

THE UNITED REPUBLIC OF TANZANIA

REPORT ON MCC/MCA AND STATUS OF PREPARATION OF PROJECT PROPOSALS FOR TANZANIA

1. The Millennium Challenge Corporation (MCC) is an organization established in 2004 by the Government of the United States of America with a specific assignment to administer special funds set aside (the Millennium Challenge Account - MCA) as part of the USA Government's commitment made at the 2002 monetary summit.

2. The Fund supports development efforts of countries that have demonstrated a genuine desire and introduced reforms aimed at developing strong and sustainable economy, and improving quality of life and social well being of their people. Eligible countries are given the responsibility to develop own compact proposals in line with MCC guidelines and an agreed set of criteria.

3. A country becomes eligible after passing more than eight indicators out of sixteen, broadly grouped in the following main categories:

- Good governance
- Human resource development; and
- Economic and trade liberalization

Tanzania passed the test in November 2005 and became the 23rd country selected to join the MCA Programme. Consequently, the country had to prepare an MCA Compact proposal in line with the funds objectives and guidelines i.e. projects which address both economic growth and poverty reduction.

5. Despite Tanzania's eligibility to the programme, corruption still remained an area of concern. In that respect, it was agreed to have a Threshold Programme for Tanzania alongside with the preparation of a Country Compact Proposal (CCP). Threshold assistance helps countries to address specific areas of policy weakness identified in the MCA selection criteria. The Threshold Programme amounting to US \$ 11.5 million was signed by the President of the United Republic of Tanzania and MCC CEO on 17th May 2006 in Washington D.C. As per the implementation agreement, funds are managed by USAID in close collaboration with respective sector Ministries. Implementation of the program has already started. Sectors to be

taken on board are mainly the Legal sector, Police, NGOs, the Media and Procurement among others.

6. It is important to note that, MCA eligible countries are expected to continue to adhere to the agreed performance on the basis of the indicators. Failure to adhere leads to termination of assistance. Gambia is an example of a country that failed adherence conditionality, culminating in suspension of the country from the programme as from the 16th of June 2006.

B: THE COMPACT PREPARATION STATUS

7. Preparation of the Country Compact Proposal (CCP) started in February 2006 with appointment of MCC Coordinator for Tanzania. The following activities have been accomplished:

- a) MCC Tanzania acquired an office at the Water Front Building. Needed modifications have been undertaken and staff moved in on the 8th of August 2006.
- b) Close consultations between the MCC-T Coordinator and MCC Washington have been maintained. The MCC Transaction Team for Tanzania has visited Tanzania four times between January and August 2006. The last of such visits was between the 8th and 18th August 2006.
- c) Members to the Inter-Institutional Steering Committee have been appointed and four meetings held by the 3rd of August 2006. The Chairman of the Steering Committee is the Permanent Secretary to the Treasury.
- d) A Technical Committee Team made up of experts from respective institutions represented in the Steering Committee has been formed and it is the Core Team in the preparation of the CCP Tanzania.
- e) The Compact proposal for Tanzania has been completed, approved by the Government and submitted formally to MCC Washington.
- f) MCC-Washington has scheduled September 2006 as the time to start working on a due diligence exercise on the country proposal. This is subject to getting clearance from the MCC Investment Committee.
- g) MCC Washington has set a ceiling on what we can ask for. The amount should not exceed US \$ 800 million over a period of five years.

C. IMPORTANT ISSUES

8. So far, Tanzania has made good progress towards the preparation of the country's CCP but there is still a challenging task ahead before signing of a Compact Agreement. We need proper planning and coordination at the departmental level within the government machinery including adherence to the established transparent procedures and regulations. There is no room for laxity throughout the process. In that respect the following are important:

- a) **Proposed Projects**

Following the consultations undertaken during the preparation of the National Strategy for Growth and Reduction of Poverty (MKUKUTA in Tanzania Mainland and MKUZA in Zanzibar) there was no problem in identifying priority projects. A large number of projects amounting to US 2,221m were identified, while the ceiling given to us was \$ 800 million only.

- b) **Important Criteria for the Proposed Projects**

Broadly the identified projects were to meet the following basic criteria, that is, to contribute to economic growth, sustainable income generation with the view to improve standard of living through infrastructure improvements covering transport, energy and water.

