post contract), site acquisition and associated legal fees, building permit fees, finance charges, import duties above preferential 5% of Tanzania Investment Center and disbursement cost for consultants

14.2 Base Data

The base of our data is projects executed to completion in the last past five years of similar nature. Also some rates were related to rates found from the Architects and Quantity Surveyors Registration Board, (AQRB) and data from cost indices of the National Construction Council of Tanzania (NCC).

14.3 Benchmarking Data

As said above, a small percentage (5%) was used to adjust upcountry projects in the upward side although not all elements of the works were up scaled.

14.4 Assumptions/Basis

We assumed that all have slightly same terrain and therefore excavations are not much different from one site to another. We also assumed that all project are for average consumers not for the high end users. We have also assumed that the cost of the projects do not include the following i) Cost escalation (both pre and post-contract), ii) Site acquisition costs and associated legal fees, iii) Building Permit fees, iv) Finance charges, v) Import Duties above preferential 5% TIC rate and vi) Disbursement cost for consultants.

14.5 Unit Rates

The unit rates used are inclusive of materials cost, labour cost, plant, equipment and small tools cost, profit and overheads and all incidentals for each particular element of works.

14.6 Allowances

a) **Contingency:** Contingencies have been considered as 10% of Civil works cost.

- b) **Professional fees** we allowed 12.5% of Civil works cost. It includes fees for Architect, Quantity Surveyor and Engineers.

15 Annex G: Capital Asset Pricing Model (CAPM)

15.1 Estimation of Cost of Equity

CAPM is a theoretical model used for estimating the cost of equity. The model has been debated widely for its applicability to emerging markets and many experts have cautioned against the use of CAPM in such markets. As requested by World Bank, it has been used for broadly estimating the Cost of Equity. It may be noted, as directed by World Bank, various assumptions and proxies have been taken for estimation of expected return owing to limited data available in Tanzania context.

The CAPM approach is defined by

$$R_e = R_f + \beta (\text{Market Risk premium})$$

Where

R_e = Expected return on Equity

R_f = Risk free rate

β = Asset Beta

15.2 Assumptions

15.2.1 Risk Free Rate

The project life can be considered as either the concession period (15 Years) or the economic life of the asset. For the purpose of this analysis, keeping in view the lending term, 10-15 year rates have been considered.

The central government has been borrowing from the market through issue of treasury bonds. The recent 10 and 15 Treasury bond issued was issued at a coupon rate ranging from ~11.44-13.50%. Further, based on our discussions with the key development and commercial banks, the LGA may also raise debt at commercial terms with interest rates ranging from 14-16%.

Accordingly, T bond of comparable maturity may be considered as the Risk free rate. Following may be considered

| Maturity | Average Yield (2018) |
|----------|----------------------|
| 10 years | 11.44% |
| 15 Years | 13.50% |

Source: Bank of Tanzania, United Republic of Tanzania

While we expect the rates to range between the two yield rates mentioned, we have taken 15 year yield rate as the risk free rate for the purpose of this discussion.

15.2.2 Beta (β)

Estimation of Beta requires availability of historical return data of the asset or industry. In case of Tanzania, where such data is not available, suitable proxy may be assumed. The results may vary significantly depending on the proxy assumed. We have considered Beta for retail (grocery and food) industry segment as the proxy for this project. For the purpose of discussion, we have considered two cases; namely

- i. Unlevered beta for Global market; and
- ii. Unlevered beta for Emerging markets.

These betas may further be levered for being considered for the project.

| Proxy basis* | $\beta_L = \beta_U * (1 + (1-T)D/E)$ | | | |
|-------------------------------------------------------------|--------------------------------------|-----|------|-----|
| | | | | |
| Global – Real Estate (General/Diversified) | 1.09 | 75% | 1.04 | 70% |
| Global – Retail (General) | 1.18 | 45% | 1.31 | 70% |
| Emerging Markets – Real Estate (General/Diversified) | 1.18 | 63% | 1.19 | 70% |
| Emerging Markets – Retail (General) | 1.36 | 42% | 1.55 | 70% |

15.2.3 Market Risk Premium

Market risk premium is generally estimated on the basis of historical returns with respect to the risk free rate. However, due to limited quality data available for the Dar es Salaam Stock Exchange, a suitable estimate such as premium on the basis of Country ratings may be taken. We have assumed Market risk premium of 7.50%⁴⁵.

15.3 Conclusion

Basis the above assumption, following expected returns can be estimated in various cases

| Proxy basis* | $R_e = R_f + \beta$ (Market Risk premium) | |
|-------------------------------------------------------------|-----------------------------------------------|-------------------------------|
| | For corresponding Industry Average Debt ratio | For Project Debt ratio of 70% |
| Global – Real Estate (General/Diversified) | 19.63% | 19.25% |
| Global – Retail (General) | 20.27% | 21.24% |
| Emerging Markets – Real Estate (General/Diversified) | 20.32% | 20.40% |
| Emerging Markets – Retail (General) | 21.68% | 23.03% |

It can be seen that minimum return expected is 19.25%. In the case of emerging markets, the expected return estimated is in the range of 20-23%. Thus, the cost of equity of 20% may be considered prudent.

It may be noted that the private sector values its own risks and has its own expectations for return. In a competitive bidding, private sector would factor its expectations (high or low w.r.t. government benchmark) and the same would be reflected in the financial bids. Thus, World Bank may consider ~20% as the benchmark for purpose of comparison of the PPP options.

⁴⁵ Source: Levered and Unlevered Betas by Industry, Aswath Damodaran, January 2018

16 Annexure H: Environmental and Social Impact Assessment

An EIA assessment process requires that the following process to be implemented:

Scoping: The purpose of scoping is to achieve the following: identify the main stakeholders that will be negatively or positively affected by the proposed project; identify stakeholders' main concerns regarding the proposed project; identify main project alternatives; identify likely impacts, data requirements, tool and techniques for impact identification, and prediction and evaluation. In addition, to identify project boundaries in terms of spatial, temporal and institutional aspects; ensuring adequate stakeholder participation in all stages of EIA; and preparation of scoping report and terms of reference for EIA.

Baseline study: The baseline study involves a detailed survey of the existing social, economic, physical, ecological, social-cultural and institutional environment within the project boundary and ensuring that adequate stakeholder participation is engaged.

Impact assessment: involves the following: impact identification, impact prediction and evaluation of impact significance following a variety of appropriate techniques and approaches; second, ensuring that concerns and views from stakeholders are fully taken into account during assessment of impacts; and third, assessing all possible alternatives and their impacts and recommending appropriate options.

Impact mitigation and enhancement measures: involves, first, preparing mitigation measures for all adverse significant impacts, through elimination, reduction or remedying them. Second, it involves preparing enhancement measures for all significant positive effects arising from the project to increase the project's contribution to social development and environmental conservation. Third, it involved preparing a mitigation and enhancement plan for all significant negative impacts and positive effects, with details about institutional responsibilities and costs where appropriate. Lastly, preparing a monitoring plan and environmental and social management plan with details about institutional responsibilities, monitoring framework, parameters, and indicators for monitoring and costs for monitoring where appropriate.

Preparation of an impact statement: Preparation of an environmental impact statement entails, first, preparing an environmental impact statement adhering to contents outlined in the Regulations. Second, it is preparation of a technical summary in both Kiswahili and English; and third, preparation of all technical details that is appended to the statement.

Review of the environmental impact statement: NEMC in association with the developer review the environmental impact statement with a view to ensuring its adherence to review criteria and any guidelines that may be issued under the Regulations. NEMC may call for a public hearing and public review of the environmental impact statement in accordance with the conditions and procedures stipulated under the Regulations. Having done that NEMC submits a review report to the Minister responsible for the environment with recommendations and all documents used in the review for approval.

Monitoring and Auditing: NEMC conducts environmental monitoring in order to evaluate the performance of the mitigation measures specified in the environmental and social management plan as well as monitoring plan. The monitoring process involves first, Verification of impacts, adherence to approved plans, environmental standards and

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general compliance of the terms and conditions set out in the EIA certificate. Second, undertaking by the developer to monitor the implementation of the project to ensure that mitigation measures are effective, and Collection of data that can be used in future projects and for environmental management. Third, NEMC and the project developer to carry out project environmental audit; Putting in place mechanisms for stakeholder participation during monitoring and auditing process. Finally, it requires defining areas of focus in audit exercise that normally involves five items:

- (i) implementation/enforcement audit, which takes place when NEMC verifies if mitigation measures and pollution levels are within limits;
- (ii) performance/regulatory audit that entails identification of compliance to relevant legislation or safety standards;
- (iii) impact prediction audit (which checks the accuracy and efficacy of the impact prediction by comparing them with monitored impacts);
- (iv) collection and compilation by NEMC of information arising from auditing for future use; and
- (v) collection of data by the developer from auditing and compiling information for project management and for submission to NEMC.

Decommissioning: This is the final stage done at the end of the project life cycle. The decommissioning report is either prepared as part of the environmental statement or not part of the statement, it shows how impacts will be addressed, and costs of all mitigation measures. The report ensures that welfare of workers; resource users and their general livelihood are not adversely affected due to decommissioning. The project developer is required to implement decommissioning requirements indicated in the environmental impact statement. The National Environmental Management Council monitors implementation of decommissioning plan, including land and other resources rehabilitation to offset the adverse effects of the project.

16.1 Preliminary Social and Environmental Impact Assessment

16.1.1 Introduction

This sub section summarizes the preliminary findings of an Environmental Impact Review (EIR) and Social impact Review (SIR) conducted for the project. EIR includes potentially identified environmental issues and risks and proposed environmental risk mitigation and management. In addition to this, it includes framework for an environmental impact assessment, environmental risk management, and all other relevant aspects needed for the project to be undertaken by the LGAs for compliance with IFC Performance Standards and the equator principals.

Further, the chapter documents a preliminary social impact review that includes key social risks and their mitigation and management. It should be noted that this report neither constitutes an exhaustive Environmental Impact and Social Impact Assessment as required under the Environmental Management Act (EMA), 2004 (Act No. 20 of 2004) (Made Under Sections 82(i) and 230(2)(h)) nor the Environmental Impact Assessment and Audit Regulations (EIAAR), 2005.

The preliminary environmental and social impact assessment conducted for the project sites has objectives to ascertain data and information that would form the basis for informing assessment of the project’s viability.

16.1.2 Methodology

This study used a participatory and consultative process with a wide range of stakeholders during data phase and site visits. The latter was meant to establish site-specific social and environmental traits that, together with other technical parameters (e.g., Financial viability; Legal, Regulatory and Institutional frameworks, and Conceptual project designs), would inform decisions on the projects’ viability.

In order to identify impacts and assess their significance, the following criteria (URT, 2009) were considered:

The scales of negative and positive impacts that are likely to occur were determined using an extent of low, medium, and high. Details of the scale are presented below.

| Scale for assessment of negative and positive impacts | | | |
|-------------------------------------------------------|-----------------------------|-----------------------------------|----------------------------|
| Scoring Parameters | (a) L+ = Low positive | (b) M+ = Medium/moderate positive | (c) H+ = High positive |
| | (d) L- = Low negative | (e) M- = Medium/moderate negative | (f) H- = High negative and |
| | (g) O = No apparent impact. | | |

16.1.3 Policy and Legal Framework for Environmental and Social Impact Assessments

Diverse policy and legal frameworks guide the process of conducting environmental and social impact assessments. It is a requirement of the law to conduct an Environmental Impact Assessment (EIA) of all PPP projects before construction.

The National Environmental Policy (1997) provides guidance on requirements when a development project is planned. For instance, the policy stipulates that by conducting EIA, projects shall be able “.....to maximize long-term benefits of development and environmental objectives.....and integrate environmental considerations in the decision making process in order to ensure unnecessary damage to the environment is avoided” Chapter 4, paragraph 66. Other policies that set a similar contextual ground include, but are not limited to, National Investment Promotion Policy (1996), The Tanzania Development Vision (2025), and National Land Policy (1996).

The legal and regulatory framework for Environmental and Social impact assessments is stipulated in the Environment Management Act, No. 20 of 2004 (right of Tanzanians to clean, safe and healthy environment). Others are EIA and Audit regulations, 2005 (procedures and guidelines for carrying out Environmental Impact Assessment in Tanzania) and Occupation Health and Safety Act No. 5 of 2003 (protection of persons

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other than persons at work against hazards to health and safety arising out of or in connection with activities of persons at work).

According to the Environmental Impact Assessment and Audit Regulations, 2005, a comprehensive EIA process would include nine steps:

1. Project registration and screening;
2. Scoping;
3. Baseline study;
4. Impact assessment;
5. Impact mitigation and enhancement measures;
6. Preparation of environmental impact statement;
7. Review of environmental impact statement;
8. Environmental monitoring and auditing; and,
9. Land decommissioning.

16.1.4 Preliminary Environmental and Social impacts for the proposed project

The project involves construction of a market in Njiro, Arusha City to accommodate facilities such as shops, restaurants, parking spaces along with other related facilities. Presently, there are no established markets in the City offering a similar product mix. Therefore, the project is expected to provide standardised space for shopping as well as entertainment services. The project shall also promote community engagement and civic pride, as it shall attract people of varied age groups. This shall make the City more vibrant. The project is in line with the National Development Plans; such as Sustainable Development Plan 2016-2020 and Tanzania Development Vision 2025 that place emphasis on poverty reduction and sustainability since the project is expected to create more employment opportunities for City residents and others outside the City and shall help in the improvement of these people’s livelihood. The LGA through rents and other charges shall have access to revenue that shall enable in the improvement of other socio-economic services, hence helping in reducing poverty.

