PD-AAG-065 (2)

621-0155

6210155004201

RESOURCES FOR VILLAGE PRODUCTION

AND INCOME

(621-0155)

PROJECT PAPER

VOLUME I

Submitted: June 10, 1980

AUG 28 1980

ACTION MEMORANDUM FOR THE ADMINISTRATOR

THRU: ES

THRU: AA/PPC, Alexander Shakow

Roy A. Stacy

FROM: for AA/AFR, Goler T. Butcher

SUBJECT: Project Authorization: Tanzania -- Resources for Village Production and Income (621-0155)

Problem: Your approval is required for a grant of $45.0 million from the F.A.A. Section 103 (Agriculture, Rural Development and Nutrition) appropriation to the United Republic of Tanzania, for the Tanzania Resources for Village Production and Income Project, and for source/origin waivers described herein. It is planned that $4.275 million will be obligated in FY 1980.

Discussion: The Ambassador has reviewed the Project Paper (Tab C) and expressed strong support for its concept of commitment to the provision of productive resources to villages in support of agrarian reform and rural development in Tanzania. Through its villagization and decentralization programs, Tanzania is now in the process of transforming about 8700 registered villages into self-sufficient, multi-purpose co-operatives. Recognizing that Tanzanian development is tied to the village as the basic social, political and economic unit, the Mission provides a variety of resources and economic services required to improve village well-being and productive capabilities. This enables villages to contribute more to and to share more in the growth of the Tanzanian economy.

The role of villages can be highlighted in reference to the following major phases of Tanzania's agrarian reform and rural development program. First is an organizational phase in which villages are identified, settled and registered. Education and training are now the major activities undertaken for villages by the party and the Prime Minister's Office, the major institution responsible for co-ordinating and monitoring the implementation of agrarian reform. All of the 8,700 villages are now registered and half have introduced some form of education and training.

In the second phase, basic social amenities and services are provided to villages by various ministries such as Health, Education and Water Development. It is estimated that 50 percent of the villages not having these basic services 15 years ago now have access to primary education water and basic health care.

The third phase is a productive phase in which new technologies, resources, and economic infrastructure are made available to increase village production and incomes. Many national institutions and crop authorities are involved in this phase. Their work is facilitated by decentralized administration at regional and district levels and by the Tanzania Rural Development Bank (TRDB). About 2500 villages are now reached by TRDB with seasonal input loans to raise agricultural production and with term loans to finance village investments in basic economic infrastructure and small industries. TRDB, therefore, serves as a key institution in financing the transfer of productive resources for village growth.

AID has provided technical assistance to TRDB since 1974 to strengthen staff capabilities, operations, and management, and to develop food crop lending programs for small farmers. This project builds on the success of past AID assistance by supporting and expanding lending activities which are most profitable to farmers, villages and the TRDB. In its support of the TRDB, the project reflects a national, as opposed to regional, focus.

The objective of this project is to provide resources to villages which increase agricultural productivity, rural production and village incomes. This project will be the mainstay of the total USAID program in Tanzania over the next several years. To meet the project objective, a $30.0 million capital grant will be disbursed over a six year period to finance imports of scarce commodities, materials, and equipment. These items will be used by local firms to manufacture agricultural implements, and by villages to construct facilities which enable them to engage in agricultural processing, marketing and input distribution. For example, the following items will be provided: steel and chemicals for the production of improved hand tools and oxen implements; small diesel engines to power village grain mills; cement and corrugated iron sheets for the construction of village service centers and grain stores; and equipment for improved village transport. These implements, materials and equipment will be distributed to villages primarily by suppliers and private transporters and financed through TRDB's National Food Crop Lending Program (NAFCREP). This program was initiated with AID assistance in 1977 and now accounts for 20 percent of TRDB's total lending program.

In addition, an institutional grant of $15.0 million will be provided to strengthen, streamline, and decentralize the NAFCREP program so that TRDB can serve effectively the financial needs of approximately 2,500-3000 villages, or about 1 million farm families, projected to be reached by the project. The institutional grant was increased from $14.2 million, the sum indicated throughout the Project Paper, to $15.0 million to cover additional contingencies, inflation, and the full time services of a procurement advisor to be assigned to TRDB early in the six month pre-implementation phase, beginning in October-November 1980.

AID inputs under the institutional grant have been specifically tailored to complement other AID agricultural and rural development projects in Tanzania and other donor assistance to TRDB. In addition to the procurement advisor, the institutional grant will fund three long-term technicians: a regional supervisor and training advisor; a financial management specialist; and a planning advisor to help identify new and profitable lending activities. AID will also provide 187 person months of short-term technical and professional services; long-term training for 32 participants; short-term training for 40 participants; funds for in-country seminars and workshops; and about $3.0 million for vehicles, motorcycles, training materials, other commodities for TRDB and construction of staff houses.

Total project costs are estimated to be $155.0 million over the 1980/1-1986/7 development period. In addition to the $45.0 million contributed by AID, other donors (mainly IDA) will provide $15.0 million and TRDB will contribute about $95.0 million, mostly in local currency for lending. Of the $95.0 million, $20.0 million in foreign exchange remains to be committed from other sources. Specifically, AID's contributions to the project under both the institutional and capital grants are as follows:

($ Millions)

		1980	LOP
1.	Commodities	1.8	33.7
	a. capital grant	(0.0)	(30.0)
	b. institutional grant (incl. construction)	(1.8)	(3.7)
2.	Technical Assistance	1.3	3.9
3.	Participants	.5	2.6
4.	Other	.7	4.8
5.	Grand Total	4.3	45.0

The Project Paper contains detailed technical, economic, engineering, social, financial, and institutional analyses. These have been reviewed by the Africa Bureau and found to meet all the requirements of Sec. 611(a) of the Foreign Assistance Act. The project has no implications with respect to human rights.

The amended Initial Environmental Examination (IEE) for the Project Paper (IEE) (Tab B) has been approved. Although some pesticide use is contemplated in the project, the IEE recommends a negative unresolved determination based on the understanding that an environmental assessment on pesticides, not covered in the risk-benefit analysis prepared by AID/W, will be done prior to disbursement of funds. This assessment will address the unresolved pesticide issues. The Tanzanian Government will covenant to suspend seasonal lending for the procurement of DDT under the NAFCREP program for the life of the project. In order to encourage the utilization of environmentally safe pesticides in Tanzania, the Project Paper directs that a team of experts will be sent to Tanzania during the pre-implementation phase of the project to study and recommend alternatives to DDT use in Tanzania. The Tanzanian Government must agree to implement these recommendations under the NAFCREP program before any capital grant funds will be disbursed under the project.

The Project Authorization contains other covenants and conditions precedent to disbursement designed to ensure the efficacy of the Project. Approval of the following waivers for which detailed justifications are contained in Annex I-E of the Project Paper (tabbed "waivers") is requested:

(1) a source/origin waiver from Geographic Code 941 to Geographic Code 935 and a sole source proprietary procurement waiver to purchase up to 1065 Lister engines with 20% spare parts manufactured in Great Britain. (This waiver would be utilized only in the event that Lister, U.S. is unable to meet AID componentry requirements);

(2) a source/origin waiver from Geographic Code 000 to Geographic Code 935 and a proprietary procurement waiver to permit the procurement of up to thirty British Leyland Land Rover motor vehicles plus 10 percent spare parts manufactured in a Code 935 country.

(3) a source/origin waiver from Geographic Code 000 to Geographic Code 935 and a proprietary procurement waiver to permit the procurement of up to one hundred and fifty (150) Honda or Yamaha 90-125 CC motorcycles with 10 percent spare parts manufactured in Japan;

(4) a source/origin waiver from Geographic Code 000 to Geographic Code 935 and a proprietary procurement waiver to permit procurement of up to three (3) Peugeot or Volkswagen cars with 10 percent spare parts manufactured in France or Germany.

(5) a source/origin waiver from Geographic Code 941 to Geographic Code 935 and a proprietary procurement waiver to permit procurement of up to thirty-five (35) small tractors and/or related farm machinery and equipment (Massey Ferguson, John Deere, International Harvester, Caterpillar and Ford) plus 10 percent spare parts, most of which is manufactured by these firms in the United Kingdom or elsewhere in Europe.

It should be noted that the project is scheduled to run seven years, from the signing of the Project Agreement through the PACD. It is necessary to exceed the normal six-year limit on life of the project in order to allow for a six month pre-implementation period to prepare more detailed procurement and implementation plans for the construction of village go-downs and service centers under the capital grant.

The Executive Committee for Project Review met on July 25, 1980 and recommended the project be approved as presented in the project paper. The project manager in the Mission will be Michael Fuchs-Carsch and Julie Wolff will be the Project Officer in AFR/DR. Congress was notified regarding this project on August 8, 1980 advising of an initial obligation of $4,275,000 for fiscal year 1980. The waiting period expires on August 22, 1980.

Recommendation: That you sign the attached Project Authorization, thereby authorizing the proposed project (Tab A) and approving the requested waivers.

Clearances:

AFR/DR/EAP:SCole		Date 8/14/80
AFR/EA:BKline	BK	Date 8/14/80
GC/AFR:EDragon	EAD	Date 8/14/80
GC:NHolmes	NLH by EAD	Date 8/15/80
AAA/PPC/PDPR:SKlein	SK	Date 8/19/80
AFR/DR:NCohen	JWK for	Date 8/15/80
AAA/AFR/DR:JWKoehring	JWK	Date 8/15/80
DAA/AFR:WHNorth	RAS	Date 8/15/80
AFR/DR/ARD:HJones	(draft)	
AFR/DR/EHR:GCorinaldi	(draft)	
AFR/DR/SDP:JHester	(draft)	
AFR/DR/ENG:LEldridge	(draft)	
AFR/DP:JMartin	(draft)	
COM/ALI:WGill	(draft)	

Drafted:AFR/EA/USAID/Tanzania:MFuchs Carsch;GC/AFR:BBarrington BKB
Coordinating Office:AFR/DR/EAP:X28286;pgf

PROJECT AUTHORIZATION

Name of Country: United Republic of Tanzania

Name of Project: Resources for Village Production and Income

Number of Project: 621-0155

1. Pursuant to Section 103 of the Foreign Assistance Act of 1961, as amended, I hereby authorize the Resources for Village Production and Income Project for the United Republic of Tanzania involving planned obligations of not to exceed $45.0 M in grant funds over a seven year period from date of authorization, subject to the availability of funds and in accordance with the A.I.D. OYB/allotment process, to help in financing the foreign exchange and local currency costs of the project.

2. This two-phased Project will strengthen and expand the Cooperating Country's system of providing production-related goods and services to villages.

Phase I of the project (FY 1980-FY 1983) will be devoted primarily to assistance to:

a. support the institutional development of the Tanzania Rural Development Bank (TRDB) to strengthen its personnel skills, decentralize and improve its operating procedures, and to increase its planning, evaluation, and financial management capabilities. For these purposes AID will finance training, technical assistance, vehicles and equipment, expatriate technician housing and other related costs;

b. capitalize selected TRDB lending activities in areas where feasibility and socio-economic soundness is established. For this purpose AID will finance the foreign exchange component of various materials, equipment and commodities to be provided to borrowing villages on credit; and,

c. establish the feasibility and socio-economic soundness of additional TRDB lending activities. For this purpose AID will finance technical assistance and/or related commodity support for experimental projects seeking to plan and establish the feasibility of new lending activities.

Phase II of the project (FY 84-FY 86) will provide assistance to carry out innovations in lending services developed in Phase I and will continue to finance (a) established lending activities under Phase I and (b) the institutional development of TRDB.

3. The Project Agreement, which may be negotiated by the officer to whom such authority is delegated in accordance with AID regulations and Delegations of Authority, shall be subject to the following essential terms and covenants

and major conditions, together with such other terms and conditions as AID may deem appropriate.

4. a. Source and Origin of Goods and Services

Goods and services, except for ocean shipping, financed by AID under the project shall have their source and origin in the Cooperating Country or in countries included in AID Geographic Code 941 except as AID may otherwise agree in writing. Ocean shipping financed by AID under the project shall, except as AID may otherwise agree in writing, be financed only on flag vessels of the United States or the Cooperating Country.

b. Conditions Precedent to Disbursement

(1) No project capital grant funds will be disbursed under the NAFCREP program, except as AID may otherwise agree in writing, until:

a. a pesticide study has been completed and its recommendations approved by AID included in the project;

b. an amended IEE is prepared and approved which reflects these recommendations; and,

c. an EA or EIS, should the amended IEE require one, is prepared.

(2) Prior to the first disbursement for commodities to be purchased from the capital grant for lending purposes, the Grantee will provide, in form and substance satisfactory to AID, statements:

a. authorizing TRDB, or its appointed agents, to directly import commodities required for the lending program; and,

b. exempting such commodities from any import duties and inspection fees.

(3) Prior to any disbursement or the issuance of any commitment documents under the Project Agreement to finance lending activities under each NAFCREP portfolio, the Cooperating Country shall furnish in form and substance satisfactory to AID:

a. the complete credit policies and regulations governing lending by the TRDB to villages or village members, under a given NAFCREP portfolio, applicable to any of the items to be financed under the project;

b. copies of agreements with all importers authorized to receive and distribute commodities financed under the project detailing the manner in which local currency transactions will be made, including repayment procedures to the TRDB for instances where the importer receives payment directly or indirectly from the villages for commodities financed under the Grant; and,

(c) a plan for improving repayment and collection rates from participating villages and a plan to monitor performance.

(4) Prior to any disbursement or the issuance of any commitment documents under the Project Agreement to finance participant training activities for each calendar year of the project, the Cooperating Country shall furnish in form and substance satisfactory to AID a detailed plan for the year of training involved. Such plan shall designate students to be trained, universities and other organizations which will accomplish the training, courses of study, and an explanation and justification of the position the trainee will occupy when returned to the TRDB upon completion of training. Each annual plan shall be submitted to AID no later than December 31 of the year preceding commencement of study.

(5) Prior to any disbursement or the issuance of any commitment documents under the Project Agreement to finance technical assistance and/or related commodity support for experimental projects seeking to establish the feasibility of new lending activities, the Cooperating Country shall cause to be furnished, in form and substance satisfactory to AID, a detailed description of the activity and the components proposed to be financed by AID.

(6) Prior to any disbursement, or the issuance of any commitment documents under the Project Agreement, except to finance the procurement of agreed pesticides (Endosulfan), the Cooperating Country shall cause to be furnished, in form and substance mutually satisfactory, a plan for evaluation of the project, including, inter alia, a comprehensive evaluation to take place during year four of the project to examine project performance and progress in the context of related government policies as well as specific project assumptions, inputs and outputs as the basis for proceeding with Phase II.

(7) Prior to any disbursement, or the issuance of any commitment documents under the Project Agreement to finance Phase II activities, the Cooperating Country shall cause to be furnished, in form and substance satisfactory to AID, a detailed three-year Phase II financing plan. With respect to new lending activities to be financed during Phase II, the plan shall include detailed analytical justifications (including firm costs estimates, adequate plans and social, environmental, technical, engineering and other analyses) as may be required to satisfy AID policy and program criteria with respect to the new lending activities. Such requirements shall be stipulated in Implementation Letters issued by AID to the Cooperating Country from time to time.

c. Covenants

The Government of Tanzania and/or the TRDB shall covenant that:

(1) the TRDB will not engage in any seasonal lending for procurement or use of DDT under the NAFCREP program during the life of project;

(2) It shall implement under the NAFCREP program, for the life of project, in a manner satisfactory to AID, pesticide usage recommendations contained in the pesticide study and agreed to by AID;

(3) All AID disbursements to Treasury will be passed to TRDB within thirty days and at the currency exchange rate existing when AID provided the funds;

(4) All AID-financed loan commodities will be used solely for the National Food Credit Program;

(5) All AID-financed loan commodities will be provided to villages, village level organizations, farmers with holdings of ten hectares or less or groups of such farmers and will only be provided to applicants having village council or assembly approval;

(6) All loans for fixed assets such as buildings will be for the unrestricted use of the village members although the asset may be owned by an individual or family;

(7) The TRDB will provide on a timely basis all required personnel not financed by AID. Such personnel will include additions to the staff of the Planning Division of the Development Directorate, the Directorate for Regional Supervision and Coordination, and such other Directorates as may be considered essential for purposes of efficient Project administration in accordance with the terms of the Project Agreement and the detailed project description appended thereto;

(8) The TRDB shall make all necessary budgetary allocations on a timely basis as these requirements are described in the Project Agreement;

(9) The TRDB shall provide adequate temporary housing for AID-financed technical assistance personnel in Dar es Salaam until such time as permanent housing has been constructed under the project;

(10) All required participant trainees will be provided and that such trainees, upon completion of their studies, will be assigned to positions within the project commensurate with the nature and level of training received as may be acceptable to AID;

(11) It will expedite, to the maximum extent possible, clearance through port and customs of project-financed or related commodities and materials; and,

(12) The TRDB covenants to undertake timely staff expansion as described in the Amplified Project Description 1/ and to provide all personnel needed for implementation of the NAFCREP lending activities in a timely manner.

d. Waivers

Notwithstanding paragraph 4a(1) above and based on the justifications set forth in Annex I-E of the Project Paper, I hereby approve the following waivers for the project:

1/ Plan now contained in Annex II-F

(1) a source-origin waiver from Geographic Code 941 to Geographic Code 935 and a sole-source proprietary procurement waiver to purchase 1065 lister engines, with 20 percent spare parts, manufactured in Great Britain. (This waiver is to be used only if Lister, U.S. is unable to meet AID componentry requirements). I certify that exclusion of procurement from Free World countries other than the cooperating country and countries included in Code 941 would seriously impede attainment of United States foreign policy objectives and the objectives of the foreign assistance program;

(2) a source-origin waiver from Geographic Code 000 to Geographic Code 935 and a proprietary procurement waiver to permit the procurement of 30 Land Rover motor vehicles with 10 percent parts manufactured in Great Britain or Australia. I certify that exclusion of procurement from Free World countries other than the cooperating country and countries included in Code 941 would seriously impede the attainment of U.S. foreign policy objectives and objectives of the foreign assistance program, and find that special circumstances exist which justify waiver of the requirement of Section 636(i) of the Foreign Assistance Act of 1961, as amended;

(3) a source-origin waiver from Geographic Code 000 to Geographic Code 935 and a proprietary procurement waiver to permit the procurement of 150 Honda or Yamaha 90-125 CC motorcycles with 10 percent spare parts, manufactured in Japan. I certify that exclusion of procurement from Free World countries other than the cooperating country and countries included in Code 941 would seriously impede attainment of United States foreign policy objectives and the objectives of the foreign assistance program; and that special circumstances exist which justify waiver of the requirement of Section 636(i) of the F.A.A., as amended;

(4) a source-origin waiver from Geographic Code 000 to Geographic Code 935 and a proprietary procurement waiver to permit procurement 3 Peugeots or Volkswagen motor vehicles with 10 percent spare parts, manufactured in France and Germany. I certify that exclusion of procurement from Free World countries other than the cooperating country and countries included in Code 941 would seriously impede attainment of United States foreign policy objectives and the objectives of the foreign assistance program; and that special circumstances exist which justify waiver of the requirement of Section 636(i) of the F.A.A., as amended;

(5) a source-origin waiver from Geographic Code 941 to Geographic Code 935 and a proprietary procurement waiver to permit procurement of 35 small tractors and/or related farm machinery and equipment with 10 percent spare parts from Massey Ferguson, John Deere, International Harvester, Caterpillar and/or Ford most of which is manufactured by these firms in the United Kingdom or elsewhere in Europe. I certify that exclusion of procurement from Free World countries other than the cooperating country and countries included in Code 941 would seriously impede attainment of United States foreign

policy objectives and the objectives of the foreign assistance program.

Administrator (Acting)

August 28, 1980
Date

Clearances:
for AA/AFR:GTButcher RAS Date 8/15/80
GC:NHolmes KCK for Date
AA/PPC:AShakow Date

Drafted:GC/AFR:GLeece:8/11/80:X29219:pgf

ATTACHMENT A

Project Design Schedule

PID	Submission Date	--	January 20, 1979
PID	Approval Date	--	July 2, 1979
PP	Submission Date	--	June 12, 1980
PP	ECPR Approval Date	--	July 25, 1980

RESOURCES FOR VILLAGE PRODUCTION AND INCOME
(621-0155)

TABLE OF CONTENTS

VOLUMES I AND II

LIST OF TABLES

LIST OF FIGURES

ANNEXES

VOLUME II - DETAILED ANALYSES

LIST OF ABBREVIATIONS

AATP.................. Arusha Appropriate Technology Project
ACDI.................. Agricultural Cooperative Development International
AISCO................. Agriculture Industrial Supply Company
APVDP................. Arusha Planning and Village Development Project
BIT................... Board of Internal Trade
BOT................... Bank of Tanzania
BRALUP................ Bureau of Land Use Planning, University of Dar es Salaam
IDA................... International Development Association
MDB................... Market Development Board
MOA/KILIMO............ Ministry of Agriculture
NAFCREP............... National Food Credit Program
NBC................... National Bank of Commerce
NMC................... National Milling Corporation
PMO................... Prime Minister's Office
RIDEP/RIRDEP, etc..... Regional Integrated Development Plan, Regional Integrated Rural Development Plan
RTC................... Regional Trading Corporation
SFFCLP................ Small Farmer Food Crop Loan Program (Predecessor of NAFCREP)
SIDO.................. Small Industries Development Organization
TAMTU................. Tanzania Agricultural Machinery Testing Unit
TanSeed............... Tanzania Seed Company
TFA................... Tanganyika Farmers Association
TFC................... Tanzania Fertilizer Company
THB................... Tanzania Housing Bank
TIB................... Tanzania Investment Bank
TRD................... Training for Rural Development Project
TRDB.................. Tanzania Rural Development Bank
UFI................... Ubungo Farm Implements

AGENCY FOR INTERNATIONAL DEVELOPMENT

PROJECT DATA SHEET

1. TRANSACTION CODE: A (A = Add, C = Change, D = Delete) — Amendment Number: Original — DOCUMENT CODE: 3

2. COUNTRY/ENTITY: United Republic of Tanzania

3. PROJECT NUMBER: 621-0155

4. BUREAU/OFFICE: Africa Bureau — 05

5. PROJECT TITLE (maximum 40 characters): Resources for Village Production & Income

6. PROJECT ASSISTANCE COMPLETION DATE (PACD): MM DD YY — 07 30 87

7. ESTIMATED DATE OF OBLIGATION (Under 'B.' below, enter 1, 2, 3, or 4): A. Initial FY 80 — B. Quarter 4 — C. Final FY 86

8. COSTS ($000 OR EQUIVALENT $1 =)

A. FUNDING SOURCE	FIRST FY 80 B. FX	C. L/C	D. Total	LIFE OF PROJECT E. FX	F. L/C	G. Total
AID Appropriated Total	3,890	385	4,275.0	41,600	3,400	45,000.0
(Grant)	(3,890)	(385)	(4,275.0)	(41,600)	(3,400)	(45,000.0)
(Loan)	(--)	(--)	(--)	(--)	(--)	(--)
Other U.S. 1.						
Other U.S. 2.						
Host Country	1,500	6,300	7,800	20,400	75,700	96,100
Other Donor(s)	2,600	2,300	4,900	7,800	6,900	14,700
TOTALS	7,990	8,985	16,975	69,800	86,000	155,800

9. SCHEDULE OF AID FUNDING ($000)

A. APPROPRIATION	B. PRIMARY PURPOSE CODE	C. PRIMARY TECH. CODE 1. Grant	2. Loan	D. OBLIGATIONS TO DATE 1. Grant	2. Loan	E. AMOUNT APPROVED THIS ACTION 1. Grant	2. Loan	F. LIFE OF PROJECT 1. Grant	2. Loan
(1) ANRP	133	010	--	-0-	--	4,275.0	--	45,000.0	--
(2)									
(3)									
(4)									
TOTALS						4,275.0		45,000.0	

10. SECONDARY TECHNICAL CODES (maximum 6 codes of 3 positions each): 111 | 140 | 150

11. SECONDARY PURPOSE CODE: 223

12. SPECIAL CONCERNS CODES (maximum 7 codes of 4 positions each)

A. Code	BR	BS	PART	TECH			
B. Amount							

13. PROJECT PURPOSE (maximum 480 characters)

A strengthened and expanded agricultural support and delivery system for the provision of production related goods and services in villages.

14. SCHEDULED EVALUATIONS: Interim MM YY 12 82; MM YY ; Final MM YY 04 86

15. SOURCE/ORIGIN OF GOODS AND SERVICES: [X] 000 [X] 941 [ ] Local [X] Other (Specify) 935

16. AMENDMENTS/NATURE OF CHANGE PROPOSED (This is page 1 of a _____ page PP Amendment.)

17. APPROVED BY — Signature: Howard L Steverson — Title: Mission Director — Date Signed: MM DD YY 06 09 80

18. DATE DOCUMENT RECEIVED IN AID/W, OR FOR AID/W DOCUMENTS, DATE OF DISTRIBUTION: MM DD YY 06 12 80

AID 1330-4 (8-79)

NOTE

This Concise Summary of the Project Description reflects changes in the design of the project made during the project review process. In the case of inconsistencies between the Project Paper and the Concise Summary of the Project, the Concise Summary of the Project Description should control.

Concise Summary of the Project Description

I. Introduction

A. Project Highlights

This PP proposes a $45.0 million grant to be disbursed over a seven year period. The overall objective of the project is to provide resources to raise village production and incomes. This will enable villages to contribute and share more in the growth of Tanzania's economy.

A capital grant of $30.0 million will be provided to finance imports of key commodities, materials and equipment. These items will be used by selected firms in Tanzania to produce agricultural inputs and for the construction of facilities in village which are beneficial to farmers and will have a significant impact on agricultural productivity, rural production and village development.

An institutional grant of $15.0 million will be provided to the Tanzania Rural Development Bank (TRDB) to strengthen, decentralize and streamline its rural credit operations especially, though not exclusively, in term 1/ lending for food crops.

The funds will be granted to the GOT and made available, through TRDB, to local manufacturers, suppliers and villages.

The project has two, three-year phases and a six months pre-implementation period beginning in September 1980. Among other activities during the pre-implementation period, a contractor will be recruited by TRDB to implement the institutional grant and a more detailed procurement plan will be prepared for imported commodities, materials and equipment. In addition to TRDB the major implementing agents are 3,000 villages and several importers, manufacturers and distributors of agricultural equipment and inputs in Tanzania. Phase II obligations will be made after Phase I evaluations scheduled for December 1983.

B. Relationship to Other AID Activities

Through this project AID will reinforce its commitment to support the productive phases of Tanzania's agrarian reform and rural development program. Recognizing that Tanzanian development is tied to the village as the basic social, political and economic unit, the Mission's program attempts to make available the various resources required to improve village productive capabilities.

1/Term loans are repaid in five or more years and usually require down payments of 25% by villages. The loan to villages is secured by the value of the asset provided.

The role of the villages can be highlighted by reference to Tanzania's villagization program which has three major phases.

First, an organizational phase in which villages were identified, settled and registered. Education and training are now the major activities undertaken for villages by the party and the Prime Minister's Office (PMO), the major institution responsible for co-ordinating and monitoring the implementation of agrarian reform. All of the 8,700 villages are now registered and half have completed some form of education and training.

In the second phase basic social amenities and services are provided to villages by various ministries such as Health, Education and Water Development. It is estimated that 50% of villages not having these basic services 15 years ago now have access to primary education, water and basic health care.

Third, there is a productive phase in which new technologies, resources and economic infrastructure are made available to increase village production and incomes. Many national institutions and crop authorities are involved in this phase. Their work is facilitated by the decentralized administration at regional and district levels and, to a lesser though not insignificant extent,by TRDB.

The Tanzania Rural Development Bank currently serves as a key institution in financing the transfer of resources needed to promote Tanzanian Village level agricultural production and small scale industries. The U.S. has provided technical assistance to TRDB since 1974, focused on:

- -- strengthening TRDB operations and management;
- -- strengthening TRDB staff capabilities;
- -- testing and demonstrating input lending programs for small farmers in food crops.

This ongoing assistance is an integral part of AID's overall agricultural and rural assistance program, which focusses on the development and distribution of improved technologies to raise agricultural productivity, particularly though not exclusively in food crop production. To this end the mission is designing four inter-related core projects; these and their objectives are:

(1) Farming Systems Research to develop new technologies;

(2) Training for Rural Development to train villagers in the use of new technologies;

(3) Rural Resource Program to train in-country in the development of new technologies; and

(4) Resources for Village Production and Incomes to distribute technologies to villages and farmers/

II. The Project's Objectives

A. The Capital Grant

This project will support TRDB's National Food Crop Lending Program (NAFCREP) which was initiated with AID assistance in 1977. The NAFCREP program now accounts for 20% of TRDB's total lending program. In implementing the $30.0 capital grant TRDB's primary role will be to facilitate, finance and monitor the flow of agricultural equipment and inputs from suppliers to villages. The term loan portfolios of the NAFCREP program which will be supported and expanded by AID's capital grant are:

1. village service centers/godowns.
2. oxen implements and carts.
3. village grain mills.
4. village transport.

In addition, the capital grant will support seasonal lending for the purchase of improved hand tools by villages. This is the only seasonal lending portfolio of NAFCREP that will be directly supported by AID under this project. Any direct AID support to seasonal lending for the purchase by villages of fertilizers, insecticides, herbicides and seeds will be delayed until 1) area specific recommendations are made by the Ministry of Agriculture and are found acceptable to farmers and 2) all requirements of AID Regulation 16 have been met.

An important objective of this project is to prepare villages to participate more actively in product processing, marketing and input distribution. That is the purpose of promoting village investments in grain mills, transport and go-downs/service centers. Until villages are fully prepared and trained and until alternative mechanisms are identified and worked out, TRDB will have to continue a few input procurement and distribution functions over the next three years.

Coincident with the development of this project, but quite independently, it became apparent that Tanzania's macro-economic problems were having a severe impact on overall economic production. Within the agriculture sector shortages of foreign exchange have reduced the ability of TRDB and related institutions to provide many of the resources required for expanded agricultural production. The capital grant has been included in this project, in part, to provide supplemental foreign exchange which is intended to remove the severe constraints Tanzania now faces in providing such resources to villages.

B. The Institutional Grant

In addition to the capital grant, this project proposes four other components which will be implemented by TRDB and financed under the $15.0 million institutional grant to TRDB. The objective of the institutional grant is to assure that TRDB will effectively serve the financial needs of the 3,000 additional villages projected to be reached by this project. It should be noted that the institutional grant was increased from $14.2 million, the sum indicated throughout PP, to $15.0 million. The extra amount will finance: procurement of pesticide substitutes; a pesticide study; the services of a procurement advisor to be recruited and assigned to TRDB early in the preimplementation phase; and, any additional contingencies.

AID-provided inputs have been specifically identified and tailored to complement other AID rural development projects in Tanzania and other donor assistance to TRDB. A brief description of the four components of the institutional grant will illustrate this.

1. Strengthening the institutional capacity of TRDB

Five outputs are expected to be achieved; these are: better trained and functioning headquarter and field staff; improved management and operations procedures; improved financial management; improved planning and identification of new and profitable loans; and, decentralized and more efficient loan approval, supervision and collection.

AID will provide three long term technicians; they are: a regional supervisor and training advisor; a financial management adviser; and, a planning advisor. In addition AID will provide: 187 person months in short term technical assistance; long-term training for 32 participants; short term overseas training for 40 participants; funds for in-country seminars and workshops; and $2.8 million for commodities and construction of houses.

The major other donor is IDA which will provide $13.4 million, of which $6.0 million is a general line of credit to be used in part for lending under the NAFCREP seasonal and term loan portfolios. The remaining IDA contribution will be used to provide: a chief training officer; an agricultural economist; a farm management specialist; short term training consultants in management information, organization and methods; a computer and related services; and, about $1.4 million for office construction.

In addition to IDA, Denmark will provide $250,000 to fund two farm management specialists.

2. Village Training and Clientele Development

The major output of this component is increased participation, credit worthiness and absorptive capacity of villages to effectively and profitably utilize external resources, technologies and credit. To accomplish this objective AID will provide under this project funds for short term advisors to design curriculae for training of village trainers, training materials and reproduction machines.

In addition to this project AID will provide funds through the Training for Rural Development projects technical assistance and commodities for village training in village leadership, co-operative, brick-making, shop keeping.

IDA will provide 6 mobiles training vans and $112,000 for short term training consultants.

3. Designing and Implementation of Alternative Delivery Mechanism

The output to be achieved is self explanatory and designed as one of the major objectives of the capital grant. The feasibility of any alternative input distribution system is critically dependent on the ability of villages to participate in input distribution and product marketing. During Phase I AID will finance short-term technicians to work closely with IDA financed consultants on the identification and design of other delivery mechanisms to unburden the IRDB of its input distribution functions.

In Phase II funds will be provided by AID to assist other or new organizations responsible for input distribution.

4. Improving Institutional Co-ordination

The role of TRDB can be distinguished from other institutions and organizations by its mandate to finance all agricultural production, income generating investment activities in villages. TRDB's role in agrarian reform and rural development is now attenuated by the severe economic and financial crises existing in Tanzania. To overcome these recurrent crises villages must grow and contribute more to the growth of Tanzania's economy than in the past. For villages to grow they must be supported and served with productive resources, new technologies and incentives. While TRDB can not do all these things by itself it plays a major role. It must work closely and effectively with other national institutions and regional organizations. In spite of the economic and financial crises as well as the pragmatism they have already induced, this co-ordination is difficult to achieve. Co-ordination is less difficult at working levels in the field, especially when programs are designed and implemented toward the attainment of a common objective.

The institutional co-ordination required to make this project successful will be accomplished through co-ordination among AID's core projects and their focus on a geographic area such as the Arusha Region.

III. Implementation of the Capital Grant

For each portfolio of the capital grant the functions and responsibilities of TRDB, villages and other institutions and organizations are as follows:

1. Village Service Centers/godowns

With the $2.8 million provided by AID under this project TRDB will import, or purchase off-shelf when locally available, all items loaned to villages and required by them for construction. Construction of go-downs/service centers by villages will be supervised by the Building Unit, Department of Ujamaa and Co-operatives in the Prime Minister's Office (PMO). Major items will be cement, corrugated iron sheets, re-inforcing rods, wire mesh and lead headed nails. With its own funds TRDB will arrange for storage and contract private transporters to deliver these items to the 1060 villages when they qualify for loans under this portfolio. As with other portfolios, villages qualify when a detailed Loan Memorandum has been prepared jointly by the village council and TRDB's district loans supervisor and approved by TRDB district loan committees. A Loan Memorandum will be prepared with those villages which can commit the requisite local resources such as labor, burnt bricks or other materials; have good repayment records with TRDB; and/or are recommended to TRDB by PMO after successful completion of appropriate village training programs in record keeping, simple accounting and managing inventories and stores. Reflows from village repayments of principal and interests occur over a ten year period and will be used by TRDB to finance incremental working capital needed to expand lending in this and other NAFCREP portfolios. The procurement advisor provided by AID in the pre-implementation phase will help TRDB identify other procurement and distribution mechanisms. This will enable TRDB to restrict its role to financing and monitoring the commodity flow directly from suppliers to villages. Short term technical assistance can be used to assist villages in operating these service centers as needed.

2. Hand Tools, Oxen Implements and Carts

The major implementing agent is the Ubungo Farm Implements Co. (UFI) located in Dar es Salaam. UFI was established in 1971 and produces and imports a wide assortment of hand tools and oxen implements. It now imports steel and chemicals on short term suppliers credit mainly from Sweden, Japan and Germany. AID will provide $6.8 million to enable UFI to import from the U.S. the steel and chemicals needed for the production of hand tools. Also, AID will provide $3.8 million to UFI and other smaller manufacturers to import similar materials and products required for producing oxen plows and carts. At TRDB's request AID will open a Letter of Commitment with an American bank. UFI through TRDB will open Letters of Credit (L/C) in favor of suppliers after solicitations have been approved by TRDB and AID. When L/Cs are opened, UFI will deposit in TRDB the local currency equivalent of the FX drawn for each order. UFI and other manufacturers will be responsible for port clearances and distribution to their factories. Half of the finished products will be distributed for cash sale to villages by the Regional Training Corporation (RTC) and its network of district branch stores. The other half will be purchased by TRDB for distribution to villages which purchases those items from TRDB on credit. TRDB will continue to purchase from UFI, store, and contract private transporters to deliver these products to villages until it is shown that the RTC network can effectively distribute all these items to villages on both a cash and credit basis. 960 villages will receive oxen impelents and carts and about 3,000 villages not now reached will receive hand tools on credit under this project.

Reflows will be used by TRDB to finance expanded lending under this and other NAFCREP portfolios. Short term technical assistance can be used by UFI and others in R&D and pro-type development of new products and other intermediate technologies.

3. Village Grain Mills

The major implementing agent is the Machinery Services Company (MSC). About 2,900 villages will receive grain mills of which 1,650 will be funded from AID contribution to this portfolio. TRDB will obtain the remaining FX requirements for this portfolio from other sources. AID will provide $13.2 million through a Letter of Commitment with an American bank. MSC through TRDB will open Letters of Credit in favor of suppliers so that MSC can import Lister engines, steel for mills and base frames, V-belts, pulleys and spare parts. MSC will arrange for port clearances and transport to its factory. MSC will assemble, test and box the final units and store them until TRDB arranges for delivery to qualifying villages through a private transporter. TRDB will reimburse MSC with its own funds for their expenses. Reflows from villages covering the total delivered cost will be used by TRDB to expand lending under this and other portfolios of the NAFCREP program. Village contributions are labor and materials needed to construct the sheds which house the grain mills. MSC will train village technicians in operating and maintaining the mills.

It should be noted that this is the largest portfolio of the NAFCREP program and is the least cumbersome for TRDB to implement.

4. Village Transport

AID will provide $2.9 million to finance imports of 7 ton trucks or 45 ph tractors and trailers for 80 villages. About 180 total villages will be reached under this portfolio if TRDB is able to obtain additional FX from other sources. Local dealers for Massey Ferguson, John Deere, Caterpillar and Ford will import and deliver equipment to qualifying villages. Payments to TRDB, procurement and financial arrangements through TRDB are the same as for MSC and will be affected after consultations among the respective supplier, TRDB and AID.

IV. AID Obligation Schedule

The planned obligation schedule for each of the phase is given below for both the institutional and capital grants.

FY Obligations ($Millions)

		Phase I			Phase II			
	80	81	82	83	84	85	86	Total
Institutional Grant	3.8		2.4	8.8	0	0	0	15.0
Capital Grant	0	3.0	3.6	3.4	6.8	6.6	6.6	30.0
TOTAL	3.8	3.0	6.0	12.2	6.8	6.6	6.6	45.0

V. FY 1980 Budget

To reflect the changes noted in section VI below and funding availabilities, the FY 1980 budget on p. 90 of the PP is increased to reflect an additional $755,000 for pesticides procurement, if required, and $45,000 for the Pesticides Study. The remaining additional $475,000 is included in Contingency and Inflation costs.

VI. Environment

In the past, TRDB has made seasonal loans for DDT to the villages. In recognition of the dangers inherent in the use of DDT, the TRDB has agreed to suspend seasonal lending of DDT under the NAFCREP program during the life of project.

During the pre-implementation phase, AID will arrange for the preparation of a Pesticide Study. The Study will analyze the needs for pesticides in Tanzania and make recommendations for future pesticide use. A scope of work will be prepared by AID/W and submitted to the Mission for approval. The TRDB has agreed to incorporate into this project recommendations of this study approved by AID, and AID has agreed to help finance the foreign exchange costs of recommended alternative pesticides for DDT.

Since the project does contemplate the continued seasonal lending of pesticides other than DDT by TRDB, an IEE analyzing the risks and benefits of such pesticide use, as required by Regulation 16, will be prepared by the Mission upon completion of the Pesticides Study. If the IEE recommends preparation of an EA, such will be prepared.

RESOURCES FOR VILLAGE PRODUCTION

AND INCOME

(621-0155)

I. Summary and Recommendations

A. Background

USAID provided $3.75 million to the Tanzania Rural Development Bank (hereafter the Bank or TRDB) from 1974 to the present. Technical assistance, training and commodity support focused on three areas: (1) strengthening of Bank operations and management; (2) strengthening staff through formal and on-the-job training; and (3) testing and demonstrating an input lending program for farmers with small holdings.

Several important lessons were learned and therefore affected the design of the proposed Project. These were:

- Do not rigidly exclude cash crops. Farmers cultivate a mix of food and cash crops which are most profitable for a given micro-ecology.

- Do train the clients and villagers. In order to achieve high repayments, credit users must understand the purposes and effective uses of credit, the need to repay, and how to apply and maintain the items purchased with credit.

- Term, as opposed to seasonal input, loans are more profitable to the Bank and borrowing villages.

- Better institutional coordination is necessary for an effective rural development program.

- Strengthen TRDB because of its unique mandate and program to provide productive goods and services to villages.

B. The Proposed Project

After a careful analysis of agricultural business and commercial activities in Tanzania, the Mission concluded that the TRDB was the major institution currently providing effective services to villages and farmers. The analysis also demonstrated TRDB's ability to expand its role in supporting the national program of rural development and agrarian reform. This Project has been designed to provide TRDB and villages with the resources needed for both to mutually benefit. The financial model and analysis indicated the optimum grant was $30.0 million to finance raw material imports necessary to enable TRDB to expand lending into most of the villages in Tanzania and maintain a healthy and growing financial position.

Previous lending portfolios of the National Food Credit Program (NAFCREP) were examined to determine the most profitable activities from the perspective of villages and TRDB. Those identified included seasonal loans for hand tools and term loans for food processing units, ox-drawn carts, plows, village service centers and godowns, and in a few cases, lorries and tractor/trailers for improved inter-village and intra-district transport. Local manufacturers are able to produce many of the items distributed by TRDB; however, current supply has been severely curtailed because of the inability to obtain import licenses for essential raw materials. AID's capital grant will be used to finance imports of raw materials and other commodities requiring foreign exchange. Specifically, TRDB will arrange for the importation of steel and chemicals for the local manufacture of hand tools, carts, plows and other oxen-drawn machinery, Lister diesel engines and spares for local manufacture and assembly of grain mills and rice hullers; cement, corrugated iron sheets and nails for construction of village service centers and godowns; and a few lorries and tractor trailers.

TRDB will continue to mobilize other resources and utilize its own revenues for seasonal lending for agricultural inputs such as seeds, fertilizers and pesticides.

AID institutional support is planned to complement that provided by other donors including IDA, FAO and DANIDA and will be provided over a six-year period. The AID Project will provide assistance to strengthen three areas of Bank operations. These include the new Directorate for Regional Supervision and Coordination responsible for decentralization of the TRDB's lending operations, the Finance Directorate and the Development Directorate.

One decentralization and training advisor will assist in the decentralization effort by identifying in-service training requirements; organizing and obtaining short-term consultants for such training; developing systems and procedures for supervision of field staff; and designing and implementing a system of incentives for improving performance of the rapidly expanding field staff. Training in the U.S. will be provided in economics, credit supervision and other key areas. Yearly management training seminars will be held in-country for the entire staff. Critical to the decentralization effort is improving the loan servicing, supervision and collection. In support of this, AID will provide vehicles and motorcycles for field staff.

IDA plans to provide a computer and consulting assistance to the Finance Department. While these inputs are necessary, they are not

sufficient to strengthen the Bank's ability to produce financial reports and provide financial management advice to the TRDB chairman. AID will thus provide one Financial Management Advisor for the life of Project.

Critical to expanding TRDB services is an expanded lending program. Necessary to achievement of this output is the diversification of the lending portfolio through the identification of new lending activities, increased ability to evaluate the impact of seasonal and term lending, and an understanding of those factors which affect repayment rates. AID will provide a long-term Planning Advisor to provide support to the Research and Planning Departments; and commodities, including vehicles and calculators and logistic support for enumerators. A primary responsibility of the advisor will be to develop new technologies and identify new lending portfolios. Various consultants will be provided to work with TRDB directly or local manufacturers or organizations, to assist in evaluating the viability of new lending programs and to provide technical advice.

A fourth advisor is needed in the first several years of Project implementation to help in pre-implementation procurement actions, including negotiation of a host country contract with the institution to provide the technical assistance and training, commodity procurement, and establishing inventory and control mechanisms.

A life of Project authorization is requested for $44.2 million dollars. (Annex I-H contains a reference guide to allow the reviewer to locate the relevant portions of the Project Paper which provide the planning and analysis which have been completed to support this recommendation.)

TABLE 1: SUMMARY OF AID ASSISTANCE

Institutional Development	($000,000's)
Technical Assistance	3.9
Training	2.6
Commodities	2.8
Sub-Total	9.3
Contingency	.5
Inflation	4.4
Sub-Total	14.2
Capital Grant[a]	
Imports - Sub-Total	30.0
GRAND TOTAL	$44.2

a/ Inflation included

The implementation period will cover seven years, including one year for pre-implementation activities and a six-year program period comprised of two phases of three years each. A major program review is planned at the end of Phase I whereby AID and TRDB will evaluate the effectiveness and impact of the Project and propose any major changes in Project activities or restructuring AID's assistance to the lending activities of NAFCREP. Throughout the life of the Project TRDB may propose that additional lending portfolios be added to the NAFCREP program. These and the Phase II plan will be reviewed and approved, when supported by technical, economic, social and financial analyses, by the Mission Director with advice and consultation of REDSO, AID/W and other advisors.

C. Notable Features

The proposed Project has several features which the AID/W project review committees should keep in mind. These are:

- The Project provides balance of payments support in a manner which is consistent with Mission and TanGov rural development objectives.
- The Project is large in terms of funds and scope. It allows AID resources to be utilized for a variety of rural development activities while streamlining Project documentation and reducing Mission Project implementation responsibilities.
- The majority of AID resources will directly reach villages and be used to support productive activities.
- The Project will initially be expanded in areas of high productivity with demonstrated and profitable technologies. Expanded lending activities in new geographic areas and for new technologies are planned as recommendations are forthcoming from this Project and others. Therefore the Project is national in scope but will focus in areas where TRDB assistance is requested and where villages can absorb it.

D. Issues

The following issues and questions were raised during the Mission Project review. (See Annex I-C for PID issues, Cable and Response.)

1. Interest Rates - Please refer to transmittal letter

2. Equity and Beneficiaries - An AID-funded contractor examined the early NAFCREP lending activities in Mbulu District of Arusha Region.[1/] She made the following observations: (a) the profitability to farmers of seasonal loans was questionable; (b) lack of repayment could be partially attributed to competing give-away

1/ Louise Fortman, "Observations on the Mbulu Small Farmer Food Crop Loan Program," April 1978. Contract No. AID-T-621-78-08.

programs of the Government; and (c) relatively better off villages (e.g., those closer to roads and towns or in higher productivity areas) received a greater proportion of the loans. The first two problems are addressed by specific activities in the new project; however, the latter is a valid observation and a difficult one to address. TRDB must make profitable loans to survive as a Bank. Tested technologies presently exist for relatively "better off" villages. When new technologies are available for other villages, the Bank will expand lending to these villages. In the meantime, other AID projects such as the Farming Systems Research Project, will be developing new technologies and testing these for their applicability and attractiveness to farmers.

