MILLENNIUM
CHALLENGE
CORPORATION
REDUCING POVERTY THROUGH GROWTH

CONGRESSIONAL NOTIFICATION TRANSMITTAL SHEET

We wish to inform the Congress of our intent to provide funding of up to US$698,136,000 for a Millennium Challenge Compact with the Government of Tanzania.

Allocation and obligation of funds may be incurred on or after fifteen days from the date of this notification. MCC intends to obligate pursuant to Section 605 of the Millennium Challenge Act of 2003 (the "Act") up to US$686,240,000 when the Compact enters into force. These funds will be disbursed on a periodic basis over the course of the Compact subject to satisfaction of relevant conditions precedent.

In order to accelerate implementation of the Compact, MCC will obligate up to US$11,896,000 of the total amount when the Compact is signed, pursuant to 609(g) of the Act.

The attached notification is being sent to Congress on January 10, 2008.

Sincerely,

Matthew K. McLean
Vice President
Congressional and Public Affairs

Enclosure:
As stated

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CONGRESSIONAL NOTIFICATION
January 10, 2008

Pursuant to [Section 515 of the Foreign Operations, Export Financing and Related Programs Appropriations Acts of 2005 and 2006 (Public Laws 108-447 and 109-102)] the Millennium Challenge Corporation ("MCC") wishes to notify the Congress of its intent to enter into a Millennium Challenge Compact ("Compact") with the Government of Tanzania ("GoT") through which MCC will grant up to US$698,136,000 of FY 2008 funds. MCC intends to obligate up to US$686,240,000 under Section 605 of the Millennium Challenge Act of 2003 (the "Act") when the Compact enters into force. These funds will be disbursed on a periodic basis over the course of the Compact subject to satisfaction of relevant conditions precedent. In order to accelerate implementation of the Compact, MCC will obligate up to US$11,896,000 of the total amount ("Compact Implementation Funding") when the Compact is signed, under Section 609(g) of the Act. The Compact Implementation Funding is included in the total amount of MCA funds under the Compact and will not increase overall MCA funding commitment to Tanzania.

Compact funds will support the following projects (each, a **Project**):

1. Transport Sector Project
2. Energy Sector Project
3. Water Sector Project

Under Section 610(a) of the Act, the appropriate Congressional committees were notified on May 31, 2007 of MCC's intent to commence negotiations with Tanzania. Key elements of the Compact are set forth in the accompanying summary. MCC will provide final text no later than 10 days after the execution of the Compact, as provided in Section 610(b) of the Act.

MILLENNIUM CHALLENGE COMPACT BETWEEN THE UNITED STATES OF AMERICA, ACTING THROUGH THE MILLENNIUM CHALLENGE CORPORATION, AND THE GOVERNMENT OF TANZANIA

The five-year, $698 million Millennium Challenge Corporation grant to the United Republic of Tanzania seeks to reduce poverty, stimulate economic growth, and increase household incomes through targeted infrastructure investments in transport, energy, and water.

Background

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

Transport Sector Project ($373 million)

Transport infrastructure in Tanzania is inadequate to meet the needs of the country's widely dispersed population. By rehabilitating a group of trunk roads on the mainland, the airport on Mafia Island, and selected rural roads on Zanzibar, the Transport Sector project aims to reduce travel times and transportation costs that will lead to increased economic opportunities. Moreover, improved roads help connect road users and communities with markets, schools, and health clinics. The components under this project include:

- The Mainland Trunk Roads activity, totaling $351.9 million, will rehabilitate and upgrade three trunk roads on the mainland: (i) Tanga - Horohoro, a 68 km stretch of highway in northeast Tanzania connecting the seaport of Tanga with Horohoro at the Kenyan border that will ease transport of goods between Dar es Salaam and Kenya; (ii) Tunduma - Sumbawanga, a 224 km stretch of highway in western Tanzania, a fertile agricultural area, constituting the southernmost part of the Western Corridor and representing the only link between Dar es Salaam and Zambia; and (iii) two segments of the Mtwara Corridor, a 139 km stretch of highway in southwestern Tanzania, the westernmost part of the Southern Corridor that runs from the Indian Ocean port of Mtwara to Mbamba Bay on Lake Nyasa.

These two segments connect the capitals of two districts, Nantumbo and Mbinga, with Songea, the capital city of the Ruvuma region.

