



THE UNITED REPUBLIC OF TANZANIA
**PRESIDENT'S OFFICE REGIONAL ADMINISTRATION
AND LOCAL GOVERNMENT**



**National Guideline for Developing and
Financing Income-Generating
Infrastructure Investments**

User Guide for Local Government Authorities

JULY 2021

TABLE OF CONTENTS

DISCLAIMER	vi
ACKNOWLEDGEMENTS	vi
FOREWORD	vii
PREFACE	viii
INTRODUCTION	1
PURPOSE	1
BACKGROUND	1
I. Untapped opportunities	1
II. Challenges	2
POLICY CONTEXT	3
OVERVIEW OF THE GUIDE	3
CHAPTER ONE	5
1.0 PROJECT IDENTIFICATION	5
1.1 Project idea generation and sourcing	5
1.2 Project screening and selection	5
1.3 Approving authority for project selection	6
1.4 Project concept note	6
1.5 Approving authority for the project concept note	7
CHAPTER TWO	8
2.0 PROJECT DEVELOPMENT	8
2.1 PROJECT PLANNING	8
2.1.1 Project team	8
2.1.2 Project preparation costs	8
2.2 PROJECT PRE-FEASIBILITY STUDY	9
2.2.1 Pre-feasibility checklist	10
2.2.2 Approving authority for the PFS	11
2.3 PROJECT FEASIBILITY STUDIES	12
Feasibility study components	13
2.3.1 Legal feasibility	13
2.3.2 Demand or market feasibility	13
2.3.3 Technical feasibility	15
2.3.4 Economic feasibility	18
2.3.5 Financial feasibility	19
2.3.6 Environmental and social feasibility	24
2.3.7 Risk assessment	25
2.3.8 Feasibility study conclusion	27
2.3.9 Approving authority for a feasibility study	29
2.4 DEVELOPMENT OF A BUSINESS PLAN	29

2.5	Approving authority for the business plan	30
CHAPTER THREE		31
3.0	PROJECT FINANCING.....	31
3.1	Own-source revenues	31
3.1.1	Community contribution.....	31
3.1.2	Approving authority for own-source funds	31
3.2	Central Government transfers	32
3.2.1	Strategic project funding criteria	32
3.2.2	SPF review and approval process.....	33
3.3	Public-private partnership (PPP).....	33
3.3.1	PPP definition and regulatory framework.....	33
3.3.2	Traditional procurement model versus PPP procurement model	34
3.3.3	Small-scale PPP processes	34
3.4	Debt financing	35
3.4.1	Legal framework for LGA borrowing	36
3.4.2	LGAs borrowing processes	36
3.5	Development partner funds.....	38
3.6	Municipal bonds	39
3.6.1	Types of bonds	39
3.6.2	Road map for municipal revenue bond issuance.....	40
3.6.3	Municipal revenue bond issuance and approval processes.....	40
CHAPTER FOUR		43
4.0	PROJECT IMPLEMENTATION.....	43
4.1	Project procurement.....	43
4.2	Project construction.....	45
4.3	Project management and operations.....	46
4.3.1	Management through SPV	46
4.3.2	The use of the LGA management team.....	46
4.3.3	Contracting a private-sector operator	46
4.4	Contract management.....	50
4.5	Project monitoring, evaluation and reporting	51
APPENDICES.....		54
Appendix 1:.....		54
Sample project screening tool		54
Appendix 2:.....		57
Sample project concept note (PCN) framework		60
Appendix 3:.....		60
Pre-feasibility check toolkit		66
Appendix 4:.....		66

Outline of the pre-feasibility study report	66
Appendix 5:.....	70
Terms of reference (TORs) framework for preparation of a request for proposal (RFP)	70
Appendix 6:.....	74
Framework for preparation of a business plan.....	74
Appendix 7:.....	78
Information on the Government’s Strategic Project Fund.....	78
Glossary of terms	81

LIST OF EXAMPLES

Example 1: Project identification	5
Example 2: Project preparation support facility	9
Example 3: Pre-feasibility questions	10
Example 4: Committing resources	12
Example 5: Financial projection period	23
Example 6: Social impacts according to the IAIA	25
Example 7: Sample project risk matrix	26
Example 8: Project feasibility checklist	27
Example 9: PPP guidelines	29
Example 10: Project submission timeline	33
Example 11: Difference between traditional procurement and PPP procurement	34
Example 12: Credit enhancements.....	37
Example 13: Partial guarantee facility for municipal bonds.....	45
Example 14: Key issues to consider prior to signing construction contracts.....	45
Example 15: Engineering, procurement and construction (EPC)	44
Example 16: Logical framework for project monitoring	52

LIST OF FIGURES

Figure 1: Project lifecycle stages	4
Figure 2: Project development stage 1	5
Figure 3: Project development stage 2.....	9
Figure 4: Project development stage 3.....	12
Figure 5: Design of the financial model	22
Figure 6: Project development stage 4.....	29
Figure 7: LGA financing options	31
Figure 8: SPF approval process	33
Figure 9: PPP approval process	35
Figure 10: Borrowing approval process.....	36
Figure 11: Revenue bond structure.....	39
Figure 12: Municipal bond issuance process.....	40

Figure 13: Example structure of one SPV institutional framework47
Figure 14: LGA operated management model48
Figure 15: M&O contracting framework without revenue collection assignment49
Figure 16: M&O contracting framework with revenue collection assignment49

LIST OF ACRONYMS

BOQ	Bill of quantities
BRELA	Business Registration and Licencing Agency
CA	Contracting authority
CMSA	Capital Market and Securities Authority
CMT	Council management team
CPs	Conditions precedent
DPs	Development partners
DSCR	Debt service coverage ratio
DSE	Dar es Salaam Stock Exchange
ENPV	Economic net present value
EPC	Engineering, procurement and construction
ESIA	Environmental social impact assessment
FYDP	Five year development plan
IAIA	International Association of Impact Assessments
IRR	Internal rate of return
LDCs	Least developed countries
LFI	Local finance initiative
LGAs	Local government authorities
LTA	Lead transaction adviser
M&O	Management and Operations
MOFP	Ministry of Finance and Planning
MTEF	Medium-term expenditure framework
NEMC	National Environment Management Council
NGOs	Non-governmental organizations
NPMIS	National Project Management Information System
NPV	Net present value
O&OD	Opportunities and obstacles for development
PCN	Project concept note
PFS	Pre-feasibility study
PO-RALG	President's Office, Regional Administration and Local Government
PPP	Public-private partnership
RFP	Request for proposal
SDGs	Sustainable development goals
SPF	Strategic project fund
SPV	Special purpose vehicle
TDV	Tanzania development vision
TORs	Terms of reference
TS	Term sheet
TZS	Tanzanian shilling
UNCDF	United Nations Capital Development Fund
WACC	Weighted average cost of capital

DISCLAIMER

In the event of a discrepancy between this user guide and any relevant regulations, or any law currently in force in the United Republic of Tanzania (“the law”), the law shall always prevail.

ACKNOWLEDGEMENTS

This document was compiled by a consultant hired by UNCDF. The consultant relied at times on UNCDF’s extensive experience of supporting local government income-generating investments and its technical secretariat, which is based in Tanzania.

Special acknowledgements go to members of the Strategic Project Fund team at the President’s Office, Regional Administration and Local Government (PO-RALG) and Ministry of Finance and Planning (MOFP) for their contributions.

Additional acknowledgements go to the following UNCDF staff for their contributions:

- Peter Malika, Chief Technical Advisor and Head of UNCDF in Tanzania
- Imanuel Muro, Senior Investment Officer
- Stella Lyatuu, Investment Officer

FOREWORD

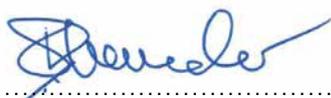
Local government authorities (LGAs) were established under articles 145 and 146 of the Constitution of the United Republic of Tanzania to transfer authority to the people and involve communities in the planning and implementation of development programmes. In its efforts to make LGAs autonomous, the Government issued a policy paper on local government reforms in 1998 that laid out a strategy of decentralization through devolution. This guideline aimed at improving financial management and accountability at the local level, enhancing and securing adequate resources (both human and financial) to improve the delivery of public services.

For local authorities to take advantage of policies and laws that empower them to generate own-source revenue, it is important to look at new and innovative ways of unlocking both technical capacities to prepare bankable projects and financial resources from both the public and private sectors. Currently, LGAs face the challenges of not having investment-ready projects that meet the standards of financiers and finding it difficult to manage or operate most of the projects they already have in a financially self-sustainable way.

This is why PO-RALG is publishing this guide for project development teams that covers all stages from idea generation to project implementation. This guide is a starting point and is intended to be used by all LGAs. The guide has been prepared in accordance with the government policies, laws and regulations guiding local government investments and in consultation with the Strategic Project Fund team at the MOFP. It must be used concurrently with other national and/or local government guidelines supporting investment.

I wish to express my gratitude to the United Nations Capital Development Fund (UNCDF) for their continued collaboration with PO-RALG, for the technical and financial support they provide to LGAs and specifically for supporting the drafting of this user guide.

It is my hope that this guide will help LGAs' to improve the quality of their income-generating investment project proposals to meet the financing standards expected by the Government, and public and private financial institutions.



Prof. Riziki S. Shemdoe

Permanent Secretary

President's Office, Regional Administration and Local Government, United Republic of Tanzania

PREFACE

LGAs in Tanzania play an increasingly important role in the delivery of fundamental basic public services. But they currently face the near-impossible task of funding the infrastructure and services needed to meet the basic needs of growing rural and urban populations while also finding the resources to attract investments at the local level.

One of the ways LGAs could achieve long-term financial sustainability and a good mix of financing sources is to increasingly look into (i) income-generating projects based on local resources and comparative advantages, (ii) new innovative ways of resource mobilization to bridge the gap between local infrastructure and service needs and available funds, and (iii) taking advantage of the partnerships between local actors, national governments and other development partners. In this context, this guide will pave the way for many LGAs to jump-start the development of projects to support local development.

This publication has been made possible, thanks to the commitments of partners who have generously supported its development by sharing their expertise and insights. As part of the consensus-building process, a task force comprised of senior government officials from the President's Office; Regional Administration and Local Government (PO-RALG); MOFP; select Regional Secretariats and select project teams from LGAs and UNCDF in Tanzania met to review a draft of this guide and recommend the best way forward.

I would like to express my appreciation to the Government of Tanzania for its continued collaboration and partnership with UNCDF.



.....
Peter Malika
Chief Technical Advisor
Head of UNCDF in Tanzania

INTRODUCTION

PURPOSE

This document is a user guide for developing and financing LGAs' income-generating infrastructure and other capital projects. It is intended to be used by project teams as an implementation and operational guide in addition to other available resources.

Other stakeholders may also use the guide as a starting point, including LGA consultants and technical service providers, project appraisal and technical teams at the MOFP, PO-RALG, and Regional Secretariats.

BACKGROUND

LGAs have significant responsibilities around the delivery of essential services as set out in Local Government Acts No.7 and No.8 of (1982) and their amendments. This legislation lists the specific functions and responsibilities assigned to subnational authorities, including education, basic health care, agriculture extension, local water provision and road maintenance, etc. For effective delivery of these functions, each LGA is expected to establish and maintain reliable sources of revenue to provide quality services to its community.

Due to inadequate funding, most LGAs are using the small grants received from the central Government to implement social projects (schools, health centres, etc.) as opposed to economic projects that will help to boost their own sources of income.

There are limitations in terms of the technical skills and resources required for an LGA to prepare projects to be investment-ready. Due to these limitations, most LGAs in Tanzania have not tapped sufficiently into available opportunities that could potentially enhance their local fiscal space.

I. Untapped opportunities

Through PO-RALG, the Government supports LGAs to utilize all possible legal, economic and financial opportunities available to improve their own sources of locally generated revenue. Some of these untapped opportunities are:

a) Legal and institutional framework

Since local revenue sources and government grants are insufficient for financing recurrent and capital development, LGAs could make use of the following:

- Section 14 of the Local Government Finance Act, Cap. 290, which permits local authorities to raise loans for such purposes, in such a manner and according to the conditions that the authority concerned deems fit. These loans could be used to implement profitable and viable commercial projects that generate enough revenue to repay the debt in question and finance other activities.
- The Government Loans, Guarantees and Grants Act, Cap. 134, which empowers government institutions to borrow funds, subject to the approval of the minister responsible for finance.
- The Companies Act of 2002 (amended), to establish investment companies – also known as special purpose vehicles (SPV) – as an alternative governance structure for LGA projects.
- The Public-Private Partnership Act of 2014 and its regulations (amended), in order to attract and invite the business community or private sector to finance and operate a variety of commercial infrastructure projects and contribute to better delivery of social services.

b) Government Strategic Project Fund

In 2018, the Government established the Strategic Project Fund (SPF) through the MOFP to finance LGA commercial infrastructure projects that enhance their financial independence. To access this opportunity, LGAs must submit bankable and strategic infrastructure projects for grant funding.

c) Economic and geographical potential

Based on existing opportunities and available resources within the locality, LGAs may explore their unique comparative and competitive advantages to identify, design and develop projects that can easily be financed through different financial instruments.

d) Government policy and initiatives on industrialization

The Government is continuously encouraging and supporting LGAs to explore and capture opportunities around the national industrial policy and the prioritization of industrialization by developing industrial investments. These measures are supported by initiatives such as the Mini-Tiger Plan 2020, which was prepared in 2005 to implement the Tanzania Development Vision (TDV) 2025. The plan led to the establishment of special economic zones (SEZs) and export processing zones (EPZs).

In 2011, the Government adopted the Integrated Industrial Development Strategy (IIDS) 2011–2025, which seeks to build a competitive industrial sector. The Long-Term Perspective Plan 2011/12–2025/26 is a recent initiative spearheaded by the Government to facilitate the achievement of TDV 2025. Industrial infrastructure projects implemented by LGAs will make a massive contribution to both the industrialization process and revenue generation. To fast-track investment initiatives, LGAs may adopt the land-banking strategy to ensure that suitable pieces of land are readily available for future developments or potential investments.

II. Challenges

The lack of adequate financial resources and well-prepared investment documents are two major challenges. Most LGA project proposals fail to access financing from both the public and private sectors due to the following weaknesses:

a) Missing important information

Some project proposals are not researched, packaged or drafted appropriately. They lack the necessary project descriptions that explain what, why, how, who, when, etc. They also contain insufficient, unclear or questionable information on areas such as the project rationale, objective, expected output and outcomes, the strategic approach, beneficiaries, etc. For example, lack of clarity on how the project will be carried out and how the proposed activities will lead to the anticipated results.

b) Unrealistic project assumptions

In project documents, key project variables have been either under- or overestimated, such as costs, revenue, number of users/beneficiaries, etc. This results in unrealistic financial projections, objectives, outputs and outcomes.

c) **Overlooking critical steps in project planning**

Most LGAs prepare project proposals without following proper project planning or inclusive development processes. Some of the critical steps that are often overlooked are: conducting different technical feasibility studies (e.g. input and market studies), mapping key stakeholders (especially with relation to proposed user fees, land compensation issues, relocation), identifying and mitigating project risks, etc. These and other factors can potentially cause difficulties in the later stages of project implementation.

POLICY CONTEXT

The second National Five Year Development Plan¹ (FYDP II) for 2016/17–2020/21 mentions decentralization and local economic development as one of the important areas for implementation and strategic intervention. Effective service delivery requires efficient decentralized systems that respond to local needs promptly. Among the priorities of FYDP III for 2021/22–2025/26 is deepening industrialization, service provision and investment to enhance income-generation and local development and contribute to the realization of the SDGs. Both plans (FYDP II and III) strategically empower local communities and LGAs to use resources sustainably in their localities for inclusive socioeconomic development.

OVERVIEW OF THE GUIDE

This guide is organized into the following four main chapters, the contents of which are described below:



Chapter 1: Project identification

Projects that are found to be viable are preceded by certain effective, logical steps, namely idea generation, screening and selection. The output of the project identification stage is typically a written concept note which will outline the strategic and business case that may require further decisions. At this stage, the potential project **concept note** can either be approved for further development, deferred or dropped. If the project concept note is approved by the Finance Committee, uploaded to and endorsed by the National Projects Management Information System (NPMIS), the LGA proceeds to conduct a pre-feasibility study under the project development phase.

Chapter 2: Project development or preparation

The project **pre-feasibility study** or assessment is intended to confirm whether it is possible to implement the project but not necessarily to guarantee whether it will be profitable and viable. If this stage is successful, the next step is to prepare a **full feasibility study**. This is a detailed assessment of the project that involves confirming the societal need for the project and conducting legal, economic,

¹ https://mof.go.tz/mofdocs/msemaji/Five percent202016_17_2020_21.pdf

technical, financial and environmental analyses to ensure that the project is feasible on all these fronts. The project structuring and selection of appropriate investment options is also completed at this stage. This is followed by the development of project documents such as the financial model, business plan and financing proposals, depending on the financing option chosen by the LGA.

Chapter 3: Project financing

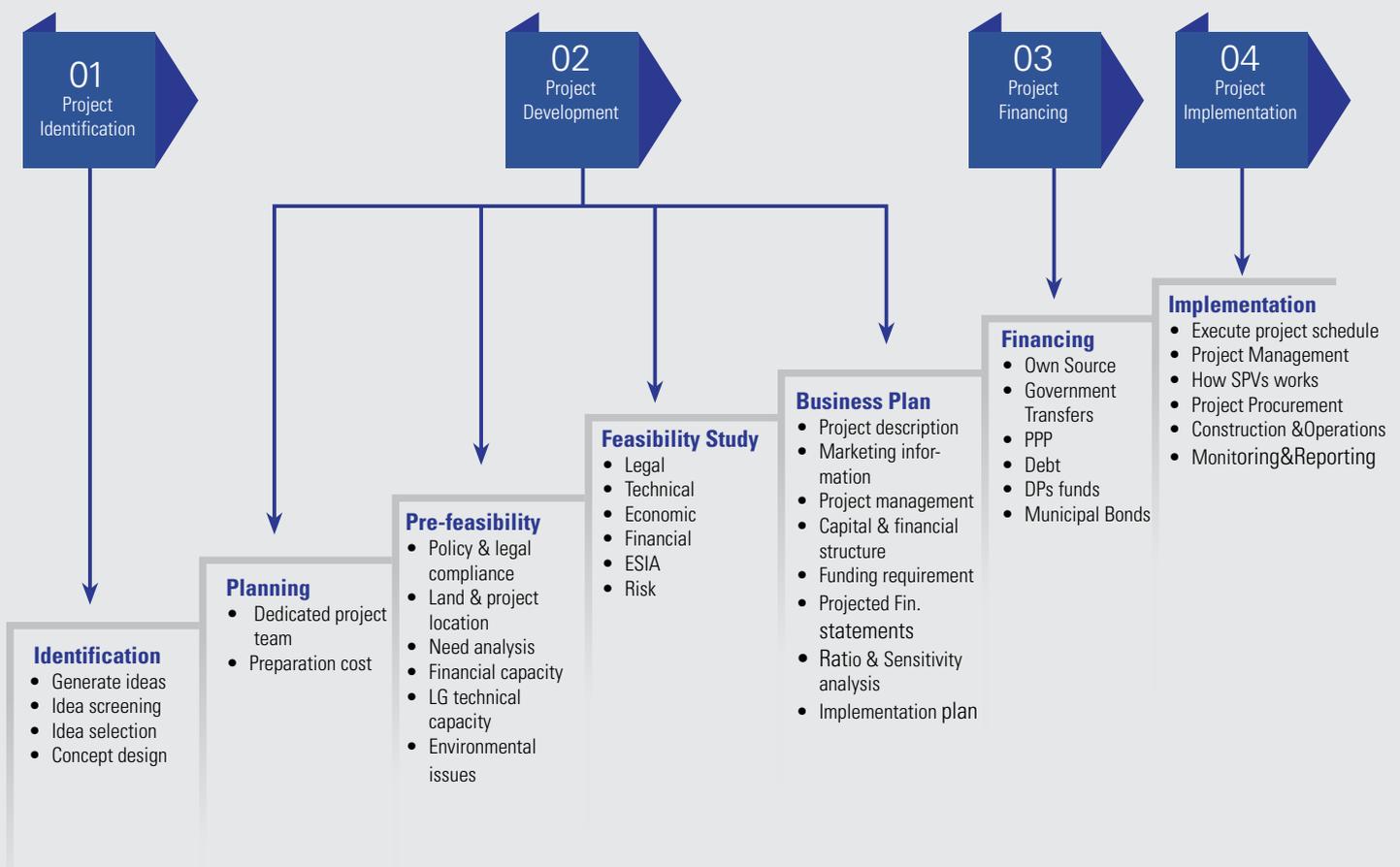
Once the project development stage is completed and a complete set of investment documents are available and approved at appropriate levels of the local authority (e.g. the Finance Committee/Full Council) and other national levels (PO-RALG or MOFP, if applicable), the LGA submits the investment package to a prospective financial institution, the MOFP or development partners for consideration. If the project is approved for financing, the LGA confirms financing commitments, clears any conditions precedent and negotiates and finalizes the terms of the transaction (financial closure). Upon satisfaction and in line with the policies, the financier provides an agreed portion of the investment capital to finance the project activities based on the workplans and the disbursement schedule.

Chapter 4: Project implementation

The last stage commences when funds have been transferred to the LGA's designated project account. This handles project management and operations to attain the planned objective. Where appropriate, the guide explains project management and governance structure through SPVs.

The following is a detailed step-by-step diagram (road map) that depicts all the steps from project identification to implementation. Each stage will be thoroughly explained in subsequent chapters.

Figure 1: Project lifecycle stages



CHAPTER ONE

1.0 PROJECT IDENTIFICATION

This is the first stage of the project cycle, where project teams identify a local need or economic opportunity that a project could address or capture. This is a crucial stage: properly identifying a project can reduce the likelihood of project failure and minimize the risk of misusing government resources by appraising and structuring a non-feasible project. Similarly, project identification, approval and development should adhere to government directives on the application of the NPMIS².

1.1 Project idea generation and sourcing

The main sources for LGA project identification are:

- a) Local government development plans (strategic plans) and budgets. These three-year plans contain projects that have been identified through a local participatory approach (Opportunities and Obstacles for Development – O&OD), in which council and lower subnational levels (wards and villages) have agreed on their developmental needs and priorities.
- b) Local development challenges that have not been identified through O&OD.
- c) Urban master plans, rural development plans, regional investment guides or capital investment plans.
- d) Policy-driven project selection, e.g. the LGA may come up with an agriculture processing or value addition project via the industrialization policy.
- e) Review of existing revenue-generating infrastructure assets, which may lead to project expansion/upscaling or improvement/redevelopment/modernization.
- f) Geographical economic potential within the LGA entailing a competitive advantage or relating to drivers of the local economy. For example, districts with better climate conditions may opt to implement agriculture processing projects, while those with bodies of water may choose a commercial fish farming project, etc.
- g) Collaboration with different stakeholders, e.g. development partners (DPs), NGOs, private partners, etc., who may provide LGAs with an exciting project idea.

Example 1: Project identification

The case of Maswa District Council

Maswa District Council in Simiyu Region is implementing an orange-fleshed sweet potato project with an installed capacity to processing 10 megatons of sweet potato into flour per day. This project was identified via the **Simiyu Regional Investment Guide**³ prepared by UNDP and ESRF, which presented strategic potential investment opportunities within the region. The guide included an economic assessment of Maswa's specific priority needs and competitive opportunities within their geographical location.

