Ref. No. CDB.441/562/01

Country Director for Tanzania, Uganda and Burundi,
World Bank Country Office,
50 Mirambo Street,
DAR ES ALAAM

February 21, 2014

RE: SUBMISSION OF THE LETTER OF DEVELOPMENT POLICY FOR THE
SECOND POWER AND GAS SECTOR DEVELOPMENT POLICY
OPERATION (PGSDPO-II)

The subject above refers.

As you might be aware, the letter of Development Policy for the Second Power and Gas Development Policy submitted to the World Bank during the negotiation of the credit held in Dar es Salaam from 13th to 14th February, 2014, had some minor typos. The typos has been corrected as follows: In page 5 paragraph No.15 4th line from below, the word “Mtarwa” has been replaced by the word “Mtwara” and in page 12 paragraph No. 36 the second line from above the word “is” after the word framework has been deleted.

The Government is officially submitting the corrected letter to the World Bank to facilitate the process of credit approval by the Board.

Thank you for your cooperation.

John S. Mavura
For: PERMANENT SECRETARY-TREASURY

CC: Permanent Secretary,
Ministry of Energy and Minerals,
DAR ES SALAAM.
THE UNITED REPUBLIC OF TANZANIA
MINISTRY OF FINANCE

Telegrams: "TREASURY", Dar es Salaam,
Tel: 211174/6, Fax 2110326. Telex:
41329.
(All Official communications should be addressed to the Permanent Secretary to the Treasury and NOT to individuals).

In reply please quote:

Ref. No. CDB.441/562/01

February 13, 2014

Country Director for Tanzania, Uganda and Burundi,
World Bank Country Office,
50 Mirambo Street,
DAR ES SALAAM

RE: LETTER OF DEVELOPMENT POLICY FOR PROPOSED SECOND
POWER AND GAS DEVELOPMENT POLICY OPERATION

On behalf of the Government of the United Republic of Tanzania, I hereby an request approval of the Second Power and Gas Development Policy Operation (PGSDPO-II) in the amount USD 100 million (SDR equivalent). This credit, the second in the series of three operations, will assist in implementation of the Government programme in the energy sector towards: (i) strengthening the country's ability to bridge the financial gap in its power sector; (ii) reducing the cost of electricity supply and promoting private sector participation in the power sector; and (iii) strengthening the policy and institutional framework for the management of the country's natural gas resources.

BACKGROUND AND RECENT DEVELOPMENTS

A. MACROECONOMIC PERFORMANCE

1. Tanzania continued to maintain high economic growth in 2012, with real Gross Domestic Product (GDP) growing at a higher rate compared to growth in 2011. The good economic performance was a
result of increased economic activities especially in communication, construction, financial services and mining sectors during the year.

2. Real GDP grew by 6.9 percent in 2012, higher than the growth rate of 6.4 percent in 2011, attributed to continued implementation of the Financial Sector Reform Program which resulted into improvements in banking and financial institution services; and increase in demand for money for investment in various projects; business services; and other economic activities. The sectors that performed well during the year include communications (20%), financial intermediation (13.2%), manufacturing (8.2), and mining and quarrying (7.8%).

3. The overall annual inflation has continued to decline during the last two years. The prudent and tight monetary policy implemented by the Government and falling domestic food prices has resulted into inflation declining to 5.6 percent in December 2013, down from 19.8 percent in December 2011. The Government continues to monitor movement in domestic food prices in the context of the food situation in neighbouring countries.

4. Annual average food and non-alcoholic beverages inflation has declined significantly to 8.6 percent in 2013 from 20.2 percent in 2012. Furthermore, the annual average non-food inflation has decreased to 7.5 percent in 2013 from 10.7 percent in 2012 while annual average inflation excluding food and energy (core inflation) has decreased to 6.2 percent in 2013 from 8.8 percent in 2012.

5. During the year ending November 2013, overall balance of payments recorded a surplus of USD 540.2 million compared with a surplus of USD 405.0 million recorded in the corresponding period in 2012. This development was partly due to increase in official capital inflows, non-concessional borrowing and foreign direct investments. Gross official reserves amounted to USD 4,538.7 million as at the end of November 2013, sufficient to cover 4.4 months of projected imports of goods and services excluding those financed by foreign direct investment. The current account recorded a deficit of USD 4,553.5 million compared to a deficit of USD 3,708.3 million reported in the year ending November 2012, mainly attributed to a fall in goods exports and official current transfers coupled with increase of imports.