3. Waivers - The total value of waiver requests for this Project is $6,812,000.

Source origin waivers are required for Project vehicles, the maize mill engines, motorcycles, cars and farm machinery. Approval of the waivers is essential to achieving Project objectives. We believe adequate justifications for these waivers have been prepared in consultation with REDSO and AID/W procurement and legal advisors. The Mission decided to forward waivers required for the life of Project for those commodities which support the Bank, i.e., the vehicles and motorcycle waivers and for those required only in Phase I of the lending program, i.e., the Lister engines and farm machinery. Since lending activities may change and American manufacturers of Lister will be requested to explore a dealership with the local Tanzanian supplier, requirements for waivers may change in Phase II. In addition the Mission will consider submitting a revised waiver for the second tranche of vehicles to be procured in 1984 if spare parts and service facilities are established in Tanzania for other four-wheel drive vehicles. At present, Landrover, Peugeot and Volkswagen are the only manufacturers with adequate dealer representation in Tanzania. Other vehicles will be reviewed for comparative purchase and operating costs prior to purchase of the vehicles required in Phase II. If appropriate, waiver requests will be submitted to AID/W at that time.

4. Recurrent Costs - The budget implications of recurrent costs of staff, vehicle operation and maintenance to the Tanzanian government have been examined and included in the Financial Analysis. (See Financial Analysis contained in Annex II-G.)

E. Recommendations

1. The Assistant Administrator for Africa is requested to approve: (a) the Initial Environmental Examination contained in Annex II-E; and (b) recommend to the Administrator authorization of the Project and approval of the associated waivers.

2. **The Administrator is requested to approve:**

(a) the Resources for Village Production and Income Project;

(b) authorization of funds for the life of Project in the amound of $44,200,000;

(c) a seven-year implementation period; and

(d) the following waivers:

- an origin waiver from Geographic Code 000 (U.S. only) to Geographic Code 935 (Special Free World) and a sole-source proprietary procurement waiver for one thousand sixty-five (1,065) Lister engines of an approximate value of $5,113,000;

- a source-origin waiver from Geographic Code 000 (U.S. only) to Geographic Code 935 (Special Free World) and a competitive proprietary procurement waiver for thirty (30) Landrover vehicles of an approximate value of $484,000;

- a source-origin waiver from Geographic Code 000 (U.S. only) to Geographic Code 935 (Special Free World) to allow competitive procurement of three (3) cars and one hundred fifty (150) 90-125cc. motorcycles of approximate respective values of $30,000 and $255,000; and

- a source origin waiver from Geographic Code 000 (U.S. only) to Geographic Code 935 (Special Free World) waiver of thirty-five (35) tractors and related farm implements and proprietary procurement from Massey-Ferguson, John Deere, International Harvester, Ford and Caterpillar of an approximate value of $930,000.

II. Project Rationale and Description

A. Relevance of the Project

1. Relation to the Mission's FY 1982 CDSS and its Agricultural/ Rural Assistance Programs

The Mission's FY 1982 CDSS and the review by AID/W stressed the need for projects which increase village production, participation and the contribution of villages to economic growth. These objectives are to be achieved by providing a mix of assistance directly to villages and districts in specified agro-ecological zones and some to selected national institutions mandated to serve and support villages through the decentralized administration, especially though not exclusively, in food crop production. In addition to its area development project in Arusha, the Mission plans to implement its agricultural and rural sector assistance under five general program categories. These were identified in the FY 1982 CDSS; they are:

- training and development administration;
- agricultural economics and program strategy;
- technology development;
- agri-business development; and
- land and infrastructure improvement.

Each of the program categories has a core project which provides the basis for a coordination among all other activities within each program category. A core project also provides a basis for linking the work of appropriate national institutions more closely to each other and to the requirements of villages and farmers. For example, the core project in the technology development category is the Farming Systems Research Project. Its objective is to coordinate work in agricultural research, training and extension by linking Ilonga Research Institute more closely to the Faculty of Agriculture; to the training institutes of the Ministry of Agriculture (KILIMO); to the extension functions of both KILIMO and the Prime Minister's Office (PMO); and to the villages.

The Project proposed herein is the core project of the agri-business development category. Its objective is to coordinate work in input supply and distribution; product processing, marketing and storage; and rural finance and credit. It will link villages more closely to the network of institutions with responsibility to provide these services and functions.

2. Project Overview

The primary implementing agent of this Project is the Tanzanian Rural Development Bank (TRDB) which, in addition to its finance and credit function, is now the major distributor to villages of seasonal inputs for food crops and many cash crops. TRDB is the only national institution with the clear and unequivocal mandate to support development activities in villages. It does this in five fundamental ways:

(a) helps identify resources required for increasing village production;
(b) organizes procurement, distribution and delivery of external resources;
(c) assists in mobilizing village savings and resources;
(d) supplements village resources by financing the acquisition of external resources; and
(e) guides in the implementation of plans and utilization of resources.

One of the most important services from farmers' perspective is the delivery to villages of productive resources. There are other distributors but none of them have a mandate to serve villages directly. For example: The Tanzania Seed Company, the Tanzania Fertilizer Company, the Tanganyika Farmers Association and the Board of Internal Trade with its network of Regional and District Trading Corporations (RTC's/DTC's) sell some crop inputs and commodities. The trading corporations are one of the major distributors of machinery, equipment, hand tools and implements. They are supplied by the Agricultural and Industrial Supply Corporation which imports machinery, tractors, and equipment and the Ubungo Farm Implements Company which produces hand tools and animal-drawn implements. Other distributors are several private companies such as Machinery Services, K.J. Motors, Riddoch Motors and Farm Machinery Distributors which import farm equipment when import licenses are obtainable. There are none at present because of lack of foreign exchange. These companies also import, stock and sell spare parts and provide repair and maintenance support. None of these distributors deals directly with villages in project planning, implementation or provision of required credit. TRDB is the sole link between these institutions and villages for these functions. TRDB performs these functions by scheduling and organizing the delivery of these inputs from various suppliers and by providing them to villages on credit, mostly on an in-kind basis.

Similarly, TRDB is the major link between villages and export/cash crop authorities. However, the cash crop authorities have product marketing responsibilities and only assume some responsibility for input supply and distribution. The National Milling Corporation is the single official market channel for food crops. It collects, handles, stores and processes all grains from villages for delivery to urban markets. It assumes no responsibility for delivery of food crop inputs but relies heavily on villages to assist in purchase, handling and storage of food crops for delivery to urban consumers.

The major problem in both input distrubition and product marketing is that villages, the basic units of commerce, are not effectively linked to either network. Major constraints to greater participation of villages in input distribution and product marketing are:

- inadequate physical infrastructure such as village service centers, stores and godowns;
- inadequate skilled personnel to manage stores and inventories;
- inadequate transport from regional/district depots and branches, to villages, and to a lesser extent, from villages to farmers' fields;
- pan-temporal and pan-territorial pricing of inputs and produce which together with subsidies (on inputs such as fertilizer and on produce, most notably maize) complicate the determination of needs and administration of appropriate mark-ups and margins essential for regulating and facilitating the flow, storage, processing and sale of agricultural inputs and produce.

The major objective of this Project is to assist TRDB to overcome these constraints. This will be done by supporting TRDB's term lending operations to finance activities and investment which prepare for and promote greater participation of villages in input distribution and product marketing. These activities are:

- training for village credit users;
- the construction and operation of village service centers, godowns, offices, stores and community centers to facilitate storage, handling, collection and other agricultural services;
- provision of processing and packaging facilities and equipment to increase efficiency of labor, value-added, and promote income generation within the villages;
- provision of animal-drawn carts for transport and animal-drawn implements and improved hand tools for production and processing; and
- acquisition and maintenance of motorized transport and related equipment for selected villages where appropriate.

These activities and village investments have been identified for support under this Project because they will overcome the major constraints to village participation in input distribution and product marketing. They have been identified also because they will overcome the major constraints to raising production of food and cash crops, and, more importantly, village incomes.

These activities were identified on the basis of experience gained by TRDB over the last five years during which food crop lending for villages was initiated and expanded primarily with AID support, initially under the Small Farmer Food Crop Loan Program (SEFCLP) and then the National Food Credit Program (NAFCREP). In particular, term lending for village godowns, grain mills and some motorized machinery for production and transport to selected villages have been the most profitable for villages and TRDB. This is because village repayments for these operations have been higher than repayments of seasonal loans, especially in food crops where more appropriate and profitable farming systems packages are needed. In Tanzania, as elsewhere, villagers will repay more willingly for services which are most profitable and beneficial to them and which raise their incomes most rapidly on a sustained basis. Therefore, increased village incomes are as important to villagers and their well-being as they are to TRDB's solvency and financial viability.

By building on past experience and expanding the most profitable term lending operations to villages under this Project for food or cash crops, TRDB is most likely to improve its financial position, especially during the critical six-year period that now lies ahead. For TRDB to improve its financial position it must grow and invest in profitable projects; this means that its clientele must grow and prosper as well. Specifically, TRDB must expand its lending operations in viable portfolios and increase its collections to improve its liquidity and net worth. Improved collection and repayment rates depend as much on the profitability of the activities which are financed as on TRDB's ability to monitor and supervise loans in close cooperation with other institutions which serve villagers. Therefore, in addition to supporting new and profitable ongoing lending operations. this Project will assist TRDB to decentralize by moving all aspects of loan making, supervision and collection as close to the villages as possible.

The major AID input provided in addition to institutional support to TRDB is a $30 million grant to be disbursed over a six-year period. An initial tranche of $10 million will be provided in Phase I (a three-year period covering 1981-1983). The remaining $20 million will be provided in Phase II (1984-1986).[1/] The grant is intended to finance the foreign exchange component of village investments to be financed by TRDB's term lending operations. Specifically, the grant will finance the imports of raw materials and equipment required to construct village service centers and install grain mills in villages; facilitate movement, handling, storage and packaging of inputs and processing of produce; and to manufacture locally improved tools and oxen-drawn implements. Imported raw materials and equipment will be sold on credit to villagers and on a cash basis to importers/suppliers and local manufacturers. The local currency generated will be programmed with TRDB to finance expanded term and seasonal (primarily for hand tools) lending to qualifying villages. Therefore, the foreign exchange provided under this Project will be used exclusively for longer term capital type investments and not for recurring annual

---

1/ A description of the institutional support activities is contained in Part II.F. below.

expenditures on imported commodities such as seeds, fertilizer, insecticides and pesticides. These village capital investments will be financed primarily by TRDB term loans; TRDB will also schedule and organize overseas procurement and in-country distribution to villages.

The foreign exchange required for seasonal lending (e.g., inputs of seeds, fertilizer and insecticides) will be provided by other donors and/or from TanGov's own input program. Provision of foreign exchange by AID for seasonal lending under this Project will be delayed until area specific recommendations are forthcoming from the Farming Systems Research Project and the results of other village trial and demonstration programs. Once appropriate and profitable input packages for food crops are identified, AID will reconsider financing of seasonal inputs in Phase II.

3. Relation to Tanzania's Agrarian Reform and Rural Development Strategy

The Mission's agriculture and rural development assistance program categories have been defined to conform to the major productive stages of village transformation under Tanzania's overall agrarian reform program. These stages are intended to map out the path of transformation from a collection of scattered and relatively isolated holdings to cohesive grouping of rural households working interdependently as a basic unit of commerce for growth and, eventually, self-sufficiency. These stages are also intended to identify the type of external resources and supporting services villages require from various TanGov institutions to move through successive stages in their transformation. These stages are:

a. village settlement, registration, and organization;
b. education and indoctrination;
c. provision of basic social services and amenities;
d. training of village leaders, villagers, and village functionaries;
e. organization of agricultural production units such as communal or block farms;
f. provision of improved agricultural technologies and inputs for production;
g. investments in rural infrastructure by government, especially in water, roads development and land improvement;
h. investments in village economic infrastructure by villages to promote commerce, agri-business, off-farm employment and small rural industries;
i. communal undertakings in village commerce and other income generating activities, especially off-farm;
j. conferral of Ujamaa status and official recognition of village communal activities which have resulted in increased incomes and well-being of all villagers; and

k. village self-sufficiency and ability to identify, undertake and finance its own development activities without party and/or government support.

The stages of the Tanzanian villagization program are broadly similar to agrarian reform movements common to Latin American and Southeast Asia. However, the Tanzanian model is unique as it was not inspired by the need for land ownership redistribution. Also, the Tanzanian movement can be distinguished by the long gestation period of investments in education, social services, and infrastructure before villages move into the productive and income generating stages. Tanzania's success with villagization is difficult to measure or assess mainly because there is no definition of the process and length of time villages are expected to move through and remain in successive stages; nor are the criteria and condition defined that would indicate when villages are ready to move to successive stages. While most villages are registered and basically organized (about 7,650 registered out of 8,600 as of December 31, 1979) only a few have received training for its cadre of key functionaries and managers. Of course, settlement has been more successful in some parts of Tanzania than others, and social services have been provided primarily to villages in poorer areas where peasants were more willing to move into new villages and benefit from these services. At this time, there are no officially recognized "Ujamaa" villages, and it seems that the emphasis now is on village production/productivity by any means, not only through communal Ujamaa efforts.

A major problem with implementing reform is that the respective roles of national and decentralized institutions to support the movement are not clearly delineated, defined and agreed upon. In part, this problem is due to the numerous institutions and parastatals which, even with clearly defined and differentiated roles and responsibilities, lack the requisite financial and human resources. In part, this is also due to the greater degree of pragmatism and flexibility followed in operationalizing and interpreting the overall objective and intent of reform, especially when considering the poor performance of communal farms as well as the present economic and financial crises which demands more "self support."

Whether villagization eventually succeeds or fails, there is a clear role for TRDB to support villages ready and capable to move into more productive stages. There is also a clear role for AID to assist TRDB. This is because of the fit in basic objectives and agreement in the manner in which the objectives can best be achieved. The village is now regarded by many Tanzanian policy makers as the basic unit of commerce, rather than the basic unit of production.

With the assistance of AID-funded technicians, TRDB has clearly defined a program to support and finance infrastructure investments essential for promoting village commerce, growth and development. AID has been requested to help implement and fund part of TRDB's

NAFCREP program which is estimated to cost about $150.0 million and cover about 5,000 additional villages over the next six-year period (1981-1986).

In the short run, TRDB also has a role, although more by default than desire, to procure and organize the delivery of seasonal inputs, raw materials and agricultural equipment for villages. Eventually, the network of RTC's may overcome its management problems and be able to take over a large part of input distribution, especially as villages are able to receive, handle, store, package and add value to these inputs and to pay for inputs in cash. At that time villages may also have their own savings and credit organizations to finance, at minimum, their own seasonal lending operations.

Regarding agricultural processing/marketing, villages and farmers need facilities to reduce post-harvest losses, to keep larger proportions of harvested production in local reserves and add value to agricultural produce in villages. These reserves can be used to provide for home consumption, especially during off season or adverse years, or give villages the opportunity and flexibility to wait safely and find more profitable market outlets in the latter phases of the market season.

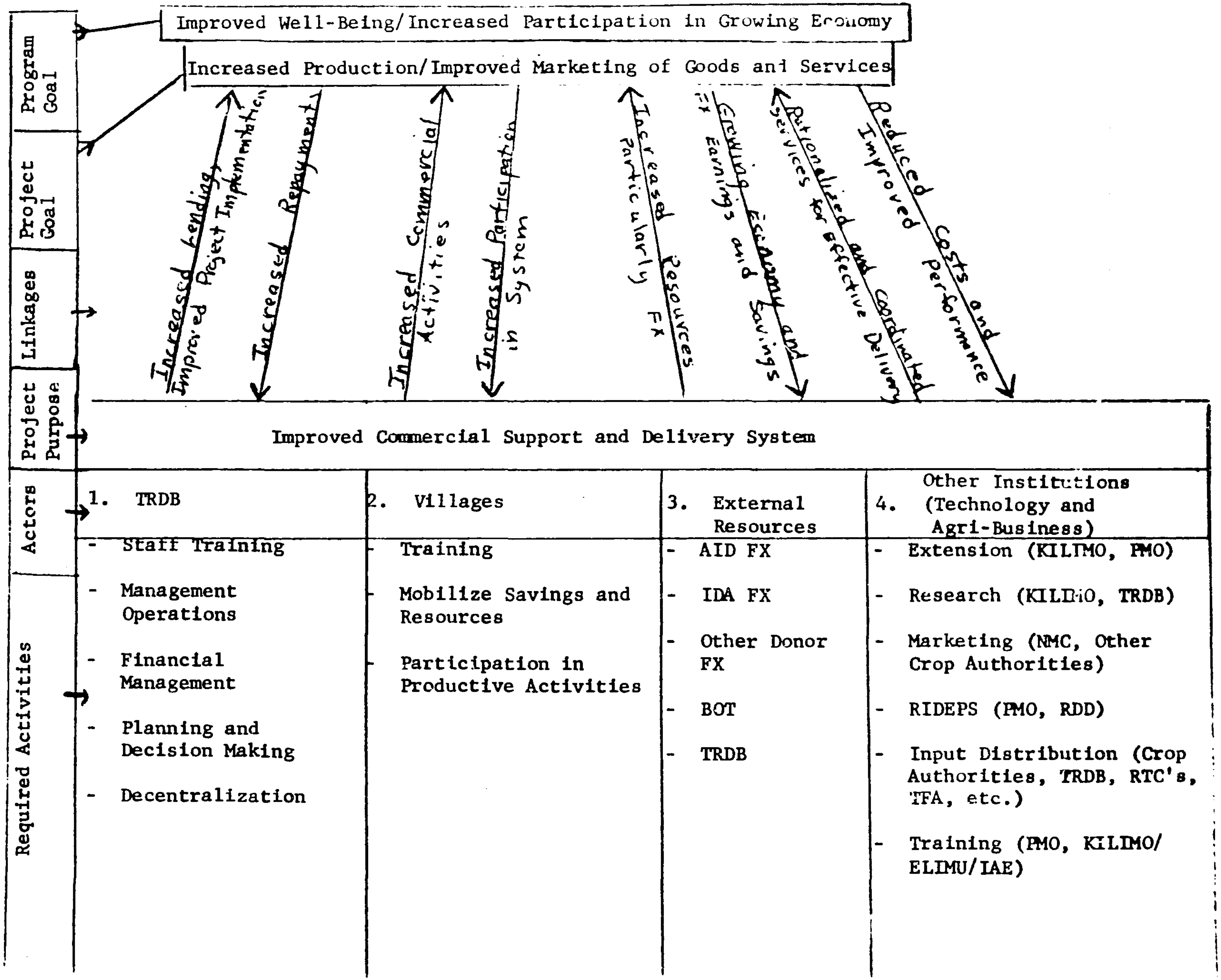
The benefits of this Project take two major forms. First, TRDB's activities will shorten the time required for villages to become self-sufficient. For Tanzania this is the most important benefit, but very difficult to quantify. The second benefit comes in the form of the net value of incremental benefits generated by the resources provided under this Project and mobilized by villagers themselves. These benefits have been quantified in the economic analysis.

In the sections that follow, TRDB's NAFCREP program will be described as well as the part that is herein proposed for AID funding and support.

B. Project Design Structure

Figure 1 illustrates the structure of the Project and how it relates to the institutions involved in the system and the activities needed to improve the entire system. After identification of the institutions involved in the entire system, the design team asked what activities are necessary to these institutions to improve the commercial support and delivery system for the provision of production related goods and services in the villages. Five end of Project conditions were identified as necessary to achieving the Project purpose. These conditions (EOP's) logically define five Project components or activities; they are:

Figure 1: VILLAGE PRODUCTION AND MARKETING SYSTEM



- increased institutional capacity of TRDB to serve villages;
- improved village absorptive capacity;
- expanded lending for investment and increased commercial activities in villages;
- improved marketing infrastructure and services in villages; and
- improved national institutional coordination for effective village support.

Figure 2 is a concise profile of the logical framework matrix. It illustrates EOP outputs and AID, other donor and TRDB inputs for each component. The Project design structure and activities are explained in detail in the following sections of Part II.

C. Project Phasing

1. The Current Project

In 1974 the USAID provided a grant of $3 million in capital and $ .75 million in technical assistance to strengthen and improve TRDB as a rural credit institution and to develop and implement the pilot Small Farmer Food Crop Loan Program (SFFCLP) in selected regions of Tanzania.1/ The current Agricultural Credit Project (621-0117), for which technical assistance funding ends in September 1980, has been successful in achieving (and exceeding) a number of the original objectives and targets.2/

As of the preparation of this Project Paper, the two long-term advisors under the existing project are still on board and are providing critically needed inputs during the current transitional period of decentralization. The team consists of a credit management and operations advisor and a finance management and systems advisor. The latter will be continued under this current contract with ACDI for a period of one year to provide continuity and overlap with the new advisor. Approximately four person-months of services are provided in the proposed Project to provide funding for part of this extension.

2. The Proposed Project

This Project Paper presents plans for a seven-year activity, specifically in support of TRDB's NAFCREP loan activities. A relatively

---

1/ The SFFCLP was eventually merged with the IDA-funded National Maize Program to form what is now called the National Food Credit Program (NAFCREP). The TSh 20 million grant loan funds provided by AID have been totally disbursed.

2/ See the Institutional Analysis Annex II-F and the PES of February 1980, Annex II-L for description of the achievements.

Figure 2: PROJECT DESIGN STRUCTURE

PROGRAM GOAL : Improved well-being and increased participation of the rural poor in a growing economy.

PROJECT GOAL : Increased productivity, production and income-generating activities in villages and improved marketing of goods, commodities and services.

PROJECT PURPOSE: A strengthened and expanded commerical support and delivery system for the provision of production-related goods and services in villages.

	PROJECT COMPONENTS				
	(1)	(2)	(3)	(4)	(5)
END OF PROJECT STATUS	Increased Institutional Capacity of TRDB to serve Villages	Increased Village Participation/ Absorptive Capacities	Increased Production and Village Incomes	Improved Marketing Infrastructure and Services, Especially in Villages	Improved National Institutional Coordination for More Effective Support of Villages
OUTPUTS: PHASE I	Improved: -Staff capability -Management and Operations -Financial Viability -Planning and Decision Making	Increased Skills in: -Management -Administration -Planning -Technology of Farming and other Industries	Expanded Lending in Areas of Known Profitability: -Hand Tools -Mills -Oxen Carts and Plows -Village Service Centers/ Godowns -Transport	Alternative System for Management and Administration of input and Production-related Goods and Services	Improved Planning for Coordinating Delivery of Goods and Services
PHASE II	An Effective Decentralized Structure	Effective Utilization of Credit, Goods and Services	-New Activities -Wider Geographic Coverage -Semi-Arid Areas	Alternative System Tested for Replication	A Demonstrated Integrated Scheme for Delivery of Goods and Services

AID INPUTS:	Technical Assistance: -Overseas Training -On-Job Training -Seminars/Workshops -Studies/ Evaluations Commodities -Vehicles -Training Materials -Calculators -TA Housing	Technical Assistance: Training: -Villages -In-Country Commodities: -Vehicles	Technical Assistance: Planning Studies ($ .5 m) Evaluation and Impact Analysis Commodities ($9.5m) Commodities ($20 m)	Technical Assistance: Training Studies Pilot Schemes	Technical Assistance Training Seminars Information
OTHER DONORS AND AID PROJECTS:	IDA DANIDA	IDA FAO Farming Systems Research Proj. Training for Rural Development Proj. APVD Proj.	IDA Farming Systems Research Proj. APVD Proj.	IDA APVD Proj.	Farming Systems Research Proj. APVD Proj. Ag Ed and Extension Proj.
TANGOV CONTRIBUTIONS	Staff Expansion Financial Support for Training Trust Fund	Staff Expansion	Expansion of Research and Planning Departments TSh 20,000	Training Costs for Seminars Staff Time to Provide Computer Service	

long implementation period is proposed to allow adequate time for pre-project activities; TRDB staff expansion and training; the achievement of the objectives of several complicated and contraversial components, such as the rationalization of input supply; and achievement of results in several other related projects. Therefore a one-year pre-implementation period and two Project phases of three years each is recommended.1/

(a) Pre-Implementation: CY 80-81 - During this period several critical planning and preparation activities will take place. These include: (1) contractor recruitment; (2) initiation of housing construction, ordering certain commodities including household appliances, vehicles; (3) placement of two participants immediately needed by the Finance Department; (4) preparation of detailed plans for training studies and commodity procurements; and (5) meeting of several conditions precedent.

(b) Phase I (1981 - 1983) - The bulk of the $16.1 million in resources provided in Phase I will be devoted to institutional development of the primary executing agency, the TRDB, and lending in areas where feasibility and socio-economic soundness is relatively well established. In addition a series of studies and other planning exercises will be carried out to establish the technical and economic foundation for expansion into new areas of lending and related service activities in Phase II. Phase I will also draw heavily on findings and lessons derived from such external efforts as Arusha Planning and Village Development (APVD), the proposed Farming Systems Research and Training for Rural Development projects. Three of the five project components have Phase I and Phase II sub-divisions.

(c) Phase II (1984 - 1986) - Phase II resources of $28.1 million will allow TRDB to carry out innovations in lending services developed in Phase I, in addition to carrying on with the lending activities of Phase I. Although th "new direction" type activities envisioned will be ambitious in substance (off-farm enterprise, integrated service centers, village marketing, new agro-industry and processing, consumer and service ventures, etc.), they will demonstrate systems which can be further replicated.

With respect to a geographic focus, the option is left open and may become a part of Phase II, if a zonal focus is approved for USAID/ Tanzania.

(d) The Mechanism - The mechanism for Project phasing is drawn from the concept used by the Arusha Planning and Village Development Project.2/ The only differences are those of degree and timing. In this case, it is recommended that all AID inputs be authorized for the life of project costs as sufficient planning has been completed to allow timely expenditure of all AID funds to be used for technical assistance, training and commodities for TRDB.

1/ Part IV contains a complete description of the implementation plan.
2/ See pp.85-96 and Annex G of AID Project Paper (621-0143) for Arusha Planning and Village Development, dated July 1978.

In addition, sufficient activities have been identified to allow expenditure of all funds for the NAFCREP lending. Additional lending activities will be identified throughout the life of the project. Plans for these may be considered for addition to the AID-funded portion of the NAFCREP portfolio at any time provided TRDB provides the necessary analyses and meets the criteria contained in Annex I-G. The Mission Director, with advice from REDSO, AID/W and other sources of technical, legal or contract expertise, will review and approve or disapprove these activities for AID financing as they are submitted by TRDB to AID.

In addition to the on-going adjustments in the NAFCREP portfolio a major evaluation will serve as the reference to examine the progress in achieving certain EOP's. Several Project components have been planned to be accomplished in two phases. Included is the plan for expansion of NAFCREP itself. Phase I concentrates on lending in areas of known return and village investments. Phase II plans a major thrust into new areas of lending. This emphasis may require a major restructuring of the NAFCREP portfolio. Therefore, obligation of the $20.0 million planned for Phase II will await the development of the three-year plan for Phase II (analogous to the APVDP Annual Work Plan) to be developed during the later half of Phase I. (See Implementation Plan, Part IV for timing.)

All plans and amendments submitted by the Bank will include the necessary planning, costing and other analytical material to satisfy Section 611 (a) of the Foreign Assistance Act and other AID policy and program criteria, including any necessary procurement waivers. The procedure and requirements for this exercise will result in what amounts to a mini-PP type analysis for any new lending activities and an in-depth analysis for the Phase II expansion plan. The planning activities will be supported by a full-time expatriate advisor in addition to a variety of short-term consulting inputs. The exercise will depend directly on data, proposals, and analyses generated by the Project. (The position and work of the long-term advisor is described under the sub-component for Research and Development. See Part F.1. (d) below and Annex II-F for the job description.)

D. Goal, Purpose and Beneficiaries

1. Program Goal

The program goal of the USAID strategy in the agriculture and rural development sector in Tanzania is to provide assistance which will lead to improved well-being and increased participation of the rural poor in a growing economy.

At present there are approximately 8,600 villages scattered throughout rural Tanzania with a total population of roughly three million families. The Tanzania Rural Development Bank is presently lending to around 2,000 villages comprised of 700,000 families, or some 3.5 million p ople. By the end of the project period in 1986, the Bank should be reaching in the vicinity of 7,500 villages.

Based on a recent impact survey in a selected area, about 75% of the eligible borrowers per village utilized credit in one form or another,1/ leading to speculation that NAFCREP could conceivably be directly benefiting over 10.0 million people by the end of the Project. Villages directly affected by AID-financed commodities under the Project will vary by the type of input considered. (See Part II.F.3 below for details.

Indirect beneficiaries are impossible to estimate precisely at this point, but the number will be substantial. Spread effects, for example, will result in increased utilization of unemployed and under-employed labor. Mechanized food processing will give women more time for child care or productive activities. Adequate village storage will result in a substantial reduction in post-harvest losses, now running about 20% or more. Processing and storage of grains will reduce dependence on flour supplies from Dar es Salaam or other urban centers. More efficient input distribution and marketing resulting from proposed technical assistance, training and experimental lending activities will reduce marketing costs and save foreign exchange. Finally, recuperations in local currency from AID-financed imported commodities will improve the Bank's overall outreach capability, its loan portfolio and financial position.

2. Project Goal - Increased Productivity, Production and Income Generating Activities and Improved Marketing of Goods and Services in Villages

The assumption linking the Project to the program goal is that increased productivity will, in fact, result in increased production, incomes and well-being of producers and their families. This hypothesis will be tested through the data collection activity of this Project 2/ and especially the forthcoming Farming Research System Project. At present, some empirical evidence does support the assumption and was used as a basis for selecting loan activities. Improved marketing is a necessary corollary to increasing production.

1/ Survey carried out by Louise Fortmann, PSC-USAID/T, in the fall of 1978.

2/ In support of this Project two intensive farm management studies will be carried out by two expatriate researchers (supported by the Center for Development Research in Copenhagen). In addition, a series of sample surveys will attempt to capture, among other things, accurate time-series data for use in computerized input-output analysis. See Section F.1.d. below for data collection and impact evaluation activities.

The Project purpose focuses on this need by attempting to improve the current system.

3. Project Purpose - A Strengthened and Expanded Commercial Support and Delivery System for the Provision of Production Related Goods and Services to Villages

At this level the principal assumption is that increased availability and more effective provisions of required goods and services will, in fact, lead to increased productivity and production. A secondary assumption would be that farmers actually want to produce more. This might seem self-evident, but there is some speculation that the lack of sufficient consumer retailing activity in the countryside may contribute to a lack of producer motivation relative to the generation of income. This and ancillary hyposheses will be tested in "village service centers" which will locate more marketing functions in the village.

E. Conditions Expected at End of Project (EOP'S) Indicating Achievement at Project Purpose

The unique role of TRDB in promoting and assisting village development cannot be overemphasized. TRDB has a clear mandate to support village development. TRDB as a financial institution has the incentive to identify those activities which are profitable for villages because in so doing it assures its own institutional viability. To enable TRDB to provide services and support for villages a series of Project outputs are needed which strengthen the Bank's institutional and financial capacity. (These outputs are described in F.1. below.)

1. Strengthened Institutional Capacity of TRDB to Serve Village Financial Needs

The major assumption for achieving this condition is that TRDB will continue its contributions to donor projects. There is good evidence to support this assumption. For example, TRDB's past contributions to AID projects in the form of personnel and local currency have always been regularly provided. Unlike Ministries TRDB has its own resources from which to draw. Also it can now use the rediscount facility of the Bank of Tanzania.

Other important assumptions concern the institutional co-ordination among TRDB,KILIMO, crop authorities and the regional administrations relative to the NAFCREP program.1/

1/ See Institutional Analysis for a discussion of the roles and activities of other institutions, Annex II-F.; also the Technical Analysis, Annex II-B.

2. Increased Village Participation and Absorptive Capacity

Participation and absorptive capacity is defined in terms of managerial, planning, administrative, financial and technical ability to receive, effectively and profitably utilize the goods and services provided by the system under this Project. The assumption is that these villages do indeed have the potential in terms of human, organizational and capital resources to meet the condition and that all that is really lacking is education and training which will mobilize these resources.

3. Expanded Lending in Village Investments for Increased Production and Village Incomes

This refers to both geographic (new zones, new villages) expansion and diversification (new activities, investments and enterprises). The assumption is that the economic potential exists for a significant expansion of village production and enterprise. This assumption will be verified by the Project through a series of studies and pilot interventions.1/

4. Improved Input Distribution and Services, Especially in Villages

At a point two to three years from Project initiation, this condition will be re-defined in terms of the characteristics of a reorganized sub-system, i.e., a rationalization of the present input distribution system. The objective is to design and develop a system which will be economically sound (i.e., self-sustaining with reduced subsidies), effective (accessible to villages throughout the country), and equitable (greater participation of villages in the system). It is not possible to describe the new marketing system now, however, through Project-financed studies, research and planning (financed by both AID and IDA) a model will be developed for testing during the second phase of the Project. It is hoped that the eventual solution will incorporate an expanded role for local or village controlled retailing activity in keeping with both AID and TanGov (decentralization) policy mandates as well as for what are believed to be sound economic arguments (less capital intensivity, more productive use of human resources, the provision of incentives for efficiency, etc.). Local integration of supply with extension and training functions are sound in concept and will be designed and tested in the Project.2/

1/ See Annex II-A for a description of the studies.

2/ A model for the testing of the concept in the form of a "village service center" will be tested in Phase I of the Project period. See F.4 below.

5. Improved National Institutional Coordination for More Effective Support of Villages

The focus of the component dedicated to this condition will be primarily in the area of linkage between the TRDB's program and those of the Regions and PMO; KILIMO; and parastatals, such as NMC. These institutions are involved with agricultural extension, research and marketing, respectively.1/ There is some overlap here also with the preceding condition. In terms of characteristics, the objective is defined as improved integrated planning and coordination to demonstrate an actual reorganization and rationalization of services. The assumption is that the will and intent of coordination and integration exist amongst concerned entities, but that only the methodology and mechanisms (to which this element of the Project is addressed) are lacking.2/

F. Detailed Activity Description - Outputs and Inputs

The Project is divided into five principal components which correspond to the major "conditions expected" described above. Each of these is taken up separately below for purposes of presentation, costing and clarity, although there is a degree of overlap between activities. Also, all activities and inputs (including TRDB's and IDA's rather than just AID's) are described in order to provide a complete picture of the context within which Project interventions will interact.

1. Component 1 - Strengthening the Institutional Capacity of the TRDB to serve Villages

Five project outputs will lead to the strengthening of TRDB. Each is dedicated to a different set of constraints facing the Bank in development of its program for decentralization, modernization, diversification and expansion.3/ It is also important to stress at the outset, with respect to this component in particular, that the effort will be a collaborative one between the TRDB, the IDA and AID.4/

(a) Output: TRDB staff capability at both headquarters and field levels will be upgraded.

Field staff credit supervisors and project officers will receive training to enable them to improve project appraisals,

1/ A sub-component of this activity will also attempt to bring about complementarity of purpose and operations between the two major sources of rural credit (TRDB and NBC) as well as the Bank of Tanzania in terms of its policy role and rediscounting capability.
2/ See section F.5 below for a description of the activity.
3/ See Institutional Analysis in Annex II-F for a discussion of constraints.
4/ As will be noted throughout this description, management and coordination of AID and IDA contractors will be critical, a responsibility which the Bank itself must shoulder. The task can be facilitated by careful drafting of the RFP's in question and by facing the issue candidly in the selection and negotiation process. (See Part IV.)

lending procedures, collections and delinquency controls. Regional managers will receive in-service training to improve branch and portfolio management. At the headquarters key personnel in all departments will be upgraded either through local courses, on-the-job training, or long- and short-term participant training. In addition seminars and workshops are expected to reach all TRDB employees.

This sub-component will be implemented by the training and regional supervision staffs of the Bank. The division, nature and scopes of IDA and AID-financed activity will be approximately as follows:

(i) IDA Formal Staff Courses - The IDA assistance package for staff training will focus on the improvement and expansion of formalized courses of instruction for credit supervisors and project officers. The idea is to make these courses more practical and relevant to existing conditions and problems faced in the field. In the past, the curriculum has emphasized theory rather than practice and has attempted to impart techniques that are far too sophisticated for use at the level of lending in which the Bank is engaged.[1/] The curriculum to be developed by the project will be designed to utilize case studies of actual TRDB projects.

The new series of courses will be organized in two parts for both project officers and credit supervisors, each of about 6 weeks in duration, the follow-up course coming about a year after the original. Additional refresher courses of 7-10 days will be provided to all operational field personnel every 3 to 4 years. Annual seminars will also be provided for all regional managers to focus on specific problems and compare experiences. Finally, specialized courses (3-7 days) will be offered in administrative procedures, rural development, accounting, crop production and small industry.

For implementation of the proposed program, the IDA will provide three full-time advisors for the 3-year period of its project including: a chief training officer, a farm management specialist, and an agricultural economist. The chief training advisor will "head" the Training Division and coordinate its activities with those of the Research Division where the other two advisors will be located. In general, the chief will be responsible for the design and preparation of teaching materials, drawing as required on the specialized advisors in such areas as the preparation and appraisal of

1/ For analysis of the TRDB current program of instruction, see the IDA Staff Appraisal Report of February 1979 for the General Line of Credit Project, paragraphs 2.19 - 2.22.

agricultural projects and the technology of various cropping systems. The team will also develop a series of guidelines and other training materials as well as assist in the development of TRDB's research program as described below.1/

No overseas participant training is provided by IDA, although the Training Division is to assist in coordinating the entire staff development plan of the Bank.

(ii) AID On-the Job and Participant Training - AID-financed training will be divided between the development of a long-term on-the-job training program and participant training to meet both general and specialized educational requirements.

On-the-job training will be carried out in tandum with the courses developed and financed by IDA. In AID's case, the long-term technical assistance advisor responsible for regional supervision and decentralization will be located in the Directorate of Regional Supervision to assist in preparation and implementation of an on-going on-the-job field training program. The program will include: (1) a continuing stream of practical guidance and reference material to management and technical personnel; (2) an intern training program for new personnel assuring diversified exposure to various problems, tasks and methods encountered throughout the country; (3) periodic field interviews and testing to assure maintenance of skills and identify gaps to be treated in formal or informal training sessions; and (4) rotating seminars on management, planning, programming and evaluation and other key issues as they emerge in the course of implementation. The advisor will coordinate with the IDA training officer assigned to the Training Division.2/

Participant training will be provided in the U.S., Tanzania and other developing countries. In the design analysis an acute need was found for upgrading of higher level skills in the area of accounting, data processing and financial management and analysis. Also, and especially as the Bank moves into new lending areas (both geographically and by type of sub-project) a real need exists for additional training in agricultural economics, extension agronomy, agricultural engineering, statistics and planning. Because of the already relatively high level of preparation of

---

1/ Paras. 3.06 - 3.10 of Appraisal report describe the training program, Annex 3 to the report shows an illustrative program of course content.

2/ This ties in with training to be provided under the Management and Operations Sub-Component and the Inter-Institutional Coordination Component, i.e., management and planning methodology.

professional personnel, project officers and above, most of the long-term training will be in the nature of "topping-off" skills already acquired in local or foreign universities. All training proposed, therefore, is for two years or less and will be for A.S., BSc and MSc degrees. Most training will be provided in the U.S. unless students qualify for an appropriate program at the Faculty of Agriculture at Morogoro. In addition, some of the need can be met through short courses of 3 to 6 months' duration with the USDA and U.S. universities offering similar opportunities.1/

Balanced against the above needs the TRDB is faced with the problem of maintaining an adequate and qualified staff for expanding lending over the life of the Project. Participant training assistance proposed, therefore, must be flexible in nature. A fair degree of latitude should be allowed, for example, given the major planning, replanning and programming exercises to be carried out during the first three years of the Project and beyond. Unforeseen needs will undoubtedly surface, both in terms of training required and in respect to the retention of badly needed personnel.

Taking these factors into account, the level of training proposed is calculated in such a way as to host no more than ten to twelve persons simultaneously to long-term training during any one operational year. About sixty person-years of long-term training is thus the maximum that can be tolerated by the Project.

At present there is a need for a minimum of two students with 2-year A.S. programs in computer sciences and mechanized accounting, and an additional four should receive training to produce C.P.A. level personnel. Selection of students and programming of the training will be done annually in a training plan which will be prepared prior to the end of each calendar year (to allow time for admissions procedures with U.S. universities for entrance the following September). The U.S. regional supervision and training advisor, in consultation with his IDA counterpart, will advise on development of the plan and selection of trainees and appropriate universities. A training plan will also be prepared yearly

---

1/ The USDA offers a 6-month course in extension and a shorter course in agricultural project design, analysis and management including comprehensive cost benefit and farm management analysis. Similar opportunities are now offered by several U.S. universities. Also specialized courses in many fields are available such as grain storage, mechanization, small scale industry development, etc.

for the short courses contemplated.[1] The U.S. Contractor will also provide backstopping and coordination services for U.S. training.

Finally, funding is set aside for short-term orientation, observation and on-the-job training visits to the U.S. (Farm Credit System), the Philippines (Rural Banking System), and selected rural bank operations in Africa.

(b) Output: Improved Management and Operating Procedures Within TRDB

Indicators will include better problem definition, policy formulation and decision making, improved planning, upgraded program and project design and improved sub-systems and procedures.

As with staff development, this element will be a joint effort between AID and IDA-financed technicians and personnel of the TRDB's Directorates of Development and Regional Supervision and Coordination.

(i) IDA assistance in organization and methods - As the IDA project is structured, a major component is dedicated to what is called "Strengthening TRDB's Organizational Structure," the basic thrust of which is to provide tools and systems to management for more efficient administration. Included in the component are development of a management information system, a monitoring, evaluation and research activity, and support to the Organization and Methods Division. (The first two of these elements are described in sub-sections to follow on data collection and financial management because of natural linkages with these components to the AID package.)

With respect to general management and operations, the principal vehicle for IDA assistance will be the establishment of a new division within the Development Directorate[2] specifically dedicated to "organization and methods." The division is to be responsible for the preparation and

---

1/ Two students in accounting and computer science will be sent in the spring of 1981 through direct USAID placement. While all other training will be provided under the technical assistance contract, it is necessary to place these students as soon as possible to prepare for the arrival of the IDA-financed computer. A training plan will not be needed for these individuals. Future disbursements for training will be dependent on the submission to AID of training plans.

2/ See Institutional Analysis, Annex II-F for roles, functions, and structure of TRDB operational units.

updating of manuals and procedures as well as organizing the flow of information within the Bank. A particular focus will be on the loan collection system.

In support of the activity IDA will provide 48 person-months of consulting time to assist in setting up the division, training personnel and defining "roles, practices and procedures" by which TRDB staff are to operate.[1/] Provisions have been made for recruitment of the Division Chief and staff.

(ii) AID activities in management - While the IDA package will concentrate on systems, AID will focus on improving the "technology of management"[2/] within the Bank and especially in the field. The approach contemplated will build on a base established under the current Project through three seminars held in Arusha in February through May of 1980. These seminars, each of which focused on a different level of the Bank staff, provided a substantive initial exposure to techniques which are basically those embodied in AID's design, planning and evaluation methodology combined with a "management by objectives" overlay. The seminars will also attempt to develop management training skills at middle and lower levels in order to facilitate a multiplier effect throughout the Bank's system and for the benefit of incoming personnel.[3/] Selected management and staff personnel of other institutions currently working with the TRDB are also invited.

In terms of the new project, the idea will be to capitalize on interest and momentum generated by these three seminars through a series of follow-up sessions and exercises in the field, at headquarters, and in the U.S. The methodology will be incorporated in the on-the-job training program in the form of short seminars which will emphasize the resolution of real problems faced by local managers in the day-to-day administration of their programs and in planning, programming and evaluation requirements.

1/ See IDA Appraisal Report, para. 3.15

2/ Phrase borrowed from Practical Concepts, Inc. (PCI) literature on management training.

3/ The three seminars are: Executive Management Seminar (1 week) Training of Trainers in Management (TTM)I and (TTM)II. They were carried out by PCI utilizing techniques developed over the past 10 years primarily with AID backing. Costs of these seminars were shared between PCI (funded by AID/W), USAID, ACDI and the TRDB.

At another level, the project will sponsor workshops to support the five new zonal supervisors. Each year, probably in connection with the Management Seminars, the zonal manager will meet with key personnel from each of the regional offices for problem solving and a zone-wide planning exercise. Regional managers will also be trained and provided with resources to conduct similar exercises with district personnel. The general manager and key department heads will meet yearly for planning workshops with zone and regional managers and with key personnel from the headquarters operation. In all cases the thrust will be to bring the methodology to bear on real problems faced by the Bank and develop sound solutions through long- and short-range planning exercises.

The opportunity afforded by this multi-level activity for AID and other donors in the area of project design is self-evident. In the case of this project, a major planning workshop in the third project year (fourth fiscal year) will determine the program for Phase II, utilizing analytical material developed through the Research and Development Component described below. Participation of other TanGov institutions will be essential.

In support of the activity at a higher level, the Chairman and department heads will be sent to the U.S. for short courses and seminars of the American Management Association, and/or U.S. firms and universities. In these cases, advantage will be taken of such travel for further exposure to agricultural banking operations in the U.S., Latin America or elsewhere.

Finally, in a modified form the seminars and workshops will be utilized to determine, plan and implement solutions to the input distribution and other inter-institutional coordination problems described in components 4 and 5 below.

With respect to implementation, detailed planning will take place during the early months following negotiations with the U.S. contractor. The plan will be done by the senior advisor and may utilize a specialized team of short-term advisors.1/ If necessary the planning team and follow-up consulting assistance will be provided by a sub-contracted firm specialized in this type of management consulting in

---

1/ A training plan will be approved by both the TRDB and AID as a condition precedent for disbursement for the actual conduct of seminars, planning exercises and overseas courses.

an overseas setting.[1] Ongoing implementation will be coordinated by the Regional Directorate in cooperation with the Planning Division of the Development Directorate.[2] Much of the training will hopefully be conducted by Bank staff on its own account. Part of the methodology includes a training-of-trainers element. As experience is gained, the activity should develop a momentum of its own.

(c) Output: Improved Financial Viability and Growth of the TRDB Throughout the 1980's.

Other activities will contribute to this, especially the provision of foreign exchange (FX), raw material imports and lending capital by both AID and IDA. In addition, collections will improve as a result of technical and training inputs focused on methods, procedures, criteria, etc. Nevertheless, the most critical factor will be management, in this case, financial management. Major sub-outputs will include further development and mechanization of the accounting system, better and more timely financial reporting, improved financial analysis and projections, more effective controls, and more innovative and aggressive measures for the mobilization of capital from sources external to TRDB.

Again the effective integration of AID, IDA and TRDB contributions will be of critical importance. Scopes of activity will be as follows:

(i) IDA assistance in management information systems[3] - The IDA package is designed to establish a full-fledged "integrated information system." Included will be a "small computer," recruitment of support staff and necessary training. In addition to handling accounting functions, the

---

1/ Although PCI has probably had the most exposure to AID in the utilization of the methodology proposed, there are other firms with experience and capability. Bidding could be competitive or the technical assistance contracts could submit joint proposals.

2/ As will be seen, the Staff of the Regional Directorate will include a bank officer dedicated solely to coordinating training activities in the field who will counterpart the U.S. advisor. In addition, the Chief of the Planning Division, supported by an additional U.S. advisor, will work together with the Regional Directorate in the coordination of the planning side of the training program.

3/ See paras. 3.13 and 3.14 of Appraisal Report.

computer is to be utilized for a variety of statistical and research applications, improved financial reporting and billing and rental time for other users. Forty person-months of consulting time are provided for training and development of software.

(ii) AID assistance in financial administration and capital mobilization - In this case the AID contribution will be more or less equally divided between systems and management, while IDA will focus almost entirely on systems. The reasons for the proposed overlap are compelling.

