

AFRICAN DEVELOPMENT FUND



PROJECT: Zanzibar Urban Water and Sanitation Project **COUNTRY: United Republic of Tanzania**

APPRAISAL REPORT

Date: October 2012

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Currency Equivalents: July 2012

1 UA = TZS 2380.91
1 UA = USD1.51755
1 UA = EURO 1.20536

Fiscal Year

1 July – 30 June

Weights and Measures

1 metric tonne	=	2204 pounds (lbs)
1 kilogramme (kg)	=	2.200 lbs
1 metre (m)	=	3.28 feet (ft)
1 millimetre (mm)	=	0.03937 inch (“)
1 kilometre (km)	=	0.62 mile
1 hectare (ha)	=	2.471 acres

List of Acronyms

AfDB	African Development Bank	MLHWE	Ministry of Lands, Housing, Water and Energy
ADF	African Development Fund	MoEVT	Ministry of Education and Vocational Training
CBO	Community Based Organization	MoH	Ministry of Health
CPAR	Country Procurement Assessment Report	NGO	Non-Governmental Organization
CSP	Country Strategy Paper	OCGS	Office of Chief Government Statistician
DoH	Department of Health	PER	Public Expenditure Review
DoURP	Dpt. of Urban and Rural Planning	PIU	Project Implementation Unit
DoE	Department of Environment	PO- FEDP	President’s Office-Finance, Economy and Development Planning
DP	Development Partner	RGoZ	Revolutionary Government of Zanzibar
EA	Executing Agency	RWSSP	Rural Water and Sanitation Program
ESAP	Environmental and Social Assessment Procedure	O&M	Operation and Maintenance
ESIA	Environmental and Social Impact Assessment	OWAS	Operations, Water and Sanitation Department
ESMP	Environmental and Social Management Plan	PRSP	Poverty Reduction Strategy Paper
GoT	Government of Tanzania	QPR	Quarterly Progress Report
HBS	Household Budget Survey	RWSSI	Rural Water Supply and Sanitation Initiative
IA	Implementing Agency	RAP	Resettlement Action Plan
IWRM	Integrated Water Resources Management	ZSTCDA	Zanzibar Stone Town Conservation Development Authority.
JAS	Joint Assistance Strategy	RMC	Regional Member Countries
JICA	Japan International Cooperation Agency	TZFO	Tanzania Field Office
M&E	Monitoring & Evaluation	UfW	Unaccounted for Water
MTS	Medium Term Strategy	WSS	Water Supply and Sanitation
KfW	Kreditanstalt fuer Wiederaufbau	ZAWA	Zanzibar Water Authority
MDGs	Millennium Development Goals	ZMC	Zanzibar Municipal Council
NSGRP	National Strategy for Growth and Reduction of Poverty	MoSWYWC	Ministry of Social Welfare, Youth, Women and Children
(MKUKUTA)	and Reduction of Poverty	ZUWSP	Zanzibar Urban Water and Sanitation Project
ZSGRP	Zanzibar National Strategy for Growth & Reduction of Poverty		
(MKUZA)	-		

Loan Information

Client's information

BORROWER:	United Republic of Tanzania
EXECUTING AGENCY:	Zanzibar Water Authority

Financing plan

Source	Amount (UA million)	Instrument
ADF	14.0	Loan
Government	1.6	Counterpart
TOTAL COST	15.6	

ADF key financing information

Loan currency	UA
Interest type*	N/A
Interest rate spread*	N/A
Commitment fee*	0.5% (5 basis points)
Other fees*	0.75% (service charge)
Duration	50 years
Grace period	10 years
NPV (base case)	TZS 59.3 billion
EIRR (base case)	35.56%

**if applicable*

Timeframe - Main Milestones (expected)

Concept Note approval	April 2012
Project approval	December 2012
Effectiveness	March 2013
Completion / closing	December 2016
Last Disbursement	December 2017
Last repayment	December 2063

Project Summary

Project overview: The development objective of the Zanzibar Urban Water and Sanitation Project is to improve water supply and sanitation infrastructure and services in Unguja Municipality, which is Zanzibar's administrative centre and the hub of its economic, cultural and tourist activities. An investment of UA 15.6 million is proposed, over a time frame of 4 years, from 2013 to 2016, to rehabilitate and upgrade the water production, transmission and distribution systems and to provide sanitation and hygiene facilities in schools. At present, about one third of the Unguja installed water production capacity of 50,000 cum/day is operational, because some of the facilities require major rehabilitation or replacement. In addition, a significant proportion of the water produced does not reach the consumer tap, as it is lost on the way, through leakage, largely due to the poor operational condition of the distribution system, installed in the 1960s. Consequently, water services delivery in the Unguja urban area is discontinuous and unreliable and most customers get water only twice per week. The water infrastructure in the remaining urban areas of Zanzibar, i.e. in Pemba, is being rehabilitated under an on-going Bank funded project.

Project beneficiaries and impact: The proposed intervention will enhance public health and raise the living standards of the Unguja urban population, comprising about 500,000 people, equivalent to 40% of the total population of Zanzibar. Improved access to water supply will also sustain other services and socio economic activities, including tourism which makes a significant contribution to the economy of Zanzibar. Students and teachers in schools will benefit from improved sanitation facilities, while communities will benefit from sanitation and hygiene training and promotion. Vulnerable groups in the project area will also benefit from the project.

Project rationale and need: The project is consistent with the Country's Development Framework as laid out in the National Vision 2025 and Zanzibar's Vision 2020, which aim to improve living standards through sustainable development, including investment in basic infrastructure, such as water and sanitation facilities. It is also aligned with the NSGRPZ (2011-2015), the Zanzibar Water Policy 2004 and the Tanzania CSP (2011-2015), approved in June 2011. Following a Government request of March 2011, the Bank carried out an identification mission in July 2011. The project is consistent with the Bank's IWRM Policy (2000), Medium Term Strategy (2008–2012), and the Long Term Strategy (2013-2022). It is urgently needed to rehabilitate the existing Unguja urban water infrastructure. Project formulation was informed by a comprehensive Feasibility Study completed in February 2012.

Bank's value added: The Bank has the capacity to support the project, from its vast experience in water, sanitation and water resources management, which are among its core competencies. The Bank is one of the major Financing Agency that has been involved in the Zanzibar water sector since the 1980s. The Bank has also prepared a Gender Profile on Tanzania that includes water and sanitation aspects. The new project will complement the on-going ADF funded intervention, as discussed in section 1.2.

How the Bank intends to capture the knowledge / learn from the project: A feasibility study provided significant information about the project area and the status of the existing system. During project implementation, Bank's institutional knowledge will be further enhanced through project documents including progress reports, monitoring and evaluation reports, audit reports, midterm reviews and the project completion report which will be shared within the Bank.

Results Based Logical Framework

COUNTRY AND PROJECT NAME: Tanzania – Zanzibar Urban Water Supply and Sanitation Project

PURPOSE OF THE PROJECT: To provide safe, reliable and sustainable water and sanitation services and thereby contribute to improvement in health, social wellbeing and living standards of the beneficiaries.

