

PARTNERSHIP FOR GROWTH

Joint Country Action Plan

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Partnership for Growth: Tanzania 2012-2016

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List of Acronyms

AADT	Average Annual Daily Traffic
AfDB	African Development Bank
ATTI	Appropriate Technology Training Institute
CBA	Cost Benefit Analysis
COSS	Cost of Service Study
DSM	Demand Side Management (energy conservation)
DRU	District Roads Unit
EBT	Equipment-based Technology
Ex-Im Bank	Export-Import Bank (U.S.)
EWURA	Energy and Water Utility Regulatory Authority
FHWA	U.S. Federal Highway Administration
FTF	Feed the Future
FYDP	Five-Year Development Plan I (2011/12 – 2015/16)
GNU	Government of National Unity of Zanzibar
GOT	Government of the United Republic of Tanzania
IADB	Inter-American Development Bank
ICB	International Competitive Bidding
IPP	Independent Power Producer
IRR	Internal Rate of Return
JCAP	Joint Country Action Plan, U.S.-Tanzania Partnership for Growth
JICA	Japan International Cooperation Agency
LBC	Labor-based Construction
LBT	Labor-based Technology
LGA	Local Government Authority
M&E	Monitoring and Evaluation
MCC	Millennium Challenge Corporation
ME	Community-based Micro-Enterprise
MEM	Ministry of Energy and Minerals
MKURABITA	Mpango wa Kurasimisha Rasilimali na Biashara za Wanyonge Tanzania
MMS	Maintenance Management System
MOA	Ministry of Agriculture, Food Security and Cooperatives
MoF	Ministry of Finance
MWCEL	Ministry of Water, Construction, Energy and Land
MOW	Ministry of Works
MWTI	Morogoro Works Training Institute
NGO	Non-Government Organization
NPV	Net Present Value
OPIC	Overseas Private Investment Corporation (U.S.)
PFG	U.S.-Tanzania Partnership for Growth
PPA	Power Purchase Agreement
PPP	Public-Private Partnership
PMO	Prime Minister's Office
PMO-RALG	Prime Minister's Office Regional Administration and Local Government
PO-PC	President's Office Planning Commission

PSA	Power Supply Agreement
QA	Quality assurance
QC	Quality control
REA	Rural Electricity Agency
RGZ/GNU	Revolutionary Government of Zanzibar/Government of National Unity
RICA	Road Inventory and Condition Assessment
RR	Rural Roads
RR-MMS	Rural Roads Maintenance Management System
RR-ME	Rural Roads Micro-enterprises for maintenance services
RRMMS	Rural Roads Maintenance Management System
SAGCOT	Southern Agricultural Growth Corridor of Tanzania
SCADA	Supervisory Control and Data Acquisition
RGZ/GNU	Revolutionary Government of Zanzibar/Government of National Unity
SOW	Scope of Work
State	United States Department of State
TA	Technical assistance
TANESCO	Tanzania Electricity Supply Company Limited
TA	Technical assistance
TK	Rural Roads Maintenance Tool Kit
TOR	Term of Reference
TPDC	Tanzania Petroleum Development Corporation
Treasury	United States Department of the Treasury
URT	United Republic of Tanzania
USACE	United States Army Corps of Engineers
USAID	United States Agency for International Development
USFS	United States Forest Service
USG	Government of the United States of America
USTDA	United States Trade and Development Authority
WB	World Bank
ZECO	Zanzibar Electricity Corporation

Executive Summary

The Government of the United Republic of Tanzania (GOT)¹ and the United States Government (USG) have joined together to establish the new Partnership for Growth (PFG).² This Partnership mobilizes mutual good faith at the highest levels. This Partnership constitutes an unprecedented bilateral GOT and USG interagency effort guided by collaborative analyses and shared conclusions, a focused strategy and implementable joint action plan, and application of bilateral leadership commitments and USG development assistance in the face of often hard choices and limited resources.

This Partnership for Growth calls upon the USG and GOT to be creative and engage development partners – to reach beyond aid to all the instruments and resources that both governments can bring to bear, including enhanced trade, private investment, and technical assistance, in order to multiply the impact of current investments and accelerate Tanzania’s broad-based economic growth and sustained national development. High-impact policy and implementation leadership will be prioritized for a sustained, high-level and mutually respectful GOT–USG Partnership for Growth dialogue of the opportunities and challenges arising during implementation of this Joint Country Action Plan.³

Based on a joint economic analysis of binding constraints to broad-based economic growth in Tanzania, the GOT and USG have together prioritized power and rural roads for transformational policy attention, resource allocation, investment facilitation, and ongoing collaborative performance management as the basis of this new GOT-USG Partnership for Growth.

This Joint Country Action Plan (JCAP) describes a bilaterally coordinated five-year action plan. It represents a partnership spanning policy decision making, resource prioritization, coordinated implementation and evaluation, and sustained dialogue-driven adjustments. This bilateral consensus action plan guides our efforts to accelerate broad-based economic growth and poverty reduction in Tanzania. The JCAP, in the collaboratively prioritized power and rural roads sectors and through the pursuit of sustained increases in public and private investment in each sector, advances Tanzania’s Five Year Development Plan (2011/12-2015/16) and seeks precedents for progress that stand to inform efforts in all sectors of the economy and all regions of Tanzania.

This Partnership for Growth reflects the political will of the GOT and the USG. The GOT and USG intend to implement the actions described within this document. On top that the USG intends to align national diplomatic support, assistance, and outreach to investors and development partners. With mutual respect and joint actions in accordance with their respective laws and regulations, each

¹ The Government of the United Republic of Tanzania, abbreviated in this JCAP as “GOT” includes the Revolutionary Government of Zanzibar (RGZ).

² The objective of the Partnership for Growth is to stimulate select economies with good track records in economic reforms. Through these partnerships, the United States and partner governments aim to dedicate senior leadership, coordinated implementation, and a creative range of tools to unlock domestic and foreign direct investment.

³ The Governments of the United Republic of Tanzania and the United States, throughout this Partnership for Growth endeavor, will be subject to their respective laws and regulations and budgetary processes. This political agreement is understood as not creating rights or obligations under domestic or international law.

government works to accelerate Tanzania’s transformational, broad-based economic growth for the prosperity of all Tanzanians to further enhance the deep friendship between the governments and peoples of Tanzania and the United States.

Power

Together, the GOT and USG will strive to make tangible progress over the next five years to unlock the constraint to economic growth caused by the insufficient availability of power. The sustained shortages in generation capacity and underinvestment in the power sector are in a large part due to non-cost reflective tariffs; unrealized revenues due to high technical losses and theft; insufficient public and private investment in new TANESCO and ZECO assets and capital resources; operational and financial weaknesses of energy providers; and challenges to business operations and investment in the power sector such that private capital remains inadequate to meet current and future power sector operations and investment needs.

To remove the constraints to increased investment in the power sector, the Governments of the United Republic of Tanzania and the United States seek to create an enabling business climate that promotes investment in the power sector. This plan comprises technical and financial strengthening of the power utilities, relevant regulatory agencies and ministries. When implemented, it is expected to lead to increased investment in electricity generation, transmission and distribution and a favorable investment climate. Our shared objective is to increase the reliable supply of power. Reliable power stimulates productivity; attracts new private investment and job creation; improves household energy use and efficiency that helps raise incomes and improves quality of life.

Rural Roads⁴

The GOT and USG plan to work together to address agricultural development and related constraints to broad-based economic growth caused by rural roads that do not connect agricultural production areas to markets and provide safe accessibility to economic and social centers. The root causes of these rural road constraints to economic growth have been jointly found to include: Underinvestment in Rural Roads Infrastructure and Maintenance; and Inadequate Institutional and Technical Capacities for Rural Roads Infrastructure and Maintenance Services. Through the Partnership for Growth’s Joint Country Action Plan, the GOT and USG intend to improve connectivity of farms, agricultural lands, and rural community firms to markets and make government and private services more accessible to rural communities.

To accomplish this aim and in partnership, the GOT and USG will work to improve capacity, at both central and local levels, with focus on the cost-effective planning and implementation of investment and maintenance works for approximately 6,000 kilometers of rural roads essential to promote agricultural economic growth. This total will include *at least* 3,000 kilometers of rural roads supported by the USG Feed the Future (FTF) Initiative. Implementation of the overall PFG rural roads efforts is intended to reduce transportation costs, create economic opportunities by improving access to markets, improve agricultural returns, and increase income.

⁴ For the purpose of this document, “rural roads” include part of the regional, district, feeder, and community Roads that limit the accessibility of agricultural productive areas.

The commitment of GOT, with USG assistance to address binding rural roads-related constraints to broad-based economic growth will lead to: (1) increased investments in rural roads; (2) increased financial allocations for rural road maintenance services; (3) development of a five-year rural road investment program; (4) institutional and technical capacity development for rural road management at the national level and greater focus at the district level; and (5) development of rural community private sector capacity to provide road construction and maintenance services. The two governments will work to restore and maintain selected rural roads in selected districts, with resource allocation and investment decisions guided by sound assessments of the highest net present value (NPV) to society.

Partnership for Growth: Tanzania

I. Introduction

The Partnership for Growth (PFG) represents the shared good faith efforts of the Governments of the United Republic of Tanzania (GOT) and the United States of America (USG) to accelerate broad-based economic growth in Tanzania. Partnership efforts are informed by an analysis of key, binding constraints to economic growth collaboratively undertaken by a team of U.S. and Tanzanian economists. The steps identified through this unprecedented collaborative analysis and dialogue as necessary to address these constraints and promote transformational, broad-based economic growth are framed in this Partnership for Growth Joint Country Action Plan (JCAP).