1.2 Project screening and selection

Project screening is conducted by project teams to assess and rank all identified projects in a standardized manner based on existing information available within the council. The screening results are then used by the team to select projects that will move on to the pre-feasibility and feasibility stages. LGAs may decide to formulate a screening criterion and to assign weights

2 Refer to Treasury circular No.5 of 2020/21

3 <http://www.esrf.or.tz/docs/guide-simiyu.pdf>

depending on circumstances and the nature, availability and cost of financing, etc.

Some of the main screening questions are as follows:

- a) **Compliance with laws and regulations.** This screens for whether there are any legal risks that may have actual or potential effects on project development and implementation. Is the project supported by the LGA's mandate and laws? Is there a satisfactory legal framework to guide the implementation of the project?
- b) **Economic and financial appraisal.** Does the project generate or have the potential to generate adequate revenues/cash flow? Is there a possibility of the project attaining financial and institutional sustainability? Is the project likely to obtain financing (from public and/or private sponsors)?
- c) **Strategic requirements.** Does the project belong to priority sectors, does it meet social needs and is it in line with government plans?
- d) **Land.** Does the LGA own a piece of land earmarked for the project? Does the site fit the needs of the identified project? If the LGA does not own land for the project, is acquisition a possibility (taking into consideration land compensation and resettlement issues)?
- e) **Environmental and social issues.** Is the project likely to have any material social and environmental impacts and are there clear mitigation plans? Will this potentially hinder project implementation?
- f) **Readiness of the project and local government.** Can the project be completed given the LGA's current situation? Are there any unmanageable technical, administrative or financial obstacles to developing the project? Is the LGA capable of implementing the project? What documentation is currently available, and can this be completed easily?

NOTE: Appendix 1

See **appendix 1: [Sample project screening tool](#)**

1.3 Approving authority for project selection

After screening, the selected project ideas are submitted to the LGA's council management team (CMT) for discussion and endorsement before the concept note is prepared.

1.4 Project concept note

The project concept note (PCN) contains a complete description or key points of the proposed project idea or concept. The PCN includes a definition of the problem or opportunity and a clarification of the motive that facilitated the idea, the project objectives, the approaches or strategies and the results expected if the project is executed. It is a useful tool for securing interest and generating mindful commitment from the management or project partners⁴. The concept note should be a brief synopsis of the proposal that has not been written yet, be fewer than five pages long and be compelling enough to leave no room for a "so what?" question. Its main purpose is to support the decision-making process⁵ (i.e. provide enough information about the idea to enable the management to understand and decide whether to advance the project to a pre-feasibility study). The PCN is the final output of the project identification stage.

4 Vincent Amanor-Boadu, A Note on Concept Notes (Department of Agricultural Economics, Kansas State University, 2015)
5 World Bank, Caribbean PPP Toolkit: Developing Infrastructure and Improving Service Delivery (Washington, DC, World Bank, 2017).

NOTE: Appendix 2

See appendix 2: Sample **project concept note** framework

1.5 Approving authority for the project concept note

For further project development and implementation, the PCN needs to be endorsed by the CMT and the Finance Committee. Once the approval has been secured, the project can advance to the next stage, which involves carrying out a pre-feasibility study (PFS).

CHAPTER TWO

2.0 PROJECT DEVELOPMENT

The project development stage is divided into the following substeps.

- a. Project planning
- b. Project pre-feasibility study
- c. Project feasibility studies
- d. Project business plan

Figure 2: Project development stage 1



2.1 Project planning

In any project development setting, project planning is an important step that helps guide stakeholders, sponsors, teams and the project manager through other project steps. Planning is required to identify the desired goals, reduce risks, avoid missed budgets and deadlines, and ultimately deliver the agreed project as intended. For the LGA to successfully develop and implement a project, commitment and perseverance are required of the project team, and funds are needed to cover project preparation and other subsequent costs.

It is important to plan for these two areas, as described in subsections 2.1.1 and 2.1.2.

2.1.1 Project team

For each project, LGAs are advised to establish a project team that will work on their behalf to ensure project preparation activities develop smoothly and efficiently. A combination of skills is needed to reach the right decisions and implement public projects effectively.⁶ Depending on the size and nature of the project, the team may consist of technical staff from different departments with expertise in finance, economics, engineering, legal matters, environmental issues, community development and respective user department. There must be a team leader (usually the head of a planning department), who is the key point of contact for all matters related to the project.

The main role of the project team is to technically transform the project idea into a viable, bankable revenue-generating infrastructure project. Their specific responsibilities include the preparation of required project documents; engaging and managing consultants where applicable; reporting on the progress of project development to the CMT and other required decision-making bodies; advising the council on project decisions to be taken and facilitating the process of securing all necessary permits and any other tasks that must be performed to enable the project to succeed. The LGA may outsource consultancy services to assist in the preparation of a bankable project.

2.1.2 Project preparation costs

To ensure the success of the LGA project preparation activities, a reasonable budget should be set aside from own-source revenue plans or any other sources to cover the project costs. The cost of project preparation can vary significantly according to the size and complexity of the project and the available technical capacity and specific skills within the LGA.

6 President's Office, Planning Commission, Public Investment Management – Operational Manual (President's Office Planning Commission, Dar es Salaam, 2015).

Funds may be needed to cover costs relating to the preparation of feasibility studies, business plans, securing land title deeds, compensation and community resettlements, etc.

Due to budget limitations, many LGAs do not have funds readily available for financing preparation costs. Depending on the country context, project preparation facilities may be available for free or at cost depending on the circumstances. In Tanzania, some development banks or investment funds have alternative financial arrangements to support LGAs' project preparation processes.

Example 2: Project preparation support facility

As part of good project management practices, it is important for LGAs to commit the resources needed to implement project development activities. Depending on the complexity and scale of the project, LGA may also choose to look for available technical support to assist/complement the development of their project. For example:

1. The World Bank Group has an Infrastructure Finance, PPPs and Guarantees Unit which provides municipalities with support in financing the development of PPP projects.
2. The UNCDF Local Finance Initiative (LFI) facility provides support for the preparation of projects that have been identified via a call for proposals.
3. Other public- and private-sector partners (PO-RALG's PPP Node and private-sector consultants).

2.2 Project pre-feasibility study

When the LGA is satisfied with the planning process, the pre-feasibility check commences.

Figure 3: Project development stage 2



At this stage, the LGA conducts a PFS, which functions as a preliminary assessment of whether the selected project is feasible or doable regardless of the financing approach or instruments that are chosen. It is a desk review in which the project team uses existing or available data and information from their departments to analyse and verify that there are no initial obstacles to proceeding with the project.

A PFS is less much detailed than a full feasibility study, but it evaluates project characteristics that relate to the economic, financial, legal and social and environmental viability of the project. Similarly, factors such as project location and LGAs' technical capacity for developing and managing the project are also assessed. A PFS does not involve detailed technical studies such as impact studies, architectural and engineering studies or financial projections, as these will be conducted during the feasibility phase.

Using the PFS, the LGA will decide whether the project contains enough potential to proceed to the next stage (a more detailed full feasibility study), which is costly and takes longer. It is thus crucial for LGAs to collect and use accurate data so that commercial projects with high potential for success continue to the next phase of development. Projects that will be highlighted as not feasible should be dropped or reassessed to avoid incurring unnecessary costs and additional time by preparing a full feasibility study.



2.2.1 Pre-feasibility checklist

During the PFS phase, the project team may develop a set of specific criteria to be used as a checklist to assess the viability of a project.

Example 3 provides generic criteria for determining whether projects are accepted or rejected by responding to the following crucial factors/questions:

Example 3: Pre-feasibility questions		
Section	Criteria	Key factor/question
a.	Legal	<ul style="list-style-type: none"> - Does the project relate to the visions and mandate of the LGA or national policies? - Is the project supported/allowed by the LGAs' laws? Does the LGA have the legal authority to implement the project? - Will it be necessary to amend or pass any laws or regulations? - What are the required government approval processes? Are they likely to be complied with? - What are the required licences and permits? Are they likely to be secured within a reasonable time frame? - Will there be any risk related to legal issues?
b.	Location	<ul style="list-style-type: none"> - Where will the project be implemented? Does the LGA own the proposed site? - Is there a need for land compensation? If yes, can the LGA afford this promptly? - Is the land title deed available/processed? - Is the selected location suitable for the project? - Does the site have necessary supporting infrastructure (e.g. road/ railway, water, electricity, etc.)?
c.	Economic	<ul style="list-style-type: none"> - Does the current product or service fall short of requirements, and if so, where are the shortfalls? - What is the target market, users or beneficiaries? - Has a preliminary market analysis been conducted? - What are the likely economic benefits of the project for the targeted users? - What are the expected economic costs or risks of the project? - Are the expected economic benefits likely to outweigh the costs? Is the project likely to be economically beneficial to the community?
d.	Technical	<ul style="list-style-type: none"> - What is the desired new level of service/capacity based on the shortfall or need that has been identified? - Is a preliminary or conceptual design available for project cost estimation? What is the conceptual vision of the project? - What is the expected scope or features of the project (e.g. geographical area, project goals/objective, deliverables, etc.)? - What are the major technical or operational risks that are anticipated? - Is the project expected to be technically feasible?

NOTE: Appendix 4

See **appendix 4**: outline of the **PFS report**. The report should contain essential project information, findings of the PFS and recommendations to be considered by decision makers and investors.

2.3 Project feasibility studies

This is the third stage in the project preparation process.

Figure 4: Project development stage 3



The (detailed) feasibility study is a broad process that includes technical reviews, market and input studies and management and other key appraisals that together provide a full assessment of the project, including the profitability and viability of implementing it. The findings of this study are the basis for the LGA's decision to implement the project or not. Despite their size and nature, revenue-generating infrastructure projects might have long-term negative implications if this stage is not implemented properly (such as becoming white elephants). LGAs should therefore ensure that feasibility studies are genuine, comprehensive and accurate.

Example 4: Committing resources

"Resources" might refer to funding, people, equipment, facilities or anything else needed to complete the project. If a study is conducted using internal staff, it is important to consider adding the required skill sets and experience to the project team. In most cases, LGAs would hire an experienced consultant to undertake assessments. Conducting technical studies using a reputable process or team, signal to potential sponsors and the market, that the project is well structured and sound. The consultant should work under the direct supervision of the project team and in collaboration with them to ensure adequate knowledge transfer. The consultant should be engaged by following normal government procurement standards and procedures.

NOTE: Appendix 5

See **appendix 5**: a sample framework for the **terms of reference (TORs)** that can be used by LGAs to prepare a request for proposal (RFP) to hire a consultant to conduct a full feasibility study.

During the feasibility study stage, the project is further assessed and developed to:⁷

- a. ensure the project structure meets national and local government objectives, adds value to the local community and confirms an expected positive return for the LGA
- b. determine and justify an appropriate approach or the best technical option (delivery model) to implement the selected income-generating infrastructure project
- c. ascertain the most suitable financing option and provide the main inputs for the financial structuring of the project (forecast of project costs and potential revenues)
- d. manage and engage all key stakeholders
- e. provide proper project implementation plans (including resettlement impacts, relocation plans, compensation issues, etc.)
- f. conduct risk assessment, i.e. risk identification, allocation and mitigation

⁷ Part of the literature is derived from the Ministry of Finance of Pakistan's Infrastructure Project Development Facility publication, Project Preparation/Feasibility Guidelines for PPP Projects (2007).

Feasibility study components

Sections 2.3.1 to 2.3.6 explain key details or items to be included in each feasibility component for the project including legal, demand/market, technical, economic, financial/commercial and environmental and social due diligence to ensure that the analysis is comprehensive. The summary in section 2.3.1 is not exhaustive but provides examples of important components, the inclusion of which will depend on the nature of the project.

2.3.1 Legal feasibility

All legislative, regulatory, compliance and statutory aspects are covered exhaustively in this section, including risks that were identified at the pre-feasibility phase. Since the project has entered the feasibility stage, it is likely to be legally feasible or entail only minor legal impediments that need to be solved. Some of the legal and regulatory areas to be analysed are as follows:

- a. Due diligence on the legal institutional framework must establish whether the LGA has the administrative authority or legal mandate to implement the selected project. The findings must outline the LGA's legal mandate or the reason for its establishment, mission and vision statements, strategic objectives, functions, government policies and the laws empowering LGAs and other stakeholders (e.g. the private sector through PPPs) to support the implementation of the project. It should also provide information on how the project contributes to achieving government priorities and how the proposed project idea and its design comply with all required laws. This includes sector-specific legislation (e.g. compliance with tariff policies).
- b. The specific legal framework or enabling legislation needed for the project to commence. This includes laws, regulations, by-laws, etc. For example, the LGA may need to enact or revise a by-law to be able to collect fees from a certain project. In this case, if the by-law is not in place, this project is not legally implementable even if it is technically and financially feasible. Inappropriate legal frameworks can stop or delay the implementation of projects. Whenever there are legal obstacles (e.g. legal amendments are required), this study should document a practical action plan to address these.
- c. Identification of all regulatory approvals needed for the project to start and an analysis of whether they can be met (i.e. government approvals, licences, permits, etc.).
- d. Land-use planning and land ownership issues: assessments of land acquisition, compensation and the need for resettlement plans are important to justify the legal feasibility of the project. Where applicable, resettlement requirements and action plans should be prepared according to prevailing laws.

To ensure the legal analysis and opinions are robust, it is recommended that the services of local legal experts be used to leverage their understanding of the context.

2.3.2 Demand or market feasibility

Market demand is one of the factors that have the greatest impact on the estimation of costs and benefits in feasibility assessments. The analysis identifies and quantifies the social need for the planned investment, informs decision makers whether to prioritize the selected project for investment and uses the estimated demand to calculate an appropriate size for the infrastructure facilities. Market analysis is conducted by using both current and forecasted demand data using macroeconomic and social indicators, which provide useful information for defining the scope of the project.

In assessing project demand, LGA project teams assess the following: (a) needs analysis or user requirements, (b) demand forecasts, and (c) user charges (fees) and users' ability and willingness to pay. The level of analysis of these variables will differ depending on the complexity and nature of the project. The notes below may not be comprehensive but summarize the most important factors:

a. Needs analysis or user requirements

A framework for the proposed project should be provided to justify the idea. Needs analysis must link the business idea to current circumstances (a prevailing local challenge or opportunity).

Project teams should:

- ♦ Investigate the level and quality of existing products or services and identify shortcomings, challenges or deficiencies. For example, the current bus terminal accommodates only 50 buses, forcing other buses to park outside the station, and has no passenger building.
- ♦ For a new business opportunity, analyse various market circumstances that have led to the identification of the business idea, which may be turned into a viable business venture or enterprise (i.e. a possible product or service for which there is a potential market).
- ♦ Identify who needs the service or product to establish a target market, users or beneficiaries and the service area. Users may be defined by a geographical location or a socioeconomic segment, etc.
- ♦ State the number and type of users or customers, expected frequency or use of the service or average purchase of the product and explain why targeted users will utilize the service/product to be offered.
- ♦ Identify the nature of the assets required to accomplish or deliver the desired service or product. That is, what are the distribution requirements for the product or service? This information will feed into the technical analysis, which will be explained in section 2.3.3.
- ♦ List all services or products to be offered to targeted users.
- ♦ How much will the customers pay for each product or service? Note that this is different from what customers are willing to pay.
- ♦ From the challenges, shortcomings or opportunities above, establish types, levels and quality of service required. What do users need? What is their interest or desire? What kind of products or public service will the LGA provide? This analysis may be compared with certain service levels mandated in government policy or forecasted in development plans. For example, for water projects in urban areas, the government target for 2020–2021 is 90 percent of households having access to clean, safe water.

Competition

List all relevant project competitors, their perceived strengths and weaknesses and the reason that they are considered competitors. Propose project marketing strategies (e.g. how the project will attract customers) and distribution and promotion strategies (e.g. reductions in price or designing a variety of product or service features to appeal to users, etc.).

b. Forecasting demand

At this stage, LGAs should forecast potential demand based on current volumes, the expected growth over the project life cycle and the price that users are willing to pay. This would usually require an estimate of the level of demand that is not currently being met (i.e. the level of need) due to insufficient coverage or quality. The assumptions and approach to forecasting demand need to be realistic (not too optimistic or too pessimistic) since this information will be used to estimate project assets and the required level of service. Demand forecasts may be based on:

- Historical trends, i.e. forecasts that assume the existing growth in demand will continue.

- Population growth, i.e. estimating demand according to increases in the population of targeted users.
- Similar projects, i.e. using reference data (both demand volume and prices) from a similar project that has already been implemented in the district or region. These must be adjusted or tailored to suit different project characteristics or conditions when comparing the two projects.
- Beneficiary or user surveys for greenfield projects for which there is no available data, project teams may conduct interviews or surveys of potential customers to determine volumes and the fees they are willing to pay.

Incorporating seasonality effects in project forecasting

Significant seasonal changes to the business environment may affect the financial performance of the project and the subsequent timing of cash flow. This especially relates to projects that depend on weather patterns and are affected by climate change, e.g. sectors such as agriculture, livestock, fishing, tourism, energy, etc. Demand and supply forecasts must therefore contemplate seasonality, such as the possibility of low production due to extremely high or low rainfall (flood or drought).

c. User charges (fees) and users' ability and willingness to pay

Demand analysis cannot be concluded without assessing the affordability of the project from the user's point of view. This includes the price that users will be able and willing to pay for the product or services the project offers. This is usually established through direct surveys with potential project users or by looking at what potential users are spending on alternative services. This information may be collected through stakeholder engagement or the social impact assessment.

2.3.3 Technical feasibility

The technical feasibility assessment should involve the following components, which are then described in detail in subsections 2.3.3.1 through 2.3.3.4:

- Development of a project structure or design to meet the local need that has been identified
- Assessment of different technical options to meet the local need
- Analysis of the suitability of the project site
- Technical designs and estimation of the investment cost for the project

2.3.3.1 Development of a project structure or design to meet the local need that has been identified

The project being developed is the result of an idea or local need that was identified, screened and selected at the inception stage. One part of the technical feasibility assessment is to define different project parameters or specifications that will provide a solution to the need as assessed through the market study. These are project objectives, targets that the project wishes to achieve, output/deliverables, outcome, size or capacity, key indicators to measure project performance, and other features. While specifying these variables, project teams must ensure they relate to the need and fit within the SMART goal framework – that is, that the objectives chosen are **specific, measurable, achievable, realistic and have a clear time frame**. A clear description of the project scope will allow for a selection of reasonable service delivery options. In line with the project deliverables, technical input studies are conducted to ensure the availability, affordability and accessibility of the required project inputs.

For example, for a processing project, input studies should cover the following:

- What are the key raw materials needed? For example, fresh milk for a milk factory, sunflower seeds for a sunflower oil factory or cows for an abattoir and meatpacking facility.
- Where will the raw materials be sourced? Will they come from the facility's own production or contracts with suppliers? Are there any known suppliers? Will they meet quality specifications? Are the materials available? How will changes in weather conditions and the seasonality effect impact the availability of these materials throughout the year? How will market conditions vary (price increases or decreases, logistics being easier or more difficult at certain times)?
- How will the materials be sourced? Will suppliers deliver them to the project site, or do they have to be collected from fields? How far are suppliers from the site? Will logistics costs be reasonable? What human resources and infrastructure (i.e. transport, buildings and other facilities) will be required for the sourcing to be successful? Storage is a critical component in sourcing and will be varied based on seasonality elements. Similarly, factors such as training, forming relationships with suppliers and other cooperative measures may also be considered.
- Will there be competition from other business operators when it comes to sourcing materials and what strategies will be used to address this?
- What will the price of materials be? What will the supplier payment terms be?
- What technology will be used to convert the raw materials to finished products? What are the processing equipment requirements? What is the estimated capacity of the machines? Does the capacity match the project output expectations defined earlier? Are there known suppliers of the machines? Do you have the skills and capacity to operate and service them? Are the machines affordable (compare prices of different suppliers)? Is the technology appropriate to the local environment? Are the machine operating costs justifiable and affordable (e.g. a machine might require high levels of power supply to the extent the project fails to pay for electricity bills)? What is the life expectancy of the machines? Are spare parts available? What are the supplier's procurement and delivery terms?

2.3.3.2 Assessment of different technical options to meet the local need

After documenting the project scope, including the input study, an options analysis should be conducted. This highlights the alternative technical delivery options available for the LGA to achieve the specified project objective. The LGA can then choose the preferred option. The list of viable technical options contemplates a range of possible choices relating to a project site, capacity, quality, technology and implementation schedule.

For example, if the LGA needed to provide a better, modern abattoir and related services to ensure an adequate supply of meat for the city's growing population, the reasonable options available to it might be:

- to renovate and modernize its current abattoir facility
- to implement this modernization while also expanding operations into an adjacent vacant plot
- to demolish the current facility and construct a new one on the same plot
- to construct a new facility on a different plot (e.g. moving the abattoir project outside the city)
- to rent space or acquire a building from a private meat-processing facility operator

The project team will evaluate and assess the advantages and disadvantages of each option on the above list while also considering factors such as technical aspects, land acquisition, relocation and resettlement impacts and costs, environmental impacts and costs, associated risks, etc. LGAs may select a viable delivery option based on a clear evaluation and the appropriate weighting of criteria such as ease of implementation, timely delivery, the possibility of funding, etc. The selected option must be able to meet the needs that were identified.

2.3.3.3 Analysis of the suitability of the project site

This assessment is carried out to justify whether the proposed site is suitable for the project in terms of technical alignment and compliance with national land-use plans. The study may include the following:

- Review of the supporting infrastructure required to implement the project, such as accessible roads or railways, access to an airport and/or seaport, electricity, water and gas supplies and telecommunications. The assessment should determine whether these connections are available or require improvements so that these can be included in the design and costing of the project.
- Compliance with relevant national, district or urban plans, e.g. master plans.
- Review of topographical/geotechnical data for developing the project design. The geotechnical survey should assess the suitability of the underground features of the proposed site.
- Assessment of whether the site layout is compatible with the expected technology or the methodology chosen from the options analysis.
- Evaluation of whether the land is vacant and free of encumbrances. This analysis should consider whether there is a need for land preparation and improvement (e.g. levelling, demolition of existing structures, installation or removal of utility lines, etc.).

2.3.3.4 Technical designs and estimation of project investment cost

Once the LGA decides on a preferred option and confirms the suitability of the site, the team develops an appropriate project design. This should suit the complexity and nature of the project and provide enough information for project costing and risk and financial analysis. The project design must be able to meet the need identified during the inception stage.

Depending on the nature of the infrastructure in question, technical designs should be detailed enough to confirm the technical feasibility of the project and enable the preparation of bills of quantities (BOQs) and the estimation of project costs. Design processes may result in the development of architectural drawings, topographic survey drawings, geotechnical investigation reports, structural drawings and service drawings (i.e. relating to electrics, mechanics, information and communications technology, fire prevention, etc.)

Costing:

In addition to design-related costs, experts must estimate other necessary project costs that should be included in the financial model. Based on the selected technical options, capital, maintenance and operating costs should be estimated for the project life cycle. These may include:

- Land acquisition and improvement costs (including supporting infrastructure that the LGA will need to finance as the project owner)
- Design and construction costs (from BOQs)
- Procurement of required project assets (e.g. processing machines, trucks, etc.)