Under the existing Project, technical assistance directed toward the development of accounting and financial reporting systems has resulted in marked improvement over the years. The fact that the Bank is using financial statements at all at this point (albeit several months late) is a tribute to the talents 1/ and energy of the current advisor given: (1) that the volume of lending (number of loans) has increased by a factor of close to 10 in the past 4 years; 2/ (2) that equipment is badly outdated (vintage 1965 NRC 400's which are constantly breaking down); and (3) personnel with adequate computer science and accounting backgrounds are lacking.

In the face of the above and other obstacles, the current advisor was forced to improvise and develop a system for mechanized accounting utilizing computer time borrowed from the National Treasury (one of four functioning computers in Tanzania). Access to computers and machine capacity are limiting factors. 3/ Financial projections are also run for planning purposes. A substantial amount of the necessary software, therefore, is or will be developed prior to Project execution. 4/ Adaptation for the new hardware to be

1/ The current advisor is qualified in both financial management and automatic data processing systems design.

2/ In the 1975/76 season, 158 loans were made, mainly through cooperatives. In the 1977/78 season, 1,036 loans were processed and currently the Bank is directly reaching close to 2000 villages. Much of the increase is due to elimination of the cooperative system as the major vehicle for village financing.

3/ The present advisor stands in line every morning at the Treasury to obtain access to the computer. He can process three or four runs a week, if he is fortunate. normally on weekends or early mornings.

4/ As of this time, already computerized are monthly batch balances of transactions, updating of master loan file, and interest and arrearages calculations. On a quarterly basis three reports are produced for management with information by project, region and ledger including transactions, year to date, and selected borrower statements. An annual "aging of arrearages" report is produced. A number of additional sub-systems are necessary for tracking inputs, vehicles, etc., and for Regional Office control systems, accounts payable, disbursement control, general ledger, payroll, add-ons to the existing loan system, etc.

procured by IDA funds should proceed rapidly provided that personnel with adequate accounting and computer backgrounds can be brought in. One is now in the U.S. in training, and six to ten others will be sent under this Project.

Beyond the above, there is an enormous job in revamping the collection, recording and handling of financial data throughout the Bank's increasingly decentralized operation. The complexity of the situation is compounded by the multitude of transactions associated with the TRDB's management of agricultural inputs (procurement, storage and distribution). Marketing and repayment relationships with parastatals (constantly changing) add another dimension. There remains a serious problem concerning how to reflect large outstanding arrearages including those with parastatals and now dissolved Cooperative Unions and Societies. Evolving roles of the TRDB and the NBC with respect to each other and to the retail banking side of the picture will require additional adjustments. Finally, in the new Project further stress will be placed on financial management systems due to significantly expanded and diversified operations in the countryside, decentralization of staff and functions, new forms of capital mobilization, more sophisticated planning, an expansion of offshore procurement, and, in all likelihood, substantially revised marketing and supply arrangements.

Taking these into account, despite the consulting time proposed by the IDA, a full-time advisor should have a solid grasp of the history of the system and why it has evolved the way it has. Otherwise, months or years of work could be undone and key decision could be erroneously made due to lack of understanding or mis-information. Until the automated system envisioned is complete and fully functional, a full-time advisor will be critical for continuity and technical reasons.1/

AID will provide one full-time advisor for the six years of the Project period plus four person-months for the current advisor. Working closely with the Director of the Finance Directorate and short-term IDA consultants, it will be the advisor's responsibility to assure that the accounting, financial reporting and analysis systems are brought up to par with the magnitude and complexity of the Bank's operation and

---

1/ The present advisor will be maintained on board through a substantial overlap with his replacement under the new Project. The replacement will have to have the same combination of skills, i.e., high level accounting, plus ADP system design.

that top management is made aware of the financial trad-offs involved in operational and planning decisions.

In the area of resources mobilization, the advisor will attempt to generate the capital needed for TRDB's contribution to NAFCREP from foreign capital sources. Immediate possibilities for local currency include the new short-term loan window for seasonal lending of the Bank of Tanzania in addition to the Rural Finance Fund, a medium- and long-term borrowing facility also of the BOT. Another could be a collaborative arrangement with the NBC for the utilization and relending of village borrower deposits. A variation on this would be the capitalization of a portion of loans disbursed to a savings or share account of the borrower.

The list would go on. The point is, that i the bank is to prosper, i:s resource base will have to expand relative to a demand for goods and services that is "infinite" in the foreseeable future, especially given the lack of private capital markets in Tanzania. Similar efforts should be made to attract new foreign capital. The need for foreign exchange over the next decade for rural development is also "infinite" relative to supply available.. The constraining factors are lack of resources and delivery and absorptive capability.

In the area of planning, the finance activity will be of critical importance relative to the phased approach taken by the Project. Sound financial analysis and projections will be vital to the determination, justification and programming of new activities. Such variables as collection rates for various types of sub-projects within an increasingly diversified portfolio and varying constraints associated with different geographic regions will have to be taken into account.

Finally, the area of repayments and loan collections will receive special attention in conjunction with efforts made under other components. Systems of financial control, monitoring, analysis and feedback need to be established to keep both headquarters and field personnel abreast of fluctuating delinquencies by area, term, crop or sub-project, etc., so that attention can be directed to those areas of greatest need and priority.

(d) Output: Improved Planning and Decision Making at All Levels.

As stressed throughout, the nature of the Project is evolutionary, and a principal objective is to find "answers" to some of the most serious constraints to increased productivity, profitability and income at the village level. Systematic data collection and analysis of ongoing activity will obviously be critical to this approach. Likewise, in pursuit of innovation and efficienty in the overall delivery system a substantial research and development effort (studies and experimental activities) will be necessary. Thirdly, in terms of key decision making relative to diversification and expansion, evaluation is a prerequisite. Finally, planning itself is vital for forward movement at both Project and program levels. It is to these ends that this subcomponent is dedicated. The activity will also serve as a control mechanism for the phasing of the Project. The studies and experimental activities will allow TRDB to: (1) establish realistic targets with respect to credit and services extended and geographic coverage; (2) improve placement of resources (human and capital) for achievement of targets; (3) identify the most profitable technology and service packages to accompany credit and goods provided in villages; (4) develop a methodology for overcoming or effectively taking into account existing social, economic, technical and other constraints to greater impact from loan placement; and (5) provide technical assistance to develop and experiment with models for the integrated delivery of goods and services, diversified lending, and for new and more profitable village enterprise; and (6) improve the repayment rates as constraints and more profitable technologies are identified.

The activity will be centered in the Development Directorate with activities split between the Research and Planning Divisions. It will be supported by the two principal donors (AID and IDA) as well as the Center for Development Research in Copenhagen (DANIDA). While the Research Division (where IDA[1/] and DANIDA-financed personnel will be located) will be in charge of data collection, analysis and impact evaluation activities, the Planning Division will be responsible for overall coordination of the research and planning effort, special studies to be funded by the Project and planning itself, both in terms of institutional and Project objectives. In support of these latter functions, a long-term U.S. specialist in rural development planning will be provided.

1/ IDA personnel are the same two advisors described earlier under the Staff Development Component (farm management specialist and agricultural economist).

(i) Data collection and analysis and impact evaluation: the research division - At present the Research Division is staffed by two TRDB professionals, the Chief (an MSc agricultural economist) and assistant (a BSc agronomist). Working with them are the two recently arrived farm management economists provided by DANIDA.

In terms of current plans, the Danish researchers have their activity mapped out. Over a period of 2 years, they intend to carry out two intensive farm management studies and village surveys in one region. The Bank plans surveys in seven regions to survey crops and production-related activities. These activities come down to the principal concerns, impact and repayment. The effort is currently sharply curtailed by lack of funds (the annual research budget is TSh 20,000) and transportation.

Concerning IDA inputs, the contribution will primarily consist of guidance from the expatriate agricultural economist and farm management advisors. They, however, will be principally focused on the development of case studies and appraisal manuals for the financing of various specific crops in addition to providing technical material for the field staff courses discussed earlier.

With respect to the AID contribution, assistance will consist of short-term consulting inputs, vehicles, materials and other research costs such as training enumerators and for hand calculators. Consulting resources will be drawn from such fields as agricultural economics, agronomy, agricultural engineering, irrigation and hydrology, survey research design and statistics, data processing, economic anthropology and rural sociology, civil engineering, small business development, soils, ecology, etc. These consultants may work for TRDB directly or they can provide assistance to such institutions as UFI, AATP, SIDO, PVO's, etc. To the extent possible, maximum use will be made of Tanzanian and African sources of expertise. (A detailed description of proposed studies is contained in Annex II-A.)

(ii) Studies and planning: the planning division - The Planning Division, currently staffed by one professional, is charged with the responsibility for identifying new investment opportunities and for preparing sectoral and regional investment plans. Under the new Project, this division will be strengthened through the addition of at least two analysts, probably agricultural economists. At least one of the returning MSc level participants will be placed here. As mentioned, a long-term resident rural development planning advisor will support the Division, together with the Division

Chief. The AID-financed advisor will coordinate these activities and assure that AID analytical requirements are met relative to Phase II planning.

The program of studies will be provided with local and expatriate consulting assistance, transport and materials inputs, and other cost requirements in a flexible arrangement that will allow maximum freedom to respond to specialized analytical needs as they are defined in the course of implementation. An implementation plan will be developed during the first 3 months of the Project for approval by AID and TRDB for the first 18 months of Project execution, against which funds will be disbursed over the period. It will include the research and training plans to cover the period prior to the contractor's arrival. Thereafter, the U.S. contractor will provide consulting assistance, either directly or through subcontracting arrangement. (The studies and study activities are expected to be carried out during the Project are detailed in Annex II-A.)

Beyond planning and supervising the above studies, the Planning Division, with support from the short- and long-term advisor, will be responsible for the preparation and coordination of annual work plans and Phase II development and operational planning. The advisor should involve a cross section of TRDB and other concerned agency personnel in these activities. These planning exercises will employ essentially the same methodology as the management training program. In this case the seminar forum will also be utilized, but on a larger scale. The "retreat" envisioned for year three of the Project, during which a highly structured but collaborative exercise will produce goals, targets and a programming of institutional and financial resources consistent with both system and village needs accessed during preceeding years. Shorter seminars will be held on an annual basis to define and detail interim plans.

The planning process will also dovetail with that provided in the Inter-Institutional Coordination area and in conjunction with TRDB planning, joint plans will be developed for inter-agency collaboration over the same time frames.

The 3-year plan developed in 1983, together with supporting documentation drawn from the studies and data collection activities, will be utilized by AID as the basis of planning for obligation of Phase II funds.1/

1/ Also see Evaluation Plan Part V. External evaluations will be held in years 3 and 6 and contribute to AID and other donor decision making.

(e) Output: An Effective Decentralized Structure of the Bank with Upgraded Competence and Responsibility at Zone, Regional and District Levels.

Secondary outputs will include a reorganized and more effective field management system, increased and more qualified staff at all levels, revised systems and procedures for improved efficiency, improved communications and information flow (including effective channels for feedback from the villages) and better loan placement, supervision and collections. These outputs will all result in part from other activities described earlier. An indispensible part of the picture, however, will consist of a carefully planned, organized and executed program for decentralization of appropriately porportioned degrees of capability, responsibility and authority which will provide the setting and incentives for improved performance in the field.

Many of the constraints associated with the existing system are dealt with in part by earlier components dedicated to training, management and operations and finance. In the case of decentralization, however, the need is to focus on the entire field structure, its lines of authority and responsibility, its internal operational relationships, its flexibility and responsiveness to increasing demands, its capacity to handle expansion and diversification and its capacity to assume ever increasing authority with respect to management of human and capital resources. In sum, the entire field structure is the subject of this component, its organization, functioning and growth. Management of this effort will be the Director of Regional Supervision and Coordination.

The Directorate of Regional Supervision and Coordination will be staffed by its current Director in addition to two senior assistants for coordination and on-the-job training. Assisting them will be the senior AID advisor for regional supervision and training.[1/] Also considered part of the staff of the Directorate will be the five zonal managers to be placed in

---

1/ It is hoped that the senior AID advisor may be able to act as an informal "Chief of Party" or "dean" of the entire contract force (IDA/AID/FAO). If this is not possible, the Director of Regional Supervision will be faced with the added burden of resolving differences and conflicts of policy, program and activities among the contractors (See Part IV). The advisor will also plan and coordinate the inter-institutional seminars described in component 5 below.

supervisory positions in the field. Each will supervise three to six regional offices.

Under the program envisioned, authority, responsibility and operating resources will be extended gradually, based on analyses of constraints and continuing evaluation of field performance. Some of the key elements of the program are highlighted below.

- Loan Approval Authority - Decentralization of approval authority in accordance with demonstrated field capability is necessary. The new formula, levels, procedures, restrictions, etc., to be developed for decentralized approval of funding will constitute a major task of the Directorate and the AID-financed advisor.

- Human Resources Development and Logistic Support - A major task of the decentralization activity will be to identify and develop technical, procedural and other innovations; expand the numbers and extend the coverage of field staff; and provide on-the-job training to project officers and credit supervisors to supplement the formal training provided by IDA. Study tours and short-term overseas training will also be provided for those individuals showing potential for assuming increased responsibilities. An obvious need is also to increase mobility of the field staff by providing vehicles and motorcycles. (See Institutional Analysis, Annex II-F for staff expansion plans and transport requirements.)

- Performance and Performance Evaluation - It is axiomatic that incentives to improved performance are necessary in any system. It is particularly important to TRDB so that good people can be retained. The Directorate and AID-financed advisor will develop an incentive system for evaluating performance and recognizing and rewarding superior performance of field officers through promotions, recognition and remuneration.

- Delinquency Control and Collection - As discussed in other sections a significant effort will be made to improve collection rates through better loan appraisals, procedures and criteria. Collections can also be improved by developing more "aggressive" tactics for field staff in village education activities.1/ Provision of vehicles and motorcycles will provide transport to allow more regular loan supervision and collection activities in the villages. With these factors in mind the Directorate with the assistance of the AID advisor will in collaboration with the Finance and Development Departments develop appropriate policies and training activities to ameliorate the collection problem.

1/ Note that the extensive client training program is also under the direction of the Directorate of Regional Supervision and Coordination.

- Management and Planning - As described above, a key element of the Project will be management training incorporating the methodology of management by objectives and problem solving. A vital source of information and appreciation of this training will be the field staff. More effective management will allow greater decentralization. To this end the Director and advisor will attempt to implement management techniques at all levels to improve planning and delegation of authority.

2. Component 2: Improving Village Capacity- Client Development

(a) Output - improved credit worthiness of maturing new, villages so that they can effectively absorb external resources for self-sustaining village development.

This output will be verified by several indicators including: successful management and repayment of old and/or seasonal loans; improved record keeping and accounts; demonstrated ability to organize village resources for new loans and village investments; leadership capability; trained village managers and technicians and a well-functioning village council.

As explained in Part II.A above, different villages have passed through different stages in their evolution and transformation. Some villages have passed well beyond maturity and are now in advanced stages of commercialization. Others could mature more rapidly and become credit worthy, especially for village investment and term loans, if training were provided. The objective of this component is to identify these villages, to provide training in the most effective use of credit and technologies, and prepare them to effectively absorb new resources for more complex, yet more productive activities.

This component recognizes that villages are the primary implementors, contributors and beneficiaries of the proposed Project. Indeed, village participation in decision making, resource mobilization, organization and management of development activities recommended herein is perhaps the most important condition for Project success. To promote village participation, TRDB will be emphasizing training and client development to a much greater degree than in the past. TRDB has recognized this need for several years and has conducted training in 8 regions for about 500 villages; however, it has not had the resources to mount a more extensive training effort. The recent TRDB organization changes and staff training coupled with mobile training vans and equipment from the IDA project and TA from the FAO project give the necessary resources to carry out a much more extensive client training program.

(b) Activities

Although village training and client development is a critical activity to foster village participation, the AID support to this Project will not support this component to the degree of other components. This is because of the support of other donors and the fact that there are limits to TRDB's role to organize and administer village training programs without the concurrence and full cooperation of PMO. This cooperation depends on PMO's own ability to support and monitor village training programs of other Tanzanian institutions. To an important extent, PMO is supported by other donors in village training, especially the NORDIC group and its Village Management Training Program. This program trains village management technicians in bookkeeping, records and accounting and other basic management requirement. This program is also training district officials in planning, management and project implementation. Coordination between TRDB and PMO in this component is, therefore, essential. The Mission now plans to promote this coordination through the second phase of its Training for Rural Development (TRD) project. Design of the TRD Phase II project will begin in August 1980 and will take these critical linkages into account.

A second reason for the relatively limited support to this component under this Project is that AID inputs are keyed to support FAO and IDA training activities with TRDB. Specifically, the Decentralization and Field Training Advisor provided under this project will help identify training needs of villages and assist in curriculum design. Funds for short-term consultancies with the Institute of Adult Education and from overseas are provided to respond to unforeseen problems and opportunities as they develop. Also contingencies for training, reproduction materials and other supplies are provided. If, however, FAO assistance will not be forthcoming as planned, then the TRD Phase II projects can be adjusted to meet TRDB's requirements.

In all TRDB's training activities for villages the "training of trainers" concept will be emphasized. In-country seminars will be employed to train TRDB field staff to train villagers and farmers. This process has already begun under the present USAID/TRDB credit project as 50 TRDB upper- and mid-level staff have recently completed the USAID-sponsored Training of Trainers in Management (TTM) course. During the next year 5 zonal Field TIM training seminars, utilizing already trained TRDB TIM Trainers, will be held. In addition, an Executive Management Seminar was held for top level management of parastatal institutions to begin necessary institutional coordination. Both the TIM and EMS concepts and applications will be built on during this 6-year Project at all levels -- from top management and government officials through the village.

3. Component 3: Increasing Investment, Production and Commercial Activities in Villages

(a) Phase I Output: Expanded Lending in Areas of known Profitability.[1/]

Under this component the Project will provide the raw materials and recources required for an expanded lending program. Without an expanded lending programming TRDB cannot grow; nor can TRDB promote growth in villages. Without an expanded lending program there would not be any need for AID to continue its institutional support of TRDB and villages.

Since growth in the NAFCREP portfolio is the cornerstone of this Project, the design team devoted considerable time and effort to a thorough analysis of the parameters, conditions and assumptions which underlie its success. The analyses that were undertaken are summarized in Part III.

As shown in Table 2 below, growth in the overall NAFCREP portfolio is projected to be a major component of growth in TRDB's total lending program, especially during Phase I.

TABLE 2: PROJECTION OF TOTAL TRDB LOAN DISBURSEMENT VOLUME AND NAFCREP DISBURSEMENT VOLUME 1978/79 THROUGH 1985/86 (TSH MILLIONS)

	BASE		PHASE I			PHASE II		
	78/79	79/80	80/81	81/82	82/83	83/84	84/85	85/86
Total TRDB	175.7	193.3	232.4	269.0	305.8	343.3	364.7	406.5
NAFCREP[a/]	33.5	40.0	52.1	74.2	90.0	101.0	111.6	123.4
% NAFCREP	19	21	23	28	29	29	31	30

a/ Includes seasonal lending for hand tools and term loans; excludes TRDB contribution to experimental lending

= = = = = = = = = = = =

1/ A detailed description of NAFCREP lending criteria and flow of funds is given in Annex I-G.

As shown in Table 2 the six-year NAFCREP will disburse about TSh 555.0 million over the 1980/81 - 1985/86 development period.[1/] Of this amount, $50.0 million in foreign exchange (FX) is required. All of the FX will be spent to finance imports of raw materials, equipment and commodities to be provided to villages on a credit basis, either in finished form or after additional processing in Tanzania.

Of the total FX requirements of the NAFCREP program, it is proposed that AID provide 60% or $30.0 million under this Project; U.S. $10.0 million in Phase I and U.S. $20.0 million in Phase II. The balance of the FX required for term lending and seasonal loans for hand tools will be provided from other sources now available or anticipated to become available over the next six years.

The TSh equivalent of $17.0 million will come from TRDB's own funds (including reflows) and through refinancing with the Bank of Tanzania's Rural Finance Fund. This facility has been established but not used to date. In addition, the NAFCREP program will mobilize the TSh equivalent of about $40.0 million human and financial resources in the form of village contributions to the activities which will be financed under this Project.

(b) <u>Phase I - Activities</u>

The major lending activities of the NAFCREP portfolio which will be directly supported by the AID capital grant in Phase I are:

(i) seasonal lending for improved hand tools;

(ii) term loans for: oxen implements
grain mills
village service centers/godowns
village transport; and

(iii) planning activities leading to portfolio diversification.

The reasons for selecting these activities are explained in detail in Part III. In summary, however, these activities, when considered separately or together from the perspective of qualifying villages, represent the most profitable package of technologies now available and most demanded by villages and farmers. These technologies serve two major purposes:

1/ The total cost of the program is estimated to be $155.0 million of which $44.2 million (including NAFCREP and the institutional expansion) will be provided by AID; $76.1 million by TRDB; and $34.7 million by other donors. The total NAFCREP disbursements (including seasonal lending in addition to hand tools) are estimated to be $116.0 million and incremental institutional costs are $39.0 million.

(a). they effectively address the major constraints to increased agricultural productivity, production and marketing; and (b) they address the major infrastructure constraints to increased village participation in input distribution and product marketing.

The purpose of the experimental lending category is to identify, plan and demonstrate during Phase I new activities in other areas critical to village productivity and profitability, especially those of an investment nature and requiring term financing. Possibilities include small-scale irrigations; village seed farms; village retailing; other food processing such as oilseeds; cottage industry; repair and maintenance workshops, etc. The activities which are successfully demonstrated in Phase I will be replicated in Phase II.

The funds from the AID capital grant will be used to finance off-shore procurement of either finished products or raw materials used in local manufacture, assembly or construction.

In the case of the few lorries and farm tractor/trailers to be provided under this Project, the items will be procured by local dealers. Upon advice of TRDB letters of credit will be issued in favor of local suppliers. TRDB will receive local currency generations in the form of 25% downpayment from qualifying villages upon delivery; and the remainder over a three-year amotization period.

Regarding hand tools and oxen implements, steel chemicals and other materials will be procured by Ubungo Farm Implements Company and other manufactuers through a similar Letter of Credit arrangement. TRDB will receive the local currency equivalent of FX provided and use it to finance the purchase from Ubungo or others of these finished products which will be distributed by TRDB to qualifying villages and/or individual farmers. Amortization payments will be used by TRDB to finance other NAFCREP lending operations. The other finished products will be sold in cash through the RTC network or other marketing channels.

In the case of grain mills, Lister engines will be imported by a local supplier who will also assemble the final milling units. As with hand tools and oxen implements, TRDB will reimburse the supplier for the cost incurred for value added in assembly. Grain mills will be distributed by TRDB to qualifying villages. Again, amortization will be used by TRDB to finance additional lending in the future.

Regarding village service centers, the procurement advisor will assist TRDB to procure, in accordance with Regulation 1, cement, corrugated iron sheets, nails and other items. Only some of these items are now available locally and most will have to be imported in the first few years. Thereafter, a declining proportion of these imports is projected. TRDB will distribute these items to qualifying villages at the construction site. Reflows will occur over ten years after a two-year grace period on amortizations.

Table 3 shows for each lending activity costs; the total FX requirements for the NAFCREP portfolios supported by AID; the AID contributions to total FX requirements; the total number of incremental villages reached by NAFCREP and AID contributions; and the FX cost per village reached.

From the standpoint of estimating the economic benefits of this Project the basic units of observation are the 2,900 villages served with grain mill loans. All of these villages will also be served with hand tools; and about one-third with village service centers/godowns and oxen implements as well. The design team recommends this "duplication" to exploit the high degree of complementarity among all lending activities. This complementarity will most assure that a "desired" rate of return to the economy will be realized from this Project. A simplified proforma cost benefit analysis showed that TRDB's expanded NAFCREP operations would require each village to increase the net value of agricultural production by $17,500 to justify the Project. This is most likely to happen if two or more lending activities are introduced simultaneously or sequentially in qualifying villages.

From the standpoint of estimating rural outreach or penetration of the NAFCREP program the number of villages receiving hand tools are a more appropriate indicator. This is because this activity and the village training will prepare villages in the optimum use of subsequent term loans for investments and/or other seasonal loans and begin the process of village transformation.

(c) Phase II Output: (1) The establishment of the analytical foundation and a plan for considering a major rural sector resource program grant; and (2) the replication of lending activities tested and planned in Phase I.

Sufficient planning has been completed for those activities identified above to allow expenditure of all Phase I and II grant funds. Authorization of the total capital grant is therefore requested; however, the Mission will not obligate funds until Phase I has been evaluated and a Phase II plan has been prepared by TRDB. (See Annex I-G for a description of the procedures.) The Phase II plan may include additional activities (e.g., those tested and planned in Phase I); a reallocation of AID support among the activities as now

TABLE 3: NAFCREP FOREIGN EXCHANGE COSTS, AID CONTRIBUTIONS AND OUTREACH - PHASE I AND PHASE II

Lending Category	Total FX Cost (U.S.$000)	AID Contribution to FX (U.S. $000)	Number of Villages Reached NAFCREP	AID	Total FX Cost/Village (U.S. $)
Hand Tools	11,270	6,762	18,500 a/	11,000 a/	609 a/
Grain Mills	23,160	13,254	2,902	1,654	7,980
Oxen Implements	3,764	3,764	960	960	3,920
Village Service Centers	2,770	2,770	1,063	1,063	2,610
Village Transport	5,901	2,950	179	80	32,970
Experimental	3,500	500	N/A	N/A	N/A
TOTAL	50,365	30,000			

a/ Number of seasonal loans; about 3,000 new villages will be served by NAFCREP in addition to the villages receiving term loans and old villages requiring replacements.

planned; or a new thrust in geographic areas or a return to financing of seasonal inputs.

(d) Phase II - Activities

Activities in Phase II will be structured on the basis of Phase I studies, analysis and lending experience. A variety of conclusions will be reached with respect to the relative social and economic returns of various types of lending, the prospects of success of a number of new potential village enterprises and the possibility of merging an agricultural sector grant with the Phase II lending.

- Innovative and integrated schemes both nationally and locally for input distribution (see following component for details).

- New options for local marketing of village production. This will involve assembly, storage, processing, and transportation innovation in order to allow the village to capture a greater percentage of the final return to sales (vertical integration on a small and partial scale). Inter-village schemes could also be tested.

- Diversified Rural Enterprise, possibilities include mixed farming, retailing ventures, low level service activities (repair, equipment rental, hauling, etc.) cottage industry and artesanry (weaving, carving, ceramics, textiles, etc.).

- A major expansion of the integrated rural service center activity.

- Basic food production. If Phase I data warrants, Phase II may return to the areas of seasonal inputs for testing of new farming system technology packages (in collaboration with the Farming Systems Project).

- Land improvement activities such as small-scale irrigation.

4. Component 4: Improved Input Distribution and Services, Especially in Villages

As evident in the institutional analysis the design and implementation of an alternative mechanism for input distribution will not be easy. The activity itself is something of a "pariah" within the rural development bureaucracy of the public sector; competing interest groups will make decision making that much more difficult. The one element of consensus appears to be that the function should clearly be removed from the TRDB. The only answer beyond this at present appears to be to analyze the problem in much greater depth than heretofore and prepare a solution that is backed by exhaustive and conclusive study.[1] It is to this end that this component of the Project is dedicated. As with lending, the activity is phased to allow for further planning and testing.

(a) Output: Phase I (1981 - 1983) - An Alternative System for Management and Administration of Agricultural Input Procurement and Distribution is Designed. A secondary and supporting output will be the development of options for local or village controlled outlets.

In Phase I the activity will be a collaborative effort between IDA, AID, and the TRDB. In the case of IDA, funds are provided for the employment of consultants (up to 7 person-months) to study the input distribution problem and develop recommendations for resolving the situation.[2] In the case of AID a similar amount of consulting time is provided with the following in mind. Nine months of consulting time are provided in year three for an in-depth marketing policy study. Such a study could be undertaken by the Stanford Research Institute or a similar institution. In addition, three person-months per year are provided for specialized technical assistance. Detailed planning for this activity will await the preliminary findings from the IDA study.

The input distribution problem is complex and nationwide. It will not be resolved easily, and decisions should not be made precipitously. It is felt that in IDA's seven-month study that a small team will be able to thoroughly research and define the problem as well as develop sound recommendations for options to pursue. It is doubtful, however, that it will be possible to carry out the necessary financial and technical feasibility work to fully develop the indicated option for funding and implementation by the government. The proposed AID activity, therefore, starting from the base established by the IDA study, will concentrate on the feasibility side of the process. Detailed planning, costing, engineering and other technical (including environmental) analyses will be carried out of the preferred alternative and a final execution plan elaborated.

In addition, in collaboration with the Bank, the PMO, KILIMO and other concerned organizations of the agri-business system,

---

1/ In a follow-up trip report of March 1979 (IBRD), Dr. McDermott recommended a "sector analysis of the agri-business system."

2/ See Appraisal Report, para. 3.20. Terms of reference have not yet been developed.

pilot interventions will be developed for implementation at the village level. Of special interest is the possibility of vill•ge managed outlets within the framework of the village service center. Within this context, another option would be local outlets supplying both consumer and agricultural goods which could be financed by the TRDB and NBC for agricultural and consumer inventories respectively.1/ Another concern for the AID analysis will be the appropriate linkage of farm supply operations with research, extension and extension training. The Arusha Planning and Village Development (621-0143) experiment will be observed and analyzed for relevance with respect to the farm centers planned in that project.

The point of the above analysis on AID's part will be to have a package of valid pilot projects and schemes for testing in Phase II. Thoroughly documented proposals will be incorporated in the three-year planning exercise to be carried out in mid-1983, during which the models will be reviewed and those selected which are most consistent with the totality of other programming to emerge from the process. As stressed throughout, the active and serious participation of other concerned agencies will be vitally important.

(b) Output: Phase II (1984 - 1986) - The Principal Output Will Be a Tested Alternative System for Input Supply and Distribution.

Secondary outputs and indicators will include improved access of villagers to needed supplies on a timely basis, improved options for acquisition by villagers (i.e., cash and carry), experimental village managed facilities, the integration of supply with other related services on an experimental basis, and reduced operating subsidies. Also, by the end of the sixth year a new plan will have been developed for replication on a national scale of models tested in Phase II.

The activity will basically consist of the supervision and financing of the pilot sub-projects discussed above. In some cases, these will undoubtedly be carried out in collaboration with other projects (existing and new) such as AID's Farming Systems Research and Arusha Planning and Village Development Projects. In all cases guiding premises will be a) maximum village participation and b) maximum integration with essential complementary services.

1/ A "cash and carry" facility is believed essential. As of now, the only way villagers can obtain food crop production inputs is through credit with the TRDB unless they happen to be located near TFA.

5. Component 5: Improving National Institutional Coordination For More Effective Support of Villages

As is illustrated by the preceding sections and the institutional analysis (Annex II-F), there is a vital and continuing need for effective inter-institutional coordination relative to effective village support. Inter-institutional collaboration is also vital to the success of this Project and other efforts of both AID and other donors. A major constraint, however, has to do with the lack of mechanisms and methodology for more effective joint decision making and planning. It is to these elements that this component is addressed.

(a) Output: Phase I (1981-1983) - Improved Planning for Coordination and Delivery of Services and Goods. Innovation will be developed for better linkage and integration of activities.

The standard donor solution to the problem of coordination is to form committees. More often than not, coordinating committees have caused reductions rather than improvements in efficiency. In the Tanzania case, the bureaucracy is already so complex and layered that adding new dimensions to the complexity seems counter-productive. What is proposed in the case of this Project is a structured approach to coordination, an approach which requires thoughtful analysis, timely decision making and professionally guided planning and programming exercies.

The activity will build on the management training and planning sub-components described earlier. It will be coordinated by the Planning Division of the TRDB and advised by the AID-financed planning and regional supervision and training advisors, drawing as necessary on consulting inputs.

Detailed planning for the activity will be carried out as soon as possible after the AID-funded technical assistance contract has been signed. The same planning mission scheduled for the management training program will be responsible for this in cooperation with the TRDB and concerned agencies. Some planning may take place earlier as an outgrowth of the Arusha seminars, EMS and TTM 1 and 2. In general, however, the activity will proceed in the form of a series of seminars and workshops which will be structured and focused on the development of joint solutions to common problems. Preliminary meetings to each workshop will be held in order to define both compatible and conflicting interests or views precisely. Work agendas will be tailored on specific constraints or problems to be overcome. Goals of each session will be established in advance and material distributed to define options and points of departure, so that time will

will be saved in actual working sessions. In some instances, sub-groups will be formed to analyze the component parts of larger problems.

At times it will be possible to hold these sessions in common with those planned for the Management Training Seminars and the project research and planning activities described above; at other times not, because of the nature of the issue or material. This will have to be sorted out in the course of implementation. Findings, resolutions and plans developed in the workshops will be fed into the planning process for the Project as a whole and the TRDB. This will be especially important for the three-year planning seminar to be held in mid-1983.

In preparation and support of this component, a number of short studies will be carried out addressed to specific inter-institutional issues (See Planning and Studies Annex II-A for a description of the studies). Also farm and village data and analysis produced by that activity will have special relevance, in particular village profile information. The computer and TRDB's research activities offer an opportunity to organize this component around the exchange and analyses of jointly required information and data.

The workshops must be successful initially and appealing if they are to continue and if busy management and technical personnel from various entities involved are to give up valuable time to attend. Initial planning will be critical, therefore, as will logistics, timing and findings. In terms of the latter, it is proposed that the Project cover the cost of workshops in terms of technical assistance and materials and that other costs such as conference room rentals, per diem in the field, travel where necessary be met by TRDB and other participating institutions.

(b) Output: Phase II (1984-1986) - A Demonstrated Integrated Scheme for the Delivery of Goods and Services. A variety of secondary outputs in the form of integrated village activities (Village Service Centers, Stores, etc.) will be tested for widespread replication after 1986. This is obviously an overlapping output with many of the earlier components.

Seminars and workshops will proceed much as in Phase I except that more and more of the planning and conduct of the sessions will be carried out by the TRDB and other institutions involved independently from AID-supplied technical assistance. As stressed in relation to management training, the activity should develop a life and a momentum of its own. Enthusiasm should be generated. Seminars should not only be productive, they should be enjoyable and exciting for the participants.

In Phase II many of the workshops will focus on pilot projects and other tests of models developed in the first three years in order to deal with issues and bottlenecks as they emerge. Late in the Project, they will concentrate on the development of a plan for planning NAFCREP activities after the termination of the AID project. Any donor follow-on activities should be considered at this time.

G. Summary of Inputs

1. AID Inputs

The following tables present a summary of AID inputs by Project component and category of assistance. AID will provide technical assistance including three long-term Project advisors for regional supervision and training, financial management, and planning; a procurement advisor; about 180 person-months of U.S. and Tanzanian consultants. Training activities include: two year programs for 32 participants, short-term training of about three months' duration primarily in credit administration and management for about 30 persons, one month study tours for about 18 persons, and a variety of in-country seminars estimated to require about 25-30 months of services. Commodities provided for the Project include vehicles and 30% of operating costs, training materials, office supplies and equipment (including safes, cabinets and brief cases for regional offices), architectural and engineering plans for the houses and Village Service Centers, supplies for the Research Department, including calculators, and four houses and appliances for the technical assistance team.

TABLE 4 · SUMMARY INPUTS BY PROJECT COMPONENT 1/

1. Institutional Capacity	2. Village Capacity	3. Commercial Activities	4. Marketing	5. Coordination
a) Strengthen Staff TA: . Long-term Regional Supervisor and Training Advisor . 3 pm for Annual Training Plans Training: . 2-year AS/Computer Science for 6 persons . 2-Year BSc topping-off or MSc for 26 persons Commodities: . Housing and Appliances b) Management and Operations TA: . Short-term Planning Team, 4 persons, 1 month each. Seminars/Workshops . 5 Field TTM's for 2 weeks each, 12-week consultancy for 2 persons . 4 EMS's for 1 week, 10 weeks consulting for two Training: . 3 mo. U.S. Short Courses for 18 persons (6 months for 9) . 3 mo. Third-Country for 18 persons . 1 mo. Study/Observation tours for 18 persons c) Financial Growth TA: . Long-term Financial Management Advisor Training: . See 1.a and b) d) Planning and Decision Making TA: . Long-Term Planning Advisor . Short-Term Consulting from U.S. and Tanzania Commodities: . Vehicles . Calculators Other . Enumerators' expenses e) Decentralization TA: . See Long-Term Advisor under 1.a) Commodities: . Vehicles . Regional Office Equipment	TA: . Short Term Advisors from Tanzania and U.S. Commodities: . Training Materials . Reproduction Machines and Supplies	Phase I: . $9.5 Million in Commodities including: Steel, Lister engines, Cement, Roofing, Farm Machinery . $ .5 Million Planning Activities Phase II: . $20.0 Million in commodities	TA: . Short-Term Consultancy in Marketing 9 person-months . Short-Term Consultancies, 3 person months per year Seminars: . See 1.b)	Seminars: . See 1.b) Information: . From other AID Projects . TRDB . IDA and AID Input and Marketing Studies

1/ Refer to Figure 2.

TABLE 5: SUMMARY OF AID INPUTS 1/

Long-Term Technical Assistance (Person Months)	1	2	3	4	5	6	7	Total
Decentralization/Training Advisor		4	12	12	12	12	8	60
Financial Advisor		8	12	12	12	12	8	64
Planning Advisor		4	12	12	12	12	8	60
Procurement Advisor		9	12	3	--	--	--	24
Sub-Total		25	48	39	36	36	24	208
Short-Term Technical Assistance*								
Training Specialist		1	1	1	1	1	1	6
Planning: Expatriate	3	4	6	12	6	3	3	37
Planning: Tanzanian		6	12	12	12	12	12	66
Decentralization		1	1	1	1	1	1	6
Village Training: Expatriate			2	2	2	1	1	8
Village Training: Tanzanian			6	6	6	6	6	30
Input Distribution			12	3	3	3	3	24
Institutional Coordination				1	2	2	1	6
Procurement					2	2		4
Sub-Total	3	12	40	38	35	31	28	187
Other								
Evaluation				6			8	14
Administrative Assistant			12	12	12	12	12	60
Sub-Total			12	18	12	12	20	74
TOTAL	3	36	99	94	82	78	71	469
Training (Number of Students)								
2-Yr. BA Degree Accounting/ Computer Sci.		2	2		2			6
2-Yr. BSc or MSc in Ag. Econ., Ag. Engineering, Statistics, Accounting, Planning, Agronomy, Extension		5	5	5	5	6		26
3-Mo. U.S. Short Course			3	3	3	3	3	15
3-Mo. Third Country Short Courses			3	3	3	3	3	15
1-Mo Study Tours			2	2	2	2	2	10
TOTAL		7	15	13	15	14	8	72
Seminars/Workshops* (Person Months)								
Management and Institutional Coord.		6	3	6	3	2	1	21
Input Distribution			1		1	1	1	4
Ag Research			1		1	1		3
TOTAL		6	5	6	5	4	2	28

Commodities 1/

The list of commodities follows on following page.

1/ Input table is costed in Annex II-I, Expenditure Budget Table. Commodities are also itemized and costed in the footnotes to the Tables.

* All person-months illustrative, consulting months are to be used for organizing workshops, seminars, providing technical advice to UFI or other organizations, research, or providing training for TRDB mechanics, enumerators or other staff.

TABLE 4 (Cont.)

Commodities 1/

4 Houses
4 Sets of Appliances
3 Cars
30 Landrovers
150 Motorcycles
Training Materials (including publications, binders, paper, printing and reproduction equipment)
Regional Office Equipment (including safes, cabinets and brief cases)
Office Supplies and Equipment for Advisors
Research Enumerators' expenses
Research Equipment (including calculators, camping equipment)
Miscellaneous: Including A&E Plans, RFP production and travel to U.S. for contractor selection
Phase I NAFCREP $10.0 million in commodities
Phase II NAFCREP $20.0 million in commodities

1/ Input Table is costed in Annex II-I, Expenditure Budget Tables. Commodities are also itemized and costed in the footnotes to the tables.

\+ + + + + + + + + + + +

2. IDA Inputs

The Project description has interwoven a discussion of IDA and other donor inputs. IDA Inputs are estimated at $13.4 million. Of this approximately $6.0 million is a general line of credit which the Bank expects to use for NAFCREP or other village development lending.

TABLE 6: SUMMARY OF IDA INPUTS

Long-Term Technical Assistance (Person Months)	1	2	3	Year 4	5	6	7	Total
Chief Training Officer		12	12	12				36
Farm Management Specialist		12	12	12				36
Ag Economist		12	12	12				36
Sub-Total		36	36	36				108
Short-Term Technical Assistance (Person Months)								
Input Study		8						8
Training Consultants								
Organization and Methods		16	16	16				48
Management Information		15	15	10				40
Sub-Total		39	31	26				96
TOTAL		75	67	62				204

Commodities

6 Mobile Vans (70% TRDB and 30% IDA operating expenses)
Computer and related services
Furniture and Office Equipment
Office Construction

TABLE 7: SUMMARY OF IDA COSTS ($000's)1/

	FX	LC	Total
Technical Assistance	1,297	782	2,079
Long-Term	630	616	1,246
Short Term	667	166	833
Training Consultants	431	154	585
TRDB Staff	353	120	473
Village	78	34	112
Commodities	1,727	1,174	2,901
Computer	558	191	749
Transport and Vans	454	152	606
Furniture	16	9	25
Local Salaries	--	123	123
Other, including Offices	699	699	1,398
Sub-Total	3,455	2,110	5,565
Contingency	346	211	557
Sub-Total	3,801	2,321	6,122
Inflation	651	568	1,219
Sub Total	4,452	2,889	7,341
Lending Funds	2,429	3,644	6,073
TOTAL	6,881	6,533	13,414

1/ See Appraisal Report, Annex 2, Table 5

3. Other Donors

There is some question regarding the FAO assistance in village training. Three long-term technical advisors have been requested by TRDB for a three-year period. Total assistance is estimated to be $1,000,000.

DANIDA is providing two researchers (agriculture economists) to help with the farm management surveys. Total DANIDA assistance is estimated to be $250,000.

III. Project Analyses

A. Summary of Planning

1. Completed Analysis

The design of this Project is based primarily on analyses of constraints to achieveing the Project goal of increased productivity and production at the village level. In addition, institutional constraints were analyzed with respect to the delivery of resources required for these increases to occur. These are summarized in the following sections along with implications of each for Project design.

2. Further Planning and Analysis

It is important to emphasize these analyses have been prepared based on present knowledge and available data. Further testing is needed and thus the Project is phased to allow TRDB and other institutions to refine and further analyze the constraints and possible solutions. The analyses presented in the detailed annexes and summarized below present what is now known and presents plans for further planning and anlyses through ongoing impact evaluation and data collection activities. (See Annex II-A for description of the studies and planning to be undertaken.) The Project is phased to provide opportunity for redesign and adjustment in implementation activities. (See Part IV Project Implementation and Annex I-G for details.)

B. Summary of the Technical Analysis 1/

1. Objective

The objective of this analysis was to explain and demonstrate how the technologies to be distributed under the expanded NAFCREP program:

(a) will address the major constraints to raising agricultural productivity, production and marketing in villages;
(b) are most "appropriate" from the perspective of both villages and the economy; and
(c) will help villages become self-reliant.

2. Methodology

The Technical Analysis Annex gives a detailed description of the evolution of villagization and agrarian reform to date, focusing

1/ The complete analysis is contained in Annex II-B.

particularly on the effect of villagization on changes in cultivation practices and agricultural production. It was explained that the change from shifting agriculture, characterized by slash and burn, to settled agriculture called for new cultural practices and technologies to maintain and raise agricultural productivity and production. The adoption of new techniques and technologies was necessitated also by new organizations of production. With villagization it was presumed that production could be increased, controlled and moved through institutional channels by promoting the use of new inputs such as fertilizers, chemicals (pesticides and herbicides) and improved seed. These inputs were provided to villages first on a heavily government subsidized basis and then by TRDB on an in-kind credit basis and intended for use on communal or block farms to increase land productivity and maintain soil fertility.

Experience with this approach, though successful in some villages, has not been promising. There is considerable evidence to support that most of the increases in food crop production since the 1974-75 drought period have come from individual plots; and much of this increase is moving through unofficial channels. Also, there is evidence that farmers are moving away from villages nearer to their individual plots. Government has sanctioned and even accommodated this movement in some areas under a new policy of "satellization."

Adjustment by government to these experiences and changes have ushered in a new period of pragmatism. The recent financial and economic crises underscore the fact that Tanzania can not now afford agrarian reform at the scale and pace previously envisaged. In addition to inadequate FX, the most critical and restraining factor is experienced and skilled personnel, expecially to implement government policies and programs that would have a greater impact on productivity and production than those of the past.

Consequently, production is now promoted on all fronts through any means possible. In some areas mechanization is being intensified on more successful communal or block farms. In other areas animal draught power is actively promoted.1/ In still other areas village investment in marketing and processing infrastructure are encouraged to provide more reliable market outlets, reduce post-harvest losses and give additional price and market incentives.

In all cases the emphasis now is on greater village and individual participation in the benefits and costs of growth as well as on raising production primarily by expansion in area cultivated. This

1/ Both tractor farming and oxen farming rely on larger land areas which can be cultivated. As shown in the Technical Analysis, Annex II-B, this is no problem in most areas of Tanzania.

is as it should be. At this time Tanzania simply lacks the technologies to generate dramatic increases in yields per hectare. The technologies that are now being used, e.g., fertilizers, are more noteworthy for their high and recurring FX costs than for their effects on yields. Therefore, much greater emphasis is now given to technologies which raise labor productivity and land-labor ratios such as improved hand tools, oxen implements, improved seeds and a limited amount of motorized equipment.

A final and perhaps the most important aspect of pragmatism is the emphasis on village and farmer training. Villagers, managers and functionaries are trained in village commerce, rural enterprise and developing multi-purpose village cooperatives. Farmers are being trained and encouraged to adopt techniques used by the more "productive" farmers within villages and farming systems. This latter development is especially significant since it gives much greater scope for the effective utilization of the extension service in agricultural work than in the past. In the earlier phases of villagization and agrarian reform, extension was used primarily to implement village settlement for which they had little expertise and training. At that time there was much concern about the effect of traditional extension techniques on the evolution of "progressive" farmers and a "rural elite." However, with the development of new extension approaches and villager training programs there is now much greater scope for increasing agricultural production by bringing average farmers to levels of production achieved by the "best" farmers using traditional technologies and known practices.

It is in the context of these development and adjustments to villagization and agrarian reform that criteria were identified to select and evaluate the technologies to be distributed under this Project.

3. Results and Recommendations

The technologies recommended for distribution under the expanded NAFCREP program were identified, evaluated and selected on the basis of three criteria in addition to their profitability; these are:

- the degree to which the technology would help to remove off-farm constraints to increasing and safeguarding the volumes of marketed production;
- the degree to which the technology would help to remove on-farm constraints to increasing agricultural productivity and expansion in areas cultivated; and
- the foreign exchange cost of the technology as well as the value added generated by its local manufacture and the need to reduce recurrent foreign exchange requirements.

The following technologies have been recommended:

a. Hand tools - While there is now a general shortage of hand tools in Tanzania due to the lack of foreign exchange to import either raw materials or finished products, the analysis showed that there is a marked preference as well as significant need for hand tools, especially for hoes or jembes. Preferences depend on location, soil conditions, the user of the hoe and the type of farm operation performed. For example, a lighter jembe with a wider blade is preferred by women for weeding; whereas a heavier jembe with a narrower blade and longer handle is preferred by men for land preparation. Also, oval rather than a round eye is preferred which affixes the handle to the blade. The quality of the steel is of utmost importance for better performance and durability. Inferior heavier jembes without adequate heat treatment to harden the material must frequently be replaced within two or three seasons. Higher quality jembes are commonly replaced after five or more years.