6. The value of exports of goods and services declined to USD 8,479.8 million in the year ending November 2013, from USD 8,603.8 million recorded in the corresponding period in 2012. The decline was largely
explained by a decrease in the value of goods exports particularly gold and traditional exports that decreased by 16.9 percent and 8.1 percent, respectively when compared to the amount recorded in the year ending November 2012. The value of imports of goods and services increased to USD 13,588.3 million during the year ending November 2013, from USD 13,007.8 million recorded in the corresponding period in 2012. Much of the increase originated from oil imports, which rose by about 23 percent when compared to the amount recorded in the year ending November 2012 on account of increase in volume associated with rising demand for thermo power generation. Meanwhile, the share of oil to total value of goods import increased to 39.1 percent by November 2013 compared to 33.0 percent in the year ending November 2012.

7. In November 2013, extended broad money supply (M3) recorded an annual growth of 10.3 percent, compared with 10.6 percent recorded in the corresponding period in 2012. This growth was however lower than 13.2 percent recorded in the preceding month, mainly on account of slowdown in net government borrowing from the banking system. During the year ending November 2013, the Government borrowed a total of TZS 599.2 billion on net terms from the banking system compared to TZS 1,148.1 billion recorded in the year ending October 2013. Net Foreign Assets (NFA) of banks contracted by 66.7 percent, while credit to private sector recorded an annual growth of 14.6 percent from 13.7 percent in the year ending October 2013.

8. The Parliament approved the Government budget for FY2013/14 in June 2013 with overall fiscal deficit of five percent of GDP, a significant reduction in deficit compared to 2012/13. This target is consistent with the Government objective of maintaining fiscal sustainability, lowering the risk of debt distress, and avoiding inflation pressure. The Government had targeted higher domestic revenue collection supported by new tax policy and administration measures in order to finance priority programs and projects in infrastructure and social services. The Government has selected key development projects in six priority sectors as part of the BRN initiative to foster shared growth in the country while sustaining the gains achieved in social service delivery.

9. Nevertheless, domestic revenue collections during the first half of FY fell short of initial targets by almost 10 percent on account of non-implementation of some tax policy measures such as SIMCARD tax. Recognizing this, the Government is set to implement fiscal adjustments during the mid-year budget review to be finalized in February 2014 in order to achieve the fiscal target of five percent of GDP. While on revenue side, collections are expected to improve during the second half of the FY as a result of the agreement reached with telephone companies to replace
the proposed SIMCARD tax by a higher excise tax rate of 17 percent up from 14.5 percent. On the expenditure side, the Government will implement expenditure cuts on non-priority current spending as well as slowing down implementation of domestically funded development projects that are not part of the BRN initiative. Moreover, the recent increase in the electricity tariff is expected to reduce the amount of Government’s subsidies to TANESCO.

10. As of December 2013, the national debt stock stood at TZS 27.0 trillion compared to TZS 22.7 trillion recorded at the end of December, 2012. This is an increase of 16.1 percent of this amount, TZS 23.52 trillion is public debt and TZS 3.52 trillion is private sector debt. The debt increase was due to increase in concessional and non-concessional borrowings and accumulation of interest arrears on external debt especially from Non Paris Club creditors that have not provided debt relief as per the agreement.

11. In order to ensure that the national debt is sustainable, the Government conducted Debt Sustainability Analysis (DSA) in February, 2012 (followed by another in September 2013) based on international standards namely: the ratio of present value of public debt to Gross Domestic Product (GDP); the ratio of present value of external debt to exports; and the ratio of total external debt services to revenue from exports. The results of this analysis revealed that, all important sustainability indicators were below the international set threshold and hence the national debt is sustainable.

**B. MACROECONOMIC PROJECTIONS**

12. The review of leading indicators of growth such as electricity generation, production and consumption based tax revenues, importation of industrial raw materials, and exports of manufactured goods, mineral and agricultural commodities and the trend of the economic performance in the first half of 2013 supported by Government continued efforts to stabilize power supply and implementing the FYDP I shows that the economy will remain buoyant in the short and medium term.

13. GDP was projected to grow at 7.0 percent in 2013. On the basis of the indicators discussed above, and the fact that the growth rate of GDP for the first half of 2013 was 7.0 percent, the projected GDP growth rate is likely to be achieved. Going forward, the growth is projected to increase, growing at annual average of 7.6 from 2014 to 2017. This performance is under the assumption of successful implementation of
economic policies; favorable weather condition; continued efforts by the Government to improve and stabilize power supply including the ongoing construction of the gas pipeline from Mtwara to Dar es Salaam; and recovery of the world economy in 2014.

