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PREFACE

[To be added by the REA]
<table>
<thead>
<tr>
<th>ACRONYMS</th>
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<tbody>
<tr>
<td>the Board</td>
<td>Rural Energy Board (also abbreviated “REB”)</td>
</tr>
<tr>
<td>CMSA</td>
<td>Capital Markets &amp; Securities Authority</td>
</tr>
<tr>
<td>DG</td>
<td>Director General</td>
</tr>
<tr>
<td>DSE</td>
<td>Dar es Salaam Stock Exchange</td>
</tr>
<tr>
<td>EIA</td>
<td>Environmental Impact Assessment</td>
</tr>
<tr>
<td>EIS</td>
<td>Environmental Impact Statement</td>
</tr>
<tr>
<td>EIRR</td>
<td>Economic Internal Rate of Return</td>
</tr>
<tr>
<td>EWURA</td>
<td>Energy &amp; Water Utilities Regulation Authority of Tanzania</td>
</tr>
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<td>FIRR</td>
<td>Financial Internal Rate of Return</td>
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<tr>
<td>the Fund</td>
<td>Rural Energy Fund (also abbreviated “REF”)</td>
</tr>
<tr>
<td>HIV/AIDS</td>
<td>Human Immunodeficiency Virus/Acquired Immune Deficiency Syndrome</td>
</tr>
<tr>
<td>kV</td>
<td>Kilo volt</td>
</tr>
<tr>
<td>MEM</td>
<td>Ministry of Energy and Minerals</td>
</tr>
<tr>
<td>M&amp;E</td>
<td>Monitoring and Evaluation</td>
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<tr>
<td>NEMC</td>
<td>National Environmental Management Council</td>
</tr>
<tr>
<td>NO</td>
<td>Network owner</td>
</tr>
<tr>
<td>PV</td>
<td>Photovoltaic</td>
</tr>
<tr>
<td>RBM</td>
<td>Results-Based Management</td>
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<tr>
<td>REA</td>
<td>Rural Energy Agency</td>
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<tr>
<td>REB</td>
<td>Rural Energy Board (also abbreviated “the Board”)</td>
</tr>
<tr>
<td>REF</td>
<td>Rural Energy Fund (also abbreviated “the Fund”)</td>
</tr>
<tr>
<td>TOR</td>
<td>Terms of Reference</td>
</tr>
<tr>
<td>USD</td>
<td>United States Dollars</td>
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<tr>
<td>WACC</td>
<td>Weighted Average Cost of Capital</td>
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1. INTRODUCTION

The majority of rural Tanzanians are unserved by modern energy, including electricity supplies. Government maintains that rural Tanzania cannot be transformed into a modern economy, and that rural Tanzanians’ livelihoods cannot be improved significantly without a dramatic improvement in their access to modern energy.

The National Energy Policy, approved by Government in February 2003, sets national energy policy objectives to ensure availability of reliable and affordable energy supplies, and to promote their use in a rational and sustainable manner in order to support national development goals. The main thrust shall be based on private sector investment in exploitation of local energy sources.

Following the adoption of the National Energy Policy 2003, the Government reinforced its commitment to develop and implement rural energy strategies to address the modern energy needs of over 80% of Tanzania’s population. An improved energy supply in the rural areas will ensure improvement in the livelihood of the rural population and the attainment of sustainable economic growth. It was recognised, that modern energy, including electricity (both grid-based and non-grid based), modern biomass technology, and other alternative modern energy sources, must be harnessed to promote rural productive uses. In short, Tanzania’s rural economy will be transformed when agriculture, agro-business, small and medium industries and enterprises, and commercial establishments in the rural sector have access to and use modern energy. This will increase significantly the value added to rural production, and will stimulate investment, job-creation, and revenue generation throughout the rural sector.

For this reason, the Rural Energy Agency (REA), and the Rural Energy Fund (REF/the Fund) was established through an Act of Parliament No.8 of 2005 as an autonomous institution to promote and facilitate access to modern energy services in the rural areas of Mainland Tanzania.

REA is dedicated to the commercial development and supply of modern energy services to rural areas encompassing both social sectors (e.g., health, education, water, public security), and productive uses (e.g., agro-processing, agriculture, rural industries, rural trade) to accelerate rural economic development and to increase the benefits that will accrue.