For other tools, such as machettes, blade length, weight and the nature of the cutting edge are important factors of preference. There are no known technologies which could alternatively replace hand tools in Tanzanian agriculture.

b. Oxen Implements and Carts - With increased use of oxen for cultivation and transport and the scarcity of FX, the demand for implements is in excess of local supplies. Preferences for plows depend on soil conditions, topography and availability of animal power. For example, in lighter and better conserved soils the double mouldboard plow is recommended. On steeper slopes where erosion is a problem the single or double furrow plow is preferred and recommended in spite of its additional labor requirements for weeding.

Animal-drawn planters, spike-tooth harrows and cultivators are also produced locally, as are oxen carts; pneumatic wheels are preferred for the latter.

This technology has become commonly accepted in recent years and is expanding rapidly. However, expansion is now limited by unavailability of implements due to lack of raw materials for manufacture. TRDB has many orders which are over 6 months old and cannot be filled.

The design team, and more importantly the Tanzanian user, consider this technology the most appropriate alternative to raising land-labor ratios and thereby increasing total output of the farmer.

c. Grain Mills - The Newman hammer mill used for maize grinding is manufactured locally; however, materials are in short supply and costs are rising rapidly. Alternate U.S. sources of an appropriate mill which could be assembled in Tanzania are being considered as is supply of raw materials to local manufacturers. Rice hullers must be imported and are not widely recommended as they have more limited usage. Maize grinder can also be used to grind cassava, sorghum, millets and other food grains or animal feeds. It is recommended that the mills and hullers be powered by Lister diesel engines, whether water or air cooled. For grinders the 25 HP diesel powered Lister engine is recommended except in a few villages which have dependable electric supply where a 20 HP electric motor can be used. For those few rice hullers distributed by this Project either the 16 HP Lister diesel or electric 15 HP can be used. The design team recommends Lister engines because they are the most commonly used engines in rural areas at present; the local importer has established an extensive maintenance and training program in operations and repair; spares are more easily obtainable; and the importer has extensive experience in assembling and packaging the final unit.

Experience indicates that this technology is the most demanded term investment by the user of any supplied by NAFCREP. Not only does it serve to remove on-farm family labor constraints, it also significantly lessens the burden on women, makes the village more self-reliant for food and less dependent on the problematic marketing and distribution systems and offers a sound financial project for beginning village development.

d. Godowns and Village Service Centers - The technology consists of a core unit of 200-ton storage for crops and inputs which can be stored with crops, office, receiving and weighing area, and normally a separate room for other inputs or supplies which cannot be stored with crops. In addition, when circumstances justify, increased storage, offices, shop or village meeting rooms can be added to increase the benefits, appropriateness, and functionality of the multi-purpose service center. The minimum storage capacity of 200 tons is recommended to reduce unit storage construction costs and turnover required to justify investment costs. This technology is critically in demand in those villages which have achieved a level of displayed productivity in which they can economically afford the structure and put it to adequate use. Such villages presently experience very high post-harvest losses due to the problematic marketing and transport systems in country.

All Village Service Center structures will be built on a self-help basis with up to 2 years for construction followed by a 10-year amortized loan repayment. A maximum of local materials such as burnt bricks, wooden trusses, soil cement and other materials will be used. The loan amount covers only costs of procured items used in construction and hired skilled labor. An extensive engineering analysis was prepared and is contained in Annex II-H.

e. Village Transport and Tractors - Although there is great need and demand for village transport and tractor mechanization for village multi-purpose hauling and large acreage farming, there are less than 10% of the villages which can economically justify and successfully implement motorized projects of this nature. When such a village has been screened out of the many requests, the need, justification, and appropriateness of the technology to that village is very strong and the chance of success of project and large economic village benefits is very great.

As explained in the NAFCREP Lending Program a total of only about 179 tractors or lorries can be provided through the 6-year NAFCREP project, reaching about 2% of the villages. Another reason this technology was severely restricted is because of the large FX component and recurrent FX required in future years even though large quantities of spare parts are included in the initial purchase.

USAID funds allocated to support this category will primarily be used to procure tractors/equipment/trailers of the types demanded by the village clients but limited to 40-80 HP Massey-Ferguson, International Harvester, John Deere or Ford and a Caterpillar tractor when required to develop village land improvement projects, etc. Normally a 45 HP tractor is recommended as it will provide sufficient power for land preparation in most areas, is adequate for the present size of farming operations of most qualifying villages, and is ideal for tractor-trailer hauling. Of the 20 approved tractor applications on hand in TRDB, 18 villages specifically requested Massey-Ferguson, largely because of past historical performance in village conditions and availability of spares.

Normally for lorry transport a 7-ton Isuzu or Leyland/Bedford is the most appropriate technology. The 7-ton ton because of bridges, culverts or other road conditions which cannot withstand heavier loads and the Isuzu or Leyland/Bedford because these are the 2 makes on which the Tanzanian Government has standardized for 7-ton trucks.1/

C. Summary of the Economic Analysis 2/

1. Objectives

The objective of the economic analysis was to provide additional information to guide in decisions about:

a. the conditions and recommendations that would maximize the likelihood that a desired economic benefit stream could result from the NAFCREP program.

b. the optimum size of the AID capital grant proposed to finance essential material and equipment imports in support of TRDB's expanded lending operations under NAFCREP.

1/ Waivers have been prepared for all commodities (except trucks) for Phase I. See Annex I-E. Trucks to be financed by AID are few in number and waiver will be prepared on a case-by-case basis.

2/ See complete analysis in Annex II-C.

c. the optimum allocation of the capital grant among lending activities within the NAFCREP portfolio.

2. Methodology

A simplified, proforma cost-benefit (C-B) calculation was done to guide the analysis. The calculation showed that TRDB's expanded NAFCREP operations would have to reach, on average, an additional 475 villages each year during the six-year development phase, with each village increasing the net value of its agricultural production by a minimum of \$17,500 after three years. 1/ This increment must be sustained over a 20-year projection period to cover total NAFCREP costs (\$150.0 million) over the six-year development phase, recurrent costs after the development phase and a 15% rate of return on capital investments.

Based on results of farm budget surveys undertaken by the FAO/IBRD cooperative program in 1975 the demand and potential effect on village production and/or incomes of each lending activity was critically examined. Specifically, the design team assessed the nature and plausibility of the assumptions which needed to be made so that each activity would generate a profitable financial rate of return to borrowers (villages or individuals). Also the design team determined the conditions that would assure a "desired" (greater than \$17,500) economic rate of return to society of each activity individually and in combination with other complementary activities. The lending activities were then compared and ranked by the plausibility of the assumptions made and the degree to which they complement other NAFCREP lending activities.

In this part of the analysis the design team was particularly guided by information and results of other surveys illustrating the need and relative demand for various lending activities of TRDB and proposed for support under this Project. For example, summarized below are the responses to a question on how credit would be used by a sample of farmers in the Southern Highlands. The figures represent the percentage responses of males and females when asked: "How would you use a loan of TSh 25,000?"

1/ The average value of agricultural production of villages in high potential areas is estimated to be \$450,000; for villages in areas with average potential this estimate is \$165,000 measured at 1975 farm gate prices as shown in the Annex.

"How would you use a loan of TSh 25,000?"

	Males	Females
Expand Farming	43	26
Buy Farm Implements	23	10
Purchase Fertilizer and Chemicals	1	1
Buy Cattle	7	8
Start a Business	4	2
Spend on Personal Use	4	7
Build/Improve House	15	10
Refuse Money	1	4
(not given)	2	31
	100	100

Source: H. Jarvinen, E. Bakke, C.B.Jespersen and A.A. Moody, "Southern Highlands Socio-Economic Study," NORDIC Tanzania Agricultural Project, January 1971.

+ + + + + + + + + +

The high percentage response amongst both males and females to use credit for expanded farm operations and purchase of farm implements is noteworthy, especially when compared to the low response to purchases of farm fertilizers and chemicals. These priorities are confirmed in credit impact studies conducted through the present Agriculture Credit project in 1978 and 1979 in 42 villages. in Arusha, Mbeya and Ruvuma Regions in which 25 farmers were interviewed in each village. Over half of the village farmers interviewed listed "expanding farming activities" and "agricultural production or processing equipment" as the first development priority and another one-third listed these as the second development priority.1/

The major constraints to farm expansion are draught power for land preparation as well as labor and improved hand tools for cultivation and maintenance. TRDB's expansion in lending for oxen implements and hand tools are intended to address these constraints directly; so are investments in village mills. This is because a major benefit to society of a village grain mill derives from the quantity of labor saved by not hand pounding or grinding with traditional techniques (2 hours per day). The value of this economic benefit is dependent on how freed labor is allocated between leisure or other productive activities. This is difficult to predict. However, since grain mills could be promoted simultaneously with loans for hand tools and oxen implements the design

---

1/ "Farmer and Village Surveys as Instruments for Evaluation of the TRDB's NAFCREP Program," ACDI, August 1979.

team felt that there was a good chance that much of the freed labor would be used in production, given the limits that must be imposed by the crop calendar, nature of farm enterprise combinations and competing household demands for women's labor. An additional significant benefit derives to society when a grain mill is complemented by a village service center. This is because considerable transport savings result when villages are able to meet their own flour needs throughout the year.

3. Results and Recommendations

The analysis indicated that, as much as practicable, seasonal and term lending activities should be introduced simultaneously or sequentially in certain villages to promote these potential complementarities and maximize returns of other or subsequent lending activities. The sequence and nature of complementarity depends on local conditions and needs. For example, in agro-ecological zones having average production potential it may be necessary to expand the production base first -- through loans for improved hand tools and oxen implements -- so that the demand and potential returns of subsequent loans for village storage, processing and transport are increased. Also, the analysis indicated that in high potential areas the returns to village investments in godowns/service centers could be significantly increased if villages already made good use of a grain mill. An important benefit stemming from this complementarity between grain mills and godowns is the reduced dependency of villages on the official market system for their grain and flour needs, expecially in the end of the marketing season.

The analysis also indicated that the benefits to the economy of village godowns are substantial: a 10% reduction in losses of grains moved from villages to NMC branch stores in district centers. However, the financial returns to villages are marginal. This is due to the low levy, TSh 90/= per ton, which NMC pays villages for storing and handling grain, independent of the time in storage. The design team recommends that a covenant be considered to address this issue as additional information about the returns to village storage becomes available.1/

The design team also recommends that AID continue not to support supply and distribution of fertilizers and chemicals (i.e., directly on the FX side) until more local specific recommendations are made and become acceptable to farmers.

1/ The design team feels that the size of the levy is a more important issue in the debate of increasing the returns to villages of godowns than subsidizing or waiving interest payments in loan amortizations.

4. The Size of the Capital Grant

The economic analysis implies that there is nothing wrong or worrisome if TRDB's own internal criteria (i.e., financial and institutional) override in the derivation of the "optimum" size of the capital grant. All term loans yield more than a 15% rate of return on village equity and total investments. The estimated value of gross incremental agricultural production that could result from each activity alone easily covers the net increment per village required to meet the total cost of this Project. The analysis in Annex II-C suggests that even at full shadow prices it is likely that the "true" incremental rescurce cost of the lending activities, with the possible exception of village transport, will be considerably less than the foreign exchange content of the incremental production that could be generated as a result of this program. Two additional factors should also be considered to support this conclusion.

First, the NAFCREP program will no longer exclude lending for cash crop production under this Project. The improved hand tools, the oxen implements, the new land brought under cultivation and the freed labor can all be used in farm activities which farmers perceive most profitable. There is nothing about this Project or NAFCREP that dictates the allocation and use of the incremental resources provided by this Project or mobilized by villages and farmers. Indeed, the design team anticipates that in the high potential grain areas where traditional export crops also dominate a large portion of incremental production will be in the form of tea, pyrethrum, tobacco, cotton and even coffee. This is because the production of cash crops relative to food crops is dependent on overall farm productivity, especially when food crop production exceeds subsistence requirements.

Second, TRDB's own experience so far shows that repayment rates for the lending activities proposed under this Project are much higher than those for which the cost benefit ratios, especially their foreign exchange components, may be more questionable.1/ Also, the lending activities under this Project mobilize local resources in productive activities to a greater degree and to a greater proportion of total cost compared to alternative activities. Regarding investment cost, minimum equity payments of 25% are required for all activities. The recurrent costs include debt servicing on principal and interest and, when compared to incremental revenues, allow for an attractive return on borrowers' equity for all term lending activities.

1/ Fertilizers are an example

In sum, the economic analysis indicates that the economic return to society, the potential and effective demand for TRDB's lending activities are not likely to be significant or constraining factors in determining the optimum size and scale of operations proposed under the expanded NAFCREP program. The most constraining factors are: the institutional capability of TRDB to deliver the technologies to villages; TRDB's ability to effectively supervise the loans; and the amount of FX that will be allocated to TRDB to support these lending operations.

The total FX cost of the lending operations which TRDB can comfortably handle are estimated to be U.S. $50.4 million over the 1980/81 - 1985/86 development period. It is recommended that AID contribute at least the difference between this total and the FX which TRDB can mobilize from other sources. The latter sum is now estimated to be about $20.0 million, implying that AID's contribution should be about 60% or $30.0 million in the form of a capital grant.

5. The Allocation of the Capital Grant

The economic analysis shows that the most profitable and complementary lending activities and whose benefits are most ascertainable are:

- grain mills
- oxen implements and carts
- improved hand tools

Together these activities address the major on-farm constraints to increased production and productivity. Also, the returns to these activities are less dependent on the magnitude of marketable surpluses compared to village investments in godowns and transport. It was recommended, therefore, that as much as practicable the FX allocations be apportioned to take into account the differential estimates of the rates of return to villages and the economy of various lending activities.

Table 8 below shows the "optimum" allocations of AID FX contributions to each lending activity over the entire development phase, as derived by the design team. It also shows that about 80% of total AID FX contributions will be allocated to the three most "profitable" activities and, which introduced simultaneously, will have the greatest impact on agricultural production. This allocation also assures sufficient activity in the other lending categories to allow for requisite flexibility within TRDB's overall NAFCREP portfolio. This is necessary for TRDB to meet specific, local needs of villages in different situations with different loan requirements. This flexibility also allows for lending in marketing and transport by those few villages which have the capacity to effectively utilize these loans on a very profitable basis.

TABLE 8: SUMMARY OF USAID CONTRIBUTIONS TO NAFCREP BY LENDING CATEGORY

Lending Category	Total AID Foreign Exchange Contribution (U.S. $000)	Proportion of Total AID Contribution (%)	Number of New Villages Reached by: AID's Contribution	Total NAFCREP Program
Seasonal Loans (Hand Tools)	6,762.0	22.5	NA[a/]	NA[a/]
Term Loans				
a. Grain Mills	13,254.0	44.2	1,654	2,902
b. Oxen Implements and Carts	3,764.0	12.5	960	960
c. Village Service Centers/Godowns	2,770.0	9.2	1,063	1,063
d. Village Transport	2,950.0	9.8	80	170
e. Planning Activities	500.0	1.8	NA	NA
TOTAL	30,000.0	100.0		

a/ The total number of loans is 18,500 of which 11,000 will be made through AID's contributions. The number of new villages reached by AID's contribution is estimated to be 3,000. Many of the other seasonal loans will reach villages served by the old project for their replacement needs and villages reached by the new Project with term loans.

= = = = = = = = = = = = =

6. The Recurrent Cost Argument

Table 8 shows the optimal allocation of AID FX contributions derived from the perspective of TRDB's desired rate of expansion in its NAFCREP program, the projected financial returns to villages and the returns to the economy resulting from increased agricultural production, as explained in the Annex. However, the allocation must also be viewed from the perspective of the potential burden on the economy considering the possible increased dependency on foreign exchange over time. For example, it could be argued that expanded investments in diesel powered grain mills will require an increasing amount of FX for operations and maintenance. This is the classic example of the recurrent cost problem. However, this incremental cost must be weighed against the FX content of:

(a) the incremental production and marketing of produce that can be attributed to the labor freed by the grain mill;

(b) the transport savings resulting from the reduced reflows of grain flour to villages and other rural consumers from regional depots; and

(c) the transport savings resulting from reduced transport costs of produce from villages to NMC branch stores when village godowns are introduced simultaneously with grain mills.

While it is difficult to estimate the value of these FX savings, the design team believes that they are significant when compared to the FX cost of operating and maintaining the grain mills.[1/]

But the recurrent cost argument must be taken a step further. What are the relative FX costs of alternative milling techniques? Unfortunately, there exists very little information now about less costly alternatives which are either dramatic improvements over traditional techniques or can generate as much in potential foreign exchange savings as diesel powered grain mills. It is important, however, that during the development phase of this Project AID and TRDB explore "appropriate" alternative technologies and test and demonstrate them in pilot villages with funds provided under the experimental lending category.

7. Further Planning

Table 8 shows the optimum AID allocation of $30.0 given current lending portfolios in areas of known return. However, this allocation does not suggest that a different allocation of AID funds among activities is not desirable if new lending portfolios are further planned and tested. $ .5 million has been set aside to provide technical assistance and related commodities for further planning activities to be done throughout the life of Project. Some of the possible activities have been described in the Technical Analysis, Part III. B. These activities will be planned by TRDB with the assistance of the AID-financed planning advisor, and submitted to the Mission on a case-by-case basis for review and a decision regarding AID funding. (See Part II.C. of the Project description for a description of procedures.) These activities must fall into one of the categories outlined in the lending criteria contained in Annex I-G and must have not more than a 50% foreign exchange cost component. These activities will be supplementary to those already described (e.g., new tools) or be alternative technologies for the

---

1/ The FX cost of operating and maintaining a mill is about TSh 25,000 per year. This amount can easily be covered by transport savings resulting from a reduction of 150 tons/village in reflows of flour alone.

activities already described (e.g., improved hand grinders). The objective is to further plan lending portfolios with a smaller foreign exchange component and those which minimize recurrent costs. These funds provide TRDB the opportunity and incentive to further develop lending activities which will allow diversification of the NAFCREP program and provide low cost profitable technologies for villages.

Phase II may involve adding new portfolios such as irrigation and land improvement, a return to lending for seasonal inputs or a geographic emphasis. Phase II may also require additional planning activities. The Phase II plan may include allocation of additional funds for planning activities if additional testing and experience is required.

D. Summary Social Soundness Analysis 1/

1. Objectives

The objectives of this analysis were to determine:

(a) whether the proposed Project was consistent with the political and social environments;

(b) whether the proposed lending activities were perceived to be beneficial and what impact they might have;

(c) who would benefit from the activities; and

(d) whether there were any cultural and social constraints which would prevent acceptance and diffusion of the technologies.

2. Methodology

A Tanzanian educator was hired to undertake this analysis. Her work was supplemented by a REDSO consultant. Sources of information came from an extensive review of the literature, visits to villages and interviews with villagers, particularly women members.

3. Relation to Government Policy

Development policies in Tanzania emphasize rural development. Agriculture is the backbone of the country's economy, contributing about 40% of the Gross Domestic Product, but despite the emphasis

---

1/ See complete analysis in Annex II-D.

for its development, it has not been a growing sector.

Agricultural financing, whether local or foreign, has aimed at increasing productivity. One of the major problems, however, has been getting the inputs to the farmers in terms of materials (e.g., seeds, fertilizers, implements) and services, (e.g., extension information and training). Since the abolition of cooperative unions and primary societies in 1976, the villages have become multi-purpose cooperatives and are expected to arrange the marketing of their products through their committees. The responsibility of supplying inputs to the farmers was handed over to the crop authorities, but their operations have not always been satisfactory. The Tanzania Rural Development Bank is now the only institution charged with the responsibility of supplying agricultural inputs for food crops to the farmers.

4. Impact of Project Activities

Prior to the dissolution of cooperatives, TRDB supplied inputs through cooperative unions to member societies who in turn provided them to farmers. The responsibility of distributing inputs to the farmers placed an additional burden on the Bank's limited human resources. In the absence of an alternative, the Bank will have to continue handling input supply for its borrowers. One of the major concerns of the Project is to improve food crop input distribution. In this direction the Project, in collaboration with IDA and TRDB, will study the input distribution problem and develop recommendations for resolving the situation and test an alternative system. The intent is to provide the resources needed to allow villages to become responsible for input supply through village service centers and village transport.

The Project in this case is a response to problems of input distribution and marketing of produce which have been expressed in reports, speeches, papers and verbally. These sources all point out that the success of rural credit program in Tanzania depends to a large extent upon the pursuit of intensive training programs for the office bearers and leaders of registered villages which would form the most important category of borrowers from the Bank. The Project aims to improve village capacity at the receiving end of the system. If the recipient villages are to effectively utilize credit goods and services from TRDB, it is necessary that all members of villages understand the purposes and responsible uses of credit. Improved repayment rates are dependent on this activity.

In Phase I, grain mills, carts, plows, farm implements, multipurpose village service centers, including storage facilities for storage of crops, inputs, and retail outlets, and implements will be provided. These inputs together will facilitate increased production and productivity in the villages. They will also save time and energy which could be expended on more productive activities.

The provision of grain mills will particularly relieve women of burdensome and monotonous tasks of grinding and pounding of maize. The inputs suggested in Phase II, i.e., reforestation, land improvement and management, integration of livestock improvement activities, and diffusion of appropriate technologies are all necessary for the more intensive and extensive use of land which is necessary to increase production and incomes for improvement of people's lives in the rural areas.

The training of TRDB's manpower and the supply of capital to the Bank will enable the Bank to provide more efficient services to the farmers, and to have a more capable staff to carry out operations in the region and at the headquarters. Other institutions too will benefit from increased coordination of TRDB activities with those of other institutions.

The socio-culturally acceptability of the commodities proposed for financing through NAFCREP is discussed in the detailed Annex. None of the commodities were found to be unacceptable or incompatible with existing farming systems or farming activities. Each has been tested in the pilot phases of NAFCREP and found to be acceptable.

5. Constraints

(a) The major aim of NAFCREP is to increase village crop production and thereby increase income and improve the standard of well-being in the villages. In order to recover loans, emphasis has been put on marketed produce. Other institutions, such as the crop authorities, have activities aimed at promoting the production of crops. Villagers are thus the object of a variety of sometimes competing influences. Further, these institutions may not fully take into account the goals of the villagers.

(b) Loan recovery has been a problem for seasonal crop inputs in particular. While there is insufficient data to determine the reasons for non-repayment, a variety of hypotheses have been suggested; they are:

- the borrower does not understand the loan has to be repaid but considers it a grant;
- the borrower sells crops through unauthorized channels, thereby by-passing the loan recovery mechanism;
- no deductions are made when a farmer sells a crop due to poor village record keeping;
- village leadership does not know the village entity is responsible for loan repayment from individual village members;
- no action is taken on defaulters;
- poor coordination between the crop authorities and TRDB; and
- the technologies promoted are not profitable.

(c) There is a lack of information on the availability and utilization of resources used in peasant farming. These factors include:

- land availability, fertility and rainfall, distances from the homestead;
- labor force size, composition and utilization;
- capital availability control;
- knowledge base for managerial and technical skills; and
- decision making and control of resources.

The above constraints will be addressed in the Project through the data collection and planning activities and the efforts to improve institutional coordination. Project inputs, both technical assistance and training, are flexible in nature and will thus allow reprogramming if necessary.

6. Summary of Recommendations

(a) Given Tanzania's ever changing policies and priorities, the Project should allow maximum flexibility to further analyze and respond to these constraints.

(b) The provision of grain mills should go hand in hand with plans for income-generating activities and other projects which would particularly benefit women once they have a little time and energy to spare.

(c) The provision of better inputs such as seed, pesticides and fertilizers whould be based on area specific research recommendations.

(d) In conjunction with the provision of plows, identification of labor saving technologies to help with planting, weeding and harvesting is needed. For example, the use of plows puts more land under cultivation; fertilizers stimulate the growth of weeds and all these demand labor, time and energy normally provided by women.

(e) Intensification of land use also requires increased efforts to protect the natural environment.

(f) Rural development in Tanzania must take an integrated approach. As such, there is need for the Project to work with other institutions in order to get cooperation and support.

(g) Village education and training is critical to Project success.

(h) Since women are primary producers of food crops, the Project should ensure their access to information related to agricultural inputs, techniques and training so that they can fully participate in decision making and sharing of the benefits of increased incomes. Village training should be done at locations accessible to women and when possible in collaboration with the women's village committee.

E. Summary of Environmental Analysis

The IEE in Annex II-F recommends a negative determination based on the analysis that AID inputs to this project will have no significant impact on the environment. However, as explained in the IEE, TRDB is using its own funds to import and distribute harmful pesticides such as DDT dust (5%). It is recommended that AID develop appropriate policy guidelines to deal with this issue since AID funds will not be directly used to procure any pesticides under this project. Also, TanGov is now listing alternative pesticides to DDT and prefers pyrethrum-based pesticides.

F. Summary of Institutional Analysis 1/

1. Objectives

The objectives of this analysis were to determine:

(a) what problems TRDB had had in serving villages as the primary national institution charged with providing commercial inputs for rural development;

(b) what other donor and TRDB plans were to overcome these problems;

(c) whether TRDB could effectively undertake NAFCREP as proposed; and

(d) whether TRDB was taking steps to overcome the repayment problem and what further support was necessary to enable a 2% annual improvement in collection rates.

2. Methodology

In January of this year an Ohio State contract team undertook field visits (see Trip Report, Annex II-M); evaluated the current project (see PES, Annex II-L); and assisted in preparing the detailed Institutional Analysis (see Annex II-F); and job descriptions for the proposed advisors.

3. Major Problems

The TRDB like most other institutions has been forced to adjust to the massive structural changes which resulted from decentralization. The major effect on TRDB has been twofold: expansion of their

---

1/ See complete analysis in Annex II-F.

clientele from about 300 cooperative unions and societies to over 8,600 villages; and secondly, taking on the massive responsibility for delivery to villages of seasonal inputs. The first change in itself resulted in stretching the Bank's human resources beyond the ability to serve farmers. The second change has added a responsibility which is not only outside normal credit and banking activities but has placed demands for logistic support on the already over extended Bank staff.

Component 1 of the Project description details planned AID's and other donor's assistance. Technical assistance, training and commodities, especially vehicles, will be provided in an effort to overcome the most pressing constraints. These include:

- structural over-centralization in a decentralized environment;
- lack of staff training and experience;
- outdated and cumbersome policies and procedures;
- poor data and information;
- poor collection;
- confused responsibility and difficult input distribution problems;
- poor inter-institutional coordination;
- contradicting national policies and priorities; and
- inadequate logistic support and transport.

4. Recommendations

Each of these above constraints is discussed in Annex II-F as well as current plans and recommendations for overcoming them. Based on the analyses presented therein, the Bank staff should be able to reach and service loans in approximately 500 - 900 additional villages in each year of the Project through NAFCREP.[1/] Currently coverage of some 1,000 villages should be expanded to about 6,000 by the end of the Project and achieve the planned 2% annual improvement in collection rates. The analysis assumes the AID and other assistance (as described in Part II.F) will be available and that further massive reorganizations will not be undertaken by the TanGov throughout the life of the Project.

G. Financial Analysis[2/]

1. Conclusions

The Bank clearly cannot extend its outreach to meet the rural development needs of Tanzania without external financing. From its

1/ Does not include other lending programs of TRDB
2/ The detailed description of the Financial Planning and Methodology is contained in Annex II-G.

creation in 1971 through 1979 the Tanzania Rural Development Bank lending volume grew by an average of TSh 33 million per year and weathered several crises including the dissolution of the Cooperative Societies and Unions in 1975. During the next ten years the liquidity of the Bank must be mobilized to repay TSh 200 million of credit. Without external assistance the Bank would not be able to both sustain growth and repay its creditors, even with the assistance and credit of the Bank of Tanzania. In order to meet the outreach and rural development expansion goals of AID and the TanGov, a more vigorous and stronger institution is required. The financial analysis which is presented in Annex II-G indicates a grant of $30.0 million is required to insure a self-sustaining Bank with sufficient growth in its lending portfolio to have an impact on rural development.

2. Existing Financial Condition

As of the end of the 1978/79 lending year (June 30, 1979) the TRDB had total assets of TSh 668 million including an outstanding portfolio of TSh 493 million against total external loans of TSh 253 which consisted in their entirety of medium- and long-term financing, primarily from IDA, which for the most part is crop or activity specific. In addition, there are two credits from the Federal Republic of Germany. Capital consisted of TSh 187 million and the debt/equity ratio was approximately 1.35. Total expenses as of that date were TSh 51.3 million of which 16% represented the cost of financing and 15.5% and 17% personnel and operating costs, respectively. Over 50% of expenses (TSh 26 million) were provided for bad debts. Retained earnings of TSh 15.4 million and liquidity of TSh 97.3 million was registered at the end of the period.1/

The financial development of the TRDB over the past four years is reflected in the key indicators in Table 9.

As can be appreciated from Table 9, the Bank has remained in a relatively static equity condition over the past four years while it built up adequate loss reserves, although it had experienced spectacular growth in the preceding four years -- going from approved loans of TSh 36 million in 1971/72 (the year it commenced operations) to TSh 203 million in 1974/75. It will also be noted that liquidity dropped sharply in 1978/79 and may even be lower than the amount shown due to possible over-valuation of inventory. Further as will be seen from the projections below, beginning in 1980/81, sharply increasing debt service (as principal payments on several of the IDA credits start coming due) plus the delinquency problem will make a gradual decline in operations inevitable. Equity will be

---

1/ Care must be taken in viewing a number of these indicators, see footnotes to Table 9.

TABLE 9: FINANCIAL DEVELOPMENT OF TRDB OVER PAST FOUR YEARS -- SELECTED INDICATORS (For full Balance Sheet and Income Statements, see Annex II-G)

(TSh 000)

	1975/75	1976/77	1977/78	1978/79
Total Assets	453,953	533,891	599,105	688,419
Liquid Assets [a]	102,049	124,319	184,411	97,326
Loan Portfolio	334,652	377,704	314,065	393,050
Short Term [b]	76,400	82,740	61,980	134,926
Medium and Long Term [b]	274,315	350,049	325,583	357,782
Allowance -- Bad Debts [c]	16,063	55,085	73,500	99,657
Total Liabilities [d]	251,694	349,569	413,946	481,049
Medium and Long Term Financing	165,431	200,464	232,457	253,103
Grants [e]	74,063	134,399	170,021	215,666
Capital and Equity	202,258	184,321	185,159	187,370
Subscribed	172,000	172,000	172,000	172,000
Retained Earnings [f]	30,258	12,321	13,159	15,370
Income [f]	38,969	36,239	37,196	53,327
Expenses	32,981	35,535	36,538	51,327
Cost of Funds	3,531	6,360	7,345	8,357
Personnel	4,178	4,908	5,700	7,984
Operating	3,122	3,888	4,305	8,572
Other (Bad Debt Expense)	22,148	20,[illegible])	18,415	26,157
Delinquent (Arrears) [g]		119,577	109,557	130,700
Loans Disbursed [h]	73,000	78,000	106,142	175,687

Source: Financial Analysis by current AID financial advisor.

Note: Footnotes appear on following page.

a/ Cash plus inventory. Inventory may be overstated. Inventory includes book amounts for fertilizer, insecticides, seeds and other crop inputs.

b/ The division of short and long for the first two years is approximated. Beginning in 1977/78 TRDB maintained more complete ledger records.

c/ Prior to 1976/77 the Allowance for Bad Debts was based upon an arbitrary 5% of the portfolio. By 1978/79 the allowance was adequate or close to adequate and was based on annual loan by loan review. (See h/ below.)

d/ TRDB does not accrue accounts payable. The current ratio, therefore would not reflect the Bank's liquidity.

e/ TRDB does not include Grants as a part of Equity.

f/ Net income and retained earnings are based upon accrued interest income. Because a substantial portion of the accrued income may not be collected, the amounts reported as income must be treated with great care.

g/ In years 1976/77 and 1978/79, TSh 58 million of loans were transferred from the open loan portfolio to an asset account. These had been made to Cooperative Societies and Unions which were dissolved. The loans are no longer collectable, but may be reimbursed in whole or in part by the Government.

h/ Figures for first two years are approximations.

= = = = = = = = = = = =

sharply eroded, although it is relatively sound at present compared to existing debt.

In sum, both the IDA loan and AID capital grant are badly needed. Foreign exchange is especially required as short and medium needs for local currency will be met in large part in the future through short-term and medium-term credit from the Bank of Tanzania.

Despite the above situation, the Bank is making a vigorous effort to continue its outreach to villages, especially in the area of basic food production. Although seasonal agricultural loans decreased by TSh 44.9 million in 1978/79, for example, over 1977/78 (primarily in tobacco), and livestock loans decreased by TSh 43.6 million, other areas of crop lending increased by 22.5 million. NAFCREP loans increased from approximately TSh 4.1 million in 1977/78 to TSh 31.5 million in 1978/79 including, TSh 5.9 million in maize mill loans. In addition, loans to villages increased from

TSh 103 million (41.6% of the portfolio in 1977/78) to 110.8 million (59.6% of the portfolio in 1978/79). Finally, 1978/79 was the first year since the dissolution of the cooperatives that loans were made in all regions of the country. Such expansion, however, relative to both villages as well as the country at large, will not continue without major new financing commencing in the coming year. The Bank will have to concentrate on what it is now doing and face a steadily declining portfolio -- especially in light of its continuing delinquency problem which will not be solved quickly.

Without external financing the Bank will be unable to move into some of the newer areas of agricultural and village investment contemplated by this Project. (It is believed that the area that would be hardest hit would be medium and longer term lending for financial, social and political reasons.) The Bank would have to concentrate on survival; innovation would suffer; and lending would undoubtedly become more conservative. Finally, one need only look at the history of the Bank's prdecessors, each of which eventually went into liquidation thanks to increasing arrears and the lack of access of sufficient lending capital, among other critical elements.

Obviously the Bank would remain in business without the AID grant, especially with the IDA credit and the sources of credit from the BOT. The point is it would not be able to accomplish any of the critical objectives related to the TanGov or AID strategies. Substantial external financing is needed or it becomes almost senseless to put more resources into developing the institution as an institution. The capital grant is necessary and indispensible to Project objectives.

3. Impact of the Capital Grant and Determination of Size

a. The Planning Model and Assumptions

For purposes of financial projections and analysis, the design team was very fortunate in having access to a financial planning model that had been developed both for Project design purposes and to assist the TRDB with its own planning requirements.1/ A complete description of the model and assumptions used in the analysis are described in Annex II-G.

In attempting to come to grips with the question of which runs to make and analyze amongst the unlimited combinations possible, the task was compounded by the realization from economic and other analyses, that demand for village investments, inputs and credit at the village level could be considered infinite relative to supply in the foreseeable future. The same can be said of the TRDB's potential capacity to deliver given projected institutional inputs, planned growth of personnel and targets for increased village coverage (4,000 villages, about half of all in Tanzania, with maize

1/ The model was developed by the present ACDI, AID-financed advisor to the TRDB for financial management and systems.

mills by 1987, for example). The design team finally decided on six basic combinations it wanted to look at. These were as follows: (For details of these assumptions see Annex II-G.)

- No USAID capital Grant, low collections 1/, low level of lending 2/, low level of other grants 3/.
- No USAID Grant, improved collections, medium lending level, high level of other grants.
- USAID Grant of $5 million, improved collections, medium lending, high level of other grants 4/ .
- USAID Grant of $12 million, improved collections, medium lending level, high level of other grants. (The $12 million capital input was suggested by the PID) 4/.
- USAID Grant of $20 million, improved collections, medium lending level, high other grants 4/.
- USAID Grant of $30 million, improved collections, high lending level, high level of other grants 4/.

1/ The low level collection rate was 72%. Improved collections allowed for gradual improvement over the period to 82%, an improvement of about 2% per year. Historically in the case of short-term loans, about 40% is paid in the year due, 25% in the following year, then 5% and 2% to 3% thereafter. This should improve due to the many initiatives described in the Project descriptions.

2/ Low level of lending is approximately TSh 150 million /year which is less than what the Bank is now putting out. Medium represents an increase of TSh of 33 million a year from a 1978/79 actual level of about TSh 170 million. Historically the Bank's lending has increased by an average of TSh 33 million/year. The high level assumes the medium level plus 10% compounded each year, considered the maximum that the Bank could realistically handle.

3/ Low level of "other grants" is about TSh 14 million/year. The high level is about TSh 35 million which is the historic average plus increases of about 15% per year.

4/ In addition to the USAID Grant amounts, an additional $1-2 million of commodities is for Bank inventories assumed with each USAID Grant, e.g., vehicles, motorcycles, etc.

b. Selection of the Preferred Option

The design team sought to determine that alternative which would permit the Bank to continue expanding at its historic average or at an attainable level during the period of the Project (see footnote 2/ p. 79) and become self-sustaining. The main indicators of financial strength of the Bank are liquidity, the ability of the Bank to make principal and interest payments on the debt from operations and the size of the loan portfolio at the end of the Project which would enable the Bank to carry forward its operations into the future.

The AID grant alternatives were programmed at an increasing level with one-third disbursed during the first three years and two-thirds during the second three years to correspond with the increased activity expected during that period. Other assumptions were made as realisitically as possible based on the past experience of the Bank and existing conditions. (For a detailed explanation of the assumptions see Annex II-G.)

Using an end of Project status evaluation and the three criteria outlined above, the team found that the only two options which provided growth and stability are the USAID grants of $20 and $30 million over the six-year Project period. In the cases of no grants and the $5 million grant, the Bank would still be in a decline, with substantial negative cash flows and an impaired ability to meet its debt service. Even with $20 million the Bank's position would decline and would be forced to sharply curtain lending during the last years of the decade. At the $12 million level, with the historic growth in lending, some negative cash flow would be experienced and the Bank's liquidity level would be less than one/fifth of its liquidity at the beginning of the Project. With this option debt service would be a strain which the Bank would have to meet by reducing its operating costs. This would further reduce future stability. While the Bank could survive under this option, it would be weaker at the end of the Project than at the beginning of the Project and the ability of the Bank to serve the future financial needs of rural development in Tanzania would be significantly impaired.

At $20 million for the AID grant and medium lending levels, the Bank would be viable because of the size of the loan portfolio, but liquidity would be less than one-half than at the beginning of the Project and debt service would require over 23% of the annual payments. This end of Project position is considered unsatisfactory in that it would not only allow limited service of client needs but would leave the Bank on the brink of decline because of poor liquidity and a larger than prudent percentage of resources required for debt service. 20% debt service/repayments is considered the maximum viable position. At the high lending level, which

TABLE 10: COMPARISON OF BEGINNING OF PROJECT WITH END OF PROJECT STATUS UNDER DIFFERENT OPTIONS

	Beginning of Project 7/1/80	End of Project Status - July 1, 1986: $30 Million Grant (High Lending)	$20 Million Grant (Medium Lending)	$12 Million Grant (Medium Lending)	$5 Million Grant (Medium Lending)	No Grant (Low Lending)
Liquidity 1/ (T.Shs.000)	93,052	108,132	40,550	18,430	14,680	3,600
Loan Portfolio (Net of Bad Debts) (T.Shs.000)	485,114	1,204,005	1,115,764	1,115,764	1,115,764	984,780
Net Loans/ Financing	1.55	1.88	1.81	1.81	1.81	1.53
Debt Service/ Repay 2/	.14	.20	.23	.23	.23	.51

1/ Short term negative cash flows can be covered by short-term borrowing from the Bank of Tanzania.

2/ The debt service of interest and principal repayments goes from TSh 14.8 million in 1979/80 to TSh 63.3 million in 1984/86 regardless of lending level or grants.

= = = = = = = = = = = =

corresponds to the modest expansion plans associated with this Project, substantial negative cash flows would be experienced, liquidity would be impaired, lending outreach could not be sustained and the Bank would be in a declining position.

With a $30 million AID grant and the high lending levels associated with this Project outreach and foreign currency requirements, the Bank would be stronger financially in every major respect. It is only at this level of grants that the negative impact of the 400% increase in debt service costs between 1980 and 1986 is manageable. (See footnote 2/, Table 10.) This option not only insures substantial service to meet the almost infinite development needs, it insures that at the end of the Project the Bank is vigorous and self-sustaining.

Net income is not a valid measure of the Bank's op ration because it is based on accrued interest income and accrued bad debt expense. A better measure of the Bank's operation during the proposed Project is net cash flow. Cash flow is the ingle most important factor which will determine if the Bank has sufficient liquidity to meet its lending objectives. The net cash flow for the six years of the Project under the high lending, $30 million USAID grant assumption is positive at TSh 15.1 million. Net cash flow on a comparable basis under the medium lending, $20 million USAID grant assumption is negative at TSh 47.5 million. The difference between the two options is TSh 60 million of liquidity.

After the end of the Project in 1986 the debt service costs of all existing and identified financing will level off and then decline beginning in 1990. The loan portfolio net of bad debts of almost TSh 1.20 billion would provide the Bank with the resources to be self-sustaining with normal future financing into the foreseeable future.

The choice of the $30 million AID grant is predicated on two sets of factors, financial strength of the Bank and service to the poor of Tanzania. With a $30 million grant the Bank can expand at an average annual rate of TSh 38 million during the Project period, which is the optimum level of expansion in terms of development outreach and instituitonal strengths (including financial, human resources and other). At this level the Bank should have the capacity to effectively deliver credit and complementary services to rural Tanzania. A higher level of lending might not be supportable by management, staff and other resources, and a lower level would under utilize the capacity and resources on hand (including those provided herein).

The high lending level associated with the $30 million AID grant is reasonably attainable but will not be easy. Even with the substantial AID support the Bank will have to mobilize about TSh 35 million annually of short-term borrowing from the Bank of Tanzania and up to TSh 200 million of long-term financing from the Rural Finance Fund, also from the Bank of Tanzania. Also a significant portion of other donor funds would be used for the NAFCREP program. (See High Lending Schedules, Annex II-G.)

The recommended grant option provides part of the means by which the TRDB can obtain financial strength while meeting the needs of rural development. The AID grant provides the absolutely necessary foreign exchange component of the framework, which coupled with internal short- and long-term financing as well as other external credits and grants, will enable the Bank to be self-sustaining by 1986.

TABLE 11: RATIOS AND MEASURE OF FINANCIAL CONDITION, 1979/80 - 1985/86 (USAID $30 MILLION OPTION)

RATIOS AND MEASURE OF FINANCIAL CONDITION 1/	1979/80	1980/81	1981/82	1982/83	1983/84	1984/85	1985/86
Liquidity (A)	93,052	69,987	84,472	89,691	82,824	91,584	108,132
Grants	259,125	329,925	406,723	488,607	597,219	710,919	830,247
Financing (B)	313,175	361,913	418,580	448,350	481,144	544,144	641,144
Debt Service (C)	14,838	28,608	30,816	35,750	44,340	51,750	63,250
Repayments (D)	106,321	147,497	202,071	251,022	253,780	278,000	304,000
Operating Expenses (E)	18,500	21,275	24,466	28,136	32,356	37,200	42,780
Loans Disbursed	193,349	232,432	268,956	305,755	343,381	364,700	406,500
Ratios:							
Liquid Disbursements Yr. + 1 (F)	.41	.27	.28	.28	.27	.23	---
Loan Portfolio/Fin. (G)	1.55	1.64	1.65	1.75	1.91	1.92	1.88
Debt Service Repay (H)	.14	.20	.16	.15	.18	.19	.20
Operating Exp./Repay (I)	.18	.15	.13	.12	.13	.14	.15

1/ The following rates and measures of financial conditions are provided for all of the alternatives which were evaluated. See Annex I-G for other options.

A. Liquidity: The amount of cash and inventory on hand at year end which is available to fund the loans of the following year.

B. Financing: The amount of credit which has been extended to the Bank.

C. Debt Service: The interest on credit which the Bank has to pay during the year plus any long-term principal repayments due.

D. Repayments: Cash collections of the Bank from borrowers.

E. Operating Expenses: Personnel, administration and depreciation costs.

F. Liquidity/Next Season Loan Disbursements: Measures ability of the Bank to lend from existing resources. The higher the ratio the less short-term (less than 1 year) borrowing that is required.

G. Loan Portfolio/Financing: Measures the TRDP coverage of its borrowing with ongoing lending. This is a measure of the Bank's ability to repay its loans. The loan portfolio is net of bad debt allowance.

H. Debt Service Repayments: Measures ability of Bank to pay off long-term debt and interest on both long- and short-term debt from loan repayments.

I. Operating Expenses/Repayments: Measures operating costs as a percent of loan repayments.

c. Summary of $30 Million Option

The $30 million USAID grant provides the additional resources which will enable TRDB to be a self-sustaining lending institution while it provides vital inputs for staged rural development. The grant not only provides liquidity and foreign exchange, it provides the depth of guaranteed resources over 6 years which will permit Bank management to implement and carry out rural outreach.

In order to achieve the financial goal of institutional self-sufficiency the loan repayment rate must be improved by 2% a year. This is a modest and attainable objective. Bank management has already taken action to achieve the objective.

The analysis supporting the conclusion has been thorough and in-depth. A wide range of assumptions were tested, including the impact of interest rates. The need for additional credit, and the desirability of reducing operating costs. The conclusions drawn from the financial analysis are that at higher level of grant funding would exceed the Bank's capacity to absorb and manage the resources and that a lower level of funding would result in liquidity problems which would curtail optimal growth of rural development programs.

H. Summary of Engineering Analysis 1/

1. Objectives

The objective of this analysis was to (a) determine reasonableness of cost estimates for construction activities; (b) adequacy of preliminary plans and construction standards; (c) review of proposed FAR agreement; (d) review arrangements for implementation; and (e) to provide an engineer's recommendations that 611 (a) requirements have been satisfied and that funds for construction activities are ready for obligation.

2. Methodology

Housing plans were provided by the Ministry of Works and costs estimates were submitted by a local engineering firm. REDSO reviewed these plans and the draft FAR agreement. These documents are contained in Annex II-H.

With respect to the Village Service Center, a sample godown plan was provided to the same engineering firm mentioned above and cost estimates provided. They also provided estimates of the incremental costs for adding other facilities such as the stores, offices, meeting hall, etc. All plans were reviewed by REDSO.

1/ See Annex II-H for plans, FAR agreement and detailed analysis.

3. Recommendations

REDSO/EA has reviewed and analyzed all applicable preliminary plans, cost estimates and project documentation. It is their judgement that the construction elements of this project are reasonably designed and priced, that the cost estimates are reasonably firm and adequate planning has taken place to satisfy FAA 611(a) requirements to allow obligation of project funds for all construction activities under this project.

I. Financial Plans

1. Summary Cost Estimate

Table 12 presents a summary of cost estimates for all known donor assistance for the next six-year period. It includes only estimates for FAO and DANIDA as no firm cost data was available. The major other donor is IDA. The Staff Appraisal report was used to derive estimates. It should be noted the $7.0 million shown as a NAFCREP contribution is not earmarked for any purpose, but rather is a general line of credit. In all probability TRDB will use the major part for the NAFCREP portfolio. The total project is estimated to cost $155.0 million.

