

AIRGRAM

DEPARTMENT OF STATE

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TO - AID/W TOAID A-281 X

NAIROBI USAID A-93

KAMPALA USAID A-34

1968 FEB 23 AM 9 50

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DATE SENT
February 24, 1968

FROM - Dar es Salaam

SUBJECT - Ion Capital Project Paper, Proposed Project 621-11-140-085

REFERENCE - M.O. 1025.1

ION CAPITAL PROJECT PAPER (PROP)

Country: Tanzania Project No. 621-11-140-085

Submission Date: February 23, 1968 Original X Revision No.

Project Title: Rural Credit Union Development

U.S. Obligation Spans: FY 1968 through FY 1970

Physical Implementation Spans: FY 1968 through FY 1970

Gross life-of-project financial requirements:

U.S. dollars	236,000
U.S.-owned local currency	-
Cooperating country cash contribution (in \$ equivalent, current exch. rate)	75,000
Other donor	21,000

PAGE	PAGES
1	OF 8

DRAFTED BY Rindery: <u>CHILLINGS</u> C: <u>George</u>	OFFICE APO ADP	PHONE NO.	DATE <u>2/23/68</u>	APPROVED BY: <u>Samuel H. Butterfield, Dir.</u>
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I. Summary Description

A. Mainland Tanzania (Tanganyika) comprises more than 360,000 square miles, including nearly 20,000 square miles of inland water. Only about 10 per cent of the country is well-watered and open to cultivation. The major portion, said to run as high as 90 per cent, of a population now estimated at more than 12 million live in these areas and engage for the most part in primitive agriculture. The Government is now directing most of its economic development resources to making agriculture and rural life more attractive. The USAID program accepts the premise that Tanzania's basic advancement ultimately rests on building and directing educational and similar institutions in directions which promise to make rural living more meaningful and satisfying.

B. This project provides technical assistance to the Tanzanian Government and the Savings and Credit Union League of Tanganyika, Ltd. to establish an effective system of credit unions for generating and mobilizing rural savings throughout the country that can be utilized for development while providing the small people with saving and low cost credit facilities.

C. Credit unions fit into the Government's policy of rural development and self-reliance by actively assisting in the formation and maintenance of cooperative organizations. Ninety per cent of all credit unions are located in the rural areas where perhaps 90% of the people live and where improvement in living conditions is most needed.

D. Substantial progress has been made in the development of Tanzania's credit unions since inception of this project in July 1965. During the period, the number of societies increased from 56 to 169, or 200%; and the membership from 6,686 to 22,749, or 240%. Savings increased during the period from about Shs. 500,000 (US \$71,000) to Shs. 2.6 million (US \$370,000) or 418%. Loans increased from about Shs. 400,000 (US \$57,000) to Shs. 2.4 million (US \$340,000) or 501%.

E. The Savings and Credit Union League of Tanganyika, Ltd., the national federation of credit unions has increased its membership to 54 of the total 116 credit unions. Grants from the Michigan Credit Union League and the CUNA Mutual Insurance Company have enabled the league office and field staff to be increased.

F. Six months training for the League Manager in Canada was arranged through the Canadian External aid program the latter part of 1967. A stabilization program was established in 1967 with an interest-free loan of \$2,000 from CUNA International, Inc. It is expected that CUNA International will continue to subsidize the League for an additional four years by which time income (dues) from member credit unions will enable it to become self-sufficient.

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C. The Ministry of Agriculture and Cooperatives has assigned a senior cooperative officer to establish a section to supervise all credit unions in the country, and to bring about improvements in supervision and examinations. More than 50 cooperative inspectors have been given a two-week training course in credit union policy and operations.

II. <u>Cost Component Summary</u>	(\$ thousands)		
	<u>FY 68</u>	<u>FY 69</u>	<u>FY 70</u>
Participants	- *	48	48
Contract Services	<u>70</u>	<u>70</u>	<u>-</u>
Total	70	118	48

*FY '68 funding for participant training has been deferred to FY '69 pending approval of this proposal and arrival of the two U.S. technicians.