The REA and the REF are governed by a Rural Energy Board (the Board) appointed by the Minister of Energy and Minerals. The REA is managed by a Director General (DG), and pursuant to Section 16 of Rural Energy Act No. 8 of 2005, the functions of the REA among others, include:

a. To act as the executive body and Secretariat to the Board and keep all records of the affairs and the meetings of the Board and ensure implementation of its decisions and directives.

b. To propose criteria for selection of Trust Agent of the Fund in accordance with Section 23 of the Rural Energy Act No. 8 of 2005 and recommend such an agent to the Board following a competitive selection process.

c. To prepare application procedures, guidelines, selection criteria, standards and terms and conditions for grants and submit to the Board for approval.

d. To select projects for evaluation and contract suitably qualified persons to evaluate their social and economic impacts.

e. To recommend to the Board projects for approval.
f. To prepare proposals to the Board for additional means and sources of finance to be used for the benefit of rural energy service provision.

g. To ensure timely collection of all funds specified in the Rural Energy Act No. 8 of 2005 and deposit in the account of the Fund.

h. To promote itself and the Fund to appropriate local and national government authorities, and facilitate co-ordination of its activities with other rural development activities.

i. To facilitate provision of capacity building activities as appropriate in the preparation, installation, operation and management of rural energy systems.

j. To facilitate provision of technical assistance to qualified developers by the use of private entities related to technical design, management, financial analysis, project finance and sound business practices.

k. To facilitate preparation and appraisal of projects applying for grants.

l. To facilitate the preparation of bid documents for projects to be competitively tendered to prospective developers.

In the discharge of these functions, the REA employs the following core values: integrity, accountability and transparency, professionalism, customer focus, team work, result orientation, equity, respect, empowerment and innovation. It is only by promoting and upholding these values that the REA shall manage the funds and programmes put under its charge in an effective and impartial way. The development and dissemination of these Guidelines is one major step towards ensuring that the REA conducts its business in a transparent and accountable manner.
2. PURPOSE OF THE GUIDELINES

These guidelines are for the information and use of all stakeholders in rural energy in Tanzania. The Guidelines aim to make the Rural Energy Act No. 8 of 2005 operational, i.e. to translate it into fundamentals and processes and provide a step-by-step description of fund management and the application and appraisal process for projects applying for grant support from the REA. The document will therefore be widely circulated internally and externally. It is also intended that the Guidelines will be subject to regular review to take account of changing circumstances.

The Guidelines explain the following:-

a) Governance of the REA and REF;

b) Administration and management of funds;

c) Appraisal and selection procedure for financing;

d) Approval procedure of support to projects;

e) Monitoring and Evaluation (M&E);

f) The Environmental and Social Management procedures.
3. GOVERNANCE OF THE REA AND THE REF

The legal basis for the REA is the Rural Energy Act No.8 of 2005 that establishes the REA as a body corporate with perpetual succession and a common seal with power to do all such acts and things as a body corporate may by law do or perform.

The Board is the overall governing body of the REA and the REF. Section 8(2) and 8(3) of the Rural Energy Act No. 8 of 2005 stipulates how Board members are appointed:

“(2) The procedure for appointment of members of the Board shall provide that-

(a) the Minister shall invite recognized organizations and participants in the private and civic sectors to nominate their respective representative and the Minister shall select one each of the nominees to be the private and respectively civic sectors representative;

(b) the Development Partners representative shall be appointed from amongst the Development Partners active in the energy sector in Mainland Tanzania; and

(c) the Minister shall invite recognised organisations in civil society with an interest in consumer protection to nominate the consumer representative on the Board, and the Minister shall select one such nominee to be the consumer representative.

(3) The Chairman of the Board shall be appointed by the Minister after receiving recommendations from the Board.”

The time frame for which Board members should hold office is regulated by Section 9(1):

“A member of the Board shall hold office-

(a) on such terms and conditions as may be specified in the instrument of his appointment and shall, in the first instance be for a period not exceeding three years; and

(b) shall be eligible for re-appointment only for a subsequent period not exceeding three years.”

The Rural Energy Act No. 8 of 2005 also presents a general framework for how the funds of the REF shall be used. For example it is stated that the REF represents the funding mechanism by which the Board shall fulfil its mandate to provide grants to subsidize the capital cost of projects that are developed by private and public entities, co-operatives, and local community organisations.

The purpose of the REF is clearly stated in Section 17 of the Rural Energy Act No.8 of 2005:

“…Rural Energy Fund for the purpose of providing grants to qualified developers of projects.”

A Developer is, according to the Rural Energy Act No.8 of 2005, a developer of, or an investor in, or an operator of, a project that shall be in the form of a private or public entity, a cooperative, or a local community organisation.

A Project means, according to the Rural Energy Act No.8 of 2005, the activities and investments associated with the provision of modern energy services in a locality in rural areas of Mainland Tanzania.
According to Section 18(2) of the Rural Energy Act No.8 of 2005, the REF shall provide resources for:

a) grants towards the capital costs of projects implemented by private and public entities, co-operatives, and local community organisations;
b) the provision of technical assistance, training and other forms of capacity building to qualified developers by qualified experts related to the planning and preparation of a project prior to an application for a grant; and
c) the provision of financial assistance.

