

THE URBAN TRANSITION IN TANZANIA

Executive Summary

Cities produce more than half of Tanzania's GDP. As Tanzania moves from a rural to an urban economy, urban economic and population growth will continue to outpace the national averages. Tanzania's future thus depends on the urban transition.

The World Bank Group studied the urban transition at the request of the Government of Tanzania. They agreed that the study would be a foundation for a national urban strategy. This report was designed to identify the policy implications of the transition and to highlight key decisions facing Tanzania's policy makers in preparing the urban transition. This executive summary first highlights the main findings and then summarizes their policy implications.

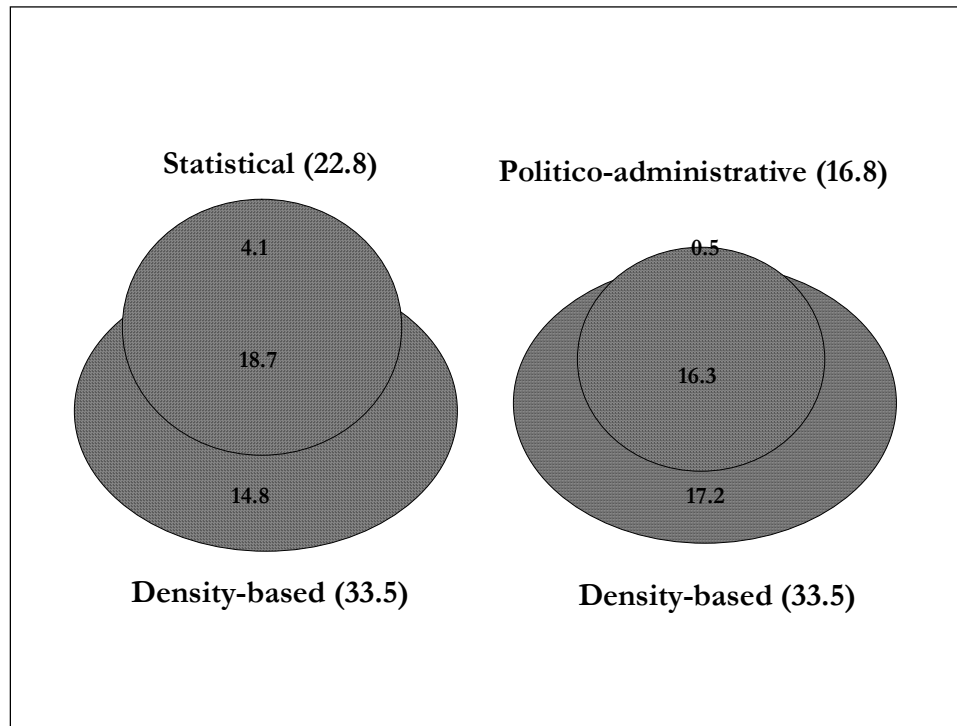
Features of Urban Tanzania

What is "urban"?

The level and location of Tanzania's urbanization vary with the definition of "urban". There are three perspectives on "urban" in mainland Tanzania: 1) the politico-administrative perspective, adopted by the Prime Minister's Office, Regional Administration and Local Government (PMO-RALG); 2) the human settlements perspective, embraced by the Ministry of Lands and Human Settlements Development (MoLHSD); and 3) the statistical perspective, adopted by the National Bureau of Statistics (NBS). None of the three perspectives explicitly accounts for population density. A fourth perspective, using an OECD population density criterion is therefore examined and contrasted with the three above-mentioned urban perspectives.

Figure 1 illustrates the statistical, politico-administrative, and density-based perspectives. As of 2002, urbanization could be as low as 16.8 percent (using a politico-administrative definition of urban LGAs) or as high as 33.5 percent (using a density-based definition). The discrepancies have important implications, because if policies are targeted at urban LGAs alone, then half of the urban opportunities and challenges would potentially be missed. It is the dense areas near urban LGAs, but outside their boundaries, where new investments may yield the greatest returns.

Figure 1 The Statistical, Politico-Administrative, and Density-Based Urban Perspectives (percentages of national population)



Source: Authors' calculations from census data.

Urban economic growth

The majority of GDP is urban. According to the statistical definition of “urban,” urban areas are home to 23 percent of Tanzania’s population and generate 51 percent of GDP. If the politico-administrative definition is used then 17 percent of the population generates 29 percent of GDP. The differential implies that the additional 6 percent of urban people who live in statistically recognized urban areas, but who lack legal status, generate an additional 20 percent of GDP. Urbanized areas of rural LGAs may contribute as much or more to GDP than urban LGAs per se.

