

## MCC – TZ ISSUES MATRIX: SEPTEMBER – DECEMBER 2006

| ISSUES  | RESPONSIBLE INSTITUTION  | IMPLEMENTATION STATUS  | REMARKS   |
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| <b>1: PRE-DUE DILIGENCE MISSION</b>   |  |  |   |
| Submission of feasibility studies, spreadsheets for calculating ERRs and other important documents for all the proposed projects. The list of required documents is attached. | Ministries responsible for Transport, Energy and water in Tanzania Mainland and Zanzibar | 95% of the required documents were sent to MCC by December 2006  | The list of required documents needs to be updated to reflect the current status. Will follow - up with MCC |
| Each project should have a sustainability plan  | Respective sector ministries   | Was included in the text of the country compact proposal   | It will be verified during the due diligence exercise   |
| Implementation arrangement has to demonstrate capacity to manage effectively the projects   | Institutions that will be involved in implementing the proposed projects                 | Part of the write - up of the country compact proposal   | It will be verified during the due diligence exercise   |
| <b>(A): SPECIFIC SECTOR ISSUES: TANZANIA MAINLAND</b>   |  |  |   |
| <b>(a) Transport Projects</b>   |  |  |   |
| i) The New Road Act needs to be finalized as soon as possible.  | Ministry of Infrastructure Development   | A draft Cabinet Paper on the New Road Act was discussed by Cabinet Secretariat on 11/1/07. the target is to have a bill before cabinet for first reading in March/April 2007 | It is a high priority item  |

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| ii) Some of the proposed projects on the country proposal are not listed in the priority projects in the TSIP   | Ministry of Infrastructure Development | The said projects are already incorporated in the first phase of TSIP projects starting from 2007/08. | The Kigoma – Nyakanazi Road is included.  |
| iii) TANROADS needs to increase the budget for routine and periodic maintenance. (Should be above 40%)  | TANROADS                               |   |   |
| iv) Some sections of the Tunduru -Songea - Mbamba Bay road had ERRs below 15% and therefore not providing enough economic justification. Also the road project had some environmental concerns. | Ministry of Infrastructure Development | The ERRs for all the portions have been recalculated.   | The ERR's were done considering the whole Road from Mtwara to Mbamba Bay instead of considering section by section as it was done by the consultant who did the Feasibility study. In so doing the current ERR of the Road is 15.7% |
| v) The Feasibility study and other necessary documentations for the Kigoma - Nyakanazi road (which is in the addendum list of projects) should be submitted to MCC.                             | Ministry of Infrastructure Development | The documents were submitted in November 2006   |   |
| <b>(b) Energy Sector Issues</b>   |  |   |   |

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| <p>i) The Government should complete the long awaited National Energy Strategy and also pay more attention to sustainability issues in the sector.</p>                       | <p>Ministry of Energy and Minerals</p> | <p>The Ministry has prepared a Power Sector Strategy Paper which maps out short, medium and long term interventions by exploring more alternative sources of energy to sustain the sector. The approval process is on going. A cabinet paper has been submitted to IMTC (Inter-ministerial Technical Team) for review and comments before it is submitted to Cabinet for approval.</p> | <p>Current status has been communicated to MCC-Washington</p>  |
| <p>ii) The Government and TANESCO should finalize the preparation of a Financial Recovery Plan for TANESCO to avoid reliance on subsidies from the Central Government;</p>   | <p>MEM and TANESCO</p>                 | <p>The Ministry and TANESCO have prepared a Financial Recovery Plan which is aimed at improving the financial capacity of TANESCO and make it self sustaining. A cabinet paper has been submitted to cabinet for approval.</p>   | <p>Current status has been communicated to MCC-Washington</p>  |
| <p>iii) The Government should also finalize the review of an Electricity Act which among others will create an enabling environment for private investors in the sector;</p> | <p>MEM and TANESCO</p>                 | <p>The new draft Electricity Bill was completed by MEM and submitted to Cabinet for approval.</p>  | <p>The cabinet directed the Ministry to prepare amendments to the existing bill instead of enacting a new one. The task is ongoing</p> |