16.1.4.1 Environmental Impacts

The proposed project shall have multiple impacts of varying spatial and temporal significance as highlighted in the table below.

| SI | Environmental Impact | Rating criteria | | | | | Significance Rating criteria | | | |
|----|----------------------------------|-----------------------|-----------|---------------------------------|--------------------|-----------------|------------------------------|--------------------|----------------------|---------------------------|
| | Particulars | Geographical coverage | Time span | Possibility for impact reversal | Cumulative effects | Residual impact | Mobilization phase | Construction phase | Immobilization phase | Operation and maintenance |
| 1. | Change of scenario view | Local | Short | Yes | Yes | -- | L- | M- | M- | M+ |
| 2. | Increased dust and air pollution | Local | Short | Yes | Yes | -- | L- | H- | M- | L- |
| 3. | Increased noise | Local | Short | Yes | Yes | -- | L- | M- | M- | L- |
| 4. | Pollution of water sources | Local | Short | Yes | Yes | Yes | L- | M- | O | O |

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| SI | Environmental Impact | Rating criteria | | | | | Significance Rating criteria | | | |
|-----|---------------------------------------------------------------|-----------------------|-----------|---------------------------------|--------------------|-----------------|------------------------------|--------------------|----------------------|---------------------------|
| | Particulars | Geographical coverage | Time span | Possibility for impact reversal | Cumulative effects | Residual impact | Mobilization phase | Construction phase | Immobilization phase | Operation and maintenance |
| 5. | Increased waste generation during construction | Local | Short | Yes | Yes | Yes | M- | H- | M- | L- |
| 6. | Traffic congestion | Local/Regional | Short | Yes | Yes | -- | L- | H- | L- | O |
| 7. | Damage to existing structures and public services | Local | Short | Yes | No | -- | O | M- | O | O |
| 8. | Slow recovery of areas impacted by construction | Local/Regional | Mid | Yes | Yes | -- | O | O | M- | L- |
| 9. | Overwhelmed administrative authority | Local | Mid | Yes | Yes | -- | L- | M- | L- | M- |
| 10. | Risk to workers and their safety | Local/Regional | Short | Yes | Yes | -- | L- | H- | L- | O |
| 11. | Debris deposition in storm water drains and associated floods | Local | Short | Yes | Yes | -- | O | O | O | H- |
| 12. | Increased runoff and soil erosion | Local | Short | Yes | Yes | -- | L- | M- | L- | M- |
| 13. | Contamination of surface and ground water | Local | Mid | Yes | Yes | -- | L- | M- | L- | M- |
| 14. | Impact from camps/asphalt plant operation | Local | Short | Yes | Yes | -- | L- | H- | O | L- |

B: L+ = Low positive, M+ = Medium/moderate positive, H+ = High positive, L- = Low negative, M- = Medium/moderate negative, H- = High negative and O = No apparent impact

16.1.4.2 Social Impacts

The proposed project shall have multiple impacts of varying significance as highlighted in the table below.

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| SI | Social Impact | Rating criteria | | | | | Significance Rating criteria | | | |
|-----|----------------------------------------------------|-----------------------|-----------|---------------------------------|--------------------|-----------------|------------------------------|--------------------|----------------------|---------------------------|
| | Particulars | Geographical coverage | Time span | Possibility for impact reversal | Cumulative effects | Residual impact | Mobilization phase | Construction phase | Immobilization phase | Operation and maintenance |
| 1. | Jobs creation and increased income/City revenue | Local/ Regional | Short | Yes | Yes | -- | L+ | H+ | M+ | H+ |
| 2. | Conflict with Resource Owners and Affected Persons | | Long | Yes | Yes | -- | O | O | O | H+ |
| 3. | Improved local community living standards | | Long | Yes | Yes | -- | O | O | O | H+ |
| 4. | Improved accessibility | | Long | Yes | Yes | -- | O | O | O | H+ |
| 5. | Decongestion of traffic | | Long | Yes | Yes | -- | O | O | O | H+ |
| 6. | Improved storm water collection system | | Long | Yes | Yes | -- | O | O | O | H+ |
| 7. | Reduction of dust dispersion | | Long | Yes | Yes | -- | O | O | O | H+ |
| 8. | Increased property and land values | | Long | Yes | Yes | -- | L- | L- | L- | L- |
| 9. | Child labour | | Short | Yes | Yes | -- | L- | L- | L- | L- |
| 10. | Diseases spread | | Mid | Yes | Yes | -- | L+ | H+ | M+ | H+ |

B: L+ = Low positive, M+ = Medium/moderate positive, H+ = High positive, L- = Low negative, M- = Medium/moderate negative, H- = High negative and O = No apparent impact

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16.1.5 Mitigation of Environmental and Social Impacts associated with proposed project

This section provides summative mitigation measures to aforementioned impacts of the proposed project in Arusha City. The mitigation measures reflect upon significance of the impacts.

16.1.5.1 Site Selection for development phase

16.1.5.1.1 Disruption of Economic and Social Activities and Services

On-going activities in the area to be developed in the City shall be disrupted as the market area is in proximity to various informal and formal shops. The disruption may render some community members to lose their livelihood options. To mitigate this impact, the LGA should consider the following:

- The LGA should invest in creating awareness for the community on the impact of the project to be implemented within the core area of the project.
- On behalf of the local communities, including local leadership (Ward/sub-ward chairpersons/executive officers or/and councillors, representatives of the small-scale businesses) in project decision-making processes committee. This shall ensure representation during decision making regarding the impact on affected stakeholders.

16.1.5.1.2 Design, construction and Operation Phases

16.1.5.1.2.1 Conflicts with Affected Persons

The project may result in conflicts with traders who were temporarily located around the City Park in Sisimba Ward, after the previous market was incinerated. The association of local traders who occupied the market before the fire accident is currently negotiating with the LGA on the modality of returning to the market. While it may not be possible to accommodate the traders in the project, the LGA should consultatively develop a compensation scheme.

16.1.5.1.2.2 Conflicts with Resource Users

To mitigate this impact, the LGA may

- Obtain construction materials from authorized sources
- Re-use soils excavated as sub-base material

16.1.5.1.2.3 Health issues from waste and pollution

The LGA in collaboration with responsible institutions e.g. NEMC, Health Departments should consider the following:

- All activities and materials used during construction and after construction shall comply with health standards.
- Emissions from machinery during construction and vehicles during operation of the facilities shall be of acceptable levels.
- Hazardous waste and non-hazardous waste shall be handled as required.
- Biodegradables should be collected and disposed on time to minimize foul odour from decomposing waste.
- The LGA and the Contractor shall ensure that existing laws and regulation regarding child labour are adhered to.
- The LGA (through its relevant departments) and the Contractor shall put up signs to educate workers about diseases such as HIV/AIDS and how they spread.

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16.1.5.1.2.4 Storm water runoff

All storm water should be channelled through existing systems such that no flooding of existing settlement areas or creation of ponds and standing water shall happen that may turn into mosquito or any other waterborne vectors breeding sites.

16.1.5.1.2.5 Other impacts and mitigation measures

| Impact | Mitigation measure | Responsible agency |
|---------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------|
| Increased dust and air pollution | The construction site shall be watered to minimize dust. | Contractor, NEMC, and Arusha City Council |
| Increased noise | Controlled use of construction machinery or minimized use of machinery during night hours or prime time hours when residents are at rest. | Contractor, NEMC, and Arusha City Council |
| Pollution of water sources | Avoid spillage of any polluting material. | Contractor, NEMC, and Arusha City Council |
| Increased waste generation during construction | Removal of disposable waste on time. | Contractor, NEMC, and Arusha City Council |
| Traffic congestion | Traffic police/contractor to regulate traffic. | Contractor and Arusha City Council |
| Damage to existing structures and public services | All necessary care shall be taken to avoid damage to existing structure and services. | Contractor and Arusha City Council |
| Overwhelmed administrative authority | Plan and execute plans to minimize detrimental effects. | Contractor and Arusha City Council |
| Risk to workers and their safety | Abide by all construction laws and regulations regarding safety at work. | Contractor, Arusha City Council, and relevant agencies |
| Debris deposition in storm water drains and associated floods | All necessary precautions shall be taken to avoid debris deposition to existing storm water drains. | Contractor, NEMC, Arusha City Council, and relevant agencies |
| Increased runoff and soil erosion | Ensure thorough compaction. | Contractor, Arusha City Council, and relevant agencies |
| Contamination of surface and ground water | Avoid spillage of any contaminants. | Contractor, NEMC, Arusha City Council, and relevant agencies |
| Impact from camps/asphalt plant operation | Abide by operational procedures. | Contractor, NEMC, Arusha City Council, and relevant agencies |

16.1.6 Summary and Conclusion

This study has provided a preliminary assessment of environmental and social issues associated with the project’s implementation in Arusha City.

From an environmental perspective, it can be observed that these impacts include:

- Loss of flora and soil fauna species,

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- Alteration of scenery view,
- Increased dust and air pollution,
- Increased noise,
- Increased waste generation during construction,
- Traffic congestion, and
- Overwhelmed administrative authority.

Other environmental impacts include:

- Risk to workers and their safety,
- Debris deposition in storm water drains and associated floods,
- Increased runoff and soil erosion on construction site,
- Contamination of surface and ground water from operating machinery leakages, and
- Impact from camps/asphalt plant operation.

Geographically all environmental impacts identified are local except risk to workers and their safety which may have a regional impact. Also, impacts such as contamination of surface and ground water are mid-term impacts, the remaining identified impacts are short-lived.

Impacts that are negative, of low-to-moderate significance are:

- Increased dust and air pollution,
- Increased waste generation,
- Increased traffic congestion,
- Damage to existing structures,
- Overwhelmed administrative authority,
- Risk to workers and their safety,
- Debris deposition in storm water drains and associated floods,
- Contamination of surface and ground water, and
- Resulting impact from operation of asphalt plant and camps operation.

Long-term positive impact includes aesthetic view of the new market, which is of high significance.

From social impact assessment perspective, the project shall lead to job creation and increased income of the local community as local community members might be employed to work on different tasks in the project. Other impacts may include:

- Improved local community living standards,
- Improved local community skills base,
- Improved accessibility, and
- Increased property and land values.

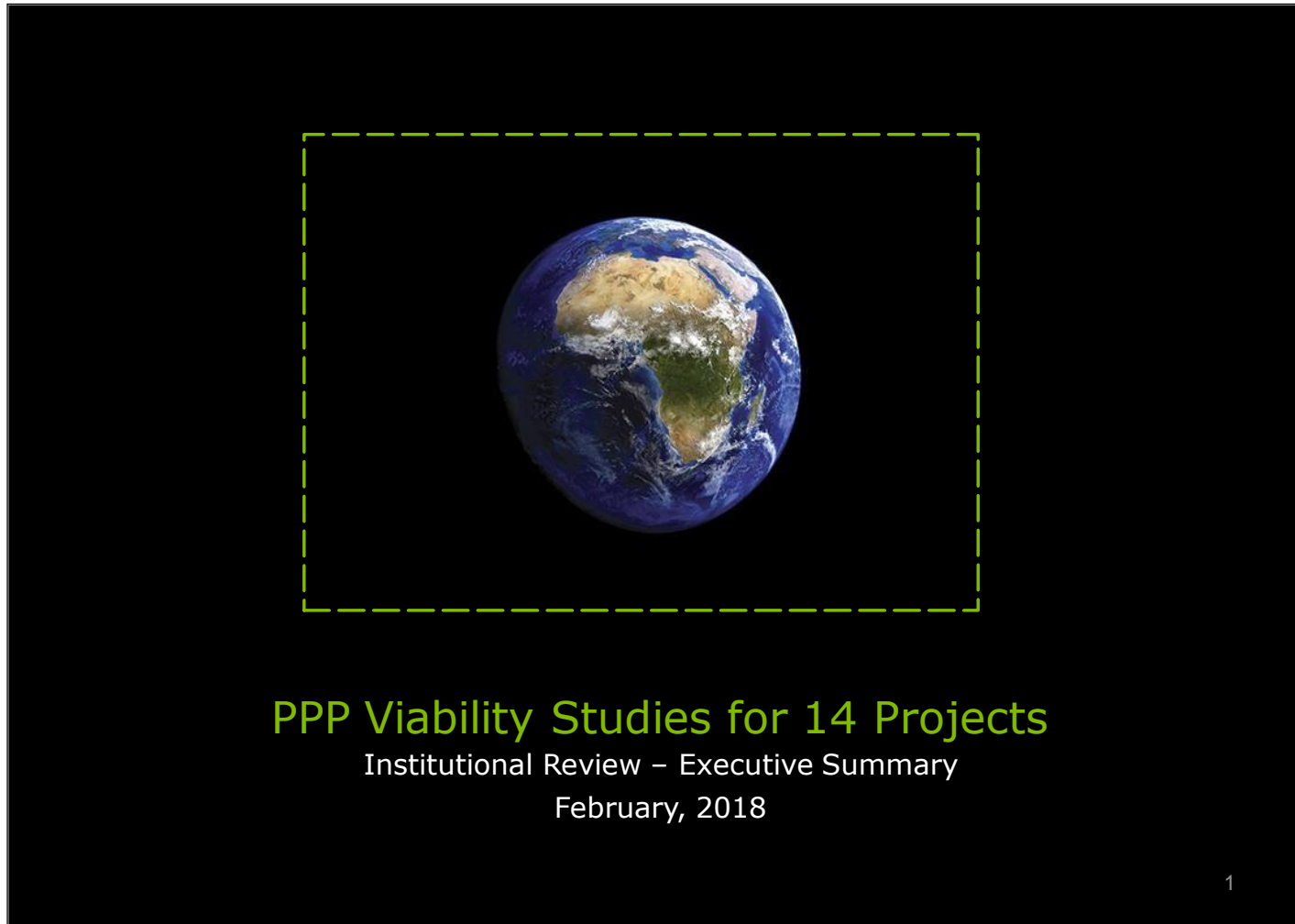
These are positive short-to-long term impacts that have high significance.

However, the project may also lead to conflicts with the affected persons including traders relocated from the site. This is critical and needs to be mitigated. Further, the mitigation plan also needs to address safeguards and mitigation measures to address prevalent social issues including child labour, HIV/AIDS etc.

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The findings show that most negative impacts associated with the project's implementation could be mitigated to maximize positive impact that the project is expected to have. It is also recommended that once decisions over the project's viability have been made and the project design is finalized by the PPP operator/developer, a detailed Environmental and Social Impact Assessment should be conducted as required by the law.