II. Setting or Environment

A. Credit Union development in East Africa began in 1963 with a Tanganyika project sponsored by the Saskatchewan and Michigan Credit Union Leagues through the Credit Union National Association, Inc. (subsequently renamed CUNA International, Inc.). The progress under this project appeared to indicate sufficient receptivity throughout East Africa to warrant AID assistance. An E.A. Regional project was initiated in July, 1965, through a contract with CUNA to provide technical assistance in support of credit union development in Tanganyika, Kenya and Uganda. A regional credit union advisor arrived in August, 1965, and was headquartered at the Cooperative College in Moshi, Tanzania. The country advisor for Tanganyika arrived in Dar es Salaam in May, 1966 and was assigned to the Ministry of Agriculture and Cooperatives. Although country advisors were also scheduled for Kenya (July, 1966) and Uganda (January, 1967), the actual assignment of these two advisors did not materialize. Difficulties were encountered with the Ministry in Kenya while the Government of Uganda failed to request assistance in Credit Union Development. This project has been well received by the Tanzanian Government and its activities successful in Tanzania.

B. Substantial progress has been made in the development of Tanzania's credit unions since inception of this project in July, 1965. Figures on the growth of credit unions, membership, savings and loans reflected below are indicative of the progress made towards the Tanzanian Government's goal of establishing 400 credit unions throughout Tanzania.

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	<u>July 1</u> <u>1965</u>	<u>Dec. 31</u> <u>1966</u>	<u>Dec. 31</u> <u>1967</u>	<u>Increase</u>	<u>Percent- age Increase</u>
Societies	56	118	169	113	200%
Members	6,686	14,857	22,749	16,063	240%
Savings	500,000/-	1,751,162/-	2,529,505/-	2,089,505	418%
Loan	400,000/-	1,588,531/-	2,405,726/-	2,005,726	501%
Cumulative Loans	900,000/-	2,800,000/-	3,850,000/-	2,950,000	328%

C. The Savings and Credit Union League of Tanganyika, Ltd., a national federation of credit unions, has increased its membership to 54 member unions out of a total of 116 savings and credit unions. These 54 member societies represent 9,500 members of the 14,250 society members in the nation. In 1967 the staff of the League was increased from one manager, to a manager, one clerk and two field representatives. Funds for the increased staff and services have been made possible by grants from the Michigan Credit Union League \$3,200, CUIA Mutual Insurance Company \$1,800 and CUIA International, Inc. \$1,400.

D. Six months training in League management was arranged for the League Manager through Canadian External Aid the latter part of 1967. A stabilization program was established in 1967 with an interest-free loan of \$2,000 from CUIA International, Inc. It is expected that CUIA International, Inc. will continue to subsidize the League for an additional four years by which time income (dues) from member credit unions will enable it to become self-sufficient. The present dues rate to member societies is 5 per cent of gross earnings. The credit unions in Tanzania are represented on the Board of Directors of CUIA International, Inc. by a representative elected by the membership of the League.

E. The Ministry of Agriculture and Cooperatives has assigned a senior cooperative officer to establish a section to supervise credit unions in the country. Under his leadership improvements have been made in the Government's chartering, supervision and examinations policy and procedures. More than 50 cooperative inspectors have been given two-week training courses in credit union policy and operations. Requests have been made for the first members of a credit union's inspectorial staff. The first members of this staff were assigned during 1967.

F. Prior to the organization of credit unions in Tanzania, it was thought that the people had very little, if any, money that they could save and those that did have would not trust credit unions with their money. Now credit unions have been recognized as an organization that people will trust with deposits of their meager savings. Money saved in credit unions are usually small amounts that formerly were buried in the ground or hidden under the mattress. The same general feeling was that if money was loaned to Tanzanians they would not repay it. This has been proven wrong by the credit unions in Tanzania. Loans are being made and repaid on a basis that would compare favorably with credit unions of the same size and age in the United States or Canada.

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G. Among Tanzanian farmers, there is a great need for capital for such things as seed, feed, fertilizer, tools and insecticides which are not being met to the detriment of the increase in agricultural production. The people need money for school fees, roofing for their homes, medical fees, transportation, etc. The problem of usury also is a financial problem in Tanzania especially among the unprivileged.

H. The establishment of an effective system of credit unions contributes significantly to the total development of the rural areas by providing additional capital needed to increase crop production, ~~providing~~ ^{providing} a source of credit to people in the rural areas for the accumulation of personal goods, the improvement of housing, and ~~providing~~ ^{providing} training in the management of an organization that will lead to the involvement in more complicated forms of cooperatives and private enterprises, resulting in a general increase in the standard of living.