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| <p>iv) Connecting district townships or headquarters should be driven by consumer demand rather than being supply driven;</p>   | <p>MEM and TANESCO</p>         | <p>Rural areas need power for Small and Medium Scale Enterprises which are key activities in poverty eradication initiatives/strategies. However current economic status in rural areas may not favour implementation of power projects but as a poverty eradication strategy, power supply to these areas will bring many benefits (exogenous benefits) which will make the projects economical.</p> | <p>Rural electrification projects are viable as far as poverty eradication strategy is concerned. However, it is important to appreciate that full demand may not be there initially.</p> |
| <p>vi) The MCC observed that the electrification of the 12 district towns was a good idea but some had no project write-ups and thus may not qualify for MCC funding;</p>   | <p>MEM and TANESCO</p>         | <p>An updated Write-up for the remaining un-electrified district head quarters (Kilolo, Kasulu, Namanyere, Isikizya, Namanga and Longido, Mangaka and Nanyumbu, Bahi, Mkinga) was prepared and submitted to MCC-Washington.</p>   | <p>Updated write-up was submitted to MCC-Washington</p>   |
| <p>vii) Power tariffs should not be politically motivated. Power consumers should pay tariffs according to proper pricing and consumption levels. Zanzibar power consumers should also pay cost reflective tariffs;</p> | <p>MEM, TANESCO &amp; ZECO</p> | <p>Power Tariffs have been increased and more increases are planned. Zanzibar stated that it was not true that power consumers in Zanzibar were paying a lower tariff compared with the Mainland. Power tariff adjustments are made by TANESCO in collaboration with ZECO. ZECO buys power from TANESCO and pays market power tariffs.</p>  |   |

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| viii) MCC Team expressed their concern on TANESCO' management and questioned the top managers' capability to run the company.   | MEM and TANESCO                         | As part of Power sector restructuring, a new Managing Director for TANESCO has been appointed and already in office   | CVs of top TANESCO officials were submitted to MCC-Washington as required. |
| ix) In order to understand better the energy crisis in the country, the Government in collaboration with donors through the leadership of the World Bank Office in Tanzania was to organize a workshop by December 2006 to discuss energy developments in the country.  | MEM, Treasury and the world Bank office | Arrangements are under way to hold the workshop by the end of January 2007 or February 2007   |  |
| <b>(c)Water Sector Issues</b>   |   |   |  |
| i) MCC raised concern that the Kidunda Dam project does not have a detailed environmental social impact assessment. Failure to complete the EIA by November 2006 might disqualify the project for support by MCC. However, some quick wins of the project like the expansion of the Ruvu Water Treatment Plant may be considered for support by MCC; This will be a subject during the Due - Diligence Mission. | Ministry of Water                       | The TORs for the work have been developed. Procurement of Consultants is in progress and work may be finalized, Perhaps by May 2007 depending on the consultant to be picked. |  |

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| ii)MCC also raised concern that the proposed water projects did not incorporate sanitation aspects given that the two components are not separable;   | Ministry of Water   |  | Most of the proposed projects for small towns (Rural Water Supply) do not have sanitation components. The Due - Diligence process will study the need |
| iii) MCC and some other stakeholders wanted to know the criteria used for selection of water projects   | Ministry of water   | The criteria was provided  |   |
| <b>(B) ZANZIBAR PROJECTS</b>  |   |  |   |
| <b>a) Energy Sector Issues:</b>   |   |  |   |
| i)The Zanzibar Electricity Corporation (ZECO) and the Union Government through TANESCO should have a concrete strategy to sustain the implementation of power projects (marine cable project after installation) than depending upon subsidies from central government; | MEM, TANESCO, Ministry of Water, Construction, Energy & lands (Zanzibar) & ZECO | MCC intends to engage a consultant to review power tariff structure in Zanzibar. |   |
| ii) With respect to subsidization of energy in Tanzania, the feeling was that it lacked transparence for both ZECO and TANESCO;   | MEM, TANESCO, Ministry of Water, Construction, Energy & lands (Zanzibar) & ZECO |  | This is part of the sustainability concern. The energy sector strategy and the TANESCO financial recovery plan address the concern.                   |
| <b>b) Water Sector Issues:</b>  |   |  |   |

