

**SUPPLEMENTAL INFORMATION:
Executive Summary of the Tanzania Compact**

I. INTRODUCTION

The United Republic of Tanzania, comprised of the mainland and Zanzibar, is strategically located in East Africa bordering the Indian Ocean and eight nations.¹ Tanzania plays an important role in the region as an economic trade partner and stands out as a proponent of peace and security. In a region that has historically been divided by violent ethnic and religious conflict, Tanzania has been a peaceful country with a religiously diverse population, abundant natural resources, and a distinct sense of national pride and identity. However, this stability has not translated into widespread economic prosperity, as nearly 36 percent of the mainland population and 49 percent of the Zanzibar population live below the national poverty line. An inadequate transportation network, an insufficient and unreliable supply of energy, and a shortage of potable water are three key constraints to economic growth and private investment in Tanzania. The program (Program) to be funded under the proposed Millennium Challenge Compact (Compact) with the Government of the United Republic of Tanzania (GoT) is designed specifically to address each of these constraints.

II. PROGRAM OVERVIEW AND BUDGET

The overall goal of the Program is to stimulate economic growth, increase household incomes, and raise the quality of life through targeted infrastructure investments in transport, energy, and water. The specific objectives of the Program are to increase agricultural activity and to increase business investment and spending by visitors through activities in the transport sector (Transport Sector Project), to increase investment, economic output and household productivity in several regions through activities in the energy sector (Energy Sector Project), and to increase investment in human and physical capital in two large cities through activities in the water sector (Water Sector Project) (each, a Project).

The table below shows the total budget and an estimated investment plan for the Program.

Description	Program Budget (US\$ '000)					
	CIF ² & Year 1	Year 2	Year 3	Year 4	Year 5	TOTAL
Transport Sector Project	21,552	84,406	147,131	82,606	37,081	372,776
Energy Sector Project	16,646	45,501	53,435	59,083	31,806	206,471
Water Sector Project	5,845	16,959	17,786	16,838	8,908	66,336
Monitoring & Evaluation	2,500	1,000	1,000	1,000	4,500	10,000
Program Administration	11,202	7,615	7,900	7,868	7,968	42,553
Total	57,745	155,481	227,252	167,395	90,263	698,136

¹ The countries bordering Tanzania are Kenya, Uganda, Rwanda, Burundi, Democratic Republic of Congo, Zambia, Malawi, and Mozambique.

² This refers to the period between the Compact's conclusion and its entry into force.

A. Transport Sector Project (\$372.8 million)

Transport infrastructure in Tanzania is inadequate to meet the needs of the country's widely dispersed population. The Transport Sector Project aims to reduce travel times and provide access to basic social services by rehabilitating a portfolio of trunk roads on the mainland and the airport on Mafia Island, both originating from the GoT's Transport Sector Investment Program (TSIP) for mainland Tanzania, as well as selected rural roads on Pemba Island in Zanzibar. To ensure the sustainability of these investments, the Project will provide technical assistance to enhance the maintenance capacity of the GoT in both the road and airport sectors.

