PROJECT PERFORMANCE ASSESSMENT REPORT

TANZANIA

PORT MODERNIZATION II PROJECT
(CREDIT 2095-TA)

AND

RAILWAY RESTRUCTURING PROJECT
(CREDIT 2267-TA)

June 22, 2005

Sector, Thematic, and Global Evaluation Group
Operations Evaluation Department
Currency Equivalents (annual averages)

Currency Unit = Tanzanian Shilling (Tsh)

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Abbreviations and Acronyms

- **AHC**: Asset Holding Company
- **ASCUDA**: Automated System for Customs Data
- **CAS**: Country Assistance Strategy
- **DSM**: Port of Dar-es-Salaam
- **ED**: Executive Director
- **ESW**: economic sector work
- **GDP**: gross domestic product
- **ICR**: Implementation Completion Report
- **IDA**: International Development Association
- **IFC**: International Finance Corporation
- **MTR**: Mid-term Review
- **OED**: Operations Evaluation Department
- **PPAR**: Project Performance Assessment Report
- **PSRC**: Public Sector Reform Commission
- **PCU**: Project Coordination Unit
- **PSO**: Public Service Obligation
- **SOE**: state-owned enterprises
- **SUMATRA**: Surface and Marine Transport Regulatory Authority
- **SAR**: Staff Appraisal Report
- **TA**: technical assistance
- **THA**: Tanzania Harbors Authority
- **TRC**: Tanzania Railways Corporation
- **TICTS**: Tanzania International Container Services Ltd.
- **TAZARA**: Trans-Zambian Railways
- **TEU**: 20 foot Container Equivalent
- **UNCTAD**: United Nations Conference on Trade and Development
- **WFP**: World Food Program

Fiscal Year

Government: January 1 - December 31

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<td>Acting Director-General, Operations Evaluation</td>
<td>Mr. Ajay Chhibber</td>
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<td>Mr. R. Kyle Peters</td>
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About this Report

The Operations Evaluation Department assesses the programs and activities of the World Bank for two purposes: first, to ensure the integrity of the Bank's self-evaluation process and to verify that the Bank's work is producing the expected results, and second, to help develop improved directions, policies, and procedures through the dissemination of lessons drawn from experience. As part of this work, OED annually assesses about 25 percent of the Bank's lending operations. In selecting operations for assessment, preference is given to those that are innovative, large, or complex; those that are relevant to upcoming studies or country evaluations; those for which Executive Directors or Bank management have requested assessments; and those that are likely to generate important lessons. The projects, topics, and analytical approaches selected for assessment support larger evaluation studies.

A Project Performance Assessment Report (PPAR) is based on a review of the Implementation Completion Report (a self-evaluation by the responsible Bank department) and fieldwork conducted by OED. To prepare PPARs, OED staff examine project files and other documents, interview operational staff, and in most cases visit the borrowing country for onsite discussions with project staff and beneficiaries. The PPAR thereby seeks to validate and augment the information provided in the ICR, as well as examine issues of special interest to broader OED studies.

Each PPAR is subject to a peer review process and OED management approval. Once cleared internally, the PPAR is reviewed by the responsible Bank department and amended as necessary. The completed PPAR is then sent to the borrower for review; the borrowers' comments are attached to the document that is sent to the Bank's Board of Executive Directors. After an assessment report has been sent to the Board, it is disclosed to the public.

About the OED Rating System

The time-tested evaluation methods used by OED are suited to the broad range of the World Bank’s work. The methods offer both rigor and a necessary level of flexibility to adapt to lending instrument, project design, or sectoral approach. OED evaluators all apply the same basic method to arrive at their project ratings. Following is the definition and rating scale used for each evaluation criterion (more information is available on the OED website: http://worldbank.org/oed/eta-mainpage.html).

**Relevance of Objectives:** The extent to which the project's objectives are consistent with the country's current development priorities and with current Bank country and sectoral assistance strategies and corporate goals (expressed in Poverty Reduction Strategy Papers, Country Assistance Strategies, Sector Strategy Papers, Operational Policies). **Possible ratings:** High, Substantial, Modest, Negligible.

**Efficacy:** The extent to which the project's objectives were achieved, or expected to be achieved, taking into account their relative importance. **Possible ratings:** High, Substantial, Modest, Negligible.

**Efficiency:** The extent to which the project achieved, or is expected to achieve, a return higher than the opportunity cost of capital and benefits at least cost compared to alternatives. **Possible ratings:** High, Substantial, Modest, Negligible. This rating is not generally applied to adjustment operations.

**Sustainability:** The resilience to risk of net benefits flows over time. **Possible ratings:** Highly Likely, Likely, Unlikely, Highly Unlikely, Not Evaluable.

**Institutional Development Impact:** The extent to which a project improves the ability of a country or region to make more efficient, equitable and sustainable use of its human, financial, and natural resources through: (a) better definition, stability, transparency, enforceability, and predictability of institutional arrangements and/or (b) better alignment of the mission and capacity of an organization with its mandate, which derives from these institutional arrangements. Institutional Development Impact includes both intended and unintended effects of a project. **Possible ratings:** High, Substantial, Modest, Negligible.

**Outcome:** The extent to which the project's major relevant objectives were achieved, or are expected to be achieved, efficiently. **Possible ratings:** Highly Satisfactory, Satisfactory, Moderately Satisfactory, Moderately Unsatisfactory, Unsatisfactory, Highly Unsatisfactory.

**Bank Performance:** The extent to which services provided by the Bank ensured quality at entry and supported implementation through appropriate supervision (including ensuring adequate transition arrangements for regular operation of the project). **Possible ratings:** Highly Satisfactory, Satisfactory, Unsatisfactory, Highly Unsatisfactory.

**Borrower Performance:** The extent to which the borrower assumed ownership and responsibility to ensure quality of preparation and implementation, and complied with covenants and agreements, toward the achievement of development objectives and sustainability. **Possible ratings:** Highly Satisfactory, Satisfactory, Unsatisfactory, Highly Unsatisfactory.
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This report was prepared by Hernan Levy, Consultant who assessed the project in February 2005. The report was edited by William Hurlbut, and Romayne Pereira provided administrative support.
## Principal Ratings

### PORT MODERNIZATION II PROJECT (CREDIT 2095-TA)

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*The Implementation Completion Report (ICR) is a self-evaluation by the responsible operational division of the Bank. The ICR Review is an intermediate Operations Evaluation Department (OED) product that seeks to independently verify the findings of the ICR.*

## Key Staff Responsible

### PORT MODERNIZATION II PROJECT (CREDIT 2095-TA)

**Project** | **Task Manager/Leader** | **Sector Manager** | **Country Director**
---|---|---|---
Appraisal | M. Konishi | Isaac K. Sam | H. Messenger
Completion | Simon Thomas | Maryvonne Piessis-Fraissard | James W. Adams

### RAILWAY RESTRUCTURING PROJECT (CREDIT 2267-TA)

**Project** | **Task Manager/Leader** | **Sector Manager** | **Country Director**
---|---|---|---
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Completion | Simon Thomas | Maryvonne Piessis-Fraissard | Judy M. O'Connor
Preface

This Project Performance Assessment Report (PPAR), prepared by the Operations Evaluation Department (OED), covers two completed transport sector projects in the Republic of Tanzania: Port Modernization II (Credit 2095-TA) and Railway Restructuring (Credit 2267-TA).

An International Development Association (IDA) credit in the amount of SDR 28.9 million (US$37.0 million equivalent) was approved for the port project on February 27, 1990. The final project cost was US$126.4 million (US$122.3 million at appraisal) of which the IDA contribution was US$37.1 million. Co-financiers contributed US$67.2 million.

The project closed in June 2000, three years later than originally scheduled. Most of the extension was used to prepare and carry out the privatization of the container terminal at the port of Dar es Salaam, which was not originally a project objective.

An IDA credit of SDR 56.1 million (US$76.0 million equivalent) was approved for the Railway Restructuring project on June 13, 1991. The final project cost was US$222.1 million (US$275.2 million at appraisal), of which IDA contributed US$64.6 million. Co-financiers contributed US$193.3 million. The project closed in December 2002, three years late. Most of delay was used to prepare for privatizing the railway, which, as in the case of the port project, was not among the original objectives.

The two projects were selected for assessment because of the addition of privatization as an objective. OED is preparing a review of the Bank transport sector lending worldwide, and the two projects offer a unique perspective on the issues encountered in the privatization of port and railways enterprises in a developing country.

OED prepared this report based on examination of the relevant Staff Appraisal Reports, Implementation Completion Reports, legal agreements, project files and archives, as well as other relevant reports, memoranda, and working papers. Discussions were also held with a number of Bank staff. An OED mission visited Tanzania in February 2005, conducted site visits, and discussed the projects and effectiveness of Bank assistance with government officials and stakeholders. Their kind assistance is gratefully acknowledged.

