

MEMORANDUM

TO See Distribution *Handwritten signature* July 27, 1987

FROM: AFR/PD, Carol Peasley

SUBJECT: Distribution of Issues Paper for ECPR on
PAAD - Tanzania Economic Policy Reform Program

Attached please find the Issues Paper for the ECPR on the Tanzania Economic Policy Reform PAAD. The meeting, which will be chaired by DAA/AFR, Edward L. Saiers, is scheduled as follows:

ECPR

DATE: July 30, 1987
TIME: 2:00 p.m.
PLACE: Room 3676 NS

Attachment: a/s

DAA/AFR/ESA:ELSaiers 6944 NS
AFR/PD:CPeasley (2) 2637 NS
AFR/PD:AHarding 2637 NS
AFR/PD/IPS:GCampbell 2926 NS
GC/AFR:BBryant (1) 6889 NS
AFR/DP:JWestley (3) 3913 NS
AAA/AFR/PRE:HIMunson 4527 NS
AFR/EA:SMintz (2)
AFR/TR/ARD:NSheldon (2)

PPC/PD:RMAushammer (2) 3841 NS
PPC/PDPR/SP:RSheppard (5) 3894 NS
PPC/CDIE/DI:Acquisitions (1)
OSDBU/MRC:LDrummond 648 SA-14
S&T/PO:GGower (4) 308C SA-18
SER/AAM/OS:MDarvin (2) 733 SA-14
BIFAD/S:JOweis 5314A NS
AFR/TR:KSherper (4) 2497 NS
State:RSnyder 5240 NS

Project Committee Members:

AFR/PD/EAP:SHaykin
AFR/PD:GCauvin
GC/AFR:MAKleinjan
AAA/AFR/PRE:HMunson

AFR/EA:JRose
AFR/TR:WScarborough

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ISSUES PAPER FOR ECPR

Country: Tanzania
Program: Economic Policy Reform PAAD
LOP Funding: \$12 million
FY 87 Obligation: \$12 million
Authorization Venue: AID/W

BACKGROUND

The PAAD proposes a \$12 million EPRP grant to Tanzania. The objective is to reinforce the GOT's policy reforms under its Economic Recovery Program and to stimulate the GOT to make further reforms through assistance in the rural transportation sector. Excessive government intervention and weak infrastructure in the transportation sector have been identified as major constraints to agricultural growth. This program focuses on roads and trucking capacity.

PAAD conditionality calls for increasing GOT expenditures on transportation and increasing private contracting by the GOT for maintenance, rehabilitation and construction of new roads. The PAAD proposes to disburse \$11.75 million in two tranches: \$8.75 million on announcement of reforms; and \$3 million upon evidence of implementation. The balance of the AEPRP, \$250,000, would be reserved for studies, evaluations and audits.

The cash grant would be placed in a special foreign exchange account. This foreign exchange would be sold primarily to private contractors to import road maintenance equipment and spare parts. Local currency generations would be used mainly to finance contracts with private sector firms to rehabilitate district roads in agricultural areas. Joint GOT-USAID approval would be required for each activity.

ISSUES

An issues meeting was held on July 21. The meeting was attended by representatives from AFR/PD, AFR/DP, AFR/TR, AFR/EA, AFR/PRE, PPC/PB, GC/AFR and State/AF. The consensus among those present was that the use of an AEPRP program directed to the objectives of relieving transportation constraints to agricultural is appropriate and consistent with the assistance strategy developed in the Tanzania Concept Paper and the AEPRP PAIP. However, a number of issues relating to program design and implementation were raised for further discussion with the A.I.D. Representative and at the July 30 ECPR.

1. Issue: What is the relationship of FY 88 Development Assistance to the ESF-funded AEPRP?

Discussion: The PAAD indicates that \$4 million in FY 88 DA will be linked to a second tranche of the AEPRP to encourage policy reforms. The 1989 ABS also refers to a new \$14 million DA program for agriculture transport with \$4 million to be obligated in FY 88. The DA is not proposed for authorization by the PAAD and no indication is given of how it will be programmed.

Recommendation: That the DA not be linked to the AEPRP or transportation assistance through this PAAD, and that guidance be given on the mechanisms for programming the FY 88 and 89 DA.

2. Issue: Should there be a CIP component or another mechanism to tie up to \$4 million of the AEPRP to imports from the United States?

