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ATTACHMENT A

US AGENCY FOR INTERNATIONAL DEVELOPMENT

AFRICA VENTURE CAPITAL PROJECT

FINAL

IMPLEMENTATION PLAN FOR THE ESTABLISHMENT OF THE TANZANIA VENTURE CAPITAL FUND

CONTRACT NO. AFR-0438-Z-00-0006-00

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THE STUDY

At the request of the US AID Mission in Dar es Salaam, Harvey & Company, Inc mounted a study team to undertake the preparation of a feasibility study and, provided that this proved positive, the drawing up of an implementation plan to show how a venture capital fund could be established and operated viably in Tanzania as part of the US AID Mission's overall Finance and Enterprise Development Program of assistance to the private sector.

The study team consisted of Douglas L. Leavens, Project Director of the Africa Venture Capital Project at Harvey & Co, Inc; and John Leech, Deputy Chairman, and Fiona Kam, Finance Director, of Rural Investment Overseas Ltd. They visited Tanzania from May 9 - 26, 1992 and held discussions with potential investors in London, Paris, Luxembourg, Nairobi and Washington both before and afterwards.

This report, presenting the team's findings and recommendations, is submitted to the US AID Mission in Dar es Salaam, with appreciation for their considerable support and co-operation.

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SUMMARY REPORT

SECTION 1

1.1 Background

Venture capital is the taking of an equity stake in projects with high growth potential, accompanied by management support to ensure that that potential is realised. Venture capital involves no foreign currency debt or repayment obligation. It helps entrepreneurs to reach a sound leverage ratio, and it provides them with additional management and business skills.

For all these reasons it is particularly appropriate to the development of the smaller-scale indigenous productive sector in Africa. Assisting the African entrepreneur in this way has particular relevance to the Tanzanian condition. The US AID Mission were therefore keen to explore the feasibility of providing venture capital in Tanzania.

A Pre-feasibility Report prepared by a team from Harvey & Company, Inc was presented to the US AID Mission in Dar es Salaam in summary form in March 1992. The full Report was submitted in April. It established the main principles on which a Venture Capital Fund (VCF) seemed likely to respond to current needs and circumstances in Tanzania.

The Mission agreed that the VCF should form an integral part of its overall Finance and Enterprise Development (FED) Program submitted to AID Washington in April. At the Mission's request the team from Harvey & Co returned to Tanzania from May 9-26 to prepare a full Implementation Plan which is now submitted.

1.2 Recent Developments

1.2.1 Political

The Parliamentary session which ended on May 15 was a historic one. After more than a quarter of a century of one-party rule, Parliament approved the introduction of a pluralist system. It amended the Constitution and legislated the rules for the transition. The process of change continued with the ending of CCM Party activity at the worksite and, more significantly, within the armed forces.

All this has been achieved with large majorities and evident popular consent. The Zanzibar Assembly has followed suit, even though its society was far more closely politicised. Although the vying of political parties for popular recognition may at times become turbulent, it is clear that the changes are now irreversible.

1.2.2 Economic

Liberalisation of the economy is also proceeding apace. Privatisation seems at last to be gathering some momentum as Government is entering into more serious negotiations with

prospective purchasers. The process began haltingly as long ago as 1984 with mergers and mothballing of uneconomic enterprises. There followed some piecemeal privatisations in agriculture, manufacturing and tourism. Now the examination of most of the important sectors has been completed. Individual enterprises within them have been classified as due for sale in total, of the majority, or of 40%. Others are to be put in the care of qualified managers. Uneconomic parastatals are to be liquidated, merged or their assets sub-divided and sold. But the time frame is still uncertain.

The Privatisation Commission has now been appointed and its Chairman, George Mbowe, lately of the East African Development Bank, installed. It will have the task of laying down detailed criteria and procedures, and of maintaining some transparency in a process which has up to now been highly pragmatic.

Lessons learnt in years of frustrating negotiations seem now to be bearing fruit. Whilst inexperience and unfamiliarity with investment principles on the part of the Tanzanian negotiators bedevilled early attempts, certain principles have now been established. A series of privatisations has been achieved in agriculture, often by direct sale to foreign organisations, and the mining sector is beginning to achieve similar results.

Whilst not inconsiderable problems remain to delay an accelerated privatisation programme, further measures are being taken to attract the foreign investor. Parliament also passed an instrument to amend the Investment Promotion Act and make the Investment Promotion Centre (IPC) into a one-stop investment agency. A new inter-ministerial committee within it is said to be empowered to grant all the approvals, licences, registrations and other formalities needed for a project to commence business.

Liberalisation of foreign exchange regulations - from the disappearance of currency declaration forms on entry to the establishment of bureaux de change legitimising the parallel market - have stimulated economic activity and interest. Together with the Open General Licence system for imports, and the sanctioning of external retention accounts, they have given a new impetus also to the indigenous entrepreneur.

Although Government has difficulty in reducing the budget deficit to 6% of GDP, it has begun to shift the burden of financing it from the domestic banks to revenue mobilisation. There is a broad advance on reforms in other sectors such as freer trading of commodities in agriculture and industry, the management of infrastructure, health, education, population and the environment. Reform of the civil service has yet to be seriously addressed, but there are signs that Government is mobilising opinion as a precursor to action.

1.2.3 Financial

Most of the policies agreed with the IMF and World Bank a year ago have been instituted and their implementation is broadly on target. Action on exchange rate adjustments has been vigorous and the new bureaux de change appear to be working well. As yet there are few signs that the bureaux and the official rates are beginning to converge as intended. At the same time the Open General Licece (OGL) system has been further liberalised.

Efforts have been made to improve monetary and interest rate policies. The complex system of rates has been changed in favour of a single maximum lending rate and a minimum one-year deposit rate indexed to inflation. Even these are due to be abandoned by placing reliance on a Bank of Tanzania (BoT) discount mechanism.

The financial sector itself is being reformed with the reconstruction of the state-owned banks and financial institutions. DANIDA will shortly begin work within the Co-operative and Rural Development Bank (CRDB) and other consultants are being selected to handle the National Bank of Commerce (NBC) and Tanzania Investment Bank (TIB) (possibly CIDA). Both World Bank and US AID are assisting BoT with developing appropriate supervisory and regulatory mechanisms. Meanwhile the process of transferring the banks' non-performing assets to the Loans and Advances Realisation Trust (LART) has begun and Treasury is being advised on the forms of bonds to be issued in exchange.

Negotiations are in train with at least two foreign banks who wish to re-establish commercial banking operations under the Banking and Financial Institutions Act 1991. These are expected to be concluded by September. A number of local initiatives are also under examination.

1.3 The Business Environment

The study team addressed itself specifically to gauging activity in the private sector and the vigour with which it is responding to new opportunities. It was notable that the climate is one of increasing optimism. Confidence has returned within a remarkably short space of time, particularly among the more active African business community. To a great extent this is based on visible evidence of liberalisation of the business environment as it affects them. The authorities are seen as giving not only exhortations but practical substance by sweeping away restrictive regulations.

One convincing example are the bureaux de change. Through them the entrepreneur can now buy those relatively small amounts of foreign exchange for lack of which many a business used to be stifled or brought to a complete halt. By allowing foreign currency to be exchanged at the parallel

rate, the bureaux also compensate those who receive it for the continuing devaluation of the TSh. One project interviewed has just received a foreign loan whose TSh value it had in this way been able to raise by 30%, without a corresponding increase in the nominal value of the loan.

Access to the OGL system has also allowed companies to resume a normal business cycle. Stoppages for lack of imported materials or spares have become a thing of the past, even if the prolonged lack of investment in infrastructure still causes interruptions in electricity and water supply. These inefficiencies are compounded by the wastages of poor roads, transport and telecommunications. The prices of such essential services are commensurately high, and the Tanzanian exporter is therefore still penalised in relation to competitors.

1.4 Conditions for Investment

1.4.1 Licences and Registration

The process is lengthy and cumbersome. A company has to be registered before the obligatory application for approval by the Investment Promotion Centre (IPC) can be made. Registration may take up to six weeks, IPC approval needs six months even if the project is well documented. The process of further licences, approvals, registrations and supply agreements - all of them preliminary to building a factory - has been taking up to two years. The recent amendment to the Investment Promotion Act should give IPC the ability to activate these within its own approval process. It remains to be seen how far this will streamline procedures in practice.

1.4.2 Setting up a Business

The basic legislation is the Companies Ordinance 1932, to which revisions have been made over the years. It is archaic and makes no provision for modern forms of corporate activity or regulation. The Companies Registry has for years been unable to keep pace with the increase in business; its filing, storage and records sytems are described as chaotic. It is therefore incapable of serving any statistical or information purposes.

Professional services are also to some extent conditioned by these inefficiencies. It would be hard to find totally reliable or greatly imaginative advice, if only because so much is either archaic or in flux. A growing number of management and other consultants is trying to compensate for these deficiencies.

1.4.3 Import Licences

There are three forms of import licence. For items on the

Open General Licence (OGL) list, the licence is automatically issued. The same applies to licences for imports using "own foreign exchange" funds, eg from a retention account. Delays are, however, still experienced over applications requiring specific allocations of foreign exchange by the Bank of Tanzania for non-OGL items. These require full documentation to enable the Bank to establish priorities and the terms and conditions of payment.

1.4.4 Foreign Exchange Regulations

Despite much liberalisation, several constraints remain. The bureaux de change can be used to obtain the $3,000 travel allowance, small volume imports, overseas service payments such as medical bills, educational fees, subscriptions, publicity and miscellaneous fees not exceeding $2,000 pa. Companies (but not banks or financial institutions) which do not have a retention account can also pay dividends to their foreign shareholders in this way.

The BoT is due to publish a more definitive Foreign Exchange Manual by mid-June. It is eagerly awaited since it is likely to contain several new provisions of which no one is yet aware.

1.4.5 Dividend Calculation and Remittance

The Companies (Registration of Dividends and Surpluses and Miscellaneous Provisions) Act 1972 still restricts the size and calculation of dividends for scheduled enterprises. Financial institutions are not normally scheduled. The Act has already been declared archaic and is expected to be repealed shortly. In the past the BoT has been able to refuse foreign exchange for the remittance of dividends otherwise authorised. It is now possible to pay dividends from external or retention accounts.

1.4.6 Taxation

Corporation tax has recently been reduced from 50% to 45%; the aim is said to be to bring it down to 35% in due course. Enterprises approved under the Investment Promotion Act are granted a five-year tax holiday, expected to be counted from their first year's accounts.

There is no capital gains tax other than on property. Unless a positive ruling is obtained, gains on the disposal of equity could run the risk of being fully taxable as profits in the year in which they arise.

Dividends received are added to the receiving company's taxable income, unless its holding is at least 25%. They are taxed at source only if remitted direct to a foreign shareholder; in that case a withholding tax of 10% would be deducted by an approved enterprise from the end of the five-year tax holiday. At that point dividends received by the

shareholders in a VCF could therefore have suffered tax up to three times.

Losses can be carried forward indefinitely, but provisions against doubtful investments will affect the tax liability only when the amounts have been written off. Writing off may be disputed unless the investment is liquidated.

Businesses are subject to a variety of other taxes and imposts, such as sales tax (on goods only), payroll tax and stamp duties (at variable rates depending on the instrument or document, but 1% on a company's authorised capital). Enterprises with IPC approval are exempt from payment of sales tax and import duties on their machinery, equipment, spare parts, materials and supplies.

Where an approved project involves the rehabilitation or expansion of an existing enterprise, tax is calculated on the total gains or profits of the whole enterprise.

1.5 Availability of Capital

1.5.1 Equity Capital

For the time being, there are no domestic institutional sources of equity capital. TDFL, TIB, CRDB and others have restricted themselves to loan finance. Any other function needs to await their restructuring or, in the case of TDFL, a Board decision on a report commissioned on its possible diversification. This is likely to include an equity line of credit from EIB, that is a long-term low-interest loan which can be invested in the equities and other securities of smaller enterprises.

Until then, the only exception among local institutions is Investment Promotion Services (Tanzania) Ltd (IPS), a long-established part of the Aga Khan's economic promotion activities. However, IPS is itself looking for new shareholders to allow it to continue its investment operations, particularly in the acquisition of Moshi Tanneries and one of the Kiltex Group's mills.

A new source of equity financing is therefore urgently needed, in particular for the African entrepreneur who has great difficulty in assembling a sufficiently large equity base to satisfy the lending institutions.

1.5.2 Term Loans

Term loans are available from TDFL, TIB and CRDB, based on lines of credit from foreign institutions including the World Bank, EIB, DEG, FMO and SIDA. Since the lending institutions are not themselves strong enough to carry the exchange risks, these are passed on to the borrower. However helpful it is

for him to obtain foreign exchange for his import needs, servicing it in a steadily depreciating currency can become a severe problem. Both parties therefore have a powerful incentive to restrict such borrowings. However, TDFL is now expecting funds from EIB and DEG which can be applied in TSh.

The same considerations also limit the choice of project. Only those generating foreign exchange through exports or other means now find themselves acceptable. Frequently this leads to the support of projects assumed to have an export potential, but whose products in reality find it hard to compete on world markets.

1.5.3 Working capital

The two state-owned commercial banks, NBC and CRDB, should be the natural sources for working capital. In practice, enterprises find it even harder to satisfy their needs, in part because of the lending ratios, in part because of the dire condition and inefficiencies of these banks. More often than not, working capital is therefore not a flexible facility fluctuating with the borrower's needs but a fixed component of the term financing. Flexibility is thus severely constrained.

1.5.4 Human Capital

One of the vital accompaniments to capital in developing countries is an element of management support. Lending institutions provide the disciplines of monitoring and supervision, but they deliver after-care only as part of protecting their investment. That can remedy trouble but usually fails to avert it, let alone ensure that the enterprise grows to the best of its ability.

Venture capital, on the other hand, is intimately linked with management support and other inputs which assist the company in developing its full potential. However, the existing management must be open to receiving the VCF's active participation in planning and decision making.

1.6 The Position of the African Entrepreneur

The enterprise culture suffered long years of repression in Tanzania. The profit motive became associated with counter-ideology, antisocial thinking and opposition to the Party. Civil servants and Party members were prohibited from owning most kinds of property and more than one house. The Arusha declaration of 1967 laid the emphasis on co-operative farming development, and the subsequent Ujamaa collectivisation even sought to break the farmer's link with his land.

Worse still, business activity became associated with the Indian community, thus becoming ethnically divisive as well as

socially and ideologically. Indian business acumen came to be disparaged, tolerated only because their population diminished as many sought a less hostile environment. The poorer and more desperate African Tanzanians became under the tutelage of government policies, the greater the resentment at the relative affluence of their Indian compatriots. The Party was not above making a link between African poverty and Indian prosperity.

It now seems essential that this bitterness should not be further fuelled. Liberalisation and encouragement of the private sector should give equal opportunities to all sections of the community. Yet the average African now starts with a triple handicap: the need to rebuild a business orientation and culture; the lack of capital to attract co-investors; and the absence of training and the experience needed to develop a business unassisted.

A good deal of effort has already been fielded to help the African entrepreneur to overcome some of these problems. The Small Industries Development Organisation (SIDO), the NBC's Women's Programme, and a host of donor-inspired activities in training and project development have sought to compensate for these disadvantages. They have, however, been compounded by the shortage of capital and the problems of access to it by the weak and inexperienced.

Any new financial institution must take account of these factors. Without some corrective action it is likely to find itself serving the more solidly-based and experienced applicants, those recognisable as entrepreneurs and possessing the basic capital to start a soundly financed business. As yet, the number of Africans ready to derive the benefit is relatively small. On the other hand, it would be wrong to create a discriminatory institution which would perpetuate the very divisions it is hoped to overcome.

The study team has sought to deal with this in two ways. Initially, it has concentrated its efforts on identifying African entrepreneurs with projects worthy of consideration by a future VCF. It therefore looked for proven entrepreneurs with expansion plans and some established equity. By introducing them into the pipeline it should prove possible to ensure that Africans are indeed among the early beneficiaries. The second method is a proposed African Entrepreneurship Fund, wholly separate from the VCF but capable of assisting the African businessman to assemble an equity stake so as to support an acceptable leverage. That proposal is discussed at 1.11.2 below.

1.7 The Market for Venture Capital

1.7.1 Project Identification

The Pre-feasibility Study already identified a range of

potential projects and sectors of activity which appeared to offer promising opportunities. The present study has sought to investigate these more closely. In collaboration with TIB, TDFL and CRDB it examined the pipelines of these institutions with a view to identifying projects which meet the following criteria: (a) an African promoter who has already built up a successful business which needs to move to the next stage, and (b) a project which seems to satisfy the lending institutions' criteria but is blocked because of insufficient equity cover.

It was notable that these institutions readily understood the potential usefulness of a VCF for their own operations, precisely because it could unblock a number of otherwise desirable projects. Between them, they listed some 35 projects. The team selected four of these for investigation, largely on the basis of the identity and character of the promoters. Meanwhile researches were undertaken independently to identify through personal contact a number of other African entrepreneurs who had built up a modest reputation in their field.

The six examples set out below illustrate clearly that there exists a stratum of capable African entrepreneurs, long invisible but successful despite an initially hostile environment. They have shown perseverance and ability to cope with the difficult decisions required in such a climate. In short, they have demonstrated a maturity on which one can prudently build.

It will also be seen that their projects are rather smaller than the average of those dealt with by the financing institutions. The typical target for venture capital is second-stage financing of companies still small enough to enter into a partnership with the VCF, sufficiently experienced to realise that it is worth sharing the equity, and modest in its demand for capital so that the growth factor becomes more pronounced. One objective of the VCF should be to ensure that the rate of change and growth is controlled and at no stage outstrips their capacities.