Following standard OED procedures, copies of the draft PPAR were sent to government officials and agencies for their review and comments. No comments were received.
Summary

In Tanzania, the poor efficiency of the transport sector has historically been a blockage to the economy. This is largely due to poor roads and inefficient operations of the two railway systems, the Tanzania Railways Corporation (TRC) and the Trans-Zambian (TAZARA) railway. High costs of land transport hamper communications, and this problem is exacerbated by the large size of the country and the scattered distribution of population and production activities. The port of Dar es Salaam (DSM) is Tanzania’s main ocean outlet and also serves several Tanzanian neighboring countries. Because of this, the Tanzanian transport system, and especially the DSM port, is an important foreign exchange earner. While major political changes in the Eastern and Southern Africa region took place in the 1990s significantly reordering the transport patterns in the region, Tanzania has remained an important transit country for most of its neighbors.

The two projects under review, Port Modernization II and Railway Restructuring, were approved in the early 1990s, when both the railways and the ports were operated as public sector agencies. The two projects were originally intended to improve performance of two transport parastatal agencies, respectively the Tanzania Harbors Authority (THA), responsible for the ports, and the TRC. The DSM port was profitable under THA mainly because of high rates and little competition, but its operational efficiency was low.

However, the government in the mid-1990s decided to privatize its state-owned enterprises (SOEs), the combined losses of which accounted for close to 10 percent of GDP. The privatization program included awarding concessions to private operators of public utilities, among which were the DSM port and the TRC. The two projects accordingly were restructured to incorporate the government privatization strategy into the projects’ objectives.

In the port project, privatization succeeded as the container terminal of the DSM port was transferred to a private concessionaire in 2000 resulting in significant improvements in operational and financial performance.

The outcome of the port project is rated satisfactory. Institutional development is rated substantial, mainly as a result of the concession, but also on account of management improvements made prior to privatization. Sustainability is rated likely, as facilities are in good condition and private operators normally give priority to ensuring that proper maintenance is carried out regularly. Bank and Borrower performance are rated satisfactory.

In the railway project, the first attempt to transfer TRC to a private operator failed, because bid conditions were difficult to meet and no bidder submitted a compliant bid. A second round of bidding, taking into account the experience from the first round, was underway at the time of this assessment (early 2005). Before the privatization was launched, the project had financed major track relaying (200 kilometers) and rehabilitation (1,000 kilometers), the reconstruction of 52 bridges, and had also helped rebuild rail track sections damaged by El Nino flooding. The efficiency of railway operations improved in many areas, and freight traffic reached record levels. However,
the project had set ambitious operational targets, and, despite improvements, none of the targets was met.

The outcome of the railway project is thus rated **unsatisfactory**. The investments improved the physical condition of the railway network as expected, and there were improvements in the railway’s commercial emphasis and in productivity. However, neither the operational goals nor the objective to transfer the TRC to a private operator were achieved. Financial performance improved, but only modestly, in part because the government failed to provide TRC with compensation for the provision of non-commercial passenger services. Institutional development is rated **substantial** because significant progress was made in the groundwork for privatization, starting with TRC’s cessation of non-railway business and more recently in the preparation of a second round of bidding; a Commercial Department was created; and, a modern program to track and monitor all movements and technical status of locomotives and rolling stock was installed and is operating correctly.

Sustainability is rated **Non Evaluable**. Under current conditions TRC clearly does not have adequate funds to maintain assets, and operational performance can therefore only deteriorate. However, the second round of concession bidding for TRC is quite advanced, and there are good prospects that a concession will be awarded soon. If and when a private operator takes over, maintenance and operational efficiency is likely to be satisfactory based on international experience with privately managed railways. On balance, it is not possible at this stage to assess sustainability. Bank and Borrower performance are rated **satisfactory**. The Borrower rating takes into account the good performance of the implementation agency in the execution of the project and that the government, while failing to provide TRC financial compensation for non-commercial services, realized that the parastatal framework was unsuitable to achieve satisfactory performance and then took the bold decision to try and privatize TRC operations.

Four factors predominate in explaining the differences in the outcomes of the concession processes of the DSM container terminal and of TRC. The first factor is the profit potential and risks, port container terminals are money-makers, while railways with relatively low traffic densities, as is the case of TRC, generally lose money when operated as parastatal companies. Railway finances are affected by the government’s failure to provide compensation for the non-commercial services that railways are required to offer. The second is the level of investments; while the container terminal is practically new and requires no further infrastructure investments, the railway, despite project-financed improvements, still needs substantial investments to ensure the whole system is in satisfactory operating condition. The third is the labor issue. As is common in parastatal enterprises, both the port and the railway were overstaffed. However, the railway employs many times more staff than the port. In addition, THA generated enough net revenues to pay compensation to laid-off staff, while TRC needed to obtain a government budgetary allocation. The fourth issue concerns the complexity of managing an enterprise like TRC with assets (the rail track, depots and other facilities) located over a length of 2,600 kilometers, while the port container terminal has neatly defined facilities consisting of two container berths and a container storage area.
The experience from these projects confirms a number of OED lessons:

- The freedom to operate according to market principles potentially makes the operational efficiency of privately run concessions superior to that of parastatal organizations for ports and railways;

- The concentration of investment with high volumes of traffic, lower operational costs and relative autonomy from government, generally makes port concessions a relatively low risk for investors;

- When railways are likely to incur losses and/or are inadequately compensated for uneconomic services, investors will be hard to attract and therefore bidding conditions and the terms of the concession agreement will need to take this into account;

- The design of projects preparing parastatal companies for privatization should take into account the capacity and commitment of government and management to carry through the reform process. Targets and timetables should be realistic. Special care should be placed in the selection of qualified consultants preparing bidding documentation.

Ajay Chhibber
Acting Director-General
Operations Evaluation
1. Background

1.1 With a GNP per capita of less than US$300, Tanzania is one of the poorest countries in the world. Its population of some 30 million and its economy are highly dependent on agriculture. While the condition of the population has not changed much since the early 1990s when the two projects under review were approved, the government since the mid and late 1990s has undertaken major policy reforms, and significant progress has been made in moving toward a market economy. As a result, economic growth has averaged over 6 percent per year since 2000.

1.2 One of the radical reforms has been launching the privatization of state-owned enterprises (SOEs), whose combined losses accounted for close to 10 percent of GDP. The privatization program included the concessioning to private operators of public utilities, including the Port of Dar es Salaam (DSM) and the Tanzania Railways Corporation (TRC).

1.3 Tanzania’s transport sector has historically been a blockage to the economy because of poor roads and inefficient operations of its two railway systems, the TRC and the Trans-Zambian (TAZARA) railway. High costs of land transport seriously hamper communications because of the large size of the country and the scattered location of population and production activities. At the same time, because the port of Dar es Salaam serves several mostly landlocked neighboring countries, the Tanzanian transport system, and especially the DSM port are key foreign exchange earners. Major geopolitical changes in the Eastern and Southern Africa region occurred in the 1990s, significantly reordering the transport patterns in the region, yet Tanzania has remained an important transit country for most of its neighbors.

1.4 The two projects under review were part of continued Bank assistance to Tanzania’s transport sector. The Port Modernization project followed the Port Rehabilitation Project (Credit 1536-TA), which closed on December 31, 1992. OED assessed this project and found that port facilities were rehabilitated as planned and that the port was making a reasonable but low return on fixed assets. The Railway Restructuring project, in contrast, was appraised when no Bank railway project was under execution, and originated in a 1987 Transport Sector Donors Conference. More broadly, the two projects were part of the Bank’s longstanding support for the improvement of Africa’s international transport corridors. The donor community strongly supported the two projects, each of which had six co-financiers.

1.5 The Bank continues to support Tanzania’s transport sector through the Central Corridor Project (Credit 3888-TA), approved in April 2004.

1.6 In addition, the Bank has provided strong support to Tanzania’ privatization program through the Parastatal and Public Sector Reform Project (Credit 2507, approved in fiscal 1993) a main objective of which was to strengthen the Public Sector Reform Commission (PSRC) to handle divestitures. During implementation of this project,
government decided to include infrastructure in its program of parastatals sales (or concessions in the case of some public utilities).

1.7 A group of World Bank Executive Directors (EDs) visited Tanzania in July 2004. One theme of the visit was private sector development. While the visit to the port is not specifically mentioned in the EDs report,¹ THA authorities mentioned to the PPAR mission that the EDs group had held discussions with THA executives.

1.8 The Operations Evaluations Department reviewed World Bank operations in Tanzania in 2000. The review focused on the 1995-1999 period. The report suggested that the Bank’s lending program and economic and sector work should be centered on key constraints to private sector and rural development. A companion report by the Operations Evaluation Group of the International Finance Corporation (IFC) found that Tanzania had been difficult for private investors. The IFC report noted weak infrastructure as one of the key obstacles to private sector development.

1.9 In this report the objectives and components of the two projects are discussed together because of their similarities. This is followed by discussions of the results of each project individually. Then, the experience with the concessions in the two projects is compared and finally a number of lessons are drawn.