- **Mainland Trunk Roads.** The Project includes rehabilitation of three trunk roads on the mainland: (i) Tanga – Horohoro, a 68 km stretch of highway in northeast Tanzania connecting the seaport of Tanga with Horohoro at the Kenyan border whose rehabilitation will ease transport of goods between Dar es Salaam and Kenya, (ii) Tunduma – Sumbawanga, a 224 km stretch of highway in western Tanzania, a very fertile agricultural area, constituting the southernmost part of the Western Corridor representing the only link between Dar es Salaam and Zambia, and (iii) Mtwara Corridor, a 139 km stretch of highway in southwestern Tanzania, the westernmost part of the Southern Corridor that runs from the Indian Ocean port of Mtwara to Mbamba Bay on Lake Nyasa.
- **Zanzibar Rural Roads.** The Project includes rehabilitation of up to five rural roads on Pemba Island, totaling approximately 35 km.
- **Road Maintenance.** The Project includes enhancement of Tanzania's capacity to maintain its road network. Specifically, this activity will support improvements in institutional capacity for strategic maintenance planning, and management of routine and periodic maintenance contracts of Tanzania National Roads Agency (TANROADS) for the mainland and the Ministry of Communications and Transport for Zanzibar.
- **Mafia Island Airport.** The Project includes provision of necessary aviation and public safety related facilities at the airport on Mafia Island, which is located off the east coast of Tanzania, approximately 135 km southeast of Dar es Salaam. Due to the poor condition of the airport and lack of feasible alternative transportation options, this activity will keep the airport open and prevent the island's residents from being cut off from the mainland. The activity also includes provision of technical assistance to the Tanzania Airports Authority (TAA) for implementation of the activity and maintenance planning.

B. Energy Sector Project (\$206.5 million)

Currently in Tanzania, industry, businesses, and households suffer from either a lack of energy services or unreliable service. Where electricity is available, the quality of supply is poor, and blackouts and other service interruptions are common. The Energy Sector Project will improve electricity service and coverage in Tanzania through the addition of new power generation, transmission and distribution capacity, as well as through much needed reinforcement of the

existing network. The Project is expected to result in improved reliability and quality of electric power, and the extension of service to communities and businesses not currently served.

- **Zanzibar Interconnector.** The Project includes laying an approximately 40 km long, 100MW capacity submarine electric transmission cable (including telecom fiber optic shield wire) from the mainland to Unguja Island, along the path of the existing submarine cable that is reaching its limits in both capacity and lifespan. To support the additional transmission capacity, the activity also includes the reinforcement of substations at either end of the cable, as well as the corresponding installation of roughly 20 km of supplementary transmission capacity along existing lines. This activity is expected to provide a reliable and non-polluting power supply to Unguja Island, the largest island in the Zanzibar archipelago with a population of approximately 700,000, which is entirely dependent on power supply from the mainland. This will allow the island to continue to develop its potential as a high-value tourist destination. The increased supply of electricity will also improve the productivity and quality of life for the island's population.
- **Malagarasi Hydropower & Kigoma Distribution.** The Project includes the construction of a small, 8 MW run-of-river hydropower plant on the Malagarasi River at Igamba Falls, and the extension of a mini-grid system in the Kigoma region, which suffers from an inadequate and unreliable power supply. This lack of access to reliable power has been one of the major constraints to investment in commercial and industrial operations in the region. This activity seeks to displace costly, inefficient, and polluting diesel power generation with affordable, reliable, and clean renewable small-scale hydropower. The expanded distribution system will also facilitate the electrification of rural villages and towns. In addition, this activity will include the assessment and design of a public-private partnership for the independent operation of the completed mini-grid system. Such partnership will provide an opportunity to increase the participation of the private sector in the national electricity system.
- **Distribution Systems Rehabilitation & Extension.** The Project includes the rehabilitation of existing distribution infrastructure and a number of small distribution line extensions to un-served areas in six regions (Mwanza, Tanga, Morogoro, Iringa, Dodoma, and Mbeya) that were identified by the GoT as priority areas for investment. By complementing similar projects to be funded by the World Bank in the regions of Dar es Salaam, Kilimanjaro, and Arusha, this activity will address the growing demand and the corresponding strain on the network to deliver reliable and quality power to industrial and commercial users, as well as to households, in these regions.

C. Water Sector Project (\$66.3 million)

Tanzania faces a serious shortage of access to potable water, resulting in a high incidence of water-related disease, decreased workforce productivity, and a challenge for business growth. To address these issues, the GoT, in coordination with other stakeholders (including donors) developed a 20-year program for transforming the sector known as the Water Sector Development Program (WSDP). The WSDP identifies all activities under the Water Sector Project as priorities. The Water Sector Project focuses on improving water supply infrastructure in Dar es Salaam and Morogoro, and is designed to increase the quantity and reliability of

potable water for domestic and commercial use. By increasing the volume of water supply, the Water Sector Project is expected to reduce the prevalence of water-related disease, to increase time available for productive activities such as education, and to promote greater investments in physical capital.