RESULTS CHAIN		PERFORMANCE INDICATORS			VERIFICATION	RISKS and MITIGATION		
Impacts	Improved quality of life through provision of safe water and sanitation	Indicators	Baselines	Targets	Household budget survey, National Census, Demographic Health Surveys			
			Under five mortality rate	79/1,000 in 2010			50/1,000 by 2015	
		Access to safe water in urban areas	80% in 2010	95 % by 2015; 100% by 2020				
Outcomes	Improved access to water supply	Number of people with 24hrs water supply services (Saateni and Welezo)	16,000 (6%) in 2012	287,000 (100%) by 2016	ZAWA customer database ZAWA M&E system MKUZA Monitoring system Educational / Schools survey			
	Improved access to sanitation	No of primary schools with sufficient number of improved sanitation facilities (Saateni and Welezo)	2 (7%) in 2012	12 (45%) by 2016 (51.4% women)				
		No. of primary school students sensitized with sanitation and hygiene training (Saateni and Welezo pressure zone)	-	45,000 (100%) by 2016 (> 40% being girls)				
Improved institutional capacity	Percentage of billed customers paying (Saateni and Welezo)	About 35 %	80 % by 2016					
	Non-Revenue Water (Saateni and Welezo pressure zone)	About 65 % in 2012	Less than 35 % by 2016					
Component 1 - Water Supply Infrastructure								
Outputs	1.1 Boreholes installed, production volume increased, and transmission mains rehabilitated / extended.	Number of existing boreholes rehabilitated and new submersible pumps installed	-	30 (Saateni:15 and Welezo: 15) by 2016	Quarterly project report Field mission report Audit report Annual report			
		Number of new boreholes drilled and installed	-	10 (Welezo) by 2016				
		Quantity of water produced	< 17,000m ³ /day in 2012	36,755m ³ /day (Saateni: Welezo: by 2016				
	1.2 Pipe network rehabilitated and extended	Length of transmission and distribution pipelines rehabilitated / extended	-	68 km by 2016 (actual to be confirmed at detailed design)				
	1.3 Zonal and domestic meters installed	Number of zonal meters installed	4 in 2012	33 by 2016*				
		Number of domestic meters	897 in 2012	7,797 by the project 2016				
	Component 2 - Sanitation and hygiene promotion and infrastructure in schools							
	2.1 Sanitation and hygiene facilities constructed	No. of gender sensitive and disable friendly primary school sanitation and hygiene facilities (4 stands per facility)	254 in 2012 (Welezo and Saateni)	454 by 2016	Quarterly project report Field mission report Audit report Annual report			
	2.2 Sanitation and hygiene training sessions conducted	No. of school health and sanitation clubs established & trained- 50% boys, 50% girls	9 in 2012	33 by 2014				
		No of teacher training sessions (40% female)	0 in 2012	10 by 2014 (150 teachers)				
	No. of sanitation and hygiene training sessions/workshops conducted to Shehias water & sanitation committees-40% women	2 in 2010 (Unicef)	8 by 2014					
Component 3 - Institutional / Management Support								
3.1 Management Support	Technical assistance experts.	1 (by UN Habitat)	2 (by the project) by 2014	Quarterly project report Field mission report Audit report Annual report				
3.2 Value for money audit	Value for money audit carried out during midterm review.	-	100% in 2014					
3.3 Shehia water committees	Nr. -Shehia water committees (40% women) established & trained	40	84 by 2014					
3.4 Enhancement of ZAWA environmental and social management	Environmental and social management plan implemented.	-	100%					
	Annual environmental compliance audits by Dpt of Environment.	-	100%					
	Water policy review in respect of gender aspects	-	100% by 2014					
	Gender sensitization training of ZAWA (all staff)	0	2 per year - 9 by 2016					
3.5 Enhancement of ZAWA commercial capacity	Improved tariff structure developed and implemented.	-	100% by 2014					
	Improved billing system introduced.	-	100% by 2014					
Activities								
	1. Water Supply Infrastructure - Detail design, rehabilitation and construction of water infrastructure					12.90		
	2. Sanitation and hygiene promotion and infrastructure - Construction of sanitation facilities and sanitation & hygiene training					1.20		
	3. Institutional Support & Reforms - Project management support and annual technical & financial audit					1.50		
						15.60		

1. **Lack of timeliness** due to effectiveness and implementation delays. **Mitigation:** (i) Effectiveness conditions streamlined (ii) experience gained by project staff on the on-going project, and on-going institutional capacity development will support the new project (iii) advance procurement.

2. **Environmental concerns:** incl. potential salt intrusion to aquifers. **Mitigation:** (i) Project ESMP will be implemented.

3. **Inadequate service levels and lack of sustainability** due to ZAWA's performance and condition of existing systems. **Mitigation:** (i) ZAWA's performance is being improved by capacity building under the on-going project (ii) refurbishment of existing systems and metering will lead to better system operation and water demand management (iii) the government to review the tariffs with the aim of making ZAWA self-reliant and sustainable - the project includes an undertaking in 5.2.3 in this respect.

4. **Stone town Heritage impacts.** **Mitigation:** The project will adhere to internationally accepted historic cultural heritage conservation practices during design and implementation.

5. **Potential Fiduciary risks (procurement and financial management):** Risk is 'moderate' taking into account mitigation measures in Annex B4 and B5

REPORT AND RECOMMENDATION OF MANAGEMENT TO THE BOARD OF DIRECTORS ON A PROPOSED LOAN TO TANZANIA FOR THE ZANZIBAR URBAN WATER AND SANITATION PROJECT

Management submits the following Report and Recommendation on a proposed loan of UA 14 million on ADF terms to finance the Zanzibar Urban Water Supply and Sanitation Project in the United Republic of Tanzania.

I – STRATEGIC THRUST & RATIONALE

1.1 Project linkages with country strategy and objectives

(a) The Project development objective of providing improved access to water and sanitation is consistent with the country's overall development framework and long-term socio-economic development goals as laid out in: (i) Tanzania's Vision 2025 and (ii) Zanzibar's Vision 2020, which aim to reduce poverty and improve living standards through sustainable development, including investment in basic economic and social infrastructure, such as water and sanitation facilities.

(b) The project is also aligned with: (i) Pillar 1 of the Tanzania Country Strategy Paper (2011 – 2015) which focusses on infrastructure, including water supply and sanitation, as an enabling factor to boost economic growth and improve the quality of life and social well-being (ii) Cluster 2 of the Zanzibar Medium Term Development Framework ZSGRP (2010/2011 – 2014/2015), which focusses on the improvement of social services and wellbeing, including access to water and sanitation services. Furthermore, the project is consistent with the Zanzibar Water Sector Policy (2004), which aims to improve the social wellbeing of the population and enhance the performance of the economy by ensuring equitable provision of adequate and reliable water and sanitation services. The policy also emphasizes cost recovery for services provided, sustainability of investments and environmental protection of existing resources.

1.2 Rationale for Bank's involvement

(a) Following a Government request dated 16th March 2011, the Bank carried out an Identification mission in July 2011 and concluded that the project is urgently needed to rehabilitate existing infrastructure. The project is consistent with: (i) the Bank's Integrated Water Resources Management Policy (2000), (ii) the Bank's Group Medium Term Strategy (2008 – 2012) and (iii) the Bank's Long Term Strategy (2013-2022) that aims to support Africa's transformation by promoting sustainable economic growth through investment in infrastructure, while enhancing inclusive growth, community participation and gender parity.

(b) The proposed project will consolidate the Bank's continued support to the Zanzibar water sector which started in November 1986, with a UA 0.6 million ADF funded feasibility study leading to an ADF funded UA 7.83 million loan for a rural water supply and sanitation project, which was approved in 1991. The project was however, cancelled after 50% disbursement, due to Government non-fulfilment of conditions relating to the introduction of water tariffs needed for cost recovery and sector sustainability. Support to the sector, from other Development Partners was also affected. Subsequently, the Government implemented sector policy and legislative reforms and water tariffs were introduced in August 2008. The Bank re-engaged in the Zanzibar water sector, in November 2008, with the approval of an on-going UA 28 million water and sanitation project.

(c) The on-going Bank funded project includes an institutional support component to improve ZAWA's operational and commercial performance in order to ensure sector sustainability. However, ZAWA is currently facing difficulties to operate worn out parts of the Unguja urban water system. Rehabilitation and upgrading of the existing water infrastructure under the new project will therefore complement on-going operational improvement initiatives. The remaining urban water systems in Zanzibar, which are located in the island of Pemba, are being rehabilitated and upgraded under the on-going Bank funded project.

(d) Overall, the Tanzania portfolio is satisfactory. The 2011 Country Portfolio Performance Assessment (CPPA) rating was 4.0 while the AfDB Country Performance Assessment Rating was 3.88. The on-going Zanzibar water project has been slow in disbursement mainly because of start-up (effectiveness) delays and procurement bottlenecks. However the major works contracts have already been awarded and disbursement will improve. The design of the new intervention includes lessons from the on-going project. In addition the project team implementing the current project has gained relevant experience and will be available to support the new project with additional TA support to be provided by the new project.

1.3 Donor coordination in Tanzania

About 42 Development Partners provide development assistance to Tanzania. In line with the donor harmonization agenda, the Bank's main modality of engagement with the Tanzania Government and other stakeholders is the Development Partners (DP) Group, which comprises 17 bilateral partners, 4 multilateral institutions and 17 UN Agencies. In addition to project financing, Bank's support is channelled through general budget support (GBS) and sector wide or program based operations (SWAPs/PBAs). The Bank has joined basket funding modalities in the water and agriculture sectors, which have been integrated into harmonized frameworks allowing for joint implementation, monitoring and supervision as well as sharing the same financial and implementation reports released by the Government. The GBS and SWAP/PBA framework is anchored by a dialogue mechanism between the Government and DPs, which consists of four clusters, 26 thematic / technical working groups and seven sector working groups. The Bank is active in the thematic as well as the sector working groups. An on-going water sector development program (SWAP) in Tanzania mainland is co-financed by the Government and the DPs, including the Bank, with a financing envelope of about UA 700 million, making it the largest SWAP in sub-Saharan Africa. Below are details of the water sector financing. As discussed in section 1.3 below, the dialogue mechanism on the Mainland does not cater for Zanzibar.

Total UA 176 m %	Government	Donors	Key DPs WB KfW AfDB AFD DIFD MCC JICA
	UA23 m 13%	UA 153 m 87%	
Level of Donor Coordination			
Existence of Thematic Working Groups			[Yes]
Existence of SWAPs or Integrated Sector Approaches			[Yes]
ADB's Involvement in donors coordination			[Member]

*Based on budgetary allocation

1.4 Donor activities in Zanzibar

Development Partners in the Zanzibar water sector are AfDB, JICA, UNICEF, UN HABITAT and the European Union. In Zanzibar, where many of the sectors including the water sector operate independently of the mainland sectors, aid harmonization / coordination mechanism is still under development. The UNDP is currently providing capacity strengthening of RGOZ in aid management and coordination. An on-going Bank operation is jointly funded with UN HABITAT. The new project will have synergies with on-going JICA support towards institutional capacity development of ZAWA. The World Bank is currently providing support to the Zanzibar Municipal Council. Options for co-financing with other DPs were explored but no additional funding was committed. Further details are given in Annex A1.