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2. Projects Objectives, Design, and Implementation

2.1 The objectives and components of the two projects are shown in Box 1.

Box 1. Project Objectives and Components

Port Modernization

Objectives
- The project’s original objective was to expand the physical, managerial, and operational capacities of the Tanzania Harbours Authority (THA) to meet anticipated traffic volume in the 1990s. Six sub-objectives were listed:
  - Execute the second phase container terminal expansion to handle 2.4 million tons
  - Enhance THA’s operational, administrative, and managerial capacity to manage container operations
  - Improve THA’s capacity to maintain and operate cargo handling equipment
  - Rationalize THA’s financial management
  - Carry out a development study to determine the next phase of port expansion
  - Establish a computer-based management information system (MIS)

Components
- The project’s original components consisted of:
  - Port civil works, mainly expansion of container terminal (US$65.50 million, 53.5 percent of project cost)
  - Port equipment (US$27.51 million, 22.5 percent of project cost)
  - Engineering services and studies (US$5.36 million, 4.4 percent of project cost)
  - Institutional development to assist the Project Coordination Unit (PCU), technical assistance to management, and technical assistance to the Customs (US$23.97 million, 19.6 percent of project cost)

Railway Restructuring

Objectives
- The objectives of the project were:
  - Strengthen the organization of the Tanzania Railways Corporation (TRC), eliminate regulatory bottlenecks to its effective operations and set it on a path to a commercially viable entity
  - Rehabilitate infrastructure assets, replace obsolete and uneconomic operational assets, and provide limited new investments consistent with the prospects for growth in domestic traffic

Components
- The project’s original components consisted of:
  - Physical investments, including track renewal, maintenance depot, signaling and telecoms, locomotive rehabilitation, rolling stock (US$161.6 million, 81 percent of project’s base cost)
  - Institutional support, training and studies (US$37.9 million, 19 percent of project’s base cost)

2.2 During implementation of both projects and in line with a shift in government policy toward the privatization of infrastructure and public utilities, the Credit Agreements were amended to introduce a major new objective: concessioning of the two utilities to private operators. In parallel, changes in the components were introduced in both projects to support the new objective, including funding for the PSRC
to finance concession transaction advisers and a number of supporting studies. In both cases, the PSRC became a new implementation agency. The large number of components, numerous co-financiers, and the addition of the privatization objective made implementation of the two projects complex. The changed objectives were also the main factor in an extension of each project’s closing date by three years.

2.3 Neither of the projects was subject to Quality at Entry assessments. In both projects, the ICRs assessed the quality at entry as satisfactory. In the context of improving the performance of parastatal utilities, the PPAR agrees that the projects focused on the appropriate institutional development objectives and components, and that the investments priorities were essentially the correct ones. Both projects included strong technical assistance components to help achieve the performance objectives. Therefore, the PPAR supports the assessment of quality at entry as satisfactory.

2.4 During implementation a number of revisions to the list of the port project activities were made, with deletion of a few of the smaller components, and addition of some new ones. These changes may suggest insufficient project preparation, since some investment priorities had to be changed in mid-course. In reality, however, the changes were mainly due to fast evolving economic conditions in Tanzania and in the landlocked countries served by the port. Changes included notably more support to Customs through the addition of financing for the rehabilitation of customs buildings and provision of equipment.

2.5 Neither the port nor the railway undertook major new construction or other physical aspects that could pose serious environmental concerns. Less significant environmental issues were addressed in the projects by studies (port) or a combination of immediate remedial actions and studies (railway). In retrospect, a potential issue in the case of TRC was people encroaching the railways’ right of way. Since those people were not affected by project activities, this issue was not dealt with under the project. Yet, today, this has become an issue in the concessioning of the TRC, since any private operator will demand to have the rail track’s right-of-way clear of encroachments. The ongoing Central Transport Corridor Project (Credit 3888) includes funding for the cost of assisting people to move out of TRC’s right of way to other suitable locations (assistance executed by local NGOs).

2.6 Regarding the concessioning process, (a) the decision to concession the port in phases, starting with the container terminal, was correct, since container terminals are more attractive and there is ample worldwide experience showing successful concessioning of container terminals, and (b) the decision to concession the railway as one package appears to have been the right approach. In hindsight, however, the deadlines for completing the railway concessioning appear to have been overly optimistic.

2.7 In retrospect, the question arises as to whether some sort of privatization could have been introduced or were intended in the original project objectives. In the case of the railway, management contracts had already been used in other countries – including the Sub-Saharan Africa region – since the 1980s. Yet, actual concessioning of the railway only started in the early 1990s in some Latin American countries, while none
had been undertaken in Africa up to the time the evaluated project was appraised. In contrast, concessioning of port container terminals had been started worldwide at least a decade earlier, especially in Asia, and had demonstrated their effectiveness.

2.8 On the other hand, without a broad government policy aimed at privatizing SOEs it would have been difficult to make an exception with the ports. At the same time, much faith in the late 1980s and early 1990s was still placed in the effectiveness of performance agreements as a way for the governments to get higher efficiency from their parastatal companies, especially the utilities, despite early evidence that such contracts rarely achieved the expected results. In the case of TRC, such agreements were signed, at appraisal as a Memorandum of Understanding and later as a formal Performance Contract.

3. Outcomes of the Port Modernization Project

Outcome

3.1 The overall project outcome is rated satisfactory based on substantial relevance, efficacy, and efficiency (discussed below). The key objective of privatization was fully achieved, and is proving successful. Most of the other objectives were also substantially achieved. Since the terminal has been concessioned, major improvements have been achieved in operational efficiency and reduction in the time containers stay at the port. Port rates have been lowered every year for five years. The result has been an overall increase in the quality of services to port users and significant growth in the movement of containers in the port, from about 100,000 in 1997 to 260,000 in 2004. Growth of container traffic continues to be strong in 2005.

Relevance

3.2 The relevance of the project is rated substantial, since the port is important to the Tanzanian economy and project objectives were well conceived. The economic growth of Tanzania in recent years would have been seriously hindered had the port not been improved under the project. The project was also aligned with the 1999 Country Assistance Strategy (CAS), which specified that one of the six major objectives in Tanzania was to “reduce sectoral and physical constraints.”

3.3 Because the DSM port serves several of Tanzania’s bordering countries as the most direct and economic link to the rest of the world and therefore the primary ocean outlet, the project’s relevance extended beyond Tanzania to the East Africa region.

3.4 The project’s added objective to support concessioning of the DSM container terminal was clearly in line with the government’s strategy to divest SOEs to improve efficiency. The project also helped support a major policy reform in the oil sector: the government decision to close Tanzania’s inefficient oil refinery could only be implemented when the oil jetty at DSM was upgraded under the project to allow larger tankers to berth carrying refined petroleum products and increased unloading efficiency.
3.5 The project also helped assist vulnerable populations. Tanzania has provided sanctuary to a large number of refugees from Burundi and Rwanda, with a peak of more than 600,000 in 1993, and hovering around 400,000 through the 1990s and 2000s who have received assistance from the World Food Program (WFP). In 2005, the WFP is feeding some 400,000 people (250,000 from Rwanda and 150,000 from Democratic Republic of Congo), and to this end it is importing 800,000 tons of foods per year through the DSM port. The WFP program is also assisting the vulnerable Tanzanian population located northwest of Dar es Salaam.

3.6 The project's support to Customs, originally in the form of technical assistance but later adding investments for physical facilities, enhanced the value of the project. The additional investment strengthened support to improve trade logistics through the port.

Efficacy

3.7 Efficacy of the civil works is rated substantial. The six major subcomponents of civil works, amounting to over 90 percent of civil works costs, were carried out as expected. The expanded stacking areas in the container terminal substantially increased its capacity. The Staff Appraisal Report (SAR) expected that with the increased capacity some 125,000 containers would be moved in 1995 (up from about 60,000 in 1991 when the project started). In fact, due to a shortage of transit containers, only about 75,000 containers were moved that year. However, thanks to the increased infrastructure capacity, coupled with new equipment and a more efficient operation by the terminal's private operator, the terminal's throughput in 2004 had grown to 260,000 containers.

3.8 Only two civil works subcomponents (Belgian wharf and paving of lighterage area) representing less than 10 percent of total civil works, were not carried out. It is questionable why these subcomponents were included in the original project. A visit to the port found these not to be priority facilities, and that the lighterage activity is relatively low.

3.9 Additional works, namely dredging of the harbor channel and Customs building, which were not originally part of the project, were carried out and put into service. Equipment for the port was carried out as anticipated and within the cost estimate. The Kurasini Oil Jetty was upgraded and has allowed bigger tankers and faster unloading operations.

3.10 Only about 50 percent of the expected funding for technical assistance was utilized. This is mainly explained by the decision to privatize the container terminal (and other parts of the port in subsequent phases), which made the intended consulting services to improve operations and management unnecessary.