C. THE ENERGY SECTOR BACKGROUND

14. Tanzania is endowed with diverse energy resources, including hydro, natural gas, biomass, coal, geothermal, and solar and wind, much of which remains untapped. There are no oil discoveries in the country up to date and, therefore, liquid fuel is imported for various uses including power generation. Access to modern energy is gradually expanding and has reached about 24 percent of the population. The installed generation capacity is about 1,583 MW composed of hydropower plants and 562 MW (or 36 percent), natural gas power plants of 527 MW (or 33 percent) and liquid fuel power plants of 495 MW (or 31 percent). About 417 MW are generated independent power producers (IPPs) and Emergency Power Producers (EPPs)

15. Tanzania’s natural gas discoveries up to date amount to about 35 trillion standard cubic feet (Tcf) of reserves, most of which are in deep offshore areas and are yet to be developed. There are two producing gas fields, at Songo Songo and Mnaazi Bay, with proven reserves of 880 billion standard cubic feet (Bcf) and 262 billion Bcf, respectively. The Songo Songo project was developed as a joint venture between Government-owned Tanzania Petroleum Development Corporation (TPDC) and private companies. The field is connected to Dar es Salaam by a gas pipeline, where it supplies power plants and some other industrial consumers. The Mnaazi Bay gas field is not yet connected by pipeline to the main market around Dar es Salaam and provides gas only to a small local power plant at Mtwara Region. The Government has issued a number of licenses for gas exploration and development to private sector developers (including some major international oil companies), who are particularly active in the deep offshore areas.

16. The Government has undertaken substantial reforms in the power sector over the last decade. In 2003, the National Energy Policy was adopted, which established affordable and reliable energy supplies in the whole country as a key objective and stressed the importance of increasing rural energy access through grid and off-grid extension. A Rural Energy Act was adopted in 2005, leading to the creation of the Rural Energy Agency (REA) and the related Rural Energy Fund (REF). An independent Energy and Water Utilities Regulatory Agency – EWURA – in charge of technical and economic regulation of the electricity, water
sectors and downstream petroleum and natural gas segments, became operational in 2006. In 2008, a comprehensive Electricity Act was adopted, which reflected many of the international best practices for electricity sector reforms, tailored to the specific realities of the Tanzanian environment. The Act also established a general framework for the powers of the Ministry of Energy and Minerals (MEM), including the new mandates and requirements to prepare and publish a policy for the reorganization of the electricity market and to develop a rural electrification plan and database.

17. The Electricity Act established a stronger framework for commercial operation and governance of TANESCO, whose Board of Directors includes representatives from both private and public sectors. The MEM has a performance contract with the Board, including key performance indicators (KPIs). The Board of Directors, in turn, has a performance contract with management of TANESCO, which also includes a set of KPIs. In terms of internal governance, TANESCO has a performance management process for all officers and employees and has been developing a Performance Development Program for its regional centers.

18. In 2010, we also adopted a National Public-Private Partnership (PPP) Law and the passing of the PPP Policy in 2009. This law makes reference to sector level PPP Nodes, including in the national electricity sector. Accordingly, the MEM and TANESCO have created PPP Nodes, which should help implement Government’s policy of enhanced private sector participation in the power sector, especially in electricity generation.

**Recent Development**

19. Over years, Tanzania’s mix of power plants has been depending on hydropower, making electricity supply vulnerable to the droughts. Since 2011, the country experienced below-average hydrology conditions, which reduced generation of hydropower. Given also fast growing demand, the existing thermal power plants were not able to cover the growing power generation gap. As result, TANESCO – the country’s power utility – had to procure 325 MW in “emergency power plants” (EPPs) through short-term contracts with private operators, in order to avoid load shedding that would have been economically even more costly. The short-term, emergency nature of these contracts and the fact that EPP plants have to operate on liquid fuel as gas supply is limited, electricity produced by the EPPs is relative expensive. Unable to pass the increased prices on consumers in such a short period, TANESCO quickly developed significant financial arrears, estimated at over USD 270 million at the end of 2012.
III. THE GOVERNMENT PROGRAM

A. POLICY OBJECTIVE

20. To manage the situation in the sector and particularly in TANESCO, the Government has adopted a policy response that rests on two pillars: (i) help TANESCO cover part of the financial deficit through subsidies, commercial borrowing, and efficiency improvements, providing transitional time for electricity tariffs to catch up with the sudden input price shock and for building new power plants to replace the EPPs, smoothing out the economic and social impact and aligning tariff with long-term costs; and (ii) take measures in the electricity and gas subsectors to reduce cost of electricity supply by increasing gas supply and building more efficient gas-based power plants. In addition to reducing the cost, this would also mitigate the hydrology and oil price risks in a sustainable manner. This policy come naturally with the third pillar of the Government energy policy – (iii) to develop gas sector, both in the short and long term, ensuring sustained supply of gas to the power sector and expanding it to other domestic economic areas, as well as to export large quantities of gas to international markets to raise necessary revenue for domestic development.