II – PROJECT DESCRIPTION

2.1. Project components

The sector goal is to contribute to socio-economic development, poverty reduction and improvement in the standards of living and social well-being of the population by ensuring equitable and sustainable provision of reliable water and sanitation services. The project objective is to improve water supply and sanitation infrastructure and services in Unguja municipality, Zanzibar.

Table 2.1: project components

Component	UA million	Component description
Water supply infrastructure	12.9	<ul style="list-style-type: none"> ▪ Consultancy services for detailed designs and supervision of construction works ▪ Refurbishment of production facilities, including installation of new borehole pumps: 30 No. ▪ Drilling and installation of new boreholes: 10 No. ▪ Rehabilitation/extension of pipe networks: 68 km ▪ Supply and installation of zonal meters: 33 No ▪ Supply / installation of domestic meters: 6,900 ▪ Supplementary activities including power installations, chlorination facilities, O&M equipment and landfill for disposal of project waste.
Sanitation / hygiene promotion and school WASH.	1.2	<ul style="list-style-type: none"> ▪ Consultancy services for design and supervision of works. ▪ Construction of gender sensitive school water supply & sanitation facilities (WASH) plus sanitation and hygiene promotion and training in schools and communities.
Institutional/ management support	1.5	<ul style="list-style-type: none"> ▪ Project management support / technical assistance, training, value for money audits. ▪ Enhancement of ZAWA commercial and operational capacity, environmental & social management. ▪ Gender review of the water policy and gender sensitization of ZAWA staff.

The water supply component will improve the existing water facilities, based on a feasibility study funded by the Bank. Detailed designs will be carried out prior to implementation. The sanitation and hygiene component will support the construction of school sanitation and hygiene facilities and will include hygiene and sanitation awareness promotion. The institutional support component will complement on-going capacity building activities aimed at enhancing ZAWA's capability in operational and commercial management (as discussed in section 1.2 (c) and will include support in project management. A more detailed description of the project components is given in Annex A2.

2.2. Technical solution retained and other alternatives explored

(a) Technical solutions retained are based on international best practice, while taking into account technology used in the current infrastructure, investment needs and operation costs. Project formulation and prioritization was based on a Feasibility Study of the project. Refurbishment and upgrading of the existing systems is a major feature of the proposed solutions in order to facilitate reduction of water losses, enhance service delivery and improve revenue generation. Technical deficiencies in the existing system will also be corrected, including creation of proper pressure zones and development of appropriate pumping arrangements to enable efficient operation. At present, high and low pressure zones are interlinked, which is bad practice. Direct pumping to consumers, whereby the storage tanks are bypassed, will also be eliminated.

(b) Alternative configurations of the entire water supply system, including locations of boreholes, transmission mains, storage tanks and primary distribution mains in each zone were investigated during the feasibility study and least cost solutions chosen. Bulk and zonal meters will be installed to enable appropriate water system management based on reliable flow measurements while domestic meters will be installed to enable measurement of consumption to facilitate billing and revenue collection from customers. Sanitation and hygiene interventions in schools will be based on standard guidelines developed by the Government of Zanzibar, which are in line with International Standards and take into account regional experience. Alternative project systems considered are given below.

Table 2.2: Project alternatives considered and reasons for rejection

Alternative name	Brief description	Reasons for rejection
Solar powered pumping systems	Drilled production boreholes using solar powered submersible pumps	The required investment would be too costly.
Hand pumps.	Drilled or hand dug wells fitted with hand pumps.	Not suitable for the large communities in the urban area. Low rate of recharge and water quality concerns.

2.3. Project type

The Zanzibar Urban Water and Sanitation Project is a project based operation, involving direct project financing.

2.4. Project cost and financing arrangements

The project cost is UA15.6 million, net of taxes, comprising UA 12.48 million (80%) in foreign costs and UA 3.12 million (20 %) in local costs. An ADF loan of UA 14 million has been proposed together with a Government contribution of UA 1.6 million. Project cost tables are given below and are based on the following main assumptions: (i) the project duration is 4 years, from 2013 to December 2016 (ii) exchange rates are based on AfDB figures for July 2011 (iii) there is a contingency allowance of 15 %, comprising 10% (physical contingency for works) and 5 % overall price contingency, foreign and local (iv) unit costs for works are based on a feasibility study completed in February 2012 (v) no provision has been included for duties and taxes, which are to be paid by the Employer.

Table 2.3: Project cost estimates by component [amounts in million UA equivalents]

Components	Foreign currency	Local currency	Total Costs	% foreign
Water supply infrastructure	9.10	2.26	11.36	
School water and sanitation	0.84	0.21	1.05	
Institutional support	1.20	0.30	1.50	
Total base cost	11.14	2.77	13.91	80
Physical contingency	0.90	0.23	1.13	
Price Contingency	0.44	0.12	0.56	
Total project cost	12.48	3.12	15.6	80

Table 2.4: Sources of financing [amounts in million UA equivalents]

Sources of financing	Foreign currency	Local currency	Total Costs	% total
ADF	12.24	1.76	14.00	89.75
Government of Tanzania	0.00	1.60	1.60	10.25
Total project cost			15.60	100.00

Table 2.5: Project cost by category of expenditure [amounts in million UA equivalents]

Categories of expenditure	Foreign currency	Local currency	Total Costs	% foreign
Works	10.34	2.25	12.59	
Goods	0.35	0.09	0.44	
Services	1.33	0.24	1.57	
Miscellaneous	0.46	0.54	1	
Total cost	12.48	3.12	15.6	80

Table 2.6: Expenditure schedule by component [amounts in million UA equivalents]

Components	2013	2014	2015	2016	Total
Works	-	5.28	6.06	1.26	12.59
Goods	0.09	0.13	0.18	0.04	0.44
Services	0.31	0.47	0.63	0.16	1.57
Miscellaneous	0.20	0.30	0.40	0.10	1.00
Total cost	0.6	4.68	6.24	1.56	15.60

2.5. Project's target area and population

The project will benefit the population in the urban area of Zanzibar. Priority has been accorded to the most populated zones of Saateni and Welezo, with a projected population of 287,000 (51.4 women). Vulnerable groups, such as people in retirement / old age homes; 63 senior citizens will also benefit directly and two orphans homes from the project, while schools (200 schools with total students of 45,000 of which girls represent 49.1%) will benefit from the sanitation interventions. The project will also provide employment opportunities to local people, including youth as well as service providers including consultants, NGOs and contractors. All the population in the project area and beyond will benefit from the hygiene promotion through the media.

2.6. Participatory process for project identification, design and implementation

2.6.1 Participatory process during identification and design: The Bank's identification, preparation and appraisal missions consulted with all key stakeholders including senior central and local government officials, representatives of public and private sector institutions, community leaders and community members, beneficiaries, school representatives, village water committees and NGOs. The consultative process which was supplemented with field visits to the project sites provided valuable feedback which was incorporated in the project design. The key outcome of the consultations is that the project will significantly benefit the Unguja urban population and is urgently needed. Participants expressed dissatisfaction with the current level of water services and stressed that willingness to pay would not be a problem if reliable services are provided. Women expressed a strong desire for the project, as it will improve general livelihood and reduce health hazards among children. Pursuant to OPSCOM guidance, a further stakeholder consultative workshop, involving all key stakeholder groups, was conducted during the appraisal mission on 1st August 2012. Below is a summary of key concerns raised during the workshop and provisions included in the project design. Additional details are given in Annex B8.2

Stakeholder concern	Provisions in project design
(a) Heritage site impacts: Intervention in Zanzibar Stone Town need special attention to avoid compromising its status as a UNESCO World Heritage Centre including its socio-economic and touristic significance.	ZSTCDA has granted a permit for the project which is subject to specific conditions and directives, which have been included in the ESMP and will be followed by the project. ZSTCDA will designate a special engineer to the project for professional guidance
(b) Sustainability: The project should not only focus on technical feasibility but also consider other aspects including institutional, managerial and political aspects.	The project feasibility included socio-economic analysis, economic and financial feasibility and environmental feasibility, in addition to technical feasibility. Institutional and political considerations are discussed in section 4.2
(c) Environmental and social concerns: Stakeholders expressed concern with regard to potential hazards from: (i) use of water from insecure sources such as water vendors and traditional sources (ii) sanitation hazards from overflowing of septic tanks and the capacity of ZMC to handle the situation.	(i) The new project will enable better service delivery. (ii) With regard to sewerage and waste water, the capacity of the ZMC is being improved under an ongoing World Bank funded project. ZMC is also preparing a sanitation master plan. Furthermore, the on-going Bank funded project includes support to the sewerage department.