1.7.2 General Electronics and Electrical Services Ltd (GEES)

Mr Asman A. Maige founded GEES in 1978 to import printing machinery and provide technical and maintenance services to his customers. He has long-standing agency agreements with George Stanley (Paper) UK and eight other companies including SOLNA SB SWEDEN and Gestetner UK. Products now cover also electronic cash counting machines and equipment for airports, offices and security. In 1991 GEES installed equipment worth US$ 1.7 million. Its technical and professional staff of 11 mostly have over ten years' experience.

GEES has obtained a licence to supply, install and maintain telephone equipment. During the recent OPIC/US AID mission

to Tanzania, GEES agreed with Kludjeson International Corporation (KIC) of California, a licensee of AT&T, to act as sole agent to supply AT&T equipment in Tanzania. Both parties intend to proceed to local assembly and progressive manufacture, as KIC has recently done in Ghana. APDF is being asked to finance a feasibility study for this operation which will indicate the level and sources of the new investment required.

1.7.3 SIMA International Ltd

Mr Simon K. Mutabuzi began his company in 1982 with a variety of horticultural crops. In due course he was advised that there was a useful export market for dried chillies. Having identified and bred a suitable variety, he distributed the seeds to outgrowers, largely in the Bukoba area. The 350 growers there and some 50 near Dar es Salaam provide him with 200 tonnes of dried chilli per annum. Drying is in his own facilities, the best grade being exported whole and the remainder as powder.

SIMA has participated in two European trade fairs which brought them a steady stream of customers, both in Europe and in Asia. The British Natural Resources Institute classified their chillies as equivalent in pungency to the Chinese Fukien variety, considered the second best in the world. He has received orders and advance payments from buyers in Singapore, Rotterdam and the UK who want over 2,700 tonnes. SIMA is therefore planning to expand its contract farming network to 1,000 growers, as well as to increase plantings on its own farm near Bukoba to 1,000 ha, install drying and grinding facilities, and erect packhouses in Bukoba and Dar es Salaam to handle a total of 650 tonnes of fresh fruit exports.

Estimated project costs are in the region of US$ 1.2 million. SIMA require additional equity of $ 100,000 in order to procure a loan of up to $ 700,000.

1.7.4 Skyline Enterprises (T) Ltd

The company was set up in 1984 by two brothers, Abraham J. Mukangara and Dr Dandi J. Mukangara, initially as textile printers. It gradually began to export gemstones and by 1989/90 had a turnover of US$ 222,000. Significantly, exports have gone mainly to Idar-Oberstein, the major centre in Germany for working of semi-precious stones. Marketing is done through established contacts in Europe, the USA and Asia.

Gemstones have so far been bought from small-scale miners. The company has now been granted title to four claims covering 90,000 sq metres at Mwakijembe, Kongwe District, Tanga. A geological survey has shown them to be well endowed with sapphires, corrundum and garnets. They wish to establish a processing plant at a total cost (in 1991) of TSh 200 million (then $ 1 million). Some TSh 48 million is said to be available as equity. Devaluation of the TSh will undoubtedly

have made this insufficient, but in view of the high export content the project overall is likely to be still viable.

1.7.5 Tee-Te Warehouse Ltd

Miss Rose Lyimo, the promoter of this new company, has been in business for ten years. Her other companies, Tee-Te Clearing House Ltd and Tee-Te Associates, are well run and profitable; they have given her the experience, and demonstrated the need for this new enterprise. Her customers include Shell Petroleum Development, Shell Chemicals, the British Council and a number of major international organisations. She proposes to construct and operate a warehouse and container yard in the Mbezi Industrial area in Dar es Salaam for storing conventional as well as containerised cargo. The plot has been acquired and title obtained.

There has been a rapid growth in demand for reliable storage space, which has been a major constraint on the cargo handling companies. Makeshift arrangements have exposed transit goods to pilferage and theft. Total estimated cost of the project, including handling equipment, is TSh 83 million. Miss Lyimo and her existing companies are able to contribute TSh 15 million by way of equity, leaving an equity gap of some TSh 13 million which might be filled by the VCF. The feasibility study shows an after tax IRR of over 50% (in constant TShs).

1.7.6 Shams Trading Agencies Ltd

The owner of this company is Mrs Zariah Kitule, who holds a Master's degree in Food Science and Industrial Technology from the University of Wageningen in the Netherlands. It has been operating since 1978 and already owns a plant for producing semi-refined edible oil, the loan on which has been fully repaid. Mrs Kitule wants now to expand production to 1,500 tonnes per annum of refined edible oils and 3,700 tonnes of seed cake by-products. The production is to be sold to local wholesalers, for export, and under a long-standing supply contract for the Zanzibar Army.

A full feasibility study prepared in 1990 estimated total project cost at US$ 1.3 million. Devaluation and new quotations for the plant will have increased costs substantially, but Shams has meanwhile also obtained IPC approval for the project which will help to offset these. The estimated IRR of 66% after tax may therefore also still be a good approximation.

1.7.7 Ibina Publishers Ltd

Mr Kimwaga Stika returned from Sweden in 1990 and established this book publishing and general printing business with second-hand machinery from Sweden and Germany. His premises are new and capable of accommodating additional plant. He now plans to publish a new weekly newspaper of a kind which is totally absent from the Tanzanian market. His presses are

adequate for the production of a tabloid paper.

In view of his lack of newspaper experience, although he is himself a writer, an introduction has been made for him to the successful weekly Business Times. It is possible that both papers might complement each other, as well as assisting Business Times to find a competent printer. A preliminary estimate for Mr Stika's own publishing operation was US$ 300,000, of which he might be able to subscribe for $ 60,000. If and when negotiated, the combined operation would be substantially stronger.

1.7.8 Future Project Flow

In addition to these concrete examples, which for obvious reasons are based largely on Dar es Salaam, there is also a range of similar proposals from promoters elsewhere. The team established contact with some of the promoters it met in Arusha during the earlier phase and confirmed that there were proposals being actively developed. These cover particularly high-value horticulture and crop spraying.

On the basis of these researches and findings, the team is satisfied that an adequate project potential exists. An important factor will be their access to loan finance, especially in TSh, so that the VCF's equity input can achieve the desired leverage.

1.8 The Venture Capital Fund (VCF)

1.8.1 Size and Resources

It is considered that a VCF with a subscribed capital of $ 5 million will be adequate to meet the investment potential, make a sufficient impact on entrepreneurial activity, and generate sufficient revenues and capital gains to become self-sustaining within a period of five years. This also assumes the progressive widening of exit routes.

1.8.2 Composition and Shareholders

Discussions have been held with a number of potential shareholders. There is interest on the part of CDC and the European Investment Bank (EIB) which has access to the European Community's risk capital fund for small and medium-sized enterprises in industry, agro-industry and mining. These funds might be made available to the VCF as an equity line of credit (ie a loan on special conditions to be used for investment in the equity of projects), or they could be drawn down by one of the Interact institutions (CDC, DEG etc) on a matching basis with its own investment.

Similar discussions have taken place with DEG. The preliminary response is encouraging, since DEG is looking for more effective ways to assist the smaller entrepreneur.

Discussions have also been held with the Aga Khan Fund for Economic Development (AKFED) and its associate in Tanzania, Industrial Promotion Services (Tanzania) Ltd (IPS). AKFED is aiming to expand IPS with the addition of IFC and others and offered this as the vehicle for the VCF. IPS certainly has some of the attributes of a VCF, particularly the predominant investment in equity and efficient hands-on management. On closer examination, however, it acts more as a holding company and the resources it seeks are earmarked for the acquisition of a tannery and textile mill which are being privatised. A proposal that AKFED should enable IPS to become a minority shareholder in the VCF did not prove acceptable to AKFED.

Discussions with IFC have also proved negative, since the necessity for a US AID grant in the early years does not accord with IFC's principles.

Prime among possible local shareholders would be TDFL. There is a clear identity of interest between their operations and the VCF, which can supply one of the crucial components for want of which many of its projects are held up. TDFL had been considering whether to set up its own venture capital arm, but seemed to appreciate that this would necessitate a radical change in approach. Similar considerations would apply to Tanzania Investment Bank (TIB). An additional justification for investment by TDFL and TIB is that the VCF would train some of their staff in the techniques of venture capital against the time when they may be better able to start such operations themselves. It is also reported that National Provident Fund (NPF) and National Insurance Corporation (NIC) have funds available for investment.

A possible capital structure might therefore be as follows -

	US$ m	Per cent
CDC	1.34	26.68
EIB	1.33	26.66
DEG	1.33	26.66
Total foreign	4.00	80.00
TDFL	0.50	10.00
TIB	0.50	10.00
Total equity	5.00	100.00

Discussions with these potential investors are continuing so that a firm financing plan may emerge and allow the VCF to be established. CDC and other external investors may also be willing to underwrite a larger portion of local investment.

1.8.3 Legal Form

Tanzanian company law is rudimentary and does not provide for more sophisticated forms of association used for VCFs

elsewhere. The legal form needs therefore to be a limited liability company.

The Banking and Financial Institutions Act 1991 lays down certain provisions which would apply to the VCF. Its core capital must be at least TSh 500 million ($ 1.7 million), it must be licensed by the Bank of Tanzania, and it will be subject to the Bank's supervision. The Bank's regulatory requirements and procedures are currently being determined in association with US AID consultants (Coopers & Lybrand International). They are not expected to be onerous.

Both these circumstances may make it difficult to operate a closed end Fund. A limited company could decide to wind itself up at the end of, say, 10-12 years and distribute its assets. A licensed financial institution might find this more difficult. A solution may be to operate within such an institution one or more unincorporated funds or accounts, perhaps with different investors, which can be separately managed and terminated by common consent.

1.8.4 Control and Management

Shareholders in the VCF are expected to appoint a Board which will control the Fund and its operations. This would include a number of prominent members of the Tanzanian business community. The Board may either directly appoint a General Manager, who would be an experienced expatriate venture capital manager; or the investors may choose to create a separate management company. Either the individual Manager or the management company would be responsible to the Board for the overall management of the Fund and for fulfilling its statutory obligations.

Based on the capacities of prospective shareholders, a number of possible options were considered for a management support structure for the actual operations of the VCF. A General Manager would require an administrative base, support staff, and experienced people who can deliver the management, accounting and other inputs needed by investee companies.

Several of the potential shareholders have offices in Dar es Salaam which might offer an operational base. TDFL and TIB could provide some appraisal and project supervision capacity, as well as an intimate knowledge of local business. They are also likely to be co-financiers of some of the VCF's projects. Both have been considering setting up their own venture capital arms. Nevertheless, it should be remembered that the need for venture capital has arisen precisely because of the traditional approach and criteria of the DFCs: their selection of projects for development value rather than growth potential; their long-term view of project development; and their generally non-interventionist system of monitoring and supervision which has to be concerned with the health of the investment rather than that of the investee company.

An arrangement with IPS was also considered. Its operations are closer to those of the VCF in that it concentrates on the intensive management of its investments. In addition to its headquarters staff of eight professionals it seconds people as project staff to its investee companies. IPS is perhaps the only diversified management group in Tanzania and is generally regarded as efficient and successful. However, AKFED made it clear that their own plans would not leave room for either a capital participation or a call on IPS' management capacity.

CDC also has not only its Tanzania office organisation but is managing three major projects (Tanwat and two tea companies) with its own staff. With its experience of venture capital type equity financing in developing countries, CDC may well be able to provide an experienced venture capital fund manager. However, CDC believes that Funds are best managed by an independent, dedicated mechanism and would therefore favour the setting up of a separate management company. This has the advantage of a transparent and containable cost structure, as well as allowing for local participation in the management company. The same company would then be available to manage additional Funds which are likely to be built on the first successful example.

1.8.5 Investment Procedures

It is proposed that the Board of the VCF or of the management company, as the case may be, should formally adopt a set of detailed Investment Guidelines and that these should be mandatory on the management. The Board should be able to approve investment proposals without reference to the shareholders, and it should institute a system whereby such decisions can be made rapidly by a strong and knowledgeable local committee of the Board.

The Fund will invest predominantly in the equity of projects and will make loans only in exceptional circumstances. It may take steps to preserve the foreign exchange status of part of its external subscription moneys and make these available in special cases to projects which are unable to obtain such funds in other ways.

1.8.6 Other income

Aside from dividends and capital gains on its investments, the Fund should be able to obtain fee income on services provided to projects. It may charge for appraisals and negotiation, for any assistance with the improvement of business plans, the assembling of finance from other sources and the preparation of documentation. Where an investee company is in a position to pay for the management and other inputs delivered by the VCF, appropriate charges should be levied.

In order to assist the initial cashflow of the VCF, it is proposed that the investors should subscribe for their equity as to 50% each in Years 1 and 2. This will allow a small

part of the funds to be invested at the high deposit rates obtaining (currently 29%), whilst the remainder of funds not immediately required for investment can be held in an external account at a lower rate but preserving its hard currency value. Its value in TSh could be further enhanced if the VCF were able to use it to purchase local currency at a discount under the debt conversion scheme.

1.8.7 Exit Mechanisms

Since the main purpose of the VCF is to build up the value of its holdings within a rapid timespan, the preferred exit route should be by means of a sale (at commercial valuation) to the project promoter who should by that time have acquired the necessary means. A not uncommon case is, however, likely to be that at that point the business needs to finance further expansion. In that event, outside capital needs to be brought in and a share sale by the VCF might be a useful part of that in order to establish a price.

Independent action will be necessary over the next few years to establish the elements of a capital market system in Tanzania. An OTC or "coffe-house" trading mechanism, such as began in Kenya, would be a useful beginning. US AID is aiming to assist such a development through its FED Program, as is the World Bank. The process may gain some momentum from an association with IPS, whose projects are some of the few private sector ones which would be tradeable. In due course the privatisation process will also assist the flow of securities for dealing.

A further exit route would be for mature projects to be passed on to the investors in the VCF. This could be of interest and value to IPS, TDFL and TIB as it would provide them with a sound project flow. Such an arrangement would also be material in the event that the VCF's portfolio had failed to grow sufficiently by the time any US AID support was due to cease.

1.8.8 Taxation

The tax position of a VCF will need to be clarified at an early stage. There is no capital gains tax in Tanzania, but it needs to be confirmed that such gains are not taxable; otherwise they would risk being assessed as profits subject to corporation tax at 45% in the year in which they arise. It is expected that the financial institution status will allow a reasonable case to be made with the Ministry of Finance for this and other exemptions and recognition of the VCF as a dealing company.

1.9 Financial Projections

1.9.1 Illustrative Financial Flows

Financial projections and the detailed assumptions on which they are based are set out in this Plan. They assume that investments fall into low, average and high performers, with commensurate yields and capital gains. Though the projects currently available have been taken into account, they have not been used as actual cases.

The VCF's expenditures are based upon the creation of a local management organisation and the employment of an expatriate General Manager as set out above.

Training inputs other than staff training are to be assessed separately, and it is expected that these will be finaced from a separate part of the US AID programme.

Subject to the US AID inputs proposed in the following paragraph, the projections indicate an IRR of 27% for the Fund over a nine-year life. This is without allowance for reinvestment of capital realisations. Since it is in terms of contant US$, it is considered sufficiently attractive for the investors.

The IRR without US AID inputs falls to 21% and would lead to severe cash shortages, preventing the effective development of the VCF.

1.9.2 Scope for Inputs from US AID's Africa Venture Capital Project

The cost of operating the VCF in constant terms over the initial five-year period is estimated as US$ 1,900,000. This could be financed as to US$ 500,000 from self-generated funds and US$ 1,400,000 by contributions from US AID. At the end of this period the VCF should be fully self-supporting. Self-generated funds include the interest on subscription moneys paid in full by Year 2, which the shareholders would regard as their contribution to the start-up costs.

1.10 Proposed Next Steps

Assuming that US AID approves of the detailed concept now put forward and confirms it as an appropriate part of its overall FED Program, the following steps are recommended -

(1) Authorise release of the feasibility study to the proposed investors.

(2) Authorise Harvey & Co to promote and pursue discussions with individual investors, encourage them to consult amongst themselves and to develop a joint approach.

(3) Harvey & Co to liaise with ONI and the Mission concerning the allocation of funds from the AVCP and the appropriate buy-in.

(4) Assist the US AID Mission in Tanzania to progress the proposal, in particular by detailed discussions with the Ministry of Finance concerning the tax treatment of the Fund, with the Bank of Tanzania regarding its licensing as a financial institution, with the investors concerning the registration of the company and the management arrangements, and with the IPC to accelerate its approval.

(5) In consultation with the investors and managers, Harvey & Co to draw up a schedule of training requirements for the VCF to ensure its smooth functioning; and to plan arrangements to ensure that entrepreneurs financed by it receive initial instruction to ensure that they have a full understanding of the requirements of the Fund.

1.11 Supporting Action

1.11.1 The Trust Fund

US AID has proposed the establishment of a Trust Fund in Tanzania which would receive counterpart funds accruing from the new $ 40 million Commodity Import Program. In agreement with Government of Tanzania, the Trust is to be fully independent and operate under its own Board of Trustees. It is hoped that the Trust Fund will generate capital, of which a portion might, at the discretion of the Trustees, be invested in the VCF and other worthwhile causes.

One proposal would be that the Mission, in consultation with Government, appoints three eminent Tanzanians in order to draft the terms of reference for the Trust Fund and its operations. This will allow US AID to remain impartial from the outset, whilst ensuring the independence of action of the future Trustees.