17 Annex I: Institutional Assessment Report (Presentation)



Local Government Authorities in Tanzania have plans to implement a number of PPP projects as a strategy for revenue generation

Deloitte has been contracted by the World Bank Group to undertake viability studies for fourteen projects in four regions of Tanzania

Current Situation

- Central government funding for Local Government Authorities (LGAs) is unreliable and decreasing, municipalities are seeking new mechanisms to generate revenue through PPP projects in order to meet public service expectations
- However, LGAs currently have limited manpower, funding and technical capabilities to independently plan, design and implement a PPP, particularly due to the associated transaction costs and technical complexity of PPP projects
- Deloitte has been contracted to undertake studies that will consider 14 PPP projects in light of the economic, legal, financial, market, socio/environmental, affordability and value for money factors. Deloitte is also responsible for building the capacity of PO-RALG and the LGA Investment Committees so they fully understand the appraisal of PPP projects

Scope of Work

Viability Studies

1. Economic and Infrastructure Assessment
2. Financial assessment and fundraising strategies
3. Legal and Regulatory Review
4. Demand Study
5. Project Configuration
6. Site and Infrastructure Evaluation
7. Project Description
8. Financial modelling and viability assessment
9. Project implementation plan and viability study report

Capacity Building

1. Institutional Review
2. Working Groups
3. Validation Workshops
4. Brainstorming
5. Technical Training

2

The institutional review is the first step in the capacity building process to help LGAs understand their current PPP capabilities

The Deloitte methodology develops capacity that directly translates in performance improvements and the achievement of sustainable results

| Approach | Methodology |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <ul style="list-style-type: none"> • The assessment was conducted using a participatory process that promoted engagement and ownership with LGA members. A highly collaborative and results-driven approach was used to generate consensus on the maturity levels • The scope of the institutional review assessment included: <ul style="list-style-type: none"> • PO-RALG PPP Node • LGA Investment Committees – Arusha, Moshi, Mbeya, Mwanza • Focus group discussions and one-on-one interviews using PPP capacity assessment framework and tools to measure organizational performance and capacity improvements • A tailored performance improvement plan has been developed for each LGA Investment Committee and the PPP Node based on the outcomes of the assessments with a focus on addressing identified gaps • Findings from the institutional review and the performance improvement plan have been shared with each of the key stakeholders | <ul style="list-style-type: none"> • The Maturity Model Benchmarking Tool (MMBT) was used to measure institutional capacity against four stages of maturity and assigned a score to quantify the current state • The spectrum of maturity levels (based on the responses to specific indicators) both informs and inspires institutions to work towards leading benchmarks <ul style="list-style-type: none"> • Basic (1 – 3) – Minimal capacity • Developed (4 – 6) – Capacity is evident • Advanced (7 – 9) – Adequate capacity • Leading (10 – 12) – Good capacity • The capacity building domains (and indicators) have been tailored specifically to determine the ability of a stakeholder to manage a PPP project through implementation and operation: <ol style="list-style-type: none"> 1. Project Inception 2. Feasibility 3. Procurement 4. Development 5. Delivery 6. Exit • A performance improvement plan is developed to identify and tailor interventions that emphasize a shift in capacity to the desired state |

3

The choice of areas for institutional review was informed by best practices and our experience in working with LGAs in Tanzania

The institutional review focused on six organizational capacity domains aimed at establishing management capacity of the Contracting Authorities in PPP

| Domain | Areas tested in relation to PPP initiatives within Contracting Authorities (CAs) |
|---------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 1 Strategy Environment | <ul style="list-style-type: none"> • Alignment of PPP agenda to broader organizational strategy • Presence of strategic guidance on PPP within the Contracting Authorities (CAs) • Presence of strategies for PPP stakeholders engagement and management • Alignment of strategic investment decisions with organizational strategic direction |
| 2 Financial Management and Sustainability | <ul style="list-style-type: none"> • Establish the track record of the CAs in general financial management • Presence of resource mobilization strategies for financing PPP prefeasibility studies • Presence of comprehensive organizational wide risk management frameworks in PPP management • The capacity of CAs in procurement and contract management |
| 3 Human Resource Management | <ul style="list-style-type: none"> • Establish whether the CAs has the required skills and experience to manage PPP projects • Presence of organizational learning systems for transferring and sharing PPP skills and knowledge across the CAs • Clarity of roles and responsibilities of personnel in PPP management • Establish the value of previous PPP capacity building interventions and trainings |
| 4 Leadership and Governance | <ul style="list-style-type: none"> • Level of participation of Council Management Team (CMT) in PPP investment decisions • Level of buy-in and sense of ownership of PPP projects by the Council Management Team (CMT) • Level of participation of Full Council (Councilors) in PPP investment decisions and their level of PPP knowledge |
| 5 Information, Communication and Technology | <ul style="list-style-type: none"> • Presence of communication strategy for communicating CAs' investment information • Availability of platforms for promotion of CAs investment opportunities and PPP initiatives • Whether CAs are going digital in PPP information sharing and marketing • Functionality of CAs' websites as a platform for information sharing |
| 6 Organizational Structure | <ul style="list-style-type: none"> • Functionality of the PPP Nodes and Investment Committees • Presence of PPP guidelines to PPP Nodes and Investment Committees • Clarity of roles and responsibilities of the PPP Node and Investment Committee • The interactions between the PPP Node / Investment Committee with other stakeholders within CAs such as PMUs |

4

The role of the government and capacity needs evolve along the PPP transaction lifecycle from inception to closeout

The PPP capacity domains defined include Strategy, Leadership & Governance, HR, Organizational Structure, ICT and Financial Management

| | | | | | |
|----------------------------|----------------------------|--------------------|--------------------|---------------------------|-------------------------------|
| Project Inception | Project Feasibility | Procurement | Development | Delivery | Exit |
| <i>Policy and Strategy</i> | <i>Viability Study</i> | <i>Contracting</i> | <i>Engineering</i> | <i>Project Management</i> | <i>Define & Blueprint</i> |

Role of government is to establish and ensure the implementation of legal, regulatory, institutional, policy and strategy frameworks for PPP

Role of government is to secure the best value for money through quantitative & qualitative analysis, beginning with identification and selection

Role of government is to manage the procurement and structure the deal so that it is bankable, while achieving optimal risk allocation

Role of government is to provide oversight and compliance monitoring of the construction ensuring it meets the identified performance standards

Role of government is to provide oversight and compliance monitoring of the service / asset operations. Other activities may include dispute resolution & negotiations





Role of government is to implement the project and identify options for either service / asset takeover or consider a new procurement

Relevant Capacity Domains

| | | | | | |
|----------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------|
| <ul style="list-style-type: none"> ➤ Human Resource Management ➤ Strategy Environment ➤ Leadership and Governance | <ul style="list-style-type: none"> ➤ Human Resource Management ➤ Strategy Environment | <ul style="list-style-type: none"> ➤ Human Resource Management ➤ Financial Management ➤ Information Technology | <ul style="list-style-type: none"> ➤ Human Resource Management ➤ Leadership and Governance ➤ Financial Management | <ul style="list-style-type: none"> ➤ Human Resource Management ➤ Organizational Structure ➤ Leadership and Governance | <ul style="list-style-type: none"> ➤ Human Resource Management ➤ Financial Management and Sustainability |
|----------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------|

The four common capacity gaps revealed are structural in nature and if not addressed, will expose the LGAs to significant risk

Capacity gaps observed at the institutional level relate to Skills, Governance, Strategy, Financial Management, Risk Management and Funding

| Challenge | Implications |
|------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
|  Limited PPP skills and experience | In spite of formal PPP training received from the World Bank, there are a significant number of Investment Committee members who have not received this training due to staff movements. The training that was received has also not been cascaded to other key stakeholders within the LGA nor has it translated into operational changes within the institutions. |
|  Limited functionality of the Investment Committees & PPP Nodes | The LGA Investment Committee members are not fully dedicated to the PPP unit and have other primary full-time responsibilities. There is no specific budget allocated to these committees for execution of their responsibilities and in some instances, members of the committee were given letters of appointments but no job descriptions to guide their PPP roles. There is an overreliance of funding from the central government and development partners for all four LGAs and the PPP Node. As a result, LGAs do not have enough funds to bear the transaction costs associated with the end-to-end PPP lifecycles for projects. |
|  Limited strategies for PPP engagements | Although the LGAs assessed in this study have Mid-Term Expenditure Framework (MTEF) plans and are involved during the budget preparation process and strategy discussions, these strategies make no reference to PPPs and do not include specific PPP initiatives. The 14 PPP projects within these LGAs are not reflected in the current strategic plans. |
|  Non-compliance in procurement, contract management and Risk Management | The Auditor General report noted non-compliance to Public Procurement Act highlighting violations in procurement procedures such as, performance bonds/securities not submitted from successful tenders, inadequate documentation of contracts, records of contract implementation not properly managed, inconsistencies in the evaluation process, and notable deficiencies in the preparation and implementation of the procurement plan. This has negative implications in the ability of LGAs to manage the procurement process for these upcoming PPP projects. The LGAs do not have frameworks to guide them when identifying, monitoring and managing risks associated with PPP projects. Risks associated with PPPs in all of the 14 proposed projects have not been identified and the mitigating controls have not been developed. |

Limited PPP skills and experience is associated to constraints in awareness, resources, systems & policies.

The root cause of limited PPP skills and experience includes:

- According to PPP Act (2014) and its regulations (2015) LGAs have been allowed to engage in small scale PPPs. However, PPP is still a new concept to majority of LGAs in Tanzania. There have been limited PPP awareness raising campaigns at the LGA level. PO-RALG PPP Node is mandated to run PPP awareness raising campaigns but this have not been sufficiently done due to the Node being under resourced.
- During the assessment, LGAs staff did not demonstrate clear understanding of PPP development life cycle (project inception, feasibility study, procurement, and contract management).
- Limited hands-on training: Members of the investment committee and PPP nodes who received PPP training did not get a platform for practical implementation and hence limited practical experience in PPP projects. No mentorship and coaching was provided after the 6 module training from the World Bank.
- Limited financial resources allocated for capability development and absence of pipeline of PPP projects have hindered the LGAs' desire for developing PPP professionals.
- Despite the fact that LGAs annual training plans are not adhered due to various reasons including the resource constraints, these plans do not include PPP skills development.
- LGAs has limited mandate to mobilize and retain experienced PPP professionals. It was reported that human resource placements are done by the Central Government.
- Lack of institutionalized learning systems and policies to enforce sharing of skills and knowledge from staff attending trainings and capacity building interventions for organizational wide learning.

Recommendations

1. PO-RALG PPP Node should participate in hands-on-PPP development trajectories together with LGAs investment committees.
2. PO-RALG PPP Node should engage aggressively in networking with the private sector to gain trust and understanding of key drivers that drives the private sector investments.
3. PO-RALG PPP Node should organize PPP innovation boot camps to stimulate innovations in PPP projects.
4. PO-RALG PPP Node should put in place PPP project appraisal unit with relevant staff (with adequate appraisal skills).
5. LGAs should enhance their capability in PPP life cycle management through creating and participating in learning opportunities.
6. LGAs should organize and deliver PPP trainings to new members of the LGAs, investment committees, and Councilors.
7. LGAs should develop an organizational learning system within the council to enhance their learning agility and ensure knowledge transfer and sharing among staff.
8. Members of investment committee be seconded to places where there are PPP projects being implemented.

Limited functionality of the Investment Committees and PPP Nodes is a result of structural challenges, limited resources, and unclear roles & responsibilities

The root cause of limited functionality of the Investment Committees includes:

- The investment committee and PPP Nodes do not feature in LGAs structure. The mandate for changing the structure is vested with the Central Government. The investment committee is mainly made of head of departments (CMT members) appointed by the CA. However, these members have other primary fulltime responsibilities in their departments and units hence limited devotions to execution of PPP roles and responsibilities.
- The investment committee operates without a clear workplan. No resources allocated to the investment committee hence no motivation for developing the workplan and execution of its responsibilities. The investment committees do not feature in LGAs’ annual approved plans.
- There is limited clarity on which department should initiate PPP projects. At the moment the Economic Planning Statistics and Monitoring departments are playing the coordination role with some overlaps with the investment committees.
- There is limited clarity on which body will handle the PPP procurement process. The PPP Act indicates that the CA can appoint a team to handle the process, at the same time PMU claims to have mandate to oversee the procurement process and contract management. The PPP Regulations (2015) indicates the involvement of Tender Board in procurement process, however it is not clear whether these are the same as the existing Tender boards.
- The investment committee meets on ad-hoc basis with no clear guidelines on the frequency of meetings. These committees operates without investment by-laws, guidelines, defined roles and responsibilities, and job descriptions. According to PPP regulations (2015), PPP Node has the mandate to prepare the small scale PPP guidelines for LGAs. However, these guidelines have not been prepared yet.

Recommendations

1. LGAs should make follow-up of small scale PPP guidelines from PO-RALG PPP Node
2. LGAs should develop investment by-laws to guide the investment committees in identification of potential opportunities for a PPP
3. LGAs should allocate a budget for the investment committees and PPP Nodes to enable them to function smoothly
4. LGAs should formalize the investment committees by ensuring that these committees are reflected in the existing council structures
5. The investment committees should develop their workplans and ensure compliance in implementation
6. LGAs should develop Job Descriptions for each member of the investment committee
7. PO-RALG PPP Node should develop a clear reporting structure
8. Appoint full time PPP investment managers

Absence of organizational strategies in resource mobilization, investments, stakeholders engagement & management hinders strategic PPP engagements.

The root cause of limited strategies for PPP engagements includes:

- The assessed LGAs do not have clear investment strategy and articulated strategies for PPP investments. Frequent change of government priorities have demotivated LGAs in developing long term strategies. The use of Medium Term Expenditure Framework (MTEF) have created less focus in developing long term organizational strategy. However, proposed PPP projects are not reflected in some MTEFs.
- Limited strategies for engaging and managing PPP stakeholders due to limited knowledge and experience in development of stakeholders engagement and management strategy. LGAs can hardly demonstrate their strategized agenda in negotiations for PPP engagements.
- LGAs do not have clear communication strategy for communicating investment information. As indicated in PPP Regulations (2015), websites are key platform for communicating, marketing and promotion of CA's investment opportunities and PPP initiatives. However, despite the fact that each LGA has a website, some have not been updated regularly and have not highlighted investment opportunities within the CAs. While there is a move to go digital in all communication, still LGAs have not invested enough in ICT equipment.
- LGAs does not have clear resource mobilization strategies for mobilization of resource for financing project development (pre-feasibility and feasibility studies). None of the assessed LGAs have accessed funds from the PPP Facilitation Fund at PPP Centre for project and capacity development as outlined in Part V of the PPP regulations (2015).
- There is no clear evidence that investment decisions are backed up with clear data. A consolidated database of all key organizational information in LGAs is not in place. Data is scattered in different departments, units and external institutions and can hardly be gathered within short period of time.