21. The objectives of the Government program are to: (a) ensure self-standing financial equilibrium in the power sector by FY2018; (b) reduce the cost of power generation and vulnerability of the power sector to the risk of hydrological variations and other external shocks; (c) ensure sustainable development of the power and energy sectors in a transparent manner that would allow increasing access to electricity and other forms of modern energy at least cost and with requisite reliability and quality of supply; and (d) develop the gas sector in a manner that maximizes its benefits to Tanzania’s social and economic development.

22. The policy measures in the energy sector respond to the current national growth and poverty reduction strategy, MKUKUTA II, which considers reliable supply of energy as a critical driver for growth and income poverty reduction with operational targets set for increases in generation of electricity, utilization of capacity and coverage by 2015. Similarly, the first Five Year Development Plan (FYDP I) (2011/12-2015/16) presents the Government’s high-level policy priorities on infrastructure, including energy. FYDP I have included adequate investments in energy as a critical element for generating growth momentum and have adopted expansion of electricity generation capacity to 2,780 MW by 2015/16 as one of the 10 core investments in the
country. The Government has also launched the Big Results Now (BRN) initiative with the objective of enhancing implementation of FYDP I. The Government has established the Presidential Delivery Bureau (PDB) and conducted the first wave of “labs” in six National Key Results Areas (NKRAs), including one on energy.

23. The Government has adopted the recommendation of the Energy Lab report of NKRA/BRN, which was finalized in April 2013, and focused on the following three actions: (a) increase by 50 percent TANESCO revenues and energy delivered by revamping operations of existing assets, including delivering new gas to underutilized power plants, upholding water management practices, limiting energy losses in transmission and distribution, launching demand management initiatives and optimizing dispatching of EPPs and fuel supply; (b) deliver 7 high-priority generation projects and connect 590,000 new customers, supported by “business unusual” approaches to delivery, which will involve greater focus on prioritization, monitoring and evaluation (M&E), use of alternative sources of funding and fast-tracking approval; and (c) gradually restructure the power sector, including TANESCO, to establish a more transparent and attract investment and reward efficiency.

24. In the gas sector, where recent explorations discovered offshore gas reserves of the magnitude that are sufficient to be developed for export markets, as well as to meet domestic supply obligation, so as to use it for enhanced and shared economic growth. The Government has adopted the Natural Gas Policy, which was prepared through a broad-based participatory consultative process, as the starting policy document on how to convert the captured rent of natural gas into investments with high social returns for sustainable development. Following the Natural Gas Policy, the Government will follow up with a Gas Master Plan and development of the legal and regulatory framework for the hydrocarbon sector, aligned with the Gas Policy and with the goal of creating conducive environment for investment.

B. DESCRIPTION OF POLICY AREAS

25. As described in the Letter of Development Policy for the previous DPO (PGSDPO-I), the Government adopted a plan to address the TANESCO financial deficit by causing TANESCO to undertake the following sets of measures: (i) improve efficiency, such as, reduce the cost of electricity supply; (ii) increase revenues and their collection; and (iii) use commercial borrowing to finance part of the gap during the transition period needed to align tariffs and costs.
26. The key efficiency measure is reduction of generation costs through implementation of an investment program that includes addition of new generation capacity, largely – although note exclusively – based on the use of domestic gas, to replace the expensive, short-term emergency power supply contracts and to meet demand growth with adequate reserve margin and reliability of supply. TANESCO should reduce the capacity of and electric energy generation under the contracts with EPPs and phase them out completely by 2016/17. TANESCO will also continue with its effort to reduce system losses in transmission, distribution, and customer service (billing, metering, and bill collections). In order to ensure additional gas supply for power generation, a new gas 542-km pipeline is being constructed that would connect the existing gas fields at Mnazi Bay and Songo Songo island with Dar es Salaam.