1.11.2 An African Entrepreneurship Fund

One of the major concerns of all those involved in promoting and financing the private sector is to ensure that African entrepreneurs are enabled to take full advantage of the opportunities created. In relation to the VCF as well as other financial institutions they start with the disadvantage of lacking capital. Their projects are often turned away because they are unable to provide 51% of a total equity substantial enough to represent an acceptable leverage ratio.

One solution would be to create a fund to which African entrepreneurs could turn if the VCF or another institution finds them and their project sound but is unable to finance it for lack of promoter's equity. The entrepreneurship fund would make its own enquiries as to the applicant's standing,

but basically react to the institution's recommendation. The fund's loan or investment would be safeguarded by the institution's co-investment and monitoring. The transaction would be personal to the entrepreneur and would not be an obligation on the project itself.

Discussions have taken place with leading members of the Tanzanian business community. They are optimistic that there would be a good response from members of the Confederation of Tanzanian Industry and similar organisations to donate moneys to such a fund. Some funds might also be available from the European Community. US AID and the Trustees of the Trust Fund discussed in the preceeding section might see an African Entrepreneurship Fund as an eminently appropriate cause to support.

1.11.3 Additional Recommendations on Supporting Action

It is recommended that Harvey & Co should be invited to -

(i) propose a list of names of eminent Tanzanians from which to select the three wise men to draw up the terms of reference for the constitution and operations of the Trust Fund;

(ii) draw up terms of reference for an African Entrepreneurship Fund as outlined; and

(iii) pursue discussions with the parties involved to procure the establishment of such a Fund.

SECTION 2 INTRODUCTION AND BACKGROUND

2.1 Introduction to Venture Capital

Venture capital is the taking of a minority equity stake in projects with high growth potential, accompanied by management support to ensure that that potential is realised. A typical investee company will be small (from 5 employees upwards), be controlled by a promoter with a clear concept and demonstrated ability, and have an innovative product or marketing strategy.

Venture capital is designed to augment the capital resources of the company without incurring fixed finance charges. The taking of equity creates a partnership with the promoter which can be used to accelerate growth and overcome problems as they arise. When the project is mature, the venture capitalist disposes of his shares, reaping the benefit of the asset growth he has promoted.

Venture capital involves no foreign currency debt or repayment obligation. It helps entrepreneurs to reach a sound leverage ratio, and it provides them with additional management and business skills. For all these reasons it is particularly appropriate to the development of the smaller-scale and indigenous productive sector in Africa.

2.2 Background

These considerations led US AID to establish the Africa Venture Capital Project, with the aim of promoting the understanding and practice of venture capital, identifying opportunities for the creation of Funds, and financing preparatory and operational costs in the first few years. Harvey & Company, Inc of Washington, DC has been contracted to implement the project for AID.

At the request of the AID Mission in Dar es Salaam, Harvey & Co sent a two-man team in March 1992 to undertake a preliminary investigation of the potential for venture capital in Tanzania and its possible role within the Mission's proposed Finance and Entrepreneurship Development Program (FED). The team presented its report to the Mission in summary form in the same month, followed by a full report in April. This established the main principles upon which a Venture Capital Fund (VCF) seemed likely to respond to current needs and circumstances in Tanzania.

The Mission agreed that the VCF should form an integral part of the FED Program submitted to AID Washington in April. At the request of the Mission the team from Harvey & Co returned to Tanzania to carry out the present Implementation Plan. Its purpose is to provide an action plan which will lead directly to the early establishment of a VCF in Tanzania. To this end the terms of reference included the identification of

potential investee companies, investors and local management organisations for the VCF, as well as establishing its financial viability and the overall need for it in the context of Tanzania's private sector development.

2.3 The Finance and Enterprise Development (FED) Program

US AID's overall objectives for private sector development in Tanzania have been drawn together within the FED Program. Its purpose is to promote economic growth and social progress by strengthening the capacity of the private sector to generate jobs and incomes. Its principal targets are the strengthening of the country's financial infrastructure; reducing financial, legal and regulatory constraints to business growth; supporting business community participation in public policy debate and formulation; and providing both partners with access to international financial and business support services.

The FED's main elements are -

(a) an import financing facility, linked to adjustments in economic policy;

(b) financial sector support to consolidate ongoing financial sector reforms;

(c) private sector support activity to enhance the capacity of specific enterprises as well as of business support organisations; and

(d) a local currency trust fund to invest counterpart funds from the Commodity Import Program (CIP) in areas important to private sector growth, including social services.

The local currency trust fund will be constituted with the funds generated by the sale of foreign exchange to the private sector under the CIP. Potential resources could amount to some $ 40 million over five years. The trust's funds would be applied in two ways: investment in the private sector; and grants to NGOs to strengthen social services related to private sector growth.

As the trust will be non-profit making, it will not be able to invest directly. It will therefore need to work through existing financial institutions or support new ones which are adapted to its purposes. It is considered that a VCF would be an appropriate intermediary, fully in line with the objectives of the FED and the purposes of the trust fund. The linkage with the FED Program will also be beneficial to the VCF. The operations of a relatively small Fund on the scale envisaged would be strengthened considerably by the flanking measures contained in the FED.

SECTION 3 OVERVIEW

3.1 Political Developments

The Parliamentary session which ended in mid-May was a historic one. After more than a quarter of a century of one-party rule and strict imposition of African socialism, Parliament approved the introduction of a multi-party system. Although elections are still some way off, it amended the Constitution and legislated rules for the registration of political parties. Simultaneously, an end was put to the primacy of the ruling CCM party by disbanding its cells in the workplace and the armed forces. An appeal was made for these forces henceforth to be non-political, giving their allegiance to the Head of State rather than the party symbol.

The relief of a long-suffering people, as well as the seriousness of the politicians, is evident from the large majorities obtained for all these measures. They enjoy a clear popular consent, even if structural adjustment and economic liberalisation are seen to bring not inconsiderable hardships. This applies equally to Zanzibar, whose society was far more closely politicised, but whose leadership is now even more progressive than that on the mainland.

It would be unrealistic to suppose that the transition will be achieved without some turbulence, especially as new political parties vie for popular favours. Nor will the real changes be very swift, for the decrees of the politicians and a very able new breed of managers will have to be translated into practice by a body of less motivated and often unwilling administrators over whom hangs the threat of redundancy. Yet it is clear that the political changes are now irreversible.

3.2 Economic Developments

For over twenty years Tanzania has suffered from low growth, an overvalued exchange rate, a poor balance of payments, and an overall deteriorating economic performance. The serious decline in the economic situation dates from the mid-seventies, following a period of relative prosperity after independence. Even after protracted negotiations with the IMF were finally concluded, real growth in GDP has continued to decline. The Economic Recovery Programme (ERP) introduced in 1988, and the subsequent Economic and Social Action Plan (ESAP), were aimed at correcting these negative factors by encouraging growth in industry and agriculture, introducing market-based producer and consumer prices and adjusting exchange and interest rates.

Over the last two years, macro-economic measures have at last been freely used to pursue economic objectives. Government has acted vigorously on the exchange rate, reducing the differential between the official and the parallel rates from

a peak of 800% to a current 30%. This has now been institutionalised through the introduction of bureaux de change where foreign currency can be exchanged at the higher rate. Retention accounts and the Open General Licence (OGL) system, supported by donor commodity import programmes, have made foreign exchange for imports accessible. The mechanism for establishing the exchange rate has not yet been agreed, but this is the subject of intensive discussions.

Although Government has difficulty in bringing down the budget deficit to 6% of GDP, it has been brought under control and its financing by banks drastically reduced; the burden has begun to shift to revenue mobilisation. Inflation has fallen from over 30% in 1988 to an official 20.4% in 1991.

Liberalisation of the economy is proceeding apace. Agricultural prices and marketing have been liberalised. The coffee, cotton and cashew nut marketing boards have been restructured. Private traders are now buying cashew nuts in the growing areas, and cotton is to be liberalised in the coming season. Incentives have been provided for production; and steps have been taken to improve agricultural research and extension services. Improvements are also being implemented in the management of infrastructure,health, education, population and the environment.

Reform of the civil service has yet to be seriously addressed, but there are signs that Government is mobilising opinion as a precursor to action. It is not yet clear to what extent it has accepted IMF proposals for retiring all government employees at age 50 instead of 55. That would affect 30% of civil servants and 50% of parastatal employees, with a possible total of 300,000. Redundancy and retirement benefits would be met by UNDP and others. They would include assistance for those affected to become established in the private sector. So far, ghost workers have been eliminated and measures for controlling the establishment introduced; these include a standstill on hiring new administrative personnel.

3.3 Financial Sector Developments

The financial sector is government-owned, traditionally heavily regulated and inefficient. There has been no clear separation of fiscal and banking operations. The need for greater autonomy from Government and improving efficiency through competition has now been recognised. The Banking and Financial Institutions Act 1991 has allowed local and foreign investors, alone or in partnership, to establish banks and financial institutions. A number of foreign banks are seeking to re-establish their former operations; negotiations with two of them are expected to be concluded by September. There is also considerable interest on the part of Tanzanians.

The two existing banks, National Bank of Commerce (NBC) and

Co-operative and Rural Development Bank (CRDB), are state-owned and basically insolvent. The Bank of Tanzania (BoT) was in the past required to provide them with unlimited funds. In line with other parastatals, they are now to be restructured and even privatised. DANIDA will shortly begin work within CRDB, whilst other consultants (possibly DANIDA) are being selected to handle restructuring of NBC and Tanzania Investment Bank (TIB) (possibly CIDA). Both World Bank and US AID are assisting BoT with developing appropriate supervisory and regulatory mechanisms.

Meanwhile the process of transferring the banks' non-performing assets to the Loans and Assets Realisation Trust (LART) has begun and the Treasury is being advised on the form of bonds to be issued in exchange. The LART is part of an SDR 150 million Financial Sector Adjustment Programme being implemented under World Bank auspices. Banks will be required to make provisions against remaining loans in line with criteria laid down by BoT.

Efforts have also been made to improve monetary and interest rate policies so as to encourage local resource mobilisation and allocation. The complex system of rates has been changed in favour of a single maximum lending rate (currently 31%), and a minimum one-year deposit rate indexed to inflation to protect the saver. Even these are due to yield to the new primary discount rate instituted by BoT as the principal regulator. Set at 27% it is intended to encourage banks to seek funds from depositors rather than turning automatically to BoT.

The inefficiencies of the banks have obliged most transactions to be on a cash basis. It is estimated that some 33% of the money supply circulates outside the banking system. Proper credit constitution, and an end to subsidies through directed credit operations, should begin to benefit the productive sector. Interim financing arrangements for agriculture are already under way, as agreed with IDA. They are to be extended to industry as industrial restructuring progresses.

3.4 The Parastatals

The Public Corporations Act 1992 provides a framework for restructuring some 340 state enterprises which are estimated to be collectively losing around TSh 2 billion ($ 7 million) a week. A Presidential Parastatal Sector Reform Commission (PPSRC) has been appointed to develop procedures for implementing agreed reforms, prepare lists of operating parastatals, analyse individual undertakings to determine priorities, sensitivity, viability and share prices, recommend action and oversee its implementation.

Earlier this year the Ministry of Finance published a Policy Statement on Parastatal Sector Reform which discusses all aspects of selection and privatisation. In order to

determine which organisations should remain in the public domain, it classifies them into social services, public utilities, and commercial enterprises. The first are to be absorbed into the administration and their streamlined costs financed from the budget. Public utilities will remain in the state sector, but private sector participation will be encouraged. They will be required to operate commercially and charges to consumers will be liberalised.

Viable commercial enterprises will be available for foreign or local participation, including privatisation through joint ventures, full or partial sale of shares, leasing of assets and management contracts. Individual enterprises are first to submit their own proposals for restructuring, including interim financial support and bank financing. The need to attract foreign capital, technology and management is acknowledged. But Government is to determine on a case-by-case basis the proportion of shares to be retained "on behalf of the people" either directly or in investment trusts, for eventual sale to employees, management or the public.

Privatisation may now be gathering some momentum. The process began haltingly as long ago as 1984 with mothballing and mergers of uneconomic enterprises. There followed some piecemeal privatisations in agriculture, manufacturing and tourism. Lessons learned in years of frustrating negotiations may now be bearing fruit. Whilst early attempts were bedevilled by inexperience and unfamiliarity with investment principles on the part of the negotiators, certain principles have now been established. A series of recent privatisations has been achieved in agriculture, often by direct sale to foreign organisations, and the mining sector is beginning to achieve similar results. Negotiations in the leather and textile sectors are to be completed shortly.

The Chairman of the Privatisation Commission, George Mbowe - lately of the East African Development Bank - was installed in May. He will need to refine and accelerate the processes involved, as well as to ensure a degree of transparency to make them immune from challenge.

Privatisation may offer a number of attractive opportunities for the private sector, though neither the acquisition nor their turnaround is likely to be swift. It will also make demands on local savings and investment capacity. However, the World Bank, some donors and bilateral institutions such as CDC and DEG are preparing to fund privatisation efforts and support the considerable management inputs that will be required.

It is not expected that undertakings to be privatised will constitute potential business for a VCF, though some of their non-core activities may be offered for sale separately as going concerns. Catering, component manufacture and transport contracts may be examples where a VCF could usefully assist a purchaser, or even a management buy-out.

SECTION 4 THE BUSINESS ENVIRONMENT

4.1 Entrepreneurship in Tanzania

Entrepreneurship is being encouraged in Tanzania in a variety of ways. The National Investment (Promotion and Protection) Act 1990 introduced a range of incentives for the private and foreign investor which equal those of most other countries. A National Investment Promotion Policy was published at the same time. It finally abolished industrial licensing and replaced it with approval by the Investment Promotion Centre (IPC) established under the same legislation. The Act has just been amended to enable the IPC to act as a one-stop investment body, capable of granting the manifold permits and registrations required from other agencies and Ministries by means of an inter-ministerial committee residing within IPC.

Two Presidential Commissions of Enquiry have also recently reported on reforming the monetary and banking system, and on public revenues, taxation and expenditure. Both have shown evidence of favouring the growth of the private sector.

The private sector itself is increasingly finding a voice. The Chambers of Commerce report that Government solicits their views on draft legislation and frequently takes them into account. Both the Tanzania Chamber of Commerce, Industry and Agriculture and the Dar es Salaam Chamber are developing concepts for benefiting their members and approaching aid agencies for assistance with them.

All these are efforts to redress past mistakes. The enterprise culture suffered long years of repression in Tanzania. The profit motive became associated with counter-ideology, antisocial thinking and opposition to the Party. Civil servants and Party members were prohibited from owning most kinds of property and more than one house. The Arusha Declaration of 1967 laid the emphasis on co-operative farming development, and the subsequent Ujamaa collectivisation even sought to break the farmer's link with his land.

Worse still, business activity became associated with the Indian community, thus becoming ethnically divisive as well as socially and ideologically. Indian business acumen came to be disparaged, tolerated only because their numbers shrank as many sought a less hostile environment. The poorer and more desperate African Tanzanians became under the government's policies, the greater the resentment at the relative well-being of their Indian compatriots. The Party was not above making a link between African poverty and Indian prosperity.

It now seems essential that this bitterness should not be further fuelled. Liberalisation and encouragement of the private sector should give equal opportunities to all sections of the community. Yet the average African now starts with a triple handicap: the need to rebuild a business orientation

and culture; the lack of capital to attract co-investors; and the absence of training or track-record necessary to develop a business unassisted.

A good deal of effort has already gone into helping the African to overcome these problems. The Small Industries Development Organisation (SIDO), the NBC's Women's Programme, and a host of donor-inspired activities in training and project development have sought to compensate for these disadvantages. They have, however, been compounded by the shortage of capital and the problems of access to it by the weak and inexperienced.

The African is no less attracted to business than people elsewhere. If anything, the salary restriction for civil servants and parastatal employees, and earlier prohibitions on their involvement in business, have created an appetite for profitable activity. Many of those who left have already shown their ability to make money. The new wave of redundancies should therefore yield a reasonable crop of potential entrepreneurs. Their main difficulty will be to assemble the basic capital with which to start an enterprise.

The study team addressed itself specifically to gauging activity in the private sector and the vigour with which it is responding to new opportunities. It was notable that the climate is one of increasing optimism. Confidence has returned within a remarkably short space of time, particularly among the more active African business community. To a great extent this is based on visible evidence of liberalisation in the business environment as it affects them. There is a perception that the authorities are backing up statements and exhortations with appropriate action.

4.2 Private Sector Performance

A number of studies have attempted to quantify the capacity of the private sector. A World Bank formal sector industrial survey in 1989 compared the performance of a sample of 48 firms previously surveyed in 1985 to assess the effects of reforms introduced since the mid-1980s. It found that those firms which operated relatively efficiently in 1984 had increased their output by an average of 28%, whilst the inefficient ones had contracted to approximately the same extent; yet none of the latter had been forced to close.

Ownership and size were also found to have a bearing on performance. Over two-thirds of private firms increased production, whilst only half the public enterprises managed to do so. Most larger firms contracted, whilst the smaller and medium-sized (10 - 100 employees) expanded. Consistent with exchange rate and trade reforms during the period, exporting firms fared better than non-exporters. The evidence suggests that there is a process of industrial restructuring consistent with the new incentives and reforms. Enterprises which are

economically efficient, medium-scale, privately-owned and export-oriented have tended to expand significantly, even in the still relatively adverse conditions which obtained over the early part of the period.