Recommendations

1. LGAs should be trained and coached on strategy development
2. LGAs should develop strategic plans and investment strategies to guide them with PPP engagements
3. LGAs should develop resource mobilization and revenue collection strategies to increase the resource base from own sources
4. LGAs should develop stakeholders engagement and communication strategies
5. LGAs should come up with a process for determining the projects which will be delivered on budget or via a PPP. The best practice suggest that these projects be reflected in strategic plans as well as in MTEF
6. PO-RALG needs to develop a strategic plan that includes key statements of identity (vision and mission) to position itself well in its environment.

Non-compliances in procurement and contract management is associated to irregularities and deficiencies in procurement procedures, contract management, and risk management.

The root cause for Non-compliance in procurement, contract and risk management includes:

- The review of CAG reports noted violation of procurement procedures outlined in Public Procurement Act of which the same practice can be taken to PPP procurements. These irregularities varies from one LGA to another including but not limited to, incomplete tender and bid evaluations, not reporting procurements to the tender board, lack of criteria for qualifying tenders, and lack of competitive procurement, no technical specialist in PMUs as required by Public procurement Act, notable deficiencies in the preparation and implementation of the procurement plan, and not submitting annual procurement plans to PPRA.
- The review of CAG reports also noted irregularities in contract management which can also affect contract management under PPP. These irregularities includes but not limited to, records of contract implementation are not properly kept in a particular file, contract register not updated, implementing projects without signed agreements, inadequate documentation of contract, entering contracts without performance bonds, incomplete records in procurement files.
- Investment committee, PMUs, Tender Boards, and user departments lack knowledge of Public Procurement Act, PPP Act and its Regulations.
- The review noted absence of comprehensive organizational wide risk management frameworks in PPP management due to limited investment in risk management. According to PPP Regulations (2015), CA should identify financial, technical, and operational risks between partners. However, the current practice did not demonstrate pro-activeness in identification and management of potential risks associated with PPP engagements. In some LGAs, Risk Registers and Risk Champions are not in place.

Recommendations

1. LGAs should strengthen their tender boards and procurement management units by creating platform for periodic learning on procurement practices outlined in Public Procurement Act and guidelines.
2. LGAs procurement management units and tender boards should be oriented on PPP procurement requirements and procedures as outlined in PPP Act (2014) and its regulations (2015) for them also to understand the relationship between legislation procurement and PPP Act.
3. LGAs should develop procurement procedures checklist to assist them in ensuring that no procurement process is skipped.
4. LGAs should develop criteria for qualifying tenders
5. LGAs should ensure that PMUs includes technical specialist to comply with PPA.
6. LGAs should develop realistic annual procurement plans based on the available resources.
7. LGAs must ensure competitive procurement requirements are adhered all the time in order to avoid any disputes from bidders.

10

Each institution benchmarked their current state of maturity against a standardized set of indicators and best practices

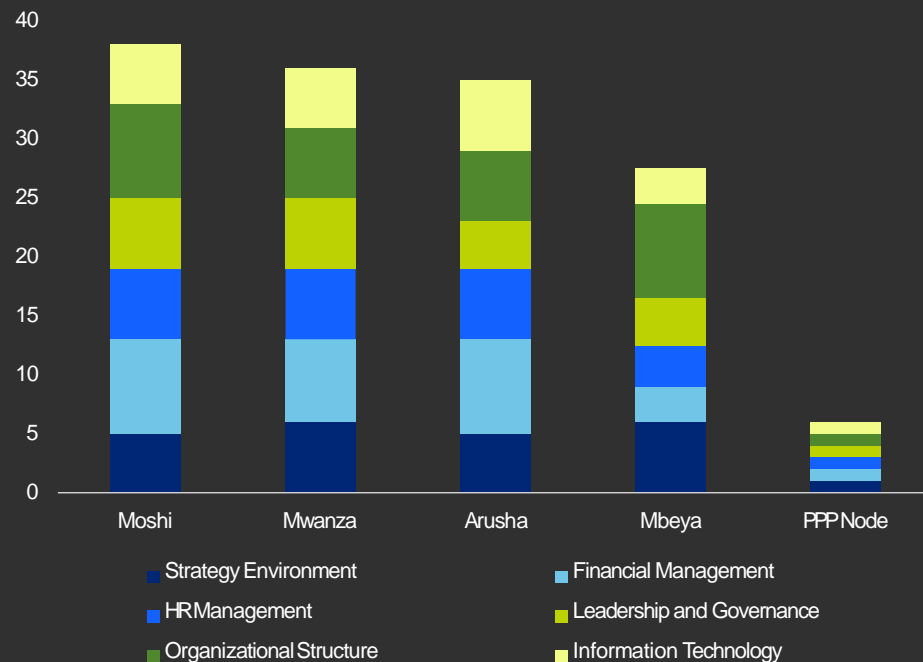
Deloitte's Maturity Model Benchmarking Tool (MMBT) is an instrument that allows institutions to map their current and desired state of performance

| | BASIC | DEVELOPING | ADVANCED | LEADING | | | | | | | | | | | | | | | | |
|-------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------|----------|---------|---|---|---|---|---|---|---|---|---|----|----|----|--|
| STRATEGY ENVIRONMENT | <ul style="list-style-type: none"> Strategic plan is not properly documented and/or communicated/cascaded PPP agenda is not aligned with broader organizational strategic plan/strategy PPP projects are not reflected in existing MTEF Key stakeholders are not involved in PPP development | <ul style="list-style-type: none"> Existence of strategy or plan with little or no highlight of PPP projects The strategic plan is communicated and implemented, however, there is less alignment of PPP strategies to Council's broader strategy MTEF is linked directly to Council's strategy but PPP projects are not clearly reflected in and there is little evidence of implementation Stakeholders are less involved in PPP development | <ul style="list-style-type: none"> Existence of PPP guidelines and by-laws for guiding Council's PPP development Existence of and evidence of periodic strategy reviews with some evidence on the link between PPP agenda and broader organisational strategy Evidence of participatory approach to strategic planning and periodic review, with some involvement of stakeholders in PPP development Strategy cascading is done to the departmental level only | <ul style="list-style-type: none"> Council's PPP agenda, PPP opportunities, and strategic investment decisions are highly aligned with Council's broader strategy and strategic direction. Presence of strategic guidance on PPP within the contracting authority and evidence of regular strategy reviews High involvement of key stakeholders in planning, identification and implementation of PPP projects; articulation of stakeholders commitment in executing the strategy including PPP projects Strategy cascading is done to all levels of the council | | | | | | | | | | | | | | | | |
| FINANCIAL MANAGEMENT AND SUSTAINABILITY | <ul style="list-style-type: none"> The Council has poor track record in financial management The Council has no clear resource mobilization strategies for financing PPP pre-feasibility studies The Council do not have risk management frameworks in PPP management Limited capacity in procurement and contract management Limited compliance with PPA, PPP Act and donors' procurement procedures No evidence of existence of a competent and active PMU None compliance with external reporting requirements No evidence of existence of tender board and tender advertisements | <ul style="list-style-type: none"> The Council has reasonable track record in financial management The Council has limited resource mobilization strategies for financing PPP pre-feasibility studies The Council has some risk management controls in place but linked to PPP management Reasonable capacity in procurement and contract management PMU is actively involved in all procurements and conducts awareness sessions to staff on PPA/PPA/PPP Reasonable compliance with financial controls-Clean audit reports Reasonable compliance with external reporting requirements Procurement reports are discussed Evidence of advertising of tenders | <ul style="list-style-type: none"> The Council has good track record in financial management The Council has reasonable resource mobilization strategies for financing PPP pre-feasibility studies The Council has risk management frameworks with little link to PPP management Strong capacity in procurement and contract management Strong internal controls with accountability & transparency Budgeting process incorporates staff and stakeholders priorities Full compliance with external reporting requirements Existence of annual procurement plan and reports as evident in financial committee meeting Existence of Independent tender board | <ul style="list-style-type: none"> The Council has excellent track record in financial management The Council has strong resource mobilization strategies for financing PPP pre-feasibility studies The Council has organizational-wide risk management frameworks in PPP management Excellent capacity in procurement and contract management Procurement tenders are published for openness Effectiveness of internal audit function and evidence of value for money (VFM) Existence of annual procurement plan Revenue collection strategy and strong alternative sources of revenue plans for sustainability | | | | | | | | | | | | | | | | |
| HUMAN RESOURCE MANAGEMENT | <ul style="list-style-type: none"> No skills and experience in managing PPP projects Lack of learning systems for transferring and sharing PPP skills and knowledge across the Council Absence of standard staff letters of employment with clearly defined IDs Development needs of staff are not known OPRAS not implemented or used just as a tool HR guidelines and manuals not provided to all employees/Head of Departments No evidence of budgets for training and employee capacity building | <ul style="list-style-type: none"> Presence of human resources designated for PPP management, but has limited skills and experience in managing PPP projects Limited learning systems for transferring and sharing PPP skills and knowledge across the Council Standard terms and conditions of employment in place Staff career development plans are tracked on annual basis Participatory culture on talent management issues Awareness and implementation of OPRAS Personal development plans, annual appraisals are in place and reflected in staff OPRAS Existence of a Workers Council | <ul style="list-style-type: none"> Presence of human resource pool with adequate skills and experience in managing PPP projects within the Council Presence of effective learning systems for transferring and sharing PPP skills and knowledge across the Council Completed skills assessment Understanding of key HR indicators (including turnover) Evidence of knowledge sharing and transfer among Council staff HR Benefits / non-monetary in place Development plan aligned with roles Effective implementation of development plans Effective and active Workers Council | <ul style="list-style-type: none"> Presence of PPP professionals with extensive skills and experience in managing PPP projects within the Council Presence of highly effective learning systems for transferring and sharing PPP skills and knowledge across the Council Retention strategy in use e.g. strategies to retain good talent in PPP practice Evidence of effective feedback mechanism Non-monetary incentive and recognition scheme in place Employee evaluation and salaries tied to performance (functional OPRAS) Evidence of functional Workers Council | | | | | | | | | | | | | | | | |
| LEADERSHIP AND GOVERNANCE | <ul style="list-style-type: none"> Limited participation of CMT in PPP investment decisions CMT does not have a sense of ownership of PPP projects Limited participation of Councilors in PPP investment decisions Councilors has limited PPP knowledge No evidence of CMT, standing committees, and full Council meeting minutes No clear decision-making process in place No evidence of formal or informal mentorship program Evidence of serious misunderstanding between the Councilors and CMT | <ul style="list-style-type: none"> CMT is reasonably participating in PPP investment decisions CMT has reasonable sense of ownership of PPP projects Reasonable participation of Councilors in PPP investment decisions Councilors has reasonable level of PPP knowledge Effectiveness of full council in issues resolution Leadership commitment and accountability to follow up on the agreed action item and adherence to scheduled meetings Evidence of internal communication mechanism Documented CMT, standing committees, workers council and full council meeting minutes | <ul style="list-style-type: none"> Adequate participation of CMT in PPP investment decisions CMT adequately engaged with sense of ownership of PPP projects Adequate participation of Councilors in PPP investment decisions Councilors has adequate level of PPP knowledge Public-interest decisions available Evidence of formal mentorship for all Council Leadership (DED, CMT) Evidence-based decision-making through use of better data (informed decision making) | <ul style="list-style-type: none"> Full participation of CMT in PPP investment decisions CMT highly engaged with great sense of ownership of PPP projects Full participation of Councilors in PPP investment decisions Councilors has high level of PPP knowledge Improved decision-making process, including input from key stakeholders Evidence of mentorship process and succession plan Evidence of participatory and transparent decision making process Evidence of no tolerance of unethical behavior | | | | | | | | | | | | | | | | |
| ORGANIZATIONAL STRUCTURE | <ul style="list-style-type: none"> Absence of PPP Nodes and Investment Committees Absence of PPP guidelines for PPP Nodes/Investment Committees No evidence of clear roles and responsibilities of PPP Nodes/Investment Committees No interactions between PPP Nodes/Investment Committees with other stakeholders within the Council Less than 60% of the required skill set position filled Existence of organization chart | <ul style="list-style-type: none"> Limited functionality of PPP Nodes and Investment Committees Limited PPP guidelines for PPP Nodes/Investment Committees Limited clarity of PPP Nodes/Investment Committees' roles and responsibilities Limited interactions between PPP Nodes/Investment Committees with other stakeholders within the Council 60% - 80% of the core positions filled Alignment of structure to strategy | <ul style="list-style-type: none"> PPP Nodes and Investment Committees are functional Clear PPP guidelines for PPP Nodes/Investment Committees in place Adequate level of clarity of PPP Nodes/Investment Committees' roles and responsibilities Adequate level of interactions between PPP Nodes/Investment Committees with other stakeholders within the Council At least 80% of core positions are filled Adequacy of structure to fulfill organizational needs Alignment of structure to strategy with clear responsible people for each of the strategic action | <ul style="list-style-type: none"> PPP Nodes and Investment Committees are highly effective PPP Nodes and Investment Committees effectively deploying PPP guidelines High level of clarity of PPP Nodes and Investment Committees' roles and responsibilities High level of interactions between PPP Nodes/Investment Committees with other stakeholders within the Council Evidence of the council suggesting organisation re-structuring based on change in local priorities All core position are filled | | | | | | | | | | | | | | | | |
| INFORMATION COMMUNICATION AND TECHNOLOGY | <ul style="list-style-type: none"> No evidence of communication strategy No evidence of digital platforms such as website for promotion of Council's investment opportunities and PPP initiatives The Council do not have a website Restricted to paper-based communication (internal and external) No ICT department Sub-optimal IT equipment | <ul style="list-style-type: none"> Presence of communication initiatives on Council's investment information but no clear documented communication strategy Limited functionality of digital platforms such as website for promotion of Council's investment opportunities and PPP initiatives The Council's website is not up-to-date and functional Standard day-day ICT services in place Dedicated ICT personnel Backup and Disaster Recovery plan in place Training plan for employees in place Existence of ICT strategy & IT policy | <ul style="list-style-type: none"> Adequate execution of communication strategy on Council's investment information Presence of reasonable digital platforms such as website for promotion of Council's investment opportunities and PPP initiatives The Council's website is updated periodically STRICOR, HMS, HIS and PMS used for decision-making Reliable email communication ICT department in place At least 60% of all positions have access to ICT services. Evidence of National ICT policy cascaded to the council | <ul style="list-style-type: none"> High level of execution of communication strategy on Council's investment information Highly effective digital platforms such as website for promotion of Council's investment opportunities and PPP initiatives The Council's website is up-to-date and highly functional Evidence of Innovation and incremental technological changes Adequate IT infrastructure in place; including off-site backup Evidence of implementation of ICT Policy Effective information desk that receives and disseminates information | | | | | | | | | | | | | | | | |
| RATING | <table border="1"> <tr> <th>Basic</th> <th>Developing</th> <th>Advanced</th> <th>Leading</th> </tr> <tr> <td>1</td> <td>2</td> <td>3</td> <td>4</td> </tr> <tr> <td>5</td> <td>6</td> <td>7</td> <td>8</td> </tr> <tr> <td>9</td> <td>10</td> <td>11</td> <td>12</td> </tr> </table> | | | Basic | Developing | Advanced | Leading | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | 11 | 12 | |
| Basic | Developing | Advanced | Leading | | | | | | | | | | | | | | | | | |
| 1 | 2 | 3 | 4 | | | | | | | | | | | | | | | | | |
| 5 | 6 | 7 | 8 | | | | | | | | | | | | | | | | | |
| 9 | 10 | 11 | 12 | | | | | | | | | | | | | | | | | |