27. Following TANESCO’s request for tariff adjustment in September 2013, in December 2013 EWURA issued a tariff order which raised electricity tariffs by 39.19 percent on average, effective January 1, 2014. The new tariffs will remain in effect for three years, until December 2016. The tariff order allows TANESCO to apply, during this period, for periodic tariff adjustment to reflect the movements in fuel prices, domestic inflation, and exchange rate fluctuations. The tariff increase is expected to result in a significant increase in TANESCO revenues, in excess of US$150 million annually for the coming years. TANESCO will finance any remaining financing gap from Government subsidies and commercial borrowing to the extent needed. Government has committed to limit the level of subsidies to TANESCO in FY2013/14 to 2.5 percent of controlled total budget expenditures (defined as total expenditure excluding wages, consolidated funds services, and foreign-funded development expenditures), and to 2 percent in the subsequent year. The Government has also committed to ensuring transparency and predictability in its transfers to TANESCO. In the approved budget of FY2013/14, the Government introduced a separate budget line labeled as “transfer to TANESCO”.

28. The Government has initiated a study with a view to developing a comprehensive, effective and output-based sustainable energy subsidy policy. The resulting policy is anticipated to appropriately define the principles on how to subsidize the energy sector, including both consumption and supply sides. Such policy is expected to be finalized and approved by November 2014.

29. The Government realizes the importance of attracting private investors in the energy sector, including in power sector, to help finance the enormous investments needs that can only be met in partnership between the public and private sector (public-private partnership – PPP).
As stated in the Letter of Development Policy for PGSDPO-I, the Government has adopted a policy to promote Private Sector participation in power generation through competitive process. Under the policy, the Government will select investors through a transparent, competitive process wherever feasible, to ensure transparency, fairness, and efficiency of the outcomes, using the best practices of international environmental and social standards. As the initial phase of implementation, the Government has launched PPP capacity building programmes. Specifically, the Government has started building the capacity for PPP projects and dedicated PPP units are already in place both in MEM and in TANESCO. MEM also adopted PPP strategy in 2013. A PPP training program has also been designed. Training courses covers such topics as designing legislative, institutional, and regulatory frameworks for successful PPP; and planning, measuring and managing continent liabilities and Government risks in PPP projects. The Government is committed to having at least one independent power plant (IPP) project under PPP arrangement being initiated and advanced to the point of inviting private sector bids under the DPO program and has identified a location for such a plant (a gas-fired power plant). The procurement process will be conducted by TANESCO. An invitation for expression of interests (EOIs) for transaction advisor for this project has been published. The scope of the services of such transaction advisor, if necessary will include but not necessarily be limited to the following: (i) site screening and due diligent; (ii) structuring the Project for private investment (developing PPP options; project structuring and risk allocation; financial modelling; market sounding; etc.); (iii) structuring the bidding process of selecting private sector developer; (iv) implementing the transaction: transaction marketing, pre-qualification of investors; development of contractual documents -- bidding and project documents such as a Power Purchase Agreement, Gas Fuel Supply Agreement, Implementation Agreement and others, as appropriate; implementing the bidding process; and assisting with the contract award; and (v) financial closure of the Project. Through such services, such transaction advisor. This policy is fully is aligned with the EWURA Order in December 2013, which states that all new power projects are procured competitively in line with the Electricity Act, the Public Private Partnership Act, 2010 and the Public Procurement Act, 2011, and Rules and Regulations made thereunder.

30. The Government has also initiated a structural review of the power sector with the objective of determining its optimal structure that would be able to respond to the challenges ahead in terms of attracting investments, expanding access, ensuring efficient and reliable services, and promoting transparency and good governance. The review should be
concluded and adopted by the Government by June 2014, with a time-bound Roadmap for implementation. The preparation of such Roadmap is a part of recommendations of the Big Results Now (BRN) Energy National Key Results Area (NKRA) lab report, which the Government has adopted. The Ministry Delivery Unit (MDU) created under the Ministry of Energy and Minerals oversees implementation of those recommendations.

31. Tanzania has large natural gas reserves. In addition to near-shore gas (1.4 Tcf proven reserve with potential upsides in the range of 8 Tcf), the offshore gas reserve are estimated between 26 and 35 Tcf gas-in-place. Further work is ongoing to establish the size of the proven reserves. The challenge is to prepare the country for the gas economy and establish strong foundations to best take advantage of this potential resource wealth, including establishment of a sound fiscal regime to manage future revenue flows from such resource wealth and use of such revenues.