2.6.2 Participatory process during implementation: One of the key stakeholders, ZSTCDA, will participate in the project implementation through a special ZSTCDA engineer to be designated to the project. Relevant institutions and utilities in the project area, including ZMC and the Zanzibar Electricity Corporation (ZECO) will be consulted/engaged during project implementation. Key Government ministries (MoEVT, MoSWYWC) will be represented in the project task team and will directly participate in the implementation of the project. Community groups and other beneficiaries will be engaged by ZAWA through advocacy and community awareness programs included in the project. As advised at the stakeholder workshop during the appraisal mission in August 2012, ZAWA will hold further consultative workshops during project implementation to updated stakeholder groups on the progress of the project. The Bank will engage with ZAWA and the Government in respect of the sustainability of the investment, including establishment of a Utilities Regulatory Authority, in order to regulate services and tariffs.

2.7. Bank Group experience, lessons reflected in project design

To date, 116 Bank Group operations have been approved in Tanzania, with a total commitment of UA 1.91 billion. Lessons from completed and on-going operations have been used in the design of the new intervention. Key lessons are shown below and in Annex B1.

(a) Potential delays in effectiveness, first disbursement and project implementation.

Potential project effectiveness delays will be mitigated by streamlining and reducing the number of loan conditions and engagement with the Borrower. Start-up delays will be mitigated by use of Advance Contracting. The experience already gained by the team implementing the current project will be available for the new project in addition to TA support.

(b) Integration of infrastructure improvements with capacity building and adequate strategic planning enables Water Utilities to improve their performance and cost recovery and promotes sustainability of water investments which depends on the strength of the institutions responsible for their operations and maintenance.

ZAWA's operational and commercial management challenges are being addressed under an institutional support component of the on-going project. Areas of focus include appropriate human resource deployment, operational management including reduction of non-revenue water and commercial management including timely billing and collection for cost-recovery and revenue enhancement. The project also includes provision for installation of bulk meters and 6900 domestic meters, while ZAWA plans to install 4000 meters during 2012/2013. Currently there are 897 domestic meters, 226 commercial meters, 19 meters for institutions, 2 meters for water kiosks and 2 meters for water tanker points.

(c) Pro-poor service delivery and inclusive growth require adequate consideration; otherwise poor communities may revert to unprotected water sources.

ZAWA tariff structure is being reviewed under an institutional support component of an on-going project. The new project will support ZAWA to ensure that, in addition to the target of achieving financial and economic objectives, the urban poor are protected through a pro-poor tariff such as use of increasing-block tariff system including a lifeline tariff. Public kiosks will also be constructed.

2.8. Key performance indicators

Key project performance indicators are based on standardized core sector indicators developed by the Bank. Baselines and targets have been established. Outcome indicators will be: (i) number of people with improved access to water supply (ii) number of schools with sufficient number of improved sanitation facilities (iii) improved institutional capacity in terms of percentage of customers paying and non revenue water reduction. Output indicators will include: (i) number, types and/or lengths of facilities installed / rehabilitated including boreholes, pipelines, water meters (ii) number of gender sensitive and disable friendly school water and sanitation facilities constructed or rehabilitated (iii) number of technical assistance experts provided (iv) number of school health and sanitation clubs established and trained (disaggregated) (v) number of teachers trained (disaggregated) (vi) number of Shehia water committees established and trained in hygiene and sanitation (vii) number of communities trained in hygiene and sanitation (disaggregated). Impact indicators will include (i) under-5 mortality rate and (ii) access to safe water.

III – PROJECT FEASIBILITY

3.1. Economic and financial performance

Table C.1: key economic figures

NPV (base case)	TZS 59.3 billion
EIRR (base case)	35.56%

NB: detailed calculations are available in Annex B7

(a) In 2008, the Revolutionary Government of Zanzibar (RGoZ) published a Water Regulations (Amendment) introducing tariff structures to be applied in the billing for water consumption. For domestic water users, a flat tariff of TZS 4,000 (approx. USD 1.70) per month was introduced, though currently consumers are required to pay TZS 2,000 (approx. USD 0.85) per month. The published regulations also set tariffs for institutional consumers. The reduction in the flat domestic tariff specified in the regulations has negatively impacted the ability of ZAWA to generate sufficient revenue to meet its obligations. The country is making progress in sensitising consumers on the benefits of paying for water services.

(b) The RGoZ continues to subsidise ZAWA to meet its monthly obligations, especially the energy and labour costs. The audit reports for ZAWA indicate that the biggest debtors of ZAWA are the domestic consumers whose recoverability is a challenge. Of the TZS 5,922m (USD 2.4m) in debtors as at 30 June 2012, 87% are domestic debtors. Due to the composition of the debtors, the existing tariff structure and current collections from debtors, ZAWA is unable to generate sufficient revenue to cover its operations and maintenance costs (O&M), let alone the investment costs, without support from RGoZ. While in the interim, the continued support by GoZ is key to the financial sustainability of the interventions, the project includes mitigation measures discussed under section 4.4, to ensure sustainability of the investment in the long term.

(c) For the EIRR analysis of this project, the underlying key assumptions are provided in Annex B7. The project delivers an Economic Internal Rate of Return (EIRR) of 35.56% and a positive base case NPV of 59.3 billion Tanzania Shillings, based on economic benefits. The economic analysis assesses the beneficial impact of the proposed interventions based on the results of the willingness to pay for new and improved water supply and sanitation in Unguja town. It also highlights the broader strategic socio-economic and environmental impacts associated with the program interventions in terms of employment generation, public health and the reduced incidence of waterborne and water-related diseases, reductions in mortality rates, environmental degradation and increasing pollution and fulfilment of local, regional and national development plans. The assumptions utilise the findings of the WHO Evaluation of Costs and Benefits of Water and Sanitation improvements assessment at the Global Level. These findings indicate the benefits arising from reduced costs of health interventions arising from water and sanitation improvements. For the treatment of diarrhoea, health service unit costs are taken from WHO regional unit cost databases. The following broad parameters constitute the variables for the assessment; (i) time savings related to water collection or accessing sanitary facilities; (ii) patient health treatment and travel costs saved; and (iii) value of less adults, infants and students falling sick with diarrhoea.

3.2. Environmental and social impacts

3.2.1 Environment requirements

The development is a water supply project with very minimal and localised environmental impact hence classified as category 2 and validated by ORQR 3 on 24 April 2012 in accordance with the Bank's ESAP. While in terms of ESAP, only an ESMP is required, an ESIA was also prepared in accordance with the Zanzibar Environmental Management for Sustainable Development Act No. 2 of 1996. An environmental certificate has been issued by the Department of Environment Zanzibar and a permit issued by the Stone Town Conservation and Development Authority for areas affecting the national heritage sites. The ESMP summary was posted on the Bank's website on 1 October 2012.

3.2.2 Environmental impacts

The project will have significant positive impacts including improved access to safe drinking water and reduction of water borne diseases. Anticipated negative impacts can mostly be mitigated and they include potential salt intrusion into aquifers which will be mitigated by appropriate hydrogeological investigations prior to siting of boreholes and subsequent monitoring of all the production boreholes and through use of observation boreholes. Another significant and negative impact is the increased production of sewage due to increased water supply; while there are no proper and adequate treatment facilities; it will be mitigated through capacity building of ZAWA and relevant communities in water conservation and reuse. Potential aquifer depletion will be mitigated through the implementation of an integrated water resources management component under the on-going project which will also support ZAWA in appropriate monitoring and conservation of water resources.

3.2.3 Environmental health impacts

Potential ponding around new communal water points leading to breeding of disease vectors will be prevented by construction of drainage channels around the water points and training water committees on good sanitation and hygiene practice. Potential health risks such as diarrhoea due to water contamination will be mitigated by eliminating direct pumping of water to consumers all borehole water feeds into reservoirs which incorporate water treatment disinfection facilities. Rehabilitation of the distribution network will also reduce exposure to contamination.

3.2.4 Climate Change

The project involves upgrading of a system that already uses electricity generated from thermal and hydro power plants for pumping water and other energy consuming activities. Converting to renewable energy was found to be too costly, based on findings of the feasibility study. To offset the carbon emissions, the project will include awareness of greening communities in the awareness raising and training modules. As per the Zanzibar climate change action plan, climate change in the area is likely to result in less frequent but more intense precipitation hence more surface runoff, erosion and less recharge of ground water; saltwater intrusion in wells near the coast due to rising sea level and over abstraction; and increased occurrence and intensity of future disease outbreaks especially water borne diseases due to frequent flooding. Siting of boreholes and construction of related infrastructure will be outside 1:100 flood lines and aquifer monitoring will be a key management tool for the water supply project. Due to the project being an upgrade, it has insignificant impact on climate change.

3.2.5 Gender and social

Below is a review of the gender and social aspects. Table 3.2 shows the social economic status of the project area. Project design considerations are detailed in Annex B8.