* Please note that the maturity model was not used fully for the PO-RALG PPP Node due to their extremely limited capacity

On average, the four LGAs are at the developing stage of institutional capacity while the PPP Node is at the basic stage

The maturity levels ranked from highest to lowest are Moshi, Mwanza, Arusha, Mbeya with the PPP Node being at the lowest level



The average maturity levels for each group are:

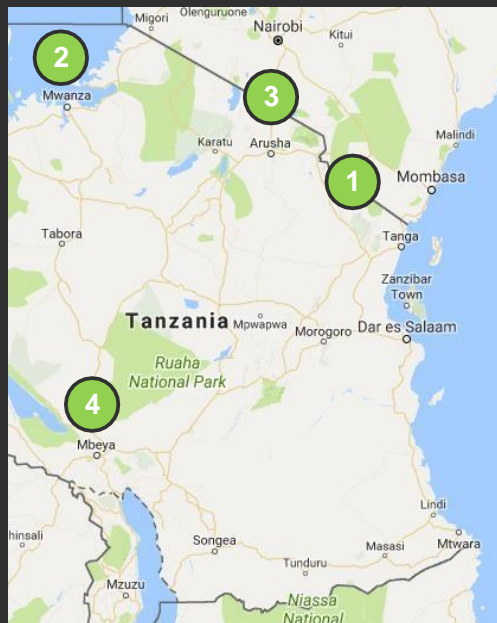
1. Moshi – 6.3
2. Mwanza – 6.0
3. Arusha – 5.8
4. Mbeya – 4.6
5. PPP Node – 1.0

The average capacity domain levels for the entire group are:

1. Organizational Structure – 5.8
2. Financial Management – 5.4
3. Strategy Environment – 4.6
4. Human Resources – 4.5
5. Leadership & Governance – 4.2
6. Information Technology – 4.0

These scores have specific implications on the success of each PPP project at varying points along the lifecycle in each LGA

The maturity levels ranked from highest to lowest are Moshi, Mwanza, Arusha and Mbeya with the PPP Node being in the last position



| Sample PPP Projects | Maturity | Highlights |
|---------------------------------------------------------------|----------|-----------------------------------------------------------------------------------------------------------------------------------|
| 1 Moshi Slaughterhouse, Market Facilities, Bus Terminal | 6.3 | Strong automated financial process and generation of revenue but lack of PPP strategy |
| 2 Mwanza Bus Terminal, Truck Terminal | 6.0 | Strong automated financial process and generation of revenue but limited investment in ICT for investment promotion |
| 3 Arusha Market Facilities | 5.8 | Strong automated financial process and revenue generation but challenges with leadership and human resources |
| 4 Mbeya Abattoir, City Park, Bus Terminal, Market Facility | 4.6 | Good organizational structure but high dependency on central government for funding |
| PPP Node N/A | 1.0 | Challenges with organizational structure, strategic planning, leadership and governance, human resources and financial management |

Each LGA has a distinct roadmap to address the capacity gaps that will have an impact on each step in the PPP lifecycle

It is recommended to prioritize capacity gaps related to human resources, leadership, governance, strategy and engagement as a starting point

✓ = Impact on PPP Step

| Performance Goals | | Inception | Feasibility | Procurement | Development | Delivery | Exit |
|-------------------------|----------------------------------------------------------------------------------------------------------------------------|-----------|-------------|-------------|-------------|----------|------|
| Human Resources | Develop human resource management strategy aimed at transferring and sharing PPP knowledge across the LGAs | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |
| Leadership & Governance | Develop leadership and governance strategies which will enable formalization of the PPP investment committees for the LGAs | ✓ | | | ✓ | | |
| PPP Strategy | Develop strategic plans that articulate the strategic direction for PPPs in each district | ✓ | ✓ | | | | |
| Stakeholder Engagement | Develop stakeholders engagement strategy to define, identify and broaden external relationships within the LGA | ✓ | ✓ | | | | |
| Financial Management | Develop / update financial management strategy to address the mobilization of funds required for PPP projects | | | ✓ | ✓ | | ✓ |
| ICT Strategy | Develop / update ICT strategy to enhance communication with its perspective partners for PPP projects | | | ✓ | | | |
| Procurement | Strengthen procurement and contract management practices for structuring a PPP project | | | ✓ | | | |

Balancing high-impact quick wins with long-term interventions is critical for building a culture of continuous improvement

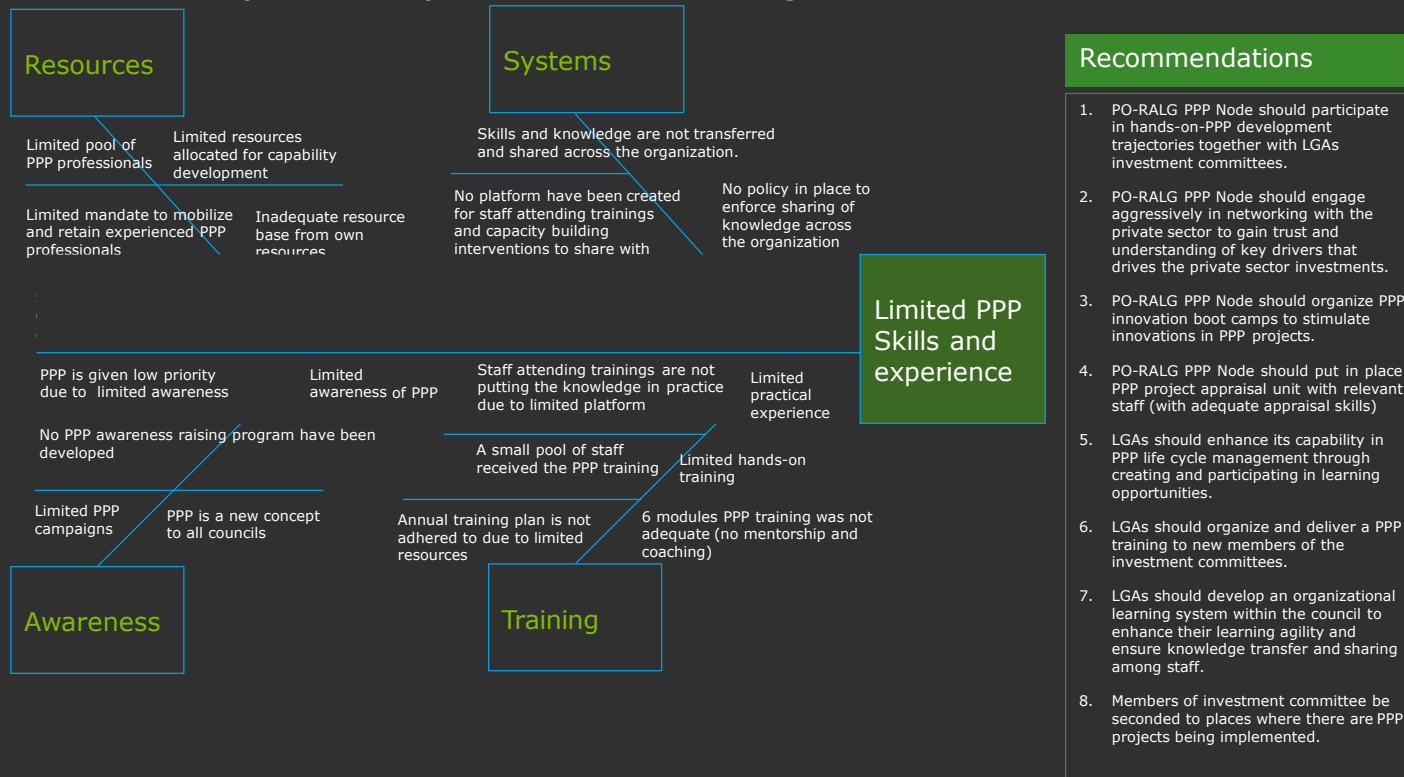
Although the implementation of interventions is out of scope for this engagement, it is recommended that technical assistance be provided at both the LGA Investment Committee and PO-RALG PPP node levels.

- Short Term (< 6 months): In order to quickly help the LGA Investment Committees increase their chances of success for the identified PPP projects, place greater emphasis on assisting **Moshi** and **Mwanza** with closing their performance gaps.
- Medium Term (6 months – 1 year): Leverage and scale the early successes with Moshi and Mwanza by providing assistance to **Arusha** and **Mbeya** (consider involving the Investment Committee from Moshi and Mwanza to support).
- Long Term (1 year – 2 years): Continue to improve the enabling environment by building the capabilities of the PPP node to provide the necessary oversight, regulatory frameworks and technical competencies to the LGA Investment Committees (maintain their active involvement and engagement during the technical assistance provided to the 4 LGAs).

Appendix

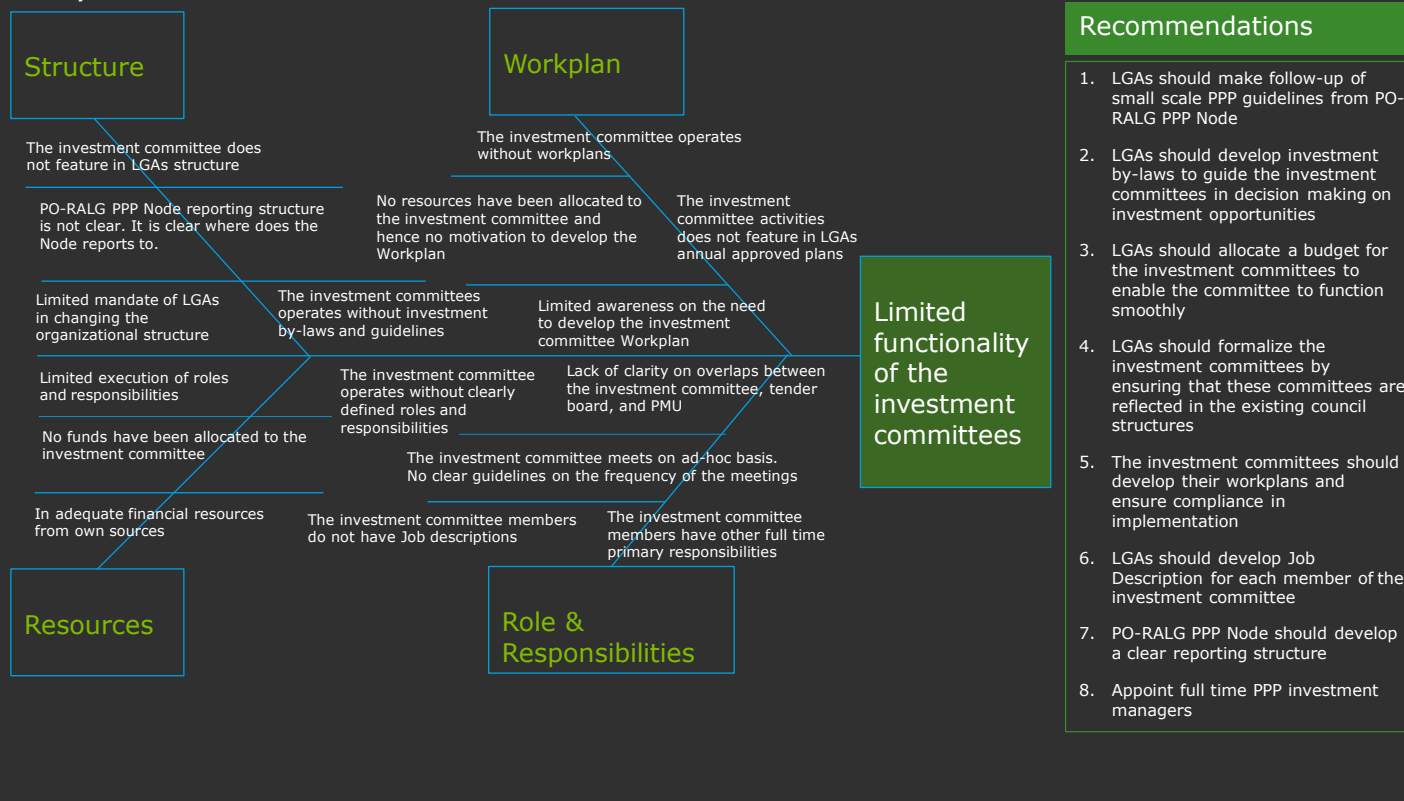
The four common capacity gaps revealed are structural in nature and if not addressed, will expose the LGAs to significant risk