- Project preparation costs incurred before the construction phase
- Operation and maintenance costs for the entire project life cycle
- Overhead expenses (e.g. utilities, insurance, advertisement, etc.)
- Applicable taxes, licences, VAT, etc.⁸.
- Costs arising from the prevention of certain risks (e.g. environmental and social impacts)

LGAs should note that costs are estimated based on market conditions and good industrial practices. All assumptions and costs must be identified and accompanied by justifiable explanations and calculations to avoid under- or overestimating costs. For greater efficiency, costs can be compared with those of similar projects from around the district or region, if available.

2.3.4 Economic feasibility

In this guide, economic feasibility focuses on the economic benefits of the project.⁹ This section assesses whether the local community or target users will benefit economically or otherwise if the project is implemented. This is different from a financial analysis, which includes only items of monetary value. Economic feasibility comprises of positive and negative impacts (both financial and non-financial) that impact both direct and indirect users of the project. They consist of estimations of economic benefits from the project, the economic costs of implementing it and the difference between these two parameters, expressed in present value terms (the net economic benefit). This calculation will help the LGA to determine the desirability of the project from the viewpoint of society. For bigger, complex infrastructure projects, expensive economic assessment is carried out through a social cost-benefit analysis, which is a more technical, data- and time-intensive exercise.

2.3.4.1 Project economic costs

These are determined by calculating all costs associated with implementing the project, as follows:

- Investment costs (e.g. acquiring and improving land, machinery and equipment, building, etc.)
- Operation and maintenance costs (e.g. raw materials, labour, repairs, utilities, etc.)
- All other project life cycle costs (e.g. reinvestments)
- Mitigating and compensatory measures to prevent negative impacts or risks that the project might pose to society and the broader economy (especially social and environmental impact measures)
- Any other costs relating to the project

2.3.4.2 Project benefits

These are a measure of the value a project will deliver to society and may include the following:

- Project revenues, e.g. fees and taxes
- Cost-saving benefits resulting from using the project (for both the LGA and project users/ local community, e.g. timesaving, increased willingness to pay among customers)
- Community life improvements (e.g. improved public health conditions, reduced pollution, reduced congestion, etc.)
- New economic opportunities and other multiplier effects of the project (e.g. employment generation, increase in land costs, mushrooming of entrepreneurial activities)

8 VAT exemptions for the procurement of goods and services should follow Treasury Circular 6 of 2020 on the National System of VAT Management and Application via the National Electronic Tax Exemption System.

9 Part of the literature is adapted from Global Platform for Sustainable Cities, World Bank, "Module 5: Managing Consultants. Municipal Public-Private Partnership Framework" (Washington, DC, World Bank, 2019).

For project benefits and costs that are qualitative in nature, quantitative analysis can be carried out to estimate their monetary value. If monetary values cannot be estimated (due to lack of data or valuation models), the expected costs and benefits should be documented qualitatively to provide adequate information for decision makers. Project teams should note that most data and assumptions to be included in the economic assessment derive from the findings of the market and financial, technical, and social and environmental feasibility and risk analyses.

After benefits and costs have been quantified, project teams will then calculate the economic net present value (ENPV) to justify the economic decision. This captures the current value of the costs and benefits that occur over the project life cycle. This is done by:

- i. Estimating the projected life cycle of the proposed project asset
- ii. Determining a discount rate (required rate of return) based on a current cost of capital from local commercial banks
- iii. Using the above parameters, converting future costs and benefits to their present value and finally calculating the ENPV

The ENPV will help LGAs to decide whether the project should proceed to the next stage. A negative ENPV means the costs and negative impacts of a project outweigh its benefits to society. Hence, from society's perspective, the project is not economically feasible and should not be implemented. On the other hand, projects with a positive ENPV are regarded as economically feasible since their benefits outweigh their costs, therefore adding value to society.

2.3.5 Financial feasibility

The financial assessment comprises two factors: a) financiers' appetite/interest and b) commercial viability. A project is considered bankable or financially viable if financial modelling reflects reasonable returns and investors (especially lenders) are willing to finance it, together with other quantitative and qualitative factors. Potential funders may be the Government, commercial banks, donors, pension and insurance funds, private firms through PPP, bondholders through municipal bonds, etc.

2.3.5.1 Financiers' appetite or market sounding

LGAs must ensure the project under development is not only commercially viable but also can attract investors or financiers. The team should anticipate or determine the right **capital structure** (debt and equity), considering sources, investor policies and strategic orientation. Project teams must establish whether there is enough capacity and appetite to finance the project. This should be done once the LGA has adequate data to allow a fruitful discussion with financiers to take place (i.e. after a detailed PFS or full legal, technical and economic feasibility assessments have been conducted). A project will likely draw financiers' interest if the products and/or services to be delivered by the LGA and other project parameters meet their funding criteria.

Key questions to lead the analysis would be:

For public financing:

- Will a financial contribution from the LGA be required to implement the project? What is the financing source? What amount can the LGA afford? Is it budgeted/planned? LGA contributions could take in the form of cash, land, initial preparation costs (e.g. feasibility study costs, land survey costs, etc.)
- Will the LGA seek government grants to finance this project? Is the Government interested in funding such projects? Is the grant expected to be accessible? At what amount? What are the procedures and requirements/criteria for accessing the funds?

Is the LGA likely to meet these requirements? Will the grant be enough to cover the total project costs? How long will it take to get the grants?

- Is there a need for in-kind community contributions? Is the community likely to be willing to contribute? What specific support should be expected? What is the value of the support in monetary terms?

For private and development financing:

- The same questions as for LGA contributions, to assess the organization's commitment to the project.
- Is there interest in funding such projects among the private sector or donors? Have similar projects received financing? What are their financing needs? Is there an enabling environment? Can the LGA access such financing? Is it possible to meet their requirements? To what extent can they fund such a project?
- Does the nature of the selected project correlate to financiers' policies, strategies and risk profiles?
- Is the project marketable?

LGAs may assess the degree of interest from potential funders by using surveys, interviews or searching for similar projects that have been implemented in the region or country using the same financing approach. Project teams may contemplate holding preliminary consultations with potential project sponsors to assess their appetite for financing the proposed project. During these consultations, project teams collect important information about prospective investors' willingness to participate in the project, their perspectives on project viability and risks, their requirements/criteria and the possible amount of funding they may provide the project.

These findings will be used to assess the different stages of the project's financial viability, especially the financing or capital structure, financial analysis (e.g. conditions such as required rate of return or cost of capital/interest rates), etc. The above assessment should provide LGAs with adequate justification for a financing mechanism to adopt for its project. If there is not enough investor interest in funding the project, the management team should change its strategy, restructure the project or try to accommodate funders' preferences.

2.3.5.2 Commercial viability

The purpose of conducting a commercial assessment is to find out whether the expected fees and other revenues to be collected from users could adequately cover the costs of operating and maintaining the project while still providing a positive return for investors. This analysis will use information collected from the demand forecasts and technical feasibility study. The cost estimation will reflect the preferred delivery model or option selected through the technical analysis. The final deliverable (a financial assessment) is a reliable financial model for the project.

Financial modelling and key steps:

The process for conducting a financial analysis and evaluating a project should identify significant risks to project viability or sustainability. In such cases, suitable financial performance indicators need to be identified that can serve as early warning signs of any potential risks to the project and a possible risk mitigation plan. This is accomplished through a financial model built in excel or other specialized software to forecast the financial performance of the project for a reasonable number of years into the future, i.e. 5 years or 10 to 15 years. The forecast is based on the project's historical performance and assumptions about the behaviour of key variables or drivers of the economy and requires financial statements to be prepared. Investment or finance experts make projections of all revenues and costs over a certain project life cycle. They accommodate

the proposed financing mechanism (financing options are explained in **chapter 3**) to reflect the capital structure, funding requirements and adjust for expected risks. They also provide forecasted financial statements for the project (cashflow analysis, income statements and balance sheets).

Key steps

I. Identify and list project assumptions

These consist of all events or circumstances that are expected to occur or need to be true for a project to be successful. Assumptions are made for all project parameters and must be realistic. Project teams must list all assumptions that are relevant to the nature of the project. Some examples are:

- Population, e.g. the population will grow at an average rate of 5 percent per annum.
- Capacity, e.g. the machine's processing capacity is 2 tonnes of raw maize per day.
- Utilization, e.g. machine utilization is estimated at 22 days per month to allow for machine idle time (i.e. services, breakdown, unavailability of raw materials, power rationing, etc.).
- Holding capacity, e.g. a bus terminal capacity will accommodate 100 buses at a time.
- Price per unit, e.g. the price of a kilo of raw materials or a litre of fresh milk.
- Driving assumptions to include in the financial model, i.e. depreciation method, discount rate, inflation rate, exchange rate, etc.
- Seasonality effect, especially for projects that depend on the weather. For an agriculture or livestock project, financial projections must be discounted to incorporate the possibility of high rainfall (floods) or low rainfall (drought).

II. Calculate project costs

This refers to the computation of direct and indirect costs relating to project implementation as described below. Project teams should base their estimates on prevailing market costs, recent costs for similar work and materials and their own professional estimates.

Direct costs consist of:

- i. Capital expenditure or investment costs, which are derived from the components of the technical design including land acquisition and development costs, construction, purchase of plants and equipment, etc.
- ii. Operating costs based on a schedule of activities or the daily operations of the project, e.g. raw materials and consumables, staff costs, management costs, etc.
- iii. Project maintenance costs, which are estimated over the agreeable projection period. These include services, repairs and any other costs needed to maintain the project assets in the condition required to deliver project objectives. The type and timing of maintenance will vary depending on the type of project.

Similarly, **indirect costs** comprise additional overhead costs that contribute to project implementation. Examples of these are utility costs, communication costs, insurance, tax, professional fees (legal, auditing, etc.), bank charges, etc. Projections for utility costs should consider the complexity of the project operations (e.g. electricity budgets depend on the nature of the processing machines/technology used).

III. Calculate project revenues

Project teams should identify and list all potential revenue streams from the project. The revenue streams that the project is expected to generate are determined using tariff and pricing forecasts.

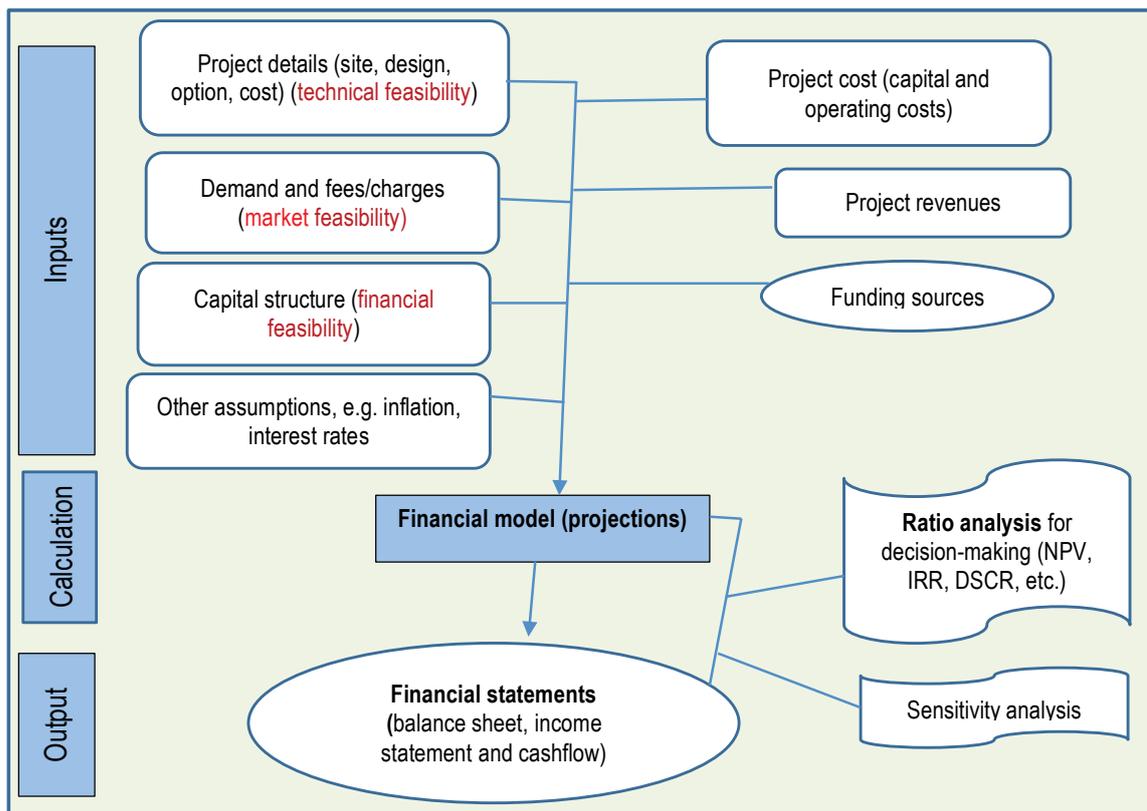
These will include tariffs, fees or user charges and other secondary revenue sources. The applicable rate depends on whether the producer or LGA is a price taker or maker. The average price is considered when the producer is competing at selling standard products. When the product or service in question is unique or uncommon, the market revenue calculation will be based on a price that is affordable for users. These calculations are then forecasted in the financial model using a realistic growth rate. This can easily be calculated based on historical revenue trends for the project in question or any other similar project (including the industry rate).

Revenue forecasting may be difficult for new projects for which limited, or no track records are available, i.e. historical financials. In this situation, an expert’s knowledge is needed to ensure that assumptions are well-documented, data quality is well-validated, and calculations are justified and reflect the most likely projections without too much deviation. It is a common mistake for project developers to overestimate revenues and underestimate costs. This should be avoided by conducting a sensitivity analysis to measure the financial behaviour of the project in the best-case scenario, worst-case scenario and most likely scenario. The recommendation is to **avoid reliance on the best-case scenario.**

IV. Develop financial statements

Figure 5 shows the design of the financial model and where information should be sourced from.

Figure 5: Design of the financial model¹⁰



¹⁰ Adapted from the India PPP toolkit, <https://www.pppinindia.gov.in/toolkit/ports/module2-ffaapdd-fvapdd.php?links=f-faapdd1g>

Example 5: Financial projection period

The length of the financial projection period depends on the purpose of the analysis.¹¹ For projects that are expected to be financed through debts (e.g. a term loan), the financier will describe the period which is usually equal to or a little more than the period of the loan. This allows them to analyse the financial health and risk of the project for the entire debt period. For equity financing projects, the best practice is to provide projections for five to ten years. The period forecast should not be too short, which renders it meaningless, but not so long that confidence in the projection is lost due to data availability and uncertainty over outcomes.

V. Calculate key financial ratios

The financial model should provide key financial ratios that contain the information needed for informed decisions to be made and meaningful conclusions drawn regarding the project's financial performance, viability, liquidity, etc. Many financial indicators can be used, depending on the nature of the project and the financing mechanism. The indicators or ratios that are most commonly used by decision makers are:

a. Net present value (NPV)

Financial viability is mostly expressed as the project's NPV or internal rate of return (IRR). These two ratios are extremely important in guiding investment decisions. NPV is simply the difference between the project's financial benefits and costs shown at present value (today's value). NPV can be used to compare different projects using the same discount rate.

The results of NPV are interpreted as follows:

- A positive NPV means the investment is worthwhile.
- A negative NPV means the costs of the project are greater than the benefits, and therefore it should not be developed further. This kind of project should not be invested in using the current structure, but there may be potential for a redesign to reduce costs or increase benefits to make the NPV positive.

b. Internal Rate of Return (IRR)

The IRR is a discount rate that makes the NPV equal to zero. IRR helps investors understand the level of returns to expect from their investment over the entire life cycle of the project. IRR calculations rely on the same formula as NPV but are expressed in percentages. To make decisions, project IRR is compared to the weighted average cost of capital (WACC) for the project. Projects whose IRR is higher than the WACC are regarded as financially feasible and will attract investors more than those with a low IRR. Therefore, the IRR only tells a decision maker whether the project is financially viable. For project teams to compare different projects, the NPV must be used.

c. Debt service coverage ratio (DSCR)

If a project is fully or partly financed by debt, LGAs may wish to assess the project's ability to repay the debt from its annual cash flow using a DSCR. This ratio determines how risky the business is, how likely it is that the project would be successful enough to enable periodic payments to be made for the length of the loan while still generating enough income to cover any cash flow fluctuations. The DSCR is calculated as the operating cash flow for the project over the year divided by the debt service of the project over the year. A ratio higher than 1.1 is considered an optimal DSCR, although this will be determined for each project based on its risk assessment.

11 B. Patel, *Fundamentals of Financial Management* (Ahmedabad University, Gujarat, 2014).

VI. Conduct sensitivity and scenario analysis¹²

Scenario analysis is used to test the business reaction to different economic situations or events and assess potential fiscal risks. These scenarios may be an increase in costs or decrease in revenue or occurrence of any risk, etc. Scenario analysis involves changing a few inputs and is conducted for variables that have a high chance of occurring or making a significant negative impact on the project. For example, in a bus terminal project, the important factor or key risk is traffic levels (number of buses using the terminal). LGAs may consider developing a financial model with three traffic scenarios: best case, worst case and a base case.

Sensitivity analysis assesses how robust the project's financial sustainability/feasibility is to changes in the assumptions used in the financial model. In most cases, key project variables (inputs for the model) are used to ascertain how sensitive project cash flow is to changes in these variables. Examples or types of sensitivity analyses that are commonly performed are:

- Increases in investment cost, e.g. construction costs
- Increases in operating costs
- Decreases in service demand
- Decreases in user fees
- Increases or decreases in the inflation rate or growth rate
- Increases or decreases in financing costs/cost of capital
- Increases or decreases in the discount rate

In general, sensitivity and scenario analysis will help the LGA to foresee challenges during project implementation and prepare measures to address these. The LGA is expected to evaluate these scenarios and sensitivity findings and develop a preparedness plan to cover future risks.

2.3.6 Environmental and social feasibility

Often, the construction and operation of infrastructure projects will have significant social and environmental impacts, which can be both positive and negative. A thorough analysis should be carried out to identify and describe all possible negative impacts from the project, based on environmental regulations, standards and the requirements of potential investors and financiers. Depending on the nature of the infrastructure project, a full and separate environmental social impact assessment (ESIA) may be required on top of this feasibility analysis. In this case, the National Environment Management Council (NEMC) should be consulted to conduct a proper ESIA.

2.3.6.1 Environmental impacts

Project teams should work with the NEMC consultants and facilitate the identification and assessment of all physical environmental effects (soil, water, air), societal environmental effects (land and social and economic issues) and biological environmental effects (fauna, flora, ecosystem) of the proposed project. For example, transport infrastructure projects may cause damage to the environment in terms of pollution, noise, visual intrusion, habitat destruction, etc. An abattoir project may have environmental effects on water downstream, groundwater, ambient air and other natural resources due to alterations or pollutants. After all potential direct and indirect environmental impacts have been identified, they should be addressed through proper mitigation strategies. If the strategies entail changes to the technical project designs, then they should be considered in the technical feasibility study.

¹² Adapted from World Bank, *Caribbean PPP Toolkit: Developing Infrastructure and Improving Service Delivery* (Washington, DC, World Bank, 2017). 7

2.3.6.2 Social impact

This assessment should include the intended and unintended social consequences of the project (both negative and positive) for the community. The feasibility analysis should identify ways of minimizing the negative effects and provide possible prevention strategies. The International Association of Impact Assessments (IAIA)¹³ provides a sample of social impacts, which are shown in example 6.

Example 6: Social impacts according to the IAIA

Social impacts are changes to one or more of the following:

People's way of life	How they live, work, play and interact with one another on a day-to-day basis
Their culture	Their shared beliefs, customs, values and language or dialect
Their community	Its cohesion, stability, character, services and facilities
Their political systems	The extent to which people can participate in decisions that affect their lives, the level of democratization taking place, and the resources provided for this purpose
Their environment	The quality of the air and water people use; the availability and quality of the food they eat; the level of hazard or risk, dust and noise they are exposed to; the adequacy of sanitation, their physical safety and their access to and control over resources
Their health and well-being	Health is a state of complete physical, mental, social and spiritual well-being and not merely the absence of disease or infirmity
Their personal and property rights	Particularly whether people are economically affected, or experience personal disadvantage, which may include a violation of their civil liberties
Their fears and aspirations	Their perceptions about their safety, their fears about the future of their community, and their aspirations for their future and the future of their children

Once potential social effects have been documented, LGAs should predict, analyse and assess the likelihood of these occurring, identify communities that may be affected, develop a mitigation strategy, inform the respective communities, collect responses from them and enhance any mitigation strategies. This process should follow an inclusive participatory approach to ensure that local stakeholders are involved and avoid surprises or the blocking of the implementation of the project. More importantly, when the resettlement and relocation of economic activities involve the most vulnerable groups such as women and low-income earners, LGAs must be convinced that mitigation measures have been implemented as far as is feasible to ensure the project will be implemented smoothly. Any cost implications should be accommodated during project costing.

2.3.7 Risk assessment

In each of the above feasibility components, LGA teams must identify all potential risks and provide mitigation measures. Most of the project risks have an associated monetary value which affects the market, economic and financial feasibility of a project. The risk matrix should contain the name of the risk, a description of it, the probability of it occurring (high/medium/low), the consequence or impact of this and proposed mitigation and management measures.

13 Frank Vanclay, Ana Maria Esteves, Ilse Aucamp and Daniel M. Franks, *Social Impact Assessment: Guidance for Assessing and Managing the Social Impacts of Projects* (Fargo, ND, International Association for Impact Assessment, 2015). Available at http://www.iaia.org/uploads/pdf/SIA_Guidance_Document_IAIA.pdf

Risk Breakdown Structure		
PRECOMPLETION	POST-COMPLETION	COMMON RISKS
<ul style="list-style-type: none"> ♦ Location ♦ Skill or competence ♦ Activity planning ♦ Technology choice ♦ Construction method 	<ul style="list-style-type: none"> ♦ Supply risk ♦ Operational risk ♦ Market risk 	<ul style="list-style-type: none"> ♦ Interest rate risk ♦ Currency risk ♦ Country risk ♦ Inflation risk ♦ Environmental risk ♦ Regulatory risk ♦ Legal risk ♦ Credit/counterparty risk

Examples of the assessment of risks identified in revenue generating infrastructure projects are provided in example 7.