- **Lower Ruvu Plant Expansion.** Dar es Salaam, Tanzania's largest city and commercial center, is experiencing a severe water crisis due to a shortage of water supply and poor water quality. The Project includes expansion of the capacity of the Lower Ruvu water treatment plant from about 180 million liters per day (MLD) to approximately 270 MLD. In addition, technical assistance for the Dar es Salaam Water and Sewerage Authority (DAWASA) will be provided.
- **Non-Revenue Water.** The Project includes improvement to the system efficiencies of DAWASA and Dar es Salaam Water and Sewerage Company (DAWASCO) to determine the locations and volumes of physical losses through leaks, and commercial losses as a result of deficiencies in billing and collection and theft. Currently, approximately 60 percent of Dar es Salaam water is lost due to physical leakages and commercial losses. This activity, to be built on past and ongoing donor activities, will substantially reduce water resource waste and the need to develop new water sources, and will improve the long-term financial viability of DAWASA and DAWASCO. Specifically, the activity includes a comprehensive assessment of the Dar es Salaam water supply system, its physical and commercial losses, the development of performance benchmarks for reduction of these losses, and the implementation of a performance-based contract by a private sector firm to achieve those benchmarks. The activity also includes technical assistance to DAWASA and DAWASCO for implementation of the activity.
- **Morogoro Water Supply.** The Project includes improvements to water supply in Morogoro, a city that, due to a growing population coupled with its aging water infrastructure, faces water supply deficiencies and increased health risks for its population. Specifically, this will be achieved through the rehabilitation of the Mambogo water intake and water treatment plant (including the addition of a 6 MLD capacity), rehabilitation of the Mafiga water treatment plant, and improvement to the existing distribution network (including a 1.9 kilometer pressure main). In addition, technical assistance will be provided to Morogoro Urban Water and Sewerage Authority (MORUWASA) to support its continued progress toward achieving financial sustainability, including meeting its operation and maintenance costs and capital expenditure requirements.

III. IMPACT

The Program's investments in the transport, energy, and water sectors are critical to Tanzania's development.

First, poor transport infrastructure is a constraint to Tanzanian economic growth. In Tanzania, roads are essential for commerce (especially agricultural commerce), and for trade between Tanzania and its neighboring countries, including Kenya, Mozambique and Malawi. The rehabilitation of the roads, therefore, will help connect road users and communities along the

rehabilitated roads with markets, schools and health clinics, and promote the expansion of economic opportunities by reducing transport costs and thus increasing the economic viability of various local products, including cash crops. The rehabilitation of the airport on Mafia Island will allow for easier, more efficient, and safer access to the island, resulting in increased tourist and business travel to and from the mainland, leading to additional income on the island.

Second, an inadequate supply of energy is also a constraint to private investment and economic growth in Tanzania. Energy is essential for activities in industry, agriculture, transport and water service supply, and for the provision of social services such as education and health. Moreover, it serves as an important catalyst for private sector development. The Energy Sector Project will result in households and businesses receiving more reliable and better quality electricity, and many currently un-served households and businesses will receive electricity for the first time.

Third, a shortage of access to potable water by both households and businesses is another constraint to Tanzanian economic growth addressed by the Program. Water is an important input to production in many industries, and expanding the supply of water will allow the expansion of economic activity as well. In addition, lack of access to potable water results in a high incidence of water-related disease, burdensome healthcare costs, and decreased workforce productivity. By improving the water supply, incidence of disease and time spent collecting water will decrease, resulting in potential gains in labor productivity. Households, businesses and institutions relying on network water will benefit from improvements in water supply under the Water Sector Project.