According to Section 22(1) the resources of the REF shall be applied towards:

a) grants to qualified developers;
b) payment or discharge of the expenses or obligations incurred in connection with the performance of the functions of the REA and the Board; and
c) payment of any remuneration or allowances to the members of the Board and employees of the REA.

According to Section 22(2) grants made by the REF to qualified developers may be used to co-finance:

a) training and other forms of capacity building of qualified developers;
b) the provision of technical assistance by suitably qualified experts related to the planning and preparation of a project prior to an application for a grant, including pre-investment studies for projects;
c) the capital costs of a project implemented by a qualified developer; and
d) investments in innovative pilot and demonstration projects and applications for renewable energy when development partners make special purpose funds available for that purpose.

According to Section 22(3), the REF may not make grants towards the operating or debt service costs of any project or developer.
4. ADMINISTRATION AND MANAGEMENT OF FUNDS

The REA administers and manages funds from different sources although all with the purpose of promoting and furthering rural energy development in Mainland Tanzania. The various sources of funds, the flow of funds and their administration, management and disbursement routines are described below.

4.1 Sources of Funds

For the REF

Sources from which funds flow into the REF are described in Section 19(3) of the Rural Energy Act No.8 of 2005:

“The sources of income for the Fund shall consist of monies as may be provided-

(a) by Government in an annual budgetary allocation, to be deposited in the Rural Energy Fund account at the beginning of every month or as may be determined by the Minister for Finance;

(b) as contributions from international financial organisations, multilateral and bilateral agencies and other development partners;

(c) from levies of up to five percent on the commercial generation of electricity to the national grid, as determined by the Minister in consultation with the Minister of Finance, to be deposited in the account of the Fund at the end of every month;

(d) from levies of up to five percent on the generation of electricity in specified isolated systems, including systems for private consumption as determined by the Minister in consultation with the Minister of Finance, to be deposited in the account of the Fund at the end of every month;

(e) as fees in respect of programmes, publications, seminars, consultancy services and other services provided by the Agency.”

Other funds

In some cases, financiers require a special set up for supporting the REA and cannot allow their funds to go directly to the REF, rather they require special purpose/dedicated accounts through which their funds are administered and managed, see Section 4.6.

4.2 Flow of funds

Figure 1 illustrates the flow of funds, including i) the REF, including Special Purpose Funds, and ii) Special purpose/dedicated accounts.
4.3 Project approaches that can be supported

Support from the REA is technology neutral and projects are either electricity or non-electricity rural energy projects. For an electricity project, the project should be the least cost approach to serving new areas with electricity, i.e. the least cost solution among comparable alternatives. The different types of rural energy projects that can be supported are outlined below.

Transmission/Distribution line extension projects are projects in which existing transmission and/or distribution lines are extended to cover new and/or previously unelectrified areas. These types of projects can be justified, as a least cost option, when the volume of demand over a 15 year time horizon is such that an extension of existing transmission and distribution lines to new areas implies savings on diesel operations.

Mini grids or isolated grids are grids that are sufficiently far from the national grid to be cost effective solutions to providing certain areas with electricity. The least cost technology option could be renewable energy capacity (e.g. small hydro, biogas, biomass, wind), agro-industrial generating capacity currently used for self-generation (e.g. bagasse cogeneration), diesel or hybrid solutions, depending on the specific context of the area to be served.

Stand alone systems e.g. photovoltaic (PV) systems have limited capacity and offer less scope for income generating activities than the two previously mentioned approaches. However, in isolated and dispersed rural areas PV systems can be the only viable option for households, small commercial establishments, health centres, schools and community halls.
In addition to the approaches mentioned above, it is worth mentioning **embedded generation**, i.e. electricity generation connected to the distribution network (33 kV and lower). Generally, embedded generation consists of smaller generators that use a variety of generation technologies such as diesel, natural gas, biogas, biomass, PV, wind turbines and small hydro.

Furthermore, **non-electricity projects**, i.e. energy aimed at providing non-electricity modern energy services to customers or energy efficiency projects.

### 4.4 Funding windows

The following funding windows are currently available:

**Matching grants**

The matching grants are typically not investment support but rather support to preparatory work and/or support to developing new and innovative approaches on a cost-share basis (co-financing) with a Project Developer.

**Eligible activities**

- Market development activities (e.g. market studies, promotion, education)
- Business improvement (e.g. staff training, business plan preparation)
- Product development activities (e.g. assembly optimization study, testing)
- Pre-investment and preparation activities (e.g. preparation studies for licenses)
- Market Entry (e.g. establishing new outlets and networks, demonstrations)
- New initiatives (e.g. new alliances and partnerships, new territories)

**Performance grants**

Investment support on a cost-share basis (co-financing) with a Project Developer.