Example 7: Sample project risk matrix¹⁴

Risk	Description	Probability of occurrence	Impact	Mitigation measures
Site	Risks associated with the availability and quality of the project site, such as the cost and timing of acquiring the site, permits or supporting facilities needed (e.g. electricity), the effect of geological or other conditions at the site and the cost of meeting environmental standards.	Low	Non-project starter, increase in capital costs	Secure land title deed before financial closure, incorporate supporting facilities needed into project design, conduct ESIA
Design, construction and commissioning	The risk of construction taking longer or costing more than expected, or that the design or construction quality means the asset does not meet the project requirements.	Moderate	Loss of revenue, increased capital costs, facility becomes a white elephant	Entering into engineering procurement construction (EPC) contracts or using performance bonds
Operation	Risks to successful operations, including the risk of interruptions to service, or the cost of operating and maintaining the asset being different to what was expected.	Low	Increase in O&M costs	Conduct realistic feasibility studies
Demand and other commercial risks	Risk of usage of the service being different than was expected or that revenues are not collected as expected.	Moderate	Inadequate revenue generation to cover costs	Effective ongoing community engagement during project preparations and operations

14 Project risks categories and description are adopted from www.worldbank.org

Regulatory or political	Risk of regulatory or political decisions or changes in the sector regulatory framework that adversely affect the project. For example, this could include the failure to renew approvals appropriately or unjustifiably harsh regulatory decisions.	Low	Delay or termination of the project	Understand legal requirements and integrate compliance during project conception, engage with and involve the Government continuously, monitor political developments and political risk indicators (e.g. change in regulations) and respect approval processes
Economic or financial	Risk of changes in interest rates, exchange rates or inflation adversely affect the project outcomes.	Low	Increase in project implementation costs	Local currency financing

2.3.8 Feasibility study conclusion

In brief, the feasibility study should assess all important aspects of the project as detailed above. The checklist in example 8 summarizes key items to review in relation to each component to confirm the feasibility of the project.

Example 8: Project feasibility checklist

Feasibility component	Business case demonstrated
Legal	<ul style="list-style-type: none"> - The project aligns with local and/or national policies and priorities. - All project features are permitted by current laws and regulations, identified project partners/parties are legally empowered to occupy this position, and required agreements or contracts with parties involved can be legally binding. - There are no legal obstacles to implementing the project. - The suitability and legality of the project site (ownership) has been confirmed. - All required approvals and permits have been identified.
Demand or market	<ul style="list-style-type: none"> - The local need is clearly defined, is significant enough to justify the project, and will still exist after the project has been completed (project rationale). - Based on initial market sounding, there is justifiable demand or interest from potential users of the project. This includes the users' ability and willingness to pay for the product/service. - Based on the input studies, raw materials/supplies are available, accessible and affordable.



Technical	<ul style="list-style-type: none"> - All technical aspects of the project (e.g. project scope, inputs, outputs, objectives and outcomes) are well defined, attainable, realistic and measurable. - Project locational factors (e.g. supporting infrastructure) have been considered. - All technical designs have been submitted. This project (idea) is the proper/practical approach to achieving the target outcomes or solving the identified problem (local needs). In other words, the project design meets the identified need or captures the opportunity. - Options analysis (screening of viable options to meet the need) was conducted. - The technical option or delivery model suggested can be implemented using known, proven technologies and available engineering methods.
Economic	<ul style="list-style-type: none"> - There are reasonable expectations that the economic benefits of the project will outweigh its economic costs and the project will be useful to the community.
Financial	<ul style="list-style-type: none"> - Project costs and revenues are estimated based on a reasonable level of accuracy or reasonable assumptions. - Financial analysis indicates that potential project revenues (including any external financing, e.g. donor grants, community contribution, etc.), can adequately cover the forecasted project costs and ensure the financial sustainability of the project or provide a return for investors. - Based on the value or size of the project cost (capital investment) and proposed financing modality, the project is likely to be financed/attract financiers. - If the project requires government funding (at both the local and/or national level), that support is likely to be secured. - A sensitivity analysis was carried out to ascertain whether different project-related risks will jeopardize the financial sustainability of the project and the outcome was reasonable.
Environmental and social	<ul style="list-style-type: none"> - The environmental impact of the project complies with the required environmental standards/laws or can be mitigated and approved by a regulating authority. - All relevant stakeholders were engaged and solutions for individuals/groups that are impacted by the project have been provided and incorporated into the project structuring process. - There is minimal chance of the local community blocking or obstructing project implementation.
Other issues	<ul style="list-style-type: none"> - All risks have been identified and mitigation strategies developed. There are no significant risks that cannot be controlled by the respective party. - The LGA will be technically capable of implementing the project or using other feasible means to do so, such as managing it through SPVs.

Feasibility study findings:

Usually, the feasibility assessment will result in one of the following scenarios:

1. The project is found to be feasible in terms of the legal, market, technical, economic, financial, environmental and social analyses. The LGA can thus start looking for funding to implement the project.

2. The legal, market, technical, economic, financial, environmental and social analyses conclude that the project entails significant risks that are not manageable or have not been mitigated. The LGA may decide to either redesign the project to improve its feasibility (i.e. by mitigating major risks) or drop the project completely.

2.3.9 Approving authority for a feasibility study

For the project to be implemented, the project feasibility study must then be approved by the CMT, the LGA Finance Committee and finally the Full Council.

Example 9: PPP guidelines

Projects that are expected to be implemented through the public-private partnership (PPP) approach may have to follow the feasibility assessment procedures outlined in the LGA operational guidelines for PPPs in Tanzania, developed by PO-RALG, in addition to the guidelines contained in this document. Specifically, the PPP project viability guidelines include assessments of value for money and risk sharing (between public and private parties), which are not covered in this guide.

2.4 Development of a business plan

This is the fourth and final stage of the project preparation, where an LGA prepares a project business plan based on the information collected through the feasibility study.

Figure 6: Project development stage 4



A business plan is a comprehensive document describing social, financial, economic and operational project objectives and how the organization strategically plans to achieve these project goals. It presents a justification for undertaking that project and a detailed road map for its successful operation or implementation. A business plan is developed after most facts/probabilities have been established (in the feasibility study), provided these indicate that a business opportunity exists.

The business plan should provide key stakeholders and decision makers with reasonable structured thinking and confidence that (a) the proposed project is a good strategic fit and will address the local problem that has been identified; (b) the preferred option or project design and the different parameters for this will add value to the society; (c) the project life cycle costs are affordable and can be financed and (d) the project can successfully be delivered by the LGA.

Irrespective of its structure, a good business plan should contain adequate information and analysis of all project variables to provide an understanding of the proposed project.

The more professional the project business plan, the higher the likelihood of securing financing. Project sponsors must be convinced that the project in question is not only a solid investment, but also better than other project requests being considered. Business plans are expected to include the aspects listed below, depending on the nature and size of the project.

This list is not exhaustive but provides examples of the key issues to be considered:

- Executive summary of the project
- Background of the organization
- Description of the proposed project (derived from the technical feasibility assessment)
- Market information (derived from the demand/market feasibility, economic feasibility, and social/user assessments)
- Project management and key staff (derived from the project implementation section)
- Legal and institutional framework (derived from the legal feasibility assessment)
- Financial projections and sensitivity analysis (derived from the economic and financial feasibility assessment)
- Funding requirement (summary of the financial feasibility/financial model/financing option)
- Environmental and social factors (from the social and environmental feasibility assessment)
- Risk assessment (derived from the risk and sensitivity analysis of the feasibility assessment)
- Project implementation plan
- Appendices

NOTE: Appendix 6

See appendix 6: this provides a detailed sample format or framework that can be used by LGAs to prepare their business plans. The framework explains what information to include in each component of the business plan.

2.5 Approving authority for the business plan

Since this is the final part of the project preparation stage, the project team submits the business plan to the CMT, the LGA Finance Committee and finally to the Full Council for approval. At this stage, the project is ready for funding, hence the feasibility study and the business plan (known together as “the investment package”) may be sent to various potential investors to interest them in investing in the project. These may be public investors (through MOFP), the private sector, financial institutions, pension funds, DPs, etc.

CHAPTER THREE

3.0 PROJECT FINANCING

This is the third stage in the project development life cycle and looks at the possible main sources of financing according to the prevailing legal and regulatory framework in Tanzania. In general, infrastructure projects have long gestation periods and require huge initial capital outlays, which might be challenging for most LGAs. Nevertheless, LGAs need to explore different ways of meeting their increased demand for infrastructure services. The legal framework guiding LGAs in Tanzania provides different financing options, which are listed in figure 7.

Figure 7: LGA financing options



3.1 Own-source revenues

Section 6, 7 and 8 of the Local Government Finance Act, Cap. 290, provides an extensive framework of LGA revenue sources. Those accruing from various fees, levies, rates and charges qualify for providing equity towards capital structure. When collecting revenues, LGAs have the power to formulate their own by-laws within their area of jurisdiction as guided by the Local Government (District Authorities) Act No.7 and Local Government (Urban Authorities) Act No. 8 of 1982 (RE 2002).

LGAs' capacity to generate revenue is important for financial sustainability and their ability to promote the well-being of local communities, including providing funding for infrastructure. Statistics indicate that most LGAs are capable of financing less than 15 percent of their annual budget using local revenue. This confirms that local sources are not enough to deliver quality and sustainable public services to the community. These and other reasons make alternative financing mechanisms a prerequisite for bridging the financing gap.

Depending on the size of the investment, LGAs may finance a portion or total of their proposed infrastructure project using local revenues. Some projects may require only a percentage of financial contribution from own-source revenue while the rest is covered by a different source. Whether they cover a portion of the investment or finance it fully, LGAs should plan and budget the required amount in their Medium-Term Expenditure Framework (MTEF), according to the yearly Planning and Budgeting Guidelines issued by the MOFP. The budgeted amount should match the project implementation strategy and plan. For instance, yearly construction phases would imply more than a single year plan being drawn up through the MTEF. Project financing through own-source revenue should consider available revenue sources, cashflow generation and LGAs revenue collection capabilities.

3.1.1 Community contribution

As per the Tanzanian Constitution, LGAs have a mandate to participate and involve the community in matters relating to their own development within their respective areas. Community engagement in the planning, development, financing and implementation of development projects brings a sense of ownership, accountability and sustainability to the investment. When communities are willing to contribute, it signifies that the project is a priority for them, hence increasing its acceptability.

LGAs may opt to involve the community in mobilizing resources to implement the project, if this is applicable to the project in question (this is especially the case in rural districts). The community contribution is usually of in-kind nature, is provided by the intended beneficiaries and is counted as part of own-source financing. This may take the form of labour (sweat equity), cleaning the project site or collecting local materials such as sand, stones, etc. If this approach is used, the quality of the materials or labour work should be certified by the council engineer to ensure construction quality, and project teams should quantify/value the community work for inclusion as the LGA's financial contribution. In many cases, this initiative works well when an SPV is established in which the community takes part as a shareholder, owning part of the project company through their equity contributions. The equity is normally land (since villages are legally entitled to own land) or financial support (grant funds from DPs that are earmarked for the project).

3.1.2 Approving authority for own-source funds

The LGA Finance Committee is responsible for submitting their approval to finance the project via own-source revenue to the Full Council before the project is included in the MTEF.

3.2 Central Government transfers

The second source of financing for LGA infrastructure are annual transfers from the central Government as provided for under sections 12 and 13 of the Local Government Finance Act, Cap. 290. This consists of recurrent and development funds from the Government's internal sources and contributions from DPs that are channelled through the general budget support and sector basket funds. In FY 2018/19, the Government established the SPF through the MOFP to support and finance LGAs' strategic infrastructure projects. The emphasis is on LGAs structuring strategic projects that will enhance revenue generation and reduce dependence on central Government grants. After confirming the bankability of the projects, LGAs should include the investment amount in the annual budget estimates for the respective year.

3.2.1 Strategic project funding criteria

The MOFP's guidelines on funding strategic projects stipulate several requirements and criteria that LGAs should adhere to. Projects with the following characteristics will be considered:

- a. Projects included in LGA Strategic Plans and MTEFs
- b. Projects with write-up documents (business plans) and complete feasibility studies
- c. Projects with reliable opportunities or the potential to increase revenue
- d. Projects that LGAs can manage efficiently or in collaboration with other stakeholders
- e. Projects that comply with sustainable industrial integration strategy, value addition and packaging system
- f. Projects that increase the employment opportunities, income and well-being of citizens.

NOTE: Appendix 7

See **appendix 7**: this provides detailed criteria and the supporting documentation required as per the MOFP SPF guidelines issued in 2018.

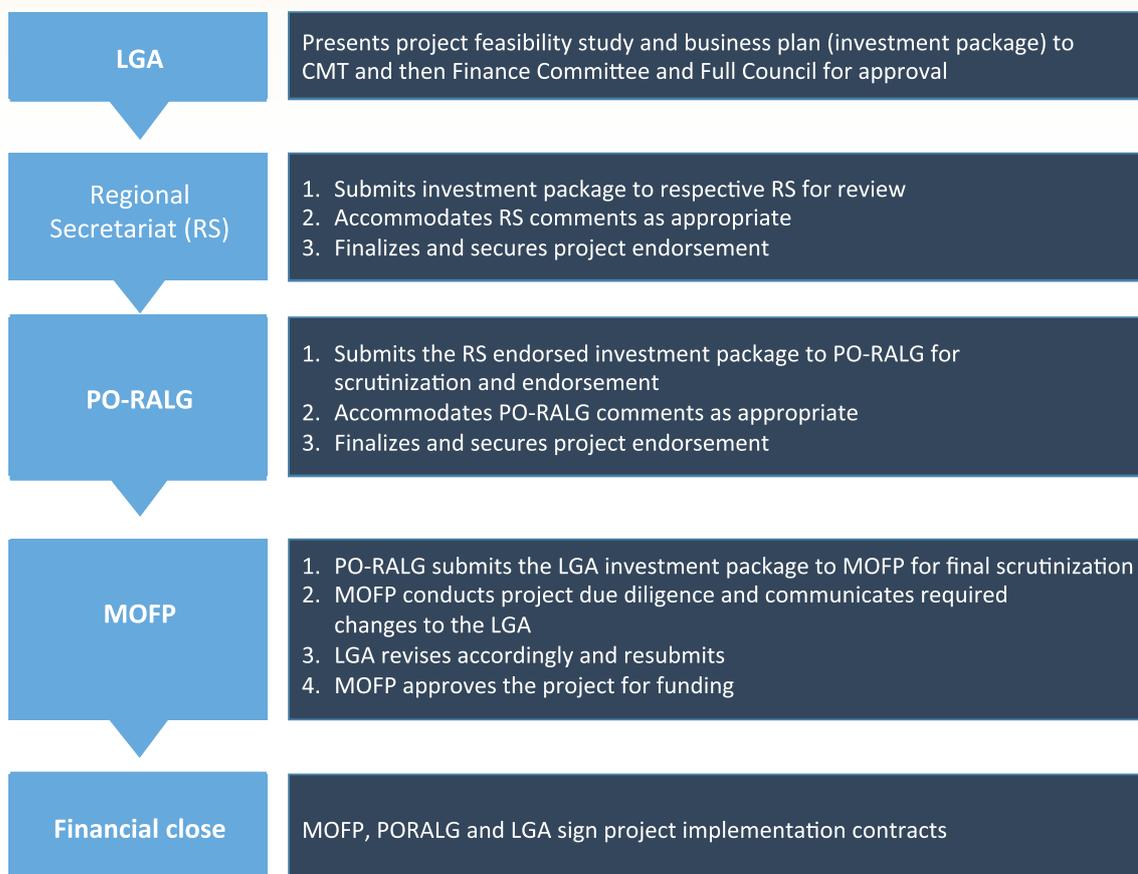
Example 10: Project submission timeline

As per the annual plan and budget guidelines, LGAs should ensure their investment packs for all proposed (new) projects using grant funding are ready and submitted at the beginning of the government budget cycle to secure funding (budget ceiling) for the coming financial year. The same directives for FY 2019/20 were provided in the national budget guidelines.¹⁵

3.2.2 SPF review and approval process

LGA access to central government development grants earmarked for revenue-generating infrastructure projects will follow the process outlined in **figure 8**.

Figure 8: SPF approval process



3.3 Public-private partnership (PPP)

Local governments of all sizes in developing countries face major service delivery challenges requiring resource mobilization. Often LGAs have budget deficits when it comes to financing medium- to large-scale infrastructure projects, taking into consideration that central Government transfers are insufficient. Infrastructure demands suppress the financial and institutional capacity of LGAs. It is high time for subnationals to seek out new forms or external sources of financing. One such approach is the engagement of the private sector in implementing commercially viable investments through a PPP arrangement. For this, LGAs need to practice good governance and improve public expenditure management, transparency and their credibility if they are to attract the private sector.



3.3.1 PPP definition and regulatory framework

In Tanzania, local government PPPs are governed by the following legislation:

- Public-Private Partnership Policy 2009
- Public-Private Partnership Act 2010 (as amended in 2014 and 2018)
- PPP Regulations 2020
- Public Procurement Act 2011

The PPP Amendment Act of 2018 defines PPP as a contractual arrangement between a Contracting Authority (CA) and a private party, in which the latter:

- a) undertakes to perform a function for a CA for a specified period
- b) assumes substantial financial, technical and operational risks in connection with the performance on behalf of the CA or by using Government property
- c) receives a benefit for performing the CA's function or from utilizing the public property, either by way of:
 - i. a consideration to be paid by the CA that derives from a revenue fund or, where the CA is a central government or local government authority, from revenues of this authority
 - ii. charges or fees to be collected by a private party or its agent from users or customers
 - iii. a combination of such consideration and such charges or fees

3.3.2 Traditional procurement model versus PPP procurement model

It is crucial to differentiate between a normal project implementation route and the PPP approach. Traditionally, LGAs have engaged the private sector in procurement and implementation of projects via engineering work, construction using LGAs' BOQs, the outsourcing of revenue collection, etc. PPP models are similar but involve substantial engagement and risk-sharing with the private partner. The key difference is:

Example 11: Difference between traditional procurement and PPP procurement

Factor	Explanation
Risks	In traditional procurement methods, the LGA bears almost all project risks. In PPPs, risks are allocated between the Government and private sector. Allocation is based on the ability of the party to best mitigate the risk.
Project management	In PPPs, responsibility for project operations and management lies with the private partner, while in normal practice, the LGA is solely responsible.
Financing	In PPPs, the private sector finances the project, while in a traditional approach, the LGA uses its own sources, grants or borrowings to fund project activities.
Base/contract terms	The normal project implementation practice is to focus on project inputs such as materials or the nature of the assets to be constructed, e.g. a bus terminal. However, PPPs focus on output specifications or level of service required, e.g. the ability of the bus terminal to accommodate 50 buses at once.
Payment terms	Using the traditional approach, contractors are paid in short-term instalments that are linked to construction phases. In a PPP, the LGA and private partners have a long-term relationship, and payments will be made based on output or services delivered.

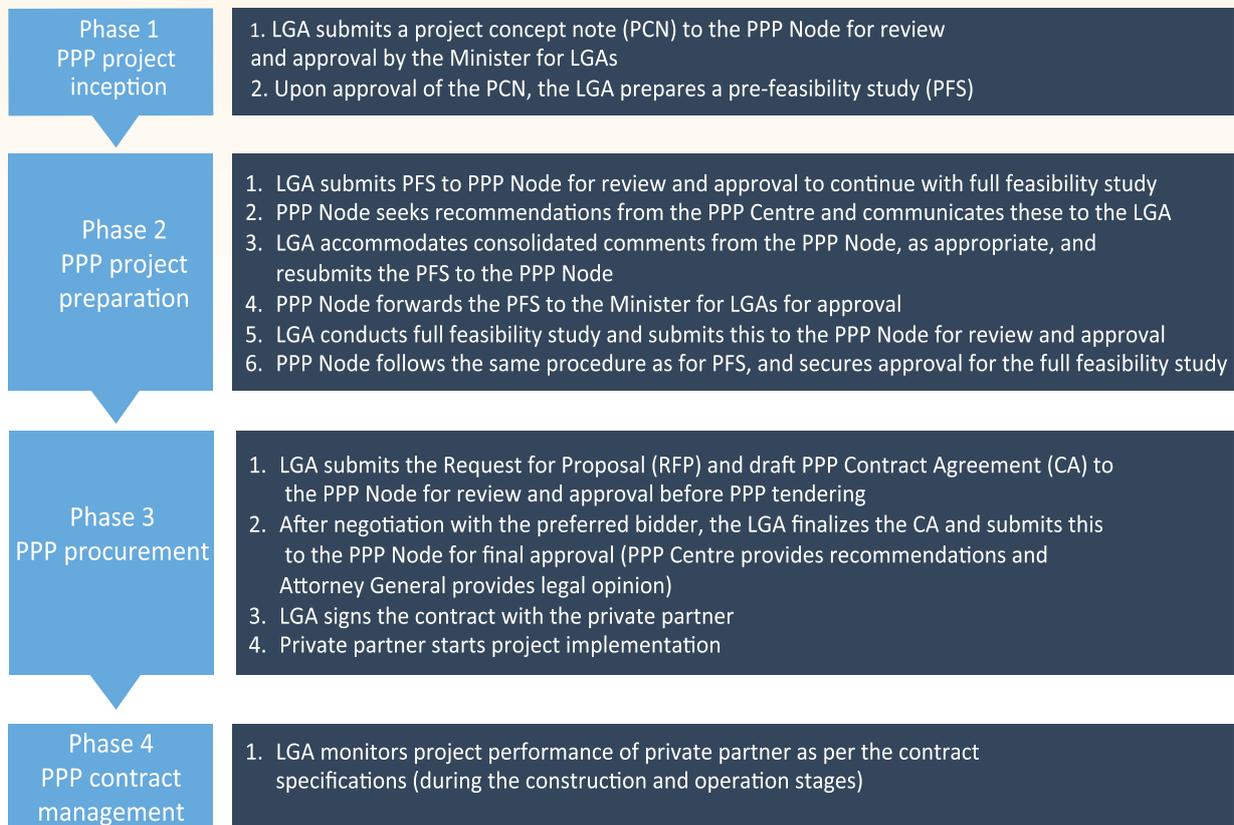
3.3.3 Small-scale PPP processes

LGA PPPs are regarded as small-scale PPP projects and are clearly addressed in part XI of the PPP Regulations of 2020. Similarly, the regulation establishes a PPP Node at the ministry responsible for LGAs, which is to serve as an approving authority and support the implementation of PPPs by LGAs. The PPP Node provides guidelines and technical assistance for the processing, development, review, financing, implementation and monitoring of small PPP projects.

LGAs may refer to the node for further details. More information about PPPs can be found at the World Bank online resource centre: <https://ppp.worldbank.org/public-private-partnership/>.

As a brief note, **since PPP financing is different from the traditional approach**, LGAs with candidate PPP projects should follow the process described in figure 9.

Figure 9: PPP approval process¹⁶



3.4 Debt financing

Long-term debt is one of the available financing instruments for capital investments that LGAs may utilize to finance commercial infrastructure projects. However, borrowing involves some bureaucratic procedures and challenges that the LGA must clearly understand before entering into any credit arrangements. In this guide, debt financing takes place through a project finance approach, in which only revenues from the project are used to repay the debt, rather than any other LGA revenues sources. For this reason, projects to be financed through borrowing must be commercially viable and include reliable sources of revenue and adequate cash flow to service the debt.

There are two types of long-term debts instrument: (a) loans from commercial or investment banks and (b) municipal bonds from capital markets. Both are mandated under the same legal framework and work well with the formulation of an SPV¹⁷ to manage operations and debt. Municipal bonds are further explained in section 3.6, and SPVs are described in chapter 4.