32. The Government has made progress in building gas-specific institution by adopting a Natural Gas Policy which was prepared through a broad public consultation process. The consultations, which started in October 2012, involved major stakeholders in the country such as private companies, donors, and civil society, the Parliament, and the public at large through publication of a draft on national newspapers. The Cabinet approved the draft in October 2013 and implementation started subsequently.

33. Setting up an Authority to regulate the upstream natural gas sector is a critical next element in the natural gas institutional framework following the Natural Gas Policy. The Natural Gas Policy envisages the establishment of a national oil and gas company (NOC). If TPDC is to become the NOC, a new regulatory body for the upstream segment becomes essential since the NOC should be subject to an upstream authority. The functions of EWURA, which regulate the mid and downstream segments of the natural gas sub-sector, are well designed, but can be refined as well. To this effect, the Government envisages to establish an upstream regulator and to make small improvements in the EWURA Act for the mid and downstream natural gas sector.

34. Preparation of a Gas Act and development of a Natural Gas Utilization Master Plan are equally important next steps in building the natural gas legal and institutional framework, following the Gas Policy. The process of developing a bill focusing on midstream legislation (transport, storage, LNG) to enact the Gas Act has been delayed due to the extensive consultative process required for the Natural Gas Policy.
However, the Government is committed to submit a bill to the Parliament during (FY2014/15). Development of a Natural Gas Utilization Master Plan is also an ongoing exercise and needs to be completed as soon as possible.

35. The Government has embarked on the new initiative of developing Tanzania’s own natural resource charter based on the program under the New Partnership for Africa’s Development (NEPAD). The framework set for improved management of resources, including those from natural gas, and the Government has established an expert panel to conduct a benchmarking exercise. The panel was officially launched by the Government on December 13, 2013. The benchmarking exercise, to be conducted by the panel, aims to diagnose gaps and opportunities along the decision chain for natural resource management, including natural gas, from extraction to investing the financial proceeds. The results will be used to build an action plan and national vision to guide a program of activities to improve the governance and economic management of natural resource wealth.

36. An important step forward is the establishment of a sound and transparent institutional framework to implement a top-level institutional mechanism to enhance inter-sectoral cooperation on the gas policy agenda. The Government has set up a task force under the chairmanship of the Chief Secretary and with MEM’s secretariat role, to provide oversight and guidance on all issues related to oil and gas governance in the country. The task force is comprised of the Chief Secretary, Commissioner General of TRA, Governor of BoT, Executive Secretary of the President’s Office Planning Commission (POPC), Permanent Secretary of the Ministry of Finance (MoF), Permanent Secretary of MEM, Managing Director of TPDC, Attorney-General’s Chamber. The Government has also mandated the Cabinet committee on economic affairs to cover the natural gas agenda.

37. With respect to corporate governance, the Government will consolidate its new strategy based on the need to increase transparency and accountability in the energy sector. Following the initiative to improve transparency of TANESCO under the first DPO, this operation supports a set of initiatives to improve transparency of TPDC through publication of key documents in its website such as audited financial statements, procurement performance audit reports, and Key Performance Indicators (KPIs). The latest financial statement (FY2011/12) of TPDC audited by NAO has been posted on the website so is the latest procurement audit report by PPRA (for FY2011/12 and released in September 2012). The audited financial statement includes
the latest confirmed KPIs. TPDC has also published the KPIs for 2015/16.

IV. CONCLUSION

38. The Government of the United Republic of Tanzania has a long history of cooperation with the World Bank in the energy sector, including in operations that are currently under implementation or preparation, such as Energy Development and Access Expansion Project, Backbone Transmission Investment Project, Energy Sector Capacity Building Project (ESCBP), and recently initiated Partial Risk Guarantee Project for investments in natural gas and power plants.

39. The Government remains committed to focusing on sustaining macroeconomic stability, promoting pro poor economic growth, and increased investment in core social services such as education, health and water. The Government recognizes the key role played by accessibility and reliability of electricity in achieving many of the MKUKUTA objectives and it is therefore committed to ensure financial sustainability of the energy sector. The Government is confident that various reforms pursued under the Power and Energy DPOs and others will put the sector in equilibrium in the near future. Further, the Government recognizes that the support by the Bank and other development partners will complement government's efforts to ensuring adequate funding to the sector in order to ensure sustainable growth and poverty reduction. Thus, the Government requests the World Bank to approve the provision of USD 100 million to complement the Government’s efforts closing financial gap in TANESCO, thereby fostering and sustaining macroeconomic stability

Thank you for your continued cooperation and support.

Yours sincerely,

Dr. S. B. Likwelile
PERMANENT SECRETARY