I. Where credit unions have been introduced in Tanzania, they have proven to be effective in providing: (1) a simple and effective method for mobilizing rural savings for development; (2) a source of small loans for productive purposes at reasonable rates of interest; (3) an understanding of the principles of self-help and self-reliance in relation to meliorating rural social and economic problems; (4) an opportunity for the masses of the people to learn to control their own financial resources; and (5) a means to escape usury.

III. Strategy

A. Credit unions complement the overall development plans for Tanzania. At a recent meeting of TANU delegates at Mwanza, President Nyerere recommended credit unions as an instrument in the campaign for self-reliance under the Arusha Declaration when he said "The Savings and Credit Societies (credit unions) can be of very great service, both to the individual and to his local community. Many of these societies already exist in Tanzania, but new ones should be started for they can help us very much in our individual and national drive toward self-reliance." Credit unions are a part of the country's Five-year Development Plan with a goal of 400 credit unions by 1970.

B. More than 90% of the credit unions already organized are located in the rural areas, providing savings and credit facilities to people who have never before had them available. This project is consonant with one of USAID's emphases, i.e. to provide assistance to self-help projects that further the development of the rural areas.

C. The primary need to assure the continued development of a successful system of credit unions in Tanzania is a pool of trained and experienced manpower, both within the Governmental administrative and supervisory structure and within the structure of the societies themselves. To assist in achieving these ends, this project provides for the technical assistance of two U.S. advisors together with overseas training for up to 16 Tanzanian officials.

D. The experience of the previous CUNA advisor (assigned under Contract No. AID/csd-236, Task Order 10. 15) indicated there were two main aspects of the work to be done: (1) training Ministry officials, and (2) training credit union officials. Therefore, two advisors are now proposed. The job of one will be to strengthen the Government administrative and supervisory organization. The job of the second will be to work through the Credit Union League of Tanganyika (1) to improve the performance and effectiveness of existing societies and (2) to extend the benefits of credit unions through assisting in the organization of new societies.

E. Within the Ministry of Agriculture and Cooperatives a special section has been established to supervise the organization, growth and operation of credit unions throughout the country. Plans have been formulated for the assignment of Cooperative Inspectors in each region of the country whose only responsibility will be the inspection and supervision of credit unions.

F. A national federation of credit unions, the Credit Union League of Tanganyika, has been organized and has a staff of three persons working in the field organizing, educating and assisting with all phases of credit union development. This organization is a voluntary association financed by dues paid by the individual credit unions. It is operated by credit union leaders from all parts of the country, elected by representatives from individual credit unions at the League's annual Meeting. The League is a member of CUNA International and has one member on their Board of Directors. Although not self-sufficient at the present time, it is anticipated that at the end of 1971 the credit unions in Tanzania will be of sufficient number and with adequate income to provide a dues base that will provide adequate income to the League to make it completely self-sufficient. Until that time, CUNA International is committed to subsidize the League operation.

G. The Cooperative Law which credit unions operate under is basically adequate though amendments drafted by the E.A. Regional CUNA advisor are to be presented to Parliament in the near future to clarify minor points and provide for specific mention and description of credit union operation and philosophy.

H. A voluntary Federation of Credit Unions has been organized with a staff of trained field workers that assist the existing credit unions with operating problems and teach the officials credit union operation and philosophy. The Government is in the initial stages of assembling a staff of inspectors that will deal only with the inspection and supervision of the country's credit unions.

I. The Swedish International Development Association is assisting the development of cooperatives in Tanzania, but we know of no duplicative Scandinavian assistance to credit unions, per se. Section II, C, D, E and F above indicate some of the cross-relationships of this project to the national development program.

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J. Specialized short-term consultants as necessary might be an alternative to a second full-time CUIA advisor. It is estimated that a total of 12 man-months of services should provide two specialized consultants a year for 90 days each over the two year life of the project. While this might provide access to broader specialized talent, on balance we recommend having two full-time advisors as being the most helpful for the reasons indicated in III D above.

IV. Planned Targets, Results and Outputs

A. The three specific targets to be reached by FY 1970 are as follows:

1. Establish a total of 400 credit unions throughout the mainland of Tanzania.
2. Develop the extension and management capabilities of the Federation of Credit Unions (The Savings and Credit Union League of Tanganyika, Limited) to provide the essential support, services and program required to improve the operations of the constituent local credit unions.
3. Establish an effective unit within the Ministry of Agriculture and Cooperatives with the capability to perform supervisory, inspectional, organizational and training functions throughout Tanzania.