Limited PPP skills and experience is associated to constraints in awareness, resources, systems & policies, and training



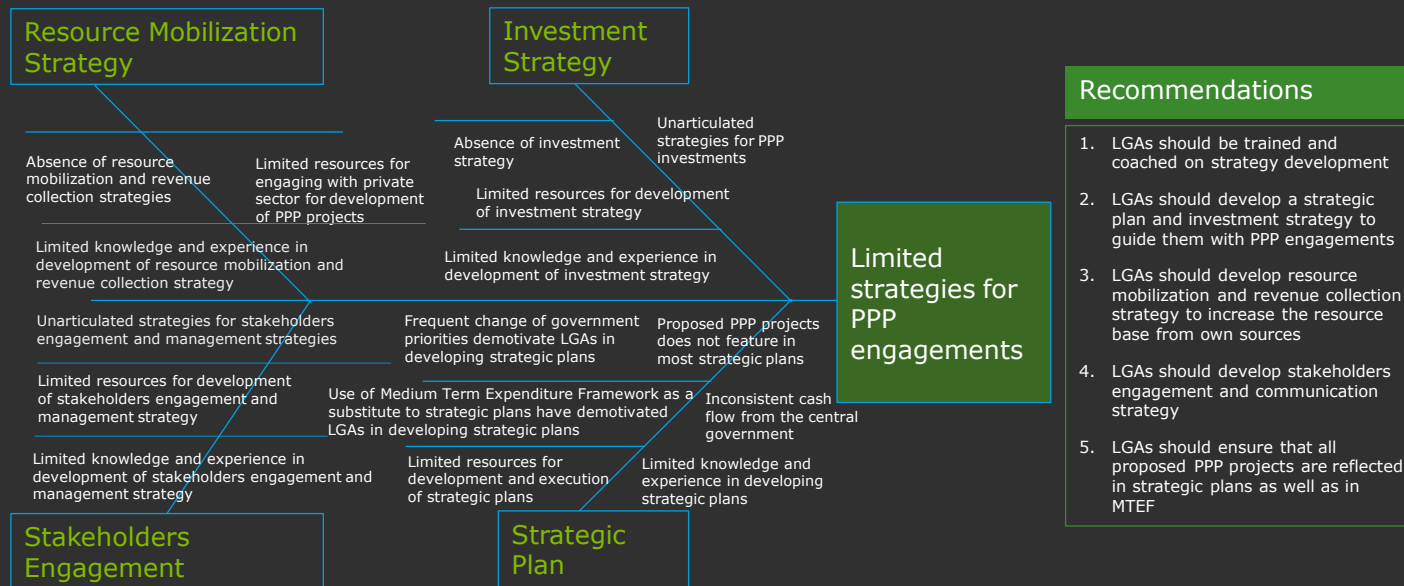
The four common capacity gaps revealed are structural in nature and if not addressed, will expose the LGAs to significant risk

Limited functionality of the investment committees is a result of structural challenges, lack of workplans, limited resources, and unclear roles and responsibilities of investment committees



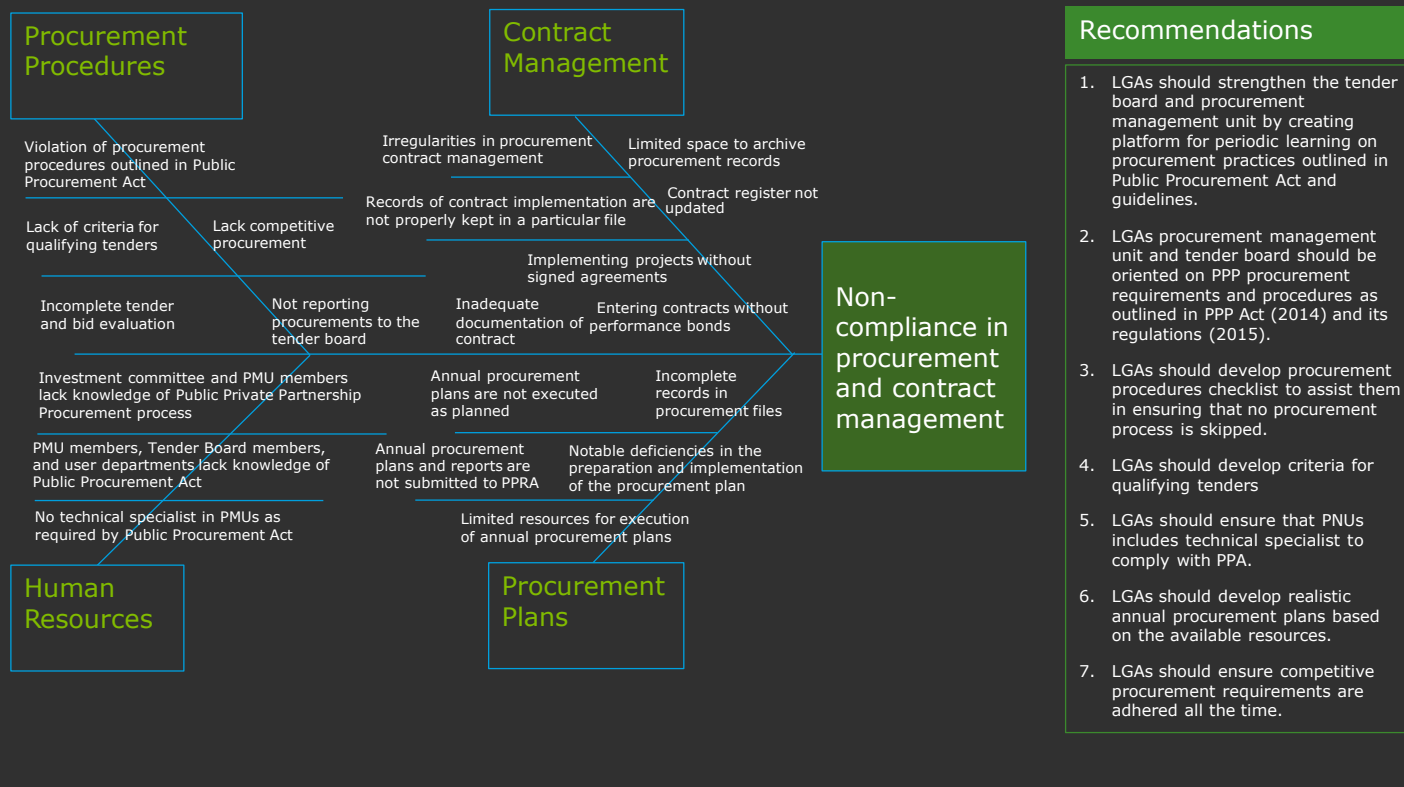
The four common capacity gaps revealed are structural in nature and if not addressed, will expose the LGAs to significant risk

Absence of strategic plans, resource mobilization strategies, investment strategies, and stakeholders engagement and management strategies hinders strategic PPP engagements.



The four common capacity gaps revealed are structural in nature and if not addressed, will expose the LGAs to significant risk

Non-compliances in procurement and contract management is associated to irregularities, deficiencies and violation in procurement procedures, contract management, procurement plans, and human resources.



Mbeya City Council (MCC) is currently at developing level with an average score of 4.6 out of 12 points.

| Mbeya City Council Maturity | | | | | | | | | | | |
|-----------------------------------------|---|---|---------------------|---|---|-------------------|---|---|---------------|----|----|
| CURRENT SCORE | | | VARIANCE | | | DESIRED SCORE | | | | | |
| 4.6 | | | 3.4 | | | 8.0 | | | | | |
| DOMAIN | | | CURRENT SCORE | | | DESIRED SCORE | | | PRIORITY | | |
| Strategy Environment | | | 6.0 | | | 8.0 | | | High | | |
| Financial Management And Sustainability | | | 3.0 | | | 6.0 | | | High | | |
| Human Resource Management | | | 3.5 | | | 8.0 | | | Medium | | |
| Leadership And Governance | | | 4.0 | | | 8.0 | | | Medium | | |
| Organizational Structure | | | 8.0 | | | 12.0 | | | Low | | |
| Information Communication Technology | | | 3.0 | | | 6.0 | | | Medium | | |
| Basic | | | Developing | | | Advanced | | | Leading | | |
| 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | 11 | 12 |
| Minimal capacity | | | Capacity is evident | | | Adequate Capacity | | | Good capacity | | |

Mbeya City Council (MCC)'s key Strength, challenges and recommended actions

Key Strengths

- MCC uses MTEF as a planning tool
- Automated financial processes, clean audit report from CAG, and fair percentage in revenue collections
- All staff have generic job descriptions in accordance with national guidelines and also the Council ensures that OPRAS forms are completed and reviewed on annual basis
- MCC has a well defined decision making structure, the Full Council and the Council Management team meet on a regular basis as planned and the leadership is committed to implementing agreed action plans
- Presence of a well defined organization structure that is aligned with the Council's (expired) strategy in compliance with PO-RALG guidelines
- Presence of active and well staffed ICT unit. All core business units have been automated

Key Challenges

- Absence of key strategic documents: MCC's strategic plan expired since 2015 and the process for developing a new strategy has not started due to limited funding
- Absence of revenue collection and resource mobilization strategy, mobilization of PPP resources and budget allocated for PPP projects
- Absence of HR strategy that define succession plans, knowledge transfer, training plans, staff recognitions etc.
- Absence of formal leadership development program and formal mentorship and low priority to PPP initiatives
- Limited flexibility in making changes to the Council's organization structure since the mandate for making any changes remains with PO-RALG
- Absence of ICT strategy which defines training plan, communication strategy, disaster recovery plan and staff's limited access to computers

Recommendations

- MCC should develop and formally document a strategic plan that will guide it with PPP engagements as well as investment bi-laws to guide the Investment Committee in decision making on investment opportunities
- MCC should enhance its capabilities in PPP lifecycle management through creating and participating in PPP learning opportunities
- MCC should develop revenue collection and resource mobilization strategy and diversify its resource streams to reduce overdependence on central government and development partners
- MCC should strengthen its tender board and procurement management unit by creating platform for periodic learning on procurement practices outlined in the Public Procurement Act and guidelines while also orient itself in PPP procurement requirements and procedures
- MCC should develop a risk register specific for PPP projects and organize risk management training to departmental risk champions
- MCC should formalize the investment committee by ensuring that it's reflected in the existing council structures, its members' roles are clearly defined and also allocate budget for the investment committee to enable it function smoothly

Arusha City Council (ACC) is currently at developing level with an average score of 5.8 out of 12 points signifying that capacity is evident but lacking in critical areas.

| Arusha City Council Maturity | | | | | | | | | | | |
|-----------------------------------------|---------------|---|---------------------|---|----------|-------------------|---|---|---------------|----|----|
| CURRENT SCORE | | | VARIANCE | | | DESIRED SCORE | | | | | |
| 5.8 | | | 2.0 | | | 7.8 | | | | | |
| DOMAIN | CURRENT SCORE | | DESIRED SCORE | | PRIORITY | | | | | | |
| Strategy Environment | 5.0 | | 8.0 | | Medium | | | | | | |
| Financial Management And Sustainability | 8.0 | | 10.0 | | High | | | | | | |
| Human Resource Management | 6.0 | | 7.0 | | Low | | | | | | |
| Leadership And Governance | 4.0 | | 6.0 | | High | | | | | | |
| Organizational Structure | 6.0 | | 8.0 | | High | | | | | | |
| Information Communication Technology | 6.0 | | 8.0 | | High | | | | | | |
| Basic | | | Developing | | | Advanced | | | Leading | | |
| 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | 11 | 12 |
| Minimal capacity | | | Capacity is evident | | | Adequate Capacity | | | Good capacity | | |

Arusha City Council (ACC)'s key strengths, challenges and recommended actions

Key Strengths

- ACC has formal planning processes and tools (MTEF and PLAN-REP) and has built staff capacity to use these tools. The Council also has established and registered the Investment Company governed by city investment node with 6 board members to fast-track and manage ACC's investment projects
- Presence of efficient financial processes which are automated with EPICOR and LGRCIS systems
- Revenue growth: Revenue from own sources have grown by 131% over a period of six years
- All ACC staff have generic job descriptions in accordance with national guidelines and also the Council ensures that OPRAS forms are completed and reviewed on annual basis
- ACC has a well defined decision making structure, the Full Council and the Council Management team meet on a regular basis as planned and the leadership is committed to implementing agreed action plans
- Presence of active and well staffed ICT unit. All core business units have been automated

Key Challenges

- Absence of key strategic documents: ACC is currently operating without a strategic plan. The 5 year strategic plan expired since 2016
- Absence of revenue collection and resource mobilization strategy despite exceeding revenue targets from own sources. Public Expenditure Tracking System (PETS) is currently neither working nor enforced
- Absence of HR strategy that define succession plans, knowledge transfer, training plans, staff recognitions, career development etc.
- Limited use of data in decision-making process as the Council currently operates without a statistician and lack of formal leadership development plan
- Investment Node is not reflected in ACC's current organizational structure and its roles and responsibilities have not clearly defined nor formalized
- Absence of ICT strategy which defines training plan, communication strategy, disaster recovery plan and staff's limited access to computers

Recommendations

- ACC should develop a strategic plan to guide it with PPP engagements as well as investment bi-laws to guide the Investment Committee in decision making on investment opportunities
- ACC should develop revenue collection and resource mobilization strategy and diversify its resource streams to reduce overdependence on central government and development partners
- ACC should strengthen its tender board and procurement management unit by creating platform for periodic learning on procurement practices outlined in the Public Procurement Act and guidelines while also orient itself in PPP procurement requirements and procedures
- ACC should develop a comprehensive risk management framework including a risk register specific for PPP projects and organize risk management training to departmental risk champions
- ACC should enhance its capabilities in PPP lifecycle management through creating and participating in PPP learning opportunities including PPP training for new members, knowledge transfer and sharing among staff

Mwanza City Council (MCC) is currently at developing level with an average score of 6 out of 12 points indicating capacity is evident but lacking in critical areas.