The GOT and USG are determined to collaborative, accelerated efforts, including joint monitoring and mutual accountability, in order to address the root causes of two binding constraints to Tanzania's national economic growth: (1) Inadequate power - electrical power generation, transmission, and distribution; and (2) Rural Roads - feeder roads in remote but agriculturally productive rural regions.

The entire PFG process builds on a strong USG-GOT partnership. Together, the two countries are already collaborating to address the key developmental constraints in the economy. In February 2008, the Presidents of the United States and Tanzania signed a five-year, US\$698 million Millennium Challenge Corporation (MCC) agreement, aimed at reducing poverty, stimulating economic growth, and increasing household incomes through investments in transportation, energy, and water (the "MCC Compact"). MCC activities in Tanzania include: laying a new 100 megawatt submarine electric transmission cable from the mainland to Zanzibar; installation or upgrading of over 3000 kilometers of power transmission and distribution lines, plus corresponding substations in six mainland regions plus Zanzibar; plus further support for solar power and distribution networks in Kigoma Region. The MCC Compact is also upgrading 35 kilometers of rural roads on Zanzibar. More recently, USAID has increased focus on rural roads as part of the new Feed the Future Initiative (FTF).

In 2011, the GOT and the USG established a joint team of four U.S. and twenty Tanzanian technical experts and economists to identify binding constraints to broad-based economic growth in Tanzania. Binding constraints are those that, when loosened, contribute most to accelerating broad-based economic growth. The GOT-USG team reached consensus on the binding constraints to investment and growth in Tanzania, and the analysis and its findings have been incorporated into the GOT's new *Five Year Development Plan*. The ultimate goal of the Tanzanian-U.S. Partnership for Growth is to help realize the Tanzanian goal as presented in the new Plan: to achieve a higher, sustained, and more inclusive growth trajectory.

II. The Five Year Development Plan I 2011/12 -2015/16

The GOT's development objectives since Independence have included economic growth and poverty reduction. The Government's Development Vision 2025, released in 1999, envisioned the achievement of middle-income country by 2025. However, the sources and benefits of growth have been limited and the growth rate has been below the trajectory needed to meet the Vision 2025 objectives. The GOT is responding by proposing, through its new *Five Year Development Plan I 2011/12 – 2015/16: Unleashing Tanzania's Latent Growth Potentials* (FYDP), that it will organize and use its resources to achieve the national aspirations set forth in Vision 2025. Under the new plan, the GOT seeks to achieve a growth rate of 8 percent through (1) large investments in infrastructure; (2) enhanced skill development; (3) a significantly improved business enabling environment; and (4) institutional changes for effective implementation – all closely monitored to ensure that growth is broad-based. These actions are intended to achieve an appropriate balance of government participation in the economy and an improved, dynamic business-enabling environment to attract new private investment deemed central to the success of the FYDP.

III. Constraints to Higher and Inclusive Growth

An unprecedented, collaboratively conducted growth diagnostic analysis, the *Tanzania Growth Diagnostic*, identified and ranked constraints to Tanzania's broad-based economic growth. Based on anticipated impact on Tanzania's economic growth, GOT and USG developed this practical joint action plan to focus attention on resources, implementation management, monitoring and evaluation, and ongoing dialogue on two sectors of the economy assessed to have significant and inclusive beneficial growth impacts.⁵

Overview: Power Sector Constraints to Growth

The GOT-USG joint *Tanzania Growth Diagnostic* found that Tanzania suffers from inadequate and unreliable supply of electricity and that the existing electrical grid provides electricity to only a small portion of the country's total population (currently GOT estimates are approximately 17 percent of the population).

A GOT-USG examination found that one of the main causes of this decisively binding constraint to economic growth is underinvestment in the power sector. Underinvestment is attributed to, among other things; financial constraints and operational weakness of TANESCO and ZECO; the lack of cost-reflective tariffs; and a general lack of an attractive business enabling environment for business operations and new investment.

The inadequate and unreliable power supply results more specifically from insufficient capital to meet TANESCO's and ZECO's needs for new investment and the poor maintenance of, and losses coming from their existing assets. Insufficient capital is attributed to the limited power sector and general government revenues and constraints on private firm operations and investment. A

⁵ For an overview of the methodology, see Hausmann, Rodrik and Velasco (Ref1:2005).

sustained pattern of government and private underinvestment in the power sector has led generation capacity to lag behind demand, transmission bottlenecks, and a dilapidated distribution network characterized by costly energy losses. The significant amounts of potential private capital that can fill the gap will only be forthcoming when the Government further improves the business environment to attract and facilitate large amounts of private investment.

Overview: Rural Road Constraints to Growth

The GOT-USG joint *Tanzania Growth Diagnostic* found that, while agriculture provides a livelihood for approximately 74 percent of Tanzanians, the nation's rural roads provide inadequate market access to large portions of Tanzania's productive land. Tanzania's rural roads constrain domestic economic growth and Tanzania's ability, as a coastal nation, to benefit from regional trade with its land locked neighbors. Achieving economic growth Tanzania will require the accelerated integration into the national economy of productive rural communities through a rural road network that improves the access of isolated communities to markets, social and business services, and strengthens their integration with the rest of Tanzania.

A GOT-USG examination found several factors contributing to this binding constraint. Funding for rural road accessibility and maintenance is not sufficient to meet needs, while existing funds could be used more efficiently. Planning, design, and financing for rural road development investment and maintenance activities require improvement.

IV. Partnership for Growth Joint Country Action Plan for 2012-2016

Based on the constraints collaboratively identified by both governments, and in line with Tanzania's FYDP, the Partnership for Growth's Joint Country Action Plan consists of two primary development interventions to address the two identified binding constraints: (1) creating an attractive business enabling environment in the power sector to attract additional investment capital as well as to increase domestic power sector revenues from improved utility operating performance; and (2) improving rural roads networks through increased financing, planning, management and execution oversight capacity at national and district level authorities with a focus on providing market access to agricultural productive land. Each binding constraint is subsequently discussed below and detailed plans of both governments to mitigate these constraints to growth are described in Appendix B - Summary Matrix of PFG Activities.

A. Power

Over the next five years, the GOT and USG will strive to make tangible progress to unlock the constraint to economic growth caused by the insufficient availability of power. The strategic recommendation of the PFG Framework for the period 2012-16 is that the GOT should concentrate on strengthening its utilities (TANESCO and ZECO) and facilitate private sector participation and investment in new generating facilities, transmission and distribution lines. New facilities should include renewable energy projects and efficient combined-cycle gas-fired power plants that could be fueled by available domestic natural gas reserves. The GOT will further improve the overall business

environment through continued transparent and consistent application of its laws and regulations, such as the Public Procurement Act, to attract much needed new capital.

Budget projections beyond 2011-12, and the current slowdown of the economy around the world indicate that developing countries will face resource constraints and insufficient international donor resources available to ‘invest up-front’ in many key sectors including the power sector. To meet the challenges beyond 2012, the GOT will have to devise other strategies and mechanisms to finance future generation investments by the government-owned power corporations, TANESCO and ZECO. It is also apparent that TANESCO and ZECO must seek to attain investment grade financial status as commercial entities, which will allow them to provide their own guaranties of performance on the purchase of electricity from private generating projects as well as allow them to borrow directly from both domestic and international private commercial sources. Thus, a coordinated series of improvements to the legal, institutional and regulatory framework of government and corporate institutions must be accomplished to enhance the business enabling environment for new private investment.

Joint Country Action Plan (JCAP) defines a set of measures designed to address root causes of the constraints to economic growth in the power sector, based on joint sector-specific analyses undertaken in 2011. The USG, for its part, will prioritize resources and high-level bilateral engagement accordingly; GOT, for its part, will make the necessary policy, regulatory, institutional, and resource commitments to resolve the root causes of the agreed-upon binding constraints. For the power sector constraint, these root causes include: *Underinvestment in the Energy Sector*; and *“Insufficient Institutional and Technical Capacity for Robust Energy Sector Planning and Management.”* A matrix describing proposed JCAP actions is summarized in the Appendix to the JCAP.

Root Cause 1: Underinvestment in the Energy Sector

Measure 1.1: Establish Cost-Reflective Tariff Structure

This Measure aims to move towards fully cost-reflective tariff structures for TANESCO and ZECO, in order to provide adequate financial returns to the companies. Current tariffs are estimated to be significantly below the cost of service. Moving towards cost-reflective tariffs will improve the investment climate, build attractive cash flows to allow investment in new power projects and thereby encourage greater private sector engagement in the sector⁶.

Action Items

Actions under this Measure are designed to attract investment in the sector by enhancing the creditworthiness of TANESCO and ZECO through establishing a tariff structure that covers all operating costs plus depreciation and capital costs. Continued underfunding of these two vital companies prevents urgent maintenance, causing their further decapitalization. If this situation persists, and if tariffs are not adjusted, there will be significant negative impacts on future financial

⁶ Energy and Water Utilities Regulatory Authority, The Electricity (Tanzania Electric Supply Company Limited), (Emergency Tariff Adjustment), Order, 2012 in which TANESCO requested a 155% increase (TR-E-11-012) and was granted a 40.29% increase.

operations of these utilities. Without creditworthiness, private investors will be reluctant to finance new facilities in Tanzania.

GOT Actions

The GOT, acting through EWURA and RGZ/GNU will implement a program of tariff adjustments to achieve and maintain a full cost recovery tariff structure. They intend to:

- decide on and implement recommendations of the respective: (1) ongoing Cost of Service Study (COSS) currently being conducted by EWURA,; and (2) ZECO COSS (2009);
- develop and implement tariff revisions and redesigns, including life-line tariffs;
- decide on the recommendations in the Long Run Marginal Cost Study and examine the possibility of adopting Long Run Marginal Cost based tariffs⁷;
- encourage additional investment by allowing a market determined price for gas; and
- improve engagement with stakeholders via public outreach and use of mass media to explain and advocate the need for tariff adjustments coupled with the GOT's commitment to provide more reliable service to encourage users' willingness to pay.