(a) Common problems related to water supply and their causes and effects on family welfare are frequent water shortages, lack of adequate water sources, long queues, and lack of money to buy water. The major effect on households include health problems, high cost of buying water from vendors, women spending a lot of time in queuing for water, and poor hygienic conditions due to lack of enough water.

(b) HBS 2009/10 revealed that culturally women are responsible for health and wellbeing of society in their roles as wives and mothers but few women make decisions on spending households' income. While women are found to be more active in providing water and ensuring health and wellbeing for the households, ZAWA gives little regards to the role of women in water provision and management. A gender review of the Water Policy and gender sensitization of ZAWA staff has therefore been included in the project. This will enable ZAWA to empower and reach out to communities increasing their knowledge and ownership and to support women's voices in the sector. Moreover, the project will support the involvement of women in decision making roles in water development programmes, in accordance with MKUZA II, through enforcing participation of women and sensitization in Shehias' committees. The supply of water will reduce the share of the household budget spent on buying water

from water vendors for use in other needs. The increased supply of water will also impact on the price the vendors can charge. To avoid conflict the project in collaboration with the MoSW will seek measures to engage with the vendors. Water kiosks to be built under the project, will provide employment opportunities for those who will manage them.

(c) MKUZA II emphasises that all schools need to have reliable water and sanitation services including hand washing facilities which are important for a conducive learning environment needed for good quality education. The project will provide improved gender and child friendly physical facilities in schools by taking gender aspects into consideration in the design of the facilities (with due consideration to female-male ratio for toilets; significant distances between the male and female facilities among other considerations), based on the Ministry of Education (MOE) standards which stipulate one toilet for every 40 students. Priority will be accorded to the most needy schools in the project area based on a database developed by MOE.

(d) Diarrheal disease is one of the highest causes of morbidity in Zanzibar and accounts for a significant percentage of deaths. Among other causes, diarrhea is attributed to bad hygiene and sanitation as well as usage of water from unsafe sources. By providing reliable water supply the project will assist in reducing water borne diseases leading to improved health and well-being. In addition, provision of adequate sanitation facilities in schools will reduce health vulnerability resulting from environmental hazards, while hygiene education in schools and hygiene promotion in communities will increase awareness of good hygiene practices.

Table 3.2 Socio-economic and gender status of the project area

Area and location	230 square kilometers - Stone Town Urban Area, Urban (West) District of Unguja, locally known as Mjini District and the Magharibi District
Population details	2002 census (total population - 383,983 with 51.4% women); average population density is 1,696 person per square kilometer and average population growth rate is 3% (2011). Estimated population in 2011 - 508,000
Life Expectancy	58 years in 2003. expected to be 66 years by 2020 (National Bureau of Statistics, 2006)
Livelihood	HBS 2009/10 shows for both districts: (i) 25% of the population living in households with non-economic activities; (ii) high percentage of students; (iii) self-employment and (iv) largest employer is government.
Poverty Line	There is significant improvement regarding basic needs poverty since 2004/05. However, there is almost no change in food poverty. (HBS 2009/2010)
Education	(i) literacy rate 82% for men and 76% for women (MKUZA II October 2010); (ii) school enrolment 88.1 for boys and 90.2% for girls (HBS 2009/2010); (iii) the number of females who dropped out of school increased slightly from 4,175 2004/05 in 2004/05 to 6,857 in 2009/10; (iv) 1.7% of pupils among those attending schools were reported to be with disability; The dropout rate from primary school is about 64%. The dropout rate is about the same for boys and girls up to standard 7 where more girls drop out.
Household Income	Annual average household income in the two Districts of the project area at TZS 483,520 TZS per month, with significant amount spend in buying water from water vendors (HBS 2009/10). Gender gaps still persist and especially in regard to mainly economic opportunities
Health Issues	(MKUZA II October 2010) •infant mortality 54/1,000 in 2007/08; •child mortality 79/1,000 in 2007/2008; •maternal Mortality rate 279/100,000 in 2009; •most common diseases - fever 36.9 %; malaria 22.9 %; diarrhea 7.8%.
Setup (administrative)	The two districts currently have 45 <i>Shehias</i> (Local Authorities) with various committees, women are usually represented in all committees but mostly not in equal number to men
Access to Water	Women in urban areas are responsible for providing the households with water since currently people access water either through water vendors or from public pipes (HBS 2009/10)
Gender Equality Index	The 2009 GEI ranks 157 countries by measuring women's relative economic activity, education and empowerment, Tanzania is ranking no. 35. There is certainly good evidence of multi-dimensional aspects of gender disadvantage in Zanzibar, such as women's lack of power to control important decisions that affect their life at the household level (HBS 2009/10)
Decision Making	Women are vital for economic and social development. They are culturally responsible for health and wellbeing of society in their roles as wives and mothers (HBS 2009/10)

Involuntary resettlement

There is no involuntary resettlement foreseen.

IV – IMPLEMENTATION

4.1. Implementation arrangements

4.1.1 Executing Agency and institutional arrangements

ZAWA, a semi-autonomous Agency, under MLHWE, will be the Implementing Agency with overall responsibility for the implementation of the project, which will be managed within its existing set-up. The MLHWE will be the Executing Agency. There will be no standalone PIU, but a dedicated project team (task force) will administer the project, including management of funds and the Project Manager will report to the Director General of ZAWA, who is the Chief Executive and Accounting Officer. The project team / task force will oversee the entire Project Management including management of the funds and will be the Bank's main counterpart and focal point. Existing structures will be used, including the Procurement Management Unit (PMU) and the Accounting Department, both of which have been assessed as detailed in sections 4.1.2 and 4.1.3 below. ZAWA has indicated that a new Planning and Project Management Unit (PPMU) will be established. The above structures will be strengthened by the deployment of additional skills through TA by the new project, namely a Contracts /Project Management Engineer to support the PPMU and a Procurement Specialist to support the PMU. ZAWA will strengthen the project team by designating additional staff, as specified in section 5.2.2 (ii). Implementation of sanitation, hygiene, social and gender activities will be aligned with the on-going project, which has relevant staff, with the required experience, comprising a community mobilization expert, an education expert, a health expert and a gender advocacy officer. In order to ensure consistent monitoring of project implementation and data collection ZAWA will need to include an M&E professional in the dedicated project task team. ZAWA's legal framework, institutional mandate and business focus are summarized in Annex B3.

4.1.2 Procurement arrangements

(a) Procurement findings, recommendations and risk mitigation measures are presented in this section and 4.1.1 above, as well as Annex B5 which includes the detailed procurement arrangements.

(b) All procurement of goods, works and acquisition of consulting services financed by the Bank will be in accordance with the Bank's Rules and Procedures: "Rules and Procedures for Procurement of Goods and Works", dated May 2008, revised in July 2012; and "Rules and Procedures for the Use of Consultants", dated May 2008, revised July 2012, using the relevant Bank Standard Bidding Documents, and the provisions stipulated in the Financing Agreement. A Procurement Plan has been developed to provide the basis for project implementation and the procurement methods. ZAWA will be responsible for all procurement of goods, works, and consultancy services for the project.

(c) A procurement and resource capacity assessment of the Executing Agency was carried out to determine its capacity to implement the project. The assessment covered the organization of the procurement function, staffing and other expertise available from the on-going project financed by the Bank. The assessment noted that ZAWA's procurement functions are under a Procurement Management Unit (PMU) as required by the Zanzibar Public Procurement Act of 2005 and the Unit is under the Director General of the ZAWA. The Unit is headed by a Senior Procurement Officer having an MBA in procurement, who is supported by one Supplies Officer with a Certificate in Store Keeping. The Head of the Unit has some experience of using Bank's Procurement acquired through working on the ongoing Bank funded project; but the supporting staff has no working experience on Bank's or any other Multilateral Donor's procurement guidelines. It was also noted that, ZAWA does not have any procurement manual or intermediary instructions describing how procurement should be performed and managed within the Authority. Based on the assessment, the capacity, expertise and experience of ZAWA is inadequate to adequately carry out the procurement activities of the oncoming project in addition to current commitments. In order to address this weakness, the capacity of ZAWA will be strengthened as outlined in 4.1.2 (d) below.

(d) The procurement risks for the new project have been identified and include “Inadequate Legal and Regulatory Framework” as described in Annex B.5.1 as well as “Inadequate Institutional Arrangements and, Weak Procurement Capacity at ZAWA” as described above. The overall project risk on procurement can be regarded as “high”. The following corrective measures need to be applied to reduce the level of risk to “moderate”: (i) the project should use Bank’s Procurement Guidelines, Standard Bidding Documents and Standard forms of evaluation (ii) ZAWA should strengthen the PMU by adding at least two professional staff who will be working with the project. (iii) the project, through ZAWA should recruit an experienced procurement specialist, at least for the first two years of the project to support the project’s procurement activities and train new staff on Bank’s and Public Procurement Guidelines.

(e) Detailed procurement arrangements are presented in Annex B5.