A report on Small Enterprise Development in Tanzania, commissioned by ODA, shows that growth in this sector has been particularly rapid. It quotes data from the Bureau of Satistics which shows that the number of small firms established between 1986 and 1990 was about 2,500, three times the total number of such enterprises set up in the previous 20 years which were still in business. It is estimated that small manufacturing and construction firms currently account for around 35% of total employment, services for another 17% and transport for 8%.

A different measure was used by an African Development Bank study on African financial intermediaries, also carried out in 1989. It projected entrepreneurial activity on the basis of the pipelines of Tanzania Development Finance Co Ltd (TDFL), the East African Development Bank (EADB) and NBC. Their pipelines at the time totalled US$ 57 million, of which some US$ 25 million was in the range of $ 100,000 - $ 1 million total project cost. Projects straddled virtually all economic sectors, such as fishing, brewing, woodworking, transport, hotels, stationery, paint, textiles, mining, cattle fattening, salt extraction etc.

The team's discussions with TDFL, CRDB and TIB indicated that pipelines are still swollen, largely due to the latter two suffering from a chronic lack of funds. CRDB is able to lend only from a World Bank line of credit for agricultural sector restructuring. Pipelines are also slow to clear because many projects are blocked for lack of sufficient equity to support the institutions' lending. More and more demand therefore goes unsatisfied; but all institutions report a continuing, if modest, flow of applications.

Foreign investors are once again becoming interested in Tanzania. The IPC recently announced that nine outside organisations had sought approval for major projects: Romanex International of Canada for prospecting of nickel, copper and cobalt deposits; AKFED for hotels; the Italian Amadori Group for diversification from their poultry farming and distribution into prawn farming, animal feed, semi-finished furniture and a beach hotel; Daewood Corporation of South Korea for rehabilitation of Morogoro Polyester Textile Factory and the Mbeya Cement Factory, a Hilton hotel, manufacture of electronic communications equipment and exploitation of soda ash deposits; Cargill plc for grain production; Placer Dome Inc of Vancouver for gold prospecting; Portman Mining Ltd for kaolin mining; Lonrho for a hotel complex in Zanzibar and rehabilitation of its Mufindi Tea Company, Liponda Tea Estate and others; and Brooke Bond Tanzania Ltd, a Unilever subsidiary, for increasing production of tea and cinchona.

A 35-strong OPIC business delegation visited Tanzania in May. It was said to be the largest ever assembled, and useful contacts were made. In one case at least, an outline agreement was reached with one of the African entrepreneurs identified by the Harvey & Co team.

4.3 Conditions for Investment

4.3.1 Licences, Registration and Approvals

The processes are still lengthy and cumbersome. A company has to be registered before the obligatory application for IPC approval is lodged. Company registration is said to take up to six weeks; IPC approval should not exceed 60 days if the project is well documented, but in practice may take up to six months. Under the new procedures, all further licences, approvals, registrations, land grants and supply agreements should be automatic, since IPC has the ability to activate these within its own approval process. However, it will undoubtedly take some time before this process works smoothly. The entrepreneur needs to spend a good deal of time - and sometimes money - to ensure that the files keep moving. These represent hidden costs which need to be taken into account in project design.

4.3.2 Setting up a Business

The basic legislation is the Companies Ordinance 1932. Although it has been frequently revised, its form is archaic and makes no provision for modern forms of corporate activity or regulation. The Companies Registry has for years been unable to keep pace with the increase in business; its filing, storage and records systems are described as chaotic. It is therefore incapable of serving any statistical or information purposes. This also affects its capacity for efficient processing of applications.

4.3.3 Import Licences

There are three categories of import licence. Licences under the Open General Licence (OGL) list (minimum value US$ 5,000) are issued without delay. Licences for imports using "own foreign exchange", eg from retention accounts, are also automatic. Specific allocations of foreign exchange require the importer to provide complete documentation, to allow priorities and payment terms and conditions to be established. This inevitably causes delay.

Unless the importer is using "own foreign exchange", a Letter of Credit must be obtained from his bank. This requires cash cover for up to 100% of the amount. Some importers also find the minimum value under the OGL onerous. It can lead to having to carry larger stocks than necessary in Tanzania.

There is a need for an efficient Letter of Credit mechanism

for both imports and exports. The time and margins taken by the banks still handicap foreign business.

4.3.4 Foreign Exchange Regulations

This is the area in which the most far-reaching liberalisation has already taken place. The introduction of bureaux de change has enabled businesses and individuals to obtain small amounts of foreign currency, for want of which their activities had previously suffered. One can now draw a $ 3,000 travel allowance, cover small volume imports, overseas service payments such as medical bills, educational fees, subscriptions, publicity and miscellaneous fees not exceeding $ 2,000 per annum. Companies (but apparently not financial institutions) which do not have a retention account are also able to pay dividends to their foreign shareholders in this way.

The drawback is that foreign currency has to be bought at the parallel rate of exchange applying to bureaux de change. That currently means an effective premium of 30%. Other constraints remain, but these will not be clear until the new Foreign Exchange Manual is issued in mid-June. It is expected to illuminate a number of new provisions.

4.3.5 Dividend Calculation and Remittances

Technically, the size of dividends and the method of calculation are still restricted by the Companies (Registration of Dividends and Surpluses and Miscellaneous Provisions) Act 1972. It applies to scheduled enterprises, but these do not normally include financial institutions. Although declared archaic by the authorities, it has not yet been repealed.

BoT has in the past been able to refuse foreign exchange for the remittance of dividends; it still retains the power to do so, but is expected to use it sparingly. It is now possible for companies to remit dividends from external or retention accounts. Commercial enterprises can also buy the foreign exchange at a bureau de change.

4.3.6 Taxation

Corporation tax now stands at 45%. The reduction from 50% is intended to be the first in a series of reductions bringing it ultimately to 35%. Enterprises approved under the Investment Protection Act are granted a five-year tax holiday, which is expected to begin with their first year's operating accounts.

There is no capital gains tax other than on property. Opinion seems divided on whether this exempts them altogether. Unless a positive ruling is obtained for the VCF, gains on the disposal of its holdings could run the risk of being fully taxable as profits in the year in which they arise.

Dividends are added to the receiving company's taxable income, unless they derive from a holding of at least 25%. They are taxed at source only if remitted directly to a foreign shareholder; in that case an approved enterprise would, after the end of the five-year tax holiday, be required to deduct withholding tax of 10%. From that time on, dividends received by the foreign shareholders in the VCF may already have been taxed three times.

Losses can be carried forward indefinitely, but provisions against doubtful investments will affect the tax liability only when amounts have been written off. There have been cases of long disputes with the Inspector where such amounts have been written off as irrecoverable but without the investee company having been liquidated.

Businesses are subject to a variety of other taxes and imposts, such as sales tax (on goods only), payroll tax and stamp duties. The rate of stamp duty varies according to the instrument or document; it is levied at the rate of 1% on the authorised capital of a company. Approved enterprises are exempt from payment of sales tax and import duties on their machinery, equipment, spare parts, materials and supplies.

Where an approved project involves the rehabilitation or expansion of an existing enterprise, tax is calculated on the total gains or profits of the whole enterprise.

4.3.7 Professional Services

The difficulties experienced by the business sector as a whole, and the rapid changes now taking place, are reflected to some extent in the quality of professional advice. After the rigidities of the past, there is comparatively little firm ground. Civil service reorganisation may well add to these uncertainties. It would be wise to check advice tendered, especially where the stakes are high.

Procedural problems as well as the scarcity of technical skills among entrepreneurs have led to the establishment of a variety of consultancy organisations. Chief among them is Tanzania Industrial Studies and Consulting organisation (TISCO), a government-owned body set up in 1976 for the development of industry and the promotion of modern technology and management. It has a core staff of 40 professionals grouped in three divisions to deliver management consultancy, industrial studies and engineering consultancy. Other disciplines are bought in as required, drawing on local and overseas resources. Since TISCO earns fees commensurate with its costs and already has some autonomy, it is a prime candidate for privatisation.

There is also a mushrooming of private consultancies. Inter-Consult Ltd are well-established consulting engineers. Iddi Simba's International Finance Advisory Services (Interfinas) is leading some foreign investment into Tanzania; it is

linked with Business Care Services, a management consultancy which manages the successful Business Times which it helped to start. The growing number of others is evidence that there is an expanding client base in the private sector. Such consultancies can also help to stimulate private investment by compensating for the technical and managerial deficiencies of the new entrepreneur.

In the context of the Privatisation Fund there is an initiative by DEG to promote a Management Consultancy and Studies Organisation. This could well be a useful future source of professional advice both for the VCF and its investee companies.

SECTION 5 AVAILABILITY OF CAPITAL

5.1 Equity Capital

There are currently no domestic institutional sources of equity capital. TDFL, TIB, CRDB and others have restricted themselves to loan finance, principally the on-lending of foreign currency lines of credit. Any other function needs to await their restructuring or, in the case of TDFL, a Board decision on a report commissioned on possible diversification of its activities. This is likely to include an equity line of credit from EIB, that is a long-term low-interest loan which can be invested in the equities of smaller enterprises.

For the time being, the only exception among local institutions is Investment Promotion Services (Tanzania) Ltd (IPS), a long-established part of the Aga Khan's economic promotion activities. However, IPS is itself looking to expand its capital by attracting new shareholders. Although it intends eventually to operate as a venture capital company, its immediate new investment operations will be the acquisition of Moshi Tanneries and the Arusha textile mills of the Kiltex Group.

Another arm of the Aga Khan's organisation, Diamond Jubilee Investment Trust, was previously a source of investment capital. Although not nationalised, it has been dormant throughout much of the difficult years. It is now placing its resources into a commercial bank it intends to establish with other partners and will therefore not become an active investor for some time.

A new source of equity financing is therefore urgently needed, in particular for the African entrepreneur who has great difficulty in assembling a sufficiently large equity to satisfy the lending institutions.

5.2 Term Loans

Term finance is available from TDFL, TIB and CRDB, based upon lines of credit from foreign institutions including the World Bank, EIB, DEG, FMO and SIDA. For the time being, loans are therefore denominated in foreign currency and intended to cover the project's overseas costs. The result is that the exchange risks are passed on to the borrower, who clearly needs commensurate hard currency earnings from which to service the loans, rather than with a depreciating local currency. Both parties therefore have a powerful incentive to restrict such borrowings.

These considerations also limit the choice of project. Only those generating foreign exchange through exports or other means now find themselves acceptable. The dearth of TSh imposes a further constraint on projects and their selection.

It can lead to financing a proportion of local costs with foreign currency, or it can eliminate an otherwise sound proposal as effectively as the lack of an adequate equity base. Assumptions made about the capacity of a project to compete on international markets are also often proved to be optimistic.

This constraint is, however, likely to change in the near future. TDFL has negotiated an ECU 8 million line of credit with EIB which, because of its relatively soft conditions, can be on-lent in ECU or TSh. Similarly, DEG is providing TDFL with DM 4.5 million denominated in TSh. These amounts are in addition to a further £ 2.5 million from CDC, to be on-lent in foreign currency to exporting projects only.

Foreign lenders are therefore well aware of the need to address the shortage of TSh. Both CRDB and TIB expect that their lenders will take similar action once the restructuring has taken place.

5.3 Working Capital

The natural sources of working capital should be the commercial banks, NBC and CRDB. In practice, their inefficiencies - coupled with the large proportion of the money supply circulating outside the banking system - have severely limited their ability to provide it. As a result, working capital has often to be added to the total fixed loan schedule and the enterprise is denied the benefit of a short-term overdraft facility fluctuating with its actual needs. This is wasteful of scarce term loan resources as well as adding to the interest burden on the business.

Especially if working capital is regarded as part of the total loan requirement, it becomes an additional obstacle to the smaller entrepreneur in his effort to present an adequate leverage ratio.

5.4 Human Capital

An element of management support has been a vital accompaniment to enterprise financing in developing countries. This has its uses even if lending agencies provide it only as a means of monitoring and supervision. Their main purpose for after-care is to protect their investment, rather than to assist the project. Such a system can remedy trouble but usually fails to avert it, let alone ensure that the enterprise grows to the best of its ability.

The essence of venture capital, on the other hand, is to enter into a partnership with the promoter. This ensures that management is alive to the opportunities available to the business and the company is enabled to realise its full potential, with out-of-the-ordinary gains for both parties.

SECTION 6 THE MARKET FOR VENTURE CAPITAL

6.1 Criteria

Venture capital operations require projects which match the following criteria -

(a) entrepreneurs with sound ideas which they have successfully put into practice;

(b) products or services which have identifiable markets with high growth potential;

(c) an established business which has developed good accounting and other practices, and with established business connections;

(d) an entrepreneur whose worth is capable of bringing a substantial proportion of the equity into the project;

(e) a promoter willing to share the risks and profits of the business, and to accept the partnership in its running which this implies;

(f) a scale of operations which is compact enough for high growth to be realised;

(g) a management team capable of reacting swiftly to changing needs.

The study team concentrated on researching projects which would match this profile.

6.2 Project Identification

The major task for the study team was to quantify the real need for venture capital and the ability of a VCF to find an adequate project flow. Efforts were therefore directed at identifying actual projects considered appropriate for venture capital in line with the above criteria. Priority was given to those which required second-stage financing, were in the hands of experienced promoters and had a product with above-average growth potential.

In the course of meetings with financial institutions and individual entrepreneurs during the pre-feasibility phase it had already been possible to identify a range of actual project proposals. Virtually all of these were productive and of benefit to the economy through added value. Particular sectors which held out promise of projects with good growth prospects and yield potential had also been identified.

The present study has sought to investigate these more closely. Priority was, however, given to identifying a number of African entrepreneurs and examining their proposals, selected on the basis of their successful operation of existing businesses. Researches made through personal contacts led to a number of African business people who had succeeded in building up a sound enterprise as well as a modest reputation in their field.

In collaboration with TDFL, TIB and CRDB, these institutions' pipelines were then also examined with a view to identifying projects which would meet two main criteria: (a) an African promoter who had already built up a successful business which needs to move to the next stage, and (b) a project which seems to satisfy the lending institutions' criteria but remains blocked because of insufficient equity cover.

In this way it has been possible to build up a pipeline of actual projects which the VCF can consider immediately upon commencing operations. In at least two cases, arrangements are being made with the Africa Project Development Facility (APDF) for the financing of feasibility studies to define the optimum parameters of these projects. This will further assist the VCF in providing it with professionally produced and up to date business plans to facilitate its appraisal.

6.3 Project Profiles

At Appendix C are five project profiles which have been evaluated. Three of the promoters were able to provide full feasibility studies. These projects illustrate the following points about the market for venture capital in Tanzania -

(1) They show clearly that there exists a stratum of capable African entrepreneurs, long invisible but successful despite an initially hostile environment. They have shown perseverance and ability to deal with the difficult decisions required in such a climate. In short, they have demonstrated a maturity on which one can prudently build.

(2) Their projects are very much in the lower range of those dealt with by the financing institutions. The typical target for venture capital is second-stage financing of companies still small enough to enter into a partnership with the VCF, experienced enough to realise that it is worth sharing the equity, and modest in its demand for capital so that the growth factor becomes more pronounced. One objective of the VCF must be to ensure that the rate of change and growth is controlled and at no stage outstrips their capacities.

(3) The net assets of the businesses which produced audited accounts varied from TSh 1 - 4 million (US$ 3,300 -$ 13,000). If revalued to reflect present-day values, and taken together with other non-consolidated assets, they represent a very fair equity base for launching the expansion projects.

(4) The average project cost is US$ 1 million. With a 40:60 equity:loan ratio the average VCF contribution would be some $ 160,000 per project. However, this is on the assumption that something of the order of $ 600,000 can be obtained from the lending institutions, all of which are currently short of funds, in particular TSh. This question is examined further below, together with the importance of foreign currency earnings.

6.4 Forms of Project Financing

With the resources for TSh financing which TDFL is attracting from DEG and EIB, it is expected that the position of projects not requiring, or in a position to service, foreign exchange will gradually ease. As the banks and other lending institutions become restructured, more TSh will also begin to circulate through these channels. For the time being, however, such arrangements may remain limited.

A VCF will therefore need to be equipped to cover a greater proportion of the project cost and engage in a certain amount of lending. It will also need appropriate resources for this purpose.

There are several mechanisms open to the VCF for augmenting its investment in a project without exceeding a prudent equity share. VCFs in the USA and Europe have increasingly relied on preference shares to boost their investment without taking a controlling stake. These shares are redeemable out of profits and can be made fully participating; they therefore offer a more certain exit route than ordinary shares.

A similar device available to the VCF is income notes. These, too, are para-equity but expressed as long-dated loan instruments. Like preference shares, they carry a basic interest coupon, coupled with the right to profit participation in accordance with an agreed formula. Being classed as loan instruments, their yield is considered as interest and, unlike dividends, deductible.

Source funds for these operations may, with the consent of BoT, be generated through the debt conversion programme (DCP). If approved, this would allow the VCF to use subscription moneys held in an external account to buy debt (currently at 30% of face value). This can then be exchanged for TSh equivalent to 85% of face value, after deduction of a 15% BoT commission. Although BoT is controlling the volume of DCP transactions, and demand may progressively lower the discounts offered, it could allow the VCF to generate much of the additional funds needed for lending or para-equity operations.

A further consideration is the extent to which the foreign currency needs and earnings of a project will in future have to balance. The progress of foreign exchange liberalisation is such that access to it may become freely available. On the other hand, this will depend greatly on the performance of

the economy. The cost of purchasing foreign exchange by projects not earning it will also depend on the success of the BoT's exchange rate policies. Unless there is a sharp deterioration in the balance of payments, it is expected that foreign currency will remain available, but at a price which may not fall much below the present premium of 30%.