¹⁶ Approval process summarized from the PPP Regulation, 2020

¹⁷ Usually a legal entity that is created solely for a financial transaction or series of transactions. They are created to isolate an asset operation from the rest of the business of its sponsor. SPVs may be formed through limited partnerships, trusts, corporations, limited liability corporations or other entities



3.4.1 Legal framework for LGA borrowing

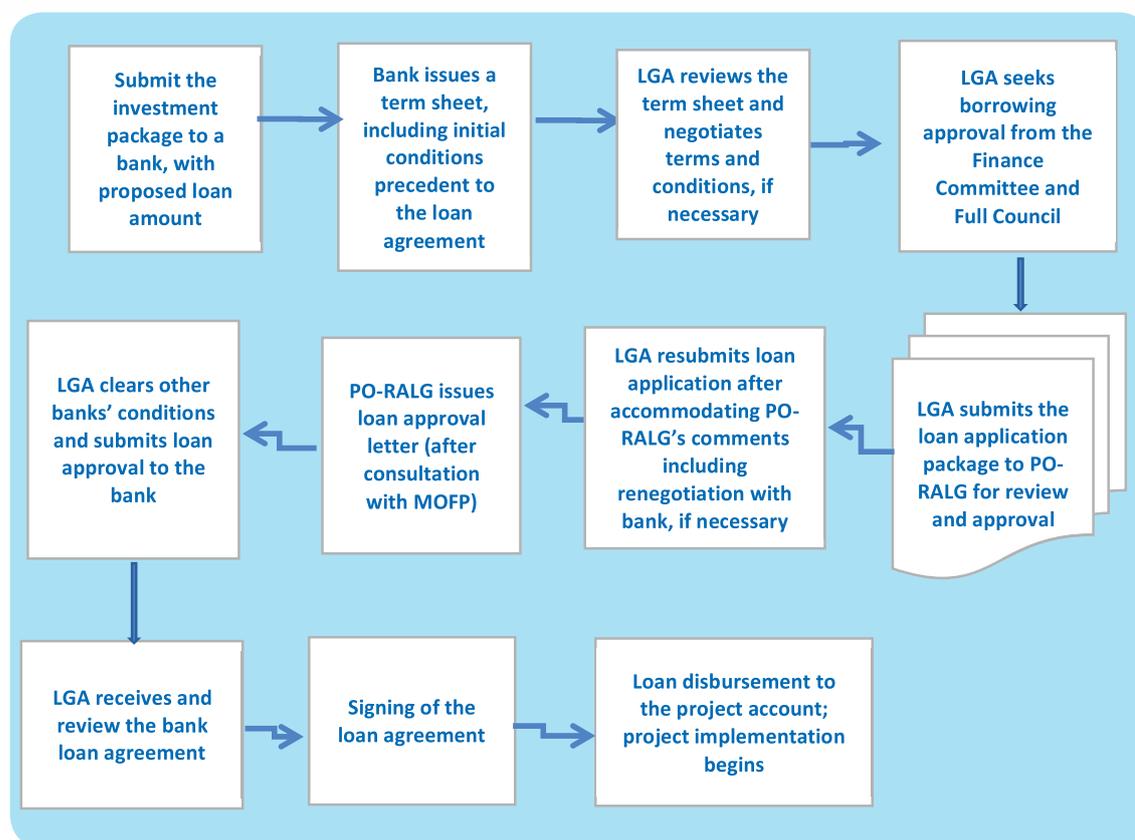
Section 14 of the Local Government Finances Act, Cap. 290, (and amendments to this) empowers an LGA to borrow such amounts, from such sources, in such a manner and for such purposes with prior approval of the minister responsible for LGAs, after consultation with the minister responsible for finance. Local authorities are not allowed to borrow from abroad but may only raise loans domestically. The same law permits LGAs to borrow from the Local Government Loan Board. Another piece of legislation governing LGA borrowing is the Loans, Guarantees and Grants Act of 2003 (and amendments to this).

3.4.2 LGAs borrowing processes

During the feasibility study, the LGA would have conducted a market sounding to determine appetite among banks which are interested in funding the proposed project. Before lodging a loan application with any bank, the LGA needs to understand the basic loan requirements and lender policies.

The next steps are outlined in brief in figure 10.

Figure 10: Borrowing approval process



Loan application explanatory notes:

Commercial debt investors (banks) often finance 70 percent of project costs, on average, so the equity requirement from the project owner is around 30 percent. LGAs should be ready and financially capable to provide the required equity contribution. There are DPs and donors with financial support windows for facilitating the provision of seed capital or grants to complement LGAs' efforts to implement certain development projects that have an impact on the local community. Consultation with these partners may begin at or after the feasibility study stage.

3.4.2.1 Loan term sheets

When the bank is satisfied with the submitted investment package, a loan term sheet (TS) will be issued to the LGA. The TS does not constitute any commitment from the bank to finance the project but is a mere confirmation of interest that:

- states the indicative terms and conditions of a potential future loan agreement, i.e. type of loan facility, amount, tenor, interest rate, currency, grace period, repayment schedule, collateral requirements, financial and legal fees to be paid and credit enhancement mechanism (**see the guidance on example 12**), etc.
- outlines the steps required to reach financial close (conditions precedent). This includes the bank's own due diligence or credit appraisal process to validate all project components.
- provide requirements related to the management of disbursements, e.g. the opening of a special project bank account or SPV, or stipulating that funds be sent directly to suppliers/contractors, etc.

Upon receipt of the TS, the LGA's project team starts negotiating the terms and conditions as they deem fit. The team also manages communications and interaction throughout the bank's due diligence process, including negotiations of forthcoming changes or additions to terms and conditions. Other approval processes within the council and to the ministry will follow as highlighted in **figure 10**.

Example 12: Credit enhancements

A credit enhancement is a risk mitigation strategy used by project developers to improve their project credit risk profile in order to obtain better loan repayment terms.

Most local development projects require some form of credit enhancement such as:

- a) **Full credit guarantee** covers the full value of the debt (typically available for low-risk projects)
- b) **Partial credit guarantee** (a promise by a third party to cover some amount of a loan), which are provided by most development finance institutions, e.g. the European Investment Bank,¹⁸ GuarantCo,¹⁹ UNCDF,²⁰ and the World Bank (through its Multilateral Investment Guarantee Agency – MIGA) which covers the lender,²¹ etc.
- c) **Reserve funds**²² set aside by the project to service the loan in case of erratic project cash flows

The use of credit enhancements may benefit the LGA as a borrower in the form of reductions to the interest rate, favourable repayment schedules or extension of loan maturity.

3.4.2.2 Clearing of conditions precedent and disbursement

The loan agreement contains several conditions precedent (CPs) that the LGA must clear to make the agreement effective and enable the subsequent disbursement of funds to the dedicated account.

18 <https://www.eib.org/en/products/guarantees/index.htm>

19 <https://guarantco.com/what-we-do/products-and-benefits/>

20 <https://www.uncdf.org/tanzania>

21 <https://www.miga.org/product/non-honoring-financial-obligations>

22 S.L. Hoffman, *The Law and Business of International Project Finance: A Resource for Governments, Sponsors, Lawyers, and Project Participants* (Cambridge, Cambridge University Press, 2007).

The CPs in the loan agreement serve to give the bank assurance that certain important documentary requirements and other matters are dealt with before funds are made available. Council lawyers are to be involved to deal with all legal matters.

The following list comprises some of the typical CPs for an LGA infrastructure project, which may vary depending on the nature of the project and the bank involved:

- Submission of a letter of consent to borrow from the Government (PO-RALG)
- Payment of facility fee
- Purchase of comprehensive insurance cover in respect of all assets and against all risks that they may be exposed to
- Submission of evidence that the LGA can inject the required amount of equity as stated in the loan agreement
- Submission of evidence that the project company will be set up as an SPV
- Submission of evidence that the owner (the LGA) will be able to meet project cost overruns in excess of the provided contingency
- Appointment of a main contractor registered in class one in building works to be approved by the bank
- Submission of the signed contract between the LGA and the main contractor
- Submission of the contractor's performance bank guarantee and insurance coverage
- Submission of national NEMC certification for the proposed project and all other necessary permits
- Submission of evidence that a qualified management team is in place

CPs continue to be cleared during the construction phase. Once the LGA has managed to clear all the CPs as required, funds are disbursed as per the instalments that are agreed on.

3.5 Development partner funds²³

The adoption of the Addis Ababa Action Agenda and the 2030 Agenda for Sustainable Development created the need for both public and private finance to meet the Sustainable Development Goals (SDGs). DPs are thus focusing on supporting LDCs to invest in income-generating infrastructure opportunities to create positive SDG outcomes that help tackle poverty, empower women and safeguard the environment. Their participation in LGA project financing uses concessional finance tools. These are financial instruments with either a lower return than the market level or no return at all.

Examples are:

- technical assistance or grants (with no return)
- concessional loans, usually with low interest rates, flexible collateral requirements, long maturities and grace periods (with low return)
- credit or risk guarantees (with low return)

A project may be fully financed by DP grants or by using the blended finance approach (where a mixture of both public and private or DP funds are used). When commercial investors are not interested in a project, the use of concessional finance can improve the project's risk–return profile, making projects commercially attractive and investable. Furthermore, through a guarantee, DP funds may be applied to secure a commercial loan from a bank (where applicable).

The funding application process depends on DP requirements, while the LGA approval process is the same as for own-source financing.

²³ Most of the literature is derived from the UNCDF Blended Finance in the Least Developed Countries Report of 2018, available at <https://www.uncdf.org/Download/AdminFileWithFilename?id=8026&cultureId=127&filename=090119-blended-finance-reportpdf>

3.6 Municipal bonds

A municipal bond is a marketable debt instrument²⁴ used by the local government to raise long-term investment funds from the domestic capital market (Dar es Salaam Stock Exchange – DSE). It is basically an “IOU” issued by the local authority to interested investors (individuals, financial institutions, pension and insurance funds, development agencies, etc.) in exchange for a promise by the LGA to make periodic interest payments (coupon) and repay the original loan (principal) on stipulated dates in the future. Bond issuance provides access to larger, more long-term financing than individual bank capacity (it attracts and aggregates resources from a variety of investors at once). Since the bond is a debt instrument, the legal framework for it is the same as for debt financing.

3.6.1 Types of bonds

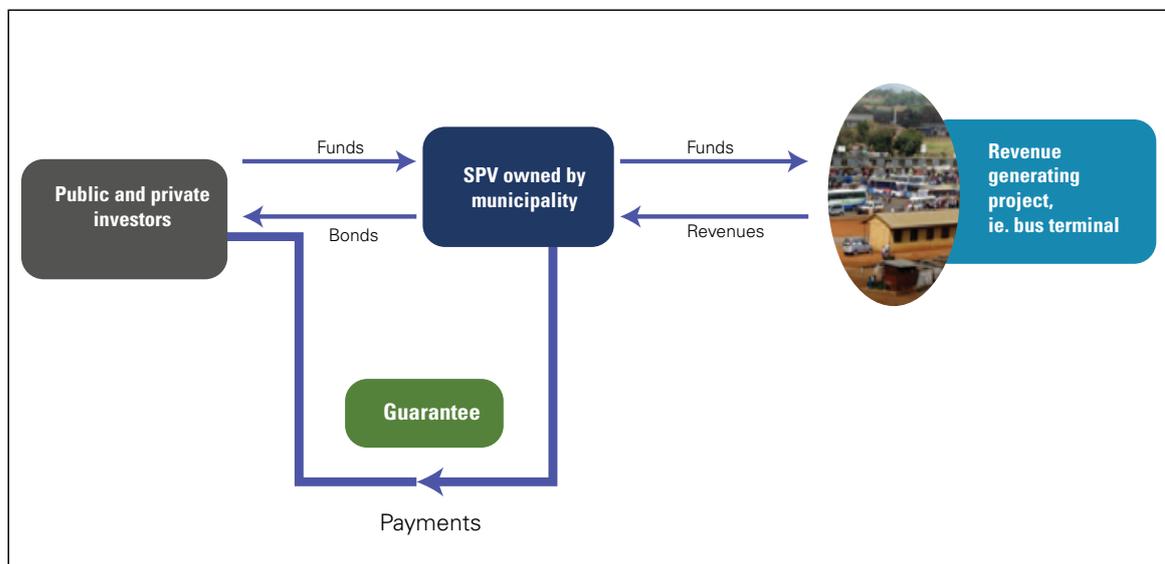
a) General obligation bond

Funds raised from this bond are used for various LGA expenditures (often those with no attributable direct revenue streams). Examples of such projects include roads or storm water drains. Bondholders are paid from the general revenues or budget of the LGA. For that reason, the credit quality of these bonds depends on the LGAs financial sustainability, financial performance, track record and organizational efficiency.

b) Revenue bond

This is a project-specific bond issued to finance one or a portfolio of bankable revenue-generating infrastructure projects. For these bonds, debt is typically serviced from project-specific revenues or cash flow, therefore projects must be able to service the O&M obligations in addition to debt servicing for long-term sustainability. In most cases, these bonds are issued and managed by an SPV established and owned by the LGA. A sample revenue bond structure is shown in **figure 11**.

Figure 11: Revenue bond structure



24 Bonds are also tradable on the stock exchange, meaning that investors may exit projects by selling their bonds to third parties on the secondary bond market.

Example 13: Partial guarantee facility for municipal bonds

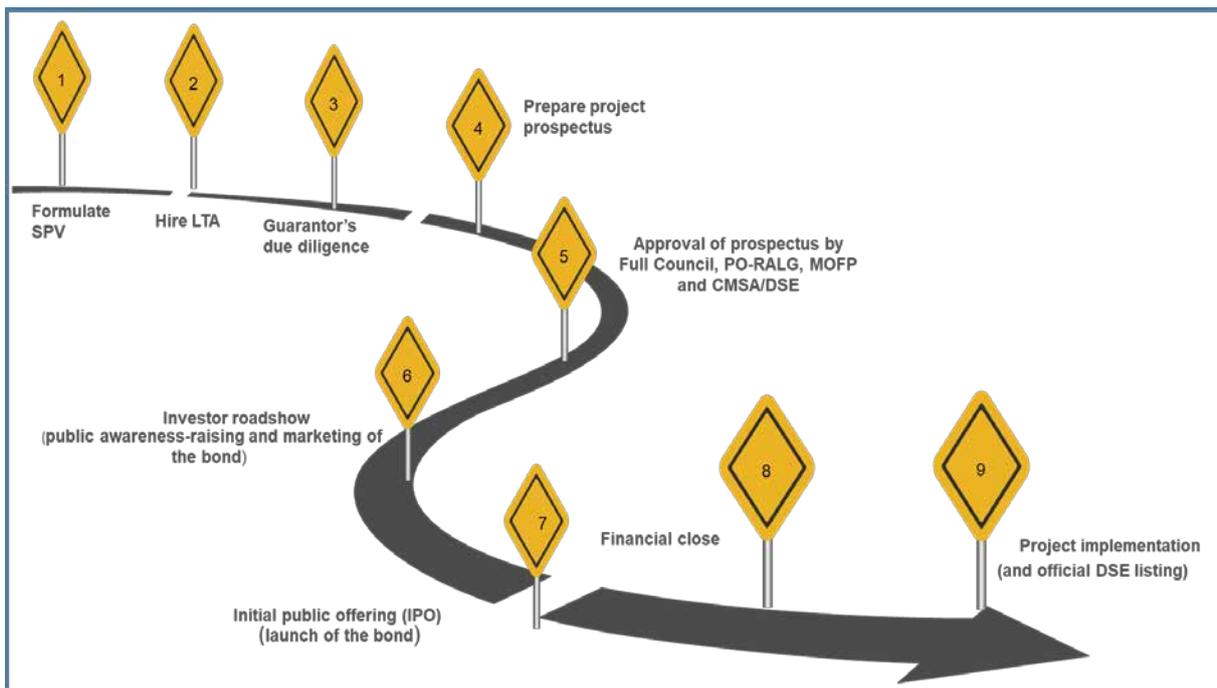
One of the requirements of the Capital Markets and Securities Authority (CMSA) for approval is for the project to secure a partial credit guarantee facility from a reputable international organization if a sovereign guarantee is not going to be used or is not applicable. Bonds are guaranteed, in order to increase investor confidence in uncertain markets, provide assurance for the timely repayment of municipal obligations (principal and interest when these fall due) and therefore enhance its creditworthiness. Furthermore, a credit guarantee provides a risk-sharing mechanism to protect investors in event of default by the SPV (bond issuer), either up to a specified amount of their exposure (partial guarantee, e.g. 50 percent of the investment) or for the full amount (full guarantee). In case of default, the guarantor pays the investors as agreed.

UNCDF and other development partners provide guidance and technical support to municipalities throughout the bond issuance roadmap.

3.6.2 Road map for municipal revenue bond issuance

Note: This is a sample of the UNCDF approach and a road map for a revenue bond issuance process.

Figure 12: Municipal bond issuance process



3.6.3 Municipal revenue bond issuance and approval processes

This section describes the steps depicted in the road map used by UNCDF and shown in figure 12.

Step 1: Creation of SPV

Using the Companies Act, Cap. 212, the LGA establishes its SPV to act as the issuer (the borrower) that sells bonds to investors. The SPV is expected to use the funds to cover project activities, manage and operate the project, collect revenues and ensure effective repayment to bondholders. Using the SPV as an issuer increases the LGA's credibility and provides more assurance to investors. SPVs ringfence project revenues from being used to fund non-project activities that might reduce the council's ability to repay the debt. They also protect project operations from local political interference, ensure the proper management of the project by skilled personnel and safeguard the financial sustainability of the project. The advantage of using an SPV is that in the case of default on the bond payment, lenders' recourse will be limited primarily or entirely to the project assets (including completion and performance guarantees and bonds), but other council assets and revenues will remain untouched.

LGAs may use their internal legal counsel to formulate the SPV, hire a legal consultant to do so or assign the task to the lead transaction adviser (see step 2). The company must be registered under BRELA rules. The council then establishes a board of directors and management for the SPV to oversee the project implementation.

Step 2: Lead transaction adviser (LTA)

It is expected that the city or local authority will hire an LTA, usually a financial or investment firm, to lead the whole issuance process. The LTA will guide, advise and manage the bond transaction on behalf of the council. The hiring of the LTA follows the usual procurement procedures under the Public Procurement Act for appointing a service provider. This includes preparing an RFP, seeking tender board and council approvals, holding public and competitive bidding, evaluating tenders, selecting the preferred bidder and awarding and signing the contract. The LTA comprises a consortium of technical experts with knowledge and experience on financial and auditing issues, bond structuring, investment, project management and legal and marketing issues. This team is solely responsible for the successful issuance of bonds, ensuring financial close and transferring associated skills to the LGA. Steps 3 to 9 all fall under the LTA's remit.

Step 3: Guarantor's due diligence

At this point, the council is expected to have completed initial agreements with the credit guarantor (see example 13). The guarantor may provide full or partial credit guarantees, covering defaults on debt servicing arising from specified events. Before the guarantee arrangement is finalized, the guarantor conducts its own due diligence on the structure of the SPV, the council, the project involved, the transaction team and any other credit risk perceived. The LTA will work with the guarantor to reach this milestone. After the assessment, the guarantor issues a TS to be signed by the LGA that contains the terms and conditions of the guarantee instrument.

Step 4: Preparation of prospectus

Using the project business plan, feasibility study and available capital market information, the LTA designs and financially structures the bond to determine appropriate terms (size, rate, tenure, etc.). This is followed by the preparation of a Project Information Memorandum (PIM)²⁵, prospectus²⁶ and legal contracts. The LTA team then provides a legal opinion on the documents before taking them for approval.

25 A PIM is a document containing a detailed description of a business or project to draw the interest of prospective investors.

26 A prospectus is an offer document inviting the public to subscribe to or purchase any shares or debentures of a company or issues of any other security.

Step 5: Approval of the prospectus

Once all documentation is ready, the LTA helps the LGA to secure all regulatory approvals and other authorizations or compliance documents from the Finance Committee and Full Council, PO-RALG, MOFP, the CMSA and DSE. As bond issuance is the same as borrowing, the prospectus (which serves as a loan application) has to be approved.

Step 6: Investor roadshow

When the prospectus is fully approved at all levels, the LGA conducts market sounding and engages prospective investors and lenders (i.e. investor roadshow), with the support of the LTA. The LTA should have marketing strategies on how to offer or sell the bond. Typical roadshows consist of activities such as public awareness campaigns to generate interest and market the offering among prospective investors, presentations and meetings with key investors, responding to investors queries, etc. A successful roadshow will lead to the launching of the bond.

Step 7: Initial public offering (IPO)

This is the official launch or sale of the revenue bond on the market (first bond issue). The prospectus is released to the public, applications are received from interested investors and the bond is allocated appropriately. An offering usually stays open for a certain period before the financial close.

Step 8: Financial close

After the close of the selling period, the LTA ensures the financial close of the transaction by facilitating the book-building process, the signing of the required documentation, and the settlement of the revenue bond issued (transfer of funds to the SPV account).

Step 9: Project implementation and official DSE listing

Once the funds hit the SPV account, project implementation starts. Meanwhile, the LGA may consider listing the revenue bond at the DSE to be publicly traded on the secondary market. This means the investors may sell and purchase the issued bond from the market via market brokers.

CHAPTER FOUR

4.0 PROJECT IMPLEMENTATION

In this final phase, project teams transform their project plans and strategies into actions to achieve the intended objectives and targets.

The first step is to confirm the accuracy of the project implementation plan that was developed during the design or feasibility stage. This assignment comprises the following steps:

- Review the project schedule to accommodate necessary changes.
- Confirm the availability of resources for executing the project, e.g. project office, team and assigning of roles to each team member, etc. During the project planning stage, the LGA formed a project team to develop and manage the identified projects. At this point, the LGA confirms the presence of the team or enhances its capacity to manage procurement, construction, operations and maintenance activities.
- Ensure the project team is aware of the terms and conditions of financing and the project details (e.g. objectives, deliverables, indicators, risks involved, etc.).
- Acquire the appropriate permits, such as building permits, etc.

Once the plan is in place, the implementation stage remains, which contains the following subsections:



Note: PPP approach

For projects that are executed through a PPP, the implementation phase is structured differently since LGAs can concentrate on monitoring the performance of the private partner or investor. Guidance for managing this phase is provided under PPP regulations and guidelines developed by the PO-RALG through the PPP Node.

4.1 Project procurement

Depending on the project status, the implementation of infrastructure projects may entail the construction or renovation and purchasing of equipment/machinery or supplies. These are procurements of services, goods and works, which must be conducted in accordance with the basic principles set out in the Public Procurement Act 2011, its regulation of 2013 and amendments to these. If the LGA is not implementing the project through an SPV, the inclusion of these tenders in the annual procurement plan is required. Based on a financing modality such as borrowing, the bidding process might at some point involve or seek pre-approval from sponsors/lenders on certain factors to meet their quality standards (especially on the preparation of bidding documents).

To obtain the desired quality of services, supplies or works at the best possible price, the procurement process should focus on maximizing completion and achieving economy, efficiency, transparency and value for money. Equality, fairness and independence are key. All procurement procedures (from bidding to contract signing) should follow the existing legal framework for government procurement.

Example 14: Key issues to consider prior to signing construction contracts

(This list provides examples and may not be comprehensive.)

1. Are there any outstanding issues regarding the project site that might cause delays in construction?
2. Are the roles of the LGA and the contractor clearly described?
3. Has the contractor confirmed understanding of their role and their capability to undertake the assignment?
4. Are construction milestones (for payment purposes) clearly and logically set?
5. Is there a clause explaining actions to be taken if the project fails the performance test or if the contractor fails to deliver as agreed? Are there delay-liquidated damages provisions?
6. Is the contract value/price a fixed amount? Is there a room for cost adjustment in case of price fluctuations?
7. Is there a provision for variation of work by either the contractor or the LGA?
8. Can the contractor penalize the LGA in case of delays in payments?
9. How long is the defects liability period?
10. Under what circumstances can a contractor or LGA terminate or suspend the contract? What will happen next?
11. Did the LGA perform due diligence on the contractor? Is the financial and technical capability of the contractor reasonable?
12. Is there a provision for a performance bond by the contractor?
13. Is the contractor expecting to sub-contract some of the work? Does the LGA agree to this assignment and what are the conditions if subcontractors do not perform? (Subcontracting does not release main contractors from their obligations to deliver the project as per the technical specifications agreed upon.)