Based on the results of the planned analytical study that is already underway (with an expected completion date of September 2012), the GOT will formulate an appropriate electricity subsidy policy. TANESCO will establish a pass-through of variable electricity generation costs in the electricity tariff structure such as a fuel charge. MEM and MWCEL (Ministry of Water, Construction, Energy and Land of Zanzibar) will continue to support the policy of attaining cost reflective power tariffs. In order to make the tariff changes acceptable to end users, the GOT will engage stakeholders regarding tariff adjustment issues and provide transparent and rational explanations for the need to have electricity tariffs cover the cost of providing service and expanding the energy sector.

USG Actions

USG entities plan to provide technical assistance and capacity building activities such as leadership and coordination workshops, seminars, and training. These support efforts are anticipated to involve senior GOT officials, EWURA, TANESCO and ZECO key staff and other stakeholders. USG support will include technical assistance and capacity building in the design of a cost-reflective tariff structure. Additional assistance from the USG, through the Millennium Challenge Corporation, may be provided in the future; contingent in large part on Tanzania's progress against current agreed-upon MCC Compact objectives and joint GOT – USG progress on the select economic growth- and investment-enabling policy reforms identified in the existing Compact and this Joint Country Action Plan.

Measure 1.2: Minimize Revenue Loss

This Measure recognizes value of reducing transmission and distribution technical and non-technical losses of energy and related revenues as a means to improve the investment climate and thereby encourage greater private sector engagement in the sector.

⁷ Long Run Marginal Cost of Service Tariff Study, Final Report, prepared for TANESCO, May 2010"

Action Items

Actions under this Measure seek to reduce losses of energy and related revenues. Actions will also strengthen TANESCO and ZECO's departments responsible for regulatory affairs such as tariffs, including identification of potential software. They will also improve transmission feeders with meters and information. Public Private Partnerships (PPPs) will be fostered through sector specific capacity building within PPP Cells.

GOT Actions

The GOT will develop and implement an anti-theft and anti-vandalism campaign, following a multi-pronged approach considering measures to enhance effectiveness of relevant agencies (prosecution/police/media). The GOT will also improve the quality of service, billing and collection practices of TANESCO and ZECO using friendly modern technologies. Measures might include: reforms addressing technical and theft losses; improved billing and collection practices; improved TANESCO and ZECO quality of service through effective management and profitability; use of metering and use of pre-paid cards or smart meters for high-risk end-users, and improve transmission feeders with meters and information. TANESCO will also implement a Demand Side Management (DSM) plan for energy conservation. ZECO will also prepare a DSM plan. The GOT will reinforce the power transmission and distribution lines through PPP arrangements.

USG Actions

The USG intends to provide technical assistance, capacity building, training, and seek to mobilize U.S. investors to partner with TANESCO, ZECO and other potential power investors in reducing power transmission and distribution losses.

Measure 1.3: Strengthen Legal and Regulatory Institutions

This Measure recognizes the need to improve Tanzania's business environment to be more conducive to new power sector investments in order to achieve the GOT's national development objectives. Strategic legal, institutional, and regulatory reforms, will promote stability, reliable access to power, and broad-based economic growth for all Tanzanians.

Action Items

Actions are designed to overcome non-financial barriers, such as optimal electricity market design, to greater private investment in the power sector. Private investors require a transparent and predictable legal, institutional and regulatory framework in order to best assess potential risks and rewards of proposed ventures. The GOT, with USG support, will evaluate and implement optimal electricity market design to attract additional private investment.

GOT Actions

National energy policy will be reviewed and updated. In support of essential reforms, the GOT will formulate and enact a Natural Gas Act and develop a Natural Gas Utilization Master Plan embracing international best practices; strengthen TANESCO's and ZECO's corporate identity and governance, leading to a more effective and independent management capacity; and develop an Independent Power Producer (IPP) framework for power generation and feed-in-tariff structures for alternative energy sources, which includes an ability to sell and "wheel" power via an interconnected

transmission grid. The GOT will continue to foster PPPs through sector specific capacity building within the existing PPP Cell in MEM and a corresponding cell to be established at MWECL.

USG Actions

Through this Partnership, USG agencies, in close coordination with GOT counterparts at intend to provide technical and capacity building assistance where determination for joint progress against power sector constraints to economic growth is the greatest. USG intends to support accelerated policy planning and dialogue as well as implementation workshops and seminars for senior GOT officials, for TANESCO and ZECO key staff, and other stakeholders from the public and private sector. Additional USG assistance from the MCC may be agreed-upon in the future based in part on Tanzania's progress against shared economic growth and national development objectives and Tanzania's eligibility for a second MCC Compact.

Root Cause 2: Insufficient Institutional and Technical Capacity for Robust Energy Sector Planning and Management

Measure 2.1: Improve Sector Planning

This Measure addresses the need to strengthen energy sector planning. The Joint Energy Sector Review for 2010 highlighted the need to further improve energy sector planning as one of the key elements necessary to help avoid the recurrence of severe electricity shortages. Tanzania's FYDP states that "a dynamic private sector is expected to be at the forefront of the growth paradigm outlined in the Plan, with an efficient, well-functioning and effective public sector providing the enabling environment."⁸ To accomplish the goals set in the FYDP, Tanzania will benefit from carefully designed technical support in order to garner sufficient resources for implementation. In the next five years, implementation of plans will require both public and private resources.

Action Items:

Actions under this Measure including an accelerated review and revision of existing legislation and a similarly prioritized revision of the GOT's Power Sector Master Plan. Partnership discussions have already produced the shared understanding that to be effective, such timely revisions should include blend of energy development planning, supply assessment, demand forecasting, and realistic modeling.

GOT Actions:

The Power Sector Master Plan needs to be updated as a priority, collaborative effort. The updated Master Plan will support and lead to implementation of reforms needed to support solar, wind, biomass, geothermal, co-generation and hydro power sources of energy as specified in a GOT master plan that includes corresponding tariff structure implications. Through such policy and/or legislative reforms and their prioritized implementation, the GOT is determined to implement standards for new tariffs to pay for power generated by conventional and new technologies. Evaluation of alternative Tanzanian rural electrification strategies, supported broadly by Tanzania's domestic and

⁸ Tanzania Five Year Development Plan, 2011/2012 to 2015/2016, "Unleashing Tanzania's Latent Growth Potentials", June 2011.

international public and private Development Partners, will inform the Master Plan, together with a corresponding for Zanzibar, and will strengthen MEM's and MWCEL's planning capacities.

USG Actions:

In support of the above actions, and in dialogue with Tanzanian and other Development Partners, USG agencies anticipate providing technical assistance on policy formulation and implementation and leadership dialogue and implementation-coordination workshops, including assistance and investment advocacy related to supporting the Power Sector Master Plan. For example, the U.S. Department of Energy and the U.S. National Renewable Energy Laboratory are prepared to provide technical assistance in development of resource maps. Additional assistance from the MCC may be provided in the future if Tanzania remains eligible for and is awarded a second Compact.

Measure 2.2: Increase Key Sector Institutional Capacities

This Measure addresses the need for strengthening institutions (MEM, MWECL, TANESCO, ZECO and EWURA) across the energy sector to enable them to adapt to and perform their roles in the evolving sector context.

Action Items

Tangible and timely progress in relieving power sector constraints to Tanzania's economic growth will depend on successful, mutual outcomes of sometimes complex transactions between sophisticated international power sector development firms and GOT officials and institutions, particularly TANESCO and ZECO. Tanzania therefore needs proper and adequate expertise to complete successful negotiations on power contracts. Actions under this Measure target capacity limitations and promote mutually beneficial private investment. Capacity building efforts in the areas of governance, financial management, operational management, and procurement transparency are needed.

GOT Actions

The GOT will prioritize collaboration with and support to TANESCO and ZECO. These organizations are central to Tanzania's power sector and to the GOT's progress in alleviating the power sector-based constraints to sustained economic growth and national development. For example, TANESCO will need to ensure its compliance with EWURA Orders through the TANESCO's rate department. A DSM plan will need to be submitted by TANESCO in accordance with the applicable EWURA Order. ZECO will need to prepare a DSM plan and submit it to RGZ/GNU Revolutionary Council for approval. The GOT will develop and implement an anti-theft and anti-vandalism campaign, following a multi-pronged approach considering measures to enhance effectiveness of relevant agencies given their importance and relevance to institutional capacity, DSM and anti-theft and anti-vandalism are repeated here from Measure (1.2). TANESCO intends to supplement its new SCADA system with planned add-ons and capacity building to improve operational management and control. They will facilitate parallel operations following the East Africa Power Pool interconnection. They will develop capacity in integration and dispatch of renewable energy technologies into TANESCO power grid. TANESCO will develop and implement an asset management system and undertake associated capacity building. Consistent with the recommendations of an MCC-funded Loss Reduction Study, the RGZ will need to model ZECO's network and identify specific investments to improve ZECO's

power quality. Finally, sustained progress and future investment require that TANESCO build a reliable, credible, responsive utility enterprise and an efficient and transparent management information system for billing, payroll, general ledger, and asset management modules.

USG Actions

USG entities will provide leadership facilitation and implementation prioritization workshops and technical assistance to GOT's procurement of systems to enable in-house tariff rate scenario development and other capacity building efforts in support of the above set of actions. USG entities are prepared to provide technical assistance to prioritized GOT procurement of SCADA add-ons and its implementation of hydrology assessments. As joint progress is made against this action plan, USG entities can provide technical assistance to the development of specifications for a management information system and support accelerated GOT implementation of other economic growth accelerating power sector policy reforms and strategies and execution priorities. Additional assistance from MCC may be provided in the future if Tanzania remains eligible for and is awarded a second Compact.