At the same time, the VCF will have its own foreign currency resource by holding subscription moneys in an external account until they are invested. This would enable it judiciously to lend foreign currency in particularly worthwhile, though exceptional, cases. This facility would be available only in the early years until the whole fund has been invested. However, that is precisely the period when such a facility is likely to be required.

6.5 The Role of APDF and other recommended Inputs

A crucial role can potentially be played by the Africa Project Development Facility (APDF) in helping African entrepreneurs to fashion their projects. APDF's function is to assist indigenous promoters to finance and organise pre-feasibility and feasibility studies and develop their business plans. It is suggested that the VCF attempt to formalise this assistance by concluding a framework agreement with APDF.

Although a first batch of seemingly suitable projects has been identified for early investment by the VCF, it is considered to be still necessary to develop the pipeline further. It is therefore proposed that Harvey & Co assist the VCF management with this task over a period of, say, 18 months. This would constitute a continuation of the work begun by the study team in identifying suitable entrepreneurs and their projects, and placing the emphasis on qualified Africans.

The ACP-EC Centre for the Development of Industry (CDI) also has a potential role in relation to the VCF. CDI has developed a policy of co-operation with DFCs which extends also to their projects and investee companies. In particular, CDI can make contributions to feasibility studies; offer technical capacity for diagnostic studies, plant selection, start-up and other problems; search for EC and other ACP partners and facilitate negotiations with them; sponsor business trips and help with the export of ACP manufactures. All these services form a basis for a useful relationship with the VCF.

SECTION 7 THE TANZANIA VENTURE CAPITAL FUND (TVCF)

7.1 The Business of TVCF

TVCF's business will be to provide venture capital and allied services, primarily to the productive sector of the Tanzanian economy.

TVCF will make a series of equity or equity-type investments, as discussed in 6.4 above, predominantly in production and service companies with above-average growth potential. Early investments will be limited to expansion or diversification of existing well-run businesses. In due course some start-ups, rehabilitation or management buy-outs, eg components of privatisation, may be considered. TVCF will aim to sell its investments at a profit after an optimum number of years.

In order to achieve high growth targets, TVCF's professional management will actively supervise its investments through an involvement in the strategic planning and direction of each investee company. This will be achieved by representation on the company's Board, but also by the provision of specialist advisory services. TVCF will nevertheless need the power to strengthen project management and, in extreme cases and for a strictly limited period, to take over management responsibility.

To carry out these functions TVCF will require experienced financial management, linked to an intimate knowledge of the local market and business community. Specialist technical advice on specific sectors needs also to be available. Steps may also have to be taken by TVCF management to promote the development of market facilities for divestment.

7.2 Corporate Structure

Venture capital vehicles tend to take two pricipal forms: the closed Fund partnership, in which investors play a passive role, leaving the entire operation to professional managers; and an "ever-green" Fund, usually incorporated as a limited liability company. Many investors favour the closed Fund, since it limits their involvement, implies no obligation to participate in capital increases and ensures that the assets are divided amongst the partners at the end of a determined period.

Tanzanian company law is rudimentary and does not provide for more sophisticated forms of association used for such Funds elsewhere. TVCF's legal form needs therefore to be a limited liability company. The Banking and Financial Institutions Act 1991 lays down certain provisions which will apply to TVCF. Its core capital must be at least TSh 500 million (US$ 1.7 million), it must be licensed by the BoT, and it will be subject to the Bank's supervision. The Bank's regulatory

requirements and procedures are currently being determined in association with US AID consultants (Coopers & Lybrand International). They are not expected to be onerous.

These factors may make it difficult to operate a closed end Fund. A limited company might decide to wind itself up at the end of, say, 10-12 years and distribute its assets. A licensed financial institution will find this more difficult. If the investors are anxious to have a closed end Fund, a solution would be to establish TVCF without a time limit but to operate within it one or more unincorporated Funds or accounts, perhaps with different investors, which can be separately managed and terminated by common consent.

7.3 Capital and Resources

On the basis of the potential investment business already identified, it is proposed that a reasonable initial size of Fund will be US$ 5 million. This will allow TVCF to make a sufficient impact on entrepreneurial activity, and generate adequate revenues and capital gains to become self-supporting within a period of five years.

Investors will be asked to provide this capital by way of equity subscriptions. It is not intended that TVCF should borrow any of its resources.

7.4 Composition and Shareholders

Discussions have been held with a number of potential shareholders. There is interest on the part of the Commonwealth Development Corporation (CDC), the German Finance and Development Company (DEG), and the European Investment Bank (EIB). EIB has access to the European Community's risk capital fund, available specifically to finance smaller enterprises in industry, agro-industry, tourism and mining. These funds can be made available to TVCF directly by way of an equity line of credit (ie a loan on special conditions to be used for investment in the equity of projects); or alternatively under an arrangement with the Interact institutions (CDC, DEG etc) enabling them to draw down such funds alongside their own investment on a matching basis.

Discussions were also held with IFC. On closer examination, however, it was found that the need for a US AID grant over the early years, as well as the absence of a major private sponsor, failed to accord with IFC's principles.

Several discussions were also held with the Aga Khan Fund for Economic Development (AKFED) and its associate in Tanzania, Industrial Promotion Services (Tanzania) Ltd (IPS). AKFED is aiming to expand IPS with the addition of IFC and others, to make it into an active venture capital company, following the evolution of IPS companies in Kenya and Ivory Coast. AKFED

had therefore initially offered IPS as a vehicle for the VCF. IPS certainly has some of the attributes of a VCF, particularly the predominant investment in equities and efficient hands-on management.

However, it also became clear that new investment in IPS is already earmarked for the acquisition of the Moshi tannery and the Arusha textile mills of Kiltex. The policy of IPS is also to retain its investments for rather longer than TVCF would be expected to do. A proposal that AKFED should enable IPS to become a minority shareholder in TVCF did not prove acceptable to AKFED.

Further local shareholdings may come from TDFL and TIB. There is a clear identity of interest between their operations and TVCF, which is able to provide the equity component for lack of which many of their project proposals cannot be taken further. Both have been considering setting up their own venture capital arms but are aware that this would require a radical change in approach. It would also pose demands for staff of a kind over which neither institution disposes. On the other hand, TVCF could in due course train some of their staff against the time when they might be better equipped to replicate venture capital operations. The General Managers of both TDFL and TIB agreed to examine the possibility of a modest shareholding in TVCF. It is also reported that the National Provident Fund (NPF) and National Insurance Corporation (NIC) have funds available for investment.

In the light of these discussions the following capital structure is proposed -

	US$ m	Per cent
CDC	1.34	26.68
EIB	1.33	26.66
DEG	1.33	26.66
Total foreign	4.00	80.00
TDFL	0.50	10.00
TIB	0.50	10.00
Total equity	5.00	100.00

Discussions with these potential investors are continuing so that a firm financing plan may emerge and allow TVCF to be established. CDC and other external investors may also be willing to underwrite a larger portion of local investment.

At least one offer of investment of $ 100,000 has been received from a Tanzanian private company. It will be for the major partners to decide whether and when to take advantage of this. A future possibility of introducing Tanzanian investors, perhaps into a second Fund, is a

consortium put together and led by a local organisation like IPS or a future merchant bank. Currently IPS do not, however, regard the time as being ripe for this.

7.5 Control and Management

Control of TVCF will be in the hands of a Board appointed by the shareholders. The Board will be autonomous and able to take rapid decisions at local level without reference back to the shareholders. It should include a number of prominent members of the Tanzanian business community.

The Board will appoint a General Manager responsible for the overall management of the Fund and for fulfilling its statutory obligations. The Manager may be an individual directly appointed by the Board, or a separate management company. In either event, TVCF will require the services of an experienced expatriate venture capital manager with adequate African experience.

The General Manager will require an administrative base, support staff, and experienced people who can deliver the management, accounting and other inputs needed by the investee companies. It is desirable that these facilities should be provided by a qualified management organisation, or by a management company established by the shareholders.

Several of the potential shareholders have offices in Dar es Salaam which might offer such an operational base. TDFL and TIB would be able to provide some appraisal and project supervision capacity, as well as their knowledge of local business. They are also likely to be co-financiers of some of TVCF's projects. However, the nature of their business, the lack of management support staff, and the pressures upon their existing staff resources are unlikely to make this an appropriate solution.

CDC has its Representative Tanzania office and is also managing three major projects (Tanganyika Wattle Co and two tea companies). With its experience of venture capital type equity investment in developing countries, CDC may well be able to provide an experienced venture capital General Manager. However, CDC believes that Funds are best managed by an independent, dedicated mechanism and would therefore favour the setting up of a separate management company. This has the advantage of a transparent and containable cost structure, as well as allowing for local participation in the management company. The same company would then also be available to manage additional Funds which are likely to be built on the first successful example.

Consideration was also given to contracting IPS for support services. IPS is perhaps the one local organisation which has long experience of diversified project management in the smaller-scale private sector, is close to the business

community, and has a reputation for efficiency in this field. It is also accustomed to dealing with all the vicissitudes to which Tanzanian business has been exposed. However, in the event AKFED decided that both its financial resources and IPS' management capacity were fully committed to existing projects.

7.6 Investment Procedures

Venture capital management requires flexibility and the ability to make decisions independently and quickly. The Board should be able to make decisions autonomously; and it should institute a system whereby such decisions are made rapidly by a strong and knowledgeable local investment committee of the Board of the Fund or the management company. Shareholders may consider co-opting one or two qualified representatives from the business community to this committee.

It is proposed that the Board of TVCF or the management company, as the case may be, should at its first meeting formally adopt a set of detailed Investment Guidelines and that these should be mandatory on the management. A draft is at Appendix G.

7.7 Investment of Fund

It is expected that TVCF will invest its initial Fund in approximately 26 - 30 projects over a first-round period of four years. Investments would not normally be less than the equivalent of US$ 50,000 or more than $ 500,000. The latter would be in exceptional cases only and would reach the upper limit of 10% of the Fund as a whole. Average size of investment is estimated at $ 160,000 although, as set out in Section 6.3 (4) above, additional financing may well be necessary in certain cases to compensate for lack of appropriate loan funds.

In order to spread its risk, TVCF will adhere to the limits normal for venture capital Funds -

- not more than 25% of the total Fund to be invested in a particular sub-sector;
- not more than 10% of the total Fund to be invested in a single project;
- under present tax regulations, a minimum holding of 25% is necessary for dividends to be free of tax;
- TVCF's holding of voting shares should not exceed 49% of the investee company's total equity (unless exceptional circumstances cause it to be increased beyond that limit).

7.8 Types of Income generated

TVCF's sources of income will be of four distinct types -

(a) Investment income

Principally by way of dividends, bonus issues, warrants and stock options on funds invested in equities or other forms of participations.

(b) Capital gains

Profits realised on sale or transfer of holdings to other parties once the investment has acquired sufficient value.

(c) Fixed interest

Returns from income notes, purchases of securities, exceptional facilities made available to projects, deposits or short-term investment of surplus funds.

(d) Fees

TVCF will raise normal fees from projects towards the cost of appraisal, negotiation and commitment of its funds by means of an arrangement fee equivalent to 2% of its investment. It will also charge fees for additional services such as assistance with the preparation of a feasibility study or business plan.

Fees will also be earned on the provision of professional services such as accounting, legal and management inputs, as well as consultancy services for assistance with export marketing, locating additional capital etc, whether provided by the Manager or bought in.

Other fees will arise on later-stage financing through underwriting, syndication and allied financial services. TVCF will be entitled to raising fees on investment funds procured from outsiders at any stage.

TVCF's philosophy must be to assist its investee companies not with subsidised funds and services, but through the introduction and provision of the best and most efficient financial and management techniques. Though such costs will be charged out at realistic rates, investee companies need to become accustomed to absorbing them as essential business tools and aids to their growth and profitability.

7.9 Subscriptions

In order to assist the initial cashflow of TVCF, it is

proposed that the investors subscribe for their equity as to 50% in each of Years 1 and 2. This will allow a small part of the funds to be invested at the high deposit rates obtaining (currently 29%). The remainder not immediately required for investment will be held in an external account at a lower rate but preserving its hard currency value.

US AID will regard this as the investors' contribution towards underwriting the first five year's management costs which are being substantially funded with its grant moneys.

7.10 Financial Returns

TVCF's portfolio policy will be to achieve an overall financial return on its funds which is significantly in excess of the return on low-risk bank deposits. TVCF will aim to invest in companies which have the potential to achieve compound capital growth rates of 30% - 50% in real terms. This is equivalent to increasing the value of the investment approximately 5 times in five years.

7.11 Portfolio Administration

The Managers will give maximum attention to the protection and development of TVCF's assets. They will play a significant role in building up the value of investee companies, participating in their strategic planning, operational control, key personnel recruitment and financial management.

To facilitate strict management control, the Managers will designate a staff member to act as Investment Manager in relation to each investee company who will be responsible for making periodic visits, gather monthly statistics, quarterly operating results and ensure the swift preparation of audited accounts. The Investment Manager will report to the General Manager on the physical and financial progress and prospects of the company's operations.

The level of resources devoted to ailing ventures will be closely monitored. The Board will be promptly informed of all such cases and consulted on the advisability of writing down the investment.

TVCF will have the right to Board representation in all investee companies, and to require them to appoint auditors acceptable to TVCF. It will also also reserve the right at any time to carry out investigations into any aspect of an investee company's activities and affairs, and to require the company at its own expense to appoint members of the Managers' staff or outside specialists to assist the investee company in dealing with any shortcomings.

7.12 Sale of Investments

TVCF's income will arise mainly from the realisation of capital gains from the disposal of shares. Sales will most typically be made when prospects of future profitability have been clearly established and are visible to prospective purchasers.

The preferred exit route should be a sale (at commercial valuation) to the other shareholders. Since they will also have benefited from the growth of the company, they should by that time have acquired the necessary funds. In some cases, the business will at that point be looking to finance further expansion. That will mean bringing in outside capital and a share sale by TVCF could be a useful part of that and help to establish a price. Where appropriate, TVCF will enter into subscription agreements that will give purchase options to promoters, founder shareholders or management.

It is likely that TDFL and TIB may wish themselves to participate in such projects when they require further capital. TVCF might in time serve a useful role by providing them with a flow of mature projects.

Some efforts are already being made to plan the beginnings of a capital market mechanism. A CIDA study is about to be completed and both the World Bank and Commonwealth Secretariat are working on different aspects of such a development. BoT is to prepare a paper for the Ministry of Finance, in preparation for a proposed Capital Markets Bill to be submitted to Parliament in October.

An OTC or "coffee-house" trading mechanism, such as began in Kenya, would be a useful beginning. US AID is aiming to assist such a development through its FED Program. The link between TVCF and that Program can be particularly beneficial in this area. The process may also gain some momentum through an association with IPS and CDC, whose projects for the time being are among the few private sector companies which would constitute acceptable offerings. In due course the privatisation process will also assist the flow of tradeable securities.

Other exit routes may develop as the restructuring of banks and parastatals proceeds. Both the National Provident Fund and the National Insurance Corporation are said to be cash rich. It cannot be long before a newly developing generation of investment bankers offers to tap these resources and place a proportion in mature equities.

7.13 Matters for Negotiation with Government

7.13.1 Tax Issues

The tax position of TVCF will need to be clarified at an early

stage. There is no capital gains tax in Tanzania, but it needs to be confirmed that such gains are not taxable; otherwise they would risk being assessed as profits subject to corporate rate tax at 45% in the year in which they arise.

Dividends on holdings of less than 25% are taxable in the hands of the recipient. TVCF may not in all cases wish to subscribe 25% or more, and with time some of its holdings may become diluted below this threshold.

It is expected that financial institution status will allow a reasonable case to be made with the Ministry of Finance on both issues. An ancillary question would be exemption from withholding tax on dividends paid to the foreign shareholders. IFC (FIAS) are currently working on the question of double tax and withholding tax reform and may help to strengthen the case.

7.13.2 Exchange Control Issues

In the context of an application to BoT for financial institution status, clarity must also be sought on -

(a) being considered a Tanzanian company, despite the initial foreign majority ownership;

(b) remittance of dividends;

(c) remittance and treatment of capital gains, ie that they can be paid out as part of the dividend and that foreign exchange can be made available to cover them on the basis of averaging them out with lower dividends in other years; and

(d) access to the debt conversion programme to obtain TSh for investment or lending operations.

7.13.3 Employment Issues

Approval for the employment of expatriates needs to be obtained.

7.14 Risk Factors

Venture capital carries certain risks over and above those inherent in all investment activity. In particular, the performance of projects and of TVCF itself will be dependent on the general growth of the Tanzanian economy. Even with the best assurances, foreign exchange constraints may reappear and affect the ability of outside investors to receive dividends commensurate with the investment made.

By no means all projects will reach their expected yields. The assumption must be that some 20-30% fail to perform well, up to 50% show moderate growth, and only 20-30% fully justify

the exceptional growth profile of venture capital. Even when a securities market develops in Tanzania, most investments will be in unlisted companies; accurate valuation of their worth may be difficult and means of divestment restricted.

A further possible risk is that the proper conditions for venture capital fail to develop. In that event the portfolio of investee companies may be limited and may not yield sufficient revenues to sustain adequate management for TVCF after the end of the US AID grant support. The foreign investors may wish to reach an agreement with TDFL and TIB that, in such an event, they would take TVCF's remaining investments into their books. The formula might provide that the foreign investment in TAVC was then converted into shares in these institutions.