2. Expenditure Projects

Table 13 presents a summary of planned donor and TanGov expenditures. Other donor expenditure projections are not known and therefore are estimated in equal tranches over the three year period of 1980/81 - 1982/83 for IDA, FAO, and DANIDA support. Table 14 contains estimates of AID expenditures. They are projected based on the implementation schedule contained in Annex I-J. TanGov contributions are estimated in Table 15 based on the same time frame, as many of these costs are related to AID expenditure. TanGov contributions include actual planned contributions for institutional development and NAFCREP loan funds. In the case of the former, costs include those additional activities TRDB is assuming in relation to AID and IDA-financed activities. With respect to NAFCREP all funds TRDB must mobilize from donors, BOT or from its own assets, are included.

TABLE 12: SUMMARY OF TOTAL PROJECT COST ESTIMATES BY CATEGORY OF INPUT
(U.S. $000)

Source	AID		Host Country	Other Donor		Total		
Position	FX	LC	LC	FX	LC	FX	LC	Total
Technical Assistance	3,060	820	5,200	2,172	1,157	5,232	7,177	12,409
Long-term	1,740	260	50	630	616	2,370	926	3,296
Short-term	1,140	530		667	166	1,807	696	2,503
Other Incldg. Evaluation	180	30				180	30	210
FAO/DANIDA				875	375 a/	875	375	1,250
TRDB			5,150				5,150	5,150
Training	2,560		1,175	431	154	2,991	1,329	4,320
Long-term	1,400		277			1,400	277	1,677
Short-term	350		51			350	51	401
In-country	770		843	353	120	1,123	963	2,086
Study Tours	40		4			40	4	44
Village				78	34	78	34	122
Commodities	1,770	1,050	2,460	1,727	1,174	3,497	4,684	8,181
Off-shore (Vehicles & Appliances)	890		90	454	152	1,344	242	1,586
Local Services & Construction		950	2,370	699	822	699	4,142	4,841
Training Materials Office Equip., Supplies, Furniture	880	100		16	9	896	109	1,005
Computer				558	191	558	191	749
Sub-total	7,390	1,870	8,835	4,330	2,485	11,720	13,190	24,910
Contingency	370	90		346	211	716	301	1,017
Sub-total	7,760	1,960	8,835	4,676	2,696	12,436	13,491	25,927
Inflation	3,060	1,390 b/	1,325	651	568	3,711	3,283	6,994
All Institutional Sub-total	10,820	3,350	10,160	5,327	3,264	16,147	16,774	32,921
NAFCREP Contribution	30,000		85,975 c/	2,429 d/	3,644	52,829 c/	69,219 d/	122,048
GRAND TOTAL	40,820	3,350	96,135	7,756	6,908	68,976 c/	85,993 d/	154,969
Rounded	44,200		96,100	14,700		155,000		

a/ Major portion IDA estimated at $13,400,000. DANIDA & FAO inputs estimated at $1,250,000 and are shown in Technical Assistance category.
b/ 10% yearly on FX; 15% yearly on LC
c/ Includes $20.4 million foreign exchange TRDB must mobilize.
d/ Includes IDA General Line of Credit may be used for NAFCREP or other programs.

TABLE 13: PROJECTIONS OF EXPENDITURES BY FISCAL YEAR (US $000)

FISCAL YEAR	AID INSTITUTIONAL	AID GRANT	AID TOTAL	TANGOV	OTHER a/	TOTAL
1980	100	-	-	-		100
1981	1,900	3,000	4,900	7,800	4,900	17,600
1982	2,000	3,600	5,600	11,900	4,900	22,400
1983	2,100	3,400	5,500	15,800	4,900	26,200
1984	3,000	6,800	9,800	16,500		26,300
1985	2,400	6,600	9,000	19,400		28,400
1986	2,400	6,600	9,000	22,500		31,500
1987	300	-	300	2,200 b/		2,500
TOTAL	$(14,200)	$(30,000)	$ 44,200	$96,100	$14,700	$155,000

a/ Estimated and includes IDA general line of credit although it is not necessarily for NAFCREP lending only.

b/ Does not include continuing contribution to NAFCREP as amount not known.

TABLE 14: AID SUMMARY EXPENDITURE BUDGET
($000)

	FY 80		FY 81		FY 82		FY 83		FY 84		FY 85		FY 86		FY 87		TOTAL		
	FX	LC	FX	LC	FX	LC	FX	LC	FX	LC	FX	LC	FX	LC	FX	LC	FX	LC	TOTAL
I. INSTITUTIONAL SUPPORT																			
A. Technical Assistance																			
Long-term		-	208.3	31.3	400.0	60.0	325.0	48.7	300.0	45.0	300.0	45.0	200.1	30.0	-	-	1,733.4	260.0	1,993.4
Short-term	37.5	-	75.0	33.0	275.0	99.0	250.0	99.0	212.5	99.0	162.5	99.0	125.0	99.0	-	-	1,137.5	528.0	1,665.5
Other		-		5.0		5.0	75.0	5.0		5.0		5.0	100.0	5.0	-	-	175.0	30.0	205.0
Sub-total	37.5	-	283.3	69.3	675.0	164.0	650.0	152.7	512.5	149.0	462.5	149.0	425.1	134.0	-	-	3,045.9	818.0	3,663.9
B. Training																			
Long-term			53.2		186.2		275.5		260.3		267.9		256.5		102.6		1,402.2	-	1,402.2
Short-term					58.5		58.5		58.5		58.5		58.5		58.5		351.0		351.0
In-country Seminars			165.0		137.5		165.0		137.5		110.0		55.0				770.0		770.0
Study Tours					8.0		8.0		8.0		8.0		8.0				40.0		40.0
Sub-total			218.2		390.2		507.0		464.3		444.4		378.0		161.1		2,563.2		2,563.2
C. Commodities																			
Off-shore			380.0						510.0								890.0		890.0
Local		11.0		97.5		234.0		72.0		180.0		180.0		180.0				954.5	954.5
Contractor/Other	5.0	5.0	586.0	14.0	39.0	11.0	57.0	22.0	78.0	16.0	57.0	16.0	57.0	16.0			879.0	100.0	979.0
Sub-total	5.0	16.0	966.0	111.5	39.0	245.0	57.0	94.0	588.0	196.0	57.0	196.0	57.0	196.0			1,769.0	1,054.5	2,823.5
Totals	42.5	16.0	1467.5	180.8	1104.2	409.0	1214.0	246.7	1564.8	345.0	963.9	345.0	860.1	330.0	161.1		7,378.1	1,872.5	9,250.6
Contingency 5%	2.1	.8	73.4	9.0	55.2	20.4	60.7	12.3	78.2	17.3	48.2	17.3	43.0	16.5	8.1		368.9	93.6	462.5
	44.6	16.8	1540.9	189.8	1159.4	429.4	1274.7	259.0	1643.0	362.3	1012.1	362.3	903.1	346.5	169.2		7,747.0	1,966.1	9,713.1
Inflation a/			154.1	28.5	243.5	138.5	421.6	134.9	762.5	271.4	617.9	366.4	696.8	455.0	160.5		3,056.9	1,394.7	4,451.6
	44.6	16.8	1695.0	218.3	1402.9	567.9	1696.3	393.9	2405.5	633.7	1630.0	728.7	1599.9	801.5	329.7		10,803.9	3,360.8	14,164.7
Total Institutional	61.4		1,913.3		1,970.8		2,090.2		3,039.2		2,358.7		2,401.4		329.7		14,165		
Rounded	100.0		1,900.0		2,000.0		2,100.0		3,000.0		2,400.0		2,400.0		300.0		14,200		
II. NAFCREP SUPPORT b/			3,000.0		3,600.0		3,400.0		6,800.0		6,600.0		6,600.0				30,000		
GRAND TOTAL	100.0		4,900.0		5,600.0		5,500.0		9,800.0		9,000.0		9,000.0		300.0		44,200		

a/ 15% compounded annually for local costs; 10% compounded annually for foreign exchange costs.
b/ All foreign exchange.

TABLE 15: TANGOV CONTRIBUTIONS (EXPENDITURES)

	FY 80	FY 81	FY 82	FY 83	FY 84	FY 85	FY 86	FY 87	TOTAL
A. Technical Assistance									
Trust Fund 17 p.y. @ $2,634[a]			10.5(4)	10.5(4)	7.9(3)	7.9(3)	7.9(3)		44.7(17)
Furniture: 4 sets @ $2000			8.0	-	-	-	-		8.0
Sub-Total			18.5	10.5	7.9	7.9	7.9		52.7
B. Added Staff (Headquarters & Field)[a]									
5 Zonal Managers @ $5,400/yr.		13.5(2.5)	27.0(5)	27.0	27.0	27.0	27.0	27.0	175.5
Professional @ $4,400		88.0(20)	176.0(40)	264.0(59)	383.0(86)	502.0(113)	621.0(139)	621.0(139)	2655.0
Middle-level @ $2,200		55.0(25)	110.0(50)	165.0(74)	282.0(127)	399.0(180)	516.0(232,	516.0(232)	2043.0
Clerical & Support @ $1,000		12.0(12)	24.0(24)	36.0(36)	43.0(43)	50.0(50)	57.0(57)	57.0(57)	279.0
Sub-Total		168.5	337.0	492.0	735.0	978.0	1221.0	1221.0	5152.5
C. Participant Training[b]									
Long-term		10.5	36.7	54.4	51.4	52.9	50.6	20.3	276.8
Short-term		-	8.4	8.4	8.4	8.4	8.4	8.4	50.4
Study tours		-	.8	.8	.8	.8	.8	-	4.0
In-country		95.4	127.2	159.0	127.2	127.2	111.3	95.4	842.7
Sub-Total		105.9	173.1	222.6	187.8	189.3	171.1	124.1	1173.9
D. Vehicles									
Purchase Saloon $1,100 ea		2.2(2)			1.1(1)				3.3
Landrover $1,650 ea		16.5(10)			33.0(20)				49.5
Motorcycles $220 ea		11.0(50)			22.0(100)				33.0
OE Saloon @ $4,000 p.a.		4.0(6mo)	8.0	8.0	12.0	12.0	12.0	18.0	74.0
Landrover @ $7,700 p.a.		38.5 "	77.0	77.0	231.0	231.0	231.0	330.0	1215.5
Motorcycle @$950 p.a.		23.8 "	47.5	47.5	142.5	142.5	142.5	202.5	748.8
Mobile Trng Vans 6 @ $8,000		24.0	48.0	48.0	48.0	48.0	48.0	68.6	332.6
Sub-Total		120.0	180.5	180.5	489.6	433.5	433.5	619.1	2456.7
Total		394.4	709.1	905.6	1420.3	1608.7	1833.5	1964.2	8835.8
Inflation (15% simple)		59.2	106.4	135.8	213.0	241.3	275.0	294.6	1325.3
Total Institutional		453.6	815.5	1041.4	1633.3	1850.0	2108.5	2258.8	10161.1
E. NAFCRE		7315.0	11090.0	14790.0	14830.0	17560.0	20390.0		85975.0
GRAND TOTAL		7768.6	11905.5	15831.4	16463.3	19410.0	22498.5	2258.8	9613[illegible].1
ROUNDED		$7,800.0	$11,900.0	$15,800.0	$16,500.0	$19,400.0	$22,500.0	$2,200.0	$96,100.0

a/ All units in person years
b/ See Annex II-1 Expenditure Schedules for units

TABLE 16: PROPOSED AID OBLIGATION SCHEDULE
(US$ 000'S)

	FY 80	FY 81	FY 82	FY 83	FY 84	FY 85	FY 86	TOTAL
I. Technical Assistance								
Long-term	920.0 a/		690.0 a/	390.0 b/				2,000.0
Short-term	370.0 c/		560.0 d/	770.0 e/				1,700.0
Other	10.0 f/		80.0 g/	110.0 h/				200.0
Sub-total	1,300.0		1,330.0	1,270.0				3,900.0
II. Training								
Long-term	310.0 i/		310.0 j/	780.0 k/				1,400.0
Short-term	-		120.0	230.0 m/				350.0
In-country Seminars	165.0 n/		305.0 o/	330.0 p/				800.0
Study Tours	-		20.0 q/	30.0 r/				50.0
Sub-total	475.0		755.0	1,370.0				2,600.0
III. Commodities								
Off-shore	380.0 s/		-	510.0 t/				890.0
Local	110.0 u/		230.0 v/	600.0 w/				940.0
Contractor	610.0 x/		50.0 y/	310.0 z/				970.0
Sub-total	1,100.0		280.0	1,420.0				2,800.0
Total	2,875.0		2,365.0	4,060.0				9,300.0
Contingency	125.0		35.0	340.0				500.0
Inflation	-		-	4,400.0				4,400.0
Total Institutional	3,000.0		2,400.0	8,800.0				14,200.0
Total NAFCREP	-	3,000.0	3,600.0	3,400.0	6,800.0	6,600.0	6,600.0	30,000.0
GRAND TOTAL	$3,000.0	$3,000.0	$6,000.0	$12,200.0	$6,800.0	$6,600.0	$6,600.0	$44,200.0

a/ 2-year contracts
b/ Remainder long-term TA
c/ FY 80,81 & one ½ 82 requirements
d/ Remainder FY 82 & 83 requirements
e/ Remainder short-term TA
f/ FY 80-82
g/ FY 83
h/ Remainder Other
i/ 1 yr.of training for all FY 80 & 81 starts
j/ Life of training for FY 82 starts
k/ FY 82 & 83 short-term
m/ Remainder short-term training
n/ FY 81 in-country seminars
o/ In-country FY 82-83
p/ Remainder in-country training
q/ Study tours FY 82-83
r/ Remainder study tours
s/ Off-shore for FY 80-81
t/ Remainder off-shore
u/ Local procurement FY 80-81
v/ Local procurement FY 80 & 81
w/ Remainder local procurement
x/ Contractor procurement FY 80 & 81
y/ Contractor procurement FY 82
z/ Remainder contractor procurement

3. Obligation Schedule

The AID obligation schedule in Table 16 provides the total funds required for commodity procurement and institutional supports. These amounts are summarized below:

	FY Obligations ($000,000's)							
	80	81	82	83	84	85	86	Total
Institutional	3.0	--	2.4	~~8.8~~ 11.6	--	--	--	14.2
NAFCREP Commodities	--	3.0	3.6	3.4	6.8	6.6	6.6	30.0
TOTAL	3.0	3.0	6.0	12.2	6.8	6.6	6.6	44.2

With respect to the institutional support obligations are projected on the following assumptions:

- Technical assistance for two years of requirements for long-term TA and short-term TA in FY 1980 and 1982. The remainder is obligated in FY 83;
- Long-term training funds are obligated for FY 80 for Life of Project training costs for participant scheduled to start training in FY 80 and 81; in FY 82 for starts in FY 82; and the remainder in FY 83;
- Short-term and in-country training obligated for two years in FY 80 for one year in FY 82; and the remainder is obligated in FY 83;
- Commodity funds (other than for lending activities) for FY 80 and 81 are obligated in FY 80; for FY 82 in FY 82; and the remainder in FY 83.

Two points should be noted when scheduling AID/W allotments.

(1) FY 80, 81, and 82 projected obligations are required in the amounts shown (i.e., $3.0 and $6.0 respectively). More funds could be absorbed; however, a reduction in these amounts will adversely affect the implementation schedule.

(2) The FY 83 obligation is in excess of the amounts required for the institutional activities. The $8.8 million required for institutional support could be spread out over FY 83, 84 and 85 if OYB adjustments are needed in Fy 83 and thereafter. The remainder, $3.4 million, is required in FY 83 for the lending program.

IV. Project Implementation

A. Tanzania Government Administrative and Implementation Arrangements

1. Financial Infrastructure for Rural Development

While the Project will be administered directly by the Tanzania Rural Development Bank, it is important to understand the greater government framework in which it operates. In the case of the TRDB and other Tanzanian Banks, the principal source of TanGov resources is the Bank of Tanzania (BOT) which acts as a traditional central bank to the Republic. The BOT considers itself ultimately responsible for the performance of the entire banking system including the National Bank of Commerce (NBC), the Tanzania Housing Bank (THB) and the Tanzania Investment Bank (TIB). The BOT and TRDB respond to the higher level authority of the Minister of Finance.

Outside of the TRDB, the only other bank of real concern to the Project is the NBC which provides traditional banking services throughout an extensive nation-wide system (93 branches and 317 agencies as of June 1977). The NBC is also banker to the crop authorities and other state agencies, and 95% of its loans are to the public sector. In its role as bank of deposit for villages, collaboration has been recommended with the TRDB relative to the need of the latter to tap locally generated capital in order to maintain growth and provide mutually reinforcing services to borrowing villages. (Options for NBC-TRDB collaboration are discussed in the Institutional Analysis, Annex II-F.)

2. Policy Direction, Oversight and Supervision

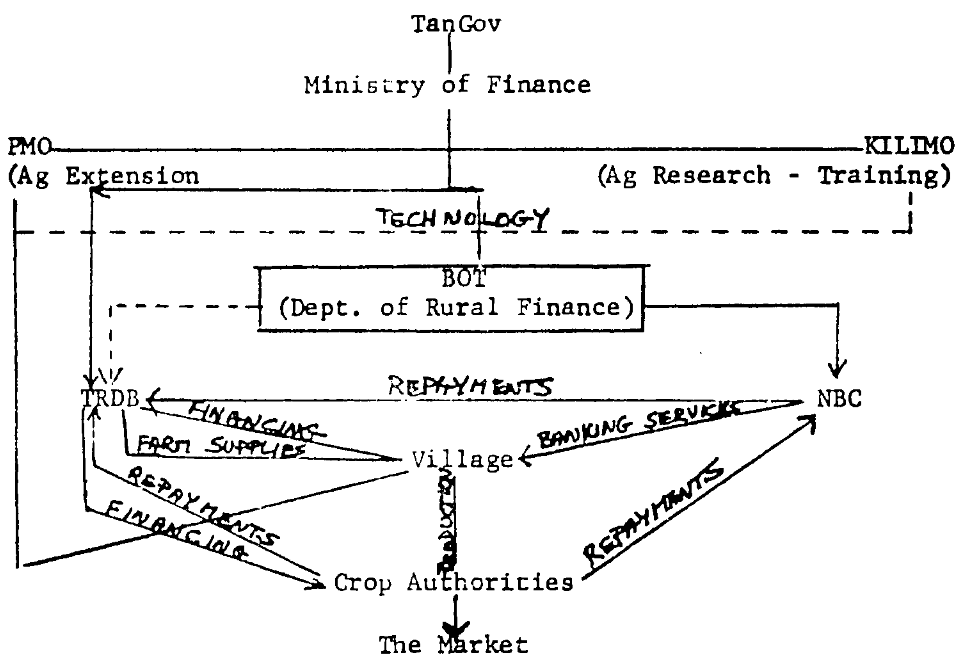
The Minister of Finance is now taking an active role in collaboration in the rural financial sector (basically the BOT, TRDB and NBC) in order to reduce duplication of functions and promote sharing of resources and facilities. A series of high level meetings are now being held. In addition, financial programs and infrastructure are of such critical importance to overall rural and village development policy objectives of the Government, that the USAID is convinced that every effort will be made to maximize efficiency within the sector -- especially in the area of production-related services. This need is reinforced by the current financial crises faced by the Government.

The Rural Finance Department is to act as the principal coordinator in a tripartite arrangement between the BOT, the TRDB and NBC for the further integration and growth of financial services to villages.[1/]

Policy direction and supervision will also be facilitated by the output from the research and development component of the Project. The data, studies and plans to be forthcoming from the very substantial effort contemplated, will allow and promote sound decision making at the highest level as well as within the TRDB itself.

The following diagram illustrates the overall organizational scheme in which the Project will operate.

Figure 3: TANZANIA BANKING STRUCTURE



1/ In accordance with recent changes to the Bank of Tanzania Act, a new policy mandate was established for the BOT to become actively involved in agricultural and rural development. In addition, the Rural Finance Department was established and a special fund created for medium- and long-term agricultural financing through NBC and the TRDB (approximately TSh 35 million per year). A refinancing facility for short-term agricultural credit was also intituted, terms and conditions of which (primary interest rates) are still being negotiated.

3. Project Implementation

The Chairman and General Manager for the TRDB will have overall implementation responsibility for the Project. Day-to-day Project management will be handled by the head of the recently created Directorate of Regional Supervision and Coordination which is responsible for all field operations. The senior AID-financed advisor for decentralization and training will work in this Directorate. The two remaining program advisors will be located in the Development Directorate (advisor for rural planning) and the Finance Directorate (financial management advisor). The fourth advisor for procurement will be located in the Operations Division and also report to the Chairman on any audit or control questions. (See description of this advisor's functions below.) (Job descriptions for the advisors are contained in Annex II-F.)

With respect to coordination and supervision of the work of the multitude of advisors and consultants represented by the AID Project together with those proposed by IDA and FAO, it is hoped that it will be possible to work out a unified management arrangement to assure consistent and mutually reinforcing output and cohesion within the advisor corps in general. The responsibility for this must be shouldered by the Bank itself, although AID will attempt to facilitate the process through informal negotiations with the IDA and FAO. In addition, the process can be made easier by careful drafting of the Requests for Proposals, by facing the issue candidly in contract negotiations and by clearly establishing the role of TRDB (rather than AID) as Project managers.

Given the complexity of the Project as a whole and the magnitude of contracting procurement, administrative and financial arrangements which will need to be carried out and monitored, AID proposes to provide a fourth "non program" advisor, specifically for the purpose of assisting the Bank with the demanding administrative mechanical and logistic tasks associated with an integrated, multi-faceted Project of this nature. The advisor would not be included in the institutional program oriented, contract proposed by AID as he/she should be independently responsible to Bank management and is needed prior to contract and negotiation exercises. The advisor should be brought on board in the early months of the Project to assist the Bank in the complex job of meeting AID requirements relative to the process of selecting, negotiating and contracting for technical assistance as well as a host of other tasks related to international commodity procurement, complying with conditions precedent, covenants and other provisions of both the AID and IDA assistance packages.

4. TRDB Responsibilities

The Bank will procure the technical services, including preparation and reproduction of the Request for Proposals (RFP), distribution and mailing of the RFP, review of the proposals; selection and negotiation with the selected contractor; and preparation and execution of the contract.

With USAID assistance in identification of a procurement advisor, the Bank will negotiate and execute an individual contract with this advisor. This person should be recruited soon after Project authorization. It will be the responsibility of this adivor to assist the Bank in commodity procurement activities. This individual will also assist in assuring timely obligation and transfer of funds to the contractor. To assist this technician, one local hire administrative assistant will be funded by AID. This individual will keep project records, provide other services and in time assume as many of the responsibilities of the advisor as possible.

TRDB will arrange for the preparation of final A&E plans; contracting with a local building company for construction activities for the three staff houses and guest house; and contracting with an A&E firm to monitor construction. REDSO engineering staff will provide site inspection and final approval of the housing plans and specifications. The Bank and TRDB have agreed to the Fixed Amount Reimbursement Method (A draft FAR agreement and engineering plans are contained in Annex II-H). A 40% advance of the total construction costs will be made in FY 80.

TRDB, with assistance from the procurement advisor, will have responsibility for commodity procurement. This will include making the necessary arrangements for obtaining bids and review of them, ordering establishing letters of credit through AID, receiving and clearing from port, storage and distribution. The procurement activities are described in Annex I-G.

The Bank will procure the vehicles and motorcycles. Maintenance of motorcycles and Landrovers to be purchased by the Project should not be a problem because of the number of well qualified service facilities in the countryside. Spare parts will be ordered with the vehicles and motorcycles. The TRDB will provide storage and record keeping for spare parts shipments related to both vehicles and other commodities to be imported by the Project. The procurement advisor will assist in preparation of an inventory plan for the vehicles. TRDB will arrange with Cooper Motors, the local distributor, for training in operation and maintenence of the vehicles or use short-term consultancy funds to provide in-depth mechanical training for selected employees.

With respect to other agency support, as explained in the Project description, collaborative arrangements with the NBC, various parastatals, the Prime Minister's Office and the Ministry of Agriculture will be sought through the mechanism of the joint planning exercises to be carried out by the Project. The executive management seminar recently held in Arusha under the present project, laid the groundwork for this. (See explanation in Management Training and Inter-Institutional Coordination components of Project Description and Institutional Analysis, Annex II-F.)

B. The USAID Mission Administrative and Implementation Arrangements

1. Staff Implications of Project

As can be readily appreciated from the foregoing material, implementation will be a complex, demanding and time consuming job. Especially during the first three years the Project will merit the full time efforts of an experienced AID Project officer, especially a person involved in design. Notwithstanding current staff limitation, a full time officer will be necessary from June 30 onward. The work load will be especially intense for the first six to ten months of implementation during which time the Project will be operating without the general contractor and all arrangements will have to be undertaken and supervised by the USAID directly.

2. Monitoring

Project monitoring will be accomplished through a variety of channels, including direct observation and involvement by the Project officer, contractor's annual work plan and financial reports, periodic reporting from both the TRDB and the contractor, and a steady stream of data, analyses, studies and planning documents as an output from the Research and Development component.

To the extent possible and appropriate, the USAID intends to take advantage of some of the higher level seminar and planning activity contemplated in order to facilitate coordination and profitable linkages with other AID-financed projects such as Arusha Planning and Village Development and the proposed Farming Systems Research projects.

3. Evaluation

(See Evaluation Plan, Part V.)

4. Direct AID Activities

In general, USAID Mission policy is to encourage the Tanzanian institution to manage, implement and monitor project activities. Because of timing constraints and the Mission's relative advantage in some implementation actions, the following Project implementation activities will be done by USAID.

The Mission and its Project officer will arrange for placement and direct payment of the first two long-term participants in accounting and computer science; procurement, maintenance and storage of household appliances to be provided for the advisors; provide assistance in identification of the procurement advisor; act as direct disbursing agent for the technical assistance contract and the salary for the procurement advisor; arrange for the evaluation teams, including direct funding; and procurement of the team to do the marketing study planned for the third year and the short-term consultancies in the first fiscal year, including that required for the management and institutional coordination seminars in CY 81.

C. Contractor's Responsibilities and Arrangements

Payments to the contractor and sub-contractors will be processed in the field on a direct reimbursement basis by the USAID. Contractors will also be provided with advances of funds.

Beyond contractor payments, the only direct payments to the TRDB will be for relatively minor local currency costs associated with training and seminar activity. For this, the contractor will open an external account with the NBC to provide a source of local currency for in-country expenses.

With respect to the capital grant, which in its entirety consists of commodity procurement, the mechanism as described in Annex I-G, is through the letter of commitment mechanism.

1. The Host Country Mechanism

On reviewing TRDB contracting procedures, it was found that the Bank did not have prior experience with the type of comprehensive institutional contract which the Project calls for. It was tempting, therefore, to have AID handle contracting directly. It was decided not to do this, however, because of the critical importance of unified management of IDA and AID-financed long- and short-term advisors. Most ideal would be one contract for the AID and IDA packages combined. This is not possible, however, due to AID's U.S. source and origin restrictions and IBRD's requirements for international advertising.

Because TRDB does have experience from the contracting of earlier IDA-financed advisors on an individual basis and is familiar with international competitive bidding requirements associated with commodity procurement, it was decided to implement this Project through a host country contract (HCC). The Mission and REDSO contract and legal staff have reviewed TRDB's past procurement activities, including invitations for bids, selection procedures and contract documents. The recommendations for HCC is supported by REDSO, and TRDB has expressed preference for this contracting mode.

2. Primary Contractor Selection

The primary contractor will be selected on the basis of competitive proposal evaluation in accordance with standard AID procedures for host country contracting contained in Handbook 11. TRDB has received a copy, and contracting procedures were reviewed by the REDSO contract officer with TRDB. A comprehensive request for proposals (RFP) will be issued as soon after Project authorization as possible. REDSO has offered assistance in drafting of the RFP.

Selection will have to be done with great care and through the application of rigorous criteria. This will not be an easy project to implement. The skills, quality and other varied talents required of the contractor will be demanding. Potential contractors should be aware of operating constraints existing in the country which face all entities attempting to carry out long-term activities in rural areas and thus will be welcome to visit Tanzania. Arrangements to visit will be made directly through TRDB. Advisors must be uniquely equipped to work in the multi-faceted environment called for by the Project (IDA and FAO activities as well as the complex inter-institutional setting) and incorporate a special blend of skills, experience and dedication. Institutions eligible for the contract will include universities and profit and non-profit organizations. Such institutions should have experience in cooperative organizations, rural banking and finance and East Africa. Tanzanian experience will be particularly important.

REDSO has agreed to assist in preparation of the Commerce Business Daily (CBD) notice and the request for proposals. TRDB has agreed to provide the draft contract for REDSO and Mission review.

3. Contractor Services and Responsibilities

The contractor will provide procurement services for technical assistance and selected commodities, including the office equipment, supplies and training materials; placement and backstopping of participants; and inventory and record control for all commodities procured under the contract. The contractor will provide all technical assistance services (with the exception of the procurement advisor and the first four months of services for the financial advisor, the short-term consultancies for seminars and planning in the first fiscal year, and the nine-month consultancy in marketing); and all U.S. and third country and in-country training (except for the first two participants in accounting and computer science).

4. Sub-Contracts and Joint Ventures

Given the complexity and variety of tasks and scopes called for by the Project description, it may well be necessary to draw on the talents of more than one organization to accomplish them. This will especially be the case in the area of management training and planning. The methodology and technology sought for these and other elements will require a high order of specialization and experience. It is recommended, therefore, that TRDB consider calling for joint venture proposals which would cover the mix of necessary skills with an adequate degree of professionalism. A sub-contract mechanism could also be employed for this.

5. Individual Contract with TRDB

As explained in the Project description, given the complexity of the Project as a whole and the magnitude of contracting, procurement, administrative and financial arrangements which will need to be carried out, a fourth advisor is planned. Because of the more operational role and the need to be independently responsible to Bank Management, this advisor will be outside of the program-oriented contract proposed for the bulk of the institution building activity under the Project. In addition, it is intended that this advisor be brought on board in the early months following the Project agreement so that he may provide needed "start up" assistance to the Bank in the meeting of AID and IDA conditions and covenants, the institutional contracting process, commodity procurement and a host of administrative details.

The contract for this advisor will also be host country in nature. The Bank will solicit individual proposals in Tanzania and the U.S. for the position immediately after signing the grant agreement and hopefully select the winning individual within ninety days. One of the stipulations in the modified RFP for this position would be that the individual would be prepared to move immediately to Dar es Salaam (if not already there) upon being awarded the contract.

D. Issues Related to Implementation Arrangements

1. The February 8, 1980, audit report entitled, "Review of the AID Program in Tanzania," 1/ Recommendation No. 13, recommends, "USAID/Tanzania, prior to signing the Project Agreement of Phase II,2/ negotiate that a separate account be established within TRDB for new project funds." This recommendation was based on the finding that TRDB and NAFCREP funds were not separately accounted, and that there was considerable float time between Treasury disbursements and actual use of the funds by TRDB, which could lead to the disbursement of funds for non-NAFCREP activities during any liquidity crunches. Rather than negotiate a separate account as recommended by the audit

---

1/ Audit Report No. 3-621-80-07.

2/ The follow-on project to "Agriculture Credit," (621-0117).

team, almost all AID funds will be for direct procurement of services and commodities. The grant component will be in the form of raw materials (e.g., steel), equipment (engines), and hardware (nails, wire, etc.). Thus co-mingling of funds will not be possible under such implementation arrangements.

The use of AID-financed commodities for lending other than NAFCREP lending or food crop related activities is not a real issue. Commodities will be accounted for; delivery and end use in villages monitored. As a practical matter, some of the commodities by their nature can be used only for food items (e.g., the mills). For other items, such as tools, it is neither reasonable or desirable to limit their use for food crop production only.

2. Slow disbursements from Treasury to TRDB have been a problem in the current project. In the same audit report, recommendation 12 suggested the following be included in the Project Agreement: "(1) all USAID disbursement be passed from Treasury to TRDB within 30 days; and (2) the currency exchange rate at which funds are passed to TRDB be that rate of exchange existing when the funds are received by Treasury." These two problems will not be of the same magnitude in the new Project since most funds are not to be channeled through Treasury. Those that are, will be mostly for local currency expenses. Nonetheless, the recommendations are appropriate and will be negotiated in the Project agreement.

3. The 1980 Program Audit report, recommendation 15, suggested USAID obtain agreement of the minimum level of mid-level and professional persons which the Bank will provide in the new Project. Annex II-F contains TRDB staff expansion plans. This plan will be included in the Amplified Project Description of the Project Agreement. The following covenant will be included in the Project Agreement: "The TRDB covenants to undertake staff expansion as described in the Amplified Project Description and to provide all personnel needed for implementation of the NAFCREP lending activities in a timely manner."

4. A 40% advance to TRDB for the FAR agreement for housing construction has been recommended. (See Annex II-H.) This amount is necessary to allow procurement of foreign exchange items. Given the current foreign exchange shortage and the need to initiate housing construction as early as possible, such an advance is appropriate.

5. Identification of a procurement specialist with the necessary qualifications and as soon as possible after Project authorization is important. However, identification of a person with the necessary skills may not be easy. The Mission and TRDB welcome any interested parties to contact them directly. Suggestions for procurement sources are also requested. The Mission has discussed this with AFR/DR, SER/COM/ALI and REDSO. All have offered assistance.

E. Implementation Plan

1. Implementation Period

According to Handbook 3, Appendix 3C, the length of the Project from signing of the Project Agreement through the PACD should normally not exceed six (6) years. The implementation period of this Project is longer; it is estimated to extend from August of 1980 to July 30, 1987.1/ There are several reasons why the implementation period of this Project is justified for this length of time. They include:

(a) A pre-implementation period of approximately five to six months is needed. During this period and A&E plan will be financed with Project funds to prepare a protype design and specifications for the Village Service Centers and detailed plans and specifications for the houses. REDSO engineers will review the plans for VSC's, make site inspections, and the FAR agreement will be signed. It is necessary to begin construction of the houses as soon as possible.

(b) A two-stage implementation period is recommended for lending activities. While the financial analysis has justified a $30 million grant is necessary, it is not reasonable to expect the Bank's lending program to expand at a rate which would allow expenditure of the funds in less than six years. The Mission considered the option of a three-year project with a $10 million grant (the amount to be disbursed in the first three lending years); however, USAID believes it appropriate to make the long-term commitment for support of TRDB so that their current expansion plans and activities have assurances of being continued.

(c) While the economic and technical analyses demonstrate the total $30.0 million could be expended for currently identified lending activities, a diversified portfolio would strengthen the viability of the NAFCREP program, Therefore, a longer implementation period is needed for experimental activities and subsequent replanning for diversification of the portfolio.

(d) The Project will provide training to expand the staff capability as TRDB increases the numbers of employees. Given TRDB's ability to release 10 - 12 individuals a year from work assignment, training must be staggered over a seven-year period, thus increasing the implementation period.

1/ The Project Agreement can be signed for only a five-year period. REDSO/RLA advises the agreement should discuss the longer implementation period, negotiate for four to five years of activities, and then be amended at the end of Phase I.

2. Implementation Schedule

During preparation of the PP, a CPI type network was developed for the Project. It is not included here, however, because of its complexity and size. It also might give the impression of more precision in the planning process than was actually the case. Instead, for ease of presentation, a narrative implementation plan is presented in Annex II-J. Phase I of the Project begins in CY 1981 and continues through 1983. The remainder of Stage I (1982-1983) is discussed in one-year segments and Phase II is treated as a single unit. All programming at this point is tentative in any case and subject to revision based on more detailed planning both before and after authorization.

As noted in the Project description, detailed plans are required for training and the research activities prior to initial disbursements and thereafter on a periodic basis. (Also see Conditions and Covenants.) What is done in the implementation plan is to designate critical planning events which must occur prior to obligation and expenditure of funds.

V. Evaluation and Monitoring

A. Evaluation Arrangements and Plan

Evaluation and monitoring arrangements of impact are discussed throughout this paper. The entire Project is oriented toward evaluation. Comparative data collection and analysis for determination of impact and the variety of special studies and planning exercises that will be carried out are central and critical sub-components of the Project and will have a corresponding priority on the part of the TRDB Project management, the contractor and USAID. The evaluation schedule, tailored to draw from these activities follows:

1. Schedule

(a) December of 1982 - This will be an independent contract evaluation which will focus on comparative village and farm level data and studies as described for Phase I. The idea will be to feed an outside appraisal into the planning process for Phase II as well as provide the USAID with additional views and recommendations relative to the efficacy of moving forward with new obligations of the nature and magnitude contemplated.

(b) Spring of 1986 - This will be an extremely significant evaluation and should be planned and staffed accordingly. Hopefully, it will be carried out jointly with other interested donors such as IDA and FAO in addition to the TRDB itself. The objective will be to provide a solid external contribution for future planning which will involve far reaching decisions relative to the widespread application and replication of models and lessons learned over the full Project period.

(c) Team Composition - Both of the evaluations will be performed by independent contractors with TRDB and other TanGov participation. They are funded by the Project at $75,000 for the first and $100,000 for the second and will include multi-disciplinary teams for periods of six weeks and two months, respectively. Team composition in each case is expected to include the following skills: evaluation/management, rural credit administration, economic anthropology, agricultural economics, and commodity systems, including marketing and distribution.

B. AID Project Monitoring

The primary responsibility of the AID project officer will be the monitoring of Project activities and impact. Most Project implementation activities, after the one-year pre-implementation period, will be done by either TRDB or the contractor. The Project officer's implementation responsibilities will be primarily to provide support and guidance. Monitoring will require frequent field visits to regional and district offices and borrowing villages. The Project officer is also to provide liaison with other AID-funded projects and assure there is adequate communication and sharing of information of the results of related activities.

C. TRDB Project Monitoring

The Development Directorate of TRDB, which includes both the Research and Planning Divisions, will be primarily responsible for evaluation and monitoring of the Project for TRDB. The AID-funded advisor will provide assistance, and short-term consultants will provide additional resources. The studies and research activities to be undertaken are outlined in Annex II-A. These should provide continual information for evaluation and planning.

VI. Negotiating Status

A. Background

TRDB has been an active participant in all phases of Project design. Project design methodology, funding of AID and other donor activities and implementation arrangements have been thoroughly discussed. Most conditions and covenants relate to Project phasing and additional planning requirements; however, a few relate to Ministry of Finance arrangements. These may be more difficult to negotiate; however, TRDB is expected to take a leading role in these negotiations.

B. Conditions Precedent to Disbursement

The Project Agreement will contain the following:

(1) "Prior to the first disbursement under the Project, or the issuance by AID of documentation pursuant to which disbursement will be made, the Grantee will, except as otherwise agreed in writing, furnish to AID in form and substance satisfactory to AID, a statement of the names of the persons holding or acting in the office of the Grantee, together with a specimen signature of each person specified in such statement."

(2) "Prior to the first disbursement for commodities to be purchased from the capital grant for lending purposes the Grantee will provide in form and substance satisfactory to AID statements:

(a) authorizing TRDB, or its appointed agents, to directly import commodities required for the lending program; and

(b) exempting such commodities from any import duties and inspection fees."

(3) "Prior to any disbursement for commodities to be purchased from the capital grant for lending purposes, the TRDB will provide in form and substance satisfactory to AID:

(a) the complete credit policies and regulations governing lending by the Bank to villages or village members as applicable to any of the items to be financed by the Project. At that time the USAID may wish to stipulate the application, addition or modification of certain features in order to assure compliance with AID policy, program or Project criteria.

(b) agreements with all importers who will be receiving and distributing commodities under the Project stipulating exactly how local funds will flow and how the TRDB will be repaid in those cases where the distributor receives payment directly or indirectly from the village or when a manufacturer is to pay TRDB directly for raw materials.

(c) a plan for achieving and monitoring a two percent annual improvement in loan repayments.

(4) "Prior to disbursement of funds to the contractor for participant training activities, TRDB will prepare a detailed plan for yearly training activities satisfactory in form and substance to AID." 1/

This plan will include the names and positions of students to be financed, universities and organizations to accomplish the training, courses of study, and an explanation and justification relating to the job the trainee will occupy when he or she returns to the TRDB upon completion of studies. Thereafter, annual plans will be submitted no later than December 31 of each calendar year.

(5) "Prior to disbursement of funds for operating costs of the Research and Development sub-component (vehicles may be ordered and technical assistance provided) research and study plans for the coming 12 to 18-month period will be submitted for approval by AID."

(6) "Prior to obligation of the Capital Grant for Phase II financing, a three-year plan will be submitted to USAID for review and consideration to the Mission Director. It will include detailed analytical justifications (including firm cost estimates, adequate plans, and social, environmental, technical, engineering and other analyses as may be required to satisfy AID policy and program and planning criteria."

C. Covenants

The following covenants will be included in the Project Agreement:

(1) "The Government of Tanzania covenants to pass all AID disbursements from the Treasury to TRDB within thirty days and at the currency exchange rate existing when funds are received by Treasury."

(2) "The Government of Tanzania covenants that all AID-financed loan commodities will be provided to villages, village level organizations, farmers with holdings of ten hectares or less or groups of such farmers, and further covenants that all loan approvals will only be made for those applicants having village council or assembly approval."

(3) "The Government of Tanzania covenants that all USAID-financed commodities imported through AID financing will be used

---

1/ Required except for the first two long-term participants.

solely for the TRDB National Food Credit Program."

(4) "The Government of Tanzania covenants that all loans for fixed assets will be for the unrestricted use of the village members although the asset may be owned by an individual or family."

(5) "The Government of Tanzania covenants to provide all required participant trainees and will assure that such trainees, upon completion of their studies, will be assigned to positions within the Project commensurate with the nature and level of training received as may be acceptable to USAID."

(6) "The Government of Tanzania covenants that it will expedite, to the maximum extent possible, clearance through port and customs of Project-financed or related commodities and materials."

(7) "The TRDB covenants to provide on a timely basis all required counterpart personnel not financed by the USAID, including a Project manager. Such personnel will include additions to the staff of the Planning Division of the Development Directorate, the Directorate for Regional Supervision and Coordination and such other Directorates as may be considered essential for purposes of efficient Project administration in accordance with the terms of this grant agreement and the Amplified Project Description appended hereto."

(8) "The TRDB covenants to provide adequate temporary housing for USAID-financed technical assistance personnel in Dar es Salaam until such time as permanent housing has been constructed."

(9) "The TRDB covenants to make all necessary budgetary allocations on a timely basis for support of activities described in the Amplified Project Description appended hereto."

(10) "The TRDB covenants to undertake staff expansion as described on the Amplified Project Agreement to provide all personnel needed for implementation of NAFCREP lending activities in a timely manner."

D. Standard Provisions

The standard provisions of the Tanzania Project Agreement will be amended to include the following:

(a) Household appliances, including freezers, stoves, refrigerators, air conditions, beds and any remaining spare parts will be assigned to other technical assistance contractors working for the Tanzania Government after completion of the Project.

(b) Four houses are to be built with Project funds. At least one of these units will revert to AID after completion of the Project for use by other advisors funded by AID. The terms of the agreement and numbers of houses to revert to TRDB and AID will be determined during Project agreement negotiations.

(c) Subject to the approval of the U.S. Ambassador, long-term advisors will have privileges to use the U.S. Commissary.

ANNEX I - A

PROJECT DESIGN SUMMARY

LOGICAL FRAMEWORK

Life of Project $155,000,000
From FY ____ to FY 86
Total U.S. Funding $44.2 million
Date Prepared March, 1980

PROJECT DESIGN SUMMARY
LOGICAL FRAMEWORK

Project Title & Number Resources for Village Production and Income (621-0155)

NARRATIVE SUMMARY	OBJECTIVELY VERIFIABLE INDICATORS	MEANS OF VERIFICATION	IMPORTANT ASSUMPTIONS
Program Goal	**Measures of Goal Achievement**		
Improved well being and increased participation of the rural poor in a growing economy.	Improved Standard of Living	Project evaluations and studies	TanGov goals are implemented through appropriate polices and programs.
Project Goal			
Increased productivity, production and income generating activities and improved marketing of goods and servifes in villages.	Loan repayment rates improve, increased demand for services.	Research department's impact studies	Increased productivity will result in increased economic returns to the producers and their families.
Project Purpose	**End of Project Status**		
A strengthened and expanded commercial support and delivery system for the provision of production related goods and services in villages.	1. Increased institutional capacity of TRDB to serve villages.	1.1 Employee performance evaluations. 1.2 Project evaluations 1.3 Financial reports.	Increased availability and more affective provision of required goods and services will lead to increased productivity and production. Farmers want to produce more. 1.1 TanGove will provide the essential capital and policy support to the TRDB despite the current balance of payments and national budget crises. 1.2 Inter-institutional roles and responsibilities are defined.
	2. Increased village participation and absorptive capacity.	2.1 Village records of lending activities. 2.2. Numbers of loan request. 2.3 TRDB repayment records.	2.1 Villages do have the potential in terms of human, organizational, and physical resources to meet the condition.

Life of Project $155,000,000
From FY 80 to FY 86
Total U.S. Funding $44.2 million
Date Prepared March, 1980

PROJECT DESIGN SUMMARY
LOGICAL FRAMEWORK

Project Title & Number Resources for Village Production and Income (621-0155)

NARRATIVE SUMMARY	OBJECTIVELY VERIFIABLE INDICATORS	MEANS OF VERIFICATION	IMPORTANT ASSUMPTIONS
	End of Project Status		
	3. Increased production and village incomes.	3.1 Studies and pilot activities 3.2 Research Division evaluations 3.3 Project evaluations	3. Significant expansion of village enterprise outside the area of traditional seasonal food and export crop production are possible.
	4. Improved marketing infrastructure and services especially in villages.	4.1 TRDB and NMC records Project evaluations. 4.2 Research Division Studies and reports, including information on goods available in villages. 4.3 Activities resulting from inter-institutional seminars.	4. TanGov will implement recommendations resulting from IDA study on more effective input distribution.
	5. Improved national institutional coordination for more effective support of villages	5.1 Delivery records of TRDB, NBC and other instituions. 5.2 Seminar proceedings. 5.3 TanGov policy statements. 5.4 Institutional operating procedures.	5. Concerned entities intend and want to coordinate; only the methodology and mechanisms are lacking.

Life of Project $155,000,000
From FY 80 to FY 86
Total U.S. Funding $44.2 million
Date Prepared March, 1980

PROJECT DESIGN SUMMARY
LOGICAL FRAMEWORK

Project Title & Number Resources for Village Production and Income (621-0155)

NARRATIVE SUMMARY	OBJECTIVELY VERIFIABLE INDICATORS	MEANS OF VERIFICATION	IMPORTANT ASSUMPTIONS
Outputs			
1. Increased institutional capability of TRDB through:			
1.a. TRDB staff capability at both headquarters and field levels will be upgraded.	1.a.(1) Project Officers and Credit supervisors will improve quality of loan appraisals lending procedures, collections, and delinquency controls.	1.a (1) TRDB documents.	1.a (1) Adequate staff will be hired.
	1.a (2) Regional Managers will improve branch and portfolio management.	1.a (2) Regional Manager reports and Zonal Managers' evaluations.	1.a (2) Adequate numbers of qualified Managers are identified after Zonal Managers are approved.
	1.a (3) Zonal Managers will effectively supervise and train field staff.	1.a (3) Personnal evaluations, training recommendations	1.a (3) Zonal Manager responsibilities are adequately defined and will not duplicate other personnel responsibilities.
	1.a (4) Headquarters staff improve management.	1.a (4) TRDB policy directives, and work assignments.	1.a (4) Training provided is appropriate and Bank management initiates required changes.
1.b. Improved management and operating procedures within TRDB.	1.b (1) Information is available in a timely manner.	1.b (1) Financial reports	1.b IDA assistance in this area is effective
	1.b (2) Operating guidelines and procedures are prepared and implemented.	1.b (2) TRDB manuals and training materials.	
	1.b (3) Appropriate but simple to use forms are prepared and implemented areas of Bank operations.	1.b (3) TRDB forms and procedures.	IDA assistance in this area is effective.