3.11 The customs processing system ASCUDA (Advance Cargo in Computerized and Documentation System) was introduced on schedule, but efficient operation of the system took time to develop. For a period soon after the system had become effective its operation had to be suspended due to inadequate staffing. However,
once this problem was resolved, ASCUDA proved to be considerably more efficient than the manual processing that prevailed before the system had been installed. In May 2005, an improved version of ASCUDA, (known as ASCUDA++), is expected to be put in operation. This advance in technology will allow complete electronic processing of foreign trade documentation, eliminating the need for paperwork.

**Efficiency**

3.12 Efficiency is rated substantial. The ICR estimated the economic rate of return (ERR) at 13 percent, and the net present value at US$20.8 million, both satisfactory but lower than the SAR estimates (ERR of 20 percent and NPV of $42.7 million), because of traffic lower than expected. The re-estimated ERR takes into account (i) the cost savings generated by the importation of refined products instead of crude oil for processing in the inefficient, and later closed oil refinery (closure made possible by the upgrading of the oil jetty) and (ii) actual surcharges imposed by the shipping lines on DSM port being substantially lower than predicted by the SAR’s simulation model. The substantial increase in traffic in recent years (see below) means that the ERR and the NPV are higher than estimated in the ICR.

3.13 The ICR estimated the financial rate of return (FRR) at 8 percent, lower than the SAR’s 14 percent and consistent with the drop in the ERR. In view of the improved traffic performance in recent years, the FRR can be expected to be higher than estimated in the ICR.

3.14 Traffic, operation, and financial performance are discussed below.

3.15 Traffic. Total dry cargo by 1997 (the last year of the SAR forecast) was considerably lower than forecast, mainly as a result of the loss of transit traffic following geopolitical developments in Eastern and Southern Africa (Table 1). By 2003/04, the DSM port had regained the lost traffic and had practically reached the SAR forecast for 1997. Container traffic was also considerably below expectations in 1997. However, by 2004, mainly as a result of the improved performance of the container terminal achieved by the concessionaire, total container movements were 70 percent higher than the SAR forecast for 1997, and two and one half times the actual 1997 movements. Growth of container movements is expected to continue to increase at a fast pace in 2005.

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<tbody>
<tr>
<td>Total Dry Cargo Traffic (million tons)</td>
<td>Actual</td>
<td>SAR target</td>
<td>Actual</td>
<td>Actual</td>
<td>Actual</td>
<td>Actual</td>
</tr>
<tr>
<td>Total containers (thousand)</td>
<td>48</td>
<td>152</td>
<td>103</td>
<td>178</td>
<td>207</td>
<td>260</td>
</tr>
</tbody>
</table>

*Source: SAR, TICTS, THA*
3.16 **Operations.** The container terminal’s operational efficiency has substantially improved since the terminal was concessioned, as reflected by the drop in dwell time\(^2\) and the increase in the number of container moves per hour per crane (Table 2). The latter indicator was in 2004 at a level comparable to many ports in industrialized countries.

### Table 2: Operational Indicators at the DSM port

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<tr>
<td>Overall Dwell Time</td>
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<tr>
<td>(number of days in port)</td>
<td>23</td>
<td>16</td>
<td>34</td>
<td>17</td>
<td>16</td>
<td>16</td>
</tr>
<tr>
<td>Container Moves per hour (per crane)</td>
<td>10-16a/</td>
<td>12.5-20</td>
<td>14</td>
<td>19</td>
<td>20</td>
<td>23</td>
</tr>
</tbody>
</table>

\(\text{a/Depending on type of crane}\)

*Source: THA, TICTS, SAR*

3.17 Other signs of improved efficiency include port cargo handling rates and staffing. In accordance with the concessioning contract, port rates for handling containers have decreased 3 percent per year. The contract stipulates that rate reductions will happen during the first five years of the lease; therefore, no further rate reductions are expected. A further indicator of efficiency improvements is the staffing at the container terminal. While there were some 600 staff before the concession, the current staffing is 420.

3.18 Despite the efficiency improvements, congestion at the terminal has developed in 2005 due to lack of railway capacity for moving containers out of the port. This has caused concerned maritime conferences (shipping lines) to threaten the imposition of shipping tariff surcharges for the DSM port.

3.19 The improved operations of the container terminal under the private operator, coupled with increasing lack of land transport capacity to move the containers in and out of the port, has induced shippers to finance purchase or repairs of railway wagons and purchase of large trucks.

3.20 Port operational efficiency is also affected by efficiency of the Customs. The introduction of the UNCTAD-developed Advance Cargo in Computerized and Documentation System (ASCUDA) represented an important step in computerizing customs management, including the handling of customs declarations, accounting procedures, and transit documentation. However, customs efficiency has been hindered by two factors: (a) changes in customs procedures and (b) the number and skill of customs clearance agents. A new destination inspection system put in place in July 2004 (replacing a pre-terminal inspection) has generally resulted in longer clearance times and, therefore, longer container dwell times. In 2005, a new scanner-based system of container inspection has been at the center of controversy, as some shippers regard the system as the source of increased clearance time. The large numbers of clearing agents are also a burden on customs clearance, especially as many of the agents lack professional knowledge and experience. By some estimates, there are today over 300 clearing agents, while an efficient operation would probably need no more than 30 to 50 licensed agents.

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2. The dwell time is the duration of the stay of the container in the port.
3.21  \textit{Financial.} The financial performance of the container terminal differs, depending on whether one looks at THA’s view or the government’s perspective. According to THA’s estimates, prior to privatization the container terminal generated about Tsh 11,400 billion net revenues for THA. These figures are impossible to validate since THA’s financial statements do not include separate figures for the individual ports, even less parts of a port, such as the container terminal. With the concession, THA’s revenue from the terminal consists of rent and royalties. This revenue has increased from Tsh 4,100 billion in 2000/01 to Tsh 6,400 billion in 2003/04. These figures would indicate that because of the privatization THA has experienced a net loss on the order of US$5 million per year. However, Tanzania International Container Services Ltd. (TICTS) figures show that over the time of the concession it has contributed more than US$22 million to THA in rental and royalties, and a further US$30 million to the government in taxes and levies. Since taxes and levies, which THA did not pay when it operated the terminal, exceed the amount paid in rental and royalties, the financial benefits for the government, including THA, would be at least on the order of the net revenues THA claimed it had from the container terminal operations. Further, the improved efficiency of the terminal has brought significant economic benefits to Tanzania and its neighbors in the form of reduced tariffs, lower dwell time, and more efficient port operations overall, and has resulted in fast-growing container traffic which will further increase revenues for THA and the government.

\textbf{Institutional Development Impact}

3.22  Institutional development is rated \textbf{substantial}. Concessioning of the container terminal has been a major achievement, and has resulted in major gains in efficiency. The introduction of the customs management system ASCUDA, has modernized the handling of manifests and customs declarations, accounting procedures, transit and suspense procedures, and it generates useful trade data.

3.23  A further institutional development impact helped by the project was the reform of the oil sector, with the closing of the inefficient oil refinery that was made possible by the upgrading of the oil jetty.

\textbf{Sustainability}

3.24  Sustainability is rated \textbf{likely}. Infrastructure and equipment financed under the project are in good condition five years after project closing, and private operators normally give priority to ensuring that proper maintenance is carried out regularly. A potential problem is that the pavement of the container terminal that appears to be damaged by a 6-high stacking of containers (instead of the original assumption of 3-high stacking) necessitated by the steep increase in container traffic and the limited container storage areas. However, given the importance for the concessionaire of having the facilities in good shape, an agreement likely will be reached between the concessionaire and the THA for a full repair and future upkeep of the terminal.

\textbf{Bank Performance}
Bank performance is rated **satisfactory**. The project was generally well prepared and the Bank responded quickly when it was necessary to make changes in direction, most notably the addition of the concessioning objective. Several other changes were made to project components, but those changes were small relative to the whole project, and were mostly the result of evolving conditions in the port.

The project was mostly well supervised. Supervision missions were frequent and addressed the key project issues promptly and decisively, although for a period of about three years (1993-1995) missions consisted of only a port engineer. The project had two especially difficult dimensions for the Bank team: (a) dealing first with two (THA and Customs) and later with a third (PSRC) implementing agency, which had substantially different responsibilities and (b) coordinating six co-financiers.

The Bank team devoted considerable time and performed well in these two dimensions. Comments by the three implementing agencies at project completion showed a clearly positive assessment of the Bank team’s role during implementation. The only area noted (by Customs) as weak was the need to improve the speed for prior review and the provision of no objections to help facilitate the procurement process.

Supervision ratings during implementation appear to have been overly soft. At no point was the implementation progress or development objective rated less than satisfactory. However, project documentation suggests that at times implementation performance was not satisfactory. For example, a supervision report in 1994, three years into implementation, notes that the operational performance of THA and DSM was poor and deteriorating rapidly, that there is ‘management crisis’ in THA and that the Customs component of the project was dormant. This statement suggests that at least the development objective rating should have been rated as unsatisfactory.

**Borrower Performance**

Borrower performance is rated **satisfactory**. The three different implementing agencies performed generally well, although there were weaknesses at times, especially in the early years, as noted in the supervision report referred to above.