SECTION 8 FINANCIAL PROJECTIONS AND VIABILITY

8.1 Establishment Costs and Management Budget

Estimates can be summarised as follows -

Initial capital budget for incorporation, pre-operating expenditures, vehicles, furniture and equipment	US$ 120,000
Annual management budget, including operating costs, staff emoluments and all other charges	average US$ 338,000.

8.2 Financial Projections

Financial projections are at Appendix B, based upon the detailed assumptions set out in Appendix A. They assume that investments fall into low, average and high performers, with commensurate yields and capital gains. Though the projects currently available have been taken into account, they have not been used as actual cases.

TVCF's expenditures are based on a separate management company and the employment by it of an expatriate General Manager as set out above. They include supporting staff and the progressive recruitment of Tanzanian professionals.

Training inputs other than staff training are to be assessed separately, and it is expected that these will be financed from a separate part of the US AID programme.

Subject to the US AID inputs proposed below, the projections indicate an IRR of 27% for TVCF over a nine-year life. This is without allowance for reinvestment of capital realisations. Since it is in terms of constant US$, it is considered sufficiently attractive for the investors.

The IRR without US AID inputs falls to 21% and would lead to severe cash shortages, preventing the development of TVCF.

8.3 Scope for Inputs from US AID's Africa Venture Capital Project

The cost of operating TVCF in constant terms over the initial five-year period is estimated at US$ 1,900,000. This can be financed as to US$ 500,000 from self-generated funds and US$ 1,400,000 by contributions from US AID. At the end of this period, TAVC should be fully self-supporting. Self-generated funds include the interest on subscription moneys fully paid up by Year 2, which the shareholders would regard as their contribution to the start-up costs.

APPENDIX A

FINANCIAL ASSUMPTIONS

1 Basis of Reporting

The projections have been prepared in constant 1992 terms in US$.

2 Financial Year

Ends 31 December.

3 Phasing

(a) Equity paid in: US$2.5 million by January'93, and US$2.5 million by January'94.

(b) Management in place by January'93.

4 Capital Expenditure & Start Up Costs

(a) Start Up Costs. Estimate US$50,000 for legal costs of establishing corporate entity, stamp duty and registration fees etc.

(b) Vehicles. Estimate US$40,000 comprising two vehicles at US$20,000 each.

(c) Furniture and Equipment. Estimate US$30,000 comprising US$20,000 for office equipment and US$10,000 for staff house furniture.

5 Depreciation and Amortisation

For the purpose of these projections, depreciation and amortisation are calculated on a straight line basis as follows:

- Vehicles	20.00% pa
- Furniture & Equipment	10.00% pa
- Start Up Costs	20.00% pa

6 Replacements

No replacements are assumed for the period of the 9 year projections.

7 Investments & Portfolio Receipts

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(a) Investment profiles:

- Type I investment gives an internal rate of return of 30% after 5 years. It yields dividends of 10% in Year 3 and 15% in Year 4. In Year 5 the shares are sold for 340% of purchase price.
- Type II investment gives a negative internal rate of return. It yields no dividends and in Year 4 the investment is written off.
- Type III investment gives an internal rate of return of 50% after 5 years. It yields dividends of 5% in Year 2, 20% in Year 3, and 30% in Year 4. In Year 5 the shares are sold for 650% of purchase price.

(b) Rate of investment:

US$000's	1993	1994	1995	1996	Total
Type I	250	625	750	875	2500
Type II	125	312	375	438	1250
Type III	125	313	375	437	1250
Total	500	1250	1500	1750	5000

(c) Reinvestment. No reinvestment of funds is assumed.

(d) Portfolio receipts. Portfolio receipts include dividend income and capital gains (when realised) net of initial investment cost.

8 Other sources of Income

(a) Interest. It is assumed that the Venture Capital Fund has paid up equity of US$2.5 million by January'93, and a further US$2.5 million is paid up by January'94, and these funds are put into interest-bearing external accounts. Interest is calculated at 5% of the closing balance at the end of the year (ie less any investments made by the Venture Capital Fund).

(b) Arrangement Fee. It is assumed that the Venture Capital Fund will charge investee companies an arrangement fee of 2% on investments made.

(c) Grant Funding. It is assumed that the Venture Capital Fund will receive grant funding of US$1.4 million paid up in equal instalments over 5 years, between 1993 and 1997 inclusive.

9 Staff and Office Costs

(a) General Manager. An expatriate General Manager is costed in at total emoluments of US$72,000 pa from January'93. Other costs include: annual leave return airfares (US$5,000 pa), and housing (US$24,000 pa).

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(b) Professional Staff. A Tanzanian Assistant General Manager is costed in at a total package of US$25,000 pa (to include housing and other benefits) from January'93. From June'94, a second Tanzanian Assistant Manager is costed in at the same rate (US$25,000 pa).

(c) Staff Benefits. A total budget of US$10,000 pa is estimated for medical care and other staff benefits.

(d) An amount of US$75,000 per annum has been allowed for fixed costs of office rental and support staff, including secretarial and other non-professional back-up staff. This figure also includes an allowance of some US$40,000 for hire of consultants and ad hoc technical services in relation to identification and appraisal of investments.

10 Training

A training budget for TVCF staff of US$30,000 pa is estimated for the first 5 years, based on 2 training courses of [illegible] weeks each per annum.

11 Other Operating Costs

(a) Travel. Estimated at US$15,000 pa to cover international travel to Europe and Africa to promote the fund and network with other venture capital initiatives in the region.

(b) Motor vehicle expenses. Estimated at US$12,000 pa to cover petrol, repairs and maintenance.

(c) Insurance. Estimated at US$1,000 pa to cover office, travel, car and miscellaneous insurances.

(d) Directors' Expenses. Estimated at US$10,000 pa to cover expenses of attending meetings.

(e) Legal and Professional Fees. Estimated at 2% of investments and disposals to cover legal and other professional advice in course of making investment and divestment, and stamp duties payable.

(f) Audit Fee. Estimated at US$5,000 pa.

(g) Communications. Estimated at US$10,000 pa to cover telephone, faxes, telexes, and mail.

(h) Printing and stationery. Estimated at US$3,000 pa.

12 Working Capital

(a) Cash. 3 months' operating costs.

(b) Receivables. 3 months' income (including portfolio receipts, arrangement fees, grant funding and interest earned).

(c) Creditors. None.

13 Taxation

It has been assumed that the Venture Capital Fund will be granted tax incentives, including 5 year exemption from corporate tax, exemption from capital gains tax on realisations, exemption from tax on dividend income, and exemption from import duties.

14 Equity

Paid up share capital (on which capital duty of 1% is payable) and share premiums (on which no capital duty is payable) totalling US$ 5 million.

15 Dividend policy

No cash distributions have been shown for the period of the projections. It is assumed that the management company will be entitled to the normal carried interest in the profits and capital realisations, in part to be able to offer incentives also to its senior staff.

16 Loans and interest

No loans or borrowings have been assumed.

17 Internal Rate of Return (IRR)

The after tax IRR of the project (including grant funding) calculated over a period of 9 years (from 1993 to 2001) is 27% in constant US$ 1993 terms. A residual value of US$ 1.1 million has been added in the year 2001, this being the book value of fixed assets less depreciation and receivables. The after tax IRR of the project on the same basis but excluding grant funding is 21%.

CONSTANT TERMS
PROFIT AND LOSS STATEMENT
(000's US$)

	1993	1994	1995	1996	1997	1998	1999	2000	2001
INCOME:									
Portfolio receipts	0	0	6	66	94	1334	3244	3688	4506
Arrangement Fee	10	25	30	35	0	0	0	0	0
Grant Funding	280	280	280	280	280				
Interest	100	163	88	0	0	0	0	0	0
	390	468	404	381	374	1334	3244	3688	4506
OPERATING COST:									
General Manager	72	72	72	72	72	72	72	72	72
Professional Staff	25	38	50	50	50	50	50	50	50
Staff Benefits	10	10	10	10	10	10	10	10	10
Support staff,consultants, & office rental	75	75	75	75	75	75	75	75	75
Travel (Int & Local)	15	15	15	15	15	15	15	15	15
Overseas Leave	5	5	5	5	5	5	5	5	5
House rental	24	24	24	24	24	24	24	24	24
Directors Expenses	10	10	10	10	10	10	10	10	10
Insurance	1	1	1	1	1	1	1	1	1
Motor Vehicle Expenses	12	12	12	12	12	12	12	12	12
Audit Fee	5	5	5	5	5	5	5	5	5
Training	30	30	30	30	30	0	0	0	0
Legal & Professional Fees	10	25	30	35	3	14	26	31	26
Communication	10	10	10	10	10	10	10	10	10
Printing&stationery	3	3	3	3	3	3	3	3	3
Deprctn & Amortzn	0	19	19	19	19	19	3	3	3
Sub Total	307	354	371	376	344	325	321	326	321
OPERATING PROFIT	83	114	33	5	30	1010	2923	3361	4185
Interest expense	0	0	0	0	0	0	0	0	0
Income before taxes	83	114	33	5	30	1010	2923	3361	4185
Taxes	0	0	0	0	0	0	0	0	0
INCOME AFTER TAXES	83	114	33	5	30	1010	2923	3361	4185

TANZANIA VCF
TAX COMPUTATION
(000's US$)

CONSTANT TERMS

	1993	1994	1995	1996	1997	1998	1999	2000	2001
Book income	83	114	33	5	30	1010	2923	3361	4185
Taxable income	83	114	33	5	30	1010	2923	3361	4185
Tax Rate	0%	0%	0%	0%	0%	0%	0%	0%	0%
Effective tax	0	0	0	0	0	0	0	0	0

CONSTANT TERMS
PROJECTED BALANCE SHEETS
(000's US$)

	1993	1994	1995	1996	1997	1998	1999	2000	2001
Cash	77	84	88	89	81	76	80	81	80
Surplus Cash	1799	3156	1719	-3	181	1662	5419	10234	15531
Receivables	98	117	101	95	93	334	811	922	1127
Current assets	1973	3356	1908	181	356	2072	6310	11237	16737
Portfolio Investments	500	1750	3250	5000	4875	4188	2875	1313	0
Start Up Costs	50	50	50	50	50	0	0	0	0
less amortization	0	-10	-20	-30	-40	0	0	0	0
Gross fixed assets	60	60	60	60	60	30	30	30	30
less depreciation	0	-9	-18	-27	-36	-15	-18	-21	-24
Net fixed assets	610	1841	3322	5053	4909	4203	2887	1322	6
TOTAL ASSETS	2583	5197	5230	5234	5265	6274	9197	12558	16743
Payables trade	0	0	0	0	0	0	0	0	0
Current portion debt	0	0	0	0	0	0	0	0	0
Current liabilities	0	0	0	0	0	0	0	0	0
Long term debt	0	0	0	0	0	0	0	0	0
Total liabilities	0	0	0	0	0	0	0	0	0
Owners' equity:									
Capital	2500	5000	5000	5000	5000	5000	5000	5000	5000
Capital surplus	0	0	0	0	0	0	0	0	0
	2500	5000	5000	5000	5000	5000	5000	5000	5000
Retained earnings:									
opening balance	0	83	197	230	234	265	1274	4197	7558
earnings	83	114	33	5	30	1010	2923	3361	4185
dividends									
closing balance	83	197	230	234	265	1274	4197	7558	11743
LIABILITIES & EQUITY	2583	5197	5230	5234	5265	6274	9197	12558	16743

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CONSTANT TERMS
SOURCES & USES OF FUNDS
(000's US$)

	1993	1994	1995	1996	1997	1998	1999	2000	2001
Sources:									
Pre-tax profits	83	114	33	5	30	1010	2923	3361	4185
Depreciation/Amort	0	19	19	19	19	19	3	3	3
Equity capital	2500	2500	0	0	0	0	0	0	0
Portfolio disposals	0	0	0	0	125	688	1313	1563	1313
Loan proceeds	0	0	0						
Incr. curr. liabilities	0	0	0	0	0	0	0	0	0
	2583	2633	52	24	174	1716	4238	4927	5501
Uses:									
Capital expenditures	110	0	0	0	0	0	0	0	0
Portfolio Investment	500	1250	1500	1750	0	0	0	0	0
Chge. in l.t. debt		0	0	0	0	0	0	0	0
Taxes	0	0	0	0	0	0	0	0	0
Dividends	0	0	0	0	0	0	0	0	0
Incr. working capital	174	26	-12	-5	-10	235	480	112	203
	784	1276	1488	1745	-10	235	480	112	203
Increase surplus cash	1799	1357	-1437	-1722	184	1481	3758	4815	5297
Cumulative surplus cash	1799	3156	1719	-3	181	1662	5419	10234	15531

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INTERNAL RATE OF RETURN
(000's US$)

	1993	1994	1995	1996	1997	1998	1999	2000	2001	
With grant funding:										
Fixed assets investment	-60	0	0	0	0	0	0	0	0	
Start Up Costs	-50	0	0	0	0	0	0	0	0	
Portfolio investment	-500	-1250	-1500	-1750	0	0	0	0	0	-5000
Portfolio disposals	0	0	0	0	125	688	1313	1563	1313	5000
Chge in perm work cap	-174	-26	12	5	10	-235	-480	-112	-203	
Net profits after tax	83	114	33	5	30	1010	2923	3361	4185	
Depreciation & Amortzn	0	19	19	19	19	19	3	3	3	
Interest payments	0	0	0	0	0	0	0	0	0	
Residual value									1133	
cash flow	-701	-1143	-1437	-1722	184	1481	3758	4815	6430	
After-tax IRR	27%									
Without grant funding:										
Grant funding	-280	-280	-280	-280	-280	0	0	0	0	0
cash flow	-981	-1423	-1717	-2002	-96	1481	3758	4815	6430	
After-tax IRR	21%									

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INVESTMENT ASSUMPTIONS
CASH FLOW PROFILES

	1993	1994	1995	1996	1997	1998	1999	2000	2001
Type I Investment									
Investment	-100%								
Disposal						100%			
	0	1	2	3	4	5	6	7	
Dividends				10%	15%	0%	0%	0%	
Sales Proceeds						340%			
	0%	0%	0%	10%	15%	340%	0%	0%	
CFF=	-100%	0%	0%	10%	15%	340%	0%	0%	0%
IRR=	30%								
Type II Investment									
Investment	-100%								
Disposal					100%				
	0	1	2	3	4				
Dividends					0%				
Sales Proceeds					0%				
	0%	0%	0%	0%	0%				
CFF=	-100%	0%	0%	0%	0%				
IRR=									
Type III Investment									
Investment	-100%								
Disposal						100%			
	0	1	2	3	4	5	6	7	
Dividends			5%	20%	30%	0%	0%	0%	
Sales Proceeds						650%			
	0%	0%	5%	20%	30%	650%	0%	0%	
CFF=	-100%	0%	5%	20%	30%	650%	0%	0%	0%
IRR=	50%								

INVESTMENTS	1993	1994	1995	1996	1997	1998	1999	2000	2001	
New investments	500	1250	1500	1750	0					
of which Type I	250	625	750	875	0					50%
of which Type II	125	313	375	438	0					25%
of which Type III	125	313	375	438	0					25%

	1993	1994	1995	1996	1997	1998	1999	2000	2001	
DISPOSALS										
of which Type I										
1993	0	0	0	0	0	-250	0	0	0	-250
1994		0	0	0	0	0	-625	0	0	-625
1995			0	0	0	0	0	-750	0	-750
1996				0	0	0	0	0	-875	-875
1997					0	0	0	0	0	0
										0
										0
of which Type II										0
1993	0	0	0	0	-125	0	0	0	0	-125
1994		0	0	0	0	-313	0	0	0	-313
1995			0	0	0	0	-375	0	0	-375
1996				0	0	0	0	-438	0	-438
1997					0	0	0	0	0	0
										0
of which Type III										0
1993	0	0	0	0	0	-125	0	0	0	-125
1994		0	0	0	0	0	-313	0	0	-313
1995			0	0	0	0	0	-375	0	-375
1996				0	0	0	0	0	-438	-438
1997					0	0	0	0	0	0
										0
	0	0	0	0	-125	-688	-1313	-1563	-1313	-5000
DIVIDENDS AND SALES PROCEEDS										
Type I Investment										
1993	0	0	0	25	38	850	0	0	0	
1994		0	0	0	63	94	2125	0	0	
1995			0	0	0	75	113	2550	0	
1996				0	0	0	88	131	2975	
1997					0	0	0	0	0	
						0	0	0	0	
	0	0	0	25	100	1019	2325	2681	2975	9125
Type II Investment										
1993	0	0	0	0	0	0	0	0	0	
1994		0	0	0	0	0	0	0	0	
1995			0	0	0	0	0	0	0	
1996				0	0	0	0	0	0	
1997					0	0	0	0	0	
	0	0	0	0	0	0	0	0	0	0
Type III Investment										
1993	0	0	6	25	38	813	0	0	0	
1994		0	0	16	63	94	2031	0	0	
1995			0	0	19	75	113	2438	0	
1996				0	0	22	88	131	2844	
1997					0	0	0	0	0	
	0	0	6	41	119	1003	2231	2569	2844	8813
Total Portfolio Receipts	0	0	6	66	219	2022	4556	5250	5819	17938
less disposals	0	0	0	0	-125	-688	-1313	-1563	-1313	-5000
Net Portfolio Receipts	0	0	6	66	94	1334	3244	3688	4506	12938