Finally, the Compact development process itself has already contributed to encouraging the GoT to undertake important policy reforms in the transport, energy, and water sectors, the absence of which have constrained economic and private sector growth in Tanzania for years. Moreover, the various investments in physical infrastructure during the implementation of the Program will be tied to continued policy and sector reform.

IV. PROGRAM MANAGEMENT

In September 2007, the GoT established MCA-Tanzania, the accountable entity for the Program, as a department within the Ministry of Finance with budgetary and operational independence. The early establishment of MCA-Tanzania allowed for commencement of preparatory activities funded under the pre-Compact 609(g) grant agreement, signed in October 2007, in order for timely and efficient implementation of the Program once the Compact enters into force.

MCA-Tanzania consists of a governing board (Governing Board), and a secretariat (Secretariat). The Governing Board has final decision-making authority over the implementation of the Program, and consists of seven representatives from the GoT (including two representatives from Zanzibar) and four representatives from the private sector and the civil society. The Secretariat supports the Governing Board in the implementation of the Program. A chief executive officer manages the day-to-day activities of MCA-Tanzania, and is supported by senior directors together with other managers, officers, and administrative staff.

MCA-Tanzania is in the final stages of selecting, through competitive processes, a third party, non-government entity to provide procurement agent and oversight services for MCA-Tanzania, to include acting as procurement agent for MCA-T administrative procurements, the Zanzibar Rural Roads Activity, all Water Sector Project Activities, and two Energy Sector Project Activities. In its capacity as advisor, the firm will provide training and support services to three government procurement entities on certain procurements for the transport and energy projects. MCA-Tanzania will work with the various ministries, departments, and agencies of the GoT to implement the Projects with one exception: due to capacity limitations, the rehabilitation of the rural roads in Zanzibar will be implemented by a competitively procured project management firm.

The Office of the Accountant General in Tanzania's Ministry of Finance has established a Fiscal Agent Unit within the Office, staffed from existing office resources, for the Program. Under the direction of MCA-T's Director of Finance and Administration, this Unit will provide all financial reports under the Compact and relevant supplementary agreements; perform coordination efforts related to fiscal management including operating procedure development; provide information technology support including website development and maintenance; monitor and perform the necessary input interface with the US Treasury International Treasury System ("*ITS*"); manage asset control and accountability; and respond to all MCA-T management requests.

V. ASSESSMENT

A. Economic Analysis

The estimated sector-level economic rates of return (ERRs)³ for the mainland are: (i) for the transport sector, 16%, (ii) for the water sector, 20%, and (iii) for the energy sector, 27%. The overall ERR for the activities in Zanzibar is 18%.

The estimated Project Activity-level ERRs for the Program are presented in the table below.

³ These sector-level ERRs include administrative costs.

Project	Description	ERR
Transport Sector	Mainland Trunk Roads	
	Tanga-Horohoro	15%
	Tunduma-Sumbawanga	20%
	Mtwara Corridor	14%
	Zanzibar Rural Roads	12%
	Mafia Island Airport	17%
Energy Sector	Zanzibar Interconnector	21%
	Malagarasi Hydropower & Kigoma Distribution	20%
	Distribution Systems Rehabilitation & Extension	
	<i>Mwanza</i>	31%
	<i>Tanga</i>	42%
	<i>Morogoro</i>	24%
	<i>Iringa</i>	52%
	<i>Dodoma</i>	16%
<i>Mbeya</i>	53%	
Water Sector	Lower Ruvu Plant Expansion	27%
	Non-Revenue Water	21%
	Morogoro Water Supply	5%

B. Consultative Process

The consultative process for the Program was anchored in the ongoing consultative process for Tanzania's National Strategy for Growth and Reduction of Poverty (commonly referred to by its Swahili acronyms, MKUKUTA/MKUZA, for the mainland and Zanzibar, respectively). The MKUKUTA/MKUZA process yielded broadly endorsed national sector strategies, and Projects were developed on the basis of these strategies. Building on the success of and lessons learned from the MKUKUTA/MKUZA consultative process, the GoT designed and followed a comprehensive outreach strategy.