4.1.3 Financial Management (FM) and disbursement arrangements

(a) FM findings, recommendations and risk mitigation measures are presented in this section and 4.1.1 above, as well as Annex B4 which includes the detailed financial management and disbursement arrangements.

(b) The financial management assessment of the Zanzibar urban water supply and sanitation project (ZUWSSP) was done in accordance with the African Development Bank Provisional Tool Kit issued by ORPF.0 in June 2010. The objective of the assessment was to determine whether the Executing Agency ZAWA has acceptable financial management arrangements, which will ensure: (1) the funds are used only for the intended purposes in an efficient and economical way, (2) the preparation of accurate, reliable and timely periodic financial reports, and (3) safeguard the entities’ assets. ZAWA has experience in managing Bank and other Development Partners financed projects. The on-going Bank financed Project (Zanzibar water Supply and Sanitation) has been complying with the Bank’s financial and external audit requirement. However, it has experienced poor budget execution and mitigation measures have been taken into consideration when designing the ZUWSSP Project.

(c) The FM assessment concluded that the overall risk is “**Moderate**” after taking into account mitigation measures. Based on the assessment and experience the risk level is such that the Project will be able (i) use the funds for the intended purposes in an efficient and economical way, (ii) prepare accurate, reliable and timely periodic financial reports, and (iii) safeguard the entities’ assets.

(d) In line with the Paris Declaration and Accra Agenda and donor harmonization, the project’s financial management transactions will be managed using the country systems. As indicated in section 4.1.1 above, the project will be managed by ZAWA within its existing setup, through a dedicated project team. ZAWA will be responsible for the overall financial management of the project funds. ZAWA’s Accounting Department is headed by the Director of Finance and Administration who is responsible for the Accounting and Financial issues of the Authority and who is assisted by the Chief Accountant. The Project Financial management team includes the Chief Accountant assisted by a designated Project Accountant with relevant knowledge and experience acceptable by the Bank. The Authority has experience in handling Bank financed projects. ZAWA is also receiving assistance from other Development partners like JICA and UN Habitat. The Bank’s financial procedures are usually applied whenever, there is Co-financing. The Project management will also prepare Quarterly Progress Reports and the annual financial statements for ZUWSSP using its computerized accounting system “PASTEL EVOLUTION”. The Quarterly reports will be submitted to the Bank within 45 days after the end of each quarter.

(e) As part of the Internal control arrangements of the Project, the Internal Audit Units will include in their audit programme the ZUWSSP Project financial transactions and a separate report will be issued and shared with the Bank. The annually Financial Statements for ZUWSSP will be audited by the Controller and Auditor General (CAG). The Audit Report complete with a Management Letter will be submitted to the Bank within six (6) months of the end of the respective fiscal year. The project will

also be subjected to a Value for Money (VfM) audit once at Mid Term. The VfM will be carried out by the CAG or his appointee. The Value for Money Audit Report will be tabled and discussed at the midterm review. The Project Audits will be in accordance with the Bank`s Terms of Reference (TOR) for External Auditors.

(f) The disbursement methods that will be used for the Bank funded components of the project include the Direct Payment and Special Account. Also the other methods provided in the Disbursement hand book can be used in consultation with the Bank where the need arises. The Direct Payment method will be used to pay contractors/suppliers whereas the Special Account method will be used for financing the operation and capacity building costs.

(g) Detailed financial management and disbursement arrangements are given in Annex B4.

4.2. Monitoring

Project performance indicators, detailed in section 2.8, will be subject to regular monitoring during project implementation and project supervision. ZAWA will have overall responsibility for project monitoring and evaluation, including compilation of data on project outcomes and outputs, and will involve relevant stakeholders, including the local community members through their Water Committees. The STCDA will monitor compliance during construction for areas in Stone town. The Department of Environment will undertake compliance monitoring/audits. ZAWA will submit quarterly reports to the Bank which will include physical, financial, gender, social and environmental performance. The reports will also highlight key issues and problem areas and recommended actions plans for resolving any identified bottlenecks. The day to day activities of the civil works will be monitored by a Supervision Consultant. Internal environmental audits will be conducted and annual environmental reports will be prepared. The Bank will provide implementation support through field missions, which will be carried out at least twice per year, during which progress will be monitored including environment and social issues and implementation of the ESMP. A technical launch mission shall be undertaken to ensure readiness of the project, before implementation ZAWA will be responsible for the implementation of the environmental and social enhancement and mitigation measures. Financial and Value-for-money audits will be undertaken. A mid-term review will also be carried out. A Project Completion Report will be prepared at 85% completion of the project components or 95% disbursement of the ADF funds. Below is a timeframe for the monitoring process.

<u>Timeframe</u>	<u>Milestone</u>	<u>Monitoring process</u>
November 2012	Loan Approval	ADF
March 2013	Project effectiveness	ADF/ZAWA
March 2013	Project Launching	Start-up/launching mission
June 2014	Procurement of major works done	Procurement plan/progress report
January 2015	Mid-Term Review	Stakeholder review and report
December 2015	Substantial completion	Supervision and Progress Report
December 2016	Project Completion	Project Completion Report

4.3. Governance

Tanzania is implementing the National Framework on Good Governance to improve the capacity of all representative bodies and strengthening local level governance institutions, in addition to core reform programs in financial management, public service, the legal sector and the local government sector. The Government has prepared an Action Plan to implement the Open Government Partnerships (OGP), from July 2012, starting with three sectors of water, health and education. OGP is a global initiative launched in September 2011, to promote transparency, empower citizens, fight corruption and encourage use of new technologies to improve governance. Government anti-corruption efforts in Zanzibar are led by the Zanzibar Anti-corruption and Economic Crime Authority.. Governance and accountability are key pillars of the NSGRP II and ZNSGRP II. According to the World Bank`s Governance indicators for 2000 - 2010, Tanzania`s performance on the six governance dimensions has, overall, been improving. The scores show a high ranking for political stability and low rankings for regulatory quality and control of corruption. Tanzania`s score on the 2010 Transparency

International's Corruption Perception Index (CPI) was 2.7, thereby ranking the country 116th out of 178 countries, although by definition, the CPI assesses perceived rather than actual corruption. The project includes mitigation measures to address country fiduciary risks including procurement and financial management risks, as discussed in section 4.1 of this report and Annexes B4 and B5. The Bank is currently supporting the Government's governance agenda through the Institutional Support for Good Governance Project (ISP II). Pillar 2 of the Tanzania Country Strategy Paper (2011 – 2015) focusses on building an enabling institutional and business environment. The Zanzibar Government is currently consolidating reforms in the water sector. Tanzania's ranking in the Bank's Country Policy and Institutional Assessment (CPIA) remained at 4 during the period 2006 – 2010 and dropped slightly to 3.99 in 2011. The governance rating remained at 3.8 throughout the above period.

4.4. Sustainability

The rehabilitation of the existing water distribution network, which is a key feature of the project, will help to improve the commercial viability of the Utility (ZAWA) by reducing the huge water losses (which constitute significant revenue loss for the company). This will lead to improved service delivery which will enhance customer willingness to pay and the sustainability of the water investment and services.

Sustainability of water investments also depend on the strength of the institutions responsible for their operations and maintenance, which require resources from cost reflective tariffs to function satisfactorily and provide reliable services. On the other hand, cost reflective tariffs, can be best justified by adequate service delivery. An on-going institutional component, funded by the Bank, is supporting ZAWA to improve its institutional capacity in operational and commercial management together with improvement of human resources as well as systems and data bases. Operational initiatives include support to ZAWA to initiate a well-planned and focussed non-revenue water management including a leak detection / repair programme. Commercial initiatives include support to develop a robust customer data base and billing system, which are necessary considering that ZAWA has a legacy of significant unbilled consumption arising from the previous policy of free water. Rehabilitation and upgrading of the existing network under the new project will also facilitate operational improvements, including reduction of losses through leakage in the system.

The Bank appraisal mission had a high level meeting on 23rd August 2012, with the Permanent Secretaries Ministries of Finance and Water (PO-FEDP and MLHWE) which focused on sustainability. The Government re-iterated its commitment to the sustainability of the investment and confirmed that a draft Bill has already been prepared for an Act to establish the Zanzibar Utilities Regulatory Authority, in order to regulate services and tariffs, in the interest of customers and the Utilities. The Bank will continue to engage with Government to ensure cost recovery measures. In addition the project will include an undertaking that cost recovery tariffs for operation and maintenance (O&M) costs are in place, by the time the proposed urban works are commissioned. Furthermore, the appraisal mission discussed and agreed with ZAWA, the mitigation measures outlined in section B4.2, including (i) customer surveys to establish the actual customer data base and ensure that all the customers have a legal contract with the Authority, (ii) gradual review of tariffs to meet operation and maintenance costs (iii) meter installations to enable metering of consumption so that customers can pay according to consumption.