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| <p>Water projects should address sanitation so as to enhance Zanzibar's reputation as a unique and attractive destination for tourists. To this end, the MCC intended to engage a consultant to explore possibility for establishing a treatment plant to avoid waste water emission into the ocean.</p> | <p>Ministry responsible for Water in Zanzibar</p> | <p>Sanitation for Zanzibar town is among the proposed projects</p>  |   |
| <p><b>2: DUE-DILIGENCE MISSION</b></p>   |   |   |   |
| <p>i) The Government should start to create project codes for the listed projects in the country compact proposal and include them in the respective Sector Medium Term Expenditure Framework (MTEF).</p>  | <p>Sector Ministries</p>                          | <p>MCA-T has requested counterpart sectors to include the proposed projects into their MTEFs beginning the 2007/08 Financial year. Since the level of funding is not yet known the projects will have working resources figures while waiting for Compact signing later during the year (2007). A supplementary budget is expected to be prepared thereafter.</p> | <p>Follow up to be done by sector ministries through ACGEN's Office</p> |
| <p>Project activities (projects) need to be sequenced over the 5 years period of the Compact starting year 2007/08</p>   | <p>Sector Ministries</p>                          |   | <p>Sector ministries to provide the sectoral agreed sequencing</p>      |

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| <p>ii) MCA-T/MCC-Washington should finalize all Compact Agreements necessary for Entry into Force as part of the 2007 due-diligence activities and process; The vital documents include a Banking Agreement, Fiscal Accountability plan and Fiscal Agent Agreement.</p>      | <p>MCC and ACGEN Office</p>         | <p>Preliminary Drafts covering the Banking Agreement, a Fiscal Agreement and Plan have been prepared in collaboration with MCC. All works are on schedule</p>  | <p>A Lawyer is urgently needed to review the documents and prepare for negotiations with MCC lawyers. The Treasury is about to second a Lawyer to MCA -T.</p> |
| <p>iii) The Government should establish an independent Accountable Entity for an effective compact implementation. Should also decide as to where to place it given the expected placing of the Fiscal Agent in the Treasury. Purpose is to avoid conflict of interests.</p> | <p>MCA T Steering Committee/MCC</p> | <p>Constructive discussions with MCC were made on how this entity should be structured and where to be housed. More discussions on this will continue as part of the Due - Diligence in February 2007.</p> | <p>MCA - T did not see this as a big problem but MCC feelings are strong on this.</p>   |
| <p>iv) The Government and MCC need to agree on the structure of the Accountable Entity, the Board/Steering Committee, Management Unit and the Stakeholders Committee;</p>  | <p>MCA T Steering Committee/MCC</p> | <p>As above</p>  |   |
| <p>v) The need to form a Governing Board with a structure similar to the existing Steering Committee but with fewer members;</p>   | <p>MCA T Steering Committee/MCC</p> | <p>As above</p>  |   |