Specifically, national outreach activities were conducted by the GoT's core team, including visits to all of the sites for the proposed Projects on the mainland and Zanzibar. Discussions were held with key stakeholders including representatives from regional, district, and local council government offices, members of parliament, the World Wildlife Fund, the Tanzania National Business Council, the Tanzanian Chamber of Commerce, Industry, and Agriculture, the Tanzania Association of NGOs, the Association of NGOs in Zanzibar, and women's groups such as the Tanzania Gender Networking Programme.

In addition, the GoT will utilize regional development committees in Project-affected areas to continue the consultative process throughout the implementation of the Program. These committees will include stakeholders from various non-governmental organizations, the private sector, and local and regional governments. These committees will not have decision-making authority, but will serve as a mechanism for ongoing consultations between the GoT and the public.

C. GoT Commitment and Effectiveness

The GoT's commitment is demonstrated in the allocation of significant human and financial resources to the Compact development process and in the GoT's receptiveness to substantive policy reforms. The GoT's core team has been led by a national coordinator with 30 years of experience in public service who has recruited an impressive team. The GoT also constituted a high-level steering committee to oversee the Compact development process, led by the Permanent Secretary of the Ministry of Finance. In addition to representation by the Permanent Secretaries from various relevant ministries, the steering committee included a number of leaders from the private and non-governmental sectors.

Additional commitment by the GoT has been demonstrated by a willingness to undertake various reforms that are critical to the sustainability of the Program. For instance, the GoT has shown openness and commitment in the transport sector by its agreement to adhere to the improvement of prioritized corridors through the upgrade of trunk roads identified in the TSIP. The energy sector also has shown signs of movement toward commercialization, demonstrated by the restructuring of Tanzania Electric Supply Company Limited (TANESCO) and the emergence of an independent regulator for the energy and water sectors. Moreover, the GoT committed to passing a new act governing the electricity sector to bring up-to-date the current law (dating from 1931). Finally, the GoT contributed significant time and resources toward the preparation of environmental and social studies for many of the components of the Projects during the Compact development process. These contributions not only enhance the environmental sustainability of the Projects but also allow the improved designs and timely implementation of the Program.

D. Sustainability

The sustainability of the investments in roads on both the mainland and Zanzibar is dependent upon adequate road maintenance. A significant policy reform towards mainland roads sustainability was demonstrated in July 2007 when the GoT nearly doubled its funding of road maintenance, an increase adequate to meet the maintenance costs of the mainland's road network. To encourage the GoT to take additional steps for improvement of the sustainability of the roads in Zanzibar, MCC will condition its investment in the rural roads on a significant increase in the current fuel levy in Zanzibar. Moreover, since adequate funding for maintenance of roads does not by itself ensure sustainability of the investments in roads, MCC will provide technical assistance to enhance the GoT's road maintenance capacity.

The Energy Sector Project includes capacity building and technical support for both TANESCO and Zanzibar Electricity Corporation (ZECO). In addition, the implementation of the new Electricity Act, continued progress on tariff reform, and TANESCO Board reforms to increase its independence from the GoT, all required under the Compact, are significant safeguards that will contribute to sustainability.

Under the Water Sector Project, the GoT has agreed to pursue financial recovery measures for DAWASA, DAWASCO and MORUWASA, and to include the implementation of tariffs that will fully recover operations and maintenance costs, and demonstrate a sustainable trend to recover capital costs within the term of the Compact.