Following contract signing, the main contractor commences physical work on the infrastructure. When the project requires equipment or processing machines, the same procurement procedures are used.

Example 15: Engineering, procurement and construction (EPC)

There is an alternative way of procuring for project execution through EPC agreements or turnkey contracts. Section 129 of the PPA Regulation of 2013 explains that “A procuring entity may issue a tender for a turnkey contract involving a major specialised works project if the supply of goods and the performance of various works need to be closely integrated. [...] The design and engineering, supply and installation of equipment and the construction of the complete plant or works shall be provided by a single contractor under one contract procured through international or national competitive methods of procurement approved by the tender board.”

Based on that section, for large infrastructure projects, LGAs may consider entering into an EPC contract. This is an agreement between the LGA and a single contractor to deliver a project from design to commissioning. The main EPC contractor is fully responsible for the detailed engineering design of the project, procurement of all equipment and materials required, construction and furnishing the facility with necessary machines/equipment, testing and commissioning, and handing over a complete project ready for operations. At each step, the contractor seeks the LGA's approval to continue (e.g. the drawings and designs must be approved prior to procurement for construction, etc.). Subsequent payments are also made on milestone completion basis.

Some advantages of the EPC contract are that:

- It is a one-stop shop solution in which the LGA engages a single contractor who in turn manages all the relationships with subcontractors to undertake the whole scope of a project as prescribed in the contract.
- The LGA maintains an oversight role and evaluates progress and performance.
- The total design and construction risk have been transferred to the EPC contractor since the agreements are usually entered into with a fixed cost and completion date (i.e. free from market price variations).

4.2 Project construction

This section deals with the delivery of different components of the infrastructure asset, installation of the plant and equipment, commissioning and launching. Before construction, land title deeds must be obtained to avoid potential protests by local communities or other stakeholders. With regard to the physical work, the LGA team supervises and monitors the performance of the contractors in terms of the quantity and quality of materials used in construction, the engagement of subcontractors, the deployment and safety of the workforce, the deployment and installation of the plant and equipment, any deviations from the signed contract, and the delivery of the asset according to the budget, approved design, implementation schedule and other required specifications, etc.

Constant communication with contractors or equipment suppliers is important to minimize delays and potential claims. Periodic progress reports on the construction of the project should be shared with management and other stakeholders.

In brief, the milestones for this phase are:

- Setting up the project site (assuming all permits are available).
- The actual construction, while managing variations and monitoring the quality of work (civil work, engineering, electrical installation). This should be supervised by a council civil engineer.
- Stakeholder consultation and management of the social or environmental impacts of the project construction.
- Coordinating with other government institutions to connect other facility services such as roads to the site or electricity, water and sewerage.
- Inspection and performance tests by the LGA engineer or any independent certifier to confirm that the construction phase has been satisfactorily completed according to the contract. This is followed by the issuance of a completion certificate.
- Installation, testing and commissioning of the plant and equipment by the supplier, as per the contract terms.
- Official handover of the asset to the LGA.

At the end of the construction, installation and commissioning of the project will enter a closure stage in which the project management team will certify that all work has been completed according to contractual obligations and that the quality of the work meets the project requirements. If appropriate, contractors and suppliers may train the LGA project team on how to operate and maintain the infrastructure asset. Successful commissioning of the asset allows the project to enter the operation stage, where the LGA provides the service sought.

4.3 Project management and operations

Project management and operations (M&O) commences following the handover of the asset to the LGA. Operations include delivering the expected service to the community, proper collection of revenue, continued maintenance of the facility and paying returns to investors (i.e. dividends to shareholders or debt repayment to lenders – if applicable) and continued management of project risks. Furthermore, there is engagement of users with high expectations of achieving the project benefits and solving the challenges they identified during stakeholder engagement (the project development stage).

During this phase, it should be noted that daily project administration is the primary responsibility of the LGA team assigned for supervision and management of the facility. LGA may choose a management framework/model based on the nature, complexity and objective of the project, the legal framework, the LGA's available resources (human, technical and financial) and other motives.

Some of the available management models are:

- a. Management through SPVs (investment company)
- b. Use of the LGA's management team
- c. Contracting a private-sector operator

These are described in more detail in section 4.3.1.

4.3.1 Management through SPV

As explained before, most project financiers – including the Government, donors, lenders and others – prefer LGAs to deploy SPVs (investment companies) to operate and manage revenue-generating infrastructure projects. LGAs have mandates and powers to own, manage and run profit-making economic vehicles under their local government's laws.

SPVs are formed under the Companies Act, Cap. 212, and amendments to this, and may take on different legal forms or statuses such as limited partnerships, trusts, corporations or limited liability companies. These companies are created to isolate project operations from the traditional mandates of the council i.e. social service delivery.

The benefits of using SPVs in LGA project management include:

- a. Project operations are protected from political interference and revenues are ringfenced to safeguard project financial sustainability
- b. Projects are managed properly by skilled personnel
- c. In case of default (with SPV debt financing), LGA assets and finances are protected since lenders have a non-recourse loan – only SPV assets are responsible for paying off the debt
- d. LGAs can earn a dividend from the company's profits and efficient business operations
- e. Flexible decision-making: SPVs are formed, governed and operated using efficient commercial procedures that are unlike normal public-sector operations
- f. Resource mobilization: SPVs attract additional sources of financing for infrastructure investment from both equity and debt investors due to improved professional image and business profile, giving the impression of a well-organized, established and reputable business

4.3.1.1 SPV creation processes

LGAs may use their own legal experts to manage the establishment process or hire a legal consultant.

The creation of SPVs entails the following steps:

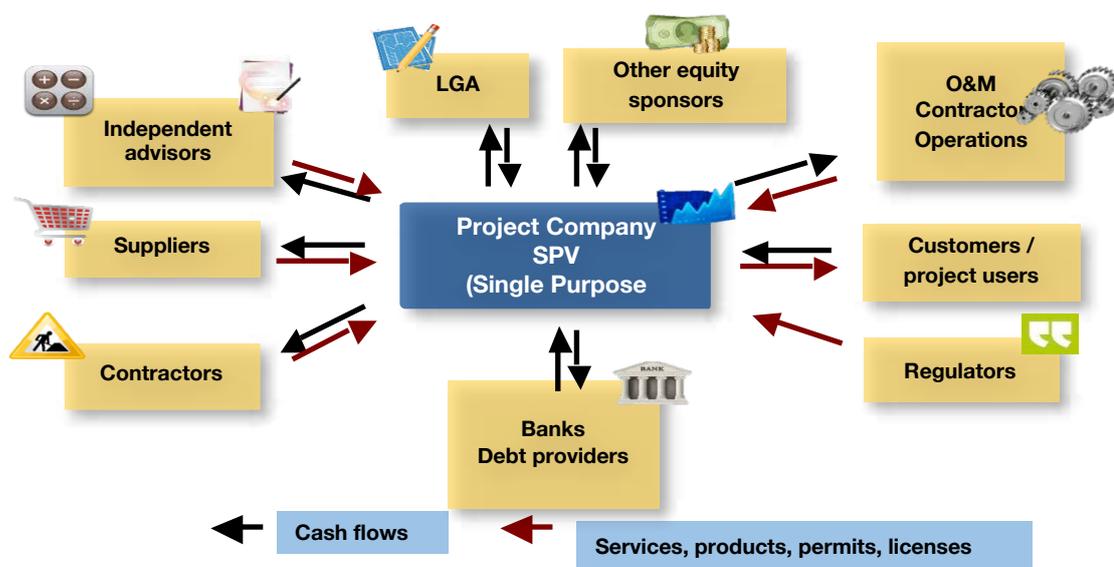
1. Developing appropriate governance structure (shareholding, directorship and its qualifications, functions of the SPV, etc.) and managerial structure for the company (departments or units, staffing/technical team, roles and responsibilities, operating systems and standards, etc.)
2. Preparing the Memorandum and Articles of Association and securing shareholders' signatures
3. Preparing other documentation as per the Companies Act (such as company forms, integrity forms, council minutes approving the formulation of the company, etc.)
4. Registering the SPV through BRELAs Online Registration System and procuring a certificate of incorporation for it

4.3.1.2 How SPVs work

There are different types of SPV structures. This guide examines one of these possible structures in detail for illustration purposes.

When the company has been fully registered, the LGA recruits staff or transfers the project team to the SPV as per the established organization structure, to make it ready for implementation. The team will be fully responsible for ensuring that the project meets its objectives achieves the expected impact. In managing the project operations, the SPV works directly with several parties as indicated in figure 13. In most cases, the SPV will enter into agreements or contracts with lenders (where applicable), engineering and construction contractors, suppliers of equipment and raw materials, customers, etc. and will be responsible for the day-to-day operations and maintenance of the project. If the SPV is formed before construction begins, the company may enter into agreements with the construction contractors, otherwise the SPV will commence its management role after the project has been commissioned.

Figure 13: Example structure of an SPV institutional framework

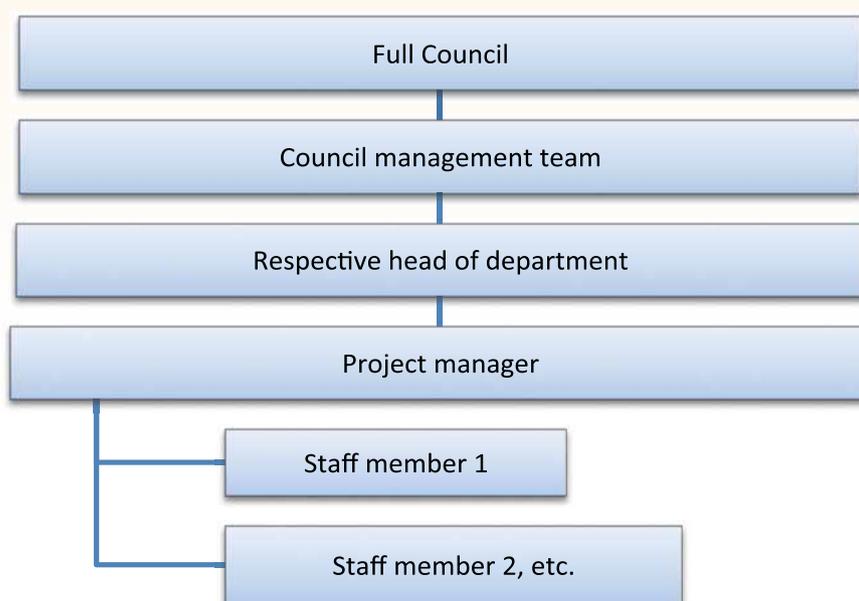


SPV management will report to the board of directors, and the LGA's representative will report on the performance of the project to the council.

4.3.2 The use of the LGA management team

Under this model, project management is mainstreamed in the council administration structure under the respective department within which the project falls. The management structure consists of three (3) main levels. The top level is the council management, followed by the respective head of department, who then oversees the project manager responsible for supervising the daily operations of the facility. The council will be responsible for carrying out all planned maintenance and rehabilitation works to ensure project sustainability. This framework is depicted in figure 14.

Figure 14: LGA operated management model



To ensure project accountability and operational efficiency, the CMT should appoint or recruit a qualified project manager and supporting staff based on relevant experience and the skills required to run the project.

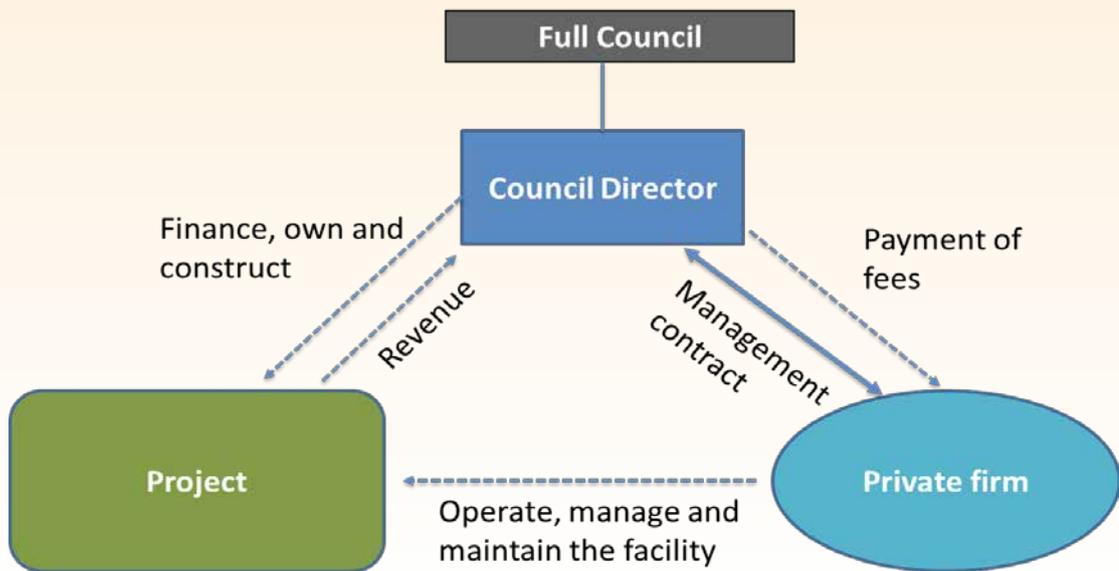
4.3.3 Contracting a private-sector operator

In this model, the project is outsourced to the private sector for a short period. This private-sector provider operates, manages and maintains the project on behalf of the council. Private-sector engagement has the potential to enhance service delivery, ensure cost recovery, facilitate sustainability and boost user satisfaction. In this case, there should be a written contract between the LGA and the private-sector firm covering project operation and maintenance. Among other things, the contract should specify the roles and responsibilities of each party in relation to operations and maintenance, contract duration, terms and conditions, performance standards, user fees and procedures for adjustments, and mechanisms for dispute resolution, monitoring and reporting, and enforcement, etc. Operations that are outsourced may or may not include the collection of user fees.

In terms of payments to the private sector, the LGA will decide which of the following options is best for the specific project in question:

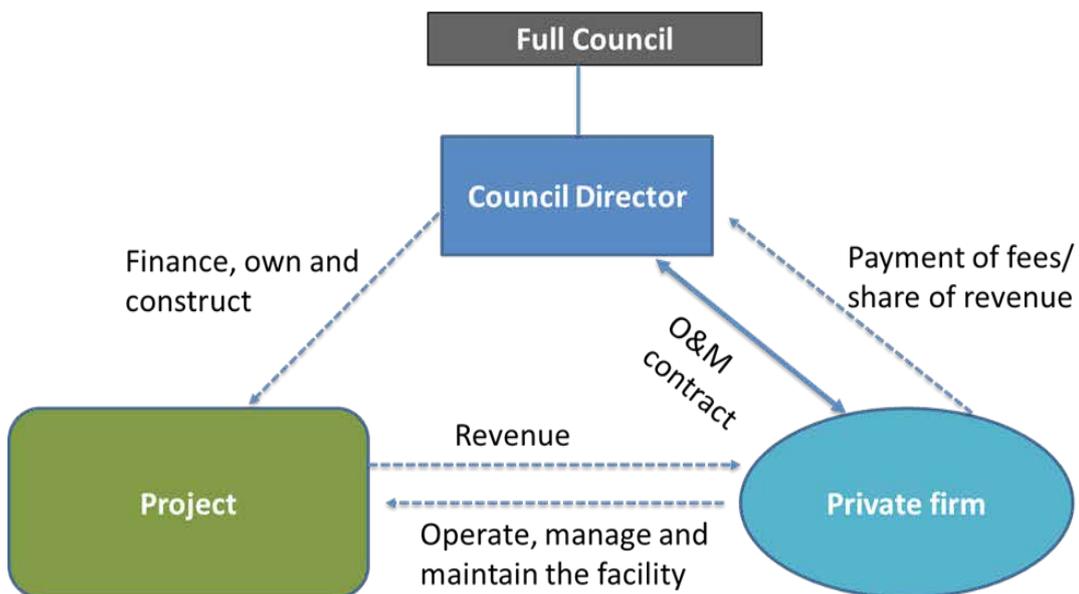
- a) The firm provides M&O services only, the LGA collects the revenue directly and pays the private firm an agreed fee over a certain period for operating the facility on its behalf as shown in figure 15.

Figure 15: M&O contracting framework without revenue collection assignment



b) On top of M&O services, the private-sector firm is given a mandate to collect fees for an agreed period (e.g. 1, 3, or 5 years) and pays an agreed flat amount to the LGA at the agreed interval (every month, quarter, year, etc.) or an agreed percentage of revenue, as shown in figure 16.

Figure 16: M&O contracting framework with revenue collection assignment



Recruitment of the private sector/firm should be competitive and adhere to procurement standards. Likewise, the firm should demonstrate competency in running and operating the project based on its own management structure.

4.4 Contract management

During the implementation of the project, the LGA will enter into contractual agreements with various stakeholders, such as construction contractors, suppliers, project operators, etc. During the construction phase, the LGA project management team should follow up with the contractor to ensure the timely and satisfactory completion of the infrastructure (i.e. the quality of it) in accordance with the agreed standards and costs/prices. A contract management plan for any agreements should be drawn up in advance before the contract is awarded to clearly determine the expectations, roles and responsibility of each party, and establish measurable performance indicators to reduce the risk of contract disputes, cost blow-outs and poor outcomes. All of these aspects should be clear to both parties.

When managing contracts, it is recommended that the LGA team adopt the following practices:

a) Contract administration and record-keeping

This is the formal management of the contract, including the basic terms and conditions, legal compliance and any changes in law, the required specifications, market conditions, risk analysis, availability of resources, approvals and final payments etc.

b) Managing relationships

The relationship between the LGA team and the other party should be strong, open and constructive to identify and solve problems early on. Constant communication and transparency are key. LGA should require regular progress reports from the contractor/operator that would help identify challenges early. The LGA team should be proactive in working with the other party to address challenges and identify innovative methods for overcoming obstacles.

c) Performance management

The LGA team should assess and monitor progress on project delivery or operations and quality of work throughout the contract duration and take appropriate action in cases of non-performance as agreed in the contract.

d) Managing construction delays

To minimize chances of delays, LGAs should ensure proper costing, adequate flow of funds for construction, and check that the contractor has submitted a realistic project construction schedule and the anticipated sequencing of the workflow. Similarly, the LGA team, specifically the council engineer, should monitor the project construction on an ongoing basis, re-evaluate the schedule against actual implementation and request that the contractor submit any schedule updates/changes immediately. In case of delays, the key rule is to analyse these as they occur and solve them on the spot, based on their cause and whether or not the delay event is excusable, compensable, concurrent and critical. The decision should aim to minimize the cost overruns.

e) Managing contract variations

Variations have the potential to affect project implementation. However, LGAs may allow and consider reasonable contract variations that occur in defined circumstances, subject to compliance with the agreement, value for money and the approval of the council. The management of variations that involve additional costs should follow existing government directives.

f) Managing contract disputes

In most cases, disputes arise from disagreements on issues relating to the interpretation of contract obligations, definitions of deliverables, meeting performance standards and the effect of unforeseen events. The LGA should ensure dispute handling is addressed appropriately in the contract.

4.5 Project monitoring, evaluation and reporting

A project monitoring mechanism was included in the project design/plan. Since the project (business) is now operating, LGA teams should focus on the delivery and availability of the product or service to address the identified local need. The best practice is for the LGA to appoint or assign a different team to monitor the performance of the facility. Monitoring may be performed via inspections, auditing, data collection through electronic systems, interviews with stakeholders and customer surveys, etc. The aim is to measure the quality and level of project achievement against the targets developed during the project design, the planned budget and the specified time frame. In addition, it should be determined whether any adjustments are needed to the project management plan or implementation tasks, whether the operational and maintenance plan needs to be revised in response to unexpected but valid circumstances, and whether strategies should be developed for continually improving the services the project provides to the community. Monitoring activities include the continuous assessment of operational risks.

The risks that need to be monitored and managed may include:

- Actual demand for the product or services is lower or higher than projected
- Actual project revenues are lower or higher than expected
- There is project revenue leakage because not all revenue is being deposited in the designated account
- Project operating costs are higher or lower than forecasted
- The project may not be able to deliver the expected performance or service
- The project will not be able to service the project debt and needs to address potential chances of default (where applicable)
- Conflicts are not identified and managed early and therefore become disputes, etc.

To ensure smooth monitoring of and reporting on project operations, a monitoring system and a logical framework should be prepared for each project based on the expected project objective, outcome, output, activities, indicators, means of verification and available council resources. This framework is a useful tool for continuous project monitoring. The table in example 16 provides guidance for LGAs on the content and layout of a project monitoring logical framework using a **municipal solid waste management** project as an example.

Example 16: Logical framework for project monitoring²⁷

Results/objectives (What we want to achieve)	Indicators (How to measure change/ progress)	Baseline (Starting point or foundation from which to measure change)	Target (Level of progress expected after a certain period)	Means of verification (Where/how to get information)	Remarks (What else teams should be aware of)
<p>Goal/impact</p> <p>What does the LGA try to achieve? Why are you developing this project? What is your overall goal?</p> <p>e.g. improved quality and access to municipal waste management services</p>	<p>Impact indicators</p> <p>Quantitative and/or qualitative criteria that provide a simple and reliable means for measuring achievement or reflecting changes connected to the goal</p> <p>e.g. reduced mortality due to waterborne disease</p>	<p>e.g. 10 percent mortality rate per year (number of deaths due to waterborne diseases needs to be ascertained)</p>	<p>e.g. 7 percent mortality rate after 5 years</p>	<p>How the information in the indicator will be collected (this can include who will collect it and how often)</p> <p>e.g. from national health surveys and other demographic reports</p>	
<p>Outcomes</p> <p>What are the most immediate things we are trying to change? (i.e. primary results to achieve our goals and make an impact, most commonly in terms of the knowledge, attitudes or practices of the target group).</p> <p>e.g. reduced quantity of solid waste disposed of illegally in the streets</p>	<p>Outcome indicators</p> <p>As above, this should be connected to the stated outcomes</p> <p>e.g. number of households using/accessing the municipal solid waste collection service, or percentage of waste collection coverage</p>	<p>e.g. a total of 50 households in 2 wards</p>	<p>e.g. 100 households in the 2 wards after 1 year</p>	<p>e.g. from quarterly landfill reports from the municipality or quarterly municipal solid waste management reports from the environment department</p>	

27 Adapted from UNDR, *Handbook on Planning, Monitoring and Evaluating for Development Results* (UNDP, New York, 2009) and President's Office, Planning Commission, *Public Investment Management – Operational Manual* (President's Office Planning Commission, Dar es Salaam, 2015).