B. By the end of FY 1970, the following results are anticipated:

1. 400 credit unions (serving members in every region of the country.)
2. 75,000 credit union members.
3. \$1,000,000/- in savings.
4. A viable Credit Union Federation capable of providing member societies such services as: (a) education programs; (b) stabilization services; (c) insurance services; (d) surety bond services; (e) interlending programs; (f) pooling of reserves; (g) organization of new credit unions; and (h) contact with the international credit union movement.

C. A strong, independent, supervisory section within the Government with well-trained and qualified personnel located in every region of the country, in charge of the supervision, inspection, organization, and training of credit unions and their personnel, equipped with necessary inspection manuals, materials and systems to administer the program.

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V. Course of Action

A. To attain the above listed targets, we propose that credit union development activities in Tanzania be continued on a bilateral basis for two years, or until a regional approach can be developed. The successful attainment of these targets should also demonstrate to other East African countries the benefits of using credit unions in generating and mobilizing savings for the benefit of the rural sector of the economy.

B. The specific actions required under this project are as follows:

1. The U.S. will continue the CUNA contract advisory services of two technicians through mid-1970 (July, 1968 - June, 1970).
 - (a) The first contract technician will serve as an advisor to the Savings and Credit Union League of Tanganyika, Ltd. This technician's role will involve advising the League on operating policies and procedures.
 - (b) A second CUNA advisor will be assigned to and physically located within the Ministry of Agriculture and Cooperatives. This advisor will provide advice and recommendations to the Ministry on such matters as government charters, supervision, inspection and training.
2. The U.S. will provide participant training to selected members of the Cooperative Development Division whose primary responsibility will be the supervision and inspection of credit unions throughout the 17 regions of Tanzania. The training will consist primarily of six months practical on-the-job training in the Bureau of Federal Credit Unions, State Supervisory Leagues and Credit Unions. It is estimated that sixteen participants (eight each year) will require about one year of training each over the two-year span of this project.
3. The Tanzanian Government will insure adequate budget allocations to support this project including the support of U.S. technicians.
4. The Tanzanian Government will continue to provide qualified counterparts for each of the two CUNA technicians.
5. The Tanzanian Government will establish an additional 284 credit unions (the balance of the 400 credit unions planned.)

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Attachment: Non Capital Project Funding

NONCAPITAL PROJECT FUNDING (OBLIGATIONS IN \$000)

Table 1

Page 1 of 2

COUNTRY: Tanzania Project Title: Rural Credit Union Development

PROP DATE 2/23/68

Original

Rev. No.

Project No. 621-11-140-085

Fiscal Years	Ap	L/G	Total	Cont	Personnel Serv.			Participants		Commodities		Other Costs	
					AID	PASA	CONT	U.S. Agencies	CONT	Dir U.S. Ag	CONT	Dir & U.S. Ag	
Prior through Act. FY -	-	-	-	-	-	-	-	-	-	-	-	-	-
Oper. FY 68	TC	G	70	70	-	-	70	-	-	-	-	-	-
Budg. FY 69	TC	G	118	70	-	-	70	48	-	-	-	-	-
B + 1 FY 70	TC	G	48	-	-	-	-	48	-	-	-	-	-
B + 2 FY													
B+ 3 FY													
All Subs													
Total Life	TC	G	236	140	-	-	140	96	-	-	-	-	-

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Dar es Salaam TOAUD A- 281

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ATTACHMENT

Table 1
Page 2 of 2

Exchg. rate \$1 = T. Shs. 7.1

Project No. 621-11-140-085

Data on Selected TOAID A-201

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Fiscal Years	AID-controlled		Other Cash Contribution Cooperating Country	Other Donor Funds (\$ Equiv.)	<u>Food for Freedom Commodities</u>		
	Local Currency U.S. Owned	Country Owned			Metric Tons (000)	CCC Value & Freight (\$000)	World Market Price (\$000)
Prior through Act. FY							
Oper. FY 68	-	-	25	7	-	-	-
Budg. FY 69	-	-	25	7	-	-	-
B + 1 FY 70	-	-	25	7	-	-	-
B + 2 FY							
B + 3 FY							
All Subs.							
Total Life							