Funds cannot be used for financing or acquisition of existing assets (including land) or refinancing of existing debts or accrued interest.

### 4.5 Administration and management of the REF

As described in Chapter 4.1, money flows into the REF from five (5) different sources. In addition, interest earned at the REF account returns back into the account. The REF is managed by the REA with a Trust Agent responsible for disbursements to Project Developers. The Trust Agent is appointed by the Board, and disbursements are executed on request from the REA after approval by the Board (please refer to Chapter 4.3 for more details on the disbursement process).

**Special Purpose Funds**

The REF may include Special Purpose Funds (as described in Chapter 3), which may be regulated by separate financing arrangements, as specified in Section 20(1) of the Rural Energy Act No. 8 of 2005:

> “The Minister may, in consultation with the Minister for Finance, execute agreements with development partners setting up Special Purpose Funds for rural energy detailing separate financing arrangements for the Fund.”

The Special Purpose Funds however follow the disbursement procedures as outlined in the agreements.
Disbursements to Project Developers are managed by the Trust Agent on instructions from the REA after approval from the Board. The Trust Agent is responsible for ensuring that any pre-conditions set by the Board for making a grant payment are met by the Developer. This is described in Section 23 of the Rural Energy Act No. 8 of 2005:

“(1) The Board shall appoint a Trust Agent who shall be Agent responsible for disbursement of grant payments from the Fund and ensuring that any pre-conditions set by the Board for making a grant payment are met by the developer.

(2) The Trust Agent shall be contracted by the Board through public tender for the procurement of the service where-

   (a) banks, accounting firms or similar institutions acceptable to the Board may participate in the tender; and

   (b) the contract with the Trust Agent shall not exceed a period of three years at a time.

(3) The Trust Agent shall be responsible for the administration of grant payments, including financial disbursement, verification and monitoring activities.”

The Trust Agent is not a signatory to the REF directly but receives funds from the REA and makes disbursement upon authorization by the Board. All financial commitments from the REF need Board approval according to the Rural Energy Act No.8 of 2005. Financial commitments from the REF can only be authorized by the Board, according to the Rural Energy Act No.8 of 2005, First Schedule (made under Section 21) “Guidelines for Management of the Fund”:

“1. (a) financial commitments from the REF shall be made by signature of the Chairman of the Board co-signed by one other member of the Board and the Director General;”

The Terms of reference (TOR) for the Trust Agent is based on the Rural Energy Act No.8 of 2005 and provides details on the scope of services and financial management.

A disbursement from the REF is a six-step procedure, as illustrated in Figure 2. Each step is explained briefly below and in more detail in Chapter 5.
1. **Application.** The Project Developer submits a grant application to the REA, following the procedure described in Chapter 5.

2. **Evaluation.** The REA evaluates the application in accordance with the evaluation criteria described in Chapter 5.

3. **Decision.** The REA presents to the Board the outcome of the evaluation process. The Board makes the formal decision about whether or not to support the project and communicates it to the REA.

4. **Withdrawal of funds from the REF.** The REA withdraws funds from the REF.

5. **Disbursement order.** The REA then sends a disbursement order and the funds to the Trust Agent.

6. **Disbursement.** The funds are disbursed by the Trust Agent to the Project Developer.

### 4.6 Administration and management of Special purpose/dedicated accounts

Where Special purpose/dedicated accounts are required by a financier, these are opened in conformity with the specific rules and regulations of the financiers. These accounts are not included in the REF and can follow specific guidelines and disbursements routines. All information about the management of Special accounts is available from the REA. However, in the case a financier does not require special guidelines or routines; the routines are followed:
1. **Application.** The Project Developer submits a grant application to the REA, following the procedure described in Chapter 5.

2. **Evaluation.** The REA evaluates the application in accordance with the evaluation criteria described in Chapter 5.

3. **Decision.** The REA presents to the Board the outcome of the evaluation process. The Board makes the formal decision about whether or not to support the project and communicates the decision to the REA.

4. **Disbursement order.** The REA withdraws funds from the special purpose/dedicated account using a written disbursement order. The financier may choose if the disbursement should be through the Trust Agent or the REA. If disbursement through the Trust Agent is chosen, the REA sends a disbursement order and transfer funds to the Trust Agent.

5. **Disbursement.** The funds are disbursed to the Project Developer, either by the REA directly, or by the Trust Agent.
5. APPRAISAL AND SELECTION PROCEDURES OF PROJECTS FOR FINANCING

All steps in the Appraisal and Selection procedures of projects for financing are illustrated in Figure 3 and explained in more detail in this Chapter.