There should be a special strategy for urbanized areas of rural LGAs. Such a strategy should:

channel settlement (an opportunity that has largely been missed within urban LGAs) to promote efficient labor and product markets, to protect corridors for transport and services, and to preserve sites for public purposes such as schools and hospitals; and

Close the infrastructure and service gaps in periurban areas (as contrasted with urban LGAs).

Urban productivity

In 2006 the productivity of labor in urban areas was estimated to be 2.3 times higher than in rural areas. This ratio is not high by global standards, but it is likely to widen. As countries develop, productivity rises in both urban and rural areas, but usually much faster in urban areas. In rapidly growing economies like Korea, Brazil, India, and China, where there has been significant investment in urban infrastructure, the rate of urban productivity growth is linked to those investments. Firms locate in cities to be close to labor and product markets and to have access to urban services and infrastructure. Urban agglomerations create the potential for greater economic efficiency and productivity, but infrastructure, services and connectivity are needed to realize that potential.

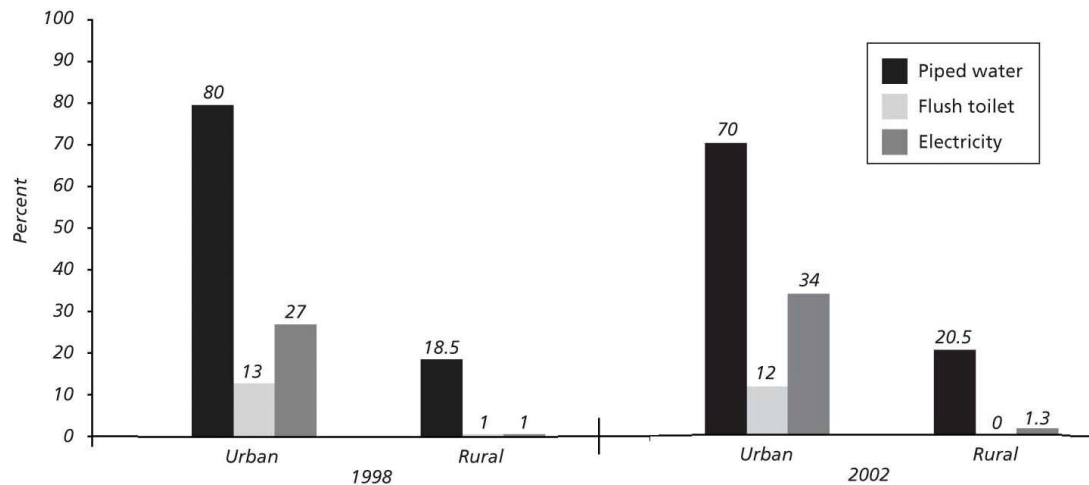
Employment

Three salient characteristics of Tanzania's urban labor force are: (i) much of the urban labor force (thirty-eight percent) is employed in agriculture; (ii) informal employment has increased dramatically; and (iii) there is more unemployment in urban areas than in rural ones. The urban challenge is therefore not only to create jobs but to create formal jobs. Such jobs require a combination of public investment in urban infrastructure and private investment in productive assets.

Urban services

Although urban LGAs provide better services than rural, urban access to electricity and formal sanitation is low and varies strongly across LGAs. Services are not keeping up with urbanization, and access to some services (e.g. piped water) has actually declined. **Figure 2** contrasts services in 2002 with those in 1988.

Figure 2 Access to Basic Services: Urban versus Rural, 1998 and 2002



Source: Authors' calculations from census data.

Urban migration

Many people move in both directions -- into and out of urban areas -- and net migration to urban areas is rather low. Urban areas are not growing primarily because of rural-to-urban migration. From 1988 to 2001 migration in mainland Tanzania only contributed a net 17 percent of urban population growth, against an estimated 25 percent for Africa during the 1980s and 1990s. Seventy five percent of urban immigrants join existing households when they become urban residents, and they are generally better educated than existing urban residents. Urban-to-urban migrants are still better educated, and have better housing quality and access to electricity than rural-to-urban migrants.

Periurban migration

Migration is more important in periurban areas than urban. There are two movements driving periurban areas -- inward from rural and outward from urban. The spatial outcomes that result from these processes will create settlement patterns that last for decades. These settlement processes are therefore of strategic importance to Tanzania's economy: efficient settlement patterns will be relatively easy to service and will promote economic connectivity. Inefficient patterns will be expensive to serve and can create long-lasting blockages. An urban strategy for Tanzania must include a strategy for promoting sensible settlement patterns in periurban areas.

Public finance and urban areas

Public finance for rural and urban areas has two main features. Eighty percent of the national revenues and just under sixty percent of total local own-source revenues come from urban LGAs. The share of intergovernmental transfers that

rural LGAs receive is higher than their population share; correspondingly, urban LGAs receive intergovernmental transfers lower than their population share. Rural LGAs receive almost one fourth more in transfers per capita than urban LGAs.