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| vi) In the view of MCC, A Stakeholders Committee, whose main responsibility will be to act as a third party pressure group, needs to be formed to replace the existing Technical Committee.   | MCA T Steering Committee/MCC | As above  |  |
| vii) The MCA T Management Unit is to be staffed by full time personnel recruited through an open and competitive process.   | MCA T/MCC                    | As above  | We need to agree on the timing of the recruitment process to ensure smooth continuity of activities. |
| viii) Governing Board and Stakeholders Committee members to receive no sitting allowances but refunds on actual expenditure.  | MCA T and MCC                | As above  | This is a matter of principle for the MCC. To us it may not be all that practical                    |
| ix) Seconding an experienced lawyer to assist the MCA-T to analyze and prepare legal documents as per MCC requirements  | Ministry of Finance          | On progress. The issue is being finalized at the Treasury.                        | Has to be in place before end of January 2007.   |
| x) The MCC's procurement practice has been through a centralized single procurement agent while the Tanzania Govt. procurement process is decentralized, involving many stakeholders/actors. This will have to be rationalized during the due diligence exercise. | PPRA, MCC and MCA T          | Discussions began during the last MCC mission and will continue in February 2007. |  |

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| xi) MCC expressed satisfaction with procurement capacity at the national level but had concerns with the existing capacity at the local Govt. level  | PPRA and Sector Ministries             | Discussions began during the last MCC mission and will continue in February 2007.   |   |
| xiii) MCC emphasized on the need to use one procurement law for both Tanzania Mainland and Zanzibar  | PPRA and Zanzibar                      | There is a consensus that the 2004 Procurement Act will be applicable as the Zanzibar Procurement law of 2005 is flexible and allows the use of the Mainland Procurement Act. |   |
| xiv) PPRA will have to continue to work closely with Heads of MDA Procurement Units with the view to prepare needed Procurement Plans, guidelines and Agreements for the Compact;                                      | PPRA, MCC, MCA T and sector Ministries | A proposal on procurement arrangements was discussed with the MCC Mission. Drafting of the Procumbent plan and agreement will continue during the due diligence exercise.     |   |
| xv) ACGEN to finalize the plan for the management of financial transfers to Zanzibar   | ACGEN, MCC, MCA T Steering Committee   | The current thinking is to channel the funds through the Vice President's Office  | MOFEA will liase with VPO and agree on the modalities |
| xiv) ACGEN will have to complete the remaining tasks and at the same time maintain a close liaison with MCC-Washington in finalizing the Fiscal Accountability Plan, Fiscal Agent Agreement and the Banking Agreement. | ACGEN, BOT and MCA T                   | Work has already began  |   |

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| <p>xv) The Ministry of Finance to make a formal response to MCC over the interest payment issue. This needs to be done as soon as possible, as same will allow MCC to decide quickly on both the Procurement and Fiscal issues. BOT to liaise with MCC - Washington with the view to finalize the draft Banking Agreement.</p> | <p>Ministry of Finance, BOT MCA T</p> | <p>The BOT feels that payment of interest is not something unusual.</p>  | <p>In consideration of the importance of the Compact projects to the country, it is recommended that the Government through the Bank of Tanzania accept the proposed content for the Banking Agreement and thus, pay interest to the US Government.</p> |
| <p>xvi) MCA-T Office to follow up on all pending issues before a detailed appraisal of project by project including site visits by MCC experts in January/February 2007.</p>   | <p>MCA T Coordination Office</p>      | <p>On progress as scheduled. A meeting of the Technical Committee to review progress was organized on 3rd and 4th of January 2007.</p> | <p>An M&amp;E MCC Team will arrive in Tanzania from the 17th of January 2007. More economic analysis on projects will be carried out including some site visits.</p>  |
| <p><b>3: OTHER RECENT COMMUNICATION ISSUES WITH MCC</b></p>  |                                       |  |   |

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| <p>i) The Government (NAO) to conduct the IT system and Application audit before accepting EPICOR as the Financial Management System for MCC funds. The audit is necessary for the decision whether to use the Government system or procure an external Fiscal Agent to oversee MCA resources.</p> | <p>MOF, NAO</p> |  | <p>MOF to formerly invite NAO to conduct the audit</p>   |
| <p>ii) MCC, through a formal communication to MCA T, feels that there is no noticeable progress in areas of TANESCO cost recovery and Energy Sector Strategy. In addition, MCC is not yet convinced that the proposed energy sector projects are viable.</p>                                       | <p>MEM</p>      | <p>On the 5th of January 2007 MCA - T sent to MCC a brief status report submitted by the Ministry.</p> | <p>To – date, MCC remains unclear on its involvement in the energy sector. However of late, there is some interest in the Malagarasi project in regards to Due Diligence</p> |