PROJECT DESIGN SUMMARY
LOGICAL FRAMEWORK

Life of Project $155,000,000
From FY 80 to FY 86
Total U.S. Funding $44.2 million
Date Prepared March, 1980

Project Title & Number Resources for Village Production and Income (621-0155)

NARRATIVE SUMMARY	OBJECTIVELY VERIFIABLE INDICATORS	MEANS OF VERIFICATION	IMPORTANT ASSUMPTIONS
Output			
1.c. Improved financial viability and growth throughout the 1980's.	1.c(1) Opening of rediscount window.	1.c(1) Financial reports.	1.c(1) BOT will move ahead with rural development funds plans.
	1.c(2) Collaborative arrangement with NBC for utilization and relending of deposits.	1.c(2) Observation and financial reports.	1.c(2) Minister of Finance will continue support for this policy.
	1.c(3) Borrower's are liable for repayment.	1.c(3) Villages not repaying don't receive new loans. Regional reports	1.c(3) There are not competing give-away programs.
	1.c(4) Collections improve 2% a year.	1.c(4) Financial reports	1.c(4) Drought or other unforeseen disasters don't significantly affect/loan repayments.
	1.c(5) Bank is liquid through 1990.	1.c(5) Financial and audit reports.	1.c(5) No new major policy changes are made.
	1.c(6) Bank is self-sustaining for local currency requirements.	1.c(6) No further request for grant.	1.c(6) Treasury will have foreign exchange to finance imports by 1990.
1.d. Improved planning and decision making at all levels.	1.d(1) Systematic data collection and analysis of on-going activities.	1.d(1) Research Division studies, reports and recommendations.	1.d(7) Research Division activities given greater emphasis by TRDB.
	1.d(2) New areas of lending and problems identified.	1.d(2) Studies and pilot lending activities' reports and evaluations.	1.d(2) Appropriate technologies exist but only have not been tested or made available to villages.
	1.d(3) Appropriate management and Project management system training is achieved through the project	1.d(3) Project documents	1.d(3) Increased ability is desired by staff.

Life of Project $155,000,000
From FY 80 to FY 86
Total U.S. Funding $44.2 million
Date Prepared March, 1980

PROJECT DESIGN SUMMARY
LOGICAL FRAMEWORK

Project Title & Number Resources for Village Production and Income
621-0155)

NARRATIVE SUMMARY	OBJECTIVELY VERIFIABLE INDICATORS	MEANS OF VERIFICATION	IMPORTANT ASSUMPTIONS
Output	1.d(4) Evaluation lending to diversification and expansion.	1.d(3) AID and TRDB evaluations.	1.d(3) Demand exists for new enterprises.
1.e An effective decentralized structure of the Bank with upgraded competence and responsibility at zone, regional and district levels.	1.e(1) Increased responsibilities delegated.	1.e(1) New procedures.	1.e(1) TRDB intends to delegate responsibility and loan approval authority.
	1.e(2) Increased loan approval authority delegated to regional managers.	1.e(2) TRDB directives	1.e(2) Zonal managers don't become a new layer of reviewing officers for loan applications.
	1.e(3) Increased field staff ability to service loans and repayment rates improve.	1.e(3) Performance evaluations. Financial records.	1.e(3) Additional field staff is hired and transport is available.
	1.e(4) More TRDB facilities are located throughout the country	1.e(4) Observation, evaluation and TRDB reports.	1.e(4) Improved access by villagers to TRDB facilities will increase lending and improve repayment rates.
	1.e(5) Expanded lending.	1.e(5) Financial records. Regional Manager reports.	1.e(5) Village demand exists and resources are available.
2. Improved village capacity through Client development.	1.e(6) Increased accountability for performance of delegated responsibilities.	1.e(6) Job performance evaluations, audit reports, internal audit reports.	1.e(6) Improved job performance desired by Bank staff.
	2. Improved repayment rates.	2.1 Financial reports	2. TRDB recognizes need to increase village absorptive capacity and devotes resources.
	2.1 Adequate records are kept by villages.	2.2 Observation and evaluation such as credit impact studie	2.1 Repayment rates reflect profitability and effectiveness.
			2.2 Adequate training activities exist or are planned for an implemented

Life of Project $155,000,000
From FY 80 to FY 86
Total U.S. Funding $44 2 million
Date Prepared March 1980

PROJECT DESIGN SUMMARY
LOGICAL FRAMEWORK

Project Title & Number Resources for Village Production and Income (621-0155)

NARRATIVE SUMMARY	OBJECTIVELY VERIFIABLE INDICATORS	MEANS OF VERIFICATION	IMPORTANT ASSUMPTIONS
	2.2 Effective supervision of individual borrowers by village.	2.3 Observation and evaluation.	2.3 Village councils willing to supervise individual creditors.
	2.3 Sound work plans organized and implemented.	2.4 Credit supervisor's trip reports. Observation.	2.4 Village training provides necessary skills.
	2.4 Democratic sharing of communal goods, services and debt.	2.5 Credit supervisor's trip reports. Observation.	2.5 Village leadership is able to implement policy and political or social presures will not conflict.
3. Increased investments, production and commercial activities in villages through:			
3.a Expanded lending in areas of known return (Phase I)	3.a - grain mill loans - village service centers loans. - Farm implement loans, - Ox cart and plough loans, - Farm machinery and transport loans.	3. TRDB records. Impact studies. Evaluations.	3.a Assumptions in economic analysis are valid.
3.b The establishment of the Analytical foundation and a plan for considering as major rural sector resource program great.(Phase I and II)	3.b Experimental loans, studies and plans.		3.b New technologies can be adequately tested in Phase I.
3.c The replication of lending activities tested and planned on Phase I for possible: . expanded geographic couerage and emphasis, . expanded seasonal lending, and . expansion of NAFCREP to include new portfolios.			3.c TRDB staff will expand sufficiently to cover new areas. CDSS geographic focus will be approved. Farming systems project will produce area specific input package recommendations

Life of Project $155,000,000
From FY 80 to FY 86
Total U.S. Funding $44.2 million
Date Prepared March, 1980

PROJECT DESIGN SUMMARY
LOGICAL FRAMEWORK

Project Title & Number Resources for Village Production and Income (621-0155)

NARRATIVE SUMMARY	OBJECTIVELY VERIFIABLE INDICATORS	MEANS OF VERIFICATION	IMPORTANT ASSUMPTIONS
Output 4. Improved marketing infrastructure and services especially in villages.	4.1 Rationalization of present inefficiencies in input distribution.	4.1 TanGov policy on distribution responsibilities	4.1 TanGov will continue to recognize problems in these areas and give priority to resolving them.
4.a Alternative system for management, and administration of ag input procurement and distribution is designed.	4.2 System designed which is economic, effective and self-sustaining.	4.2 IDA and AID study recommendations.	4.2 Present system can be improved.
4.b Atested alternative system for input supply and distribution	4.3 Improved system is made operational.	4.3 TanGov directives to parastatals.	4.3 TanGov willing to reduce inefficiem through any necessary policy decisions.
5. Improved national institutional coordination for more effective support of villages. 5.a Improved planning for coordination and delivery of services and goods. 5.b A demonstrated integrated scheme for delivery of services and goods.	5.1 Communication and cooperation among TRDB, PMO, KILIMO, marketing authorities improved.		5. Intent for coordination exists only mechanisms and methodologies are lacking.
Inputs and Magnitude 1.a. Staff Training to Strengthen Institution TA: 3 py Chief Training Officer 3 py Farm Management Specialist 3 py Ag Economist Training Materials: $200,000. AID TA: 5 py Decentralization/Trainer Advisor. 6 pm consultancies. Training: 26 BA and MA degrees in ag economics; extension, agronomy, ag engineering, statistics and planning at Morogoro and U.S.		Observation Host Country Contract Evaluations Project Monitoring Letters of Credit Bills of Lading Annual Training Plan	TRDB has capability to monitor HCC.

Life of Project $155,000,000
From FY 80 to FY 86
Total U.S. Funding $40.0 million
Date Prepared March, 1980

PROJECT DESIGN SUMMARY
LOGICAL FRAMEWORK

Project Title & Number Resource for Village Production and Income (621-0155)

NARRATIVE SUMMARY	OBJECTIVELY VERIFIABLE INDICATORS	MEANS OF VERIFICATION	IMPORTANT ASSUMPTIONS
6 computer and CPA training programs. 90 person months specialized training in U.S.or third country 18 three months specialized training in third country. 10 one month study tours. 21 months of management training and specific problem solving seminars. Commodities: Office and Training supplies. 33 Vehicles and - 150 Motorcycles. TanGov: Rental costs Per Diem for Seminar attendees Salary and allowances for participants.			
1.b. Organization/Methods AID Training In-country Seminars Mgt. Seminars) Short courses in U.S. or 3rd Country) See 1.a Short Tours.)	above		
TanGov Rentals Per Diem Logistic Support			
IDA TA: 48 pm consultants Commodities: Including computer and) See 1.c consulting)	below		

Life of Project $155 000,000
From FY 80 to FY 86
Total U.S. Funding $40.0 million
Date Prepared ~~March, 1980~~

PROJECT DESIGN SUMMARY
LOGICAL FRAMEWORK

Project Title & Number Resources for Village Production and Income (621-0155)

NARRATIVE SUMMARY	OBJECTIVELY VERIFIABLE INDICATORS	MEANS OF VERIFICATION	IMPORTANT ASSUMPTIONS
Inputs			
1.c. **Financial Viability** **IDA** TA: 36 pm short-term Commodities: Computer $700,000. Equipment $400,000			It will be possible to recruit financial advisor with same qualifications as current advisor.
AID TA: 5.3 person years Financial Advisor 2.3 person years Producrement Advisor. Training: 6 two year A.S. and computer Science Courses. Other Costs: Commodities for lending $30.0 Million.			
1.d. **Planning and Decision Making DANIDA** TA: 2 LT Economists			
IDA TA: Farm Management Advisor. Ag. Economist.	)See 1.a. above)		
AID TA: 5 person years Planning Advisor 158 pm short-term consultants, US.-and Tanzanian 2 Evaluation teams Research Enumerators			
Training: Seminars - p.m. of seminars Study tours Long term training	)See 1.a. above)		

Life of Project $155,000,000
From FY 80 to FY 86
Total U.S. Funding $40.0 million
Date Prepared March, 1980

PROJECT DESIGN SUMMARY
LOGICAL FRAMEWORK

Project Title & Number Resources for Village Production and Income 621-0155)

NARRATIVE SUMMARY	OBJECTIVELY VERIFIABLE INDICATORS	MEANS OF VERIFICATION	IMPORTANT ASSUMPTIONS
Commodities: 2 Landrovers. hand calculators. TanGov Salary of Participants and other allowances. Rental of site for seminars. 20,000 TShs per annum to Research Division. 1 additional staff person to Research Division.			
1.e. Decentralization IDA TA: Rural Credit Training Advisor Commodities: 6 mobile training vans and 70% of operating costs.	) See 1 a. above.		
AID TA:) Training) See 1.a. above Commodities) TanGov: Additional Credit Supervisors and Project Officers. 5 Zonal Managers.			
2. Village capacity AID TA : 48 pm consultants Training: Study tours. LT training. Commodities: Training materials, printing etc. TanGov: Commodities: 10% of Local Costs for mobile vans.			

Life of Project $155,000,000
From FY 80 to FY 85
Total U.S. Funding $44.2
Date Prepared March, 1980

PROJECT DESIGN SUMMARY
LOGICAL FRAMEWORK

Project Title & Number Resources for Village Production and Income (621-0155)

NARRATIVE SUMMARY	OBJECTIVELY VERIFIABLE INDICATORS	MEANS OF VERIFICATION	IMPORTANT ASSUMPTIONS
2. Village Capacity FAO TA: 2 LT Advisors IDA TA: 2 LT Advisors (see 1.a. above) Commodities: 6 mobile training vans and 70% operating costs.			
3. Expanded Lending IDA $6.0 million in 5 Regions AID $30.0 million for foreign exchange component of commodities. See Training and TA under other components. TRDB Phase I: $26,000,000 in local currency.			
4. Input Distribution IDA Phase II: TA: 7 p.m. consulting AID TA: 24 pm consultants Training: Seminars on institutional) coordination and management plus) 4 p.m. seminars on input distribution	See 1.a. above		
TanGov Site Rentals Participants per diem Logistics.			

Life of Project $155,000,000
From FY 80 to FY 86
Total U.S. Funding $44.2 million
Date Prepared

PROJECT DESIGN SUMMARY
LOGICAL FRAMEWORK

Project Title & Number Resource for Village Production and Income (621-0155)

NARRATIVE SUMMARY	OBJECTIVELY VERIFIABLE INDICATORS	MEANS OF VERIFICATION	IMPORTANT ASSUMPTIONS
5. Inter-Institutional Coordination AID TA: 6 p.m. Consultants Training: 4 p.m. of Seminars TanGov Site Rental Participants per diem Logistics Computer Services.	See 1.a. above		

LETTERS OF REQUEST

Exhibit 1:	Ministry of Finance and Planning Letter to USAID, October 1978
Exhibit 2:	Tanzania Rural Development Bank Letter to USAID, June 1980

OFFICIAL FILE

ANNEX I-B
EXHIBIT 1
Page 1 of 1

THE UNITED REPUBLIC OF TANZANIA

MINISTRY OF FINANCE AND PLANNING

Telegrams "TREASURY", DAR ES SALAAM.
Telephone: 21271.
(All Official communications should be addressed to the Principal Secretary to the Treasury and NOT to individuals.)

THE TREASURY,
P.O. Box 9111,
DAR ES SALAAM.

In reply please quote:
Ref. No. TYC/E/550/7/11/82

13th October, 1978

The Director,
U. S. A. I. D.,
P. O. Box 9130
DAR ES SALAAM.

ACTION COPY
NO ACTION NECESSARY ✓
REPLIED BY:

Initials

Dear Sir,

PROPOSED AGRICULTURAL CREDIT BY USAID TO T.R.D.B
1980 - 1985

ST	ACT	INF
R		
D		X
CON		
M	X	
H		
O		
N		X
R	X	
C		
O		
R		
		X
R		X

The Board of Directors of T. R. D. B requested its Management to develop phase II of the Agricultural Credit Project to be financed by U.S.A.I.D. We understand that this proposal has been discussed between the T.R.D.B. and U.S.A.I.D Staff.

2. Treasury considers the proposal (NaFCreP) to be important and of great priority in meeting the needs of the Agricultural Sector. We are writing to request A.I.D to continue working closely with the Bank on the details which will lead to an early implementation of the Program. We have enclosed the preliminary proposal for your reference and review.

RECEIVED
C & R
10-26-78

Yours faithfully,

(C. K. Mutashobya)
for PRINCIPAL SECRETARY FINANCE AND PLANNING

c.c. The Chairman and Managing Director,
T. R. D.
P. O. Box
DAR ES SALAAM.

Tanzania Rural Development Bank
P. O. Box 268 Phone 26511
Dar es Salaam

Benki ya Tanzania ya Maendeleo Vijijini
SLP 268 Simu 26511
Dar es Salaam

Cables : mtaji

Ref. No. 267/VOL.IV/365

date: 20th June, 1980

Dr. Howard L. Steverson,
Director,
USAID,
P.O. Box 9130,
DAR ES SALAAM.

Dear Dr. Steverson,

RESOURCES FOR VILLAGE PRODUCTION PROJECT FOR TRDB FROM USAID

I am writing to reconfirm the Treasury's request forwarded in the letter reference No.TYC/E/550/7/II/82 dated 13th October, 1978, for USAID assistance to the Tanzania Rural Development Bank and to confirm the scope of the planned project.

I have followed the activities of the AID/TRDB design team for the Resources for Village Production and Income Project and have reviewed the project paper. TRDB is most desirous and willing to undertake this expansion of the National Food Credit Programme (NAFCREP). AID's proposed contribution to the Bank's institutional development and the import of raw materials should enable us to expand the programme throughout Tanzania and strengthen the Bank's financial viability, particularly during this time of accute foreign exchange shortages.

The three programme advisors would provide in the areas of financial management, planning, and most importantly, in the area of staff supervision and training through the project. A fourth advisor would help in the procurement of commodities and services, and establishing inventory maintenance and control system. While needed for a shorter period of time, this person will be particularly important in helping us negotiate the institutional contract for the technical assistance advisors and other activities to be carried out by a contractor.

The training activities of the project will be particularly important to strengthen and effective decentralization of the Bank's operations. The two year training programmes should strengthen the professional staff technical skills in such areas as accounting, finance management, rural planning and agriculture economics. The short term programmes should provide more immediate reinforcement to specific identified weaknesses in credit administration,

...../2..

staff and village training, and rural finance, while the in-country seminars and workshop should focus on management training and problem solving. We particularly look forward to sponsoring continuation of the management seminars such as those recently held in Arusha and to logical follow-on problem solving seminars involving both TRDB and other institutions.

We have provided estimates of our staff expansion and the complementary support requirements for vehicles and motorcycles. The landrover and motorcycles purchased under the current project have already helped ease our transport problems and as a result TRDB expects significant improvement in loan repayments. The additional vehicles requested should meet the requirements of the expanded NAFCREP programme which which could not be met by TRDB's own resources.

During the past five years we consider that a very good mutual understanding and working relationship has evolved between TRDB and USAID.

This has contributed greatly to the success of the present USAID sponsored project and to rural development in Tanzania. We look forward to building on this good start together during the next seven years.

Yours faithfully,
TANZANIA RURAL DEVELOPMENT BANK

P.A. MAGANI
CHAIRMAN AND MANAGING DIRECTOR

Copy to: Principal Secretary,
Ministry of Finance & Planning,
P.O. Box 9111,
DAR ES SALAAM.

ANNEX I - C

<u>PID APPROVAL CABLE, GUIDANCE AND RESPONSE</u>

(REF STATE 171645, DATED JULY 2, 1979)

PID APPROVAL CABLE, GUIDANCE AND RESPONSE
(REF STATE 171645, DATED July 2, 1979)

PARA	CABLE GUIDANCE	PP RESPONSE
II	Relationship to Country Strategy	
	The PP will need to reflect this project's relationship to other AID activities and how it will help address the constraints to Tanzania's development.	Since the Guidance Cable a new CDSS has been presented and reviewed in Washington emphasizing a two-track assistance strategy focussed on the Central Zone (worst poverty and neglected by most other donors) and assistance to selected national institutions which make up the production-related delivery system. In the case of the latter, the principal components are agricultural research and extension and what is referred to as the "agri-business system," i.e., credit, supply and marketing. Upon analyzing constraints to Tanzania's development and strategy considerations discussed in the CDSS, it became apparent that the relatively discrete (one institution - one activity) project originally contemplated would simply not respond to the complex reality of the situation. As a result the Project was designed to adopt the more encompassing and comprehensive approach discussed in the project description. In summary, the Project has evolved from a former emphasis on credit and credit management to one dedicated to the entire supply side of the "agri-business" system. (See Part II of PP.) With respect to other AID-financed activities relative to constraints and this Project, the most critical relationship will exist with the proposed Farming Systems Project, the principal purpose of which will be to establish and strengthen essential linkages between research, extension and training related to agricultural production. The inter-institutional coordination component in this project will assure that necessary coordination and joint planning activity will be carried out, not only with the Farming

PARA	CABLE GUIDANCE	PP RESPONSE
		Systems Research Project but also with the Prime Minister's office, the parastatals and other concerned institutions. The Project will also draw where possible from the experience of Arusha Planning and Village Development Project and other regional development efforts. Finally, the Project may emphasize a semi-arid lands thrust in later years and will effectively complement AID's proposed production-related efforts in the area.
III	Other Donors Dialogue with the World Bank and AID/W and the field is to continue.	The Project design team discussed the Project during design with both field and Washington representatives of the IBRD. The design of the Project is very carefully structured to complement the World Bank assistance. Detailed discussions on the IDA package were carried out with the TRDB. The one issue which may be a problem will be the roles of the two long-term resident advisor teams. The TRDB has accepted the responsibility of assuring unifed and consistent management of these teams. The process will be facilitated through careful drafting of RFP's and candid negotiations with potential contractors. In no case will and AID and IDA advisor be assigned to the same division except in the case of Finance where IDA advisors are short term. The IBRD representative in Tanzania has participated in an AID briefing after the Mission project committee approved the Project.
IV	Project Emphasis	
A	The Project is to emphasize the technical assistance aspects proposed in the PID. Training and organizational infrastructure are to be the focus of the Project.	This is clearly still the emphasis of the Project. The vast majority of technical assistance and training resources will be dedicated to institutional strengthening of the TRDB. (See Project Description, Component 1.) The Project has been broadened to include several additional complementary areas, but these are additional rather than in place of emphasis on the Bank.

PARA	CABLE GUIDANCE	PP RESPONSE
IV B	If, as the Project is implemented and evaluated, it becomes necessary to provide additional capital funds to the TRDB, the Mission should submit a second phase project proposal for AID/W approval.	There are two compelling reasons for providing additional lending capital in the form of foreign exchange to the TRDB at this time which are spelled out in the financial and economic analyses. (1) Without a large inflow of new capital beginning in the 1981-82 period, the Bank will commence a period of escalating decline with increasing deficits and low liquidity. Operations will have to be curtailed. (2) Demand for investment capital at the village level is several times that which the Bank can meet in the foreseeable future. In order to come close to reaching targets associated with the goal structure of the Project (village production and productivity) lending will have to increase significantly over the period. (See Project Description Component 3.) Finally all of the capital of the Project for lending will be in the form of foreign exchange, which is now in critically short supply regardless of the financial condition of the Bank. The Project therefore allows the most immediate AID programming mechanism for balance of payments support.
C	The technical assistance should focus on the financial capabilities of the TRDB, primarily in its capacity as lender rather than as a supplier of inputs and market for outputs. Analyses of the means of increasing the productivity of the TRDB through improved management of assets, reduction of default rates and profitability are to be undertaken. The results of these analyses should be incorporated into project design to ensure that the technical assistance provided addresses the management problems of the TRDB which decrease its effectiveness in support of small farmers.	Project-funded technical assistance does focus on the financial capabilities of the TRDB as a lender. (See Component 1 which is totally directed to strengthening the institution as a bank.) The sub-component for improving financial management and systems is especially focussed on this area. The only activity focussed directly on input distribution is in support of the initiative to remove this activity from the Bank and establish an alternative system which will be viable and equitable. (See Improving Input Distribution.) Findings from analyses relative to asset management, default rates and profitability are discussed in the sub-component for financial management. Activities to improve collections and profitability are incorporated throughout the Project description and in the Institutional Analysis, Annex II-F. In terms of management, effectiveness, see sub-component for Operations and Management and the complementary IDA General Line of Credit Project.

PARA	CABLE GUIDANCE	PP RESPONSE
V	Additional Analysis	
A	An examination of the cost of providing credit and the return achieved is also necessary prior to Project approval. The true cost of credit to the farmers (including interest paid, administrative procedures, inadequate or late access to inputs, etc.) in relation to return is to be examined. This should result in more accurate analysis of the benefit the small farmer actually receives from the credit provided and specific problems which might be addressed in this Project.	This issue was studied in depth during Project design. It is complex and there is no simple answer. In the first place, relative to interest rates, the interest rates of parastatal lending institutions are prescribed by the Bank of Tanzania on a different basis by class of borrower, i.e., 7.5% for villages, 8% for co-ops and parastatals and 9% for individuals. (See transmittal letter to the Assistant Administrator for a full discussion of the interest rate issue.) With respect to returns to the farmer, available data was examined but proved to be relatively inconclusive. Results from two borrower surveys carried out in 1978 and 1979 are suspect because of problems with the questionnaire. What they show, however, is a low or zero rate of return to the application of seasonal inputs in real economic terms (minus the subsidy which runs at about 50% for fertilizer). Financially, however, the farmer does benefit. The fertilizer subsidy does not represent a financial cost for the Government of Tanzania as it results from grants of fertilizer from foreign donors amounting to approximately the same quantity produced by the local plant, the cost of production of which is approximately twice the world price of fertilizer. The Project will not finance seasonal inputs in any case until farm management studies under the Project demonstrate that there is a clear economic benefit in doing to. Hopefully break throughs in productivity and extension from the forthcoming Farming System Research Project will provide at least a partial answer to the issue. With respect to the return to the agricultural and other investments contemplated by the Project, see the Economic Analysis. Also see the Research and Development sub-component. Comparative rates of return will be established and continually updated for all investments to be financed by the Project.

PARA	CABLE GUIDANCE	PP RESPONSE
V B	Further analysis of the changes necessary for TRDB to become financially self-sustaining is necessary. End of Project status should include the elimination or significant reduction in the subsidization of TRDB by the TanGov or foreign donors. Among the avenues for achieving this are increased charges to the users of credit by increased interest rates and/or increased profits on the sale of agricultural inputs and outputs.	The design team analyzed the issue of TRDB viability from a variety of [illegible] angles resulting, in part, in the complexity of Project design. The biggest single factor related to the Bank's financial condition is collections, which are now running at about 70% for seasonal inputs (approximately 65% of the portfolio). Normally, 35% is collected in the first year of the loan, 25% the following year and 10% the third year with a little dribbling in thereafter. This, rather than uneconomic interest rates is the real issue. Several components of the institutional side of the Project, along with village training are dedicated to improving collections. Another significant factor has to do with economics of scale of banking with the need for innovation and the sharing of resources with other institutions engaged in providing complementary services to the village. (NBC, for example. See Decentralization and Inter-Institutional Coordination Components.) The Project is designed to bring about economies in TRDB operations both in the field and at headquarters. The proposed IDA computer will also result in significant savings in processing time. Further decentralization of loan approval authority will also reduce overhead. With respect to input distribution, admittedly a losing proposition for the Bank, every effort will be made to separate the function and create a viable alternative. The Project will study and finance pilot alternatives at the village level in hopes of giving the village greater leverage over the process as well as a greater share of the value added (food processing, storage, transport, etc.). Concerning the issue of TanGov and foreign donor subsidies, TanGov subsidies are a matter of policy about which, in short and medium term,

PARA	CABLE GUIDANCE	PP RESPONSE
V B (Cont.)		the Project can do little. Besides, as long as the government is going to subsidize the consumer and the parastatals with low, controlled producer prices, an off-setting subsidy is necessary for the producer. Elimination of subsidies to the TRDB would end up coming out of the hide of the farmer. With respect to foreign donors, it is realistic to assume that further grants to TRDB will not be necessary after this project. This assumes Treasury will be able to provide foreign exchange for TRDB shillings for future commodity imports. This issue is addressed in the Economic Analysis. Finally, the issue cannot be viewed correctly by simply analyzing the TRDB. The other variables involved are many and complex, probably chief of which has to do with the inefficiency of the parastatals on the marketing side. In the long run the real answer to the subsidy issue will have to come from a combination of a break-through in farming systems research and extension, greater efficiency in marketing and distribution, and the assumption of a much greater role in the process by the village itself.

INFO OCT-00 /020 R

DRAFTED BY AFR/EA:BALIKE:CMV
APPROVED BY AFR/AA:GTBUTCHER
AFR/EA:HJCHNSON
AFR/DR:MMCDANIEL
AFR/DR/ARD:BWHITTLE
PPC/PDPP:ELIJEVSKI
AFR/DP:JGOVAN AFR/DR:JKOEHRING
AFR/DR/SDP:BBOYD
DS/RAD:CBARTON (SUBS)
DAA/AFR:WWNORTH
DESIRED DISTRIBUTION
5S5 ACTION AFR CHRON 1 2 6 8 INFO RS PPC FM AA/DS DS/AGR DSB DS/RAD
38P
------------------043251 030845Z /34
R 022344Z JUL 79
FM SECSTATE WASHDC
TO AMEMBASSY DAR ES SALAAM
INFO AMEMBASSY NAIROBI

UNCLAS STATE 171645

AIDAC, NAIROBI FOR REDSO/EA

E.O. 12065 N/A

TAG

SUBJECT: SMALL FARMER CREDIT (621-0155)

REF: STATE 45731

I. SUMMARY

A. AS INDICATED IN REFTEL, PROJECT COMMITTEE MET FEBRUARY 6, 1979, TO DISCUSS SUBJECT PID. ADDITIONAL DISCUSSIONS AND REVIEW MARCH 1, 1979 FOCUSSED ON (1) TECHNICAL ASPECTS OF PID AND (2) RELATIONSHIP OF PROPOSED PROJECT TO COSS.

B. AA/AFR AUTHORIZES PREPARATION OF A PROJECT PAPER IN RESPONSE TO THE CONSTRAINT IDENTIFIED IN THE PID, BUT IN CONSONANCE WITH THE GUIDANCE PROVIDED IN THE FOLLOWING PARAGRAPHS.

II. RELATIONSHIP TO COUNTRY STRATEGY

THE PROJECT COMMITTEE FINDS MERIT IN EXPANSION OF A.I.D. EFFORTS IN CREDIT IN TANZANIA. THE PP WILL NEED TO REFLECT THIS PROJECT'S RELATIONSHIP TO OTHER A.I.D. ACTIVITIES AND HOW IT WILL HELP ADDRESS THE CONSTRAINTS TO TANZANIA'S DEVELOPMENT.

III. OTHER DONORS

DIALOGUE WITH THE WORLD BANK IN AID/W AND THE FIELD ON A COLLABORATIVE APPROACH TO ASSISTING THE TRDB IS TO CONTINUE. THE PROJECT DESIGN TEAM SHOULD PLAN TO SPEND SUFFICIENT TIME IN WASHINGTON TO CONSULT WITH WORLD BANK PERSONNEL ON THE TECHNICAL AND STRATEGIC ASPECTS OF BOTH PROJECTS.

IV. PROJECT EMPHASIS

A. THE PROJECT IS TO EMPHASIZE THE TECHNICAL ASSISTANCE ASPECTS PROPOSED IN THE PID. TRAINING, ORGANIZATIONAL STRENGTHENING AND INSTITUTIONAL INFRASTRUCTURE ARE TO BE THE FOCUS OF PROJECT.

B. AGENCY AND BUREAU FUNDING CONSTRAINTS PRECLUDE PROVISION OF CAPITAL GRANT COMPONENT OF PROJECT AT THIS TIME. DISCUSSIONS WITH IBRD AND A REVIEW OF THE DRAFT STAFF PROJECT APPRAISAL FOR THEIR NEW PROJECT INDICATE THAT IBRD WILL BE PROVIDING ADDITIONAL CAPITAL FOR LENDING BY TRDB. FURTHER, MISSION'S RECENT REQUEST TO AUTHORIZE TRANSFER OF FUNDS FROM CAPITAL GRANT COMPONENT OF ONGOING AG-CREDIT PROJECT (621-0117) DEFINES CONSTRAINT AS ADMINISTRATIVE AND LOGISTICAL RATHER THAN AS LACK OF CAPITAL FUNDS. IF, AS THE PROJECT IS IMPLEMENTED AND EVALUATED, IT BECOMES NECESSARY TO PROVIDE ADDITIONAL CAPITAL FUNDS TO THE TRDB; THE MISSION SHOULD SUBMIT A SECOND PHASE PROJECT PROPOSAL FOR AID/W APPROVAL.

C. THE TECHNICAL ASSISTANCE SHOULD FOCUS ON THE FINANCIAL CAPABILITIES OF TRDB, PRIMARILY IN ITS CAPACITY AS A LENDER RATHER THAN AS A SUPPLIER OF INPUTS AND MARKET FOR OUTPUTS. ANALYSES OF THE MEANS OF INCREASING THE PRODUCTIVITY OF THE TRDB THROUGH IMPROVED MANAGEMENT OF ASSETS, REDUCTION IN DEFAULT RATES AND PROFITABILITY ARE TO BE UNDERTAKEN. THE RESULTS OF THESE ANALYSES SHOULD BE INCORPORATED INTO PROJECT DESIGN TO ENSURE THAT THE TECHNICAL ASSISTANCE PROVIDED ADDRESSES THE MANAGEMENT PROBLEMS OF TRDB WHICH DECREASE ITS EFFECTIVENESS IN SUPPORT OF SMALL FARMERS.

V. ADDITIONAL ANALYSIS

A. AN EXAMINATION OF THE COST OF PROVIDING CREDIT AND THE RETURN ACHIEVED IS ALSO NECESSARY PRIOR TO PROJECT APPROVAL. THE TRUE COST OF CREDIT TO THE FARMER (INCLUDING INTEREST PAID, ADMINISTRATIVE PROCEDURES,

INADEQUATE OR LATE ACCESS TO INPUTS, ETC.) IN RELATION TO RETURN IS TO BE EXAMINED. THIS SHOULD RESULT IN MORE ACCURATE ANALYSIS OF THE BENEFIT THE SMALL FARMER ACTUALLY RECEIVES FROM THE CREDIT PROVIDED AND SPECIFIC PROBLEMS WHICH MIGHT BE ADDRESSED IN THIS PROJECT.

B. FURTHER ANALYSIS OF THE CHANGES NECESSARY FOR TRDB TO BECOME FINANCIALLY SELF-SUSTAINING IS NECESSARY. END-OF-PROJECT STATUS SHOULD INCLUDE THE ELIMINATION, OR SIGNIFICANT REDUCTION IN, THE SUBSIDIZATION OF TRDB BY THE TANGOV OR FOREIGN DONORS. AMONG THE AVENUES FOR ACHIEVING THIS ARE INCREASED CHARGES TO THE USERS OF CREDIT BY INCREASED INTEREST RATES AND/OR INCREASED PROFITS ON THE SALE OF AGRICULTURE INPUTS AND OUTPUTS.

VI. DESIGN TEAM COMPOSITION

A. IN ADDITION TO THE RESOURCES IDENTIFIED ON THE PID FACESHEET FOR PP DESIGN, THE MISSION SHOULD USE THE SKILLS OF AN ECONOMIST TO HELP ADDRESS THE ISSUES RAISED ABOVE.

B. MISSION SHOULD CONSIDER USE OF OHIO STATE UNIVERSITY RESOURCES FOR STAFFING PP DESIGN TEAM.

VII. PP APPROVAL

SINCE THE PROPOSED LOP COST WITHOUT THE CAPITAL GRANT SEGMENT DOES NOT EXCEED DOLS 5.0 MILLION, THE MISSION IS AUTHORIZED UNDER DELEGATION OF AUTHORITY 141 TO APPROVE THE PROJECT. CHRISTOPHER

ANNEX I - D

611 (e) CERTIFICATION FOR RESOURCES FOR
VILLAGE PRODUCTION AND INCOME PROJECT (621-0155)

ANNEX I-D

611 (e) CERTIFICATION FOR RESOURCES FOR

VILLAGE PRODUCTION AND INCOME PROJECT (621-0155)

WHEREAS, the Resources for Village Production Project (621-0155) provides support to the Tanzanian Rural Development Bank (TRDB) by providing technical assistance, training and commodities;

WHEREAS, TRDB is one of the most capable Tanzanian Government entities, is currently the only national institution with a mandate for rural development, has demonstrated its ability to utilize and maintain AID-financed assistance in a prior project (Agriculture Credit 621-0017), and participants trained under that project have returned to positions of greater responsibility and authority;

WHEREAS, a large proportion of funds provided under the new project will be utilized to finance the purchase of commodities for in-kind lending to villages and proper utilization and maintenance of these commodities is assured through TRDB's own village training activities and those of various suppliers such as with the Lister engines to be provided by Machinery Services, Ltd.;

WHEREAS, Landrovers and Yamaha or Honda motorcycles have been selected as the appropriate project vehicles because of the availability of spares and qualified mechanics even in remote rural areas; and

WHEREAS, the financial and procurement advisors provided under the project will also assist by keeping records and inventory of project-financed commodities;

NOW, THEREFORE, I hereby certify that the Government of the United Republic of Tanzania has the capability to effectively maintain and utilize the capital assistance provided under the Project.

Howard L. Steverson

Howard L. Steverson
Mission Director
USAID/Tanzania

Date: 28 May 1980

JUSTIFICATIONS FOR WAIVERS AND APPROVALS

Justification for Procurement Waivers for Lister Engines

Problem: A source-origin waiver from Geographic Code 941 (U.S. only) to Geographic Code 935 (Special Free World) and a sole-source proprietary procurement waiver for Lister engines is requested.

Country	:	United Republic of Tanzania
Authorizing Documents	:	Project Paper and Authorization
Project	:	Resources for Village Production and Income
Project Number	:	621-0155
Nature of Funding	:	Grant
Description of Commodities	:	1,065 Lister engines, including: (a) 266 ST-2, 16 HP air-cooled Lister engines; (b) 266 HR-2, 25 HP air-cooled Lister engines; (c) 533 HRW-2, 25 HP water-cooled Lister engines; and 20% spares.
Approximate Value	:	All prices CIF, Dar es Salaam, spares included: (a) 266 ST-2 Engines @ $3,035 = $807,310 (b) 266 HR-2 Engines @ 4,945 =1,315,370 (c) 533 HRW-2 Engines@ 5,610 =2,990,130 TOTAL $5,112,810
Procurement Source	:	Tanzania and Great Britain
Procurement Origin	:	Great Britain

Discussion: Lister engines have been recommended as the most appropriate equipment for powering maize hulling and milling machines for use in Tanzania. This recommendation is based on the non-availability of American-made engines of the same quality and mechanical capability, the availability of spares and maintenance skills and the simplicity of the machine. While Lister engines are made in the U.S., they do not meet the 50/50 componentry requirement and thus do not qualify as U.S. source and origin commodities. No other small diesel engine is manufactured in the U.S.

Lister engines have been used in Tanzania for fifty years. Fifteen thousand units are in use by villages, individuals and various parastatals. The Ministry of Water, Energy and Minerals has another 800 units, and the Post and Telecommunications office has 500 units in use. The Ministry has stated its preference for Lister engines and has standardized on the engine. The Lister engine is therefore known to Tanzania, and competent mechanics are familiar with them and are able to provide repairs.

Machinery Services, Ltd., the local dealer for Lister, is well established in Tanzania and maintains branch offices in Moshi, Arusha, Tanga and Mwanza and has dealerships stocking spares and providing repair facilities in Dodoma, Iringa, Mbeya and Songea. Machinery Services maintains a spares inventory to cover approximately 80% of the machines in Tanzania. In addition they periodically provide free training at its offices in Dar es Salaam and various other locations. At least one month of professional services per year is provided by the manufacturer in England and numerous short training seminars of a simpler nature are provided by Machinery Services. Workshop personnel at Machinery Services have also received training from the manufacturer. At their workshop Machinery Services produces the mill and assembles the engine units with the mill frame.

The only other dealerships represented in Tanzania are GMC, Briggs and Stratton (BNS) and Peter. Farm Machinery Distributors is the local dealer in Tanzania for GMC. This organization has recently become a parastatal ostentatiously because of mismanagement of the company. The warehouse and spares inventory is inadequate and repair facilities are not available. BNS is represented by Machinery Services. BNS engines are no longer imported because there was insufficient demand for the engine. Machinery Services maintains only a small spares inventory for these machines. Peter is imported by AISCO (Agricultural Industrial Supplies Company), a parastatal company. Peter is manufacture in U.K. Only small quantities are imported and it is considered appropriate by the Tanzanian purchaser only if Lister is not available and the need is great.

The Lister machine is mechanically the most appropriate to powering milling and hulling machines. The machines are low horsepower (6 - 25 horsepower) while comparable U.S. machines such as the GMC (300-400 HP) engines are more suitable for industrial purposes and automobiles.

The GMC engine is too large for the milling and hulling machines which required only 16-25 HP engines. The Lister engine is a slow running engine (1800 RPM's) and thus requires less maintenance than other engines. Parts from any ST engine are interchangeable with any other ST engine irrespective of the number of cylinders. The same applies to HR engines. The machine RPMs are converted from 1800 RPM to the 3000 RPM needed to operate the mills, using pullies for the 1:2 ratio conversion.

The Briggs and Stratton (BNS) machines are high-speed engines (3000 RPM) which require more frequent maintenance and have a shorter life. The BNS engine, while less expensive, has an estimated life of two years compared to 35 for a water-cooled Lister engine and 10-12 years for the air-cooled Lister. The BNS engine is a two-stroke engine which combines fuel and oil. The mechanical principles of this machine are unfamiliar in Tanzania and two-stroke engine oil is not imported. In contrast, the Lister engine is simple to maintain and repair.

This waiver requests authority to purchase Lister engines contemplated for Phase I lending activities only. Phase II may revise the mix of commodities provided to TRDB and the necessary waiver may be for fewer engines than contemplated in the current plan. In addition, during Phase I the procurement advisor will assist Machinery Services, Ltd. in identifying potential U.S. suppliers. Lister engines are made in the U.S.; however, they do not meet 50/50% componentry requirements. SER/COM/ALI has advised specifications are identical to the engines made in Britain. However, a procurement partial origin waiver will be necessary regardless of the procurement source for the engines purchased in Phase II.

Primary Justification: (1) American-made engines are not available for the purpose of this Project; (2) There is inadequate representation of American firms in Tanzania and thus spare parts, and repair facilities are inadequate to assure maintenance of the AID-financed commodities; and (3) The Lister engine is the simplest and most appropriate technology for the Project.

Recommendation: That (1) based on the discussion above and (2) pursuant to the waiver authority reserved for the Administrator in Handbook 1, Supp. B, Chapters 5 and 12, you determine that engines available from U.S. sources are unavailable for this Project, and (3) that you determine exclusion of procurement from the source requested above would seriously impede attainment of the U.S. foreign policy objectives and the objectives of the foreign assistance program. By this action you are also approving a sole-source proprietary procurement waiver in favor of Lister's Tanzania suppliers, Machinery Services, Ltd.

Drafter:CDPO:RMDepp

Clearances: EXO:RJohnson (draft)
CON:WMiller (draft)
PRM:WHFaulkner (draft)
REDSO/RLA:GBisson (draft)

Justification for Procurement Waivers for Landrovers

Problem: A procurement source-origin waiver from Geographic Code 000 (U.S. only) to Geographic Code 935 (Special Free World) to permit purchase of thirty four-wheel drive vehicles and a competitive proprietary procurement waiver for Landrover vehicles is requested.

Cooperating Country	:	United Republic of Tanzania and
Authorizing Documents:	:	Project Paper/Authorization
Project	:	Resources for Village Production and Income
Project Number	:	621-0155
Nature of Funding	:	Grant
Description of Goods	:	30 Landrovers, right-hand drive vehicles with 10% spares, including: (a) 4 Landrover stationwagons, 109-inch wheelbase, four-cylinder engine, metal top, four doors and one rear door with 10-12 person capacity; and (b) 26 Landrover hardtops, 109-inch wheelbase, four-cylinder engine, with approximate carrying capacity of 3 persons and 1,500 pounds cargo.
Approximate Value	:	All prices CIF Dar es Salaam, spares included: (a) 4 Landrovers @ $ 17,000 = $68,000 (b) 26 Landrovers @ $16,000 =$416,000 TOTAL $484,000
Procurement Origin	:	Great Britain or Australia
Procurement Source	:	Great Britain, Kenya, Australia or Tanzania

Discussion: Section 636 (i) of the Foreign Assistance Act of 1961, as amended, provides that none of the funds made available to carry out the act shall be used to purchase motor vehicles unless such motor vehicles are manufactured in the United States. Section 636 (i) provides further that when special circumstantes exist, the President is authorized to waive the provisions of this section in order to carry out the provisions of the Act. In the Conference Report on the Foreign Assistance Act of 1967 (which added Section 636 (i) to the Act), it was reported that the Committee of Conference was in agreement that motor vehicles manufactured in the United States should be procured except when there are emergency or special situations, such as a need for right-hand drive or other types of vehicles not produced in the United States (House Report No. 892, dated November 7, 1967). More recently, Handbook 1 was revised to grant authority to waive the requirement that motor vehicles be manufactured in the United States. Circumstances which merit waiving of the requirement in this case are: (1) the inability of U.S. manufacturers to provide the particular vehicle needed, (in this case right-hand drive vehicles); and (2) lack of adequate service facilities and supply of spare parts for U.S. manufactured vehicles. The waiver authority provided in Section 363 (i) has been delegated to the Assistant Administrator by Executive Order No. 10973 and State Department Delegation of Authority No. 104 and AID Delegation of Authority 40, for procurements of up to $500,000. As this Project and the total waiver requests exceed the authority delegated to the Assistant Administrator, it is presented for the review and approval of the Administrator. Finally, AID Handbook 1, Supplement B, Section 5.B.4.b states that procurement source-origin waivers may be based on unavailability of a commodity from countries included in the authorized geographic codes (section 5.B.4.b (2) and on such other circumstance as are determined to be critical to the success of the Project objectives (Section 5.B.4.b, (7).

Justification: The vehicles provided through this Project will be used by the four expatriate technicians, TRDB field staff and the headquarter staff in the Research Department for field travel. In all cases the vehicles will be used for extensive field travel in Tanzania. Vehicles in Tanzania are driven on the left hand side of the road causing left hand drive vehicles to be unsafe and a contributing factor to serious accidents. Road conditions in Tanzania are exceptionally bad and the heavy rains and black cotton soils continue to cause roads to be unpassable for as long as six months each year except in four-wheel drive vehicles. The Mission and Government have standardized on Landrover vehicles as the most appropriate transport for Tanzania. This is because of the availability of spares from authorized British Leyland dealers throughout

Tanzania and the ability of mechanics to repair Landrover vehicles, especially in remote areas.

AID/W (COM/ALI) investigated the road conditions, spare parts availability and repair facilities in remote areas for all kinds of vehicles during an extensive field visit in Tanzania during April and May 1978. The trip report of this visit emphasizes the necessity of right-hand drive vehicles in Tanzania and states that, "The only two U.S. manufactured right-hand drive vehicles are not acceptably represented in Tanzania -- in effect, there is no U.S. vehicle representative in Tanzania at all." Regarding spare parts and maintenance, the report observes that there is "no maintenance or spare parts support in country except for limited maintenance in a few projects which are maintaining Jeep Wagoneer (L.H. drive)." 1/ The report indicated that parts and maintenance are problems for any vehicle operation in remote areas of Tanzania but indicated that these problems are lessened when Landrovers are used since more parts and repair facilities exist for Landrovers than for any other make of four-wheel drive vehicle.

Successful Project implementation also is furthered by vehicles which are sturdy enough to need few repairs and economical in fuel consumption. The trip report states, "Landrover vehicles prove to be the sturdiest and most practical four-wheel drive vehicles for most project use." Landrovers generally last 8-12 years in Tanzania. In contrast, U.S. vehicles last about 3 years. USAID has needed to replace U.S. manufactured project vehicles every 2-3 years. If Landrovers are procured, they probably will not have to be replaced, at least not on a large scale, during the estimated average six-year life of the Project. Also, Landrovers customarily obtain about 30% greater fuel efficiency than similar U.S.-manufactured vehicles. Not having to replace all vehicles every 2-3 years and the greater operating efficiency of Landrovers over similar U.S. vehicles would represent a significant saving. Considering the cost of gasoline in Dar es Salaam of about $4.00 per U.S. gallon, the saving is likely to become more dramatic as the price of gasoline escalates.

<u>Primary Justification</u>: (1) U.S.-manufactured vehicles are not suitable for the purposes of the Project; (2) There is inadequate representation of American firms in Tanzania, and thus spare parts and repair facilities are inadequate to assure maintenance of the AID-financed commodities;

1/ Projects now terminated.

and (3) Th. Landrover is the most appropriate four-wheel drive vehicle in Tanzania.