Transfers indicate a pro-rural bias in the intergovernmental fiscal system. While this bias is sometimes justified as reflecting the higher cost of serving a dispersed population, it ignores the off-setting higher costs of serving urban populations with uniquely urban services, such as piped water, sanitation, storm drainage, solid waste, streets, and street lighting. A pro-rural bias in the inter-governmental transfer system is not unusual or problematic in itself, because urban LGAs generally have tax bases that can pay for urban amenities. However, Tanzanian local government has experienced the progressive elimination of several own-source revenue instruments, and has not done very well with own-source collection efficiency. The result is that urban LGAs do not have money to operate and maintain infrastructure, let alone to invest in new infrastructure for larger populations.

Policy problems of urban Tanzania

Land

Land use planning has failed to regulate urban development. Informal development predominates in both urban and periurban areas because the formal system is ignored. Government-managed land delivery has broken down in its chain of procedures, particularly cadastral surveying, with the result that the demand for urban land has significantly exceeded the formal supply for more than forty years.

Informal settlements dominate the urban and periurban geography because of the breakdowns in planning and land delivery systems. The proliferation of informal settlements creates a continuous need for regularization and upgrading. Given that the cost of upgrading informal areas is much higher than preventing informality, an urban strategy must work to stop informality.

As the World Development Report 2009 notes, “Efficient land use in urban areas and the urban fringe is the key to urbanization.” **In Tanzania, most urban land transactions and urban land development are informal.** The Government estimates that 89 percent of real estate development in Tanzania is extralegal. The difficulty of acquiring and developing land legitimately blocks the efficient use of land and raises unnecessary barriers to putting land to its best use. While efficient land markets are not the same as unregulated markets, regulations must not impose such a burden, as they do in Tanzania, that most people ignore them.

Tanzania’s urban land management systems have fundamentally failed and should be rethought. The planning rules and regulations, which have been ignored by 80 percent or more of recent urban development, are deeply flawed. Problems include inappropriate density controls, institutional bottlenecks, and excessive centralization of land-use decisions. The system of government production of plots is

hopelessly inadequate to the scale of the ongoing urbanization, even if the plots were appropriately sized and priced. With more than a half million new urban residents per year, Tanzania may be producing as few as 6,000 new formal plots per year. This implies nearly 100 new residents for each plot that becomes available. Failure of the plot production system in Tanzania is a major factor in the proliferation of informal and illegal settlements.

A successful land management system could help lay the foundation for revenues to finance urban infrastructure through increased property tax revenues, increased land-use and sales revenue, and private sector finance through mortgages and similar pledges. All of this can be done through either outright ownership or long-term leases. The current formal practice in Tanzania usually involves 33, 66, or 99 year renewable land leases, with some residential land leases being for only 2 years. The shorter lease periods, the financial and procedural barriers which lead to the lack of any lease in most cases, and the backlog in lease renewals all pose significant barriers to investment and to collecting municipal revenue from occupants of land, who require and benefit from urban services.

A successful land management system would focus on 1) appropriate planning and 2) effective land markets. We believe that Tanzania's land use planning systems should be simplified to focus on priority issues, such as identifying and protecting transport and utility corridors, and sites needed for public facilities. Planning standards that specify minimum lot sizes beyond that needed for minimum public safety, or regulatory mechanisms that are specific in prescribing land usage should be revisited. Similarly, the number of legal parcels must be increased, and the size and location of parcels should correspond to what people and firms require.

Sectoral problems

There are urban-specific constraints in health, education, transport and energy that call for sectoral interventions.

Access to health services is more differentiated by income in urban than in rural areas, implying that additional public health facilities should be located in poorer urban areas;

Tanzania's curriculum does not prepare students for urban jobs, implying that education policies must consider the urban labor market in relation to the service and industry jobs that characterize cities;

Traffic congestion in Tanzania's cities lowers productivity, implying that lower congestion would economic growth; and

Electric power is used inefficiently because it does not exploit economies of generation, transmission, and distribution in densely-populated cities. This imposes economic costs in foregone output and, at the same time, imposes environmental and health costs by stimulating charcoal consumption.

Cities allow network effects. When service delivery is approached vertically by sector, instead of horizontally and spatially, avoidable inefficiencies result. For example, land use processes have failed to allocate and protect space in urban areas for public services like schools and hospitals. And inadequate access to the electric grid limits the effectiveness of interventions in health, education, and ICT sectors. Thinking about roads and transport together with land and investment climate issues brings the actual functioning of labor and land markets to the fore, and allows optimization of linkages between urban, periurban and rural areas.

Infrastructure

Tanzania’s urban areas are growing more than twice as fast as the rest of the country and infrastructure investment is not commensurate with that growth. We estimate that US\$880 million or more should be invested each year in Tanzania’s cities just to serve the new residents (Table 1).

