

Tanga Bond

a first in local government finance for development: what worked and why

The “Tanga Bond” is a 10-year revenue bond issue by the Tanga Urban Water and Sanitation Authority. Tanga was the first local government infrastructure green bond in East Africa. Tanga was structured to provide investor confidence whilst delivering accessible water services – increasing water distribution capacity from 45,000 m³ to 60,000 m³ increasing access to drinking water to 6000 households.



1. Executive Summary

The “Tanga Bond” is a 10-year revenue bond issue by the Tanga Urban Water and Sanitation Authority, a publicly owned and managed local utility company, of \$23m (TZ 53.12 bn shillings) on the Dar es Salaam stock exchange. Launched in February 2024 with the purpose of financing improvements to the water infrastructure of Tanga city, in Tanzania. Water distribution capacity will increase from 45,000 cubic metres per day to 60,000 cubic meters and an additional 24,000 people (6000 households) will gain access to drinking water. This is widely feted as an example of mobilizing private capital for development finance in the absence of sufficient public funds. But is this correct? What made it so special?

Tanga was the first local government infrastructure green bond in East Africa – and possibly in Sub Saharan Africa outside of South Africa depending on the categorization used. Tanga was structured to provide investor confidence whilst delivering accessible water services – given the difficulties, and novelty, of infrastructure finance with local currency bonds this required multiple rounds of trial and error before going to market. Tanga was built on the foundation of a decade of trust between actors combined with public sector capacity and the inspirational political will at the right moment. Lesson: Replication requires a detailed understanding of the bond structure plus an appreciation of the political economy that enabled Tanga to happen.

2. Context and Challenge

Tanga (pop 400,000 – 2022 Census) like many Commonwealth cities, is rapidly growing and facing the challenge providing drinking water to citizens, businesses and public services. With a population growth rate from 2012 to 2022 of 3.7% the city faces the common challenge of aging infrastructure built for much smaller urban population at a time when the cost of capital and labour was less expensive. Tanzania does not have the capacity to borrow at a sovereign level to upgrade facilities in all the towns and cities like Tanga, nor does it have the fiscal space to provide sufficient public capital grants. The ‘financing for development’ debate often includes exhortations to “bring the private sector in”, yet for public infrastructure this is difficult and paradoxically requires strong, capable and diverse public sector institutions.

3. Approach and Experience

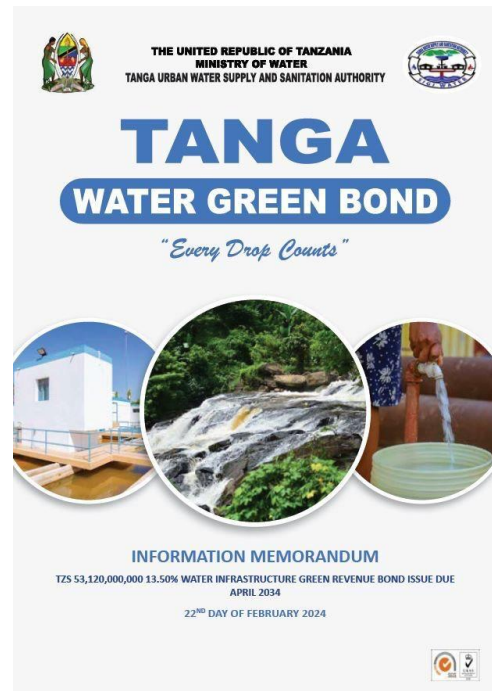
The conceptual foundation for the Tanga bond experience was an appreciation of the different dimensions of leveraging private capital for development. Blended finance and PPPs at the local government level can sometimes end in public subsidy for the financing of private companies resulting in questionable value for public money and a drain on public resources in terms of contract management and potential litigation. Tanga, on the contrary, was the private financing through capital markets of public infrastructure and public institutions with the promise of increased (public) fiscal space and public sector capacity – a better deal for the citizen.

This premise guided the design and implementation of the Tanga Bond programme. It was predicated on a desire to mobilize private capital markets for public benefit at a cost of capital that works for local governments. Three sequenced guided interventions during a ten-year period of engagement were deployed:

Firstly, a policy, regulatory and institutional reform process with the express purpose of creating conditions for Tanga – like transactions. This included regulatory reform, the creation of a special unit in the prime minister’s office, communication to local governments encouraging the exploration of innovative models and most importantly political will including the commitment of public resources in the 2025 state budget and the personal commitment of the Head of State and Minister of Finance.

Secondly, a detailed and flexible financial structuring process which required trial and error and multiple iterations to produce a sound and resilient financial model that simultaneously provided comfort to the market and investors on the one hand and a cost of capital low enough that debt service is manageable whilst providing water to citizens, institution and businesses at an affordable cost on the other hand. This part of the Tanga story should not be underestimated. Water fees are graded with the consumer paying the least per litre and businesses being charged at a higher rate, digital technology is used for fee collection. Key decision points in the process included advancing without a guarantee when the terms offered were not competitive; attractively pricing the bond at a meaningful premium to the base rate; and securing a green bond rating from a leading rating agency adding to the attractiveness of the bond package.

An aggressive, government backed, targeted marketing campaign to mobilise investors for the novel listing of the first local currency infrastructure bond in Tanzania and one of the first in Sub Saharan Africa overcame initial investor reticence and resulted in an oversubscribed issue.



4. Insights and Lessons

There are three main insights and lessons from the Tanga Bond experience

- Be guided by principle and a coherent theory of change. The objective of opening-up a local currency bond market for local infrastructure finance in Tanzania was the mission. The theory of change concerned structural change to the finance architecture to meet the development challenge. It was important to remain consistent to this objective and resist the temptation to seek other routes, such as sovereign loans, which may finance the project but not serve the mission of systemic change.
- Be flexible in how to meet apply this theory of change. However, great flexibility and persistence was required to achieve this mission, many options were not viable and continual experimentation of financing models and institutional structures was required. This work needed a specific skillset of talented municipal finance experts, investment officers and local government officials.
- This combination of consistent mission and flexible interpretation would not have been possible without a purposeful coalition. A group of local and central government officials, politicians (including the Head of State) and development partners were united in a coalition to achieve this goal that extended beyond formal institutional relationships and project funding. This was essential to connect, for example, the regulatory reform early in the process with the later bond structuring.

7. Takeaways

Key transferable lessons:

- Mobilizing private finance for local government infrastructure requires investment in public sector capacity
- Mobilizing private finance for local government infrastructure through capital markets is different from deploying public finance to absorb private risk
- In this regard, Tanga is not an example of blended finance, it is an example of system capital market reform combined with local government capacity
- This is the kind of reform process required to build the local infrastructure for structural transformation and environmental resilience of Commonwealth cities.

This Case Study was prepared by David Jackson, by way of contribution to the work of the CSCC Urban Finance Action Group, March 2026.



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