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| <p>iii) Preparation of detailed <b>Work Plan</b> incorporating elements of consultative process with stakeholders. There should also be a complete work plan for all consultation activities between 2007 and Compact signing as well as periodic progress reports.</p>   | <p>MCA T Coordinating Office</p>     | <p>The MCA-T has already prepared a Work Plan including consultative activities; consultations with project beneficiaries is continuing; and arrangements to publicize the Compact development process and developing an MCA-T website are underway. The MCA T website is expected to be ready by February 2007.</p> | <p>Consultative visits and meetings undertaken in December and early January 2007 covered Mtwara, Songea Kigoma, Morogoro and Mafia. Other areas to be visited before end of February are Zanzibar/Pemba and rukwa. Tanga will be covered in January 2007 with the Due Diligence team.</p> |
| <p>iv) Tanzania is slipping in implementing the Threshold Program. This might affect the compact as we may not be able to demonstrate that Tanzania has enough capacity to spend the requested amount. In addition, Tanzania has to continue to pass the MCC corruption indicator on an annual basis in order to be eligible for MCA funding.</p> | <p>Policy Analysis Division, MOF</p> | <p>USAID (Tom Bayer) was organizing a meeting with the Commissioner for Policy in the Ministry of Finance to address these overarching issues. The MCC CEO will want an explanation or views on progress and evaluation of effectiveness.</p>  | <p>There is a need for an update on the progress. Need for USAID/Treasury to be much closer. One year is almost gone.</p>  |

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| v) The Anti-Money Laundering Bill that was passed by the Parliament needs to be signed as soon as possible to enable operationalization of the Financial Intelligence Unit (FIU) and hence speed the Threshold spending and expected output. | MOF | Relevant Authorities are finalizing the document. |   |
| vi) The Financial Intelligent Unit should be operational prior to Compact signing.   | MOF | Treasury working on modalities.                   |   |
| <b>4: EMERGING ISSUES FROM STAKEHOLDERS CONSULTATIVE MEETINGS</b>  |     |   |   |
| i) The current proposal to upgrade Kigoma Airport is inadequate to meet future potential demand and thus, there is a need to upgrade it to accommodate bigger planes like Boeing 737 aircraft.   | TAA | The proposal is available                         | MCA-T is tempted to agree with the observation. It s up to the respective Ministry to build on the case during Due Diligence. |

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| <p>ii) MCA-T Team was informed that the African Development Bank (ADB) had shown firm commitment to finance the Kigoma Malagarasi Min-Hydropower Plant project. ADB will provide a concessional loan for generating electricity amounting to 9 MW from Igamba falls in the Malagarasi river.</p> | <p>MEM and TANESCO</p>                        | <p>The proposed financing from ADB is US\$ 35 Million, formal communication on the financing arrangement form ADB is not yet received by MEM</p> | <p>The Government (MCA-T) and MCC will discuss the matter in detail during the forthcoming Due-Diligence exercise and thus make firm decision on who should finance the project.</p> |
| <p>iv) The Government should give priority the road segments: Kigoma-Kasulu (90 km); Kasulu-Kibondo (150 km) and Kibondo - Nyakanazi (91 km) because they are a top priority for the Kigoma region and have robust economic and trade potentials with Burundi and Rwanda.</p>                    | <p>Ministry of Infrastructure Development</p> | <p>The project write - up and feasibility study documents were forwarded to MCC in November 2006.</p>  |  |
| <p>v) Stakeholders for the Kidunda Dam want a Multi-purpose dam.</p>   | <p>Ministry of Water</p>                      | <p>Have communicated these views to MCC.</p>   | <p>Will discuss during Due - Diligence</p>   |