Measure 2.3: Promote Private Investment in Power

This Measure recognizes that to attract private investment in the sector, Tanzania requires a successful private sector development strategy; supported by the institutional capacity necessary to foster both domestic and international private sector engagement.

Action Items

Actions under this Measure will focus on strengthening sector institutions, which play a key role in creating an environment conducive to domestic and international private sector engagement.

GOT Actions

Actions to attract private investment in generation, transmission, and distribution will include sustained GOT national leadership attention. The GOT is refining a private sector development strategy to attract new investment in the power sector, one linked to a broader private sector development strategy intended to accelerate national economic growth and development. Under this effort, the GOT will map legal and regulatory approvals required for the most essential private investment and endeavor to streamline procedures. The GOT will identify modalities of implementing the updated Power Sector Master Plan. New power generation capacity will be acquired on the basis of "best value for money" and international best practices, as provided for in the Public Procurement Act and existing GOT policies. They will consistently negotiate and conclude interconnection agreements on reasonable terms. They will strengthen capacity to enhance creditworthiness of power purchasers and approval of PPAs. They will draft a petroleum policy with a focus on the upstream petroleum sub-sector and will submit it for approval, and they will review the 1980 Petroleum Act and will draft and issue petroleum regulations. The GOT will endeavor to create an Independent Private Power Cell (an investor's power sector one-stop shop) within the MEM and MWECL. These ministries will establish units with private sector collaboration capacity and empower these units to make informed decisions about proposed private power projects. They will provide GOT national decision-makers with the expertise required for best-value, cost-effective

decisions on private investment proposals and transactions. Following is additional detail on specific institution-specific actions.

- **MEM and MWCEL:** The MEM will develop a power sector development strategy which will be informed by existing policies. The PPP policy will be clarified and implemented for the energy sector. A Private power cell will be enhanced within the existing MEM structure. With USG support, the capacity to facilitate and negotiate IPPs will be built in MEM, MWCEL, TANESCO, ZECO, MOF and or EWURA. GOT will enhance laws, regulations, policies, legislation, and capacity of MEM and MWCEL to promote the advancement of market-based competitive private sector projects. They will undertake any required further studies on utilization of available sources of renewable energy in Tanzania and Zanzibar to identify those projects with the most potential resources. The GOT will assess the potential for geothermal energy as a power source, and they will develop a strategy and recommendations upon which to proceed to develop geothermal energy throughout Tanzania.
- **TANESCO and ZECO:** USG and GOT will institutionalize international standards in the development of concession agreements relating to energy resources. Tanzania will endeavor to follow international competitive bidding procedures for new generation both public and private wherever appropriate. They will enhance TANESCO and ZECO capabilities to negotiate terms of private investments, to integrate intermittent renewable energy technologies with other base load capacity and to produce financial modeling. TANESCO and ZECO will strengthen their capability to evaluate and negotiate IPPs and to undertake technical and project due diligence. They will enhance the ability of TANESCO to negotiate wheeling and grid connection agreements necessary to evacuate power generated by IPPs, develop policies allowing IPPs to have full and unbiased transmission access, assist in planning international grid connection agreements, and develop expertise in other commercial arrangements relating IPPs.
- **Ministry of Finance:** The Ministry of Finance will undertake review and assessment of credit enhancement mechanisms to strengthen the credit-worthiness of TANESCO and ZECO. They will also develop capacity in negotiating with IPPs, reviewing PPP agreements, and power purchase agreements.
- **Rural Energy Agency:** The GOT and the USG will work together to expand rural electrification via the formulation of a rural energy master plan as part of the overall update of the Power Sector Master Plan. They will develop a comprehensive rural electrification plan that complements existing agriculture plans to assist rural development.
- **Tanzania Petroleum Development Corporation**

- o Upstream Gas Sector Investment Support Activities⁹: The GOT will review and formulate Petroleum/Gas Policy with a focus on the petroleum upstream sub-sector. GOT will draft new model Production Sharing Agreement (PSA) to reflect new Policy. They will develop concession framework and international competitive bidding process for new power supply exploration and production agreements incorporating international best practices.
- o Midstream/Downstream Gas Sector Investment Support Activities: GOT will enhance EWURA's capacity to regulate natural gas transmission and distribution activities within Tanzania, and they will develop TPDC capacity in negotiation of fuel/gas supply agreements, transmission agreements and concession agreements.
- **Electricity and Water Utility Regulatory Authority (EWURA)**: EWURA will establish time-responsive steps for the IPP development process; in particular, this will include establishing clear criteria, procedures and decisions deadlines for granting approvals of licenses and permits. The GOT will draft a new model Power Supply Agreement (PSA) and will establish IPP processes and procedures to enable EWURA to make effective and rapid decisions on IPPs. They will develop modeling and analytical capabilities to evaluate and conduct with due diligence on tariff setting and adjustments associated with private sector, non-recourse financing projects. They will establish guidelines for power purchase and other IPP contracts, addressing unique considerations for renewable energy technologies and projects. They will increase and develop capabilities to conduct tariff adjustments with due diligence on IPP proposals and agreements. They will update the PPP and IPP frameworks for power generation and may consider possible enhancement of feed-in-tariffs and larger IPPs. EWURA will put in place mechanisms for integrating power systems and related transmission line tariffs and wheeling charges.

USG Actions

USG entities intends to provide technical assistance and capacity building focused on policy formulation and implementation, advocacy for USG advocacy in support for an improved business climate conducive to investment, support for access to infrastructure finance, and other support to the GOT and its energy sector agencies in pursuit of the above set of actions. USTDA, the State Department and/or other USG entities may provide support for investment promotion and trade missions. USAID and/or other USG entities may provide technical assistance on rural electrification. Additional assistance from the MCC may be provided in the future if Tanzania remains eligible for and is awarded a second Compact. USG senior officials and agencies will advocate for and support the GOT's access to infrastructure finance.

B. Rural Roads

The GOT and USG share a desire to work together to accomplish Tanzania's development agenda by carrying out interventions with targets and key outputs to be reached by 2015/16 which include

⁹ The term "upstream" oil sector refers to the searching for and the recovery and production of crude oil and natural gas (sometimes called the exploration and production (E&P) sector). The term "downstream" refers to the refining of crude oil, and the selling and distribution of natural gas and products derived from crude oil. See: www.oilandgasiq.com/glossary.

direct investment in rural roads leading to areas with highest economic potential (e.g., agriculture, mining, tourism) and enhance effective systems for sustained financing and management of rural roads. Emphasis will be given to ensure that local governments and communities at the district level are actively involved in investment initiatives, improvement, and maintenance.

The JCAP defines a set of measures designed to address root causes of the constraints to economic growth in the rural roads, these root causes include: *“Underinvestment in Rural Roads Infrastructure Development and Maintenance;”* and *“Inadequate Institutional and Technical Capacities for Rural Roads Infrastructure Development and Maintenance Services.”* A matrix describing proposed JCAP actions is summarized in the Appendix to the JCAP.

Root Cause 1: Underinvestment in Rural Roads Infrastructure and Maintenance

Measure 1.1: Increase Financial Allocation for Rural Roads Investments

This Measure seeks to address this constraint by increasing financial allocations for investment in rural roads, and to draw greater attention to the value of Tanzania’s rural roads networks.

Action Items

Actions under this Measure are designed to enhance efforts to attain effective and sustainable systems for financing rural roads investments. Based on the approval of a rural roads financing strategy, the profile of rural roads investment projects will be raised through the Joint Infrastructure Working Group. A rural roads master plan will be developed to guide medium and long term rural roads reforms.

GOT Actions

The GOT will develop a local financing strategy for rural roads investment projects with emphasis on involvement of local governments and communities. The financing strategy will build the basis of coordinating support from stakeholders for rural roads investment projects.

USG Actions

The USG intends to provide technical assistance for the preparation of the local financing strategy as well as the rural roads master plan. Through the Joint Infrastructure Working Group, the USG will work to mobilize support for further rural roads investments.

Measure 1.2: Increase Financial Allocation for Rural Roads Maintenance Services

Actions under this Measure focus on improving the collection of maintenance financing from the Road Fund, supplemented by contributions from LGA revenues and potentially, the private sector.

Action Items

The primary action is to improve the capability to collect Road Fund revenues and improve LGAs management of the rural roads maintenance fund. Support to maintenance from the private sector will also be explored.

GOT Actions

The GOT will seek to enhance the collection capabilities of the Road Fund in order to increase the allocation of rural roads maintenance financing. In addition, LGAs will be involved in the process of increasing the contribution of funds for rural roads maintenance services from their own revenues, considering the economic justification included in the results of the cost benefit analysis of the rural roads investment works in selected districts.

USG Actions

The USG intends to provide technical assistance to improve collection of rural roads maintenance funds at both national and local levels. To attract further technical and financial support from other implementation partners and private investors for maintenance services, the USG will provide them the information related the ongoing rural roads investment works and related lessons learned in the FTF rural roads projects.

Measure 1.3: Develop a Five-Year Rural Roads Investment Programme

This Measure seeks to focus and rationalize appropriate attention to rural roads by developing a pilot rural roads investment and maintenance programme, including approximately 6,000 km of priority rural roads in selected districts. The aim is to demonstrate the impact of rural roads investments on economic growth, while strengthening capabilities to handle further rural roads investments.

Action Items

Develop and adopt a five-year rural roads investment and maintenance programme, for planning of projects in selected districts. Implementation will be monitored to produce a detailed set of lessons learned for replication of investment works in other districts.