**Figure 3  The Appraisal and Selection process**

5.1 Step 1. Project Identification

Rural energy projects can be identified through a variety of means such as:

i. Requests for modern energy supply submitted to the Ministry of Energy and Minerals (MEM), the REA or a Network Owner (NO) from communities, social service centres (dispensaries, schools etc.) and individuals.

ii. The Government may indicate priority projects

iii. The REA may, as part of its work, identify potential project

iv. And, in addition a transmission/distribution line extension project can be identified by a NO.

5.2 Step 2. Project Concept

After a project has been identified, the Project Developer submits a Concept note to the REA in order to get a preliminary assessment of whether the planned project is eligible for support from the REA or not. The Concept note should follow the REA template and include:

1) Background

2) Market assessment
3) Energy resource assessment
4) Technical assessment
5) Management & institutional aspects
6) Financial assessment
7) Environment and social assessment
8) Risk analysis

5.3 Step 3. Project Concept Appraisal

When the Project Developer has submitted a Concept note, the REA makes a brief assessment of the project concept to ensure that it is aligned with the REA mandate and objectives and that it is eligible for support. The REA will provide feedback to the Project Developer on the Concept note within one (1) month.

5.4 Step 4. Projects Preparation, Screening and Recommendation for Support

General

A feasibility study using the REA template to determine the project’s technical, economic, financial, social, environmental and operational viability should be prepared by the Project Developer. In preparing and undertaking the feasibility study/report the Project Developer should consider the following:

i. If the project is non-financially viable without grant support (i.e. having a Financial Internal Rate of Return (FIRR) less than the project’s WACC) but otherwise viable, the Project Developer may apply for a grant from the REA/REF.

ii. A Project Developer can apply for grants for co-financing of the capital cost of a project (Performance Grant). In addition, the Project Developer may apply for a grant to co-finance the cost of preparation of a project (Matching Grant).

Application for a Grant

An application for grant may be submitted from a Project Developer meeting the following criteria:

- The Project Developer could be a sole proprietorship, partnership, corporation, non-profit entity, cooperative, community based organization or a joint venture, legally registered, incorporated, or existing in accordance with the Laws of the United Republic of Tanzania;

- The Project Developer should not have been “blacklisted” by the Government of the United Republic of Tanzania for any reason whatsoever; and

- The Project Developer should not have been declared bankrupt and should not have a history of mediation, arbitration or litigation relating to fraudulent business transactions.

A Project Developer will be evaluated using the REA criteria for the purpose, see Table 1.
### Table 1  Project Developer criteria

<table>
<thead>
<tr>
<th>Quality</th>
<th>Criteria</th>
<th>Indicators</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial capacity</td>
<td>They must have access to funds that can significantly contribute to the establishment of a rural energy project. This means they must be able to raise and manage funds.</td>
<td>• Financial assets (bank accounts, property, secured loans)</td>
</tr>
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<td></td>
<td></td>
<td>• Ability to keep records, and prepare financial reports</td>
</tr>
<tr>
<td>Local community endorsement</td>
<td>The community must support the project champion’s project and believe that it is a reasonable solution to their electricity needs. Further the project champion must have the community trust that they (project champion) will provide the power efficiently, cost-effectively and reliably.</td>
<td>• Letters/endorsements from local government, community leaders, businesses and institutions</td>
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<tr>
<td></td>
<td></td>
<td>• Partnerships with community entities</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Local presence</td>
</tr>
<tr>
<td>Technical capacity</td>
<td>They must demonstrate that they can pool and manage a team comprising the technical expertise required for the project.</td>
<td>• Existing skills and demonstrated qualifications (experience, degrees, diploma)</td>
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<td></td>
<td></td>
<td>• Access to technology (ability to acquire and install)</td>
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<td></td>
<td>• Knowledge of the technology marketplace</td>
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<tr>
<td>Procurement capacity</td>
<td>They should be able to demonstrate that they can apply normal business and procurement practices</td>
<td>• Existing skills or accessible skills in business and procurement practices</td>
</tr>
<tr>
<td>Management capacity</td>
<td>They must have the capacity to complete a viable business plan, engage the necessary skills and resources, implement the project on approval and manage an rural energy utility.</td>
<td>• Demonstrated qualifications</td>
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<td>• Experience running a business/institution</td>
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<td></td>
<td></td>
<td>• Ability to prepare business documents</td>
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<tr>
<td></td>
<td></td>
<td>• Ability to keep records</td>
</tr>
<tr>
<td>Entrepreneurial skills</td>
<td>They must have the ability to identify opportunities for rural energy themselves and to implement systemic methods of capitalizing on the opportunity.</td>
<td>• Communication and negotiation skills</td>
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<td>• Track history and experience</td>
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<td></td>
<td></td>
<td>• Creativity and innovation displayed based on interview with REF staff</td>
</tr>
<tr>
<td>Experience</td>
<td>They must have a demonstrated track history of working in business or rural development activities, and more preferably, in rural energy projects.</td>
<td>• Number of years working in rural environment on development projects</td>
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<tr>
<td></td>
<td></td>
<td>• Rural energy experience (number of years)</td>
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<tr>
<td></td>
<td></td>
<td>• Diversity of relevant activities completed which relate to rural energy and rural development</td>
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**Matching Grant**