4.5. Risk management

Although the project does not include controversial aspects, a number of risks and mitigation measures have been identified and discussed below. The overall fiduciary risk was assessed as "moderate" after taking into account mitigation measures discussed in Annex B4 and B5.

Potential risk	Risk mitigation / minimization measure.
Lack of timeliness due to effectiveness and implementation delays.	(i) Conditions relating for effectiveness have been streamlined (ii) experience gained by project staff in handling the on-going project, together with on-going institutional capacity development, will enhance the new project (iii) advance procurement will minimize start up delays.
Procurement weaknesses in legal framework and capacity.	(i) All procurement will be done in accordance with the Bank's Rules and Procedures using relevant Bank Standard Documents. (ii) Technical Assistance in procurement and contract management will be provided.
Environmental risks, such as breeding of disease vectors around water points and potential contamination of water systems.	(i) Adequate drainage channels will be constructed around water points (ii) water committees and schools will be trained and sensitized on good sanitation and hygiene practice (iii) potential contamination will be avoided by eliminating direct water pumping to consumers and incorporating/rehabilitating disinfection facilities at water reservoirs (iv) proposed rehabilitation of the distribution network will reduce exposure to contamination (v) the project Environmental and Social Management Plan will be implemented.
Inadequate service levels and lack of sustainability due to ZAWA's operational performance and the condition of the existing systems.	(i) ZAWA's operational performance is being improved by capacity building under the on-going project (ii) refurbishment of existing systems will enable better system operation (iii) installation of bulk and domestic meters will enable better water demand management (iii) the government has been advised to gradually review the tariffs to make ZAWA self-reliant and sustainable - an undertaking in section 5.2.3 relates to the establishment of a Utility Regulatory Authority and recovery of, at least, operation and maintenance costs.
Threat to status of StoneTown, a UNESCO World Heritage Centre.	(i) The project will adhere to internationally accepted historic cultural heritage conservation practices during design and implementation. (ii) ZSTCDA has granted a permit for the project, including conditions and directives to be followed and will designate a special engineer for professional guidance.

4.6. Knowledge building

The project will build on the experience from the on-going intervention through comprehensive reporting, including quarterly progress reports, audit reports, mid-term review reports and the project completion report. Information from various sources will be routinely gathered as part of the monitoring and evaluation framework and shared among stakeholders through joint reviews and other fora.

V – LEGAL INSTRUMENTS AND AUTHORITY

5.1. Legal instrument

An ADF Loan Agreement will be executed between the Fund and the Borrower.

5.2. Conditions associated with Bank's intervention

5.2.1 Prior action

The designation of key project staff as identified in the PAR, namely: a qualified Project Accountant; a qualified Project Engineer; and two Procurement staff) shall be met before Board presentation.

5.2.2 Conditions Precedent to Entry into Force of the Loan Agreement:

The Loan Agreement shall enter into force subject to the fulfilment by the Borrower of the provisions of section 12.01 of the General Conditions Applicable to Loan Agreements and Guarantee Agreement of the African Development Fund.

5.2.3 Condition Precedent to First Disbursement for the Loan:

Evidence acceptable to the Fund of having opened a foreign special account acceptable to the Bank.

5.2.4 Undertakings:

- (i) Evidence in form and substance acceptable to the Fund, showing that a Cabinet Memorandum has been submitted to Cabinet by March 2013, on the proposed Act to establish a Zanzibar Utility Regulatory Body;

- (ii) Operationalization of the Zanzibar Utility Regulatory Body by the end of the 2015/2016 fiscal year, which will ensure cost recovery tariffs for operations and maintenance costs are in place by the time of commissioning of the Urban works under the Project;
- (iii) Engagement, by 31 June 2014, of an Internal Auditor for ZAWA with a minimum qualification of Certified Public Accountant (CPA) or equivalent;
- (iv) Finalization by 31st March 2013, of the review and approval of the Project's Administrative, Accounting and Financial Manual.

5.3. Compliance with Bank Policies

- (X) This project complies with all applicable Bank policies.

VI – RECOMMENDATION

Management recommends that the Board of Directors approve the proposed loan of UA 14.00 million to the United Republic of Tanzania, for the purposes and subject to the conditions stipulated in this report.

Appendices

Appendix I: Tanzania - Comparative Socio-Economic Indicators

INDICATOR	YEAR	TANZANIA	AFRICA	DEVELOPING COUNTRIES	DEVELOPED COUNTRIES
BASIC INDICATORS					
Area ('000 Km ²)		945.1	30,322.6	80,976.0	54,658.4
Total Population (millions)	2011	46.2	1,044.3	5,628.5	1,068.7
Urban Population (% of Total)	2011	26.9	40.4	44.8	77.7
Population Density (per Km ²)	2011	..	..	66.6	23.1
GNI per Capita (US \$)	2010	530.0	1,548.9	2,780.3	39,688.1
Labor Force Participation - Total (%)	2011	47.1	37.6	0.0	0.0
Labor Force Participation - Female (%)	2011	49.7	42.5	39.8	43.3
Gender -Related Development Index Value	2007	0.5	0.5	..	0.9
Human Develop. Index (Rank among 169 countries)	2011	152.0	3,972.0	..	..
Population Living Below \$ 1 a Day (% of Population)	2007	67.9	158.1	25.0	..
DEMOGRAPHIC INDICATORS					
Population Growth Rate - Total (%)	2011	3.0	2.3	1.4	0.7
Population Growth Rate - Urban (%)	2010	4.7	3.4	2.4	1.0
Population < 15 years (%)	2011	42.3	40.4	29.2	17.7
Population >= 65 years (%)	2011	3.0	3.4	6.0	15.3
Dependency Ratio (%)	2011	92.2	78.1	52.8	..
Sex Ratio (per 100 female)	2011	99.9	99.5	934.9	948.3
Female Population 15-49 years (% of total population)	2011	22.7	24.4	53.3	47.2
Life Expectancy at Birth - Total (years)	2011	58.2	57.7	65.7	79.8
Life Expectancy at Birth - Female (years)	2011	59.1	58.9	68.9	82.7
Crude Birth Rate (per 1,000)	2011	41.2	34.5	21.5	12.0
Crude Death Rate (per 1,000)	2011	10.1	11.1	8.2	8.3
Infant Mortality Rate (per 1,000)	2011	56.6	76.0	53.1	5.8
Child Mortality Rate (per 1,000)	2011	86.7	119.5	51.4	6.3
Total Fertility Rate (per woman)	2011	5.5	4.4	2.7	1.8
Maternal Mortality Rate (per 100,000)	2008	790.0	530.7	440.0	10.0
Women Using Contraception (%)	2010	34.4	115.8	61.0	75.0
HEALTH & NUTRITION INDICATORS					
Physicians (per 100,000 people)	2006	0.8	271.1	77.0	287.0
Nurses (per 100,000 people)*	2006	16.8	905.0	98.0	782.0
Births attended by Trained Health Personnel %	2005	43.4	1,472.2	39.0	99.3
Access to Safe Water (% of Population)	2010	53.0	65.7	84.0	99.6
Access to Health Services (% of Population)	2000	42.0	65.2	80.0	100.0
Access to Sanitation (% of Population)	2010	10.0	39.8	54.6	99.8
Percent. of Adults (aged 15-49) Living with HIV/AIDS	2009	5.6	4.6	161.9	14.1
Incidence of Tuberculosis (per 100,000)	2010	177.0	239.2	..	..
Child Immunization Against Tuberculosis(%)	2010	99.0	85.5	89.0	99.0
Child Immunization Against Measles (%)	2010	92.0	77.9	76.0	92.6
Underweight Children (% of children under 5 years)	2005	16.7	63.6	27.0	0.1
Daily Calorie Supply per Capita	2007	2,032.4	2,462.1	2,675.2	3,284.7
Public Expenditure on Health (as % of GDP)	2009	3.8	2.4	4.0	6.9
EDUCATION INDICATORS					
Gross Enrolment Ratio (%)		..	..	..	..
Primary School - Total	2010	102.3	101.5	106.0	101.5
Primary School - Female	2010	103.1	97.5	104.6	101.2
Secondary School - Total	1997	5.6	44.1	62.3	100.3
Secondary School - Female	1997	5.0	40.7	60.7	100.0
Primary School Female Teaching Staff (% of Total)	2010	50.5	44.3	..	..
Adult Literacy Rate - Total (%)	2009	72.9	153.7	19.0	..
Adult Literacy Rate - Male (%)	2009	66.9	109.7	..	..
Adult Literacy Rate - Female (%)	2009	79.0	200.7	..	..
Percentage of GDP Spent on Education	2008	6.8	4.6	..	5.4
ENVIRONMENTAL INDICATORS					
Land Use (Arable Land as % of Total Land Area)	2009	11.3	7.6	9.9	11.6
Annual Rate of Deforestation (%)	2000	0.2	0.6	0.4	-0.2
Annual Rate of Reforestation (%)		..	..	..	..
Per Capita CO2 Emissions (metric tons)	2009	0.2	1.1	..	..