Recommendation: Based upon the justification set forth herein, it is requested that you approve a waiver of the requirement, under Handbook 1, Supplement B, that commodities procured pursuant to a USAID grant shall have their source and origin in the United States (Geographic Code 000). This waiver will permit procurement, at an approximate cost of $484,000 of thirty Landrover vehicles, as set forth above, which have as their source and origin countries included in AID Geographic Code 935. It also is requested that you conclude: (1) that exclusion of procurement of the Project vehicles from countries included in AID Geographic Code 935 would seriously impede attainment of United States foreign policy objectives and the objectives of the Foreign Assistance Program; (2) that special circumstances exist which justify waiver of the requirements of section 636 (i) of the Foreign Assistance Act of 1961, as amended; and (3) pursuant to the waiver authority granted the Administrator and SER/COM in Handbook 15, AID-Financed Commodities, you approve proprietary procurement from Landrover dealers in Tanzania, Kenya, Australia or Great Britain.

Drafter: CDPO:RMDepp

Clearances: DIR:HLSteverson (draft)
PRM:WHFaulkner (draft)
ADO:MFuchs-Carsch (draft)
EXO:RJohnson (draft)
CON:WAMiller (draft)
REDSO/RLA (draft)

Justification for Procurement Waivers for Motorcycles

Problem: A source and origin waiver from Geographic Code 000 (U.S. only) to Geographic Code 935 (Special Free World) to permit purchase of one hundred fifty (150) motorcycles and a competitive proprietary procurement waiver for Yamaha or Honda motorcycles is requested.

Coperating Country	:	United Republic of Tanzania
Authorizing Document	:	Project Paper and Authorization
Project	:	Resources for Village Production and Income
Project Number	:	621-0155
Nature of Funding	:	Grant
Description of Commodities	:	150 90-125cc. motorcycles and 10% spare parts
Approximate Value	:	CIF Dar es Salaam, $1,700 each for total of $255,000.
Procurement Origin	:	Japan
Procurement Source	:	Japan, Kenya or Tanzania

Discussion: Section 636(i) of the Foreign Assistance Act of 1961, as amended, prohibits A.I.D. from the purchase or long-term lease of motor vehicles unless such vehicles are manufactured in the United States. However, Section 636(i) does provide that "where special circumstances exist the President is authorized to waive the provision of this section in order to carry out the purpose of this Act."

Justification: The type of motorcycle needed in Tanzania is single cylinder 90 to 125cc. "trail" model bikes. There are no lightweight motorcycles made in the U.S. While Harley Davidson sells a 125cc. bike, they are not made in the U.S. American-made motorcycles are too powerful and expensive for the purpose of the Project. Further, there are no distributors for American-made motorcycles in East Africa. Motorcycles from Japan, both Yamaha and Honda, are imported in large numbers, and spare parts are available. Further, mechanics are familiar with these engines, while the Harley Davidson is a two-stroke engine requiring special lubricating oils, not available or imported in Tanzania.

Primary Justification: (1) The U.S. does not produce a motorcycle appropriate for the purposes of the Project; and (2) spares and maintenance facilities are available for Honda and Yamaha vehicles.

Recommendation: It is requested that you conclude: (1) that exclusion of procurement of the motorcycles from countries included in AID Geographic Code 935 would seriously impede attainment of United States foreign policy objectives and the objectives of the foreign assistance program; and (2) competitive proprietary procurement from the manufacturers noted above is required to assure maintenance of the AID-financed commodities; and (3) that special circumstances exist which justify waiver of the requirements of Section 636(i) of the Foreign Assistance Act of 1961, as amended.

Justification for Procurement Waivers for Cars

Problem: A source origin waiver from Georgraphic Code 000 (U.S. only) to Geographic Code 935 (Selected Free World) and competitive proprietary procurement of Volkswagen or Peugeot cars is requested.

Country	:	United Republic of Tanzania
Authorizing Document	:	Project Paper and Authorization
Project	:	Resources for Village Production and Income
Project Number	:	631-0155
Nature of Funding	:	Grant
Description of Commodities	:	3 four-passenger saloon vehicles and 10% spares
Approximate Value	:	Price CIF Dar es Salaam, 3 @ $10,000 = $30,000
Procurement Source	:	Tanzania, Kenya, France or Germany
Procurement Origin	:	France or Germany

Discussion: Section 636(i) of the Foreign Assistance Act of 1961, as amended, prohibits A.I.D. from the purchase or long-term lease of motor vehicles unless such vehicles are manufactured in the United States. However, Section 636(i) does provide that "where special circumstances exist the President is authorized to waive the provision of this section in order to carry out the purpose of this Act." Project vehicles to be procured for the advisor team and TRDB headquarters staff will be used for Project support activities in Dar es Salaam and field visits in areas where four-wheel drive vehicles are not needed.

No spare parts are available in-country for American-made cars. Vehicles for which spares are available, while bearing U.S. names (e.g., Ford and GM) do not qualify for compliance under Section 636(i). AMC is the only U.S. distributor with a Tanzanian dealership. AMC is represented by Colt Motors located in Dar es Salaam. Inspection of the firm's premises revealed (1) an inadequate spare inventory and reported lead times for ordering parts of ten months; and (2) maintenance facilities are in total disarray. A SER/COM/ALI representative has recommended no U.S.-financed vehicles to be taken to Colt Motors.1/

1/ Refer to Hagen to Director Trip Report, May 1978 for details of visit to vehicle dealerships in Tanzania.

Primary Justification: Spare parts and maintenance facilities for American-made cars do not exist in Tanzania.

Recommendation: Based on the justification set forth herein, it is requested that you approve a waiver of the requirement, under Handbook 1, Supplement B, that commodities procured pursuant to a USAID grant shall have their source and origin in the United States. This waiver will permit procurement, at an approximate cost of $30,000 of three Puegeot or Volkswagen vehicles, as set forth above, which have as their source and origin countries included in AID Geographic Code 935. It is also requested that you conclude: (1) that exclusion of procurement of the Project vehicles from countries included in AID Geographic Code 935 would seriously impede attainment of United States foreign policy objectives and the objectives of the foreign assistance program; (2) that special circumstances exist which justify waiver of the requirements of Section 636 (i) of the Foreign Assistance Act of 1961, as amended; and (3) pursuant to the waiver authority granted the Administrator and SER/COM in Handbook 15, AID-Financed Commodities, you approve competitive proprietary procurement of Puegeot and/or Volkswagen from dealers in Tanzania, Kenya, France or Germany.

Justification for Procurement of Waivers for Machinery and Related Equipment

Problem: A source-origin waiver from Geographic Code 941 to Geographic Code 935 (Speical Free World) of approximated $930,000 worth of machinery, including tractors, dozers and related equipment and proprietary procurement from the Tanzanian dealerships for Massey-Ferguson, John Deere, International Harvester, Caterpillar and Ford is requested.

Country	:	United Republic of Tanzania
Authorizing Documents:	:	Project Paper and Authorization
Project	:	Resources for Village Production and Income
Project Number	:	621-0155
Nature of Funding	:	Grant
Description of Commodities	:	See Table Below
Approximate Value	:	$930,000

Discussion: Approximately 35 units of farm machinery and related equipment are needed to support Phase I of the NAFCREP lending program. An illustrative table of the typical machinery, source and origin of goods, price, and local dealerships is given in Table 1.

A typical list of complementary implements for the tractors would include a trailer for hauling, disc plow (with 3-4 discs depending on the size of the tractor), harrow (with offset discs), planter (for maize and bean seed), and seed drill (for wheat and sorghum).

Normally 10% spare parts are also purchased for the tractors; however, spares are not imported for caterpillar since the local dealer maintains an adequate supply.

TABLE 1: ILLUSTRATIVE LIST OF MAKES, SIZE, PRICE AND SOURCE OF MACHINERY

Make	HP	MODEL	Price 1979/80	Source-Origin	Manufacturer	Local Dealership
Massey	47	240(135)	$13,250	UK	MF	Tanzania Motor
Ferguson	63	265 (165)	16,000	"		Corporation
Tractors	79	290 (185)	18,900	"		
John Deere	71	2030	$14,100	West Germany	JD	K.J. Motors
Tractors	79	2130	18,000			
Ford	65	4600	$15,400 a/	UK	Ford Motor	Riddock Motors
Tractors	78	6600	25,000 a/		Company	
	79	7600	22,800 a/			
International	45	384	$11,700	UK	IH	AISCO
Harvester	72	684	16,600	West Germany		
Tractors	74	744	19,500	USA/Canada		
Caterpillar	80	D4	$58,200	UK	Caterpillar	
Dozers	105	D5	89,000		Company	United Africa Co.
	140	D6	114,600			
	300	D8	219,500			

a/ Only 1978 prices available.

The exact requirements of size and make of the equipment is not now known as each village in consultation with the TRDB field staff determines which machine is most appropriate to its needs and requests financing for a particular brand and size of equipment. Past experience has demonstrated a preference for Massey Ferguson. Eighty percent of the currently approved loan applications, for which the equipment has not yet been provided by TRDB due to recent import restrictions, are for Massey-Ferguson. It is believed this trend will be continued through the life of this Project based on the proven performance of this brand in rural areas. The remaining applications were fairly evenly distributed among requests for International Harvester, John Deere and Ford.

In September 1979 TRDB undertook a Farm Machinery Survey of eight local suppliers of farm equipment. The results of the mail survey showed the following dealerships imports over the past five years.

Make	Dealership	Number of Machines					
		1975	1976	1977	1978	1979	Total
Massey Ferguson	Farm Machinery Distributors	287	92	96	152	45	672
International Harvester	AISCO	246	118	116	135	65	680
Ford	Riddoch Motors	200	56	93	74	89	512
John Deere	K.J. Motors	-0-	56	60	44	15	175

Discounting 1979 as an atypical year because of import restrictions, increasing imports of Massey Ferguson and International Harvester equipment and spares can be expected.

With respect to machine size all the currently approved applications fall between 47-78 horsepower. It is anticipated that very few villages could justify the need for a greater horsepower tractor or dozer than those in this range. The Technical Analysis in Annex II-B has further discussion of the requirements.

Only AISCO imports U.S. made International Harvester. All other equipment is source origin from Geographic Code 935. As in the case of Lister engines, the local dealers will be encouraged to seek imports from U.S. sources, particularly in Phase II, when U.S. made equipment and spares are compatible with the machinery already in-country. A source-origin waiver is therefore needed for Phase I requirements based on the unavailability of U.S. made equipment and spares in Tanzania. Further a proprietary procurement waiver is needed for Massy-Ferguson, John Deere, Ford, International Harvester and Caterpillar. Procurement will be based on villages' requests for particular brand names . While it is not possible to determine the total number of machines required from each manufacturer, about 80% of the procurement will be for Massey Ferguson. In cases where manufacturers are represented by more than one dealership procurement will be on a competitive basis.

Proprietary procurement from the manufacturer of the tractor or dozer requested by villages is also requested for spare parts and complementary equipment (e.g., harrows, planters, etc.). Proprietary procurement is necessary in order to standardize on the five most commonly available types of farm machinery in Tanzania and to provide compatibility with the types of machinery and spare parts now available. Village requests demonstrate that Massey-Ferguson equipment has proven to be the most suitable equipment. Further, the five manufacturers listed above are the sole suppliers of farm machinery in Tanzania and have developed a maintenance and service capability for the requested machinery.

Primary Justification: The source origin waiver is based on (1) the non-availability of U.S. manufactured machinery, equipment and spare parts and the lack of dealership arrangements with U.S. manufacturers 1/ and (2) there is inadequate representation of American firms in Tanzania. The proprietary procurement waiver is based on (1) the compatability of equipment on hand; (2) the proven performance of the equipment from the manufacturers listed, particularly Massey-Ferguson; (3) the availability of service facilities;and (4) the need to provide the equipment as requested.

1/ U.S. Embassy personnel are now working with local suppliers and U.S. manufacturers to establish import supply relationships. As there efforts proceed, the Mission expects more equipment to be imported from the U.S. providing parts are inter-changeable and the componentry is the same. SER/COM/ALI has been requested to advise the Mission on interchangeability of parts. The total value of the source-origin waiver will hopefully not be needed for Phase I and the requirements for waiver should significantly decrease for Phase II.

Reccommendation: That (1) based on the discussion above and (2) pursuant to the waiver authority reserved for the Administrator in Handbook I, Supplement B, Chapter 5 and 12, you determine that the machinery required is not available from U.S. sources for Phase I; (3) that you determine exclusion of procurement from the Sources requested would seriously impede attainment of U.S. foreign policy objectives and the objectives of the foreign assistance program, and (4) that you approve proprietary procurement from Massey-Ferguson Company, John Deere Company, International Harvester and Caterpillar and Ford Motor Company.

Approved: ______________________

Disapproved: ______________________

Date: ______________________

STATUTORY CHECKLIST FISCAL YEAR 1980

A. GENERAL CRITERIA FOR COUNTRY ELIGIBILITY

1. FAA Sec. 116. Can it be demonstrated that contemplated assistance will directly benefit the needy? If not, has the Department of State determined that this government has engaged in a consistent pattern of gross violations of internationally recognized human rights?

   Project activities in Tanzania focus on providing goods and services to the villages of Tanzania. The CDSS and other program documents have argued the needy people of Tanzania are the rural villagers, especially in the semi-arid areas.

2. FAA Sec. 481. Has it been determined that the government of the recipient country has failed to take adequate steps to prevent narcotics drugs and other controlled substances (as defined by the Comprehensive Drug Abuse Prevention and Control Act of 1970) produced or processed, in whole or in part, in such country, or transported through such country, from being sold illegally within the jurisdiction of such country to U.S. Government personnel or their dependents, or from entering the U.S. unlawfully?

   No.

3. FAA Sec. 620 (b). If assistance is to a government, has the Secretary of State determined that it is not dominated or controlled by the international Communist movement?

   No determination that Tanzania is controlled by the international Communist movement has been made.

4. FAA Sec. 620 (c). If assistance is to a government, is the government liable as debtor or unconditional guarantor on any debt to a U.S. citizen for goods or services furnished or ordered where (a) such citizen has exhausted available legal remedies and (b) the debt is not denied or contested by such government?

   Payments to a U.S. Contractor for work completed in 1973 have been delayed. The U.S. citizen has not yet exhausted available legal remedies. The Government of Tanzania is providing regular and timely payments on loans provided by the U.S.

5. FAA Sec. 620 (e) (1). If assistance is to a government, has it (including government agencies or subdivision) taken any action which has the effect of nationalizing, expropriating, or otherwise seizing ownership or control of property of U.S. citizens or entities beneficially owned by them without taking steps to discharge its obligations toward such citizens or entities?

   The TanGov nationalized a coffee estate (1973) and a Caltex gasoline station and adjacent buildings (1972). The former has been settled though payments in foreign exchange have been held up in some cases. The latter is still pending, but Caltex has not yet exhausted all legal remedies. Recently the right of occupancy for an American citizen was revoked for an estate in Arusha. The government has not yet taken possession of the property and no claims have been made. In summary, there are a small number of pending claims that are taking time to resolve, but complaintant parties and the TanGov are working on steps to resolve the issues.

6. FAA Sec. 620 (a), 620 (f), 620 (d); FY 80 App. Act. Sec. [511, 512 and 513] Is recipient country a Communist country? Will assistance be provided to Angola, Cambodia, Cuba, Laos or Vietnam? Will assistance be provided to Afghanistan or Mozanbique without a waiver?

   No, the recipient country is not a Communist country. Tanzania is usually a recipient of foreign aid and does not provide assistance to Communist countries.

7. FAA Sec. 620 (i). Is recipient country in any way involved in (a) subversion of, or military aggression against, the United States or any country receiving U.S. assistance, or (b) the planning of such subversion or aggression?

   Tanzania is not involved in or planning subversive activities against the U.S.

8. FAA Sec. 620 (j). Has the country permitted, or failed to take adequate measures to prevent, the damage or destruction, by mob action, of U.S. property?

   No.

9. FAA Sec. 620 (l). If the country has failed to institute the investment guaranty program for the specific risks of expropriation, inconvertibility or confiscation, has the AID Administrator within the past year considered denying assistance to such government for this reason?

   No.

10. FAA Sec. 620 (o); Fishermen's Protective Act of 1967, as amended, Sec. 5. If country has seized, or imposed any penalty or sanction against any U.S. fishing activities in international waters,

a. has any deduction required by the Fishermen's Protective Act been made?

b. has complete denial of assistance been considered by AID Administrator?

The TanGov has neither seized nor imposed any penalty or sanction against U.S. fishing activities in international waters.

11. FAA Sec 620; FY 80 App. Act Sec [518]. (a) Is the government of the recipient country in default for more than six months on interest or principal of any AID loan to the country? (b) Is country in default exceeding one year on interest or principal on U.S. loan under program for which App. Act appropriates funds?

The TanGov has not defaulted on any U.S. loan.

12. FAA Sec. 620 (s). If contemplated assistance is development loan or from Economic Support Fund, has the Administrator taken into account the percentage of the country's budget which is for military expenditures, the amount of foreign exchange spent on military equipment and the amount spent for the purchase of sophisticated weapons systems? (An affirmative answer may refer to the record of the annual "Taking Into Consideration" memo" "Yes, taken into account by the Administrator at time of approval of Agency OYB." This approval by the Administrator of the Operational Year Budget can be the basis for an affirmative answer during the fiscal year unless significant changes in circumstances occur.)

No assistance from the Economic Support Fund is anticipated this fiscal year.

13. FAA Sec. 620 (t). Has the country severed diplomatic relations with the United States? If so, have they been resumed and have new bilateral assistance agreements been negotiated and entered into since such resumption?

The TanGov has not severed diplomatic relations with the United States.

14. FAA Sec. 620 (u). What is the payment status of the country's U.N. obligations? If the country is in arrears, were such arrearages taken into account by the AID Administrator in determining the current AID Operational Year Budget?

The UNDP representative in Dar es Salaam reports Tanzania's contributions to the U.N. are current and that there are no arrearages.

15. FAA Sec. 620 A, FY 80 App. Act, Sec. 521. Has the country granted sanctuary from proscription to any individual or group which has committed an act of international terrorism? Has the country granted sanctuary from prosecution to any individual or group which has committed a war crime?

The Palestine Liberation Organization maintains an office in Dar es Salaam which enjoys diplomatic status. To our knowledge Tanzania has not provided sanctuary to individuals convicted or wanted for terrorist actions.

16. FAA Sec. 666. Does the country object, on basis of race, religion, national origin or sex, to the presence of any officer or employee of the U.S. there to carry out economic development program under FAA?

No such objections have been raised. Resident visas for USAID employees are easily obtained.

17. FAA Sec. 669,670. Has the country, after August 3, 1977, delivered or received nuclear enrichment or reprocessing equipment, materials, or technology, without specified arrangements or safeguards? Has it detonated a nuclear device after August 3, 1977, although not a "nuclear-weapon State" under the non-proliferation treaty?

No nuclear material has been delivered or received without specified safeguards. No nuclear testing has been undertaken in Tanzania.

B. FUNDING SOURCE CRITERIA FOR COUNTRY ELIGIBILITY

1. Development Assistance Country Criteria

a. FAA Sec. 102 (b) (4). Have criteria been established and taken into account to assess commitment progress of country in effectively involving the poor in development, on such indexes as: (1) increase in agricultural productivity through small-farm labor intensive agriculture, (2) reduced infant mortality, (3) control of population growth, (4) equality of income distribution, (5) reduction of unemployment, and (6) increased literacy.

Yes. See Dar reporting Airgram, To-AID A-09, Dated January 16, 1979.

b. FAA Sec. 104 (d) (1); IDC Act of 1979. If appropriate, is this development (including Sahel) activity designed to build motivation for smaller families through modification of economic and social conditions supportive of the desire for large families in programs such as education in and out of school, nutrition, disease control, maternal and child health services, agricultural production, rural development, assistance to urban poor through community-based development programs which give recognition to people motived to limit the size of their family?

b. (cont.)

This activity's objective is to increase agricultural production. Other Mission and Tanzanian government activities support family planning and population control.

A. GENERAL CRITERIA FOR PROJECT

1. FY 80 App. Act Unnumbered; FAA Sec. 634A; Sec. 653 (b); (a) Describe how authorizing and appropriations Committees of Senate and House have been or will be notified concerning the project; (b) is assistance within (Operational Year Budget) country or international organization allocation reported to Congress (or not more than $1 million over that figure)?

   An activity data sheet for this project is contained in the FY 1980 Congressional Presentation. $1.5 million was the planned FY 1980 obligation. Both life of project funding and FY 1980 obligations have been increased. The project will therefore require a notice to Congress of AID's intent to increase life of project funding and the FY 1980 obligation.

2. FAA Sec. 611 (a) (1). Prior to obligation in excess of $100,000, will there be (a) engineering, financial, and other plans necessary to carry out the assistance and (b) a reasonably firm estimate of the cost to the U.S. of the assistance?

   AID engineers have reviewed plans for housing construction (See Annex II-H). A financial analysis has been completed (See Annex II-G). Economic and social feasibility analyses have been completed (See Annexes II-C and D).

3. FAA Sec. 611 (a) (2). If further legislative action is required within recipient country, what is basis for reasonable expectation that such action will be completed in time to permit orderly accomplishment of purpose of the assistance?

   No Tanzanian Government legislative action is required.

4. FAA Sec. 611 (b); FY 80 App. Act. Sec. [501]. If for water or water related land resource construction, has project met the standards and criteria as per the Principles and Standards for Planning Water and Related Land Resources dated October 25, 1973?

   Several water related, land and water management, pilot activities are planned in Phase I. These activities are experimental and will result in the development of appropriate standards and criteria for expanded project lending activities. Prior to obligation of funds for Phase II, these plans will be reviewed by AID.

5. FAA Sec. 611 (e). If project is capital assistance (e.g. construction), and all U.S. assistance for it will exceed $1 million, has Mission Director certified and Regional Assistant Administrator taken into consideration the country's capability effectively to maintain and utilize the project?

The Mission Director has made such a certification (see Annex I-D).

6. FAA Sec. 209. Is project susceptible of execution as part of regional or multilateral project? If so, why is project not so executed? Information and conclusion whether assistance will encourage regional development programs.

The project will complement an IBRD/IDA financed loan. AID financing is to be provided on a grant basis, and it is therefore inappropriate to execute this project as a multilateral project. The IDA project was also prepared and reviewed earlier than the AID project. Execution of the project as a multilateral activity would therefore have resulted in a delay of the IDA assistance. Despite these problems, AID institutional and technical assistance is designed to complement IDA assistance.

7. FAA Sec. 601 (a). Information and conclusions whether project will encourage efforts of the country to: (a) increase the flow of international trade; (b) foster private initiative and competition; (c) encourage development and use of cooperatives, credit unions, and savings and loan associations; (d) discourage monopolistic practices; (e) improve technical efficiency of industry, agriculture and commerce; and (f) strengthen free labor unions.

(a) The project will finance importation of approximately $30.0 million of commodities from various countries. Project activities will result in increased agricultural production and the Tanzanian ability to increase export of commodities. (b) Tanzania is a socialist country and therefore emphasizes the growth of cooperative initiatives. TRDB lending is to villages. Villages in turn provide commodities to individual village members. Farmers willing to utilize improved inputs, including tools and equipment, have the opportunity to increase individual production and incomes. (c) This project provides assis-ta[illegible] an intermediate credit institution; encourages both village s[illegible] borrowing and provides loans to cooperative activities. (d) [illegible] as a Socialist country provides essential services throug[illegible] owned businesses. Examples include state-owned marketing boa[illegible]s. The project proposes studies to recommend improvements in the operation of these parastatals. Village lending activities will increase villagers' options in obtaining essential goods. (e) Commodities provided for village agricultural activities should result in increased labor efficiencies and production. (f) Labor union activities are outside the scope of this project. However, project activities include training for villagers which will increase villages' ability to participate in the planning, implementation and evaluation of local development initiatives.

8. FAA Sec. 601 (b). Information and conclusion on how project will encourage U.S. private trade and investment abroad and encourage private U.S. participation in foreign assistance programs (including use of private trade channels and the services of U.S. private enterprise).

   Technical assistance will be provided by a U.S. enterprise; training will take place in U.S. universities and educational institutions; certain commodities will be purchased from U.S. manufacturers.

9. FAA Sec. 612 (b); Sec. 636 (h). Describe steps taken to assure that, to the maximum extent possible, the country is contibuting local currencies to meet the cost of contractual and other services, and foreign currencies owned by the U.S. are utilized to meet the cost of contractual and other services.

   Tanzania is experiencing acute foreign exchange shortages and is unable to contribute resources tocover U.S. dollar and other hard currency costs. However,as in the current project, TRDB will continue to provide local currency for financing of seasonal inputs, in-country training, staff salaries, and other shilling costs.

10. FAA Sec. 612 (d). Does the U.S. own excess foreign currency of the country and, if so, what arrangement have been made for its release?

    The U.S. does not own excess Tanzanian shillings.

11. FAA Sec. 601 (e). Will the project utilize competitive selection procedures for the awarding of contracts, except where applicable procurement rules allow otherwise?

    Competitive selection procedures will be used for Contractor selection.

12. FY 80 App. Act Sec. 521. If assistance is for the production of any commodity for export, is the commodity likely to be in surplus on world markets at the time the resulting productive capacity becomes operative, and is such assistance likely to cause substantial injury to U.S. producers of the same, similar or competing commodity?

    The project provides assistance to increase food crop production for domestic consumption.

B. FUNDING CRITERIA FOR PROJECT

   1. Development Assistance Project Criteria

      a. FAA Sec. 102 (b); 111; 113; 281a. Extent to which activity will (a) effectively involve the poor in development, by extending access to economy at local level, increasing labor-intensive production and the use of appropriate technology, spreading investment out from cities to small towns and rural areas, and insuring wide participation of the poor in the benefits of development on a sustained basis, using the appropriate U.S. institutions; (b) help develop cooperatives, expecially by technical assistance, to assist rural and urban poor to help themselves toward better life, and otherwise encourage democratic private and local governmental institutions; (c) support the self-help efforts of developing countries; (d) promote the participation of women in the national economies of developing countries and the improvement of women's status; and (e) utilize and encourage regional cooperation by developing countries?

(a) Training in villages will increase villagers' ability to participate in planning and decision making, to utilize project resources and to increase production. Hand tools, ox carts and ploughs are improved labor saving technologies which will be made available.

(b) Project lending activities will be undertaken through village councils. Registered villages in Tanzania are multi-purpose cooperatives and have the objective of encouraging local decision-making on a democratic basis.

(c) Lending for commodities is approved based on several criteria: amount of village communal production; villages' willingness and ability to provide human and financial resources to new self-help activities; and villages' record of repayment for other loans.

(d) In addition to village training certain commodities provided will benefit women. The best example are the maize mills which will free women from the arduous task of hand pounding of maize.

(e) No regional activities are planned. However, some short-term training will be provided for work-study tours in neighboring and other developing countries.

b. FAA Sec. 103. Is assistance being made available for agriculture, rural development or nutrition; if so, (a) extent to which activity is specifically designed to increase productivity and income of rural poor; [103A] if for agricultural research, full account shall be taken of the needs of small farmers, and extensive use of field testing to adapt basic research to local conditions shall be made; (b) extent to which assistance is used in coordination with programs carried out under Sec. 104 to help improve nutrition of the people of developing countries through encouragement of increased production of crops with greater nutritional value, improvement of planning, research, and education with respect to nutrition, particularly with reference to improvement and expanded use of indigenously produced foodstuffs; and the undertaking of pilot or demonstration programs explicitly addressing the problem of malnutrition of poor and vulnerable people; and (c) extent to which activity increases national food security by improving food policies and management and by strengthening national food reserves, with particular concern for the needs of the poor, through measures encouraging domestic production, building national food reserves, expanding available storage facilities, reducing post harvest food losses, and improving food distribution.

(a) The purpose of the project is to increase rural production and incomes and thus improve the level of well-being in rural areas. While this project is not for agricultural research, a complementary AID-financed project (621-0156) will be undertaking applied research and field testing. The results from this project will lead to areas specific recommendations for use of inputs such as fertilizer, seeds and chemicals for insect and week control. Other project activities will include supply of funds for village production of food, processing of food, production of farm implements or other inputs, and village services related to the above such as transport and storage facilities.

c. [107] is appropriate effort placed on use of appropriate technology? (relatively smaller, cost-saving, labor using technologies that are generally most appropriate for the small farms, small businesses and small incomes of the poor.)

The project provides funds for credit financing of a variety of resources. Included are ox carts and ploughs, maize mills, and implements. These all represent technologies which have been demonstrated to be economical and supportable at the village level. (See Technical and Economic Analyses in PP.) The project also plans some pilot activities to test new technologies to determine which are appropriate for individual and communal activities.

d. FAA Sec. 110 (a). Will the recipient country provide at least 25% of the costs of the program, project, or activity with respect to which the assistance is to be furnished (or has the latter cost-sharing requirement been waived for a "relatively least developed" country)?

While Tanzania is a relatively least developed country the TRDB will provide more than 25% of total project costs.

e. FAA Sec. 110 (b). Will grant capital assistance be disbursed for project over more than 3 years? If so, has justification satisfactory to Congress been made, and efforts for other financing, or is the recipient country "relatively least developed"?

Yes. Tanzania is a relatively least developed country.

f. FAA Sec. 281 (b). Describe extent to which program recognizes the particular needs, desires, and capacities of the people in the country; utilizes the country's intellectual resources to encourage institutional development; and supports civil education and training in skills required for effective participation in governmental processes essential to self-government.

TRDB will provide credit for villages based on their requests for particular commodities or services. Requests represent villages' expression of particular needs and capacities. Technical assistance to provide on-the-job training and U.S. degree training for selected individuals is planned to strengthen the TRDB's personnel skills.

g. FAA Sec. 122 (b). Does the activity give reasonable promise of contributing to the development of economic resources, or to the increase of productive capacities and self-sustaining economic growth?

Yes. Increased food production is essential for Tanzania to reduce its dependence of food imports. The project will thus be a saver of foreign exchange.

5C (3) STANDARD ITEM CHECKLIST

A. Procurement

1. FAA Sec. 602. Are there arrangements to permit U.S. small business to participate equitably in the furnishing of commodities and services financed?

   The contract for technical services and training will be secured through TRDB review of proposals submitted by U.S. businesses. Several private voluntary agencies are especially qualified.

2. FAA Sec. 604 (a). Will all procurement be from the U.S. except as otherwise determined by the President or under delegation from him?

   Yes. Source origin waivers for vehicles and Lister engines are contained in the annexes.

3. FAA Sec. 604 (d). If the cooperating country discriminates against U.S. marine insurance companies, will commodities be insured in the United States against marine risk with a company or companies authorized to do a marine insurance business in the U.S.?

   Yes

4. FAA Sec. 604 (e). If offshore procurement of agricultural commodity or product is to be financed, is there provision against such procurement when the domestic price of such commodity is less than parity?

   No procurement of agricultural commodities is planned.

5. FAA Sec. 608 (a). Compliance with requirement in section 901 (b) of the Merchant Marine Act of 1936, as amended, that at least 50 per centum of the gross tonnage of commodities (computed separately for dry bulk carriers, dry cargo liners, and tankers) financed shall be transported on privatly owned U.S.-flag commercial vessels to the extent that such vessels are available at fair and reasonable rates.

   U.S.-flag vessels will be used to the extent possible.

6. FAA Sec. 621. If technical assistance is financed, to the fullest extent practicable will such assistance, goods and professional and other services from private enterprise, be furnished on a contract basis? If the facilities of other Federal agencies will be utilized, are they particularly suitable, not competitive with private enterprise, and made available without undue interference with domestic programs?

   Technical assistance will be provided on a contract basis by a private voluntary organization or a private enterprise. Facilities of other Federal agencies will not be used.

7. International Air Transport. Fair Competitive Practices Act, 1974. If air transportation of persons or property is financed on grant basis, will provision be made that U.S. flag carriers will be utilized to the extent such service is available?

   Yes. Contract provisions will require use of American carriers to the extent service is available.

8. FY 80 App. Act Sec. (505) Does the contract for procurement contain a provision authorizing the termination of such contract for the convenience of the United States?

   The contract will be a host country contract. Such a clause will be contained for the convenience of the Government of Tanzania. The contract will also contain a clause stipulating funds are available subject to the availability of U.S. funds.

B. Construction

1. FAA Sec. 601 (d). If a capital (e.g., construction) project, are engineering and professional services of U.S. firms and their

affiliates to be used to the maximum extent consistent with the national interest?

Construction activities are limited to construction of four houses and village service centers. The dollar cost for the housing is not of a magnitude to interest U.S. firms. Village service centers will be constructed on a self-help basis with villagers contributing labor and local materials. AID will purchase foreign exchange commodities to be provided on a loan basis to villagers.

2. FAA Sec. 611 (c). If contracts for construction are to be financed, will they be let on a competitive basis to maximum extent practicable?

   Yes. Local lenders will be sought for construction of staff houses and commodities will be procurred on a competitive bases. A proprietary procurement waiver is contained in the Annexes to the PP.

3. FAA Sec. 620 (k). If for construction of productive enterprise, will aggregate value of assistance to be furnished by the U.S. not exceed $100 million?
   No.

C. Other Restrictions

1. FAA Sec. 122 (b). If development loan, is interest rate at least 2% per annum during grace period and at least 3% per annum thereafter?

   Not applicable.

2. FAA Sec. 301 (d). If fund is established solely by U.S. Contributions and administered by an international organization, does Comptroller General have audit rights?

   Not applicable.

3. FAA Sec. 620 (h). Do arrangements exist to insure that United States foreign aid is not used in a manner which, contrary to the best interests of the United States, promotes or assists the foreign aid projects or activities of the Communist-bloc countries?

   Project funds will be used to procure steel for local manufacture of farm implements. The farm implements factory was a turnkey operation financed by the People's Republic of China. The company is solely owned and managed by Tanzanians.

4. FAA Sec. 636 (i). Is financing not permitted to be used, without waiver, for purchase, sale, long-term lease, exchange or guaranty of motor vehicles manufactured outside the U.S.

   A waiver request and justification for non-U.S. vehicles is contained in the Annexes of the PP.

5. Will arrangements preclude use of financing:

a. FAA Sec. 104 (f). To pay for performance of abortions as a method of family planning or to, motivate or coerce persons to practice abortions; to pay for performance of involuntary sterilization as a method of family planning, or to coerce or provide financial incentive to any person to undergo sterilization?

Yes.

b. FAA Sec. 620 (g). To compensate owners for expropriated nationalized property?

Yes.

c. FAA Sec. 660. To provide training or advice or provide any financial support for police, prisons, or other law enforcement forces, except for narcotics programs?

Yes.

d. FAA Sec. 662. For CIA activities?

Yes.

e. FY 80 App. Act Sec. [504.] To pay pensions, etc., for military personnel?

Yes.

f. FY 80 App. Act Sec. [506] To pay U.N. assessments?

Yes.

g. FY 80 App. Act Sec. [507] To carry out provisions of FAA section 209 (d) (Transfer of FAA funds to multi-lateral organizations for lending.)

Yes.

h. FY 80 App. Act. Sec. [511] To finance the export of nuclear equipment, fuel, or technology or to train foreign nationals in nuclear fields?

Yes.

i. FY 80 App. Act Sec. [515.] To be used for publicity or propaganda purposes within U.S. not authorized by Congress?

Yes.

NAFCREP DESCRIPTION LENDING CRITERIA AND POLICES

I. Procedures for Authorization and deligation of funds.

II. Definition - National Food Credit Program (NAFCREP)

III. Description of the Currently Proposed NAFREP Lending Program.

IV. Lending Policy

V. Borrower Eligibility and Loan Size.

VI. The Process for USAID-Supplied FX.

Schedule A: Assumptions and Computations.

NAFCREP DESCRIPTION, LENDING CRITERIA AND POLICIES

I. Procedures for Authorization and Obligation of Funds

The Administrator of AID has authorized funds for institutional support for the development and strengthening of the Tanzania Rural Development Bank (TRDB) and a grant for commodity imports which enables the Bank to become financially viable and provide goods essential for rural development.

Adequate planning and anlyses have been completed for the entire life of project to obligate any or all of $14.2 million planned for Project inputs contributing to the strengthening of personnel skills, improvement of procedures, increasing planning, evaluation and financial management capability of TRDB. These include training, technical assistance, staff vehicles and equipment, housing and other costs.

Sufficient lending activities have been identified and planning completed for obligation of any or all of the $10.0 million planned for Phase I lending activities. This specifically includes financing procurement of diesel engines for maize mills, steel and other raw materials not available in Tanzania to be used for making of tools, oxcarts, and plows; farm machinery and transport vehicles; and construction materials not available or available in insufficient quantities such as roofing material, nails and cement.

In addition to Phase I lending, approximately one-half million dollars will be obligated for technical assistance and related commodity support necessary to determine the feasibility of new lending activities. (Examples are discussed in the Technical Analysis of the Project Paper.) These funds will be controlled by the Mission and transferred to the TanGov for expenditures as TRDB identifies on-going experimental activities it wishes to support (such as those of PVO's, church groups, AATP, TAMTU, or SIDO projects) or experimental activities it wishes to directly undertake. Plans for these activities will be prepared and reviewed by the Planning Department of TRDB (headed by the TRDB Planning Manager) with the assistance of the AID-financed Planning Advisor. USAID will review the plans and TRDB recommendations for funding. The Mission Director will authorize disbursement of funds for these activities in consultation and with advice from appropriate Mission, REDSO, or other AID sources. The results of these activities will be used to determine whether complementary or alternative lending activities should be recommended for Phase I and whether major restructuring of NAFCREP is necessary for Phase II. New lending activities which are complementary to those portfolios already identified (e.g., additional hand tools, non-traditional fuel sources for the maize mills) or alternative technologies (e.g., hand grinders in lieu of diesel engines for maize mills) may be added at any time provided the planning activities result in sufficient analyses to satisfy AID requirements and support the feasibility of these activities. Any major restructuring of NAFCREP or the addition of new portfolios not already planned for Phase I will await the evaluation and Phase II planning exercise.

In addition sufficient planning has been completed to allow authorization of the Phase II grant. Sufficient lending activities which would enable expenditure of the total $20.0 million have been identified. (See Schedule A of this Annex.) However, these funds will not be obligated until Phase I has been evaluated and TRDB and USAID agree on a plan for the allocation of funds for Phase II lending activities. As a result of experience gained during Phase I and the identification of additional lending activities, TRDB may find it beneficial to diversify and expand the lending portfolio proposed in the Project Paper into new geographical areas or categories of lending in addition to those listed below. Additional technical, financial and economic analyses are necessary to support such expansion and will be financed with $ .5 million of grant funds earmarked for further planning. Preparation and/or coordination of preparation of the Phase II plan and the additional analyses will be the responsibility of TRDB with the assistance of the planning advisor and consultation and advice from AID. Additional planning funds may be programmed at this time. This plan will be reviewed by the USAID Mission Director with assistance and advice from Mission, REDSO, AID/W or other sources, as appropriate, prior to obligation of Phase II funds.

II. Definition - National Food Credit Program (NAFCREP)

The general criteria for activities eligible for financing under NAFCREP are those which increase income, production of food or the productivity of villages and villagers, particularly women. The following categories are approved for lending and further planning. Examples of activities are listed after each general category.

A. Production of Inputs and Tools

Village Blacksmiths
Village Brickmaking
Ubungo Farm Implements*
AATP Small-Scale Industry Project or other RIDEP Activities
Village Contract Seed Growers

B. Land Improvements

Irrigation and Drainage
Flood Control
Conservation
Range Management
Tree Nurseries

C. Food Processing

Maize Mills (Lister*)
Rice Hullers (Lister*)
Fruit and Vegetable Drying/Preserving/Processing
Processed Foods (such as Sesame, Peanut and Popcorn Foods)
Oil Seed Presses
Soap (Animal By-Products)

D. Food Production

Oxen Implements
Village Hatcheries, Poultry Farms or Piggeries
Village Vinyards
Honey
Vegetable Gardens
Tractors and Implements

E. Services

Crop Storage (Village* and On-Farm)
Input Storage*
Meeting Places for Training*
Retail Shops*
Offices for Village Leaders and Extension Officers*
Transport (Carts*, Vehicles*)
Workshops (Machinery and Vehicle Repair and Maintenance)

F. Planning Activities*

Any experimental planning activity which falls into the above categories and has no greater foreign exchange content than 50%.

---

*611 (a) met. Other activities require further planning.

III. Description of the Currently Proposed NAFCREP Lending Program

A. General

As shown in the Financial Analysis the NAFCREP lending program is a significant part of TRDB's total development outreach at present and would be expanded in this Project. However, as is also pointed out, several lending sectors of the Bank (especially the most problematic) would be phased down or have become fully disbursed (as is the case with several old IDA programs). The total projected lending outreach of the Bank and the NAFCREP program is shown in Table 1.

TABLE 1: TOTAL TRDB LOAN DISBURSEMENT VOLUME AND NAFCREP DISBURSEMENT VOLUME 1978/79 THROUGH 1985/86

	1978/79	79/80	80/81	81/82	82/83	83/84	84/85	85/86
				(Millions of TSh)				
Total TRDB	175.7	193.3	232.4	269.0	305.8	343.4	364.7	406.5
NAFCREP[a/]	33.5	40.0	52.1	74.2	90.1	101.0	111.6	123.4
% NAFCREP	19	21	23	28	29	29	31	30

a/ Excludes seasonal inputs except hand tools. Totals, including seasonal inputs beginning 1980/81 are: 84.5; 120.5; 149.2; 177.4; 198.1; 221.3; totalling 951.0

NAFCREP seasonal lending is for seasonal inputs including seeds, fertilizer, pesticides and hand tools. Term loans are currently provided for a variety of activities. Table 2 summarizes the kinds of loans, foreign exchange costs and the number of villages reached by the program.

The six-year lending program requires about $71 million U.S. for providing loans to villages (580 million TSh)[1/] of which $50 million

---

1/ All discussions exclude seasonal inputs except for hand tools. If included total NAFCREP equals $116, comprised of $56.4 million for seasonal loans, including seasonal inputs ($45.1 million) and hand tools, $11.3 million. The remaining $59.6 is for term loans. See Schedule A attached to this Annex. AID contribution to NAFCREP is 29% if seasonal inputs included.

TABLE 2: SUMMARY OF NAFCREP BY CATEGORY, NUMBER OF VILLAGE LOANS AND FOREIGN EXCHANGE REQUIRED - 1980/81 THROUGH 1985/86

Category	Number of New Villages	Amount of Foreign Exchange Required Total ($000)	Per Village
Hand Tools	18,480 b/	11,270	$ 610
Food Processing	2,902	23,160	$7,980
Oxen Plows/Carts	960	3,765	$1,960
Village Service Center	1,063	2,770	$2,605
Machinery/Transport	159	5,900	$32,965
Experimental Planning Activities	Unknown	3,500 a/	N/A
TOTAL	8,084 c/	50,365	

a/ An estimated $3.5 million is required over the life of Project. AID will provide $ .5 million in Phase I and may provide additional funds in Phase II based on the in-depth evaluation scheduled at the end of Phase I.

b/ Number of new loans. The number of new villages is about 3,000.

c/ Includes 3,000 for new villages for hand tool lending.

* * * * * * * * * * * *

is foreign exchange. USAID proposed assistance of $30 million would supply 60% of the FX or about 42% of total funds required for NAFCREP lending. The balance of the FX would be provided through other sources now available or anticipated to become available during the next seven years. The TSh of $21 million equivalent (plus $45 million equivalent for seasonal inputs) would come from TRDB's own funds or through short-term or long-term Bank of Tanzania refinancing through the Rural Finance Fund which has been arranged but not used to date. In addition, the program will mobilize about $40.0 million in village capital and human resources for productive activities.

Further details of NAFCREP lending are included in Schedule A, B, and C of this Annex. They provide the following information:

Schedule A - **Year by year summary of:**

- number of units to be supplied;
- cost per unit;
- loans in Tanzanian shillings;
- foreign exchange required to support loans;
- sources of foreign exchange; and
- total foreign exchange for local manufactures of tools, ox carts and plows and other lending portfolios.

Schedule B - Total NAFCREP Program in U.S. dollars including:

- total foreign exchange;
- total local currency; and
- total loans.

Schedule C - Number of villages:

- by year;
- by loan portfolio;
- in each activity;
- added each year; and
- total new villages.

Important criteria used in planning the USAID assistance to the NAFCREP Program and embodied in the Project were as follows:

1. Seasonal inputs such as chemical fertilizers and insecticides were excluded from direct assistance because an acceptable level of confidence had not been achieved in the first three years of lending under the Agriculture Credit Project (621-0117). The beneficial impact of these on production is still uncertain in many areas and their environmental impact not yet fully determined. Further work in farming systems technology packages is needed and verification through research of their beneficial impact.

2. Resources are provided to diversify and expand assistance for rural development which are critical to productivity and profitability at the village level, especially those with proven investment benefit. The term loan assistance is directed to areas of proven technology and economic benefit in production, processing and marketing to assure the Tanzanian farmers will be able to exercise a greater degree of control over the production, processing and marketing and thus the real return to the family labor. This approach also capitalizes on the complementarity of the technologies.

3. Lending is country-wide to those clients (villages, individuals or groups of individuals) that have the capacity to successfully carry out the Project. Approximately 85% of all TRDB loans made presently are to villages. Individual fixed assets will not be financed except to the extent that the use-right of the asset received is part of a larger system (irrigation) or in those few instances where a village requests in writing that the economic activity be carried out by a farmer or group of farmers on behalf of the village (e.g., blacksmiths). This approach will assure that fixed assets such as godowns and grain-mills will be for the open and unrestricted use of residents of the borrowing village.

4. The NAFCREP program will use TRDB lending policy, procedures, criteria, loan supervision, accounting and other necessary resources. These were studied during the final evaluation of the present Project and during the new Project design and found to be generally sound, adequate and in accord with prudent credit management and the TanGov agricultural sector strategy. Project appraisal techniques, if anything, are too verbose and sophisticated for practical and efficient use in the countryside. During and through the IDA and USAID projects these policies, procedures, forms and criteria will be reviewed, refined, simplified where possible and made more appropriate for the size and type of loan made.

5. Criteria should not rigidly differentiate between cash and food crops. A more important criteria for rural development is the impact of the activity on overall farm production and productivity. Lending activities for AID financing have been selected in this manner.

6. NAFCREP lending activities need to be expanded and flexibility is required to wisely use foreign exchange resources. Throughout the life of project new activities should be reviewed and added to NAFCREP if satisfactory planning, testing and evaluation indicate new areas of profitable lending. Such activities will be added by reducing AID support to other activities. The first three years of the Project will allow TRDB and AID to gain experience. The Phase II plan will present an opportunity to restructure NAFCREP, program additional funds for planning or undertaking major lending expansion into new areas, such as seasonal inputs, a selected geographic zone, etc.

IV. Lending Policy

A condition precedent to disbursement of the grant for commodity imports will be for TRDB to prepare and submit to AID a set of policies, criteria and procedures for NAFCREP. The current policies are summarized in Table 3. These are generally satisfactory to AID, however, more simple appraisal procedures are needed.

As loan appraisal policies, credit policy or other procedures are revised in relation to any AID-financed activities, TRDB will advise AID by submitting such in the form of a Project implementation letter. The USAID Mission Director with appropriate advice will review these and make a determination as to whether such changes present any significant deviation from the general guidelines as now approved.

V. Borrower Eligibility and Loan Size

A. Borrowers

The AID-financed commodities may be used for lending to the following borrowers:

1. to villages through village councils;
2. to village committee-sponsored activities with council approval;
3. to individual farmers with holdings of 10 hectares or less, providing the village council provides its endorsement of the application; or
4. groups of farmers, providing the village council provides its endorsement of the application.