**Application.** The Project Developer may submit an application for a grant of up to 80% of the costs involved in project preparation; however the maximum amount that can be awarded is the equivalent of USD 100,000. The application shall follow the REA grant application template and provide an overview of the project concept, including location, technology and number of new rural businesses and households to be supplied with modern energy services. In addition, the application should include a description of activities to be accomplished before bringing the project to financial closure, and the details and cost
estimates of work to be undertaken by consulting firms. Based on this data, the application should set out the size of the Matching Grant applied for. The grant application form to be used is available from the REA website. The application should be accompanied by supporting documentation.

**Screening.** The REA will examine and verify the correctness of the application for a grant for the costs incurred on project preparations. If the REA is satisfied with the correctness of the claims it will recommend to the Board to approve a Matching Grant to the Project Developer.

**Disbursement.** The Matching Grant is paid in two instalments with one payment of 50% of the grant amount at contract signing and upon verification of 50% of the Project Developer’s contribution is deposited in the project account or proof that it has been spent in the project. The final payment is made after the Project Developer has submitted acceptable final reports and upon verification of costs and activities undertaken.

**Performance Grant**

**Application.** After having undertaken a feasibility study and having prepared a bankable business plan following the REA templates, the Project Developer may apply for a performance grant from the REA if the project is non-financially viable without grant support (i.e. having a FIRR less than the project’s WACC). The REA performance grant application form shall be used.

**Screening.** The REA will, after receiving an application for a performance grant, analyse and assess the project documents submitted by the Project Developer to determine the completeness of the documentation on project preparations and the suitability of the performance grant applied for. For the Project Developers meeting preliminary the administrative check, their projects will proceed to final screening.

The application must contain sufficient information to enable the REA appreciate the nature of the proposed project and the intended benefits. Therefore, a performance grant application should include:

- Technical, Financial, and Economic Feasibility analyses
- Social Impact analyses including gender impact analyses.
- Environmental Impact Analysis (depending on the funding source, projects can be required to follow e.g. World Bank environmental and social safeguards or any other specific guidelines in addition to the guidelines set out by the National Environmental Management Council (NEMC))
- HIV and AIDS action plan
- Bankable Business Plan (using the REA template for the purpose) indicating level and amount of performance grant being requested

A separate application will be required for each project.

The Project Developer is required to indicate the quantum of the financial contribution from its own sources and/or borrowing and make clear the status of this funding.

If the performance grant application is accompanied by all the required information to a satisfactory level of detail then the REA will verify the correctness of the analysis for viability and rank all grant applications received and evaluated on a quarterly basis according to the following criteria:

1. High priority projects as indicated by Government;
Projects with a positive Economic Internal Rate of Return (EIRR) are ranked according to their FIRR;

To take account of regional considerations, project(s) with the highest FIRR after grant support given a positive EIRR will be selected from each region until the available funds are exhausted;

A project with a FIRR less than the project’s WACC can be supported provided that the EIRR is positive and the project is financially viable after the performance grant¹;

Demonstrated commitment by the Project Developer to meet at least 20% of the cost of the proposed project through equity;

5.5 Step 5. Project Approval

Following the screening and ranking the REA will summarise the results of the appraisal in a standard evaluation form and

i. Recommend to the Board if the project should be supported;

ii. Recommend the level of grant;

If authorization for support to the project is obtained from the Board, this will be communicated to the Project Developer and information will also be published in newspapers and on the REA website.

A document detailing the results of the financial, legal, economic, technical and environmental appraisal will form part of the contract between the REA and the project developer.

In addition, following authorization for support to the project from the Board, and signing of the contract, the REA will initiate preparation for performance grant disbursement.

Disbursement. The guiding principle for performance grant disbursement will be “cash on delivery”, i.e. the payments are made on achievement of specific milestones in the contract. However, consideration will also be given to “charge” the equipment and machinery in the event of the latter not being possible, due to insufficient funds to purchase equipment at the start of implementation of the project. Any advance payments by REA to the Project Developer should be fully covered by suitable bank guarantees or other securities.

This means that each contract should specify the payment milestones and the documentary proof to be provided that the milestone has been accomplished. The REA will verify the documentation, and has the right to undertake or commission site inspections for verification purposes. A percentage of the payment, for example 15 percent, should be withheld until final project completion and commissioning. The time frame for disbursements will be specified in each individual contract.