	1993	1994	1995	1996	1997	1998	1999	2000	2001	
INTEREST ON UNINVESTED EQUITY										
Opening Balance	2500	2000	3250	1750	0					
Additional Equity		2500								
less Portfolio investments	-500	-1250	-1500	-1750	0					
Closing Balance	2000	3250	1750	0	0	0				
Interest	100	163	88	0	0					5.00%

WORKING CAPITAL
(000's US$)

	1993	1994	1995	1996	1997	1998	1999	2000	2001
Cash	77	84	88	89	81	76	80	81	80
Receivables	98	117	101	95	93	334	811	922	1127
Payables trade	0	0	0	0	0	0	0	0	0
Net working capital	174	201	189	184	175	410	891	1003	1206

Cash	3 months operating costs
Receivables	3 months income
Payables trade	

FIXED ASSETS	1993	1994	1995	1996	1997	1998	1999	2000	2001
(000's US$)									
Opening Cost	0	60	60	60	60	60	30	30	30
Portfolio Investments									
Opening Cost	0	500	1750	3250	5000	4875	4188	2875	1313
Additions	500	1250	1500	1750	0	0	0		
Disposals	0	0	0	0	125	688	1313	1563	1313
Closing Cost	500	1750	3250	5000	4875	4188	2875	1313	0
FIXED ASSETS									
Furniture & Equipment									
Opening Cost	0	30	30	30	30	30	30	30	30
Office	20								
Staff House	10								
Additions	30	0							
Disposals									
Closing Cost	30	30	30	30	30	30	30	30	30
Vehicles									
Opening Cost	0	30	30	30	30	30	0	0	0
Additions	30								
Disposals						30			
Closing Cost	30	30	30	30	30	0	0	0	0
Total Additions/replacemen	60	0	0	0	0	0	0	0	0
Closing Cost	60	60	60	60	60	30	30	30	30
Start Up Costs									
Opening Cost	0	50	50	50	50	50	0	0	0
Additions	50								
Disposals						50			
Closing Cost	50	50	50	50	50	0	0	0	0

(000's US$)

DEPRECIATION	CONSTANT TERMS 1993	1994	1995	1996	1997	1998	1999	2000	2001	
Furniture & Equipment										
Opening Bal	0	0	3	6	9	12	15	18	21	
Disposals	0	0	0	0	0	0	0	0	0	
Charge for year		3	3	3	3	3	3	3	3	10%
Closing Bal	0	3	6	9	12	15	18	21	24	
Vehicles										
Opening Bal	0	0	6	12	18	24	0	0	0	
Disposals	0	0	0	0	0	30	0	0	0	
Charge for year		6	6	6	6	6	0	0	0	20%
Closing Bal	0	6	12	18	24	0	0	0	0	
Total charge for year	0	9	9	9	9	9	3	3	3	
Accumulated Deprn	0	9	18	27	36	15	18	21	24	
Disposals for year	0	0	0	0	0	30	0	0	0	
AMORTISATION										
Opening Bal	0	0	10	20	30	40	0	0	0	
Disposals						50	0	0	0	
Charge for year		10	10	10	10	10	0	0	0	20%
Closing Bal	0	10	20	30	40	0	0	0	0	

COMPANY PROFILES

Identification of deal flow potential is a critical element in establishing a Venture Capital Fund. The study team was able to source lists totalling about 35 projects from the financial institutions TIB, CRDB, TDFL, CDC and local consulting companies. Selection was determined to some extent by the availability of project resumes and full feasibility studies, and being able to contact sponsors for a meeting. Within a period of two weeks, company profiles of five potential projects were prepared for this report. About five other projects from these lists could have been of interest but could not be followed up in the time available.

The main criterion used in this selection was that the project promoter should have a proven entrepreneurial track record. The company profiles contained in this appendix were prepared after interviews with the entrepreneurs concerned. In the time given, it was not possible to carry out independent verification of the information provided.

On the whole, the findings indicate that there is a sufficient deal flow of potential projects for investment by a venture capital fund operating exclusively in Tanzania as proposed.

The following issues have also been raised for consideration as a result of this exercise.

1 Audited accounts

Audited accounts were obtained from three of the five companies, and their net assets varied from TSh 1 million to TSh 5 million (US$3,333 to US$17,000). In all cases, assets are been valued at cost at time of purchase, and the effect of the devaluation of the TSh has not been taken into account. Further, in the case of property and buildings, cost value is significantly lower than private market value. No goodwill or any intangible assets are included.

It is likely that many of the businesses in which the Venture Capital Fund would invest would have understated balance sheets, and a fair method at valuing the company should be considered at point of entry.

2 Entrepreneur's equity contribution

Most of the entrepreneurs interviewed had other non-consolidated assets, in addition to their shareholding in the company, in the form of buildings and property. A substantial proportion of their share of equity they propose putting into the expansion would come from incorporating these fixed assets, rather than cash. Again, this will involve reaching an agreement on the value of these assets.

3 Debt:Equity Ratio

The feasibility studies examined here were based on a financing plan of at least a 70%:30% debt:equity ratio. Some others were leveraged as highly as 80%:20%. It should be noted that NBC will consider loan financing up to 70%:30% and, in many cases, the feasibility studies examined were prepared specifically for submission to NBC.

In all the financing proposals examined, the equity provided by the promoters would be primarily in fixed assets - property, buildings and equipment.

4 Size of project

The project cost of each of the five profiles is as follows:

	US$ million
a. SIMA International - Farm production, dried chilli processing and fresh fruit and vegetable exports	1.2
b. Gees Electronics - Assembly and part manufacture of telephone handsets (estimate)	1.0
c. Tee-Te Warehouse Ltd - Warehouse	0.3
d. Shams Trading Ltd - Double refining plant for edible oil	1.3
e. Skyline Ltd - Gemstone mining	1.1

	4.9

This gives an average project cost of US$1 million. Assuming a 60%:40% debt:equity ratio, the financing for a typical project would be as follows:

	US$
Equity (60% promoter)	240,000
(40% VCF)	160,000
	400,000
Loans	600,000
Total financing	1,000,000

5 Availability of loan finance

The projects selected from TIB and CRDB were considered favourably by the investment officers. However, loans could not be considered due to the institution's own lack of funds. This reflects the current general shortage of loan financing available in Tanzania, particularly of local currency.

Over the next 2 years, it is possible that this situation will be alleviated. TDFL in particular has the prospect of funds in the pipeline from EIB (Ecu 8 million), DEG (DM 4.5 million), and CDC (£2.5 million). The DEG and EIB lines of credit can be lent in Tanzanian shillings. It is hoped that in the interim, TVCF may be allowed access to the Debt Conversion Programme so that it can generate some Tsh of its own. This could mean that for a period TVCF's commitment might be higher than that estimated in para 4 above.

6 Foreign exchange generation criteria

One of the five projects profiled, Tee-te Warehouse Ltd, has high projected returns, but would generate most of its earnings in local currency. It does not require any forex funding. In such a case, the lack of local loan financing may mean that the Venture Capital Fund would have to provide additional financing.

The Venture Capital Fund would also have to consider whether the liberalisation of foreign exchange controls is such that it can consider investing in projects which do not generate foreign currency, but which require foreign currency inputs.

7 Reaction to venture capital fund

All the entrepreneurs interviewed responded positively towards the prospect of a venture capital fund taking an equity share in their businesses with the expectation of an exit after an agreed number of years.

8 Exchange Rate Conversions

Where feasibility studies refer to project costs in Tsh and US$, these have been converted to US$ terms, using the rate assumed in the feasibility study.

Where figures in Tsh have been obtained from company accounts or from interviews, these have been converted to US$ terms based on the following rates:

1990	TSh 197 to US$ 1
1991	TSh 218 to US$ 1
1992	TSh 300 to US$ 1

9 Feasibility studies

The three feasibility studies examined were detailed and included comprehensive financial projections. They formed a sufficient basis for consideration, but tended to be thin on the detail of technical and marketing aspects. Some of the assumptions made required more back up, and possibly more caution. There was also little analysis of the risks of the projects.

The Venture Capital Fund would have to consider to what extent it would carry out verification of the feasibility studies as part of its own investment appraisal process. Revisions are also required to keep up to date with inflation in Tanzania. The financial projections were all prepared in Tanzania Shilling terms, and the pace of currency devaluation and inflation is such that the projections should be updated regularly.

Where feasibility studies are required, they should be commissioned by the project promoters themselves, if local technical expertise is available. Where specialist technical expertise is required and costs are likely to be high, APDF is able to provide funding for feasibility studies, for which it levies a success fee based on a percentage of the finance raised.

10 Training Requirements

Outside of the training requirements for the venture capital fund's own employees, the following are potential areas for separate initiatives:

(a) Education of entrepreneurs as to the nature of venture capital and the implications of going into partnership with a venture capital company (including how to present an application and business plan, the venture capital company's requirements of joint control and buy out options, and legal contracts to be entered into).

(b) Education of local consultants as to the preparation of a feasibility study for presentation to a venture capital company. In addition to the specific points where a proposal to a venture capital company differs from proposals for loan financing, there may be an overall need to strengthen the awareness of areas of risk tc be taken into account when preparing a feasibility study.

COMPANY PROFILE NO.1 - SIMA INTERNATIONAL LTD

1 DESCRIPTION OF PROJECT

The project sponsor runs a fruit and vegetable export enterprise (SIMA International) and aims to expand its present capacity for the growing and processing of dried chillies, and the collection and packing of fresh fruits. This would involve:

- expanding a 23 ha farm near Bukoba town to 1,000 ha;

- expanding a network of 350 contract farmers in Bukoba and Dar es Salaam to 1000 farmers growing an estimated 1000 T of chillies (dried weight) and 250 T of other produce, to be serviced by collection centres and extension officers;

- installing two processing units in Bukoba and Dar es Salaam for the drying and grinding of 1200 T of chillies;

- erecting packhouses in Dar es Salaam and Bukoba to handle 400 T and 250 T respectively of fresh fruit exports.

The estimated project cost and financing plan is as follows:

(US$)	Local	Foreign	Total
INVESTMENT COST			
Chilli Processing Unit	100,000	185,000	285,000
Farm Development	260,000	-	260,000
Packhouse & transport	-	455,000	455,000
Total Assets	360,000	640,000	1,000,000
Working Capital	200,000	-	200,000
TOTAL US$	560,000	640,000	1,200,000
FINANCING PLAN			
Long term loan	60,000	640,000	700,000
Equity	300,000	-	300,000
Overdraft Facility	200,000	-	200,000
TOTAL US$	560,000	640,000	1,200,000

2 EXISTING BUSINESS

(a) Chilli production

In 1982 the sponsor (Mr S Mutabuzi) acquired a 3 ha farm in Bukoba and grew vegetables for the local market. In 1985 an additional 20 ha was leased for expansion, and the following year chillies were introduced as a crop. Growing trials of 8 chilli varieties were conducted resulting in the company's own cross breed with high pungency and good drying properties. The farm is now supplying seeds of its own variety to outgrowers. Already 100 farmers have produced and sold their first chilli crop to SIMA, and 350 farmers are contracted to grow the 1992 harvest on an equivalent of 60 ha and expected to yield 200 tonnes of dried chilli.

Using a small grinder and manual sieving of sun dried chillies, SIMA started producing samples of dried ground chillies and started export production in January'92. Exports projected for 1992 are about 80 T dried chilli to buyers in Rotterdam and London.

In late'91, Mr Mutabuzi attended the International Food Ingredients European trade fair in Paris and the interest generated from this has resulted in advance payments for 27 T of dried chillies from buyers in Singapore, Rotterdam and UK who have indicated potential orders of over 2,700 T pa. Samples have also been sent to USA, Mexico, Bangladesh and Pakistan. Recent quality tests carried out by the Natural Resources Institute of UK rate SIMA's chilli as equivalent to the Chinese Fukien variety in pungency.

Relying at present on sun drying, SIMA's production capacity of dried whole chillies is about 100 T. Its capacity to produce dried chilli powder is about 50 T pa. This limited processing capacity is creating a bottleneck in SIMA's operations.

(b) Fresh Fruit and Vegetable Exports

SIMA started fresh produce exports from July'91 and in 6 months exported 56 T of 18 varieties of fruits and vegetables with an FOB sales value of US$43,000. Mixed shipments were sent to a number of buyers in UK and the Netherlands, but some buyers delayed payments or failed to pay, and SIMA reduced its volume of trading. All produce was contract grown by smallholders in the Dar es Salaam area. SIMA has acquired one reefer container, and a stock of imported packing materials.

3 PROPOSED PRODUCTS AND MARKET

To maintain momentum generated to date, SIMA plans to increase the volume of its present export range of products. The range is as follows:

(a) fresh chillies @ C&F price of US$3,000/T (demand is limited to speciality buyers)

(b) dried whole chillies @ FOB price of US$1,200/T (about 50% of crop is of a suitable grade)

(c) dried ground chillies @ FOB price of US$1,200/T (utilising the balance of the crop)

(d) other fresh fruit including mangoes, speciality bananas and vegetables.

SIMA proposes to export the dried chillies to identified buyers in UK, Netherlands, and Singapore. In addition to being used as a food ingredient, dried chilli extract is used for colouring and in industry. Buyers for the fresh produce have also been identified, chiefly in Europe.

4 TECHNOLOGY/INFRASTRUCTURE EMPLOYED

(a) Agronomy

The company employs a general manager to supervise farming operations in Bukoba who has been in place since 1982, supported by a farm manager and three horticultural auxiliaries. These staff are already experienced in the growing of chillies and other crops proposed. Growing materials, farming inputs and technical assistance is provided to all contract farmers in liaison with regional government agricultural extension officers. Growing trials indicate significantly higher yields from chilli when intercropped with bananas.

The right to farm an additional 1,000 ha has been granted to SIMA and an expansion of the farm is proposed, with construction of roads and bridges and an extension of the present irrigation system. Farm development will be planned and supervised by present management, to grow chillies and a mixture of fruit and vegetables.

(b) Processing of chillies

SIMA is seeking technical assistance to introduce mechanical drying of chillies. Present grinding machines require further refinement, particularly in relation to reducing irritation to workers handling the product. Phytosanitary and health certificates are issued by the Ministry of Health in Tanzania. SIMA carries out a sieve analysis of the chilli powder to ensure a minimum particle size of the powder. Buyers carry out their own quality tests on samples, including colour value as set by the American Spice Trade Association.

(c) Collection and Post harvest treatment of fresh fruit

Exports to date have been of 18 varieties of fruits and vegetables. SIMA proposes to introduce a cool chain from collection to shipment with packhouse facilities, refrigerated trucks and reefer containers.

(d) Transport

The dried chillies are sent by sea from Mombassa and Dar es Salaam sea ports, packed in sealed plastic bags put inside gunny bags. The fresh produce is sent by air from Dar es Salaam airport.

5 SPONSOR

Mr S K Mutabuzi is the Managing Director of SIMA and main sponsor of the project. He is a consulting engineer who graduated from the University of Nairobi in 1972, and holds a postgraduate engineering diploma from Newcastle University. He started a building construction company Planconsult International Ltd in 1977, which in 1991 employed 14 professional staff.

6 CORPORATE INFORMATION

SIMA is owned by Mr Mutabuzi and his wife. It has a paid up share capital of TSh 1 million (US$3,333).

SIMA started its trading operations in June'91. Trading activities prior to that between 1988 to 1990 were carried out by Planconsult International Ltd. The development of the farming activities since 1982 has been carried out by an associated company, Agrobase Ltd.

7 STAGE OF PROJECT DEVELOPMENT

Mr Mutabuzi prepared a preliminary feasibility study of the project in 1990. He is seeking another equity partner and loan finance for the full project development proposed. At present he is in discussion with APDF to prepare a detailed feasibility study for the first phase of the project (expansion of the chilli processing facilities) which can be undertaken with his own equity contribution and additional loan financing.

8 FINANCIAL PROJECTIONS AND FINANCING PLAN

Full financial projections were not available. Estimated gross margins for dried chillies are 30% and for fresh fruit 15%. Peak turnover of the project is estimated about US$ 1.8 million.

Risks of the project include: market fluctuations of price and volume (less for fresh produce exports which cover a diverse range); reliability of transport (less for chilli exports which are non perishable and sent by sea); and crop failure due to disease and climatic factors (the risk of drought is reduced on the company farm which is irrigated).

9 ECONOMIC BENEFITS

(a) Direct Employment

SIMA at present employs 60 full and part time staff. At peak operation, the workforce would be about 200 people.

(b) Smallholder income generation.

Up to 1000 smallholder farmers in the Bukoba area and Dar es Salaam can augment their income by growing cash crops for sale to SIMA. Farmers in Bukoba at present rely on coffee as a cash crop, and their returns from a chilly crop have been estimated at Tsh 450,000/ha/pa, about nine times more than from a coffee crop. Chilli plants can be harvested 5 months from germination.

(c) Foreign exchange earnings

Most of SIMA's revenue will be generated in foreign exchange from the export of chilli products and fresh fruit.

(d) Government revenue

Corporate tax will be payable on SIMA's profits at the rate of 45% per annum, although the project may rate for IPC privileges, including a 5 year tax holiday.

COMPANY PROFILE NO.2 - GEES ELECTRONICS LTD

1 DESCRIPTION OF THE PROJECT

Gees Electronics is a printing and telecommunications business that provides installation, maintenance and servicing of imported equipment in Tanzania. Its founder wants to expand into local assembly of telephone handsets in joint venture with an identified US partner who is a licensed manufacturer for AT&T.

2 EXISTING BUSINESS

Gees Electronics started trading in 1978, initially in office, printing and industrial electronic equipment.