9. Given the overall goal of stimulating broad based economic growth, enhance income earnings of households and raise quality of life and social well-being, the MCA programme in Tanzania has the following three objectives:

- To expand and strengthen transport infrastructure so as to stimulate economic activities in rich agricultural areas, improve access to basic services and enhance exploitation of tourism potential in key tourist destinations in Tanzania Mainland and Zanzibar.
- To improve water infrastructure networks so as to ensure clean and safe water supply for domestic and productive use in specific urban and rural areas of Tanzania Mainland and Zanzibar.
- To increase the capacity of supplying power to consumers in both urban and rural areas through improvement of energy infrastructure (generation, transmission and distribution systems) so as to facilitate

rapid socio-economic development in Tanzania Mainland and Zanzibar.

10. The MCA-T programme has been developed through a consultative process that involved all key stakeholders including Parliamentarians, Government Ministries Departments and Agencies (MDAs). Others were research and academic institutions, Civil Society Organization (CSOs), the private sector, gender and advocacy groups, and development partners.

The process of selecting projects was based on an agreed set of criteria as outlined below:

- i) Having feasibility or pre-feasibility study;
- ii) Having direct link to growth and poverty reduction;
- iii) Having strong linkages with other sectors;
- iv) Should emanate from national/sector strategies and master plans;
- v) To be implemented/completed within 5 year period;
- vi) No donor conflicts; and
- vii) Having a sustainability strategy.

D: STAKEHOLDERS PARTICIPATION

11. Involvement of other stakeholders was discussed immediately after Tanzania was admitted to the programme. Both sides agreed that most of the critical stakeholders were taken on board during the MKUKUTA/MKUZA preparation process. However for the purpose of information sharing, it was agreed that few consultative meetings with some stakeholders would be held. Bearing this in mind, the following have been done or adopted:

(i) Inter-Institutional Steering Committee

A Steering Committee consisting of members drawn from both Government Departments and Non State actors has been instituted. As of the 10th August 2006, the Steering Committee had the following members:

- (a) The Permanent Secretary Ministry of Finance - Chairman
- (b) The Permanent Secretary Ministry of Planning, Economy and Empowerment
- (c) The Permanent Secretary Ministry of Energy and Minerals
- (d) The Permanent Secretary Ministry of Infrastructure Development
- (e) The Permanent Secretary Ministry of Water

- (f) The Permanent Secretary Prime Minister's Office
- (g) The Permanent Secretary Regional Administration and Local Government
- (h) The Permanent Secretary Ministry of Foreign Affairs and International Cooperation
- (i) The Permanent Secretary Finance and Planning Zanzibar
- (j) Executive Secretary – Tanzania Business Council (TNBC)
- (k) Chief Executive Officer – CTI
- (l) Chief Executive Officer – TCCIA
- (m) Executive Director – TANGO
- (n) Techno Serve/Tanzania (an International – NGO)

(ii) The Technical Committee

A Technical Committee with similar institutional representation as the Steering Committee has been established. The aim is to ensure that the CCP is a result of a wider involvement of stakeholders. In doing its work, the Technical Committee involved REPOA and ESRF consultants in the preparation of the CCP.

(iii) Meeting with Donors

Efforts have been made to ensure that lead Agencies are involved in the whole process. MCC is simply taken as one of our Development Partners providing financial support to Tanzania and not as a Competitor.

(iv) Meeting with the Parliamentary Committee on Foreign Affairs

On 24th March 2006, the MCC Coordinator made a presentation to the Parliamentary Committee on Foreign Affairs. The members of the Parliamentary Committee on Foreign Affairs endorsed the programme as it had the noble objective of supporting development efforts of poor countries.

E: The Due Diligence

12. This process is a very important one as it will culminate in the final list of projects to be presented to the **MCC Board of Directors**. It is in this respect that proposed projects have been carefully selected to avoid those

with obvious limitations or shortfalls. The selected projects are those with feasibility studies undertaken by qualified experts. Projects with no feasibility studies or whose feasibility studies cannot be completed in a short time were not included although some stakeholders would like to include them.

F: CONCLUSION

13. This information is being provided with the view to improve public awareness of MCC/MCA activities in Tanzania. The task of promoting economic growth and reduction of poverty is not a monopoly of the government. It requires a close cooperation of all government officials and the citizens. While the duty of the Government is to provide an enabling environment, citizens and investors are expected to work hard, take risks, be innovative, serious and without scapegoat finding attitudes. Government officials on the other hand are required to be honest, faithful, trustworthy, hard working, attentive and result oriented at work. Otherwise a short cut to achieving economic growth and poverty reduction does not exist in real world.

MCC -T Coordinator
13th September, 2006