| Mwanza City Council Maturity | | | | | | | | | | | |
|-----------------------------------------|---------------|---|---------------------|---------------|---|-------------------|----------|---|---------------|----|----|
| CURRENT SCORE | | | VARIANCE | | | DESIRED SCORE | | | | | |
| 6.0 | | | 2.7 | | | 8.7 | | | | | |
| DOMAIN | CURRENT SCORE | | | DESIRED SCORE | | | PRIORITY | | | | |
| Strategy Environment | 6.0 | | | 9.0 | | | High | | | | |
| Financial Management And Sustainability | 7.0 | | | 8.0 | | | High | | | | |
| Human Resource Management | 6.0 | | | 9.0 | | | High | | | | |
| Leadership And Governance | 6.0 | | | 9.0 | | | High | | | | |
| Organizational Structure | 6.0 | | | 9.0 | | | High | | | | |
| Information Communication Technology | 5.0 | | | 8.0 | | | Medium | | | | |
| Basic | | | Developing | | | Advanced | | | Leading | | |
| 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | 11 | 12 |
| Minimal capacity | | | Capacity is evident | | | Adequate Capacity | | | Good capacity | | |

Mwanza City Council (MCC)'s key strengths, challenges and recommended actions

| Key Strengths | Key Challenges | Recommendations |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <ul style="list-style-type: none"> MCC uses MTEF and PLAN-REP as planning tools and has built capacity to use these tools effectively and also plans to establish an investment company that will manage investment projects to avoid political interference in business development projects Presence of effective financial processes which are automated, clean audit report from CAG, and presence of both risk and fraud management frameworks All MCC's staff members have generic job descriptions in accordance with national guidelines and also the Council ensures that OPRAS forms are completed and reviewed on annual basis MCC has a well defined decision making structure, the Full Council and the Council Management team that meet on a regular basis as planned and the leadership is committed to implementing agreed action plans Presence of a well defined organization structure that is aligned with the Council's (expired) strategy in compliance with PO-RALG guidelines | <ul style="list-style-type: none"> Absence of key strategic documents: MCC's strategic plan expired since 2015 and the process for developing a new strategy has not started due to limited funding Absence of revenue collection and resource mobilization strategy, mobilization of PPP resources and budget allocated for PPP projects Absence of HR strategy that define succession plans, knowledge transfer, training plans, staff recognitions etc. Absence of formal leadership development program and formal mentorship and low priority to PPP initiatives Limited flexibility in making changes to the Council's organization structure since the mandate for making any changes remains with PO-RALG Absence of ICT strategy which defines training plan, communication strategy, disaster recovery plan and staff's limited access to computers | <ul style="list-style-type: none"> MCC should develop and formally document a strategic plan that will guide it with PPP engagements as well as investment bi-laws to guide the Investment Committee in decision making on investment opportunities MCC should enhance its capabilities in PPP lifecycle management through creating and participating in PPP learning opportunities MCC should develop revenue collection and resource mobilization strategy and diversify its resource streams to reduce overdependence on central government and development partners MCC should strengthen the tender board and procurement management unit by creating platform for periodic learning on procurement practices outlined in the Public Procurement Act and guidelines while also orient itself in PPP procurement requirements and procedures MCC should develop a risk register specific for PPP projects and organize risk management training to departmental risk champions MCC should formalize the investment committee by ensuring that it's reflected in the existing council structures, its members' roles are clearly defined and also allocate budget for the investment committee to enable it function smoothly |

Moshi Municipal Council (MMC) is currently at developing level with an average score of 6.3 points out of 12 points.

| Moshi Municipal Council Maturity | | | |
|-----------------------------------------|---------------|---------------|---------------|
| CURRENT SCORE | | VARIANCE | DESIRED SCORE |
| 6.3 | | 1.2 | 7.5 |
| DOMAIN | CURRENT SCORE | DESIRED SCORE | PRIORITY |
| Strategy Environment | 5.0 | 7.0 | Medium |
| Financial Management And Sustainability | 8.0 | 9.0 | High |
| Human Resource Management | 6.0 | 7.0 | High |
| Leadership And Governance | 6.0 | 7.0 | Medium |
| Organizational Structure | 8.0 | 9.0 | Medium |
| Information Communication Technology | 5.0 | 6.0 | High |

| Basic | | | Developing | | | Advanced | | | Leading | | |
|------------------|---|---|---------------------|---|---|-------------------|---|---|---------------|----|----|
| 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | 11 | 12 |
| Minimal capacity | | | Capacity is evident | | | Adequate Capacity | | | Good capacity | | |

Moshi Municipal Council (MMC)'s key strengths, challenges and recommended actions

| Key Strengths | Key Challenges | Recommendations |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <ul style="list-style-type: none"> • MMC has a current strategic plan in place (2016 – 2021), uses MTEF tool as a framework for executing the strategy and has a budget of 25 million TZS allocated for the investment committee • All financial processes are automated, clean audit report from CAG, and also presence of a comprehensive risk management framework that includes a risk register • All staff have generic job descriptions in accordance with national guidelines and also the Council ensures that OPRAS forms are completed and reviewed on annual basis • MMC has a well defined decision making structure, the Full Council and the Council Management team meet on a regular basis as planned and there's also internal control policy in place • Presence of a well defined organization structure that is aligned with the Council's (expired) strategy in compliance with PO-RALG guidelines • Presence of active and well staffed ICT unit with its own local radio station. All core business units have been automated with EPICOR, LAWSON, LGRCIS and PSSN systems | <ul style="list-style-type: none"> • Absence of a stand alone PPP strategy and a stakeholders engagement and hence vulnerable in engagements with private sector, also MMC doesn't have the mandate to negotiate PPP projects as the mandate is centralized with the PPP Node of PO-RALG • Absence of clearly defined and well documented revenue collections and resource mobilization strategies • PMU unit not strengthened to facilitate PPP procurements and yet the link between the Investment Committee and PMU unit isn't clearly defined • Absence of HR strategy that define succession plans, knowledge transfer, training plans, staff recognitions, talent retention etc. • Absence of formal leadership development program • Investment Committee isn't reflected in the Council's current organizational structure and PPP decisions are largely centralized and made by PPP Node of PO-RALG • Absence of ICT strategy which defines training plan, document management, communication strategy, disaster recovery plan and staff's limited access to computers | <ul style="list-style-type: none"> • MMC should develop a database of all key strategic information on potential business investment opportunities and bi-laws to guide the Investment Committee in decision making on investment opportunities • MMC should formalize the investment committee by ensuring that it's reflected in the existing Council's structure • MMC should develop revenue collection and resource mobilization strategy and diversify its resource streams to reduce overdependence on central government and development partners • MMC should enhance its capabilities in PPP lifecycle management through creating and participating in learning opportunities • MMC should also develop organizational learning system within the council to enhance its learning agility and ensure knowledge transfer and sharing among the staff • MCC should develop a risk register specific for PPP projects |

PO-RALG PPP Node is among the five key bodies currently involved in PPP development process in Tanzania

Tanzania PPP Framework



PO-RALG PPP Node’s key strengths, challenges and recommended actions

Key Strengths

- Highly motivated and committed members who took initiatives to formalize the Node and have remained very committed in delivering their roles and responsibilities though not clearly defined and under difficulty operating environment
- The Node members are aware of the shortcomings of the PPP node and seem eager to develop their capacity in the area.
- Members of the Node have received PPP training conducted by the World Bank and there are plans to bring the PPP experts to share their knowledge and experience with the Node
- Members of the Node are full time employees
- PO-RALG PPP Node has a team leader with experience in general procurements.
- Functions of PO-RALG PPP Node are outlined in the PPP Act (2014) and its regulations (2015)

Key Challenges

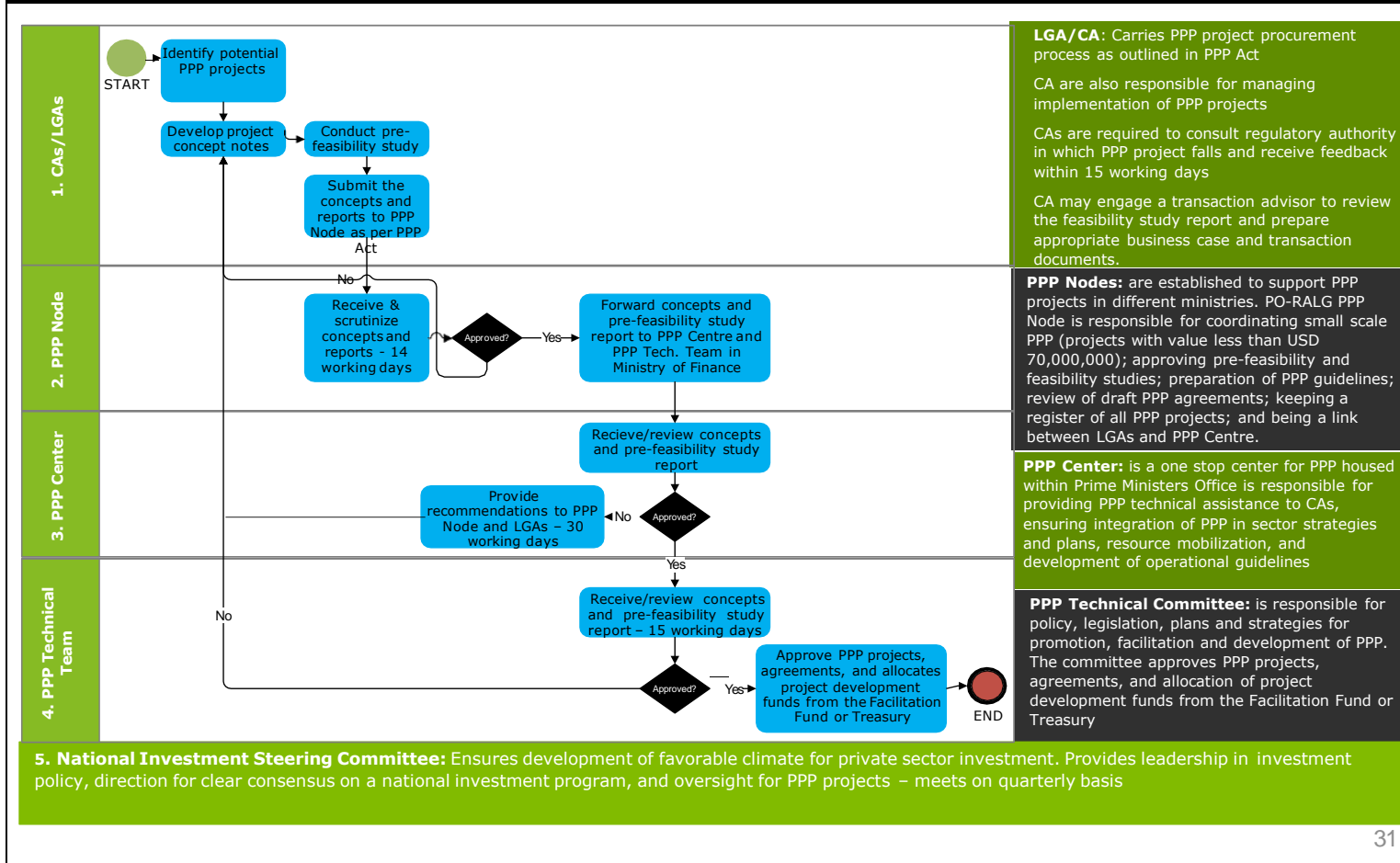
- Absence of strategic plan to guide its operations including mission and vision, communication and PPP stakeholders engagement
- Limited resources and budgetary constraints
- Absence of guidelines for small scale PPP approvals
- Absence of HR plan/strategy, inadequate human resources, limited PPP skills and training
- Absence of governing body and undocumented roles and responsibilities
- Unclear reporting structure, limited application of PPP frameworks and absence of PPP appraisal unit

Recommendations

- PO-RALG needs to develop a strategic plan that includes key statements of identity (vision and mission) to position itself well in its environment. Develop PO-RALG PPP Node strategic plan
- The PPP Node should develop small scale PPP guidelines for LGAs investment committees
- Develop stakeholders engagement and communication strategy
- Develop monitoring and evaluation framework to guide follow-ups of PPP projects
- PO-RALG PPP Node needs adequate resources for it to increase effectiveness in execution of its mandate
- Develop a resource mobilization strategy in order to increase resources for delivery of its mandate
- Participate in hands-on-PPP development trajectories together with LGAs investment committees.
- Engage aggressively in networking with the private sector to gain trust and understanding of key drivers that drives the private sector investments.
- Ensure clarity of roles and responsibilities of each node members and the reporting structure within PO-RALG

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The PPP development process involves five bodies, Contracting Authority / LGA, PO-RALG PPP Node, PPP Center located at Prime Minister’s Office, PPP Technical Team, and National Investment Steering Committee





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18 Annex J: City Level Infrastructure Assessment

18.1.1 City profile

18.1.1.1 Location of Arusha City

Arusha City is the headquarters of the East African Community (EAC), other international institutions and is also a major tourist hub, diplomatic and business centre in the northern regions. The City is within close proximity of the three most famous tourist destinations of Serengeti National Park, Ngorongoro Crater and Mount Kilimanjaro which is the highest in Africa.

According to the 2012 national census, the City had a population of 420,000. Another 325,000 people from surrounding Arusha and Meru Districts are in the catchment of the City also.

The City is situated at an elevation of about 1415 meters above mean sea level. The climate in Arusha is tropical with moderate to high rainfall averaging from 500 mm to 1,200 mm per annum, also falling in two distinct seasons i.e. between the months of October and December and between February and May. The temperatures are cool throughout the year with daily average temperature of between 14°C - 19°C during March - October. Warm period is between November and February when temperatures are around 20°C - 22°C.



Figure 20: Arusha City with Mount Meru in the background

18.1.1.2 City Master Plan

The Arusha Master Plan for the period between now and 2035 has been prepared and submitted to the central Government for approval. It proposes increase of the city area from 272 km² to 608 km², an addition of 330 km² from selected areas of Arusha Rural and Meru Districts.

By the year 2035, the Arusha Planning Area is expected to experience further rapid urbanisation and population growth. The development of the master plan indicates that Arusha City Council plans to formalise and improve some of the informal settlements and resettle some of the residents to new formal housing. It also plans to acquire land, have it surveyed and allocate plots that can be sold to the residents at an affordable cost. These improvements to informal areas and the resettlement of residents to planned areas could make households' access to formal services easier.