Table 1 Tanzania - Annual Urban Investment Requirements

<i>Variable</i>	<i>Tanzania</i>	<i>Dar es Salaam</i>
Urban population (millions)	11.0	3.5
Urban population growth rate	4%	5%
New urban residents per year	440,000	175,000
New investment cost per resident	US\$2,000	US\$2,000
Cost per year (millions)	US\$880	US\$350

Source: Authors’ calculations

Dar es Salaam alone needs some US\$350 million in new infrastructure investment each year simply to avoid losing ground from growth. Again, this figure does not include any costs for addressing existing service gaps nor for repair and rehabilitation of aging infrastructure.

The intergovernmental fiscal framework now offers no hope of meeting financing needs. Most national taxes are collected from urban areas, but most intergovernmental transfers are to rural areas. When that is combined with the

progressive elimination of local tax instruments and the confusion that has been created around the property tax, urban LGAs cannot finance investment.

However, a framework which could support urban infrastructure investment is possible. Elements could include some or all of the following:

The property tax base must be expanded and updated to include urban and periurban properties not currently on the valuation rolls.

Property tax rates could be increased significantly. Tanzania's low property tax rates principally benefit the rich, who own more and more valuable property. To protect the poor, properties under a certain value could be completely exempted from property tax.

An appropriate local business tax should be investigated. A local business tax which grows as business prospers, e.g. on turnover, employment, or other base, generates a healthy synergy between local authorities and businesses in their jurisdiction – the more LGAs do to help create a good environment for business, the more they benefit from business growth.

There should be renewed emphasis on local collection of existing own-source revenue instruments (e.g. property tax and city services levy), which are not living up to their potential. Special district and/or special assessment financing could be investigated, so that those who benefit most from infrastructure investments help pay for those investments.

Development impact fees and capital contribution fees could be instituted to require commercial, industrial, and high-end residential development to pay their ways. A targeted urban grant could be provided, either through the LGCDG system or outside of it. Any such grant should address all urbanizing areas of Tanzania, not just those that are already within an urban LGA. Entities other than LGAs could assume increased responsibility for financing some services, especially private goods. These entities could be publicly or privately owned.

A costing study now underway could serve as the basis for an analysis of the options for financing each type of infrastructure, and for determining what should be financed publicly vs. privately; what should be financed with current funds vs. credit; what should be financed with local funds vs. national; and similar issues. Discussions could begin immediately on the overall framework to support capital investment in urban and periurban areas. There is a wide variety of global experience that can be brought to bear. If there is a strong champion and desire for such a discussion in the Government, it could generate useful options, and lead to a sustainable financing framework.

The Urban Transition

Efficient cities are critical to Tanzania's economic growth and poverty reduction. Tanzania needs, first, the economic growth that can be generated in well-functioning cities and, second, better physical and institutional connections between those cities and the rest of the country. The urban productivity advantage, which will continue to grow, can be multiplied through appropriate infrastructure, institutions, and interventions. Tanzania is at a point in its urban development where the right investments, institutions, and interventions can make a real difference in the future.

Half of Tanzania's urbanization is not visible to policy makers and does not receive the planning and investment it needs. There is a patchwork of perspectives on what "urban" means, and there is no institutional champion for the urban agenda.

The three most profound challenges for Tanzania's cities are (a) lack of adequate infrastructure in urban and periurban areas, (b) flawed public land management systems; and (c) a lack of awareness of the magnitude and implications of the urban transition.

This report has sought to provide Tanzanian policy makers with a clearer understanding of the urban transition, so that a discussion can begin on key decisions about urbanization. We propose three next steps:

In the short term, there should be a series of workshops and discussions, building on the January 2008 "Urban Day," which was co-sponsored by the World Bank Institute and the Tanzania Cities Network, to focus on the issues in this report.

In the medium term, it might be useful to create a new institution to advise on the urban challenge. In some countries, a specific ministry holds the urban portfolio. In others, the portfolio is divided between many ministries, and inter-ministerial committees seek to coordinate urban issues. The Government of Tanzania might choose either to create an urban ministry, or to create some coordinating body with the active participation of national leadership and sectoral ministries. Decisions that would have to be addressed would be the powers and functions of any such body and the degree of support that it could expect from other stakeholders in government.

In the long term, the decisions made now and in years to come about infrastructure investment, land management, and the other issues raised by this report, will determine how effectively the country urbanizes. Tanzania will inevitably urbanize, but the efficiency and success of its cities remains to be determined. With sound policies and adequate investment, Tanzania can grow its economy through dynamic and efficient cities. If policies and investment continue to lag behind urban growth, the national economy and the people of Tanzania will suffer.