GOT Actions

The GOT will develop and adopt the five-year rural roads investment and maintenance programme, for selected districts, considering approximately 3,000 kilometers of rural roads as part of development programmes.

USG Actions

The USG intends to provide technical expertise related to development and implementation of the rural roads investment and maintenance programme and other key aspects including the proposed improvement of the 3,000 kilometers of rural roads under FTF. Finally, USAID and other USG entities may provide technical assistance on legal and regulatory mapping.

Root Cause 2: Inadequate Institutional and Technical Capacities for Rural Roads Infrastructure and Maintenance Services

Measure 2.1: Improve Institutional and Technical Capacities for Rural Roads Investment and Maintenance Services

This Measure seeks to strengthen GOT central government planning, design, oversight, and cost recovery capacity and inter-ministerial coordination for district level road funding and management, so as to enable appropriate attention to rural roads and community transport needs.

Action Items

The aim is to strengthen the capacity of the existing PMO-RALG unit that coordinates and supports local government road operations. This will be done on the GOT side in a coordinated inter-ministerial fashion, with the support of the Ministry of Works and other GOT implementing agents, and with USG support, including a mechanism of working through shared analyses and collaboration, to increase capacity building through funded training programs from various sources including other Development Partners. The process will involve harmonization of existing efforts to maximize technical support and information sharing.

GOT Actions

GOT actions will focus on existing structures in the PMO-RALG and shall include strengthening the capacity of the Transport Infrastructure Unit through a technical and managerial training program to empower its efficient coordination and monitoring as well as preparation of Technical Guidelines.

USG Actions

The USG actions will include the provision of the technical assistance needed for the development and implementation of the capacity building and training programs.

Measure 2.2: Develop District Level Capacities for Rural Roads Management

This Measure seeks to increase the efficiency of rural roads management at the district level, by strengthening District Roads Units (DRUs) in selected districts.

Action Items

The focus will be to empower the district level authorities to manage efficiently rural roads investment and maintenance projects. Proposed actions include strengthening DRUs in selected districts. The overall process will involve coordination of efforts to improve technical assistance outcomes and expand information sharing and set proper precedents in other districts. Emphasis will be on the use of labor based technologies (LBT), including deliberate attention to gender equality in capacity building and training.

GOT Actions

GOT actions will include establishment and strengthening of a DRU in each selected district to be empowered, resourced, and responsible for the management of rural roads investment and maintenance projects. The GOT will lead in developing and implementing training programs for the technical staff of these district roads units.

USG Actions

USG actions will include provision of technical assistance for the establishment and empowered operations of the DRUs, including capacity building and training programs and the development and use of the Rural Roads Maintenance Management System (RR-MMS) in priority Districts. The USG

will also work with other Development Partners to align their efforts with the approaches under the Measure.

Measure 2.3: Develop the Capacity of Labor Based Contractors and Local Community Private Enterprises

This Measure aims to promote the use of locally available, sustainable, small business-enabling and job-creating approaches, including labor-based and basic technologies appropriate to rural road specifications, through improving the capacity of both male and female Labor Based Contractors (LBC) and supporting establishment and development of Community Based Micro Enterprises (MEs) for rural roads maintenance services.

Action Items

Actions will include promotion and operations technical support to LBC and micro enterprises. The development and growth of this critical community based stakeholders for expanded, private sector-driven economic growth will be monitored and lessons learned to be shared and replicated across other locations/districts. Also, the technical capacity of local training institutions to facilitate training of MEs and LBCs will be developed.

GOT Actions

GOT actions will include taking the lead in developing a program and strategy including the efforts of creating attractive business enabling environment, including access to financing and LBC equipment, and facilitating the establishment of local community entrepreneurs of road-related micro enterprises. The capacity of local institutions to facilitate training of MEs and LBCs will be developed.

USG Actions

The USG actions include assistance in the development and implementation of the capacity building and training programs for the LBC and the MEs, with attention to gender equality and women's empowerment. The USG will also work with other Development Partners to align their efforts with the approaches under this Measure.

V. Fundamentals for Success, Bilateral Partnership Management, Monitoring and Evaluation, and Resource Requirements

The GOT will implement decisions made and take new actions. The USG will facilitate and support these actions.

A. Fundamentals for Success

The USG will work in close collaboration with Development Partners to coordinate assistance tools and will use its convening power to involve the international and domestic private sectors in strategic interventions. In partnership with the USG, the GOT will prioritize legislative, policy, and

regulatory solutions and implementation and resource allocation to address known and emerging constraints.

The successful implementation of joint actions and confirmed resolutions to address the identified key binding constraints will require unrelenting improvements in regulatory reform and governance on the part of identified government bodies, regulatory authorities, and utility companies. Some of these improvements could occur through joint undertaking of actions such as:

1. Process Mapping: A carefully detailed list of necessary legal and regulatory approvals and licenses should be catalogued, in order to accomplish intermediate steps in the planning, study, tender, procurement, employment, construction, maintenance, and funding of infrastructure (both for rural roads and for private sector investment in the power sector).
2. Streamlining: Affected government bodies, institutions, and other concerned groups (including possible guilds like notaries, lawyers, and surveyors) should agree in determining means of streamlining and perhaps even automating the processes mapped in subparagraph 1 above. Less red tape will result in a speedier approval process. This will accomplish the goal of removing non-financial barriers to greater private investment in the power sector from laws, regulations and institutions.
3. Investor Focal Points: often taking the form of one-stop shops in other countries for those instances where face-to-face interactions with approval bodies are required. This entails the power cell for the electrical power constraint, and the creation of firms formed for the purpose of maintaining rural roads (community-based organizations).
4. Public Financial Management: Improved budgetary transparency, monitoring, and evaluation are necessary for ensuring investments in both power and rural roads are well maintained and sustainable. Linkages with other development programs aimed at enhancing district level capacity should be explored for best practices, including MKURABITA (Mpango wa Kurasimisha Rasilimali na Biashara za Wanyonge Tanzania).
5. Development Studies: The development of rural roads and of enhancing power generation capacities present exciting opportunities for more scientific studies to better inform and understand various developmental impacts of infrastructure investments in a developing and emerging country such as Tanzania. These possibly would include side-by-side comparisons of local or district areas where roads and power are provided and where they are not. The comparisons could measure effects on income, family size, migration, health, gender impacts, and food security are but a few things that might be studied and compared.

B. Bilateral Partnership Management

The GOT-USG teams have reached consensus on Joint Actions which will collectively remove the key binding constraints to economic growth.

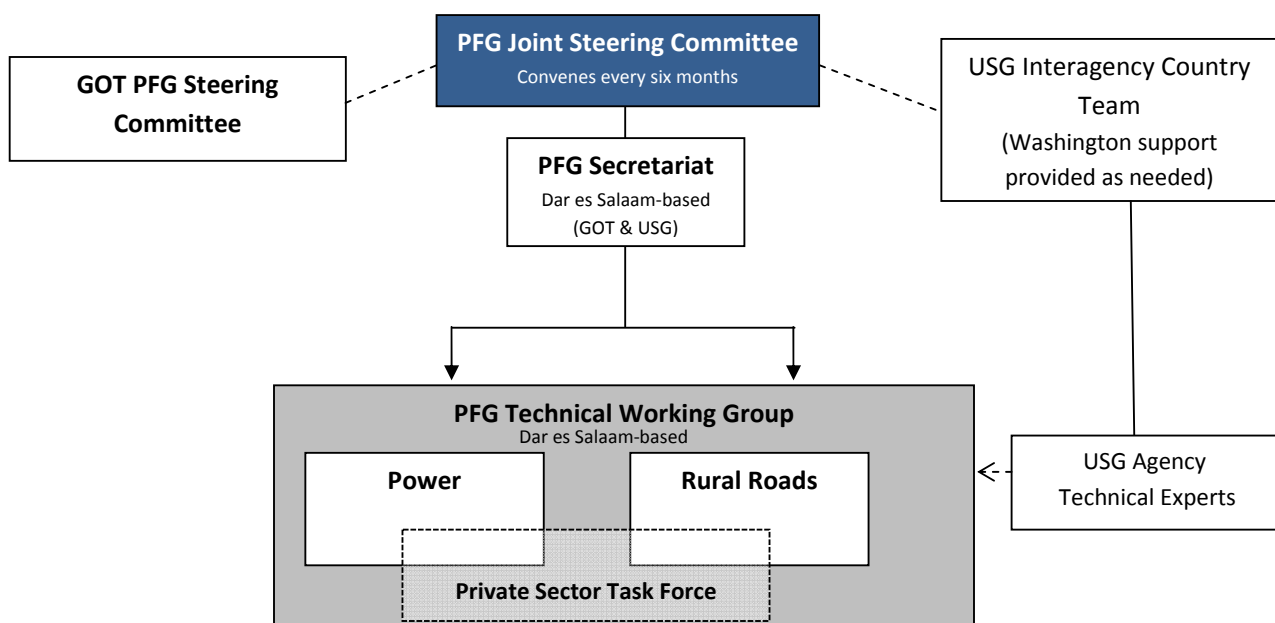
Composed of Co-Chairs from both the GOT and USG, a PFG Joint Steering Committee will be established to provide policy direction and oversee overall progress of the PFG JCAP. Meeting every six months, the GOT-USG Steering Committee expects to assess progress on both GOT and USG commitments and collaboration among participating agencies, private sector and civil society organizations. USG membership in the Steering Committee comprises USAID, the Department of

State, and the Millennium Challenge Corporation. GOT membership in the Steering Committee derives from Office of the Prime Minister, Planning Commission, Ministry of Energy, Ministry of Works, Ministry of Local and District Government, Ministry of Finance (Zanzibar), Zanzibar Electricity Corporation and the Prime Minister's Office - Private Sector Development and Investment Department. Other agencies may also be invited to join the Steering Committee as deemed appropriate.