Figure 21: Arusha City Master Plan

18.1.2 Physical Infrastructure

The City's physical infrastructure includes:-

- Transport infrastructure such as roads, public transport terminals and vehicle parking
- Storm water drainage
- Water supply system including sources, treatment, transmission, storage and distribution;
- Sanitation facilities for both fluid and solid waste
- Power supply
- Telecommunication systems
- Social infrastructures and other amenities

18.1.2.1 Road connectivity (inter and intra city)

Arusha City and the region in general are well connected to the national and international highways as shown in Figure 3.0 The A-23 Arusha-Himo highway runs east-west and enters the region near Kilimanjaro International Airport. It connects Arusha with Moshi and then Himo at the Kenyan border. This roads ends at its junction with the A-104 road in the center of Arusha. The

A-104 runs northward, to the west of Mount Meru, from Arusha to Longido and Namanga at the Kenyan border before continuing to Nairobi. The A-104 also runs westward past Monduli to its junction at Makuyuni with the B-144 road that leads to Mto wa Mbu and the Ngorongoro Conservation Area. After that, the A-104 curves southward to the east of Lake Manyara and continues on to Babati and Dodoma. As part of measures to alleviate traffic congestion in the city, the Sakina – Tengeru section (14km) is being expanded

to dual carriageway while another 42km Arusha by-pass road is under construction to be ring road linking A-23, B-144 and A-104.

Arusha City has a road network of about 194km out of which 42km has bitumen surface, 44km is gravel and 108 are un-engineered earth roads. The road network in the central area is both in grid and radial pattern. The road network is fairly well developed in the City centre and surrounding suburbs. Due to the fact that significantly large part of the city is developed on unplanned land, road network in these areas is poor.

18.1.2.2 Rail connectivity

The City is connected to the single railway line from Moshi which is linked to Tanga and Dar es Salaam. Importance of this railway line has declined in favor of road transport.

18.1.2.3 Public transport

Arusha is served by the Kilimanjaro International Airport for international air travellers. The airport is located about 60 km east, off the Arusha-Moshi highway. The airport provides international and domestic flights. The Arusha Airport located in Kisongo suburb in the west of the city is a regional air hub serving domestic and tourist passengers.

Travel by road can be done through privately run coaches (buses) to Nairobi, Dodoma and Dar es Salaam, and other major cities in Tanzania.

Within the city and smaller towns, privately owned and operated dala-dalas (mini-buses) are used.

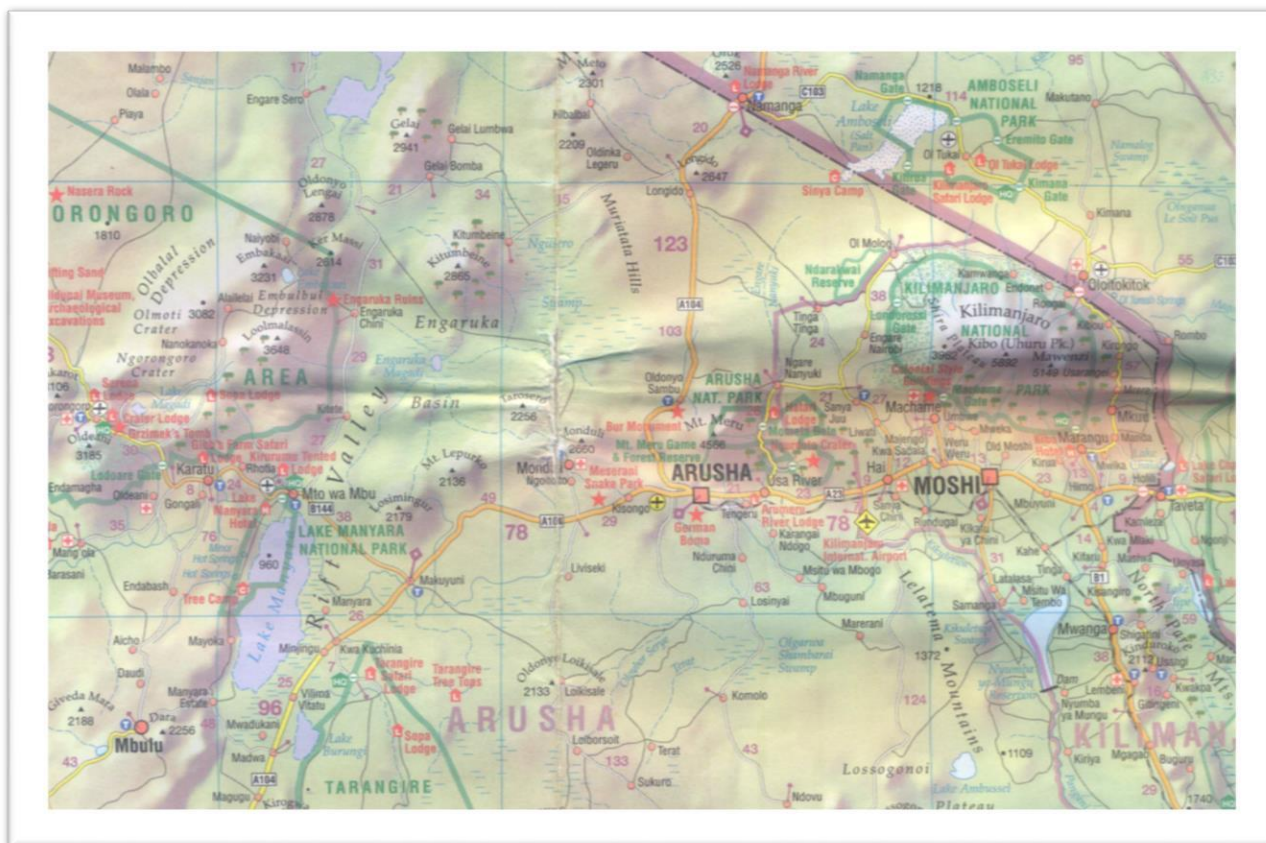


Figure 22: Arusha City Road Connections

18.1.2.4 Water supply

Arusha Urban Water Supply and Sanitation Authority (AUWSA) is fully autonomous public water and sanitation utility responsible for the overall operation and management of water supply and sanitation services in the city.

AUWSA's current service coverage challenges are partly the result of Arusha city's upgrading from a municipality to formal city status and the associated increase in population and area that AUWSA was responsible for. As a result of this change, coverage of AUWSA supplied water dropped from 98.5% to less than 44%. This was because the majority the population in the expanded areas were outside of the areas covered by AUWSA sewers or water supply network.

The ongoing water supply project when completed in 2019, will increase water production from current 40,000m³/day to 109,000m³/day. The project covers greater Arusha comprising Arusha city and surrounding areas. At completion the project will provide water to a population of more than 600,000 people in the City and additional 250,000 who commute to the city for business purpose during daytime. Within the scope of the project, the transmission and distribution network are being expanded and rehabilitated to cover about 355km which will improve water supply coverage from current 44% to 100%.

18.1.2.5 Sewerage

As mentioned earlier AUWSA's current sewerage service coverage challenges are partly the result of Arusha city's upgrading from a municipality to formal city status and the associated increase in population and area that AUWSA was responsible for. As a result of this change, the sewer coverage changed from 17% to 7.6%. This was because the majority the population in the expanded areas were outside of the areas covered by AUWSA sewers network.

Coverage of improved facilities in Arusha City was higher than urban areas nationally and regionally, at 87.6%. Connections to sewers in the City, in common with other urban areas in Tanzanian is low, at 7.6%. This means that the vast majority of residents in the City are reliant on either septic tank / latrine pit emptying or onsite containment, storage and treatment.

Recent studies have revealed a decrease in the use of traditional pit latrines in the City from 73% in 2002 to 58% in 2012 while people with flush toilets increased from 7% to 19% in the same period. This increase in the use of flush toilets is likely to have increased the volume of faecal sludge created in the city.

AUWSA's area of responsibility has a total population of 444,365 people, as projected from 2012 census report. Currently, AUWSA has 4,703 sewage connections including domestic, commercial, institutional, industrial customers. In 2016, 2269 of these connections are for domestic users. The number of sewerage customers is small because the sewerage network only covers the central area, Unga Limited and the areas surrounding the Lemara waste water stabilization ponds.

The total number of customers has increased from 4,191 in June 2012. This is only a marginal increase in proportion of connections over a four-year period when compared to the total number of households in Arusha City Council, 103,377 in 2012.

The wastewater treatment is carried out using waste stabilization ponds at the Lemara treatment facility. These are the responsibility of AUWSA. There are five ponds working in parallel and series. The first pond is anaerobic, followed by two facultative ponds working in parallel and finally two maturation ponds working in series. There are two sludge ponds within the pond area to treat sludge brought by cesspit emptier facilities. The effluent is ultimately discharged into Themu River which is mainly used for irrigation downstream. Monitoring of the ponds performance is done on a weekly basis by taking samples of incoming and outgoing waste water and analysing them to check the treatment efficiency of the ponds.

Ongoing sanitation project focuses on rehabilitation and expanding the sewerage network and sewerage treatment facilities. When completed in 2019, the sewerage network will increase by 135km and improve coverage from current 7.6% to 30%.

18.1.2.6 Storm water drainage

The Arusha City is located on the rift valley fringe of Naura Stream, with large parts lying on the bottom of Mt. Meru rising over 1,600 meters above sea level. However, the major part of the City lies between 1450 and 1160 meters above sea level.

The hilly terrain causes high velocities of storm run-off resulting in severe soil erosion in some parts of the City. However, this process has been exacerbated by urban development and increasing in the city population.

The drainage system in the city is comprised mostly of open drains lined and unlined with outfalls to the nearby streams.

18.1.2.7 Solid waste management

Arusha City Council is responsible for ensuring that solid waste generated in its jurisdictions is managed in an environmentally and economically sound manner that protects public health and safety. Solid waste management is strongly grounded in the need to safeguard the environment, conserve and recover material and energy resources, and protect public health and safety. Thus, the City Council is accountable to the public it serves to successfully plan and implement the solid waste management plans.

The City Council is responsible for collection of solid waste from premises and other waste collection centres in the City to the City's land fill dump site located at Muriet about 6km away south of the City Centre. The road linking the dump site to the City is being upgraded to bitumen standard. The dump site is also being rehabilitated and expanded.

18.1.2.8 Parking

Parking facilities are not publicly provided in the City. Parking of cars is done on the street or on the pavement of buildings.

The situation calls for any new development project in the City to consider provision of adequate vehicle parking.

18.1.3 Social infrastructure

The City's social infrastructure include education, health, recreational and other community facilities. These belong to the public and private institutions.

18.1.3.1 Educational facilities

Public and private nursery, primary and secondary schools are located in almost every ward of the city. There are also five international schools in and around Arusha.

There are several higher learning institutions and universities in Arusha city which include the National College of Tourism (Arusha Campus), Arusha Technical College, Tengeru Institute of Community Development, The Nelson Mandela African Institute of Science and Technology, Eastern and Southern African Management Institute (ESAMI), MS Training Centre for Development Cooperation (MS-TCDC), The Institute of Accountancy Arusha, Forestry Training Institute, Tanzania Wildlife Research Institute (TAWIRI), Tumaini University (Makumira Campus), The Arusha University and The Mount Meru University.

Planning for Aga Khan University-Arusha Campus is in the initial stages.

18.1.3.2 Health facilities

Government owned Mount Meru Hospital and a private owned Arusha Lutheran Medical Center are the large hospitals in the City. There also several other public and private hospitals, health centers and dispensaries in the City Council.

18.1.3.3 Tourism facilities

Tourism is a major part of the economy of the city of Arusha, and one of the largest foreign exchange earning economic sector in Tanzania. The city is located on the northern safari circuit near some of the greatest national parks and game reserves in Africa, including Serengeti National Park, Kilimanjaro National Park, Ngorongoro Conservation Area, Arusha National Park, Lake Manyara National Park, and Tarangire National Park.

Arusha boasts significantly large number of hotels and lodges in and around the city offering all classes of services up to the world class standard of accommodation.

18.1.3.4 Community facilities

Community facilities in this context may include libraries, community centers which are publicly funded or supported by a private organizations, cinema theaters, museums and art centers, auditoriums and concert venues, religious centers, sports and recreation facilities, and community gardens and parks.

Most of these facilities are available in the City but they are not adequate for the majority of the population or not are well distributed.

18.1.4 Summary of assessment of city level infrastructure

Summary of assessment of Arusha City level infrastructure showing status, adequacy, gaps and recommendations for improvement are presented in the following table.

Table 61: Summary of Arusha City infrastructure assessment

| Infrastructure | Status | Adequacy / Gaps | Recommendations |
|-------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------|
| Road connection | The city is well connected to the National/International road network | Connection of the city to the outside is adequate | None |
| Intra city roads | The town center and some suburbs have fairly good road network which is well maintained. Substantial part of the city is also developed on unplanned land resulting in to poor road infrastructure | The project area is located in the outskirts of the city and is accessed by a fairly good road The roads in the vicinity of the project area however are not well developed | More investment should be made to improve road network in outskirts of the city |
| Parking | Parking of cars is done on the street or on the pavement of buildings. | Parking is in general not adequate in the city centre and also outskirts | All developments in the city should consider provision of adequate parking |
| Water supply | The city center and some suburbs are well served with the water supply network | The water supply and network coverage meet current demand | None |
| Sewerage system | Only the town center is served with the sewerage system | Coverage of the sewerage system is small | More investment in sewer system is needed |

| Infrastructure | Status | Adequacy / Gaps | Recommendations |
|------------------------------------------|--------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------|
| Solid waste management | Solid waste is collected by trucks and delivered to the town's dump site | There are only few solid waste collection sites or containers in the city | More waste collection sites should be established in the city |
| Power supply | The town and the region are connected to the national grid | Electric power supply in the town is considered sufficient to meet current demand but power cuts and fluctuations are common like in other part of the country | Backup power supply is necessary for the proposed project |
| Telecommunications | Mobile phone, fixed line and internet services are available | The services are available adequately | None |
| Social infrastructure / amenities | Education and health facilities and amenities are available in the city | Existing social infrastructure and other amenities are adequate | None |

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