The project’s coordinating unit (PCU) was inadequate in the beginning, but later performed satisfactory with the assistance of technical assistance and training. Quarterly reports were well prepared and timely. Audit reports were mostly submitted on time and covenants mostly met.

Thanks to its net revenues, THA contributed counterpart funding on time and in the amounts required, thus preventing a blockage in the procurement process.

The government’s decision to privatize the container terminal was crucial for the project to achieve a successful outcome. Up to that time, while procurement had been generally satisfactory, THA’s operational efficiency had been erratic, with periods of deteriorating performance, especially as noted in the section above.

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3.33 The decision to start port privatization with the concessioning of the container terminal was appropriate, and upon completion of the project the PSRC has continued to prepare the privatization of the remaining parts of the port.

4. Outcomes of the Railway Project

Outcome

4.1 Outcome is rated unsatisfactory based on ratings of substantial for relevance, and modest for efficacy and efficiency (discussed below). The key operational targets were not met and the railway’s financial performance showed only modest improvements. More significantly, concessioning of the railway to a private operator was not achieved within the timeframe of the project, and had not been achieved by April 2005. There were, however, some positive results, such as improvements of railway infrastructure and of operations. Rehabilitation of the track significantly improved the safety and reliability of railway operations. Repairs to locomotives and wagons, coupled with improvements in operations management resulted in better operational efficiency for most of the project period. The railway gained traffic and reached its highest level by the end of the project. Significant progress was made toward the platform on which to privatize the railway. However, the bid to secure a private operator failed and without this in place the railway remains unsustainable with the present level of funding. It appears, though, that the experience with the failed first bidding has been taken into account in the design of second round of bidding (supported under the ongoing Central Transport Corridor Project), which establishes a more conducive environment for private sector involvement.

Relevance

4.2 Relevance is rated substantial. TRC is essential to the Tanzanian’s economy as well as to Tanzania’s neighboring countries, which use TRC’s services to reach the DSM port. The road system, at the time of project preparation and even today, is not a viable alternative as it consists of a very limited network and in most places is not a cost-effective competitor to the railways. In the early 1990s, the weak performance and capacity of the railway was causing diversion of traffic to the more expensive road services, and this diversion was estimated to cost some $40 million annually to the Tanzanian economy. At the same time, Tanzania’s transport system, and especially the DSM port, for which TRC is the main feeder, remains a major foreign exchange earner. It is also important for the delivery of assistance to vulnerable populations, as noted in Section 3.

4.3 Therefore, rehabilitating the railway facilities and improving its management were relevant activities. The project’s main component, rehabilitation of some 200 kilometers of track, representing close to 40 percent of project cost, was a priority, as were practically all the other physical components and institutional components.
4.4 The project's basic premise that a parastatal entity such as the railway could have been restructured and achieve satisfactory efficiency levels within the span of a single project appears today as questionable. The appraisal postulated that introduction of a performance agreement between the government and the TRC would ensure that the efficiency objectives were met. The underlying assumption was that operational and financial targets and a good monitoring system would force TRC management to improve efficiency to meet targets, and force the government to provide TRC with sufficient operating and financial autonomy. The latter would be achieved through public service obligations (PSO) regarding the railway's non-commercial services, with the government committed to provide TRC subsidies designed to cover the gap between the tariff charged for those services and the actual cost of running the services.

**Efficacy**

4.5 Efficacy of the project is rated modest because most, but not all, of the project components were carried out as expected. In particular, the objective of concessioning TRC to a private operator was not achieved.

4.6 The civil works, representing more than 50 percent of the appraisal cost, were completed as expected, resulting in the relaying of 200 kilometers of track, rehabilitation of 1,000 kilometers of track and welding of 560 kilometers of rails, and the reconstruction of 52 bridges (22 originally included in the project and 30 additional bridges rebuilt following the El Niño flooding). In addition, 16 spots (totaling some 5 kilometers) of track damaged by El Niño flooding were repaired in record time, allowing fast restoration of service.

4.7 The civil works were completed at costs substantially below original estimates, and allowed for the expansion of the investment into rolling stock and locomotives. Some 2,400 wagons were overhauled (1,750 expected at appraisal), and 67 new tank wagons procured (none at appraisal). While only 26 locomotives were overhauled, 15 mainline and 11 shunting (fewer than the 31 locomotives foreseen at appraisal), the unit cost of repairs was substantially higher, and resulted in the investment in locomotive repairs almost 3 times as large as originally estimated. No IDA funds were allocated to wagons and locomotives.

4.8 Various types of equipment (track maintenance, workshops) were procured essentially as expected, while some downgrading was made in the expected communications systems, as it was found that there was insufficient traffic to justify renewal of communications systems in two railway sections.

4.9 The intended technical assistance (TA) services were substantially modified upon the government’s decision to concession TRC. Instead of providing advisory services to TRC management, the TA was shifted toward direct operational management. This assistance continued well after project closing, under co-financing provided by Belgium. The redirected TA proved extremely effective, and resulted in record traffic levels in 2002 and 2003, with a decline in 2004 mainly as a result of lack of funding to continue the program of locomotive and wagon repairs.
4.10 The intended concessioning of the railway did not take place within the period of the project, and had not been achieved by April 2005. Factors explaining the lack of success in the concessioning process are examined in Section 5.

Efficiency

4.11 Efficiency of the project is rated modest. The economic rate of return, while not recalculated in this PPAR, is likely to be around 10 percent. The ICR’s estimate of 14 percent, while lower than the SAR’s estimate of 18 percent, still appears to overestimate the economic return. Actual traffic was some 40 percent below SAR estimates (1.34 million tons actual versus 2.16 million tons in the SAR for 1995, the last year of the SAR forecast). The traffic shortfall alone should bring the ERR substantially lower than the SAR estimate. Further, while most assumptions for the economic analysis in the ICR appear to be correct, two assumptions appear unrealistic and likely to overestimate the ERR: (a) investments in passenger equipment are not counted on the basis that such equipment is not an economic investment, and (b) investments in infrastructure are estimated to have 50-year life plus residual value, which is overly optimistic.

4.12 Railway operating efficiency was, as shown in Table 3, consistently below expectations, even when compared with the generally lower targets established in the 1995 Midterm Review (MTR). Some efficiency indicators peaked around 1999, when one indicator, locotive availability, surpassed for only once the MTR target. In the opinion of several stakeholders interviewed for the PPAR, the better 1999 performance was due to the strong technical assistance inserted in TRC’s operating department. It is also noteworthy that freight traffic reached a record level in 2003, although that level was still substantially below the end-year forecast of the SAR (1995) and MTR (2000). However, by 2004, most indicators had deteriorated again, largely because (a) practically no investment in spare parts and repairs to locomotives and wagons had been carried out since project completion, and (b) the margin for improving or even maintaining operating efficiency on the basis of better management appeared to be exhausted. Declining staff morale due to the delays and uncertainties of the concessioning approach were also factors explaining the drop in efficiency.
Table 3: TRC’s traffic and operational performance

<table>
<thead>
<tr>
<th>Year</th>
<th>95</th>
<th>96</th>
<th>97</th>
<th>98</th>
<th>99</th>
<th>00</th>
<th>01</th>
<th>02</th>
<th>03</th>
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<tbody>
<tr>
<td>Traffic (million tons)</td>
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<td>-</td>
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<tr>
<td>M 1.36</td>
<td>1.45</td>
<td>1.54</td>
<td>1.60</td>
<td>1.66</td>
<td>1.83</td>
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<tr>
<td>A 1.34</td>
<td>1.24</td>
<td>1.07</td>
<td>0.98</td>
<td>1.18</td>
<td>1.17</td>
<td>1.35</td>
<td>1.45</td>
<td>1.44</td>
<td>1.33</td>
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<td>Loco reliability (000 kilometers)</td>
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<td>-</td>
<td>-</td>
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<tr>
<td>M 13.0</td>
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<td>20.0</td>
<td>25.0</td>
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<td>-</td>
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<tr>
<td>A 10.1</td>
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<td>Loco availability (%)</td>
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<td>M 50</td>
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<td>Wagon reliability (000 kilometers)</td>
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<td>-</td>
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<td>A 1.9</td>
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<td>Wagon turn around time (days)</td>
<td>F -</td>
<td>-</td>
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<td>M 13.0</td>
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<tr>
<td>A 16.0</td>
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<td>11.9</td>
<td>12.3</td>
<td>13.9</td>
<td>13.9</td>
<td>-</td>
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</table>

F = Performance Targets (PF) in SAR end in 1995. Other SAR forecasts extend to 2001, but they are not fully compatible with the PF forecast.
M = reduced targets at Mid-Term Review
A = actual

4.13 The comparison of actual versus target operational performance may be unfair to TRC because many targets were set unrealistically high. The extreme case is locomotive reliability, where the distance between breakdowns was expected to improve more than five times, from about 9,000 kilometers in 1990, to 50,000 kilometers in 1995. The very early supervision missions in 1992 and 1993 reported that targets had been adjusted downwards to more realistic levels.