The PFG Secretariat comprised of a dedicated representative from the GOT and the USG should provide administrative support to the Steering Committee which includes:

- Preparing agenda, minutes and other documents requiring action by the Steering Committee and PFG Technical Working Groups;
- Maintaining Steering Committee documentation and records;
- Undertaking follow-up actions in support of Steering Committee decisions;
- Serving as the liaison between the Steering Committee and the Technical Working Groups; and
- Arranging meetings for the Steering Committee and provision of necessary logistics for the meetings.

A PFG technical working group will be organized and co-chaired by the GOT and USG. These chairs will report to the PFG Secretariat. The PFG technical working group will be comprised of two teams: Power and Rural Roads. Team leaders will be identified for the technical teams and will have the primary responsibility for coordinating the on-the-ground efforts to implement the JCAP. Given the importance of the private sector to the success of strategies within the JCAP, the technical team will be further supported by a Private Sector Task Force which will work to address the relevant issues that are both cross-cutting and/or sector specific as outlined in the JCAP. This task force will work closely with the PMO - Office Private Sector Development and Investment Department.



The PFG Technical Working Group should perform the following functions:

- Provide advisory support in pursuit of program goals and objectives;
- Coordinate with implementing agencies and entities involved in program activities;
- Resolve implementation issues and other institutional bottlenecks;
- Support advocacy and other outreach efforts for program activities;
- Review and disseminate results from monitoring and evaluation activities;
- Prepare and review technical documents required for Steering Committee deliberation; and
- Prepare studies supportive of the functions of the Steering Committee, as necessary.

The PFG Secretariat and PFG Technical Working Group will be based in Dar es Salaam. USG representatives to the Steering Committee will be based in both Washington and Dar es Salaam. The USG Interagency Coordinating Team, which played an integral role in the strategic planning process of PFG, intends to continue to provide support and counsel throughout the program's five-year timeframe.

Implementation Milestones

?? 2012: PFG targets established and overall M&E framework developed for the Tanzania

?? 2012: PFG Technical Working Group and technical teams organized

?? 2012: Programs designed, small activities initiated

?? 2012: Procurement for major programs undertaken (depending on funding availability)

?? 2012: PFG projects rolled out

2012-2016: Regular M&E

C. Monitoring and Evaluation

The GOT and USG plan to work together to establish an evidence-based M&E framework. This entails identifying and tracking progress on sectoral- and macro-level indicators against jointly agreed benchmarks. This framework is expected to cover the following:

1. Process for selecting the benchmarks and indicators associated with each objective;
2. Relevant entity tasked with collecting M&E data to present to the Steering Committee (Technical working groups or the PFG Secretariat);
3. Expectations or plans to collect M&E information from all USG agencies and the GOT; and
4. Exploration of a process by which individual institutions and key implementers of the plan can be measured performance against plans.

The JCAP remains flexible. It is a living document, an agenda informing an evolved, creative, deliberate, and sustained GOT-USG leadership dialogue. The GOT and USG will review the JCAP annually at senior levels to negotiate and agree upon course corrections, as needed, for subsequent implementation. The PFG Steering Committee expects to monitor overall implementation progress and ensure proper monitoring and evaluation of activities – while taking into account performance results from the previous year and projected indicator targets.

In pursuit of development effectiveness, progress on the commitments made in this Joint Country Action Plan will be subject to evidence-based M&E by the GOT and USG. Both governments are committed to developing an M&E Plan addendum to this JCAP that describes the M&E framework and mechanisms within 120 days of the signing of the present document. The M&E Plan should:

1. Identify of key performance indicators and expected development impacts, and corresponding benchmarks and targets;
2. Describe mechanisms and frequency for reporting;
3. Provide for a mid-term implementation assessment and third party evaluation as feasible;
4. Embrace Tanzania's well-developed and effective GOT – Development Partner dialogue structure, the Joint Assistance Strategy for Tanzania (JAST). More specifically, while the PFG is a bilateral USG-GOT initiative, PFG efforts should be integrated into GOT development plans and their associated metrics, as well as into the sector-specific structures, such as the Joint Energy Sector Working Group and Joint Infrastructure Sector Working Group;
5. Include civil society and the private sector, for example, through periodic public consultations (such as through JAST structures) to validate progress and inform future programmatic interventions;
6. Enable the USG to evaluate the PFG approach across all PFG partner countries; and
7. Outline GOT and USG roles and responsibilities with respect to M&E.

D. Resource Requirements

The PFG constitutes an unprecedented interagency collaboration guided by a focused strategy to maximize the impact of USG's development assistance in the face of limited resources. It calls upon the USG and GOT to be more comprehensive and creative in both countries' development work – to reach beyond aid to all the instruments that both governments can bring to bear in investment and technical assistance to optimize the impact of current investments and unlock the growth potential of Tanzania. Under a streamlined and coordinated PFG strategy, the GOT and USG will fund activities in line with the attached PFG matrix. The GOT and USG's funding support for PFG will be subject to the annual Congressional appropriation and internal budget allocation processes of both governments.

VI. Conclusion

The Partnership for Growth represents unprecedented good faith, collaborative, and reciprocal efforts by the Governments of the United States of America and the United Republic of Tanzania to sustain bilateral leadership dedication and align resources to accelerate, broad-based economic growth in Tanzania through steps such as those identified in this Partnership for Growth Joint Country Action Plan. Implementation of this JCAP will embody the principles of partnership and dialogue, and as such will remain flexible throughout the entire period of the PFG.

Appendices

Appendix A: Bibliography-List of References

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Appendix B. Summary Matrix of PFG Proposed Activities: Power

Partnership for Growth GOT - USG: Joint Country Action Plan			
Matrix of Partnership Actions: POWER			
Measure/Action Item(s)	GOT Actions	USG Actions	Partnership Opportunities
Root Cause 1: Underinvestment in the Energy Sector			
Measure 1.1: Establish Cost-Reflective Tariff Structure (designed to overcome lack of sustained generation capacity caused by inadequate investment in the sector by setting tariffs to cover all operating costs plus depreciation and capital costs)			
Electricity Tariff: - Implement program of regular tariff adjustments to achieve full cost recovery through tariffs - Decide and implement recommendations of COSS of 2010 for TANESCO, and COSS of 2009 for ZECO; develop and implement agreed tariff revisions based on long-run marginal cost pricing and redesign lifeline tariffs - Improve engagement with and participation of stakeholders via various forms of media regarding need and rationale for tariff increases Gas Tariff: - To encourage additional investment, allow market-determined price for gas	- Implement programs to arrive at cost reflective tariff structures, with regular tariff filings from TANESCO and ZECO - Formulate energy subsidy policy - Establish pass-through of generation costs such as fuel charge for power in electricity tariff (TANESCO) - Enhance stakeholders' participation on tariff setting and adjustment issues - Support policy of reaching cost-reflective power tariffs (MEM and MWCEL)	- Provide technical assistance, capacity building activities and sponsor workshops and seminars for senior GOT officials; TANESCO and ZECO; plus journalists, bankers and other key stakeholders (USAID, MCC, DOE, others) - Provide technical assistance and capacity building activities related to designing cost-reflective tariffs (USAID, MCC, DOE, others) - Additional assistance from MCC may be provided in future if Tanzania remains eligible for and is awarded a second Compact (MCC)	- World Bank providing technical assistance to TANESCO, EWURA and REA - Norway providing support in petroleum sector
Measure 1.2: Minimize Revenue Loss (designed reduce technical and non-technical transmission and distribution losses)			
- Reduce technical and non-technical losses of energy and related revenues - Strengthen TANESCO and ZECO's departments responsible for regulatory affairs such as tariffs, including identification of potential software. - Improve transmission feeders with meters and information - Continue to foster Public Private Partnerships (PPPs) in the energy sector through sector specific capacity building within the existing PPP Cell in MEM and a corresponding cell to be established at MWECL.	- Develop and implement an anti-theft and anti-vandalism campaign, following a multi-pronged approach considering measures to enhance effectiveness of relevant agencies (prosecution/police/media) - Improve the quality of service, billing and collection practices of TANESCO and ZECO using friendly modern technologies	- Provide technical assistance, capacity building, training, - Engage U.S. energy firms to partner with TANESCO, ZECO and other potential power investors in reducing power transmission and distribution losses - Additional assistance from MCC may be provided in future if Tanzania remains eligible for and is awarded a	- Energy conservation (JICA) - PPP Cells (World Bank)

Appendix B. Summary Matrix of PFG Proposed Activities: Power

Partnership for Growth GOT - USG: Joint Country Action Plan			
Matrix of Partnership Actions: POWER			
Measure/Action Item(s)	GOT Actions	USG Actions	Partnership Opportunities
	- Implement a Demand Side Management (DSM) plan for energy conservation (TANESCO) - Prepare a DSM plan (ZECO) - Reinforce of power transmission and distribution lines through PPP arrangements.	second Compact (MCC)	
Measure 1.3: Strengthen Legal and Regulatory Institutions (designed to overcome non-financial barriers to greater private investment)			
a. Evaluate and implement optimal market design to attract additional investment, including private, in all segments of the power sector (generation, transmission, distribution and customer service) b. Assist EWURA to monitor greater compliance by licensees with EWURA Orders c. Develop EWURA capabilities to conduct thorough technical, financial and legal analysis of terms of private investments d. Update the implementation of the PPP Act; formulate and pass the Natural Gas Act; develop Natural Gas Utilization Master Plan that embraces international best practices a. Strengthen TANESCO and ZECO corporate identities, corporate governance, and effectiveness and independence of management b. Enhance continuing professional development of Boards of Directors of TANESCO and ZECO c. Improve IPP framework for power generation segment; feed-in-tariff structures for different fuel sources, including ability to sell to IPPs and “wheel” power via interconnected grid	- Revise, update and approve National Energy Policy to explicitly address energy subsidies - Continue to strengthen TANESCO’s creditworthiness - Improve the monitoring function and compliance with their EWURA Orders (EWURA) - Further professionalize the functions of TANESCO and ZECO Boards of Directors	- Educate government stakeholders including MEM, TANESCO, ZECO, MOF, MWCEL and EWURA professionals on the conditions necessary to attract new investment in the power sector (workshop series: USAID, MCC, DOE, or others) - Enhance TANESCO and ZECO corporate operating procedures (technical assistance: USAID, MCC, DOE, or others) - Other technical assistance and capacity building activities (USAID, DOE, MCC, others) - Additional assistance from MCC may be provided in the future if Tanzania remains eligible for and is awarded a second Compact (MCC)	SIDA support to LIR capacity building for biofuels, REA and CDM
Root Cause 2: Insufficient Institutional and Technical Capacity for Robust Energy Sector Planning and Management			