B. Rights of Use

All Aid-financed loans involving fixed assets such as service centers and grain mill installations will be for the open and unrestricted use of residents of the borrowing village. Normally, individual fixed assets will not be financed for individuals except in those instances where a village requests that the economic activity be carried out by an individual or by a group on behalf of the village. In all cases, loan requests must be made by the village council or village assembly.

C. Loan Size

Limits will be determined as a function of the types of sub-project in question. In the case of maize mills, for example, TSh 100,000 ($12,000) is considered the maximum for the first year with an inflation factor added thereafter. In most cases, at least 20% of the total cost of the project will be contributed by the village in the form of labor or locally available materials. Tools are exempt from this requirement.

TABLE 3 : NAFCREP LENDING POLICY AND ELIGIBILITY

Loan Type	Eligibility	Loan Purpose	Required Borrower Input	Credit Standing
Hand Tools	Registered / Villages and Individual farmers borrowing from the village	Purchase of hand tools	None	Good financial statement with a good credit record w/previous lending if any, and w/NBC for history of village borrowings and an NBC Bank Acct.
Maize mills and other food processing units	Registered village w/recommendation and statement of need and plans from Village assembly; cooperative society; groups of villages; or individuals with village approval.	Construction materials, engines, mill, base frames and other machines or equipment including spare parts	Borrower provides the building plus about 20% of the cash equity	Same as above
Oxen plows, carts	Registered /Villages or farmer borrower with larger units or who wish to do custom work	Plows, carts	Minimum of 25% of total cost	Same as above
Other small industry	Same as for Maize mills.	Building materials, labor, equipment, machines and other specific items needed up to 75% of total cost of Project	Minimum of 25% of total cost	Same as above
Village Service Center	Registered Village w/recommendations and statement of need and plans from village assembly cooperative society or groups of villages.	Construction materials such as: steel bars, nails, cement, framing, specialized labor and other. Normal capacity approx.200 tons for godowns, meeting room for up to 2-300 people, offices for 3-4, shop.	Min[illegible] of 25% [illegible]otal cost [illegible]mally in form of site preparation, local materials and self-help labor.	Same as above
Tractors or farm machinery and other vehicles for transport (eg buses, lorries)	Registered villages with adequate hectares under communal/individual production and transport need; Cooperative society or groups of villages.	Communal farming and rental of equipment; services to individuals; Village transport to markets of inputs and produce	Minimum of 25% of total cost	Same as above

Loan Terms and Interest Rate	Appraisal and Reviews required	Market Survey	Collateral	Management Capability
Treated as seasonal loans; due in one year upon marketing of crops. Int. 7½% added at beginning of loan for one year.	Regional Loan Committee can currently approve up to TSh 200,000 per village for inputs. Head Office Committee Review appraisal factors	Indication of need and desire to own by village members or village assembly desire to form a pool for use of tools by members	None Required	Village leadership must demonstrate capability of managing the proposed project. Consider past performance, access to quality extension and technical advisors, ability of village manager and/or book-keeper to maintain adequate records and of Chairman to motivate participation in the support of the project.
36 monthly payments starting two months after the mill is in operation. Int. rate amortized at 7½% if loan is to a village	Regional Loan Committee and/or Head Office Management Loans Committee. Reg. L. Comm. can presently approve up to TSh 300,000 when fully secured	Village assembly indication of need is a key factor, also amount of use that is projected and realistically assured	Lien on Machines and Equipment	
3-5 year amortized loans tailored to the borrowers income pattern. Int. 7½% for Villages	(Normally Regional Loan Committee) Loans to individuals must go to head office for appraisal and approval or if loan to a village is over 200,000 it also must be approved at Head Off.	Indication of need by village members as above, an individual who wants to do custom work could be eligible	Lien on Purchased Item or Machine	See above
Same as above	Same as above	Same as above	Same as above	See above
Amortized over 10-15 years; repayment schedule may be tailored to borrower income pattern; 1st payment due within 2 years of commitment. Int. rate 7½%.	Regional Loan Committee and/or Head Office Management Loans Committee. Reg. L. Comm. can presently approve up to TSh 300,000 when fully secured	Need must be indicated by amounts of crops for which storage is needed; historic crop sales.	Lien on the movable loan items; assignment of crop levy and lien on previously financed maize mill or other	See above
36-60 amortized monthly payments starting the 2nd month after the unit is in operation or annual payment if more nearly matched by income pattern.	Review and appraisal by specialist in Operations Dept. of TRDB & approval at appropriate level based on loan size and whether or not it is a loan to a village.	Requires a careful review of needs and desire of village members and sound indication that there is a sufficient market for the end product and capability to manage and utilize the tractor or transport effectively.	Lien on Purchased item or Machine	See above

VI. The Process for USAID-Supplied FY

AID grant funds for lending will be expended in the form of off-shore procurement of either manufactured items for delivery on credit to villages or of raw materials to be utilized in the fabrication or construction of items to be lent in kind. In the case of the former, such items as grain mill engines, plows, farm implements, machinery, pumps, etc., will be imported and channeled through both private and public distributors in Tanzania.1/ With respect to most raw materials (steel plate for mills, iron and other material for farm implements) these will be imported through the local manufacturer or distributor, as the case may be, but could when needed be imported by the TRDB directly. Construction materials (cement, mails, etc.) will be imported directly by the Bank and distributed to the borrowing villages for supervised building of godowns, mill housings, and other structures.

Past experience has established the following arrangements:

1. Machinery Services (a local distributor for Unilever) arranges port clearance and receives the Lister engines, steel for mills and base frames, V-belts, pulleys and spare parts. They assemble, test, inspect and box the units for TRDB delivery. TRDB pays Machinery Services for the value added and in turn makes a loan for the cost of the commodities used and the value added services. Loan repayments in local currency are used for financing other lending activities.

2. For raw materials for hand tools, oxen implements and carts several public and private firms will be used including Ubungo Farm Implements (a government parastatal corporation); University of Dar es Salaam, Faculty of Engineering in their machinery manufacturing unit now being started for village blacksmiths; Arusha Regional Development Program, a USAID-sponsored program which includes small-scale industries manufacturing. In the case of UFI the steel is provided. UFI doubles the value of the steel import by producing the tools, carts, etc. Half (or the value of the steel) of the manufactured equipment is then provided to TRDB for lending. The remainder is distributed to the RTC's or other local farm suppliers for cash and carry sale. Reflows to TRDB from loan repayments are again used to finance further lending.

1/ See Annex I-E for Waivers. In most cases private distributors will be used as they are better able to insure the success of the program by providing adequate storage, assembly, supportive manufacturing, testing, repairing and delivery.

3. In the case of cement and other construction materials, TRDB receives, stores and delivers these directly to villages.

4. For farm machinery, such as tractors, items will be imported directly by TRDB or local dealerships for Massey Ferguson, International Harvester, John Deere, Caterpillar or Ford. (See Waivers contained in Annex I-E.)

Repayments in local currency by villages for those items or portions of items financed with foreign exchange may be utilized by the TRDB as the need arises for further NAFCREP lending. Attempting to control AID rollover in terms of specific portfolios is not practical nor worth the administrative burden that would be entailed. In all probability, most recuperations will probably go to seasonal crop production.

In terms of the actual flow of activities involved in the procurement process, Figure 1 illustrates the scheme envisioned.

The flow of funds implied by the activities is illustrated in Figure 2. It will be noted that U.S. dollars never actually enter Tanzania, which will save a substantial amount of time currently spent in obtaining AID-supplied foreign exchange from the National Treasury.

Figure 1: <u>Off Shore Procurement (Flow of Activities)</u>

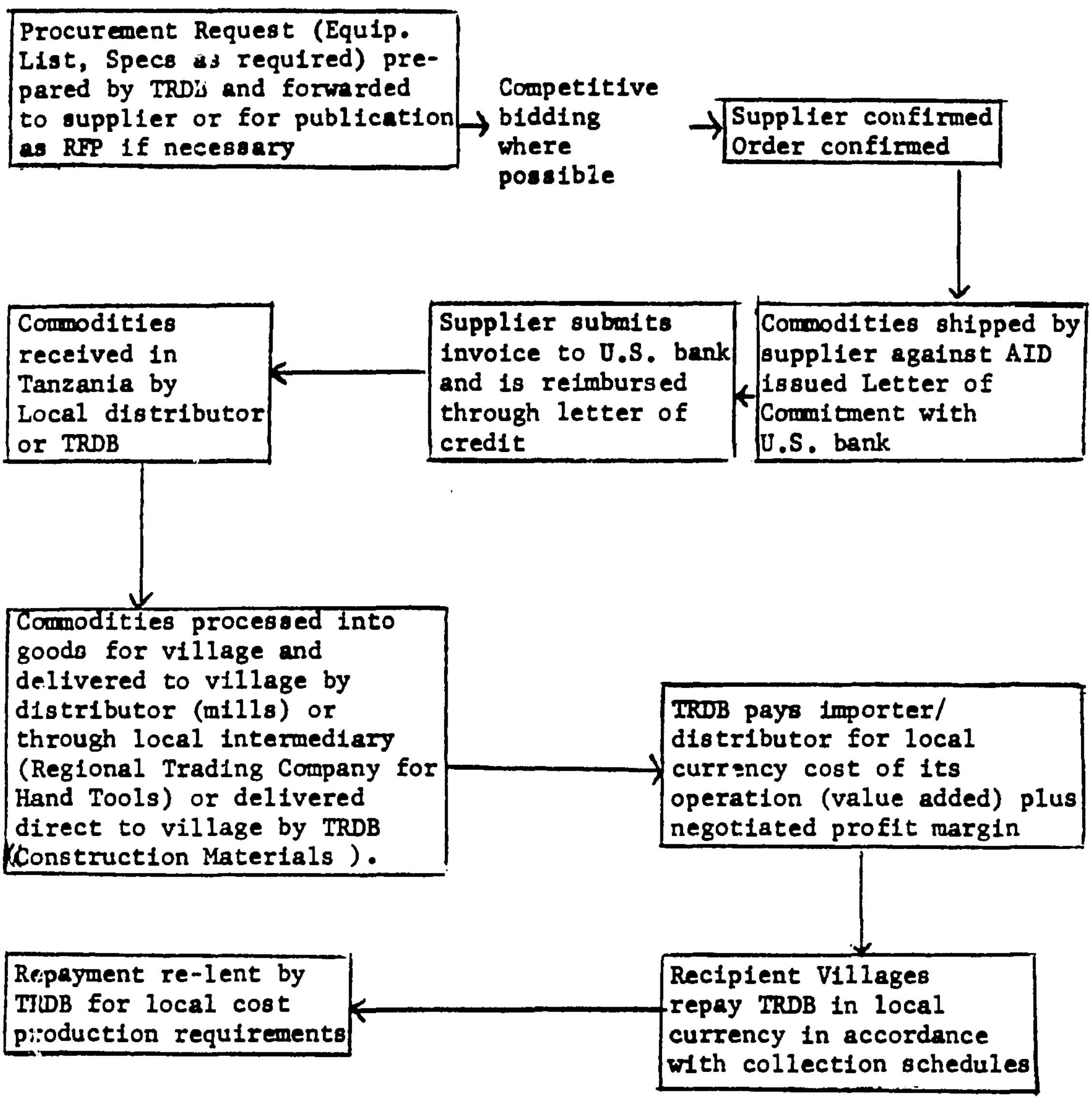
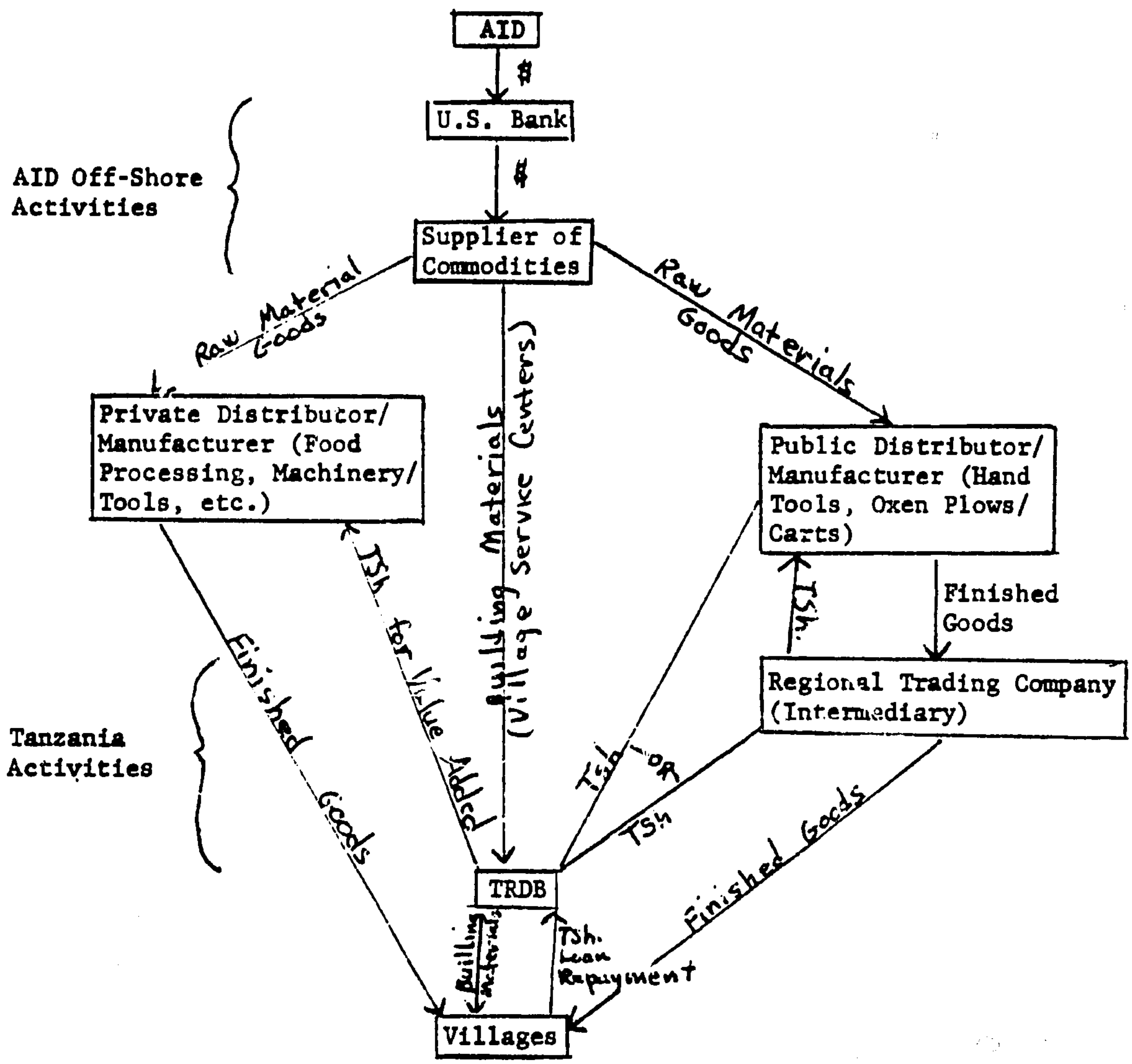


FIGURE 2: Off-Shore Procurement (Flow of Funds)



ASSUMPTIONS AND COMPUTATIONS

The following assumptions were used in preparation of Schedule A. It is complicated and requires careful study to understand how the number were computed.

A. General

1. The exchange rates assumed in these computations are:

1 British Pound Sterling = U.S. $2.30

1 U.S. $ = 8.2 Tanzanian Shillings (TSh)

2. Changes in Pound/Dollar exchange rate could enhance or adversely affect the numbers of units provided in the food processing category. Since all USAID FX contribution is scheduled to be used in procurement from abroad, changes in the $/TSh exchange does not materially affect the outreach of the NAFCREP program. Should the TSh be devalued, it could result in a larger TSh component requirement for the program which is currently possible through TRDB/BOT arrangements.

All duties and taxes are exempt on items procured by a donor from outside FX sources. This will be confirmed in a condition precedent to Project disbursement for the commodities.

Other specific assumptions for each loan category are as follows:

B. Hand Tools

1. Costs shown are 20% of total input loans projected for the TRDB-NAFCREP program which is the amount required for purchase of steel and other products obtained abroad and used by local manufactuers in the manufacture of hand tools and hand implements. (It is doubtful that a significant amount of this requirement will be available without the Project because of anticipated lack of foreign exchange.)

2. Because only items procured abroad are included in the amounts shown, 100% of amount shown is foreign exchange requirement. (An approximate equal amount of value would be added to the raw material by local manufactures in making final products.) It is also projected that half of the finished tools would be procured and distributed on loan basis through TRDB (the other half through RTC's on cash sale basis). The TSh shown is also the amount then of TRDB loans made for hand tools.

3. All loans for hand tools and hand implements are seasonal loans (one year or less).

4. The "No. Units" shown is the tons of steel which would be procured from the FX computed at $750 per ton CIF plus 10% inflation per year.

C. Food Processing

1. Eighty percent of number of units provided are maize mills and 20% are rice hullers.

2. Of the number of units of maize mills, 50% are 25-HP water cooled; 25% are 25-HP air cooled; and 25% are 16-HP air cooled or are electric motor with starter.

3. Ratio of foreign exchange cost to total cost average 67% for maize mills and 80% for hullers. Average for all units combined is then 70%.

4. Foreign exchange costs consist of the engine, V-belts, pulleys, spare parts, hulling machines and steel for base frame and manufacture of grain mill.

5. Local costs consist of port and handling charges (2½% of value), manufacture of base frame, assembly of mill, final assembly, testing, packing and transporting to TRDB client. The client is responsible for construction of suitable housing for unit and installation.

6. Diesel engines are all Lister in make; electric motors are 220v., 50-cycle, 1500 RPM, completely enclosed. (No electric motors are financed by USAID FX grant.)

7. Inflation of 15% per year is used in computation of costs. This is the current figure actually used in U.K. (source of many loan items) and is slightly less than the current rate in Tanzania.

8. The 1980/81 cost of TSh 52,000/= per unit is based on current quotations which are vaid until September 1980.

9. All food processing loans are on a monthly payment plan and 36-month payout with the first payment due the second month the unit is in operation.

D. Oxen Plow/Cart and Motorized Machinery and Transport

1. The cost and quantity are expressed on a per unit basis. Each unit is 400 oxen plows or oxen carts (without oxen); or one medium-sized

tractor with appropriate implements; or one seven-ton truck; or two small pickup trucks; or 1/4 of the total cost of a caterpillar tractor.

2. All costs are expressed on a duty free and tax free basis with the first year of program cost per unit TSh 200,000.

3. Foreign exchange requirements are almost 100% total cost in this lending category and therefore 100% was used in computing. Essentially 100% of the cost of trucks, tractors, implements, and caterpillars brought in duty and tax free is a foreign exchange cost. The TSh 500/= per ox plow or ox cart cost used in this computation is the cost of imported steel and other products used in their manufacture at in-country manufacturers. Note: In 1979/80 there were no trucks, tractors or caterpillars being brought in by TRDB for NAFCREP or by any of the local suppliers for whom TRDB could purchase in TSh for a client because of the foreign exchange problems. All machinery financed by TRDB for 1979/80 is oxen plows and motorized equipment/transport which had been procured prior to the foreign exchange restruction.

4. Inflation of 10% per year is used in computation of costs. It is assumed that through competitive bidding on appropriate makes and models for Tanzania that costs can be held to 10% increase per unit per year on motorized machinery and transport.

5. All machinery and transport are 3 - 5-year loans on a payout schedule tailored to fit the borrowers' anticipated income patterns.

E. <u>Village Service Centers</u>

1. Inflation of 10% per year is used in computation of costs. It is felt that this would be relatively correct for the types of non-differentiated goods required in this portfolio. Base year 1980/81 price is computed to be 78,000 Tsh per unit average.

2. Ratio of foreign exchange cost to total cost would be 45% average for all areas of the country is all of the following were imported. However, a limited supply of some items are available locally. The assumption is made that we would be able to obtain more items locally each year as shown in the following chart.

3. All village service center loans include a godown of approximately 200-ton capacity constructed of appropriate local materials to the maximum extent possible and built by the villages on a self-help basis with the loan being used only to procure needed construction materisl.

	Average % of Total Loan	1980/81	81/82	82/83	83/84	84/85	85/86
Total Foreign Exchange as % of Total Godown Cost	--	35	28	26	24	12	12
Cement 1/	22	80	50	40	30	15	15
Iron Sheets	11	50	50	50	50	20	20
Nails 2/	3	60	60	60	60	60	60
Iron Bars, Welded Meshes, Binding Wires, Etc.	9	100	100	100	100	50	50

1/ Import declines because of Tanga and Mbeya cement factories coming into production.

2/ Import lead-headed nails -- other made locally.

* * * * * * * * * * * *

4. All Village Service Center loans have a grace period of approximately 2 years in which materials are being provided and construction is being carried out. When the structure is completed, the loan is then amortized to include accrued interest over a 10-year period with repayment tailored to fit the borrowers' income pattern. Note: In several regions, the storage loan program has been temporarily halted even though many villages are ready to build their godown with an already approved TRDB loan due to lack of cement, corrugated iron sheets, nails and other materials.

NAFCREP LENDING AND FOREIGN EXCHANGE REQUIREMENTS 1980/81 THROUGH 1985/86

	USAID TRDB	FY 81 1980/81		FY 82 1981/82			FY 83 1982/83			FY 84 1983/84			FY 85 1984/85			FY 86 1985/86			T O T A L		
	No. Units	Amount T.Shs (000)	Amount $ FX (000)	No. Units	Amount T.Shs (000)	Amount $ FX (000)	No. Units	Amount T.Shs (000)	Amount $ FX (000)	No. Units	Amount T.Shs (000)	Amount $ FX (000)	No. Units	Amount T.Shs (000)	Amount $ FX (000)	No. Units	Amount T.Shs (000)	Amount $ FX (000)	No. Units	Amount T.Shs (000)	Amount $ FX (000)
Hand Tools, tons a/	1,320	8,150	990	1,638	11,090	1,350	1,918	14,290	1,740	2,071	16,960	2,070	2,175	19,600	2,390	2,260	22,400	2,730	11,382	92,490	11,270
cost/unit; % FX	ton	6.15	100	ton	6.77	100	ton	7.45	100	ton	8.19	100	ton	9.01	100	ton	9.91	100	ton		100
Food Processing	539	28,040	2,390	677	39,950	3,410	652	44,320	3,780	617	48,130	4,110	589	53,000	4,520	563	58,000	4,950	3,637	271,440	23,160
cost/unit; b/ % FX		52	70		59	70		68	70		78	70		90	70		103	70			70
Oxen Ploughs/Carts a/	20	4,000	488	20	4,400	537	20	4,840	590	20	5,320	649	20	5,860	715	20	6,440	785	120	30,860	3,764
No. ploughs/Carts; cost/unit; b/%, FX	8,000	200	100	8,000	220	100	8,000	242	100	8,000	266	100	8,000	293	100	8,000	322	100	48,000		100
Village Service Centre c/	132	10,310	440	174	15,000	510	179	17,000	540	190	20,000	590	191	22,000	320	197	25,000	370	1,063	109,310	2,770
cost/unit; b/; % FX		78	35		8C	28		95	26		105	24		115	12		127	12			
Machinery/Transport	8	1,600	195	17	3,740	456	40	9,680	1,180	40	10,640	1,298	38	11,134	1,358	36	11,592	1,4[illegible]4	179	48,386	5,901
cost/unit; b/; %FX	b/	200	100		220	100		242	100		266	100		293	100		322	100			100
Experimental Lending d/		X	-0-		X	250		X	250		X	1,000		X	1,000		X	1,000		X	3,500
T O T A L S d/		52,100	4,503		74,180	6,513		90,130	8,080		101,050	9,717		111,594	10,303		123,432	11,249		552,486	30,365
Total Provided by USAID		-0-	3,000		-0-	3,666		-0-	3,334		-0-	6,666		-0-	6,666		-0-	6,668		-0-	30,000
Total Provided by TRDB e/ And/Or Other Donors		27,500	1,503		44,119	2,847		62,791	4,746		46,389	3,051		56,933	3,637		68,754	4,581		306,486	20,365
Total Raw Materials for a/ handtools and oxen ploughs/carts		12,150	1,478		15,490	1,887		19,130	2,330		22,280	2,719		25,460	3,105		28,840	3,515		123,350	15,034

a/ Assumed 100% of FX used to procure raw materials for manufacture of handtools and oxen ploughs/carts. TRDB would be paid T.Shs. amount shown for the raw materials and then ½ of finished goods would be financed with TRDB loans also equal to amount T.Shs. shown.

b/ See assumptions for explantion of units.

c/ Number of units are projected on basic core storage unit. See Engineeing Analysis (Annex II-H) for projections on add on facilities for VSC.

d/ An unknown amount of TSh would be required in combination with the FX for Experimental lending depending on the types of loans made. Because the amount is unknown and could vary greately it is omitted from the table. Total TRDB loans does not include $3.5 million for planning of which $ .5 million to be provided in 1980-83.

d/ (Cont.) Remaining $3.0 to be mobilized by TRDB and/or provided by AID after Phase I is evaluated.

e/ The TSh amount shown includes the estimated amount of FX [illegible] t column required to be provided by TRDB and/or other donors to supplement USAID Grant funds.

NAFCREP TOTAL LENDING INCLUDING FOREIGN EXCHANGE AND LOCAL CURRENCY REQUIREMENTS - 1980/81 - 1985/86
($000's) a/

Portfolio	FY 81 (1980/81)			FY 82 (1981/82)			FY 83 (1982/83)		
	LC	FX	Total	LC	FX	Total	LC	FX	Total
• Seasonal Loans									
- Ag Inputs (includes seed, fertilizer, pesticides)	3960	b/	3960	5400	b/	5400	6960	b/	6960
- Hand Tools	c/	990 d/	990 c/	c/	1350	1350	c/	1740	1740
Sub-Total	3960	990	4950	5400	1350	6750	6960	1740	8700
• Term Loans									
- Food Processing	1030	2390	3420	1460	3410	4870	1620	3780	5400
- Oxen Plows/Carts	c/	490	490	--	540	540	--	590	590
- Village Service Centers	820	440	1260	1315	510	1825	1530	540	2070
-Machinery/Transport	----	195	195	--	455	455	--	1180	1180
- Planning	----	----	----	e/	250	250	--	250	250
Sub-Total	1850	3515	5365	2775	5165	7940	3150	6340	9490
TOTAL NAFCREP	5810	4505	10315	8175	6515	14690	10110	(8080	8190
TOTAL AID		3000	3000		3600	3600		3400	3400
TOTAL TRDB	5810	1505	7315	8175	2915	11090	10110	4680	14790

Portfolio	FY 84 (1983/84)			FY 85 (1984/85)			FY 86 (1985/86)			TOTAL		
	LC	FX	Total	LC	FX	Total	LC	FX	Total	LC	FX	Total
• Seasonal Loans												
- Ag Inputs (includes seed, fertilizer, pesticides)	8280	b/	8280	9560	b/	9560	10920	b/	10920	45080	b/	45080
- Hand Tools	c/	2070	2070	c/	2390	2390	c/	2730	2730	c/	11270	11270
Sub-Total	8280	2070	10350	9560	2390	11950	10920	2730	13650	45080	11270	56350
• Term Loans												
- Food Processing	1760	4110	5870	1940	4520	6460	2120	4950	7070	9930	23160	33090
- Oxen Plows/Carts	--	650	650	--	720	720	--	780	780	--	3770	3770
- Village Service Centers	1870	590	2460	2350	320	2670	2710	370	3080	10595	2770	13365
-Machinery/Transport	--	1300	1300	--	1360	1360	--	1410	1410	--	5900	5900
- Planning	--	1000	1000	--	1000	1000	--	1000	1000	--	3500	3500
Sub-Total	3630	7650	11280	4290	7920	12210	4830	8510	13340	20525	39100	59625
TOTAL NAFCREP	11910	9720	21630	13850	10310	24160	15750	11240	26990	65605	50370	115975
TOTAL AID												
TOTAL TRDB		6800	6800		6600	6600		6600	6600		30000	30000
	11910	2920	14830	13850	3710	17590	15750	4640	20390	65605	20370	85975

a/ All figures rounded to nearest 1.000.

b/ TanSeed imports some hybrids. TRDB is able to purchase with shillings. All costs shown as LC.

c/ UFI value added 50%. TRDB gets half of tools, plows, carts for lending, thus recovering FX costs in Shillings. Remaining 50% sold cash and carry by RTC, etc.

d/ 20% of total seasonal loans

e/ Not known. Estimate at 50% of total costs.

ANNEX I-C
Schedule B

NUMBER OF VILLAGES ASSISTED BY NAFCREP PROGRAM JULY 1977 THRU JUNE 1987

CATEGORY	1977/78	1978/1979	1979/80	1980/81	1981/82	1982/83	1983/84	1984/85	1985/86	Total 6 year Project
1. Hand Tools (Seasonal) 1/ (Loans & Cash Purchase)	550	788	860	1,630	2,218	2,858	3,392	3,920	4,480	18,498
2. Term Loans: Food Processing 2/	103	205	306	431	534	522	494	471	450	2,902
3. Oxen Ploughs/Carts (units) (1 unit = 400 ploughs or carts)	10	29	68	160	160	160	160	160	160	960
4. Village Service Center	11	4	68	132	174	179	190	191	197	1,063
5. Motorized Machinery	2	7	10	4	9	20	20	14	13	80
6. Rural Transport	2	2	4	4	8	20	20	14	13	79
7. Total Term Loans By Year	128	247	456	731	885	901	884	850	833	5,084
8. Unduplicated number villages-Term Loans - by year 3/	110	224	347	515	623	622	594	565	543	3,462
9. Total Village Loans Granted by 4/ TRDB. i.e. # NAFCREP Loans Processed	678	1,035	1,316	1,546	1,994	2,330	2,580	2,810	3,073	
10. New Villages Reached with 5/ first TRDB NAFCREP Loan (10 before 1977/78)	224	389	369	597	756	808	833	863	898	
11. Accumulative New Villages served with NAFCREP (10 before 1977/78)	234	623	992	1,589	2,345	3,153	3,986	4,849	5,747 6/	

1/ Includes handtools for cash crop production. Assumes average of 10,000 T.Shs.loan per village served, ½ of which is FX. Some handtools procured on cash basis by users through RTCs or other sources during 1980/81 and after - none before.

2/ Assumes 20% of units are rice hullers and all villages which receive also get maize mill. (Total units - 20%).

3/ Assumes all villages which get village service center will aso get a food processing unit and ½ of the oxen ploughs/carts, motorized machinery and rural transport. [#2 + ½ (#3 + 5 + 6)]

4/ Assumes one-half of an villages receiving handtools are on TRDB Loan basis (½ of #1 + #7) after 1979/80 - All before.

5/ Assumes all term loans made are to villages which receive food processing units and 20% of villages reached with TRDB NAFCREP handtool loans are new first loan villages [(½ of #1) x 20% + #2)] (Based on research of TRDB cash and food crop lending programs).

6/ If Tanzania reaches a projected 9,000 registered villages in 1985/86, TRDB would have reached 64% of total with NAFCREP loans. Additionally many more villages would be reached with handtools for cash purchase and by other TRDB loan programs.

ANNEX I-C
Schedule C

May 13, 1980.

ANNEX I - H

REFERENCE GUIDE TO PROJECT PAPER AND SUMMARY OF PLANNING AND ANALYSIS

Table 1: Summary Planning & Recommeded Authorization

Table 2: Financial Planning

REFERENCE GUIDE TO PROJECT PAPER AND SUMMARY

OF PLANNING AND ANALYSIS

Planning activities including cost estimates, technical feasibility, financial and economic analyses and engineering plans have been completed and support the recommendation that the life of Project AID funds in the amount of $44,200,000 may be authorized and obligated. Table 1, presented below, designates applicable sections of the Project Paper and Annexes which contain the analyses completed as required by section 611 (a) of the Foreign Assistance Act. It is provided as a guidance for AID/W personnel in locating those items of particular interest for Project review and authorization.

Table 2 summarizes the financial planning completed and references applicable portions of the Project Proposal and Annexes.

TABLE 1: SUMMARY PLANNING AND RECOMMENDED AUTHORIZATION

Inputs/Activity	Relevant Sections of PP	Cost ($000,000)
Technical Assistance	Part II.F and III.F of PP for description. Part II.G of PP and Annex II-I for costs	3.9
Training	Same as above	2.6
Commodities for TRDB		2.8
- Construction of staff housing	Cost estimates, Plans, Draft Far agreement in Annex II-H	
- Vehicles	Vehicle plan is contained in Annex II-F. Justification for waiver is contained in Annex I-E	
	Sub-Total	9.3
	Contingency and Inflation	4.9
Commodities for NAFCREP	Part III.B, III.C of Project Paper contains the technical and economic analyses summaries. Annexes II-B and II-C contain the detailed analyses. Annex I-G contains the detailed description of NAFCREP, numbers of villages, costs of all items.	30.0
- Diesel Engines	Justification for waiver is contained in Annex I-E.	
- Village Service Centers	Engineering plans and analysis are contained in Annex II-H.	
- Machinery and Transport	Justification for waiver is contained in Annex I-E.	
- Raw Materials	No waivers required.	
- Planning Activities	611 (a) not applicable. Annex II-A contains an illustrative list of types of planning activities. The technical analysis and Part II.C and II. F.3 of the Project Paper contains further details.	
	TOTAL	$44.2

TABLE 2: FINANCIAL PLANNING

Information	Reference
Institutional Inputs Summary	Part II.G of Project Paper
Institutional Inputs Detailed Costs	Annex II-I
Size of NAFCREP	Part III-G of Project Paper and Annex II-G
Cost of NAFCREP	Part II.F.3 of Project Paper and Annex I-G
Total Project Cost	Table 12 in Project Paper
Estimated Total Expenditures	Table 13 in Project Paper
AID Summary of Expenditures	Table 14 in Project Paper
TanGov Contributions	Table 15 in Project Paper
AID Obligation Schedule	Part III-I of Project Paper and Table 16 in Project Paper

INITIAL ENVIRONMENTAL EXAMINATION

Project Location	:	United Republic of Tanzania
Project Title	:	Resources for Village Production and Income
First Fiscal Year Funding	:	FY 80 $4,275,000
Life of Project	:	FY 1980-86 $45,000,000
IEE Prepared by	:	USAID/T/CDPO March 11, 1980
Environmental Action Recommended	:	Negative Determination
Concurrence	:	J. Williams 8/11/80 James E. Williams Date Mission Director
Assistant Administrator's Decision	:	Approved: Roy A. Stacy, Acting Disapproved: Date: 8/15/80

I. Examination of Nature, Scope and Magnitude of Environmental Impacts

The proposed project recommends the following project activities: (1) technical assistance, training and commodities for the Tanzania Rural Development Bank; (2) construction of four staff houses in Dar es Salaam; (3) the financing of the foreign exchange component of selected commodities which will be provided to borrowing villages on credit. The first activity, by its nature, will not have any impact on the environment and will improve the capability of TRDB to select agricultural inputs which are appropriate and profitable in Tanzania. (See Technical and Institutional Analyses, Annexes II-B and II-F.)

AFR/DR/SDP, J. Hester JSH 8/11/80
GC/AFR, G. Lecce GL 8/11/80

The construction of houses will take place in Dar es Salaam and will conform to standard Government of Tanzania specifications. Housing sites will be allocated by the Ministry of Lands, Housing and Urban Development and will be in conformance with the Dar es Salaam City Council Master Plan. This activity may have some short-term negative effects, such as creation of dust during construction, but in the long term will not significantly affect the environment. The houses will be serviced by the city water system. Septic tanks with soil absorption systems and waste disposal facilities will be provided at each site with Project funds.

The components of the Project which may impact on the environment are the commodities to be provided under the Project. These are described below:

A. Equipment for Village Food Processing

Maize mills will be one of the principal commodities financed under this activity. The villagers will provide buildings for the mills using locally-made bricks or other building material and galvanized iron roof sheeting. AID will finance the import of the engines for the mills. The mills are to be located near other service facilities such as the village store, CCM offices, or schools, with the view of providing ready accessibility, and will replace the need for hand pounding maize, which is now done by women. The maize mills will have a beneficial social impact in that they will free women from the arduous and time-consuming task of hand pounding. This, in turn, will allow village women time for more productive activities. (See Social Soundness Analysis, Annex II-D.) The machines will be powered by diesel fuel and require only about 6.4 pints per hour for the 16 horsepower engine and 10 pints per hour for the 25 horsepower engine. Sixteen liters and 4 liters of lubricating oil are required for each 24-hour period of operation for the 16 H.P. and 25 H.P. engines, respectively. Fuel waste is therefore minimal and would not significantly affect the environment.

B. Village Service Centers

These units are to serve as multi-purpose units providing space for offices for village officials, adult education classes, a village meeting center, a cooperative store which will provide agricultural inputs, consumer goods and crop input storage facilities. The building itself will be built of a maximum of suitable local materials (such as bricks) and TRDB will provide financing for cement, nails and roofing material. Like the mills, they will be located in the village center close to other service facilities. The activities that will occur at the centers are environmentally neutral except for the storage of crops and crop inputs. Crop and crop input losses resulting from insect and rodent damage and spoilage are severe problems in Tanzania. It is estimated that up to 20% of crops and inputs, nationwide, are lost to such damage. Given the problems of recurring food shortages, difficulty of transport to move crops from farms to markets, and the inadequacy of traditional storage facilities, this activity will contribute to savings in the national economy.

The unavailability of consumer goods is believed to be a contributing factor to low agricultural productivity. Without available retail commodities there is little incentive for farmers to try to increase production. The availability of agriculture inputs under the project and retail commodities in village stores through financing by the National Bank of Commerce should help relieve this problem.

It is planned that additional purposes of these buildings will be defined by the village and that those activities which are perceived as most beneficial will be initiated first. As the social-economic environment changes, the services of these centers will be expanded. This project activity will be further explored in Phase I and an increase in lending for the service centers may be recommended for Phase II.

C. Transport, Equipment and Machinery

This activity consists of two lending components designed to provide financing for: (1) farm machinery, such as tractors, harrows, trailers and plows; (2) small trucks for hauling village inputs, crops, etc.; (3) animal-drawn plows and carts. Loans for machinery are projected to take less than 20% of the grant. These loans will be made to the villages either on a village communal loan basis or through the village to individual small farmers or groups of farmers. Either way, most of the machinery will be provided for individual use. Lending will be based on a careful appraisal of village need and ability to effectively utilize the equipment. Since the number of non-animal drawn units planned will provide equipment for only about 150 villages, the impact on the physical environment will be negligible. This activity will also allow comparison of costs and benefits of animal-drawn equipment also provided under this sector of lending.

In many parts of Tanzania livestock are held as stores of wealth. There is little incentive to limit the size of ones herd. Thus animals, when not used, affect the natural ecological environment by leading to over grazing and increased soil erosion. The use of oxen for farming is being actively promoted by government extension officers. Increased use of animal traction is both an opportunity for increasing productivity through intensification and extensification of land use and for safeguarding the environment. Low productivity often results from inability to prepare land for plants prior to the beginning of the rains, and labor shortages are frequent during this busy time of the agricultural season. The use of animal traction will increase villagers' ability to prepare land and is not reliant on the availability of spares and fuel. In addition, the use of ox-drawn carts will encourage easier movement of crops from fields to village godowns. It is projected that 48,000 oxen plows or carts will be made available in the six years.

These activities will not have any significant impact on the physical environment.

D. Farm Implements

Improved tools of good quality are in high demand but are not available on a regular basis. These tools are similar to traditional tools but are of improved quality and thus last longer. During Phase I, tools already in use will be made available, and additional tools will be developed. This activity will be beneficial since it will enable farmers to more efficiently utilize their labor; however, since the technology does not represent a departure from current practices, it will not significantly affect the environment. The procedures for adding lending activities is described below.

E. Planning Activities

Throughout the Project new lending areas will be identified and tested. These activities will be targeted primarily in the lower altitude areas of Tanzania so that TRDB is able to expand its services. These activities could include land improvement and conservation, investments for new crops, food processing, small-scale irrigation and appropriate technologies. Funds for these activities represent about 2% of the total capital grant. This would average a relatively small amount per activity. For example, ten activities could be financed at a cost of about $50,000 each. These activities will be experimental in nature and the intent is to identify their profitability and potential impact on the envirobment. Environment is defined broadly to include an assessment of social, economic and physical impact. The activities which prove to be beneficial are intended to be added to the lending program.

F. Seasonal Inputs

From its own resources, TRDB itself will finance the seasonal input lending activities (with the exception of hand tools) under the National Food Credit Program (NAFCREP). The TRDB has agreed to suspend seasonal lending for all pesticides until an AID Pesticides Study has been completed. Based on the recommendations of the Study, a new IEE and perhaps, an Environmental Assessment will be required.

At the present time no procurement or use of any pesticides is contemplated in the project.

II. Recommendation for Environmental Analysis

It is recommended that the identified Project-financed activities will not have a significant effect on the environment, and therefore a Negative Determination be made.

The planning activities are limited in scope and will not have a significant impact on the environment. If these activities are successful and TRDB wishes to seek AID financing for them, an IEE will be prepared by the Mission prior to expenditure of funds for the commodities needed for these activities. In any case, a new IEE will be prepared by the Missions which will reflect the recommendations contained in the AID Pesticide Study. In the event the IEE's result in a positive determination, one of the following actions will be taken: (1) an environmental assessment will be performed, the results of the assessment will be considered in the further design of the activity, and a decision will be made by TanGov and AID whether to go forward with the activity, with the decision in writing; or (2) the TanGov and AID will decide at the outset and prior to the preparation of an EA not to proceed with the activity. Sufficient alternative lending activities have already been identified which will not have a significant environmental impact and that can be undertaken so that there is no likelihood that the funds once obligated will remain unexpended.

Clearances: ADO:MFuchs-Carsch (draft)
FLA:REDSO:GBisson (draft)
REDSO/Environmental Officer (draft)

Drafted:CDPO:RMDepp;cp:5/16/80
Redrafted:AFR/EA/T:JVanDenBos:cmw:8/11/80

Initial Environmental Examination - Amendment

Use of four percent endosulfan dust for the control of maize stalk borers in the Tanzania project "Resources for Village Production and Income" (621-0155).

Risk/Benefit Analysis

Background

The principal pests of maize in Tanzania are stalk borers which are members of the genera Busseola, Chilo and Sesamia. The moths which are the adults of these borers lay their eggs on the young plants soon after the maize has sprouted and attack the stalks and leaves of the growing plants. The borers reach the adult stage in about 70 days, and the moths of the second generation again lay their eggs on the maize plants as they are nearing maturity. The larvae (borers) then attack the maturing ears of maize. Without chemical control of the borers by the use of pesticides, losses of 40 to 70 percent or more of the crop are commonplace:

1. The USEPA registration status of endosulfan

Endosulfan is registered without restriction by the USEPA for use on maize. At the present time it is not subject to any EPA regulatory action and EPA confirms that no regulatory action is under consideration. A tolerance of 0.2 p.p.m. for endosulfan on maize has been established by EPA

2. Basis for the selection of the pesticide.

Date provided by Tanzania Research and Development Board, Kilimo and Dr. George Schaeffers, Cornell University, who visited Tanzania in early 1980 indicated that the following pesticide formulations have been used in Tanzania for the control of stalk borers and that they have been found to be effective for this purpose:

5 percent DDT dust
4 percent endosulfan dust
3 percent endosulfan granules

In consultation with the Government of Tanzania agreement has been reached to use only 4 percent endosulfan dust for the control of stalk borers at this time. The available evidence does not provide any evidence of the relative effectiveness of 4 percent endosulfan dust versus 3 percent endosulfan granules nor does it provide any evidence of the relative effectiveness of concentrations of less than 4 percent endosulfan dust. These are questions which will be examined by a team of specialists who will be sent to Tanzania in late 1980 to prepare a revised risk/benefit analysis and IEE, if so indicated.

Evidence is also available that a wide variety of pesticides were tested for stalk borer control during 1977 by persons associated with the Tanzania Seed Multiplication Project (621-0092). These pesticides included thiodan, furadan, Sevin, malathion, fenitrothion, diazinon, dipterex, dimacron and nuvicron (See exhibit 3 of the Tanzania Seed Multiplication Project Paper Revision, approved January 1, 1978). While the results of these evaluations are not available at this time for incorporation herein, it is logical to assume that the use of 4 percent endosulfan dust as currently requested by the Government of Tanzania is the direct result of these earlier evaluations, an assumption which will be confirmed or rejected by the specialist team referred to above.

3. <u>The extent to which the proposed pesticide use is part of an integrated pest management program.</u>

In addition to stalk borers, maize streak virus, transmitted by leaf hoppers, is a significant problem in Tanzania. Although furadan has been found to be effective for the control of this disease, its cost is prohibitive. Hence a CIMMYT team has concentrated its efforts on a breeding program to develop genetic resistance with a target date for release of resistant varieties in 1983. In the meantime research on cultivation practices shows that ridging can reduce moisture content and susceptibility to leaf hopper attack. In addition, research is currently underway at ICIPE to develop maize strains which are resistant to stalk borers and the results of this research, if successful, will be incorporated in the Tanzania project at a later date. The current status of the ICIPE research will also be examined by the specialist team referred to in paragraph 2, above.

4. <u>The proposed method or methods of application including availability of appropriate application and safety equipment</u>

No information available at this time except that the proposed rate of application is 10-12 kg. of 4 percent dust per hectare. This aspect will be examined by the team of specialists referred to in paragraph 2 above, and they will make appropriate recommendations.

5. <u>Acute or long term toxicological hazards and measures available to minimize such hazards</u>

Although the technical grade material is relatively toxic to rats in alcohol and aqueous suspensions and in oil, the formulation proposed for use in the project, 4 percent dust, will provide no significant toxic hazard to users, providing label precautions are followed. Although endosulfan is highly toxic to fish, the proposed pattern of use, as a dust on maize, will not result in significant exposure of fish.

6. Effectiveness of the requested pesticide for the proposed uses.

See para 2, above

7. Compatibility of the proposed pesticide with target and non target ecosystems.

Definitive data is not available at this time. However, relative to DDT, the pesticide which was originally proposed for use in this project, endosulfan has a much narrower spectrum of effectiveness and is relatively non-persistent. Hence endosulfan will be much more compatible than DDT with both the target and non-target ecosystems.

8. The conditions under which the pesticide is to be used.

The pesticide use will be confined to maize fields under tropical conditions. Hence there will be no significant exposure of non-target flora and fauna and since endosulfan is relatively less-persistent there will be no significant accumulation in soil. Furthermore, the tropical conditions under which it will be used will lead to more rapid degradation of endosulfan residues than in more temperate regions.

9. Availability and effectiveness of other pesticide or non-chemical control methods.

See paras 2 and 3 above

10. The requesting country's ability to regulate or control the distribution, storage, use and disposal of the pesticide

See pg 22 of Project Paper

11. The provisions made for training users and applicators

Same as para 10 above

12. The provisions made for monitoring the use and effectiveness of the pesticide

Same as para 10, above

In summary, based on the information currently available the benefits which will accrue from the use of endosulfan for the control of maize stalk borers in terms of reduction of pre-harvest losses significantly outweigh the human toxicological and environmental hazards associated with this use.

Based on the information presented above, I conclude that the proposed action is not a major action which will significantly affect the human environment.

Drafted by:DS/AGR:FWhittemore:8/8/80