In addition, the Program includes provision of technical assistance to the National Environmental Management Council and the Zanzibar Department of the Environment, development and implementation of a gender integration plan, and support for environmental and social oversight of the Program. These activities will safeguard Tanzania's natural resources and enhance the sustainability of the Program as a whole. They will also contribute to long-term sustainable development of Tanzania by building capacity and systems to improve environmental management associated with the planning, design and implementation of infrastructure projects.

E. Environment and Social Impacts

MCC will require that all Projects comply with the Tanzanian National Environmental Management Act and regulations, MCC's environmental guidelines and gender policy, and World Bank's Operational Policy on Involuntary Resettlement (OP 4.12).

None of the Projects is likely to generate significant adverse environmental, health, or safety impacts, and all expected impacts can be mitigated. Several activities under the Transport Sector Project ("Category A" according to MCC's environmental guidelines) have the potential for construction-related impacts such as erosion, drainage and run-off, and impacts to wildlife migration that will be mitigated through, among other measures, promotion of community-based natural resource management. Additional potential secondary and cumulative impacts such as increased deforestation due to logging and prolific charcoal manufacturing may have adverse environmental and social impacts and will be mitigated through sustainable community development initiatives. Similarly, potential negative environmental and social impacts of the Energy Sector Project ("Category A") and the Water Sector Project ("Category B") include health and safety risks, as well as construction-related impacts on communities including increased HIV/AIDS transmission and economic and physical resettlement. With proper planning and oversight by MCA-Tanzania and environmental and social oversight consultants, all negative impacts and risks identified through these assessments will be mitigated.

In addition, the Program is expected to yield the following positive environmental and social impacts: (i) increased opportunities for community-based natural resource management in the proximity of the southern sections of the mainland's trunk roads, (ii) reduction in time spent accessing cultural and natural resources through the provisioning of renewable energies and improved infrastructure, (iii) increased access and participation of civil society and women through public consultation and a Program-wide gender integration action strategy, (iv) reduction in the need to develop new water sources and reduce water resource wastage, and (v) improved environmental management capacity to support further sustainable development.

F. Donor Coordination

The mainland trunk roads activity under the Transport Sector Project was developed in consultation with the principal donors in the transport sector in Tanzania, including the European Union, World Bank, African Development Bank (AfDB), the Danish International Development Agency (DANIDA), and the governments of Norway and Japan. The plan to upgrade Zanzibar's rural roads was developed in consultation with other donors working in Zanzibar, primarily the

World Bank, DANIDA, and the Government of Norway. The airport on Mafia Island represents one of eleven airports identified in the TSIP, and is included in the TAA's ongoing feasibility, environmental and social impact assessment, and detailed design study funded by the World Bank. Finally, a measure to support environmental sustainability of the upgrades to the various roads through the community-based natural resource management builds upon efforts of United States Agency for International Development (USAID), and will be implemented in collaboration with USAID.

Donors, including the governments of Sweden, Norway, and Japan, the World Bank, and the AfDB, among others, play an active role in improving Tanzania's energy sector through support for policy reform, technical assistance and infrastructure investments. The Energy Sector Project has benefited significantly from these donors' activities while MCC has provided important additional leverage for needed policy and regulatory reform including the passage of new legislation governing the electricity sector, tariff reform, and financial sustainability of TANESCO and ZECO. Moreover, the Malagarasi hydropower plant benefited from a pre-feasibility study financed by the AfDB and the World Bank. Finally, MCC's review of the proposal to upgrade the distribution systems in Mwanza, Tanga, Morogoro, Iringa, Dodoma and Mbeya benefited from active intervention and support by the Swedish International Development Cooperation Agency and the World Bank.

All components of the Water Sector Project are priority projects identified under the WSDP. The donors participating in the WSDP include the World Bank, the governments of Germany, the Netherlands, France, and Japan as well as the United Nations Development Programme, the United Nations Children's Fund, Food and Agriculture Organization, and the AfDB. MCC coordinated with these organizations throughout the review and development of the Water Sector Project, and continues to engage with them.