Outputs What are the tangible products, goods and services and other immediate results that lead to the achievement of outcomes? e.g. timely transportation of waste from collection centres to the landfill	Output indicators As above, this should be connected to the stated output e.g. Volume/quantity of waste collected and transported per month (LGA needs to ascertain volume of waste generated per month)	e.g. 1 ton per month (in the 2 Wards)	e.g. 1.7 tons per month after 1 year	e.g. from quarterly landfill reports from the municipality or quarterly municipal solid waste management reports from the environment department
Activities What is the collection of tasks or actions to be implemented to achieve the outputs? e.g. procurement of waste collection tools/equipment (i.e. trucks, garbage bins, skip containers, etc.): - Hiring labour or contracting operators to perform the tasks - Identifying/setting up a landfill - Drafting a waste management implementation plan - Setting up waste collection points	Activity indicators As above, connected to the stated activity e.g. waste collection tools procured: - number of staff hired - approved waste management plan - number of waste collection centres established	0	e.g. 5 trucks, 10 skip containers, 200 garbage bins, 20 staff hired, waste management plan in place, 5 collection centres established (after 1 year)	e.g. monthly waste management progress report

The above log frame will provide adequate information for the preparation of project implementation progress reports to be presented to the council management and other project sponsors periodically. The layout and formats of results reports will depend on funders' specific requirements.



APPENDICES

Appendix 1:

Sample project screening tool

This sample tool may be used to review and rank all identified projects and help select the project with the highest score. Different criteria and weights may be used, depending on the nature of the project, the LGA's environment, its priorities and other drivers. The first step is for the LGA to identify and list specific criteria for screening its projects. Each project is then evaluated as per the criteria and assigning scores. The table below provides **an example** of a screening methodology:

A	B	C	D	E	F	G	H	I	J
	Criteria	Description	Weight	100%	75%	50%	25%	Score	Weighted score
1	Compliance with given laws and regulations	Is the legal framework to guide the implementation of the project satisfactory? e.g. up-to-date by-laws	10%	Yes. No changes needed	The laws require minor amendments	Significant law amendments are required	No existing law or by-law to support the project	100	10
2	Clear and realistic idea of the project (what is to be done)	Does the LGA has a clear conceptual vision of the project? e.g. facilities to be constructed, nature of services to be delivered, methodology or approach to be used, scope etc.	10%	Yes. Clear and realistic road map to successful project implementation	Idea is realistic, somewhat clear with the road map but there is room for improvement	Idea is realistic but not clear how it will be achieved	Project idea is not clear, means to achieve it are not clear and unrealistic	75	7.5

Economic and financial appraisal									
3	3.1	Does the project generate or have the potential to generate revenue and be sustainable?	20%	Revenue generated has the potential to cover project costs	Project may generate revenue with a low demand risk	Project may generate revenue but with a high demand risk	Project has no potential to generate any revenue	75	15
	3.2	Is the project likely to receiving financing (from both public and/or private sponsors)?	20%	High possibility of accessing both public and private financing	Reasonable possibility of accessing one of the financing options	Minimal chances of accessing either financing option	No possibility of obtaining funding from public or private investors	50	10
4	Strategic issues	Is the project a priority? Does it meet social needs and is it in line with government plans?	10%	High priority and a critical need that aligns with government plans	Clear need that aligns with government plans but not urgent	Little need, aligns somewhat with plans, not a priority	Not a priority, no need but interesting	50	5
5	Land availability	Does the LGA own a piece of land that is suitable for the identified project?	10%	LGA owns land that is suitable for the project	Suitable land has been earmarked but compensation is required. It is included in the current budget	Land has not yet been earmarked, or is not suitable, but LGA may have the financial capacity to acquire new land	LGA does not own suitable land and does not have the financial capacity to acquire any	50	5



6	Risk considerations	Does the project present any significant known risks, challenges or obstacles to being successfully implemented?	10%	Minimum risks that can be managed effectively	Medium risks that are likely to be manageable	High risks that are manageable but at a high cost	Substantial risks which are not manageable	50	5
7	Capacity of the local government	Does the LGA have the technical and financial capacity to prepare the project (a dedicated team and funds to cover preparation costs, e.g. feasibility study, designs and drawings, etc.)?	10%	Technical team is capable, and funds for project preparations are available	No technical capacity but LGA has funds to outsource project preparation	Technical capacity is available, but LGA lacks funds for preparations	No in-house technical or financial capacity to prepare the project	25	2.5
			100%	Total weight				Total weighted scores	60

Note:

LGA should set its own criteria in column B and fix weights in column D, as appropriate depending on the project and its particular circumstances

Column D must be equal to 100%

Column I is filled depending on the response from column E to H

Column J is calculated by weight x score = column D * column I

LGAs should select the project with the highest weighted score

Appendix 2:

Sample project concept note (PCN) framework

The information in this appendix provides guidance on the kind of information to include in the PCN. It is not exhaustive, so LGAs may add more information, bearing in mind that **project concept notes (PCNs) are usually a brief outline of the proposed** project that seeks to attract the attention of the financier or decision maker. The cover page should include the council name and logo, project name, project location, contact information and the period when it was prepared (month and year).

1. Background information

1.1. Institutional background

Provide a brief overview of the LGA, its mandate in relation to the project, and the legal and institutional framework supporting the project.

1.2. Problem statement and need

Explain the problem/challenge that the LGA needs to solve, or a condition to be improved, or a potential opportunity to be captured. What is the rationale for the project? That is, why the LGA came up with this project idea or why is it important to address this need, and what the consequences of deferring the project would be. If applicable, describe what has already been done to address the situation.

Note: Try to provide realistic data and references to justify the identified need.

2. Project overview

2.1. Geographic description

Provide a detailed description of the project location and any geographical features such as distance from the main road/presence of access roads, any well-known nearby places and other aspects relating to the surroundings. Include the availability of supporting infrastructure facilities (transport and communications, power, water, etc.) and information on the plot size, ownership, and current occupancy status (vacant/occupied). Comment on whether there is a need for land compensation, relocation/resettlement and the LGA's plan in this regard.

2.2. Objectives and impact

What are the expected benefits, objectives,²⁸ outputs, results, outcomes and impacts of the project? The outputs should relate to the objective and should lead to solving the local need. The outcome and impact are the long-term goals of the project, e.g. poverty reduction.

2.3. Technical overview

Describe the services or products to be offered that will provide a solution to the above problem/need or capture the available opportunity. Add information on the proposed project capacity (technical specifications), technology to be used and any other implementation modality sought. Note that more precise information will be provided after technical studies have been conducted.

28 A description of how to prepare a project objective, output, inputs, indicators, etc. is included in President's Office, Planning Commission, Public Investment Management – Operational Manual (President's Office Planning Commission, Dar es Salaam, 2015).

2.4. Options analysis and justification for the preferred option

Provide information on why the proposed project is the preferred choice and how this option will lead to achieving the project objectives.

2.5. Relevance to development priorities

Demonstrate how the project connects to the priorities set by the Government such as national and sector-specific policies and strategies, including the LGA's strategic plan, and explain how the project supports the achievement of Government objectives.

3. Economic overview

3.1. Expected economic benefits

Indicate the expected economic benefits to be generated from the project such as an increase in land costs, time-saving, employment generation, improved public health conditions, reduced pollution and various other cost-saving benefits.

3.2. Expected market readiness (demand)

Provide information on markets and the potential demand for the project. Briefly state the targeted users or beneficiaries of the project (estimated number and their characteristics). Describe any competitive advantages, future growth potential and the likelihood of obtaining support from the targeted market/users.

3.3. Expected source of raw materials (supply side)

If the project requires raw materials for processing, explain the expected sources of supplies, i.e. where and how will the project source its raw materials. Examples are livestock for an abattoir project, sunflower seeds for sunflower oil processing or rice for a rice milling factory, etc.

4. Financial overview

4.1. Estimated project cost and projected revenue

Cost: Provide the estimated total project cost (investment or capital, operational and maintenance cost of the project). Highlight the available budget (i.e. the LGA's contribution and any other funding available). Emphasize the funding gap or funding requirements (i.e. the total project cost minus available funding). Explain how the funds requested by the LGA will be used, e.g. to construct a two-storey building, or procure processing machines or equipment such as an excavator, etc.

Revenue: Mention the expected sources of revenue that will be used to cover the project costs and the likely total project revenues (the project's estimated future revenue or cashflow). Include the key assumptions used to estimate the revenue, e.g. proposed user charges/fees.

Note: At this stage, a detailed breakdown of the budgeted costs and revenue is not necessary.

4.2. Financing assumptions

Clearly specify the anticipated financing option or plan to cover the funding gap, e.g. PPP approach, central government grants, LGA's own-source revenue, debt, donor funds or a combination of options. If applicable, indicate if there is private-sector or donor interest in the project.

5. Project management and administration

Describe the LGA's technical capacity for preparing and managing the project. Explain the LGA's plan for managing the project, name the proposed project officer and the project management team and discuss the proposed monitoring and reporting modality

6. Risk identification and mitigation

Address risk management by identifying and listing initial key risks and challenges expected in this project, e.g. in terms of environmental and social issues, the need to enact or revise a by-law, etc., and the mitigation strategies that have been planned to address these risks.

7. Environmental and social overview

Briefly mention any expected environmental and social impacts and the plan to conduct ESIA (if required).

8. Project approval status

Explain the nature of approvals needed to implement the project and the status of these, e.g. approvals that have already been secured by the LGA and plans for obtaining the remaining ones.

9. Project current status and next steps

Describe what has been done so far to solve the need in terms of project preparation. Is the land available? Does the council have any investment documents, etc.?

9.1. Budget for project preparation

Summarize the estimated total cost of preparing project documents and bringing the project to an investment-ready stage. Example costs include conducting a feasibility study, developing a business plan, processing land title deeds, etc.

9.2. Action plan

Schedule of activities and timeline

Appendix 3:

Pre-feasibility check toolkit

This tool assists LGAs as a framework for thinking through the feasibility fact-finding exercise. By the end, the user is expected to be able to decide whether to enter a full feasibility phase or not. Project teams should fill in the required information to the best of their knowledge, using available council data.

Name of the project:

1.0 Pre-feasibility assessment:

1.1 Legal feasibility

Guiding question	Provide response
Does the project relate to the visions and mandate of the LGA or national policies? How?	
Is the project supported/allowed by the LGA's laws? Does the LGA have the legal authority to implement the project? Mention the legal framework that underlies the project.	
Will it be necessary to amend or pass any laws or regulations? If yes, mention the laws or by-laws to be reviewed or enacted.	
List the required government approval processes for this project to be implemented. Are the approvals likely to be given?	
What are the required licences and permits? Are they likely to be secured?	
Are there any legal obstacles expected?	
Other	

1.2 Location analysis

Client location factors	Provide response
Where will the project be located?	
Does the LGA own the project site/land?	
If yes, is the land title deed available or processed?	
If no, does the LGA expect to acquire land? Is the site earmarked? Will there be a need for land compensation? Provide status.	
Can the LGA afford to pay compensation promptly? What will the source of the financing be? Is it adequately budgeted for?	
What is the expected community or neighbourhood reaction to the project?	
Is the selected location suitable for the project, i.e. as per master plans?	
Does the site have the necessary supporting infrastructure? Mention them, e.g. road, railway, water supply, electricity or any other energy source, etc.	

Is the earmarked project site expected to pose any challenges?	
Other	

1.3 Economic feasibility

1.3.1 The need:

What is the current challenge or opportunity? Why is the LGA proposing this project? That is, does the current product or service fall short of requirements, and if so, where are the shortfalls?

--

1.3.2 Target market

Who is your target market, users or beneficiaries and how do they link to the project? Provide available details.

Tick	Client of the project	General information
	End users/consumers	
	Businesspeople or entrepreneurs	
	Government	
	Other (specify)	
	Other (specify)	

1.3.3 Competition

Who are the expected competitors of the proposed product or service? Include competitors for raw materials (if applicable) and finished products, e.g. for an abattoir project, the competitor for both the raw materials (i.e. livestock) and the finished products (i.e. fresh meat and processed meat products like minced meat, sausage, packed meat, etc.) may be a meat-processing company. List all known competitors and their location, so as to assess the extent of competition.

Known competitors	Estimated distance from proposed location

1.3.4 Availability of materials and suppliers (inputs)

What kind of raw materials will be required for the project to be implemented? Where will the LGA source them? For example, for a milk processing factory, the raw material is fresh milk, and suppliers can be individual smallholder farmers from a given village, a certain women's group or an LGA-owned livestock farm, etc. List all expected inputs and known suppliers in order to assess the availability of materials.



Key materials needed for the project	Known supplier of the material

1.3.5 Economic benefits

What economic benefits/impacts are expected of the project? For example, job creation.

1.4 Technical feasibility

1.4.1 Project description:

What are the proposed products and/or services for addressing the above need? Include by-products, if any. What is the desired new level of service/capacity (i.e. the improvement)? What is the conceptual vision/idea/design of the project? What is the expected scope or features of the project (e.g. geographical area, project goals/objective, output, etc.)?

1.4.2 Option analysis

What are the various technical options for achieving the project objectives above? What is the proposed option or approach and the rationale behind the selection?

1.4.3 Technology: equipment needed and suppliers

What are the expected machines and equipment needed for project operations? Are there any known suppliers? For example, a waste management project may require a landfill compactor, waste sorting machine, excavator, etc., while an abattoir may need slaughtering machines, meat-processing machines, etc.

Key equipment for operations	Known supplier of this equipment

1.5 Financial feasibility

Financing factor	Explanations/figures
What is the preliminary funding requirement (rough estimate of the capital expenditure or project cost)?	
Will implementing the project require a financial contribution from the LGA? If yes, what is the maximum amount of finance the LGA is committed to investing in the project? Is it budgeted/planned?	
Will the LGA seek central Government grants to finance this project? Is the grant expected to be accessible? What amount?	
What other sources will financing be obtained from? Is the project likely to attract other partners who will invest funds (e.g. the private sector, DPs, commercial banks, etc.)? Mention these and the expected financing amount.	
Does the project expect to generate enough revenue to cover its costs? What is the expected revenue?	
In summary, is the project likely to get financing (debt and/or equity)? Add all the funding options above and the amounts of these to reach the total expected funding.	

1.6 Social and environmental feasibility

Social and environmental attribute	General information
Who are the project stakeholders? How will they be engaged? Are they likely to support the project?	
What inputs can stakeholders provide (expertise/funding/in-kind contributions/user support)? Will this add value to the do-ability of the project?	
Will there be a need for community relocation/transfer or resettlement to provide vacant land for the project? Is the relocation expected to create any obstacles to the project? Why?	
Is the project expected to have any other substantial social impacts?	
Will the project have any negative environmental impacts, such as those listed below?	
Waste disposal	
Non-hazardous waste	
Displacement of traditional rural activities	
Deforestation	
General impact on the health of local wildlife and plants	
Any kind of pollution	
Others	
Are the social and environmental impacts described above likely to be mitigated?	



1.7 LGA technical and financial capacity assessment

Does the LGA have the technical capacity to develop the project to a bankable state (i.e. a qualified team)? What are the general skills (both technical and business skills) needed to develop/prepare the proposed project? Assess these, based on the project team's qualifications. The table below is intended as an example (tick the appropriate boxes).

Attribute(s)	None	Low	Medium	High
Project development and planning skills				
Contract management skills				
Technological skills (e.g. design)				
Stakeholder engagement skills				
Risk assessment skills				
Project management skills				
Problem-solving skills				
Other skills				

Does the LGA have enough budget to cover project preparation costs? Which funding source is this from?

If the required technical skills and budget are not available, is the LGA likely to secure the resources required to develop the project?

Who is expected to manage the project? Does the LGA have adequate, qualified staff to do this? If not, are there other options for managing the project?

1.8 Other LGA attributes

The below attributes serve as examples; the LGA may add more depending on the project.

Attribute(s)	None or N/A	Low	Medium	High
Councillor's motivation and interest in the project				
LGA's ability to access financial resources or request credit				
Past business performance of the project (if it is not a new project)				
LGA's general similar business experience (in relation to the project)				
LGA's likelihood of accessing technical support or advisory services from other stakeholders, e.g. DPs				
Other				

1.9 Preliminary risk identification and mitigation plans

List initial project risks that are anticipated and the mitigation strategies that have been planned.

Initial Risk	Mitigation Plan

2.0 Pre-feasibility conclusion

The table below summarized every component assessed above. Depending on the responses, project teams should assign a decision (yes, maybe, or no) for each criterion. In the end, the project is assigned a low, medium or high possibility of being feasible.

Key feasibility areas assessed	General/summary of information to support the decision	Will they present any problems?		
		C	D	E
A	B	Yes	Maybe	No
Legal				
Location factors				
Target market				
Competition				
Materials and supplies				
Equipment and supplies				
Financing aspects				
Social and environmental considerations				
Key technical skills				
Financial capacity				
Other LGA attributes				
How do you rate the feasibility or do-ability of the proposed project?		Low	Medium	High

Table keys:

Column A	Contains the pre-feasibility component assessed using this toolkit.
Column B	Provides a summary of the assessment which will lead to a decision to be marked in either column C, D or E.
Column C, D and E	Indicates a decision on the criteria. For example, if the assessed factor will pose a challenge to the project, column C should be marked.
Low rating	There are many obstacles to the project, and it is not likely to be feasible, so the LGA should discard it.
Medium rating	The project poses some challenges, so in order to continue to the next step, the LGA should improve the feasibility areas marked with a "YES" to enhance the project do-ability.
High rating	There are no known or substantial obstacles to the project, and it is likely to be feasible, so it can move to the full feasibility study phase.



Appendix 4:

Outline of the pre-feasibility study report

This appendix provides guidance on the nature of the information to be included in the pre-feasibility study report. The report should be concise and present the main findings, the rationale for them and related recommendations. The structure and content below are intended to serve as a sample outline – LGAs may **add more relevant data** as appropriate. Additional information may be taken from the detailed pre-feasibility checklist and toolkit provided in this guide.

1. Executive summary

- **Contains a synoptic review of the essential findings of each chapter.**

2. Chapter 1: Background

- **Introduction to the LGA:** Provide a brief overview of the LGA, its mandate in relation to the project, and its vision, mission, strategic objectives, etc.
- **Problem statement and need:** Explain the problem/challenge that the LGA needs to solve, or a condition to be improved, or a potential opportunity to be captured. What is the rationale for the project? That is, why the LGA came up with this project idea or why is it important to address the need, and what the consequences are of deferring the project. If applicable, explain what has already been done to address the situation.

3. Chapter 2: Project description

- **Project context:** Overview of the sector, planning and development context.
- **Project scope:** Specify what has to be done to accomplish the objective and state the project features, major deliverables, key milestones, targets, timelines, assumptions and limitations, etc.
- **Location:** Explain the suitability of the site, supporting infrastructure and geographic location.
- **Objective and expected output:** Based on the need that has been identified or problem to be solved, state the rationale for the project, the immediate results that are expected and what the project will achieve.
- **Needs analysis:** Present a solid business case for the project to demonstrate how it aligns with the identified need and the LGA's strategic objectives. The analysis compares the current situation/conditions and the desired conditions.
- **Options analysis:** Evaluate the different technical options for achieving the project objective and the rationale for choosing the preferred option or approach.

4. Chapter 3: Preliminary technical analysis

- **Technical features:** Explain the components of the project, the expected level of services to be delivered or product to be offered and the key performance indicators to be used during the project evaluation. Describe the technical specifications and capacity of the project (e.g. volume and quality) and its operational practicability.
- **Conceptual design:** Present the preliminary project layout and design, a rough layout of civil engineering works, the arrangement of buildings, a short description of construction

materials/inputs to be used, the construction period, tentative project cost, etc.

- **Technology – equipment needed and suppliers:** If applicable, provide an initial analysis of alternative technologies suitable for project operations (the nature and specifications of machines and equipment). Include an assessment of any known suppliers and their terms/ capacities and requirements, the capacity of the LGA to adopt the technology, ease of maintenance and service, etc. For example, a waste management project may require a landfill compactor, a waste sorting machine, an excavator, etc., while an abattoir may need slaughtering machines, meat-processing machines, etc.

Conclude this section with the findings on the likely technical viability based on the analysis conducted and indicate additional analysis to be undertaken during a feasibility study.

5. Chapter 4: Preliminary economic analysis

- **Sector background:** Describe the performance of the sector dynamics, identifying key sector and industry trends that will have a positive or negative impact on the project. Show the key economic variables impacting the sector (e.g. gross domestic product, inflation, interest rates trends, etc.)
- **Sector analysis:** Use SWOT analysis to identify the strengths, weaknesses, opportunities, and threats to the sector that are relevant to the project, and show how the project will improve sector performance.
- **Project demand and beneficiaries:** Provide an initial assessment of the market and potential demand for the project. Identify who will receive the development benefits of the project (target market or users, estimated size/number and their characteristics). Describe the future growth potential and the likelihood of obtaining support from the target market/ users.
- **Availability of raw materials (supply side):** If the project requires raw materials for processing, provide a preliminary assessment of project supplies (i.e. expected sources or suppliers, methodology or approach, etc.). Examples of raw materials are livestock for an abattoir project, sunflower seeds for sunflower oil processing or rice for a rice milling factory, etc.
- **Project competition:** Provide an initial assessment of the anticipated competition from existing and potential local and foreign producers or service providers and suppliers. Include any competitive advantages or strategies sought.
- **Economic benefits:** Identify the gain in welfare and the economic benefits expected to be generated by the project and the drivers for these, such as employment and income-generation, productivity improvements, increase in land costs, time-saving, improved public health conditions, reduced pollution and various other cost-saving benefits.

Conclude this section with the findings on likely economic viability based on the analysis above and indicate additional analysis to be undertaken during the feasibility study.

6. Chapter 5: Preliminary financial and commercial analysis

- **Project cost:** Forecasts of the expected total project cost by main components (funding requirements), e.g. capital, operations, maintenance.
- **Project revenue:** Forecasts of expected revenue by main components. Include a schedule of targeted user charges/fees to be collected, and the respective assumptions for these.
- **Project structure:** Present the expected capital structure inclusive of any financing arrangements (e.g. debt and equity options).



- **Likely appetite of financiers:** Indicate existing interest from and readiness of potential funders (e.g. LGA, central government support, private sector, financial institutions, DPs, etc.) and the amount likely to be funded by each.
- **Financial analysis:** Results of preliminary financial analysis should be presented, including model assumptions, costing, project revenues, projected income statement, cash flow and balance sheet, projected IRR, ENPV, payback period and DSCRs. Compare these to market benchmarks, including unit costs and financial parameters, presenting a rationale for the benchmarks.
- **Sensitivity testing:** provide sensitivity analysis findings to indicate the likely strength of the project's financial sustainability/feasibility to changes in the assumptions used in the financial model.
- **Risk identification, allocation and mitigation:** Present and explain the project's risk matrix, including probability, impact, allocation and mitigation measures.

Conclude this section with the findings on likely financial and commercial viability based on the analysis above and indicate additional analysis to be undertaken during a feasibility study.

7. Chapter 6: Environmental and social due diligence

- **Environmental due diligence:** Identify all positive and negative environmental impacts, proposed mitigation measures and their related costs (for inclusion in the economic project cost) and set out a likely process for securing environmental approvals/certification.
- **Stakeholder engagement:** Identify the key stakeholders the project is targeting (i.e. the community/users, Government, regulators, approval authorities, funders and politicians, e.g. regional and district commissioners, etc.). Explain how the project can cater to their needs and how they will be involved, their roles, existing arrangements between these stakeholders (if any), their readiness to undertake the project, etc.
- **Social due diligence:** Identify all positive and negative social impacts and resettlement needs (if any), proposed mitigation measures and their related costs (for inclusion in the economic project cost), including those arising from land acquisition, resettlement and livelihood protection, and set out progress in securing any related approvals (e.g. compensation) and unresolved matters.