4.14 The railway’s poor efficiency in 2004/05 is exacting a high cost to the user of railway services. For example, because the railway does not have the capacity and is unable to carry general dry cargo between Dar es Salaam and Dodoma, trucking must be used for this section. The WFP estimates trucking over this section to cost food relief operations an extra US$1.6 million per year.

4.15 The financial return for the project-financed statements was not estimated in the SAR. The ICR, using reasonable assumptions, estimates the FRR at 4 percent with information through 2002. This estimate is likely to remain valid today.

4.16 The financial performance of TRC showed some improvement over the life of the project, although the gains were less than expected. The working ratio (working costs over working revenues), improved from 0.90 in 1990 to 0.70 in the late 1990s and early 2000s. This improvement is significant. However, with the investments made under the project and expected increased cost efficiency, especially since traffic increased, further improvements in the working ratio would have been expected.
4.17 TRC’s provision of non-commercial services is certain to have affected TRC’s financial performance. The financial implications for the TRC of its non-commercial services were not quantified in the SAR, but they were deemed sufficiently important that the 1991 Memorandum of Understanding between the government and TRC, and a subsequent Performance Contract committed the government to provide TRC with appropriate compensation for such services. Under such agreements, the government undertook to make the compensation payments to TRC not later than 3 months after the submission of the claims. By 1993, the TRC had submitted its first claims for compensation on two non-commercial lines (Mpanda and Kidatu), and more claims were submitted later. Yet, it appears that no compensation was provided by government to TRC through the life of the project.

4.18 The Railtracker program, described below under institutional development, has helped improve efficiency of TRC and helped large users monitor their shipments, as the program makes available (almost) real time information on shipments and rolling stock.

Institutional Development Impact

4.19 Institutional development impact is rated substantial. While concessioning of the railway was not achieved, much progress was made in this direction. Railway concessions are highly complex, and are especially difficult to accomplish in railways with relatively low traffic densities, such as those on the TRC, and where assets still need significant rehabilitation. The concessioning issues are discussed in more detail in Section 5.

4.20 The creation of the Commercial Department as envisaged has changed attitudes and has been instrumental in the railway’s reaching high levels of freight traffic. The installation of Railtrack, an UNCTAD-developed program to track all movements and technical status of locomotives and wagons, has been key in helping improve operating efficiency, although not at the levels expected, and provide better service to TRC’s customers. TRC management uses the Railtrack report (some 30 pages providing information by station, type of equipment, shipments, etc) daily. Large TRC clients such as the World Food Program use Railtrack regularly to monitor the status of their shipments. Clients access Railtrack information through TRC’s Railtrack website, TRC Control Room, or via telephone.

4.21 There were also other institutional impacts. Complying with conditions of effectiveness, TRC stopped managing non-railway business: it leased TRC’s road and hotel services and franchised TRC catering services. In addition, preparations are advanced for TRC to hive off its Marine Services, with lake ports to be transferred to the THA and ferries to be sold. While TRC is still highly overstaffed, from the time of project appraisal through project completion TRC nearly halved its staffing levels.

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Sustainability

4.22 Sustainability is rated **non evaluable**. Because of lack of budgetary allocations since donor financing ended when the project closed, TRC has been unable to carry out required maintenance of locomotives and rolling stock in recent years, and, short of spare parts, operational performance has deteriorated. If these conditions do not change, further deterioration both of physical facilities and of performance would be likely.

4.23 However, the second round of bidding to transfer TRC to a private operator is quite advanced, and there are good prospects that a concession will be awarded soon. If and when a private operator takes over, maintenance and operational efficiency is likely to be satisfactory, based on international experience with privately-managed railways. The new operator will need to give priority to rail and equipment rehabilitation. It will also need to modernize the Railtrack computer system, which is DOS-based and needs to be converted into a Windows-based system as it is increasingly difficult to find DOS-based equipment. The conversion is inexpensive.

4.24 On balance, it is not possible at this stage to take a firmer view of the sustainability prospects.

Bank Performance

4.25 Bank performance is rated **satisfactory**. Project conception consisting of reforming the railway as a parastatal company was still the state-of-the-art when the project was appraised in 1991. The intended reform was broad in scope, and covered most management aspects. The design and components proved mostly correct, and few changes to the key components were required during implementation. The Bank was also flexible in using project funds to help the emergency repairs to the track damages caused by El Niño floods. The Bank team was effective in coordinating from appraisal through project completion the cofinanciers involved with the project.

4.26 The Bank effectively reacted to the government changed policies on parastatals and privatization, and took the necessary steps to change direction and support launching the process. The Bank organized a useful field trip for key government and railway officials, which included visits to railway concessions in Africa and Latin America.

4.27 On the negative side, the Bank appears to have been overly optimistic when setting performance targets (traffic, availability, and performance of rolling stock) and in adopting as a project target the government’s goal to award a concession for the railway before project closing. Bank also bears responsibility in the selection of inadequate transaction advisers (Section 5), as it approved the short list of consultants to be invited to submit proposals.

Borrower Performance

4.28 Borrower performance is rated **satisfactory**. The implementing agency, TRC, performed at a high level in implementing the project. It managed to achieve
substantial cost savings in the track component, which allowed it to cover the cost of the works required to put the railway back in operation in the sections damaged by El Niño flooding. The TRC created a new Commercial Department and substantially improved its commercial orientation. Although below targets, TRC also substantially raised operational efficiency. Traffic reached record levels.

4.29 The borrower complied with its commitment to have TRC hive off its various non-core businesses, as well as to significantly shrink (40 percent) TRC’s personnel. The borrower’s main deficiency was not complying with its financial obligations under the Memorandum of Understanding and Performance Contract, especially its contribution to compensate the TRC for the provision of non-commercial services. Such a commitment is made in many railways in developing countries, but government’s rarely comply with it. Had the government complied with this obligation, TRC would have been able to better maintain its equipment, and its financial situation would have improved, but TRC would not have become a profitable enterprise. Therefore, the government’s realization that a parastatal framework was basically inadequate to attain satisfactory performance and the decision to privatize operations was critically important. Further, the government did move to transfer the TRC to a private operator. While the expected concession award was not achieved within the period of the project as the government had wished, much progress was made. The government’s decision and actions regarding privatization deserve credit.

5. The Port and the Railways Concessions – Contrasting Experiences

General

5.1 Following the discussion of the results of each project, this section discusses and compares the concession experience in both the port and the railways before lessons are drawn. The container terminal of the DSM port (the ‘Terminal’) was leased to a private operator in 2000, but the attempt in 2001 to find a private operator for the railways failed, and a new round of bidding is underway.

The Government’s Move Towards Privatization

5.2 The government decided to privatize the SOEs, including infrastructure parastatals such as the ports and the railways, as part of its parastatal sector reform program. The task was entrusted to the PSRC. The PSRC is similar to entities created in other countries to take a consistent approach to privatization and to consolidate in one agency the expertise required to design and carry out the privatization process.

5.3 The Bank supported strengthening of the PSRC through Credit 2507, approved in FY93 and closed in FY02. The Bank also provided PSRC funding from the Port Modernization and the Railway Restructuring projects to finance the privatization process for the two enterprises.
Regulation of Transport Services

5.4 As port and rail services are privatized, monitoring of the concession contracts and regulation of services will become essential. For the port, the Tanzania Harbours Authority (THA) will monitor compliance by the private operator with the lease contract. For the railway, a new entity will be created labeled the Asset Holding Corporation (AHC) which will be responsible for railway assets and will monitor compliance with the concession contract once a concessionaire is in place. In particular, the AHC will be the interlocutor to the rail concessionaire regarding rates and services for passenger services where the railway is the sole provider of transport services.

5.5 Regulatory functions for both the port and the railways are the responsibility of the Surface and Marine Transport Regulatory Authority (SUMATRA). SUMATRA’s areas of responsibility are safety, technical standards and eventually economic if disputes are not resolved in other ways.

Transaction Advisers

5.6 Consultants to act as Transaction Advisers were recruited by the PSRC to design approaches to the privatization of the port and the railway, prepare the bid documents and assist with bid evaluation and negotiations. In all cases, the consultants were selected through a competitive process and after the Bank approved the list of consulting companies to be invited to submit proposals.

5.7 The PPAR mission found a general consensus among government officials, management of the THA and TRC and major users of ports and rail services that the Transaction Advisers did not live up to the expected standards of quality. Many questions were raised about the approaches proposed for the privatization process, delays in submitting reports, and advice during negotiations. Overall, it appears that the consultants advising on the privatization of the THA performed substantially better than the consultants advising on the privatization of TRC.

5.8 Regarding negotiations between the selected private operator and the government, some of those interviewed believed that negotiations generally are bound to be unbalanced, with the government transaction advisers rarely having the experience and knowledge of the business in the depth of the private operator sitting across the negotiating table. Finding better qualified transaction advisers may be a critical issue in the preparation of future concessions.