Appendix B. Summary Matrix of PFG Proposed Activities: Power

Partnership for Growth GOT - USG: Joint Country Action Plan			
Matrix of Partnership Actions: POWER			
Measure/Action Item(s)	GOT Actions	USG Actions	Partnership Opportunities
Measure 2.1: Improve Energy Sector Planning (designed to overcome shortages in the power sector partially caused by insufficiently robust planning)			
a. Review and update/improve existing legislation; review Power System/Sector Master Plan (PSMP) to incorporate a blend of least cost development planning, supply assessment, forecasting and modeling plus, and gas utilization strategy b. Formulate Renewable Energy Act for solar, wind, biomass, geothermal, cogeneration and hydro; develop Master Plan for these resources with feed-in-tariffs c. Develop and implement standards for developing feed-in tariffs for conventional technologies d. Evaluate and implement alternative Tanzanian rural electrification strategies driven by both Development Partner finance and private sector initiative e. Formulate PSMP for Zanzibar f. Strengthen MEM's and MWCEL's planning capacity	- Update, restructure, and implement PSMP as collaborative process; (MEM) - Enact Gas Act and promulgate Gas Usage Plan according to international best practice - Work collaboratively with stakeholders on sector plans and determine the most appropriate options. - Share available data on renewable resources - Technology based feed-in-tariff with Position Paper on such feed-in-tariff developed by MEM	- Provide technical assistance on resource maps (DOE, National Renewable Energy Laboratory) - Other technical assistance and workshops (USAID, DOE, MCC, others) - Additional assistance from MCC may be provided in the future if Tanzania remains eligible for and is awarded a second Compact (MCC)	- MEM capacity development SIDA - Norway support to energy sector - EU support for planning - World Bank
Measure 2.2: Increase Key Power Sector Institutional Capacities (designed to reduce utility entities' operating and financial constraints and enable reliable delivery of power services to customers; target institutions include MEM, MWECL, TANESCO, ZECO and EWURA)			
a. Strengthen TANESCO and ZECO tariff rates and revenue departments including potential software identification b. Supplement SCADA system with planned add-ons and capacity building to improve operational management and control and facilitate parallel operations following East Africa Power Pool interconnection c. Develop capacity in integration and dispatch of renewable energy technologies into TANESCO power grid d. Increase and improve ZECO's financial capacity e. Study hydrology, and recommend revised operating	- Take necessary steps to implement action items (TANESCO and ZECO) - Ensure its compliance with EWURA Orders through the Rate Departments (TANESCO) - Commits to anti-theft/vandalism campaign (GOT) - Submit DSM Plan according to EWURA Order (TANESCO) - Prepare and submit DSM plan to RGZ/GNU Revolutionary Council for approval (ZECO)	- Provide workshops and technical assistance; assist in procurement of systems to enable in house rate case development and capacity building (USAID, DOE and/or other agencies) - Provide technical assistance to procure SCADA add-ons with support from (USTDA, USAID, DOE and/or other agencies) - Provide technical assistance for hydrology work (USACE, USAID, DOE and/or other agencies)	- Multi-donor support for transmission backbone project (World Bank, SIDA, Korea, France, Norway, AfDB) - TANESCO, ZECO support (World Bank, IFC, Japan) - Strengthening distribution system in Tanzania and Zanzibar (MCC, JICA, Netherlands, Finland, World Bank, AfDB)

Appendix B. Summary Matrix of PFG Proposed Activities: Power

Partnership for Growth GOT - USG: Joint Country Action Plan			
Matrix of Partnership Actions: POWER			
Measure/Action Item(s)	GOT Actions	USG Actions	Partnership Opportunities
protocols for existing and proposed hydropower plants, and design and procure real time water flow gauging and measuring system and catchment area management f. Improve dispatch protocols and assist in designing and procuring Automatic Generation Control for all existing plants g. Develop and implement asset management system with capacity building h. Consistent with the recommendations of MCC-funded Loss Reduction Study, model ZECO's network to Identify specific investments to improve ZECO's power quality i. Evaluate TANESCO's need for world-class utility enterprise and management information system; develop specifications for different modules of enterprise system including billing, payroll, general ledger, asset management systems, etc.	- Implement recommendations of MCC-funded Loss Reduction Study in a phased manner starting with "low-hanging" opportunities - Provide available hydrological data and plant operation history - Improve the transmission system (TANESCO) - Commit to implement independent financial auditors' recommendations on improving asset and liability management, revenue recognition and IT systems (TANESCO and ZECO)	- Provide technical assistance to implement recommendations (i.e. capacitor banks)(USAID, DOE and/or MCC or other agencies) - Provide technical assistance for MIS system specification development(USAID, DOE and/or other agencies) - Additional assistance from MCC may be provided in the future if Tanzania remains eligible for and is awarded a second Compact (MCC)	- Zanzibar interconnector (MCC) - ZECO capacity building by (SIDA)
Measure 2.3: Promote Private Investment in Power (designed to attract private investment in generation, transmission and distribution)			
General: a. Develop private sector development strategy/road map to attract new investment in the power sector, linked to broad national private sector strategy b. Disseminate knowledge of financing options, international standards of private sector non-recourse project financing throughout relevant government ministries, including MEM, MWCEL, and MOF c. Formulate Independent Private Power Unit ("one stop shop") d. Encourage national investment promotion effort	- Power sector structuring strategy submission to Cabinet informed by existing policies - PPP policy clarified and implemented for energy sector - Enhance the established/planned PPP unit within MEM structure - Capacity to facilitate and negotiate IPPs established in MEM, MWCEL, TANESCO, ZECO, MOF or EWURA - Identify modalities of implementing PSMP	- Provide technical assistance and capacity building activities (USAID, DOE and/or other agencies) - Support for improved access to infrastructure finance (USG) - Provide support to investment promotion and trade missions USTDA, State Department, other agencies) - Provide TA on rural electrification (USAID, DOE and/or other agencies)	- Possible funding to support increased access; renewable energy and regional power market (Germany) - Support to REA, biogas, solar, micro hydro (EU) - Support for REA (SIDA, Norway) - Support for renewable energy (EU) - Support for regional power

Appendix B. Summary Matrix of PFG Proposed Activities: Power

Partnership for Growth GOT - USG: Joint Country Action Plan			
Matrix of Partnership Actions: POWER			
Measure/Action Item(s)	GOT Actions	USG Actions	Partnership Opportunities
Ministry of Energy: a. Enhance policies, legislation, and capacity of MEM and MWCEL to promote the advancement of market-based competitive private sector projects b. Develop studies on utilization of available sources of renewable energy in Zanzibar to identify the most potential resource TANESCO and ZECO: a. Institutionalize international standards in the development of concession agreements relating to energy resources b. Ensure international competitive bidding procedures are implemented for both public and private investors c. Enhance TANESCO and ZECO capabilities to negotiate terms of reference for private investments; develop the capacity to integrate intermittent renewable energy technologies with other base load capacity and the creation of financial modeling capability d. Establish standard PPA guidelines for projects larger than 10MW; develop the capability to evaluate and negotiate IPPs, capacity to undertake technical projects with due diligence e. Enhance the ability to negotiate “wheeling” and grid connection agreements necessary to evacuate power generated by IPPs, policies allowing IPPs with full and unbiased transmission access, assistance in international grid connection agreements, and in negotiating other commercial arrangements on IPPs. Ministry of Finance: a. Study and recommend credit enhancement	• Adhere to ICB standards for power projects and procurement • Consistently negotiate and conclude interconnection agreements on reasonable terms • Strengthen capacity to enhance creditworthiness of power purchasers and approval of PPAs • Draft Petroleum Policy with focus in petroleum upstream sub-sector submitted for Government approval • Review 1980 Petroleum Act • Draft Petroleum Regulations • Draft new Model PSA • Establish clear IPP guidance on processes and procedures to enable EWURA to make effective decisions on IPPs • Form Working Group among MEM, TPDC, REA, TANESCO, ZECO, GST (Geological Survey of Tanzania)	• Provide technical assistance regarding contingent liabilities arising from Government support (U.S. Department of Treasury) • Provide technical assistance (U.S. Geological Survey, the U.S. Bureau of Land Management, and USAID) • Provide technical assistance on geothermal resource development and commercialization (State Department, USAID) • Additional assistance from MCC may be provided in future if Tanzania remains eligible for and is awarded a second Compact (MCC)	trade, biofuels, hydro (SIDA) • Support for Rural Energy Fund (SIDA) • World Bank ESCAP is building PPP cells at MEM and TANESCO (need to coordinate) • Major sector donors include: World Bank, DfID, Norway and Germany