The disbursement is executed by the Trust Agent. In case of Special purpose/dedicated accounts, the financier may choose between disbursement through the Trust Agent or directly through the REA.

¹ A negative EIRR indicates that all benefits to society are lower than the costs and therefore the project does not make sense to implement.
The REA will monitor that the work by the Project Developer proceeds timely and on budget and that the resulting infrastructure is operated and maintained in a sustainable manner to meet the public good objectives.

5.6 Time frame

Figure 4 illustrates the approximate time line for the project preparation procedure. The duration of each step is however dependent on several factors, and the illustration should be seen as indicative only.

![Figure 4 Approximate time line](source.png)
6. MONITORING AND EVALUATION

A crucial task of the REA is to follow up on projects that have received support from the REA in order to analyze if the planned results have been achieved and how effectively the grants have been utilized. It is also important for the REA to keep up-to-date track on for example the number of projects supported and results of the amount of grant disbursed. The REA has a comprehensive Monitoring and Evaluation (M&E) framework for the supported projects.

The functions of the M&E framework are to (i) set accurate, shared objectives and performance targets for each activity and project; (ii) measure gaps between planned and actual achievements; (iii) propose corrective measures; and (iv) to share information with stakeholders, including cooperating partners.

6.1 The M&E approach

Monitoring and Evaluation are two complementary but separate functions in assessing results from a project. **Monitoring** is the routine ongoing assessment of activities applied to assess resources invested (inputs) in the project, and services delivered (outputs) by the project or subcomponent of the project. **Evaluation** is a non-routine assessment and will be concerned with assessment and reflections on what has happened in terms of expected results vis-à-vis project objectives on one end and the REA’s broader goals on the other.

The M&E process is focused on **results** rather than **inputs**. The purpose of M&E is to analyze whether input has resulted in the desired output, and eventually outcome and impact. This is the core of Results-Based Management (RBM) and has been adopted by the REA in order to enhance the M&E process and to increase effectiveness of project implementation progress.

Figure 5 illustrates the REA’s general approach to M&E, including all parts of the process, how they are linked and which parts are in focus during Monitoring on the one hand and Evaluation on the other hand.

**Figure 5  M&E approach**

The definitions of the expressions used in Figure 5 are listed below:

- **Goal**: This is the ‘higher-order objective’ that each activity in the project or process aims to contribute towards achieving. This should be the overall main reason why the project or process is undertaken.
- **Objective**: This is the objective stated for each project or process activity.
• **Inputs:** These are human, financial and material resources put into each activity of the project or process.

• **Activity:** This is actions or work undertaken utilizing the inputs (financial, human and material etc) in order to produce the specific outputs.

• **Outputs:** These are products, goods and services produced as a result of the project or process.

• **Outcomes:** These are short/medium terms effects of an output of the project or process.

• **Impact:** These are long terms effects that could be positive, negative, primary or secondary, directly or indirectly, intended or unintended.

### 6.2 The REA M&E framework

The REA M&E framework applies the principles of participatory M&E in the sense that all key stakeholders will be involved at different stages and levels of implementation. It maps out key procedures/methods, people and tools that will be used to collect, analyze and provide information so that the performance of REA supported interventions can be meaningfully assessed and improved. The REA has an M&E Unit responsible for the M&E work.

The M&E framework, among others, sets out:

• How the REA collects and analyses data on supported activities and results

• Who is responsible for collecting and compiling the information

• How the evaluation of the activities are carried out and their impacts

• When and how information is disseminated

The M&E activities comprise three different but complementing parts:

1. **General Portfolio monitoring.** This is a continuous activity where the REA keeps track on its disbursements and projects in order to show an overview of activities undertaken. Results are presented in the REA Annual Report.

2. **Individual Project monitoring.** All projects having received support from the REA are subject to monitoring in order to measure results.

3. **Evaluation.** Evaluations of how individual projects have fulfilled their respective objectives are undertaken after completion of a project.

Each part is described in detail in the M&E Framework.
7. ENVIRONMENTAL AND SOCIAL MANAGEMENT

Environmental and social management procedures are vital in order to:

- Ensure that all projects are fully compliant with the relevant legal and regulatory requirements of the country, specifically the Environmental Management Act No. 20 of 2004.
- Ensure that projects meet the environmental and social standards defined by the policies of development partners;
- Reduce the REA’s exposure to environmental and social risks associated with project planning, construction, operation and decommissioning.

It is the mandate of the National Environment Management Council (NEMC) of Tanzania to enforce and ensure compliance of the national environmental quality standards.