Concession of Dar es Salaam Port

5.9 The Dar es Salaam (DSM) container terminal was built in 1984 by conversion of general cargo berths. The conversion was done under a two-phased operation funded by Bank projects (Port Rehabilitation Project, Credit 1536, and the Port Modernization Project reviewed in this PPAR). The terminal’s wharf can accommodate two ships of about 40,000 GRT each.
5.10 Privatization of the container terminal was part of the overall privatization process of the THA. The government’s policy on privatization of the ports is for the government to maintain 100 percent ownership of THA’s assets while the commercial activities are privatized in the form of concessions, leases or joint-ventures.

5.11 The privatization process was launched by a THA Commercialization Study and a subsequent Privatization Review Study, both funded under the Port Modernization project. The latter study recommended awarding the concession of the Terminal to a single operator. The process of privatization took 22 months from start of preparation of the bidding document by consultants until award of tender in April 2000 to the selected winner.

**Investment Requirements**

5.12 The two-phased container development cost US$126 million, and was completed in the late 1990s. No major investments were required for the Terminal at the time of the bidding.

**Labor Issues**

5.13 The Terminal’s staff of 600 prior to the concession was reduced to 420 by the private operator. Practically all the private operator’s personnel was picked from THA’s staff, with the exception of a few financial systems experts where THA lacked qualified personnel and the operator had to bring them from outside THA. Compensation for retrenched staff was paid for from THA resources.

5.14 Under the private operator TICTS, staff in addition to the salary get an annual bonus and distribution of 5 percent of TICTS’ annual dividend.

**The Bidding Process**

5.15 The bid documents stated that the consortium offering the highest annual fee payment to THA would win the bid. In addition to the fee, the bid documents required the private operator to pay THA a royalty per container moved, and to establish a Performance bond in favor of THA.

**Bidders**

5.16 The bidding process from letter of intention to award of bids can be summarized as follows:

- 7 firms submitted a letter of intention
- 5 firms were short listed
- 4 firms submitted bids
- 2 of the 4 bids were valid bids
The winning bidder was ICTS-Manila, a Philippines firm. After about one year of operations, Hutcheson HK, a very large worldwide port operator, bought ICTS operations worldwide, including the DSM container terminal. Hutcheson was one of the 7 firms that had originally submitted a letter of intention, but did not submit a bid.

The operator is a consortium that includes a local partner (not experienced in ports, but with financial experience).

**Term**

The concession’s term is 10 years. This term for container terminal concessions is common in Africa, but shorter than in other regions. In the case of DSM port, the relatively short term was decided on the basis that lack of credible operating and especially financial data on the container would play against getting a good deal for THA and the government. After 10 years of a private operation, another round of bidding should yield higher revenues for the government and could be for a longer term. A longer term entices the operator to make more investments leading to higher productivity and better service to clients.

**Key Leasing Contract Provisions**

The key contract provisions are the following:

- Fixed rental: US$3.68 million per year;
- royalty: US$ 13/TEU (20 foot equivalent container); and,
- a performance bond of US$ 5.0 million in favor of the THA.

**Results**

The main results of the private operation of the Terminal are:

- Throughput increased from 126,000 TEUs in 2000 to 260,000 TEUs in 2004, a 106 percent increase;
- Transshipment of containers to other destinations increased from 5,000 TEUs in 2000 to 56,000 in 2004, a 1020 percent increase;
- Gross crane rate, the number of containers moved per hour per crane, improved from 8 in 2000 to 23 in 2004;
- Container dwell time (stay of a container at the port) dropped from 45 days to 12 days;
- There were also gains in improved customer relations, improved availability of equipment and expanded training for operational, engineering and finance staff.

**Future Concessions of the DSM Port**

The following future concession packages, to be awarded separately are being prepared for bidding:

- General cargo package, including General cargo berths (8), grain terminal and workshops
II. Oil jetty
III. Single Buoy Mooring

5.23 Discussions with people knowledgeable of the port business in Tanzania suggest that international corporations are unlikely to be interested in the general cargo concession, but that it may attract local entrepreneurs. However, the prevailing opinion is that awarding a concession for the general cargo berth is likely to take a long time.

5.24 In 2010, the current lease contract for the operation of the Terminal expires, and a new lease or longer-term concession would need to be signed.

Concession of the Tanzania Railways Corporation (TRC)

5.25 Tanzania has two railway systems, the TRC, that serves the central and northern parts of the country as well as transit traffic from Burundi, Rwanda, DRC and Uganda and TAZARA, that serves principally Zambian traffic and some local traffic in Southern Tanzania.

5.26 The TRC network is approximately 2,600 kilometers of single-track meter gauge. The network’s two main lines are: (i) the Central line (Dar es Salaam to Tabora, 850 km, one line from there to Kigoma, 453 km, and another line to Mwanza, 386 km), and (ii) the Tanga line, that runs from Tanga to Moshi and Arusha, with a length of 430 km. In addition, there are 3 branch lines totaling some 430 km. The Central and the Tanga lines were built at the beginning of the century, while the branch lines were built in the 1980s and 1990s.

5.27 The TRC started moving toward privatization of its non-core assets in the early 1990s, under the Railway Restructuring project, when it leased its hotels, contracted out catering services, hived off marine services and corporatized the Marine Services Company.

5.28 Privatization of the TRC rail network was also launched under the Railway Restructuring project, in line with government’s decision to privatize its state-owned enterprises. The project funded international advisers to analyze possible strategies for carrying out the privatization of TRC. In May 2001, the government decided to restructure TRC to allow for award of a vertically integrated concession comprising TRC’s whole rail network to a private rail operator. The government decided to create an Asset Holding Company (AHC) to retain ownership of the railway infrastructure assets, while the rolling stock would be sold or leased to a private operator.

5.29 Since the track is to remain the responsibility of the government through the Asset Holding Co, the concession would not require the operator to return assets at the end of the concession in a pre-determined physical condition, a condition that is common in the concessions of road projects.

5.30 Some stakeholders in Tanzania opined that privatization of TRC should proceed more slowly, starting with a management contract that would have improved condition of facilities, improve management and prepare for an eventual concession.
Investment Requirements

5.31 While the Railway Restructuring project financed substantial improvements to the rail track, substantial additional investments are required to complete rehabilitation of the TRC track to a satisfactory condition. The main need is to fully replace the rail track between Itigi and Tabora, about 200 km. The cost is estimated at US$33 million. Funding for this work is available from the ongoing Bank project Central Transport Corridor Project (Credit 3888). The project considers several approaches to carry out the required improvements. Under some of the approaches, the government would fund the improvements using funds from the credit; under other approaches, it is assumed that the concessionaire would be prepared to finance the cost of the civil works.

5.32 In addition to the track investments, rolling stock and locomotives need rehabilitation and repair, in part because practically no government budgetary allocations have been provided to TRC since the decision was made to privatize TRC in 1997.

Labor Issues

5.33 TRC historically has been significantly overstaffed. While TRC personnel was significantly reduced between 1990 and 2004 (from about 14,000 to some 8,500), a private operator would be expected to further shrink staffing.

5.34 Most of the staff to be retrenched are track maintenance personnel. TRC uses 0.8 staff per kilometer of line for track maintenance, which is considered not excessive for African railways. The concessionaire would have the option to outsource such work, or further mechanize track maintenance. Mechanization, however, is expensive (investments of some US$7.5 million would be required) and the experience with the existing track maintenance equipment is poor, as the five existing tamping machines are currently out of service.

5.35 Addressing the staff retrenchment issue has been one of the main problems in the launching of the bidding process for the TRC concession. Legislation passed during preparation of the concession improved the compensation for retrenched staff and allowed to continue with the preparation of the bidding. The law dictates a higher relative compensation for the staff at the lower salary levels.

5.36 Staff retrenchment has been a major issue in most railway concessions elsewhere. In several cases, governments have requested financial assistance to help finance the retrenchment. Some Bank projects have been solely devoted to providing such financing. The Tanzania government has been reluctant to follow this approach, and no external funding has been provided to help fund retrenchment programs for enterprises to be privatized.

The First Bidding Process

5.37 The first bidding was launched in December 2001, with the Request for Pre-qualification proposals. The bid document stipulated that the winning consortium would be the one willing to pay the highest fixed annual fee to the government. Seven firms
submitted proposals, of which four were prequalified. In the end, only one bidder attended the bidders conference (in October 2002) and intended to submit a non-compliant bid. The government rejected the bid.

**Why Did the Bidding Fail?**

5.38 Several factors may explain the failure of the first bidding attempt:

- **Bid conditions:**
  - Requirements for a high value performance bond; an international rail operator to be part of the concessionaire’s consortium; and, the concessionaire to purchase the rolling stock
  - Availability at the same time of other rail concessions in Africa offering softer terms
- **Government’s unwillingness to negotiate with a single qualified bidder for fear it would hurt the credibility of the whole privatization process**

5.39 Government officials as well as private stakeholders interviewed by the PPAR mission believed that the first factor above was the key reason why the bid failed. This was largely the responsibility of the transaction adviser, who appeared to lack the required experience. As a result, the bid document was not suitable for achieving a successful bidding process.