Sources: ADB Statistics Department Databases; World Bank: World Development Indicators UNAIDS; UNSD; WHO, UNICEF, WRI, UNDP; Country Reports. August 2012

Appendix II. Table of ADB's country portfolio

As of June 2012, the Tanzania portfolio was rated as satisfactory. The 2011 Portfolio Performance Assessment (CPPA) rating was 4.0 while the Country Performance Assessment Rating was 3.88.

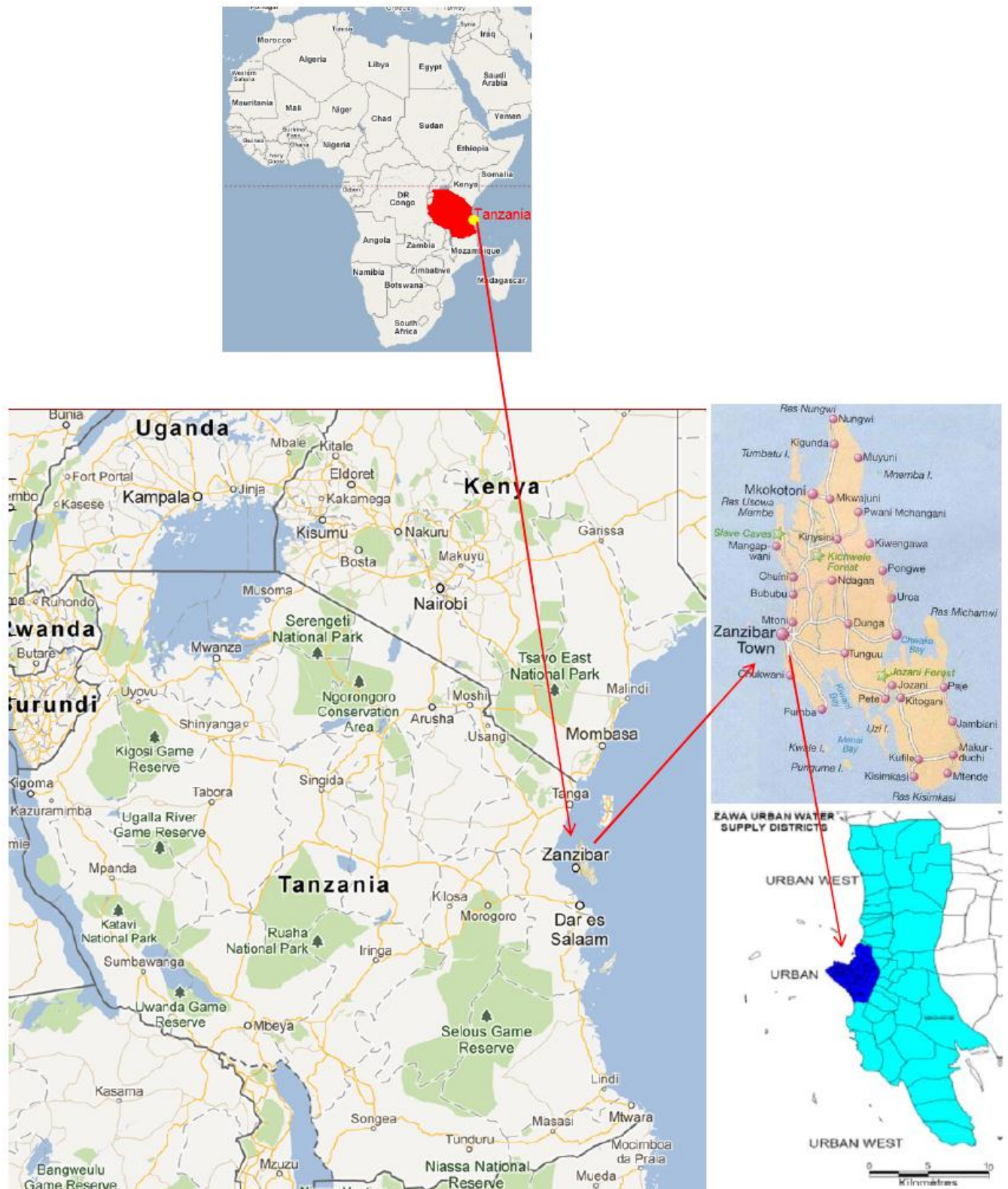
Sector	Type	Mill. UA	Approved	Status
Agriculture sector				
Distr. Agriculture Sector Invest. Proj.	Grant	7.00	Nov 2004	
Agriculture Sector Development Program	Loan	40.00	Sept 2007	
Market Infrastructure Value Addition	Loan	40.00	June 2011	
Support to Lake Tanganyika	Loan	4.99	Nov 2004	
		91.99		
Transport sector				
SingidaBabati Road Upgrading	Loan	60.00	Sept 2007	
Road Sector Support 1	Loan	152.00	Dec 2009	
Road Sector Support 2	Loan	140.00	May 2012	
		352.00		
Water and sanitation				
Rural Water Supply and San. Program II	Loan	59.00	Sept 2010	
	Grant	6.60	Sept 2010	
Zanzibar Water and Sanitation	Loan	25.00	Nov 2008	Slow disbursing
	Grant	2.76	Nov 2008	
		93.36		
Social sector				
Support Maternal Mortality Reduction	Loan	40.00	Oct 2006	
Small Entrepreneur Loan Facility	Loan	20.00	May 2010	
Alternative Learnig Skills Dev. (Zanzibar)	Loan	15.00	June 2011	
		75.00		
General budget support				
Institutional Support (ISPGG 2).	Loan	5.20	May 2011	
Poverty Reduction Support Loan 2	Loan	100.00	Dec 2011	
		105.20		
Private sector				
CRDB SME Credit Guarantee Facility	Loan	8.00	July 2008	
	Grant	0.59	July 2008	
Equity Investment to Access Bank	Loan	0.55	Dec 2006	
		113.20		
Energy sector				
Electricity 5	Loan	30.00	Dec 2007	PP*
	Grant	1.32	Dec 2007	
Iringa – Shinyanga transmission	Loan	45.36	Oct 2010	
		135.20		
Multinational				
Arusha - Namanga - Athi Road (TZ/Ken)	Loan	0.54	Dec 2006	PPP***
	Grant	3.5	Dec 2006	
East Africa Trade & Transport (NCTTCA)	Grant	2	Nov 2006	PPP
EA Transport & Trade Facilitation (EAC)	Grant	6.2	Nov 2006	
East Africa Trade & Transport (TTFA)	Grant	1	Nov 2006	
Lake Victoria Water Supply & Sanitation	Grant	72.98	Dec 2010	
Risk Management of -Animal Diseases SADC	Grant	3.69	July 2006	
Songwe River Basin Development Programme	NEPAD	3.25	Apr 2010	
SADC Shared Watercourses Support Project	Grant	9.38	Jan 2006	PPP
Statistical Capacity for MDGs Monitoring	Grant	20	Jan 2012	
Dar-Kigali-Musongati Railway Study-Ph. 2	Grant	1.66	Dec 2009	
		68.7		

*PP – problematic project. **PPP – potentially problematic project

Appendix III. Key related projects in the country

Country / Agency	Sector	Project
French Development Agency (AFD)	Small Towns WSS	Small Towns WSS Project
World Bank	Sector support Sanitation Environment	Water Sector Support Project Zanzibar Urban Services Project Marine and Coastal Environment Project
African Development Bank	Sector support Rural /urban Multinational - Small towns and Water resources	Rural Water Supply and Sanitation Program Zanzibar Water Supply and Sanitation Project Lake Victoria Water Supply and Sanitation Progr. SADC Shared Water Basin Songwe River Basin Dev. Program - Design
UK Department for International Dvp (DFID)	General WSS Sector Support	Core Support to Water Aid RWSS Program
European Union	Small Towns WSS	Water Supply Programme Regional Centres
German Dvp Agencies (GTZ& GIZ)	Policy WSS	Development Ass. Policy & planning
Japan	Rural WSS Urban WS	Study WS improvement Coastal Region RWS in Lindi & Mtwara Study RWS Mwanza & Mtwara Expert in groundwater dev RWS Zanzibar WS Dev. Project
German Development Bank (KfW)	Urban WSS Rural WSS	Urban Investment Program Songea Regional Centres East Kilimanjaro Moshi Rural District
Switzerland MCC India	Urban WSS Urban WSS Urban WSS	PPP Programme Dodoma & Tabora Dar es Salaam and Morogoro Dar es Salaam
Others including China, Belgium, Ireland, S.Korea, Sweden, Denmark, Norway, BADEA, OPEC, Egypt UNDP, UNICEF, UN HABITAT, CIDA, DANIDA, Water Aid, CARE, SNV, Plan.		Various earmarked projects

Appendix IV. Map of the Project Area



The map

The map was obtained from a public source and has been provided for the exclusive needs of this appendix. The applications and demarcations on this map do not imply any judgement on the part of the ADB and its members concerning the legal status of territory or the approved acceptance of its boundaries.