Discussion: The principal use of foreign exchange under the proposed AEPRP is for the importation of transportation-related machinery and spare parts. There are three restrictions on the use of a CIP that make it less desirable than a cash transfer for this program:

- o A CIP would include language committing the GOT to allocating 18 percent of CIP funds to the purchase of agricultural commodities stipulated by the Zorinsky Amendment; the commodities in question would not contribute to AEPRP objectives; rather they would tend to disrupt internal markets for vegetable oils and other commodities.
- o In comparison with a cash transfer, a CIP would be likely to increase the workload of the Mission.
- o A CIP would require that some of the local currency generations be put in a Trust Fund for operating expenses.

The cash transfer restricts the use of foreign exchange to transportation-related imports and the PAAD (p. 4) indicates that up to \$4 million in imports from the United States could be expected under a cash transfer, thereby weakening the case for a CIP.

Recommendation: That the PAAD be authorized without a CIP component; and that, in addition to restricting the use of the cash transfer to program-related imports, the Mission be instructed to explore the possibility of restricting the source of a minimum of \$4 million of the assistance to imports from the U.S. through a side letter.

3. Issue: How will the program be structured to insure that progress is made on policy reform objectives?

Discussion:

- o The conditions precedent are not made explicit in the PAAD.
- o Program conditionality calls for increasing GOT expenditures on transportation and increasing use of private sector enterprises to perform transportation rehabilitation. Yet, benchmarks for performance are not adequately quantified.
- o The PAAD proposes disbursement in two tranches: \$9 million once the GOT complies with CP's and announces policy reforms; and \$3 million on evidence that reforms have been implemented; (the second tranche would also include \$4 million in DA if included in program).

Recommendation: That the emphasis on GOT reform performance be strengthened through clearer statements of CPs and objectively verifiable benchmarks; and that the assistance be disbursed in two tranches of \$6 million each, the second only after there is evidence that benchmarks relating to actual increases in expenditures and actual contracting with the private sector are satisfied.

4. Issue: Will foreign exchange and local currency accounts established under AEPRP be put to intended uses in a timely manner? Is it likely that these funds will be used for smaller, local projects as well as for larger operations?

Discussion: The proposed AEPRP will provide foreign exchange for road maintenance machinery and spares; local currency generations will be used to support private sector road rehabilitation, maintenance and construction. Two critical assumptions of the PAAD are: 1), that the private sector will be able to absorb \$12 million in foreign exchange for designated uses; and 2), that it will be able to provide a level of rehabilitation and maintenance services corresponding to the local currencies made available, in addition to meeting the demand for services resulting from increased GOT expenditures and other donors' programs. Little evidence to support these assumptions is presented in the PAAD.

Recommendation: That the Mission be asked during the ECPR to provide further evidence of the demand for the foreign exchange and of the supply of services as called for in the PAAD; in particular, the question of whether the private sector capacity and willingness to maintain, rehabilitate and construct feeder and local access roads exists should be addressed.

5. Issue: How is the local currency generated from the AEPRP to be allocated among projects?

Discussion: The PAAD describes the administrative mechanism for allocating local currency but does not specify regions of concentration or criteria for selecting among competing activities.

Recommendation: That regional concentration and selection criteria for local currency funds be specified in the program agreement.

6. Issue: Are \$250,000 of AEPRP funds for studies, evaluations, and audits sufficient?

Discussion: The PAAD identifies a series of proposed studies, two evaluations, monitoring reports and audits. Omitted from the studies and evaluation are socio-economic issues which are likely to require both baseline data collection and an ex post facto impact evaluation. The Mission is preparing a proposal to use PD&S funds for part of the studies and evaluation program.

Recommendation: 1) That PD&S funds be authorized for the conduct of studies relating to agriculture and transportation, particularly those not integral to the AEPRP. 2) That a baseline study to support an evaluation of program impact be added to the Mission's work plan.

7. Issue: Will the AEPRP require adjustments in USAID staffing?

Discussion: The AEPRP will require require substantial management and technical (engineering) staff inputs. The regionally-funded TAZARA project is also creating staffing needs: assignment of a full time direct-hire project development officer, engineer, or transportation specialist is likely for the TAZARA project. Since the AEPRP will call for Mission participation in programming of local currencies, this program alone could require up to two full time staff members. A CIP within the AEPRP could add further to the Mission's workload.

Recommendation: 1) That the staffing pattern exploit complementarities between the AEPRP's and the TAZARA project's requirements. 2) That the staffing include one USDH (or PSC) engineer, one USDH project development officer or project manager with transportation background, and up to two local PSC engineers. Note: The PAAD budget may need to be amended to cover PSC engineers.