Appendix B. Summary Matrix of PFG Proposed Activities: Power

Partnership for Growth GOT - USG: Joint Country Action Plan			
Matrix of Partnership Actions: POWER			
Measure/Action Item(s)	GOT Actions	USG Actions	Partnership Opportunities
mechanisms to strengthen the credit-worthiness of TANESCO and ZECO and the performance obligations of GOT's sovereign and other parastatal organizations participating in IPP projects b. Develop capacity in negotiations with IPPs which includes reviewing PPP agreements, PPAs, and the financial implications of government support Rural Energy Agency: a. Expand rural electrification by formulating Rural Energy Master Plan b. Develop rural electrification plan that complements existing agriculture plans (integrated as part of Feed the Future) to assist rural development c. Gas sector investment support activities <u>Upstream:</u> i. Review and formulate Petroleum/Gas Policy with focus on petroleum upstream sub-sector ii. Develop concession framework and international competitive bidding process for new PSA's, incorporating international best practices <u>Midstream/Downstream:</u> i. Enhance EWURA capacity to regulate natural gas transmission and distribution activities within Tanzania ii. Develop TPDC capacity in negotiation of fuel/gas supply agreements, transmission agreements and concession agreements EWURA a. Establish well-defined and time-responsive steps for the IPP development process, including clear criteria			

Appendix B. Summary Matrix of PFG Proposed Activities: Power

Partnership for Growth GOT - USG: Joint Country Action Plan			
Matrix of Partnership Actions: POWER			
Measure/Action Item(s)	GOT Actions	USG Actions	Partnership Opportunities
and procedures for granting approvals of licenses and permits b. Develop modeling and analytic capabilities to evaluate tariff-setting and conduct non-recourse financing projects with due diligence c. Establish standard power purchase and other IPP contracts, addressing specific/unique considerations for renewable energy technologies and projects d. Increase and develop capabilities to evaluate tariff structure and IPP proposals and agreements with due diligence e. Update the implementation of PPP and IPP framework for power generation segment; including possible enhancement of feed-in-tariffs and larger IPPs Geothermal a. Assess the potential for geothermal energy as a power source b. Develop a strategy and provide recommendations			

Appendix B. Summary Matrix of PFG Proposed Activities: Rural Roads

Partnership for Growth GOT - USG: Joint Country Action Plan			
Matrix of Partnership Actions: RURAL ROADS			
Measure/Action Item(s)	GOT Actions	USG Actions	Partnership Opportunities
Root Cause 1: Underinvestment in Rural Roads Infrastructure and Maintenance			
Measure 1.1: Increase Financial Allocation for Rural Roads Investments (designed to increase investment in rural roads)			
a. Develop a strategy for local financing of RR Investment projects b. Raise the focus of Rural Roads Investment projects through the Joint Infrastructure Working Group. c. Develop Rural Roads master plan to guide the medium and long terms Rural Roads reforms	• Develop a strategy for local financing of Rural Roads investment projects • Based on the Local financing strategy coordinate the support for Rural Roads Investment projects in selected districts	• Provide technical assistance to prepare a scope of work and an action plan to: develop a local financing strategy and develop Rural Roads master plan (USAID, FHWA) • Work with Development Partners through the Joint Infrastructure Working Group to mobilize support for rural roads investment (USAID, U.S. Department of Treasury, FHWA)	• Possible support from the Joint Infrastructure Working Group on how to finance rural roads investment and maintenance projects bringing references, experiences and expertise from other countries
Measure 1.2: Increase Financial Allocation for Rural Roads Maintenance Services (designed to improve collection of maintenance financing from the Road Fund, supplemented by contributions from LGA revenues and potentially, the private sector)			
a. Enhance the collection capabilities of the Road Fund b. Support LGA efforts to increase the contribution to Rural Roads maintenance services c. Support LGAs to improve financial management of the maintenance fund	• Improve the collection capabilities of Road Fund • Seek the support of LGAs to increase the contribution to Rural Roads maintenance services from their own revenues, considering justifications based on the results of cost benefit analysis of the investment works in selected Districts • While improving priority districts' rural roads, ensure that other districts are not neglected	• Provide technical assistance to improve collection of rural roads maintenance funds (USAID, others) • Provide Development Partners and other possible private investors information on ongoing rural roads investment works and related lessons learned in order to attract possible technical and financial support for maintenance services (USAID, U.S. Department of Treasury, FHWA) • Note: USG support may come from Feed the Future Initiative	• Possible technical and financial support for rural roads maintenance services
Measure 1.3: Develop a Five-Year Rural Roads Investment Programme (designed to focus attention to rural roads by developing a pilot five-year rural roads investment program)			

Partnership for Growth GOT - USG: Joint Country Action Plan

Matrix of Partnership Actions: RURAL ROADS

Measure/Action Item(s)	GOT Actions	USG Actions	Partnership Opportunities
a. Develop and adopt the national Rural Roads strategy for planning of Rural Roads investment projects in selected districts	• Design a five-year Rural Roads investment and maintenance program covering approximately 3,000 km of selected RR in selected districts. • Secure financing and implement the five-year Rural Road program in tandem with the capacity building actions • Develop a national strategy for planning Rural Roads investment projects • Carry out Road Inventory and Condition Assessments (RICA) in 10 to 20 Districts for guidance on the selection of districts and rural roads. Replicate the process in other districts • Following the approved strategy, select districts and rural roads to implement investments program	• Provide technical expertise related to: ✓ Development and implementation of strategy for rural roads investments ✓ Cost-effective implementation of rural roads investment works under budget constraints ✓ Cost-benefit analysis tools for rural roads investments (USAID, others) • Improvement of the 3,000 km of Rural Roads included in the Feed the Future initiative. • Provide Development Partners and other possible private investors information on ongoing rural roads investment works and related lessons learned in order to attract possible technical and financial support (USAID, U.S. Department of Treasury, FHWA)	• The Joint Infrastructure Working Group and other investors could provide technical and financial support to extend the rural roads investment program
Root Cause 2: Inadequate Institutional and Technical Capacities for Rural Roads Infrastructure and Maintenance Services			
Measure 2.1: Strengthen National-Level Institutional and Technical Capacities for Rural Roads Investment and Maintenance Services (designed to overcome national-level institutional and technical capacity limitations)			
a. Strengthen the capacity of the Transport Infrastructure Unit in the PMO-RALG b. Develop and implement a Rural Roads technical and managerial training program	• Strengthen capacity of the Transport Infrastructure Unit in the PMO-RALG to: coordinate and provide technical support to LGAs; prepare technical guidelines; monitor the works; develop and implement a Rural Roads MMS	• Provide technical assistance for development and implementation of capacity building and training programs, giving emphasis to: technical guidelines; Rural Roads MMS; planning and design; development and working with MEs	

Partnership for Growth GOT - USG: Joint Country Action Plan			
Matrix of Partnership Actions: RURAL ROADS			
Measure/Action Item(s)	GOT Actions	USG Actions	Partnership Opportunities
	• All the above will be done with the support of MOW and other implementing partners • Develop and implement technical and managerial training program giving emphasis to the following topics: planning and design; cost-benefit analysis; contract management; M&E; development and working with MEs; preparation of reports	• Note: USG support may come from Feed the Future Initiative	
Measure 2.2: Develop District Level Capacities for Rural Roads Management (designed to overcome district-level institutional and technical capacity limitations)			
a. Strengthen DRUs b. Develop and implement technical and managerial training programs for the technical staff of DRU c. Consult with other Development Partners for possible technical support and information sharing d. Address the institutional and technical issues related to the use of LBT for rural roads investment and maintenance works in order to maximize its use	PMO-RALG in collaboration with LGAs will: • Strengthen a DRU in each selected district to be responsible for the management of rural roads investment and maintenance projects • Strengthen the capacity of the DRU for: planning and design; implementation of construction and maintenance services; implementation and updating of the RICA on the rural roads systems; data collection, operation and maintenance of MMS; procurement, including preparation of bidding documents, and Quality Control (QC) and Quality Assurance (QA) for improvement contracts • Develop and implement technical and	• Support GOT to strengthen DRU including the provision of technical assistance for the preparation and implementation of the capacity building and training programs (USAID, others) • Support GOT in selected districts to structure rural roads maintenance services, including the development and use of the Rural Roads MMS • Note: USG support may come from Feed the Future Initiative	

Partnership for Growth GOT - USG: Joint Country Action Plan			
Matrix of Partnership Actions: RURAL ROADS			
Measure/Action Item(s)	GOT Actions	USG Actions	Partnership Opportunities
	managerial training programs for the DRU technical staff covering the following aspects of investment and maintenance: planning and design of projects; cost-benefit analysis; contract management; supervision, QC/QA procedures; preparation of reports; development and operation of MEs; design and contracting of investment works using LBT		
Measure 2.3: Develop the Capacity of Labor Based Contractors and Local Community Micro Enterprises (designed to maximize the use of locally available resources, including job-creating and business-stimulating participation of LBCs and MEs)			
a. Develop and adopt the program and strategy for improvement of LBCs and MEs b. Monitor the performance of the services of the MEs in selected districts and produce lessons learned to be replicated in other locations/districts	• Develop a strategy and a program for: improving the LBC capacity to access financing and LBC equipment; developing community-based MEs, including the needed legal, technical and institution needs • Develop and implement local LBC and MEs covering the following aspects of rural roads investment and maintenance services: technical and financial management; knowledge and skills related to LBT works • Develop the capacity of local training institutions, such as the Appropriate Technology Training Institute (ATTI) and Morogoro Works Training Institute (MWTI) to facilitate training to MEs and LBCs	• Assist in the development and implementation of the capacity building and training programs for LBC and MEs (USAID, Peace Corps, or other agencies) • Note: USG support may come from Feed the Future Initiative	• Possible support by Development Partners and private sector to finance MEs for roads maintenance