- The $13.5 million Zanzibar Rural Roads component will improve up to five rural roads on Pemba Island, totaling approximately 35 km.
- The project also includes $750,000 in funds for road maintenance to enhance Tanzania's capacity to maintain its road network. This activity will support strategic maintenance planning and the management of routine and periodic maintenance of contracts.
- The Mafia Island Airport activity totals $6.6 million and will provide aviation and public safety related facilities at the airport on Mafia Island, which is located off the east coast of Tanzania. Due to the poor condition of the airport and lack of feasible alternative transportation options, this activity will keep the airport open and prevent the island's 45,000 residents from being cut off from the mainland.

Energy Sector Project ($206 million)

Currently in Tanzania, industry, businesses, and households suffer from either a lack of energy services or unreliable service. Where electricity is available, the quality of supply is poor, and blackouts and other service interruptions are common. The Energy Sector project will improve electricity service and coverage in Tanzania through the addition of new power generation, transmission and distribution capacity, as well as through much needed reinforcement of the existing network. The project is expected to result in improved reliability and quality of electric power, and the extension of service to communities and businesses not currently served. The components of the Energy Sector project include:

- The $63.1 million Zanzibar Interconnector activity includes laying an approximately 40 km long, 100MW capacity submarine electric transmission cable from the mainland to Unguja Island, along the path of the existing submarine cable that is reaching its limits in both capacity and lifespan. To support the additional transmission capacity, the activity also includes the reinforcement of substations at either end of the cable, as well as the corresponding installation of supplementary transmission capacity along existing lines. This activity is expected to provide a reliable and non-polluting power supply to Unguja Island, the largest island in the Zanzibar archipelago, which is entirely dependent on power supply from the mainland. This will allow the island to continue to develop its potential as a high-value tourist destination, and will also improve the productivity and quality of life for the island's population.
- The $53.7 million Malagarasi Hydropower and Kigoma Distribution activity includes the construction of a small run-of-river hydropower plant on the Malagarasi River at Igamba Falls, and the extension of a mini-grid system in the Kigoma region. Lack of access to reliable power has been one of the major constraints to investment in commercial and industrial operations in this region. This activity seeks to replace costly, inefficient, and polluting diesel power generation with affordable, reliable, and clean renewable small-scale hydropower. The expanded distribution system will also facilitate the electrification of rural villages and towns.

- The $89.7 million Distribution Systems Rehabilitation and Extension activity will rehabilitate the existing distribution infrastructure and a number of small distribution line extensions to unserved areas in six regions - Mwanza, Tanga, Morogoro, Iringa, Dodoma, and Mbeya - that were identified by the Government of Tanzania as priority areas for investment. This activity will address the growing demand and the corresponding strain on the network to deliver reliable and quality power to industrial and commercial users, as well as to households, in these regions.

Water Sector Project ($66 million)

Tanzania faces a serious shortage of access to clean and safe water, resulting in a high incidence of water-related disease, decreased workforce productivity, and a constraint for business growth. To address this issue, the Government of Tanzania in coordination with other stakeholders developed a 20-year program known as the Water Sector Development Program. The Water Sector Development program identifies all activities under the MCC-funded Water Sector project as priorities. Designed to increase the quantity and reliability of potable water for domestic and commercial use, the Water Sector project focuses on improving water supply infrastructure in the two cities of Dar es Salaam and Morogoro. By increasing the volume of water supply, the Water Sector project is expected to reduce the prevalence of water-related disease, to increase time available for productive activities such as education, and to promote greater investments in physical capital. The components of the Water Sector project include:

- Dar es Salaam, Tanzania's largest city and commercial center, is experiencing a severe water crisis due to a shortage of water supply and poor water quality. The $24.5 million Lower Ruvu Plant Expansion activity will expand of the capacity of the Lower Ruvu water treatment plant from about 180 million liters per day to approximately 270 million liters per day.
- Currently, approximately 60 percent of Dar es Salaam water is lost due to physical leakages and commercial losses. The $36.2 million Non-Revenue Water activity aims to improve the system efficiencies of the Dar es Salaam Water and Sewerage Authority and Dar es Salaam Water and Sewerage Company to determine the locations and volumes of physical losses through leaks, and commercial losses as a result of deficiencies in billing and collection and theft. This activity will substantially reduce water resource waste and the need to develop new water sources through reduction of physical and commercial losses.
- The $5.6 million Morogoro Water Supply component seeks to improve the water supply in Morogoro, a city that, due to a growing population coupled with its aging water infrastructure, faces water supply deficiencies and increased health risks for its population. MCC assistance will be used to rehabilitate water intake and water treatment plants, and improve the existing distribution network.

Expected Results

Upon project completion, it is estimated that the program will directly or indirectly benefit approximately 4.8 million Tanzanians.