



## CONGRESSIONAL NOTIFICATION TRANSMITTAL SHEET

We wish to inform you that the Millennium Challenge Corporation intends to obligate up to \$9,780,000 to facilitate the development and implementation of a Millennium Challenge Compact with the Government of Tanzania.

The attached notification is being sent to the Congress on October 28, 2014. Obligation of funds may be incurred on or after 15 days from the date of this notification.

In addition, we have attached supplemental information that further describes the planned use of the funds.

Sincerely,

/s/

Paul Weinberger  
Vice President  
Congressional and Public Affairs

Enclosure:  
As stated

**MILLENNIUM CHALLENGE CORPORATION  
CONGRESSIONAL NOTIFICATION**

October 28, 2014

PROGRAM:	Eligible Countries
APPROPRIATIONS CATEGORY:	Fiscal Year 2014 Program Funds
OBLIGATION AMOUNT:	\$9,780,000

Pursuant to section 7015(c) of the Department of State, Foreign Operations, and Related Programs Appropriations Act, 2014, this is to advise that the Millennium Challenge Corporation (“MCC”) intends to obligate up to \$9,780,000 under Section 609(g) of the Millennium Challenge Act of 2003, as amended, for the purpose of facilitating the development and implementation of a Millennium Challenge Compact (“Compact”) with the Government of the United Republic of Tanzania.

MCC plans to finance activities necessary to assess the expected impact of the proposed investments, advance preliminary designs and develop implementation frameworks. Funding such activities to prepare projects in a comprehensive manner prior to compact signing helps to reduce implementation risk and increase confidence in the economic justification and technical feasibility of proposed projects.

## **SUPPLEMENTAL INFORMATION**

### **MCC 609(g) Activities for Tanzania**

#### **Background**

Tanzania is the sixth largest country by population in Sub-Saharan Africa and the third largest in MCC's portfolio, with a population of more than 45 million people. Throughout the country, settlement remains largely rural, with more than three-quarters of the population living in small villages where agriculture and livestock provide the main sources of livelihood. Nearly seven in ten of Tanzania's people fall below the internationally recognized income poverty line of \$1.25 per day, and nearly nine in ten live on less than \$2.00 per day. This gives Tanzania the largest poor population of any non-conflict state in Sub-Saharan Africa.

#### **Compact Eligibility and Constraints Analysis**

Tanzania was selected as eligible to develop a Compact with MCC in December 2012. It had already completed an economic growth diagnostic, or "constraints analysis," during the previous year. This analysis identified (i) the limited availability of reliable, affordable electrical power and (ii) the limited reliability of rural roads that provide access between productive agricultural regions and markets as two of the binding constraints to economic growth in the country.

After establishing a compact development team and undertaking additional studies, the Government of Tanzania ("GOT") developed and submitted a series of project proposals to address the binding constraints posed by the condition of its networks for electric power and market access roads. The GOT submitted initial concept notes in September 2013 and substantially improved concept notes in February 2014.

Over the same period, the GOT undertook a process of substantial internal reform, known as Big Results Now! ("BRN") and actively participated in the United States Government's Power Africa initiative. In keeping with the goals of both BRN and Power Africa, the GOT set ambitious goals for expanding access to electricity in the poorly served rural regions of the country and published a comprehensive Electricity Supply Industry Reform Strategy and Roadmap ("Reform Roadmap"). This reform strategy outlines a series of policy reforms and institutional improvements designed to strengthen the technical, operational and financial performance of the public power utilities and set the stage for the sustainable expansion of Tanzania's electric power distribution network.

Based on a careful assessment of the GOT's concept proposals and the results of its preliminary due diligence, MCC has agreed to assist the GOT to further develop a proposed program focused predominantly on improving the viability of the electric power sector but also on improving market access via rural roads. The proposed program will include cross-cutting improvements in the governance and institutional capacity in both sectors, with a geographic emphasis on the highly productive Southern Agricultural Growth Corridor of Tanzania ("SAGCOT"), and will include the following proposed measures:

- **Power sector reforms**, including improvements in governance, the role of the independent regulator and electric power tariffs;
- **A utility turnaround**, including substantial upgrade to the technical, financial and operational performance of the public power utilities on the Mainland and Zanzibar to advance the objectives of the GOT's new Reform Roadmap and prepare the utilities for partial unbundling and/or private sector participation;
- **Improvements in access to power**, including reinforcement and expansion of electric power distribution network in underserved regions of the country;
- **Improvements to market access roads**, including improvements in the Road Fund to expand funding and planning for long-term road maintenance, institutional support for the Tanzania Roads Agency, and construction and upgrade of at least one key secondary market access road within the SAGCOT corridor.