7.1 Environmental Impact Assessment (EIA)

The law requires that an EIA is undertaken for all energy projects. Some of the projects may require full EIA while others may require preliminary EIA. Information on how projects are categorised is available in the “Environmental Impact Assessment – Guidelines and Procedure”, which can be requested from NEMC\(^2\) or obtained from the REA website\(^3\).

The Project Developer is responsible for carrying out an EIA and submitting the Environmental Impact Statement (EIS) to the NEMC for approval. In order for a Project to obtain financial support from the REA, the EIA certificate issued through NEMC has to be presented.

**Involuntary Resettlement**

In cases where any of the projects supported by the REA involves involuntary resettlement, a Resettlement Action Plan should be prepared and submitted for approval by the REA. The Plan should follow the laws of Tanzania and, where applicable, the requirements of development partners specific safeguards policy on involuntary resettlement.

The Resettlement Action Plan should include information on:

1) Land acquisition and likely categories of impact:
2) Identification of project affected persons:
3) Methods of valuing affected assets. It should be noted that The Land Act No.4 and Village Land Act No.5 of 1999 have set clear procedures for full, fair and prompt compensation while acquiring land from citizens. These procedures should be adhered to, especially the Land (assessment of the value of compensation) Regulations – made under S.179 of Land Act No. 4 of 1999. GN 78 published on 4/5/2001;
4) A description of the implementation process, linking resettlement implementation to civil works;
5) A description of mechanisms for consultations with, and participation of, displaced persons in planning, implementation, and monitoring

\(^2\) www.nemc.or.tz

\(^3\) www.rea.go.tz
6) Grievance redress mechanisms;
7) Arrangements for monitoring by the implementing agency and, if required, by independent monitors.
8. LEGISLATION THAT MAY IMPACT A RURAL ENERGY PROJECT

There are much legislation that may impact rural energy projects, both in the development and the implementation phase. The list below provides an example of Acts and Regulations that should be taken into account when preparing a rural energy project. However, the list is not necessarily exhaustive for all types of projects, and it should always be ensured for each individual project that all relevant legislation has been considered.

<table>
<thead>
<tr>
<th>Legislation</th>
<th>Potential impact on rural energy projects</th>
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</table>
| The Land Act No.4 of 1999                                    | ▪ All land in Tanzania is public land vested in the President, held/owned under various regimes  
▪ Significantly, non-citizens (individual or corporate) can only own land under a derivative right |
| The Village Land Act No.5 of 1999                            | ▪ Acquisition of village land is subject to village land councils and village assemblies procedures |
| Rural Energy Act No. 8 (2005) and Regulations                | ▪ Establishes a funding mechanism and procedures for provision of grants and subsidies to developers of rural energy projects |
| Public Finance Act (2001) and Regulations                    | ▪ Provides for control of public revenue and expenditure and, among others, accessing of grants and audits thereof |
| Public Procurement Act (2004) and Regulations 2005           | ▪ Replaced by the Public Procurement Act (2011) and Regulations  
▪ Grants and subsidies to developers of rural energy projects are subject to open competition proceedings |
| Income Tax Act (2001) and Regulations                        | ▪ Developers need to take into account level of income tax chargeable as well as allowances on capital investments |
| CMSA Act and Regulations                                     | ▪ Is of interest to developers of rural energy projects wishing to raise resources thro the stock market and its regulation |
| DSE Blueprint                                                | ▪ As above |
| Electricity Act (2008) and Regulations                       | ▪ Developers of rural energy projects need to know licensing threshold compliance requirements for generation, transmission, and distribution  
▪ They also need to know the requirement for tariff |
<table>
<thead>
<tr>
<th>Regulation and Dispute Settlement System</th>
<th>EWURA Act (2001) and Regulations</th>
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<tr>
<td>EWURA is central in the whole scheme of power generation, transmission and distribution being the regulator not only of tariffs but also standards</td>
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<tr>
<th>The Water Resources Management Act 2009</th>
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<tr>
<td>All water in Tanzania is public water vested in the President</td>
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<tr>
<td>Developers of rural energy projects have to reckon with statutory obligations for protection of water resources and prevention of pollution</td>
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<tr>
<th>Environmental Management Act 2004</th>
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<tr>
<td>Developers of rural energy projects have to hatch projects with focus on preservation of the environment, as far as the statutory obligations are weigh on them with regards to waste disposal, hazardous waste management, storage and management facilities, etc</td>
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<tr>
<th>Petroleum Act 2008</th>
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<tr>
<td>Importation, transportation, transformation and use of petroleum products are subject to stringent regulatory controls through licensing requirements</td>
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<tr>
<th>Tanzania Investment Act 1997</th>
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<tr>
<td>As investors developers of rural energy projects need to be aware of benefits which they are entitled to get under the Act</td>
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<tr>
<td>Employment of labour and resolution of disputes require careful handling in accordance with these two pieces of legislation</td>
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