Conclude this section with the findings on likely social and environmental viability based on the analysis above and indicate additional analysis to be undertaken during a feasibility study.

8. Chapter 7: Preliminary legal due diligence

- **Legal environment:** Conduct a preliminary identification and analysis of the relevant legislation, the LGA's legal and regulatory capacity, the legal and institutional framework supporting the project, any legal obstacles and risks (e.g. the need to enact or amend a certain law/regulation), and licences, permits and approvals, etc., that may be required. Relevant legislation includes LGA laws and those relating to land-use planning, PPPs, the environment and the sector-specific legislation under which the projects fall, etc.
- **Legal ownership:** Explain whether the project land is available, who owns it, and whether title deeds are held. If not available, present the status of the process, cost and timelines involved in securing land and title deeds.

Conclude this section with the findings on likely legal viability based on the analysis above and indicate additional analysis to be undertaken during a feasibility study.

9. Chapter 8: Institutional analysis

- **Project administration and institutional capability:** Undertake a preliminary analysis of the expected project governance and management structure, assess the readiness of the LGA and other stakeholders to deliver the project, demonstrating their commitment, technical capacity and other attributes.
- **Project readiness:** Conduct a preliminary evaluation of the state of preparedness of the project for development and investment. Identify gaps and areas needing more attention and make recommendations that significantly increase the likelihood of project success.
- **Implementation plan:** Propose key next steps to be taken, approximate implementation schedule to reach technical and financial close, and planned operation date.

Conclude this section with key findings based on the analysis above and indicate additional analysis of critical issues to be addressed during a feasibility study.

10. Annexes

- **Attach all relevant project documents.**



Appendix 5:

Terms of reference (TORs) framework for preparation of a request for proposal (RFP)

This appendix highlights important components of the TORs to be used in preparing an RFP to hire a consultant to conduct the feasibility study. **In addition to this guide, LGAs should abide by the standards stipulated in the national procurement regulations.**

1. General background

Provide a background of the LGA, project sector or other industrial information, the current situation or status of the project to be assessed and any other **relevant** project information.

2. Objectives of the consultancy

Explain the overall and specific objectives of the study (e.g. conducting a feasibility study or updating/validating the previous study). LGAs should decide and state the aspects to be covered, which may include technical, economic, financial, social, environmental and legal analysis of the proposed project.

3. Scope of work

Clearly describe the nature and scope of the services required and their context (i.e. duties and responsibilities of the consultant). Identify, list and define all expected study phases of the assignment (i.e. what should the study explore?)

Examples of components to include in the scope of work are:

- legal and institutional analysis
- project needs assessment and demand study
- evaluation of the proposed site and supporting infrastructure
- economic and financial assessment (including financial modelling)
- technical description of the proposed project (including designing, drawings, BOQs etc.)
- social and environmental assessment
- risk assessment
- proposed project implementation, management, monitoring and evaluation plan
- any requirement for capacity development or transfer of knowledge to LGA counterparty staff, etc.

For each of the components, specify activities to be carried out.

4. Expected outputs/deliverables and timeline

Based on the scope of work above, derive the outputs per each milestone and state what the consultant should deliver to the LGA to justify the completion of a certain target. Indicate the timeline for completion of each output. **Example of deliverables and their timeline:**

- Draft inception report (2 hard copies and 1 soft copy) 4 weeks from contract signing
- Final inception report (3 hard copies and 1 soft copy) 6 weeks from contract signing (i.e. 2 weeks after LGA's comments)
- Draft feasibility study report (2 hard copies and 1 soft copy) 24 weeks from contract signing

- Final feasibility study report (2 hard copies and 1 soft copy) 26 weeks from contract signing

5. Expertise requirement and qualification

- List all key experts/professionals required and the minimum qualifications they should have (i.e. knowledge, skills and experience of the consultancy technical team).

- For example:

- Financial analyst or expert

Should have a BSc/BA degree in economics/finance/accounting or a related field and an MBA or postgraduate qualifications in project management or a related business field. At least five years' experience in project financing management or consultancy experience with feasibility studies for infrastructure projects. Skilled at designing and developing capital project financial models.

- ♦ Civil engineers

A minimum of a BSc in civil engineering or equivalent, with at least four years' experience at preparing quantity and cost estimates for civil works in medium-sized transport projects.

- Specify the body of knowledge and experience that the firm should have. This may include a requirement to submit a list of feasibility assessments conducted by the consultant on similar projects, and it should contain the project name, organization/client, a contact person to provide references, implementation date, information as to whether the study was prepared completely by the bidder or in cooperation with other parties, etc. The aim is to confirm the firm's technical capability and practical experience.
- Mention the number of years' experience that the consultant should have in assessing infrastructure projects and completing similar assignments (i.e. feasibility studies for income-generating infrastructure projects implemented at the local government level). For example:
 - ♦ A minimum of two successful feasibility studies for infrastructure investment projects
 - ♦ At least five years' relevant experience in preparing economic, financial, social and environmental analyses for projects of a similar nature and scale
 - ♦ Demonstrated knowledge of local political, economic, legal or other issues that may affect the proposed project
 - ♦ Demonstrated experience in public finance management or local government project development, structuring, risk mitigation and financing
- Include requirements concerning the professional reputation of the consultant, their previous performance and experience and knowledge of the proposed project environment in Tanzania.
- State the required functional or corporate competencies for the consulting firm (e.g. the ability to manage complex tasks and deliver quality products on time, ability to demonstrate understanding of the client's perspective, etc.).

6. Contract duration

Specify the commencement date (this may be a calendar date or triggered by a certain event) and period of implementation (i.e. number of months to complete the study before the contract expires).

7. Responsibilities of the LGA

Describe the roles of the LGA in relation to the study and the facilities and service to be provided to the consultant; provide a list of available information, data, documentation and studies on the assignment/project and identify the counterparty and supporting staff who are to work with the consultant (including a focal person), etc. For example, the LGA may perform the following roles and services:

- Coordinating and introducing the consultant to different project stakeholders to ease the data-collection process
- Provide all government regulations, guidelines, master plans, required standards, copies of previous studies, etc.
- Provide office space with electricity, vehicles, support staff such as secretaries, messengers, drivers, etc.

8. Consultancy fee and payment schedule

- Describe how bidders should set their fee structure or prepare financial proposals.
- Provide a schedule of payment that the LGA will use to compensate the consultant (the best practice is to pay in instalments, after the completion, delivery and acceptance of a certain deliverable). If fee payments are dependent on deliverables or stages being achieved, then these should be clearly defined and be capable of being easily evaluated.

For example:

Deliverable or milestone	% of contract-ed amount	Expected time of completion	Payment condition
Signing of a contract by the LGA and the successful bidder	5%	After award announcement	After signing of contract
Final inception report	15%	6 weeks from contract signing	Upon review, approval and acceptance of the final inception report by the LGA
Draft feasibility study report	40%	24 weeks from contract signing	Upon review, approval and acceptance of the draft feasibility study report by the LGA
Final feasibility study report	40%	26 weeks from contract signing	Upon review, approval and acceptance of the final feasibility study report by the LGA

9. Selection criteria

Indicate a clear set of criteria to be used in the evaluation of both the technical and financial proposal. Criteria are derived from the qualifications required and from national standards/best practices. Explain the scoring methodology (how the proposal will be weighted), allocate points/weights for each criterion and state the selection procedure.

For example:

Offers received will be evaluated using a combined scoring method, in which the technical proposal (qualification and methodology) will be weighted at 70 percent and combined with the price offer (financial proposal), which will be weighted at 30 percent.

A sample of some of the criteria and their weighting may be:

- Proposed methodology, implementation plan, overall quality of the proposal, compliance and understanding of the TORs: 25 points
- Technical capability of the consultant (qualification of experts and experience in the field of the project assignment): 35 points
- Practical experience of conducting feasibility studies for similar projects, including the quality of the work performed: 40 points

Appendix 6:

Framework for preparation of a business plan

The following structure can be used as an example for preparing a business plan for an infrastructure project. Users are given guidance guided on the key information to be included in each component. LGAs may add more **relevant** data as appropriate. Most of the information is derived from the components of the feasibility study.

1. An executive summary of the project

Provide a summary of the entire business plan using key information to convince the funder to consider the project for financing. Include aspects like:

- The problem statement or background to the project to indicate the need for the LGA (1 or 2 paragraphs)
- The project objectives, summarizing the solution or opportunity – include what will happen, the location, how the project will operate, the project duration, the number of beneficiaries and project management (2 or 3 paragraphs)
- Funding requirements – mention the total project cost, the LGA's contribution, any other funding available or planned to be secured, the project funding gap and the amount of funds required or requested from the funder (1 paragraph)
- LGA background information – the name of the LGA, a brief history, its legal mandate or a justification for implementing the project, and the capacity of the LGA to handle the project (1 paragraph)

2. Background of the organization (LGA)

Give an overview of the LGA including information like the history, governing structure, the regional context, population, economic activities and industrial data related to the proposed project (some of this information may be extracted from the updated Council Strategic Plan). Highlight the LGA's primary role/function in relation to the project and any support provided to users (e.g. how they rely on the LGA's services or support). Provide any knowledge or experience that the LGA has on similar projects. Ensure only relevant information is included.

3. Description of the proposed project (derived from the technical and economic feasibility assessment)

3.1. Background of the project

Explain where the project idea came from (historical background). What led to the project? What is the local need? Include sector information, current operations/status/situation (the challenges or problem to be solved or an available opportunity to be tapped into). Use available financial data (for existing projects, provide information on the historical financial performance) or use industry data for new projects.

3.2. Project objective and scope

Explain the proposed project and how it will solve the above challenge or take advantage of the opportunity that has been identified. Describe the rationale for the project, its objectives/purpose (what it will achieve – output/results), scope, the delivery strategy or implementation methodology/approach, any assumptions, the major activities (or phases) the project entails, targets/milestones, any linkages with other projects or programmes etc.

3.3. Project location

Provide a detailed description of the project location, including plot size, ownership and current occupancy status for the proposed site (vacant/occupied). Discuss if there is a need for land compensation, relocation/resettlement and the LGA's plan to address this. Include distances from the main road, the presence of access roads, any well-known nearby places and other aspects relating to the surroundings. Include availability of supporting infrastructure facilities (e.g. transport and communications, power, water, etc.).

3.4. Project outcome or impact

Explain the contribution the project is expected to make to the LGA's revenue. Give an estimation of how the targeted users will benefit from the project, i.e. the social, economic and environmental impact of the project, e.g. job creation, poverty reduction, increased fiscal independence of the LGA, reduced traffic congestion etc.

4. Market information (derived from the demand feasibility and social/user assessments)

Provide information on market demand and supply as follows:

4.1. Project demand

Explain who the target end customers and all key beneficiaries of the project are. Mention the estimated number of potential users of the proposed product or service and the available market opportunities or growth potential. Beneficiaries may be expressed in demographic terms (e.g. by location, population age, income categories, gender, etc.). Mention the critical factors that determine market potential or the project strengths to ensure there is a proven market for the project or service (may use industrial trends or information from similar projects operating in the district or region).

Give an overview of the expected competition, what will be the key competitive advantage or market strategy for ensuring there is sufficient demand. Include the expected project pricing of fees to be charged.

4.2. Project supply or inputs

Provide information on the types of inputs or supplies required for the project, e.g. raw materials, packaging instruments, machines and equipment, etc. Indicate who the potential suppliers are or where the project will source its inputs and the availability, accessibility and estimated price of these. Comment on any special technical complexities or technological issues and the need for know-how and special skills, if any.

5. Project management (extracted from the project implementation section)

Explain who will manage the project (number of staff, their specializations, qualifications and functions). If the project will be managed by an SPV, describe its governance structure and summarize the roles of each party. Describe the technical capacities of the LGA management team for handling the delivery of the proposed service or project operations (i.e. skills and experience needed). Include information about a progress monitoring mechanism or explain how project monitoring and reporting will be conducted.

6. Legal and institutional framework (derived from the legal feasibility assessment)

Provide the regulatory and institutional framework that supports the implementation of the project (i.e. applicable LGA laws and regulations and specific project laws, e.g. by-laws, etc.). Illustrate how the project link or aligns to strategic plans and relevant government development plans or priorities, policies, SDGs, etc. Explain if there are any specific government incentives and support available for the project.

7. Financial projections (extracted from the demand, economic and financial feasibility assessment)

Provide a summary of the total project cost and projected revenues or cashflow as follows:

7.1. Capital or investment cost

Provide a breakdown of the total capital expenditure (which is usually a one-time investment), derived from components like land acquisition and development costs, construction, purchase of plant and equipment etc.

7.2. Operating and maintenance cost

Specify the future costs or total projected operating costs based on a schedule of activities or daily operations of the project, e.g. raw materials and consumables, staff costs, utilities, management costs, insurance, etc. Add information on the expected maintenance costs for project assets (services, repairs and any other costs needed to maintain the project assets in a reasonable condition to deliver project objectives). Mention the number of years projected.

7.3. Estimated project revenues

Summarize the estimated future revenue or cashflow of the project. Be sure to mention the key assumptions used in estimating the revenue, e.g. proposed user charges/fees or product prices and expected growth in percentage (increment in revenues).

7.4. Financial ratios and sensitivity analysis

Using projected financial statements, provide project bankability justifications using relevant key financial ratios such as ENPV, IRR, project profitability (net profit margin), return on investment, DSCR (for loan financing), etc. Include a summary of the sensitivity and scenario analysis conducted in the financial feasibility assessment to validate the sustainability of the project.

8. Funding requirements (summary of the financial feasibility assessment/financial model/financing option)

Describe the contribution available from the LGA budget or any other stakeholder. From the total project cost above, calculate and state the funding required or amount of financing sought/requested to commence project implementation (i.e. the funding gap). Explain how the LGA plans to cover the funding gap (proposed financial structure – the amount of debt or equity or any other financing option desired). For a total project cost of TZS1 billion, the proposed financial structure might be:

LGA's contribution from own-source funds (available)	= TZS200 million
Secured grants from donor (available)	= TZS200 million
Loan from a bank (under discussion, awaiting approval)	= TZS200 million
Requested central government grant (funding gap)	= TZS400 million

9. Environmental and social factors (from the social and environmental feasibility assessment)

Summarize the environmental and social impact expected of the project and how the LGA will mitigate these. If a full ESIA was conducted, summarize the conclusion and attach the report.

10. Risk assessment (derived from the risk analysis in the feasibility study)

Outline the project risk analysis and mitigation strategies, using a risk matrix. The matrix should identify key risk factors with regard to technology, the market, finance, regulatory issues, stakeholders, management, etc., their likelihood of occurring, a description of the measures

planned to anticipate or mitigate such risks, and any potential threats or challenges to the delivery of outputs. Provide solutions to the challenges that have been identified.

11. Project implementation plan

Highlight the expected project duration and provide a realistic implementation schedule. That is, the commencement and completion dates for the planned project activities or milestones (securing the required permits, procuring a contractor, construction, procurement and installation of equipment, up to the handover of the project ready for operations).

12. Appendices

Include all relevant appendices such as project technical designs, BOQs, feasibility study, land title deeds, statutory committee approvals to implement the project, projected financial statements, etc. The nature of the appendices depends on the requirements of the potential project funder.

Appendix 7:

Information on the Government's Strategic Project Fund

This section presents the detailed criteria and supporting documentation required for LGAs to access the central government grants from the Strategic Project Fund (SPF). The information is extracted from the SPF guidelines issued in 2018 by the MOFP.

PROJECT CRITERIA TO BE ANALYSED

NA.	KIGEZO	MAELEZO	ALAMA (%)
1.	Andiko la mradi / biashara	<p>Andiko la Mradi ni wasifu na maelezo yanayoeleza na kutoa picha halisi kuhusu mradi. Taarifa zinazopatikana katika Andiko la mradi ni pamoja na:</p> <ul style="list-style-type: none"> ▪ Jina la mradi ▪ Historia ya mradi ▪ Lengo kuu na malengo mahsusi ▪ Umuhimu wa kuwa na mradi (faida kiuchumi na kijamii) ▪ Mpango wa utekelezaji ▪ Muda wa utekelezaji mradi ▪ Uongozi, usimamizi na ufuatiliaji ▪ Masuala mtambuka ▪ Mtaji na rasilimali zingine ▪ Fursa na changamoto zilizopo ▪ Vihatarishi na namna ya kukabiliana navyo ▪ Ajira na namna ya kuwezesha jamii kupunguza umaskini ▪ Mpango endelevu wa mradi <p>Taarifa hizi ni muhimu kwani ndio chanzo cha kujenga msingi wa maamuzi ya kuwekeza rasilimali katika kutekeleza mradi husika.</p>	

2.	Upembuzi yakinifu	<p>Mchakato ambao unatoa fursa ya kuchambua na kutathmini kwa kina namna gani utelekezaji wa mradi utaweza kufikia malengo, vigezo, viwango na viashiria kiuchumi na kijamii.</p> <p>Upembuzi yakinifu hubainisha/hutoa taarifa kuhusu gharama na faida za uwekezaji, uchambuzi wa thamani ya fedha dhidi ya uwekezaji, uchambuzi wa namna mbalimbali za upatikanaji wa mtaji, riba na marejesho, uchambuzi kuhusu uzalishaji, masoko, na uhimilivu wa mradi.</p> <p>Aidha, upembuzi yakinifu hubainisha au hutoa majibu kuhusu sababu za mafanikio, namna mradi unavyoweza kupokelewa na jamii, athari za kimazingira, namna ya kukabiliana na athari za kimazingira na uwezo wa washindani katika soko/mradi husika.</p> <p>Taarifa hizi ni muhimu kwa sababu huchangia katika kuamua kutekeleza mradi huu au mwingine. Kwa kuzingatia uhaba wa rasilimali ni lazima na muhimu wakati wote kufanya maamuzi sahihi katika kuamua matumizi ya rasilimali.</p>	
3.	Mtiririko wa fedha	<p>Mtiririko wa fedha ni mchanganuo wa mapato na matumizi katika mradi. Mtiririko wa fedha unatakiwa ubainishe kwa namna gani mapato yanakidhi gharama za uzalishaji/matumizi kwa kipindi cha takribani muda wa miaka 3 ya mwanzo.</p> <p>Madhumuni ya kigezo hiki ni kujua kama / iwapo mradi utakidhi na utakuwa na mtiririko chanya wa fedha.</p>	
4.	Uwezo wa kuongeza mapato	Kuonyesha uwezo wa mradi kuchangia mapato ya Halmashauri.	
5.	Uwezo wa Halmashauri kusimamia mradi	Kwa kuzingatia mahitaji ya mradi, kuwepo kwa wataalamu wenye uzoefu wa kusimamia, kuwepo kwa nidhamu ya usimamizi wa fedha na rasilimali pamoja na kuwa na uzoefu wa kusimamia miradi mingine inayofanana.	
6.	Uthibitisho wa umiliki ardhi	Uthibitisho wa umiliki wa eneo kisheria ili kuepuka migogoro inayoweza kusababisha mradi usitekelezwe kwa wakati.	
7.	Uchambuzi wa viashiria vya uhimilifu	Uchambuzi wa viashiria vya uhimilivu utasaidia kubaini fursa, uwezo, changamoto na vikwazo. Vile vile, kubaini mikakati ya kutumia fursa zilizopo na kukabiliana na changamoto zitakazo jitokeza	
8.	Uwezo na mkakati wa Halmashauri kujitegemea	Lengo ni kutambua uwezo wa Halmashauri katika kuku-sanya mapato yao ya ndani ikilinganishwa na matumizi yao pamoja na kuonesha mpango kazi wa kupunguza utegemezi kutoka Bajeti Kuu ya Serikali kutokana na kutekelezwa kwa mradi huo	
9.	Michoro na usanifu (Detailed design study)	Kuona uhalisia wa mradi unaoidhinishwa fedha na uthibitisho wa makisio ya gharama za mradi.	
10.	Mpango matumizi eneo la mradi (Master plan)	Kuona matumizi sahihi ya eneo la mradi ili kuepuka gharama zisizo za lazima kutokana na kuongezeka kwa mahitaji ya matumizi ya ardhi katika eneo la mradi.	

11.	Hati ya ukaguzi wa hesabu	Uthibitisho wa usimamizi mzuri wa rasilimali na uendeshaji wa Halmashauri kwa kuwa na hati safi ya ukaguzi wa hesabu kutoka Ofisi ya CAG	
12.	Mpango mkakati wa Halmashauri	Kuzingatia na kuendana na Sheria ya Bajeti namba 11 ya mwaka 2015 kwa kutekeleza miradi ambayo iko kwenye Mpango.	
13.	Nyaraka za mradi na vielelezo kuchambuliwa na kuridhiwa na Sekretarieti ya Mkoa husika	Kuzingatia majukumu ya RS katika kusimamia, kuratibu na kufuatilia ufanisi wa utekelezaji wa majukumu katika Mamlaka za Serikali za Mitaa.	
14.	Nyaraka za mradi na vielelezo kuchambuliwa na kuridhiwa na OR-TAMISEMI	Kuzingatia majukumu ya OR-TAMISEMI katika kuratibu na kufuatilia utekelezaji wa maelekezo ya kiseru na miongozo katika ngazi ya Mikoa na Mamlaka za Serikali za Mitaa.	
		JUMLA KUU (100%)	

Glossary of terms

TERM	DEFINITION
Bankable project	A project that can generate sufficient cash flow to meet the capital expenditure and that the sponsor is willing to finance.
Capital structure	A combination of various forms of capital or sources of funds used to finance the project, i.e. a mix of equity share capital (own-source revenue, government grants), debt, donor funds, etc.
Condition precedent	A condition or clause of a contract that must be fulfilled by the other party (in this case, the LGA) before the contract comes into effect.
Financial model	The project business plan in numbers, i.e. a quantification of the overall business or project that reflects its strategy, vision and business model that aims to assess the feasibility of the project.
Market sounding	An engagement or a technical consultation with potential project stakeholders such as the Government, the private sector, financial institutions, DPs, etc. to share basic project information like preliminary marketing and initial feedback on the feasibility/practicability of the proposed project.
Official DSE listing	The inclusion of the local government bond in the official list of securities that are traded on the DSE.
Project concept note	A brief outline or summary describing the proposed project idea.
Project preparation facility	A funding facility designed by a certain institution (usually a development finance institution) to support the preparation of infrastructure projects that are viable and ready for investment.
Project screening	A preliminary assessment of the project to ascertain whether it is suitable for selection for further consideration.
Regional investment guide	A guidebook that provides potential investors with access to essential information regarding investments opportunities in a certain region.
Request for proposal	A formal document that outlines an organization's intent to procure a good or service. In these guidelines, the RFP is the procurement document that an LGA will use to provide background project information and service requirements and solicit bids from qualified consultants.





President's Office, Regional Administration
and Local Government (PO-RALG)
Government City – Mtumba, P.O. Box 1923
DODOMA



www.tamisemi.go.tz



ps@tamisemi.go.tz



+255 26 2321234



www.twitter.com/OR_TAMISEMI



www.instagram.com/ortamisemi



www.facebook.com/TAMISEMI