**The Second Bidding Process**

5.40 The second bidding process was launched in July 2003, with request for pre-qualification proposals. A new Transaction Adviser was hired to amend the bid documents used in the first bidding.

5.41 As in the first bidding, the decision criteria in this second round will be the amount of fixed annual fee the consortium offers to pay the government. In addition to this fee, there will be a variable fee that will depend on the level of traffic.

5.42 The second round of bidding has softened the requirements, by lowering the amount of the performance bond, not limiting pre-qualification to a freight rail operator providing at least 26 percent equity, international rail operators, and providing the option for the private operator to purchase or lease TRC’s rolling stock. Further, the new round offers the concessionaire the option of getting World Bank Partial Risk Guarantee which it can use with its financiers and would protect the operator should the Asset Holding Company not fully meet its obligations.

**Term, Bidders and Service Issues**

5.43 The term of the TRC concession will be 25 years. This is a typical term for a railway concession. For the second round of bidding, two bids from pre-qualified bidders were received on April 13, 2005, and are currently being evaluated. Two branch lines which provide non commercial services will need to be included in the franchise under a
Public Service Obligation (PSO) Agreement. This is a potential problem given the government's lack of compliance with PSO commitments with TRC under the project.

**Summary Comparison Between Port and Railway Concession**

5.44 The ease with which the concession of the DSM container terminal was completed and the failure of the first bid for the TRC concession raise the question: why such a big difference in the outcomes between the two privatization processes?

5.45 This section aims to answer this question, providing a brief comparison of the two concessions and highlighting the factors that favored one and hindered the other. Four factors appear to be the key to explaining the differences: (a) the profit potential and risks; (b) the level of investments required, (c) the size of the labor issue, (d) location of assets

**Profit Potential and Risks**

5.46 Port container terminals are normally money-makers, and the DSM terminal was no exception. Further, with worldwide expansion of the containerization rate, a well managed container terminal will have little risk that demand may fall or be stagnant.

5.47 In contrast, most African railways lose money and it is difficult to turn them into profitable enterprises. Further, because the road networks are still developing, the railway traditionally provides many services, especially for passengers, where no alternative transport service exists. Such services generally have been offered at unprofitable rates. In concessioning the railways, governments require that the private operator maintains such services and the existing rates, against a government commitment to provide the railway compensation in the form of public service obligations. However, experience shows, as happened during implementation of the Railway Restructuring project, that provision of such compensation is rarely complied with. Thus, a private operator would face significant financial risks when providing non-commercial services. In such cases, assistance from international lending agencies can help mitigate this risk.

**Investments**

5.48 The lower the investment the private operator will be required to make upfront, the more attractive the concession will be, and the more bidders will apply. This was the case of the port, where no major investment was needed since the container terminal was practically new at the time of the concession. Further, the container terminal infrastructure was limited: just two berths and an area for stacking the containers. Cranes and related equipment were available, although the private operator decided to purchase more modern and efficient cranes to increase capacity. Cranes are mobile equipment that the operator can at any time take out.

5.49 By contrast, railway assets are large, both infrastructure and equipment. TRC's facilities are in need of major track repairs, costing tens of million dollars. In
addition, the private operator, at least in the first bidding was required to purchase any
TRC rolling stock that it intended to use. If the operator intended to increase traffic, it
would be required to purchase substantial additional equipment and spare parts. Such
investments requirements are clearly a deterrent. Governments should endeavor to secure
financing to fund at least a part of the required initial investments. Except for urgent
repairs, concessionaires should make the investment decisions to ensure that they are cost
effective.

Labor

5.50 As parastatal companies, ports and the railways generally are overstaffed,
and this was the case with the DSM port and TRC. However, there were significant
differences in the magnitude of overstaffing between the railway and the port container
terminal.

5.51 While TRC has some 8,500 staff, which would be expected to be reduced to
about 4,000 when a private operator takes over, the DSM Terminal employed some 600
prior to the concession, and now has slightly over 400. Thus, the labor issue is
significantly smaller in the case of the port, therefore involving significantly lower
funding to provide adequate compensation to staff retrenched. The advantage of the
Container Terminal is even greater when considering that the Terminal is a profit-making
entity with enough revenues to fund compensation of laid-off staff. In contrast, TRC
requires government subsidies and provision of additional allocations to provide
retrenchment compensation.

5.52 In addition to the financial aspect relating to compensation for staff
retrenchment, the related social and political issues are significant and may translate into
major problems for a private operator.

Location of Assets and Ease of Management

5.53 The DSM container terminal is located in Tanzania’s capital, and is
concentrated in one specific location. This makes it easy for the management to supervise
operations and attend promptly to any issues.

5.54 The opposite is true for TRC. Railway facilities are scattered over some
2,600 kilometers, and significant resources need to be allocated for the maintenance of
the infrastructure and equipment. Monitoring the condition of the track and equipment,
and the location of equipment at any time normally requires significant human and
technical resources, including sophisticated systems such as Railtrack.
6. Overall Lessons

Limits to the Improvement of Parastatal Companies

6.1 The port and the railway projects illustrate the difficulties of improving parastatal performance and the limits of what can be achieved. In the port, the difference in operational efficiency, staff productivity and the quality of services between the privatized container terminal and the performance as a public agency is striking, and has led to a dramatic increase in the level of container movements. In the railways, despite much financial and technical support from the project, and some improvement in performance, efficiency overall is far from the targets anticipated at the start of the project, and efficiency varied from one year to the next. Since rail traffic demand is essentially constrained by TRC’s service, there is little doubt that a private operator would improve capacity and ensure that the railway would carry as much traffic as it is available.

Complexity of Railway Concessions

6.2 Concessioning railways in Africa and other developing regions to private operators is hard to achieve because such railways generally lose money, are hugely overstuffed, require major investment in fixed assets and equipment to attain a satisfactory operating condition, and are saddled with provision of non-commercial services that governments generally fail to compensate. Resolving these issues, which is a precondition to launching a privatization process, often require long and protracted decisions involving both the executive and legislative branches of government. Further, finding the right balance in the design of a concession bid between government interests and incentives to private operators to venture into a difficult business is problematic.

Stretching Objectives and Targets

6.3 Setting unrealistically high project objectives and target is not useful. While some ‘stretch’ in targets can encourage better performance, too big a stretch leads to failed outcomes. That is the lesson from the railway project, where targets were set too high from the beginning of the project, and the same approach continued when a new objective was added. Original traffic, operational efficiency and financial targets were clearly too high, to the extent that one of the early supervision missions decided to lower some of the targets. When the privatization objective was incorporated, the expectation that concessioning of the railway would be achieved before project closing was risky due to the complexity of railway concessioning. Thus, launching the bidding rather than awarding a concession contract would have been a more realistic target. Setting too high targets was bound to lead to failed outcome, as it happened. In contrast, the objective to concession the container terminal of the Dar es Salaam port was feasible: it was a simpler concession, the labor issue could be easily resolved, and the port container business is known to attract private operators because it is generally profitable. A conclusion is that there was no reason to set the same concession expectation in the port and in the railways projects.
6.4 The primary lessons learnt from these projects are that:

➢ The freedom to operate according to market principles potentially makes the operational efficiency of privately run concessions superior to that of parastatal organizations for ports and railways;

➢ The concentration of investment with high volumes of traffic, lower operational costs and relative autonomy from government, generally makes port concessions a lower risk for investors than railways.

➢ When railways are likely to incur losses and/or are inadequately compensated for uneconomic services, investors will be hard to attract;

➢ The design of projects preparing parastatal companies for privatization should take into account the capacity and commitment of government and management to carry through the reform process. Targets and timetables should be realistic. Special care should be placed in the selection of qualified consultants preparing bidding documentation.
Annex A. Basic Data Sheet

RAILWAYS RESTRUCTURING PROJECT (CREDIT 2267)

**Key Project Data** *(amounts in US$ million)*

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11/11/2002  2  Task Team Leader (1):  
Sr. Highway Engineer (1)

ICR
Annex A. Basic Data Sheet

PORTS MODERNIZATION PROJECT (CREDIT 2095)

Key Project Data *(amounts in US$ million)*

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Project Dates

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<td>Approval</td>
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Staff Inputs

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### Mission Data

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<th>No. of persons</th>
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<th>Rating trend</th>
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<td>Feb. 5-Feb. 24, 1989*</td>
<td>3</td>
<td>Transport Economist, Financial Analyst, Port Engineer</td>
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<td>April 26-May 9, 1989*</td>
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<tr>
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* Due to the overlap between the "Port Rehabilitation Project" (Cr. 1536-TA) and the "Port Modernization Project" (Cr. 2095-TA), these missions have addressed both above projects.
TANZANIA
DAR ES SALAAM PORT AND LAND TRANSPORTATION CONNECTIONS

- SELECTED CITIES AND TOWNS
- PROVINCE CAPITALS
- NATIONAL CAPITAL
- RIVERS
- MARITIME PORT

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