### **Planned 609(g) Activities**

MCC intends to fund feasibility studies and other preparatory activities that are designed to assist the GOT in developing the proposed compact program and to assist MCC in assessing the expected impact of the proposed investments. These include:

- **Power sector reform study** to optimize roles and responsibilities of key power sector entities, strengthen the role of the regulatory authorities, operationalize critical aspects of the Reform Roadmap, and improve plans for the use of natural gas and renewable energy resources;
- **Utility turnaround study** to identify and assess approaches to repair the technical, operational and financial shortcomings of the public power utilities, the Tanzania Electricity Supply Corporation, Ltd. ("Tanesco") and the Zanzibar Electricity Company ("Zeco") and develop detailed turnaround plans for each;
- **Access to electricity studies** to include detailed feasibility assessments, environmental and social assessments, resettlement scoping and preliminary designs for proposed investments in the expansion of the electric power distribution network, as well as approaches to increase household and business connections and increase the productive use of electricity;
- **Market access road study** to include detailed feasibility assessments, environmental and social impact assessments, and resettlement scoping on up to 300 km of secondary roads designed to connect productive agricultural areas within the SAGCOT corridor to the internal markets of Iringa, Morogoro and Dar es Salaam; and
- **Start up of the proposed accountable entity ("MCA-Tanzania")** to include the early procurement of an outside recruitment agent and the initial funding of key staff positions to ensure rapid progress toward a full implementation posture, in keeping with best practices from other compact programs.

MCC will procure and manage the required contracts on behalf of the GOT, while working closely with GOT to review the results. In order to meet current timeline goals, MCC must initiate

procurements shortly and have feasibility and other studies contracted before the end of this calendar year, with final reports delivered no later than mid-2015.

### **Update and Sustainability of 2008 Compact**

MCC signed a five-year compact with Tanzania on February 17, 2008, with a total budget of \$698.1 million. This compact entered into force on September 17, 2008, and closed on September 17, 2013. The compact program sought to increase economic growth and reduce poverty by improving opportunities for value addition, facilitating trade and increasing the supply of critical economic inputs in agriculture and tourism. The compact supported three categories of strategic investments that were designed to improve the Tanzanian economy:

1. The Energy Sector Project to increase the availability of reliable electrical power in key regional market centers;
2. The Transport Project to move goods to market centers and facilitate cross-border trade; and
3. The Water Sector Project to reduce the prevalence of water-borne diseases and ensure an adequate long-term supply of potable water.

As several of the construction activities were not completed at the end of the compact term, the GOT agreed to accept responsibility for and successfully complete a number of those activities, utilizing the standards, procedures and staff of the MCA-Tanzania that was established for implementation of the first compact program. To this end, and even though this compact did not require a government contribution, the GOT contributed substantial financial and human resources to ensure the success of the compact program. Before the end of the compact term, the GOT deposited \$132 million of its own public resources into a development account to maintain the operations of MCA-Tanzania and ensure completion of all incomplete investments, with no reduction in scope or quality from the compact and its earlier work with MCC. These investments included the completion of several regional electric power distribution networks, final construction on two water treatment facilities, completion of main roads on Pemba Island, and ongoing construction on a critical section of the Tunduma-Sumbawanga road in the southern highlands of the country. To ensure completion of these investments, the GOT agreed to pre-fund and ring-fence the development account that sustains the operations of MCA-Tanzania and supports the ongoing work. A critical section of the Songea-Namtumbo trunk roads was completed and formally inaugurated by Tanzanian President Jakaya Kikwete in July 2014.

As projects have been completed, the GOT has worked to ensure their sustainability. The GOT has committed to (i) making adequate funding available to properly maintain the Tanzanian road network, including the upgrade of major trunk road segments originally funded by MCC, (ii) sufficiently funding the water authorities for Morogoro and Dar es Salaam to properly operate and maintain water treatment and supply facilities for these two urban areas, and (iii) utilizing the advanced network planning system developed and installed at the national electric power utility for future expansion projects. In addition, on Zanzibar, the GOT continues to take steps toward the legal creation and initial staffing of a new regulatory authority, ZURA, as agreed with MCC.

To ensure continued monitoring and evaluation of the projects funded through the 2008 Compact, the GOT has continued to provide regular updates to MCC on the progress of outstanding construction activities and the impact of completed work, and has committed to funding a limited staff within MCA-Tanzania, at least through February 2015. Thereafter, the GOT has appointed the Poverty Eradication Directorate within the Ministry of Finance to liaise with MCC's monitoring and evaluation ("M&E") team on the execution of the post-compact M&E Plan.