In 1991 the Company had a turnover totalling TSh 28.4 million (US$130,000) generated from equipment servicing and installation, and pre tax profits of TSh 4 million (US$18,000). They are sole agents for 9 overseas manufacturers in the printing trade, including SOLNA SB SWEDEN, Gestetner UK, and George Stanley (Paper) UK; and in 1991 installed equipment worth about US$1.7 million in Tanzania.

The Company's major customers include: Tanzania People's Defence Forces (TPDF), National Bank of Commerce (NBC), Directorate of Civil Aviation, the Government Press (Dar es Salaam and Zanzibar), National Examination Council of Tanzania (NECTA), Tanzania Post and Telecommunication Corporation (TPTC), Printpack (T) Ltd, National Printing Corporation, Dar es Salaam University Press and the President's Office Printing Press. A number of these customers require Gees staff to be on 24 hour call-out service.

In February'92, Gees Electronics was granted a license to supply, install and maintain telephone equipment, making it one of 11 licensed telephone equipment companies in Tanzania. On 19 May'92, during an OPIC/USAID mission to Tanzania, Gees Electronics agreed with Kludjeson International Corporation (KIC) of California to act as sole agent supplying AT&T telephone handsets in Tanzania. KIC plans shortly to ship telephone equipment on consignment to Gees Electronics. Discussions between the parties are on-going.

The company has a total of 15 employees, 11 technical professionals and 4 in administration. Management emphasis is placed on efficiency and training up a skilled workforce. Five of its senior managers each have between 10 to 20 years experience in the fields of industrial electronics, industrial maintenance and telecommunication engineering. All are Tanzanians.

The Company's new office and workshop premises are situated about 15 minutes drive from Dar es Salaam city centre. The premises have been purpose-built, and will initially serve as offices, showroom, centre for desk top publishing, and tool workshop. They are serviced with telephones and electricity, and have good road access. The premises are owned by the Company and the present construction covers 210 sq metres. There is scope to double this area by adding a second storey to the building to accommodate future assembly and manufacturing activities.

3 PRODUCTS

The Company's present product range covers: printing industry machines (including cameras), printing inputs (eg paper, ink, wires), cash counting machines, airport office and security equipment.

The newly agreed AT&T agency with KIC will initially cover the import of internal telephone equipment, primarily standard handsets, as well as executive speakerphones, answerback machines, secretarial sets, PBX exchanges, cordless phones, and mobile phones.

Both the Company and KIC are interested in local assembly of the AT&T telephone handsets. KIC have recently opened a factory in Ghana under a similar arrangement.

Of the Company's present customer network, potential major buyers of telephone equipment will include: TPTC, TPDF and DCA. Other potential customers are the hotels and the tourist industry. The Company is also advertising to general consumers in the popular press and local radio network.

4 TECHNOLOGY EMPLOYED

Company staff are trained to install and service all equipment supplied, and regularly attend refresher courses including specialised training provided by the manufacturers of equipment. Staff are provided with servicing tools, kept at company premises and most of the present servicing contracts are carried out on-site rather than at the company office. A 24-hour call-out service is maintained for high security customers.

The proposed local assembly of AT&T telephone handsets will initially rely on imported parts. There is some potential to manufacture plastic parts locally.

5 SPONSOR

Mr A A Maige has over 17 years' experience in electronics engineering, and has held the post of Head of Department, Deputy Chief Engineer and Technical Manager in a number of parastatal organisations in the printing industry including Printpack Ltd and the Tanzania Karatas Association of Industries (TKAI). He is the founder and managing director of Gees Electronics. Mr Maige is a qualified FTC (full technician certificate) in industrial electronics and telecommunication engineering, and has attended electronics training courses in UK, Cyprus, Sweden and Switzerland.

6 CORPORATE INFORMATION

General Electronics and Electrical Services (GEES) was registered as a limited liability company in 1989. Prior to that it operated under a registered business name from 1978.

At 31 December'91, the company has a paid up share capital of Tsh 1 million (US$3,333) which has since been increased to Tsh 5 million (US$17,000). The company is 80% owned by Mr Maige, and there are 8 other shareholders, all staff at Gees who participated in an employee share scheme. Its net assets at 31 December'91 (valued at cost and without goodwill) totalled TSh 4.8 million (US$22,000).

7 STAGE OF PROJECT DEVELOPMENT

Both Gees Electronics and KIC have discussed a joint venture into local assembly of telephone handsets. KIC manufacture under licence to AT&T, and have plants in S.Korea and USA. They have also recently established an assembly plant in Ghana and want to set up a plant to cover sales of AT&T equipment to East, Central and Southern Africa. Gees Electronics is to prepare a feasibility study of the joint venture by December'92, and is approaching APDF to finance the study. There may be a potential for OPIC funding of the project.

8 FINANCIAL PROJECTIONS AND VIABILITY

No financial projections have been prepared at the time of writing this report.

9 ECONOMIC BENEFITS

The project would create additional employment, transfer technology in the assembly of telecommunications equipment, and provide import substitution. There would also be export potential within the PTA area.

COMPANY PROFILE NO.3 - TEE-TE WAREHOUSE LTD

1 DESCRIPTION OF PROJECT

The Managing Director of Tee-Te Clearinghouse Ltd (TCL), Miss Rose Lyimo, wishes to expand an existing cargo clearing and forwarding enterprise by establishing a new company Tee-Te Warehouse Ltd (TWL) which will operate a warehouse and container yard in Dar es Salaam. The warehouse will be constructed with a storage capacity of about 2,800 cubic metres of conventional cargo and the container yard will hold up to 52 containers (20 foot). Tee-Te Warehouse will hire out warehouse space to store cargo for Tee-Te Clearinghouse's clients.

The project cost estimated in January'91 are as follows:

US$	Local	Foreign	Total
INVESTMENT COST			
Land	2,500	-	2,500
Civil works	212,500	-	212,500
Furniture & Fittings	1,000	-	1,000
Pre Operating Expenses	34,000	-	34,000
Total Assets	250,000	-	250,000
Working Capital	15,000	-	15,000
TOTAL US$	265,000	-	265,000
FINANCING PLAN			
Long Term Loan	180,000	-	180,000
Equity	70,000	-	70,000
Overdraft	15,000	-	15,000
TOTAL US$	265,000	-	265,000

2 EXISTING BUSINESS

Tee-Te Warehouse Ltd was formed in 1991, and has not started trading yet.

Tee-Te Clearinghouse Ltd was set up in 1985 by Miss Lyimo, in joint venture with two other Tanzanian partners, to handle clearing and forwarding of cargo. On behalf of its customers, TCL deals with customs documentation, inspection and delivery of import and export goods through the sea and air ports of Dar es Salaam. It charges its clients between 0.75% to 1.5% of the CIF value of the goods handled plus all direct costs incurred (including customs duties, transport, handling and warehousing costs).

In 1991, TCL cleared goods with a total CIF value of about TSh 1300 million (US$6 million). Its total revenue was TSh 73 million (US$335,000) of which TSh 13 million (US$60,000) was fee income, and TSh 60 million (US$275,000) was for reimbursement of direct costs. Net profit before tax was TSh 1.3 million (US$ 6,000).

A few of TCL's customers pay for its services in forex, and TCL is allowed to retain 35% in a retention account. In 1991 about US$13,000 out of total forex payments of US$37,000 was retained.

TCL's major clients, many of whom have used the company's services since 1985, include:

- Shell Petroleum Development (heavy cargo in the form of exploration machinery, tools, spares, and supplies in bulk or in containers)

- Shell Chemicals Ltd (agricultural chemicals in bulk)

- The British Council (miscellaneous educational and aid goods)

- International organisations including UNICEF, FAO, SIDA, ILO, NORAD, WWF (miscellaneous aid goods)

- VMATI and Muhimbili Medical Centre (medicines).

Other more recent clients include: HIFAB, Hotel & Tours Management, Consolidated Hotels, Ministry of Works, Kilimanjaro Mines, Pemaco Bevi Co, Macholdings.

TCL employs 16 full time staff. It owns one 3.5 T truck and one 1 T pick up and hires the rest of its transport requirement, and also hires handling equipment and warehouse space.

Reliable warehouse space in Dar es Salaam is limited. TCL has had to turn down handling consignments when the customer is unable to take delivery of the goods immediately and requires storage, but TCL is unable to find warehousing space.

A further weakness in relying on rented warehouses is that of adequate security. Warehouse owners sometimes limit insurance cover to burglary only. There is no warehousers trade association and the industry is relatively unregulated. A number of new warehouses have been built in the last year, but TCL continues to experience a shortage of space to rent.

All clearing and forwarding businesses have to be licensed, and applications are handled through the Tanzanian Forwarders Association (TFA). TCL is one of 45 members of TFA.

3 PRODUCTS AND MARKET

Tee-Te Warehouse Ltd would provide storage for:

(a) loose and conventional cargo in the warehouse @ US$1.36/cubic metre/week

(b) containers in the container yard @ US$2.25/day/container.

Prices are based on a feasibility study prepared in January'91. A quick comparison between market warehousing charges in May'92 (Tsh 275/week/cubic metre) and in January'91 (TSh 275/week/cubic metre) indicates a fall in the real price once inflation has been taken into account. This may be an indication of the increase in supply of warehousing space as against a constant demand. Alternatively, it may be an indication of inflexibility in pricing policy of parastatal warehouses.

If TWL needs to reduce its projected warehousing charge due to market changes since January'91, this would reduce the profitability of the enterprise and should be taken into account in revised financial projections.

There is also scope for TWL to provide bonded warehouse facilities. This would require a separate area in the warehouse under high security. TWL would also have to provide a bond to the government equal to the CIF value of the goods in bond. The provision of bonded warehouse services has not been taken into account in the financial projections.

The main warehousing enterprises in Dar es Salaam include NOTCO (a multinational company), NASACO (National Shipping Agencies Company) and a number of private companies.

Tee-Te Warehouse would provide warehousing space to Tee-Te Clearinghouse, and charges will be set according to the market rate. Tee-Te Warehouse would have a competitive advantage over other warehousing companies in that it is integrated with an established clearinghouse enterprise with a sound reputation, and both enterprises working together can offer a fuller range of services to customers.

4 TECHNOLOGY

The warehouse will be a pitched roof structure covered with corrugated iron sheets on timber rafters, with walls built with concrete blocks. Windows will have high level vents with anti-burglar grills within. Total floor area will be 720 sqm.

The container yard will be a reinforced concrete floor cast on well compacted hard core, with a total floor area of 500 sq m.

A concrete block wall will be constructed around the site strengthened by reinforced concrete columns, and a gate house will be built within the site. Total floor area would be 1743 sq m.

The warehouse will be situated at the Mbezi industrial area, and access is by a service road linked to Bagameyo Road.

5 SPONSOR

Miss Lyimo began her career as a secretary at East African Kenaf Industries Ltd in Moshi, was sponsored to attend a secretarial course in Nairobi and subsequently moved to Dar es Salaam to work as administrative assistant to the General Manager at the Tanzania Investment Bank. Later she worked for the FAO office in Dar es Salaam.

In 1982 Miss Lyimo applied for and was granted office space at the TDFL building, and started a secretarial services agency, Tee-Te Associates Ltd (TAL), with a typewriter, a duplicator, and an old copier. Within 6 months, she was employing 3 other staff, and by its second year TAL was able to purchase new equipment.

In 1985, the secretarial business was affected by shortages in supply of basic materials (paper, ribbons, correcting fluid) and Miss Lyimo sought to diversify. She went into partnership with two others, and after a trial period, they started Tee-Te Clearinghouse as a clearing and forwarding enterprise.

Miss Lyimo is still Managing Director of TAL, which in addition to providing secretarial services also represents several manufacturers in Tanzania and is exporting beans and nuts to Europe.

Miss Lyimo has a high profile in the local business community and is Vice Chairperson of the Dar es Salaam branch of the Tanzania Chamber of Commerce, Industry and Agriculture as well as Director of International Services of Rotary International.

6 CORPORATE INFORMATION

Tee-Te Warehouse Ltd has a paid up share capital of TSh 1 million and is owned: 70% by Miss Lyimo, 20% by TCL, and 10% by TAL.

Tee-Te Clearinghouse Ltd has a paid up share capital of TSh 2 million and is owned: 36% by Miss Lyimo, 32% by Mr G P Msendo, and 32% by Mr V M Lyimo. Tee-Te Associates Ltd is owned: 90% by Miss Lyimo, and 10% by Mr P Lyimo.

7 STAGE OF PROJECT DEVELOPMENT

In January 1991, Miss Lyimo commissioned a full feasibility study of the project, and presented it to NBC for financing. At that time, NBC were unable to provide loans to enterprises whose main business was warehousing. The project has since been presented to TDFL (who were favourable towards the project but were unable to invest as the loan did not require foreign exchange) and also to TIB and CRDB (neither of which have been able to provide financing). NBC has recently changed its investment policy to cover warehouse enterprises, and Miss Lyimo intends to re-present her project application for consideration.

With inflation, the project cost has now increased from TSh 50 million (Jan'91 estimate) to over TSh 70 million (May'92 estimate) and the TSh 15 million equity Miss Lyimo can provide has fallen from 30% to under 21% of total project cost. Miss Lyimo is now seeking another equity partner.

The January'91 feasibility study excluded the purchase of any vehicles or handling equipment (relying instead on equipment hire). If Miss Lyimo finds an equity partner, she would like to increase the project investment to include the purchase of vehicles and handling equipment.

In the meantime, TWL has obtained a 99 year lease on the project site which expires in the year 2085. Clearing and levelling of the land has been undertaken, and a site office has been erected. All drawings for the building are completed and approved and building permits are ready.

8 FINANCIAL PROJECTIONS AND FINANCING PLAN

Full 8 year financial projections for Tee-Te Warehouse Ltd were included in the feasibility study of January'91. The projections were prepared in constant terms in Tanzanian Shillings. These show an Internal Rate of Return of the project after tax of over 50%, and an operating profit margin of 65%.

Available space is taken at 80% of built up area to allow access ways for moving goods within the warehouse and yard. The projections assume TWL would achieve an average occupancy of available space of 70% in its first year, increasing to 80% (second year) and 90% (third year and after). Annual turnover for the warehouse enterprise peaks at over US$200,000 pa.

The financial projections include a breakeven analysis, which shows the project breaks even when it achieves 51% of peak sales revenue. The payback period is 4.5 years, taking into account servicing a loan of TSh 36 million (at 31% interest) and tax at 50%.

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Working capital comprising one month's operating costs and debtors comprising one month's sales are included, but no provision has been made for bad debts.

9 ECONOMIC BENEFITS

The warehouse project would create new employment for 14 people.

Government revenue would be generated by way of corporate tax and tax receipts over an 8 year period are estimated at TSh 78 million, assuming no tax incentives are granted.

There could also be potential for some forex earnings in relation to SADCC trade, if TWL provides storage facilities for storing cargo on transit to Zambia, Malawi, Rwanda, Burundi, Uganda and Zaire.

COMPANY PROFILE NO. 4 - SHAMS TRADING AGENCIES LTD

1 DESCRIPTION OF PROJECT

The project involves the expansion of an existing oil processing enterprise, Shams Trading Agencies Ltd (Shams), to produce 1,500 T pa of refined edible oils and 3,700 T pa of seed cake by-products, utilising up to 8,000 T pa of seeds.

The estimated project cost and financing plan proposed are as follows:

(in US$)	Local	Foreign	Total
INVESTMENT COST			
- Plant & Machinery	223,000	707,000	930,000
- Civil Works	200,000	-	200,000
- Motor Vehicles	55,000	-	55,000
- Furniture & Fittings	7,000	-	7,000
- Pre Op Expenses	15,000	-	15,000
Fixed Assets	500,000	707,000	1,207,000
Working Capital	126,000	-	126,000
TOTAL	626,000	707,000	1,333,333
FINANCING PLAN			
- Long Term Loan	223,000	707,000	930,000
- Equity	303,000	-	303,000
- Bank Overdraft	100,000	-	100,000
	626,000	707,000	1,333,333

2 EXISTING BUSINESS

Mrs Kitule started Shams Trading in 1978 producing bar soap from her home. Later Shams started exporting a variety of fruit and vegetables. In 1980, Mrs Kitule secured a TSh 5 million loan from CRDB to purchase oil extraction equipment from Japan, and a plant was constructed in the Mikocheni Industrial Area of Dar es Salaam. This loan has since been repaid.

At present, Shams produces semi refined oil from sunflower seeds, copra, sim-sim, and cottonseed. In 1991, estimated production was about 1,100 T of semi refined oil, with a gross sales value of about TSh 200 million (US$1 million). This oil was sold to the Zanzibar Army as part of a tender contract that Shams has held since 1982.

In addition to oil processing, Shams still exports small volumes of fruit and vegetable (about US$25,000 in 1991) as a means of earning forex. Soap production ceased in 1985 when trade liberalisation measures lead to competition from imported soap.

Raw materials are available for part of the year only (June to September). Shams stockpiles raw materials to allow production for about 10 months a year.

The plant at Mikocheni comprises 2 adjacent plots totalling 4 ha. The existing plant is built on one plot, and the second plot, which has been fenced, has sufficient area to house the new double refinery plant and additional raw material warehouses. Both plots are held under 99 year leases.

3 PRODUCTS AND MARKET

(a) Semi-refined oil sold at US$1,000/T (current plant output)

(b) Refined oil sold at US$1,050/T (new plant output)

(c) Seed cake bi-products sold at US$75/T.

Refined oil is a neutral, clear and odourless oil and is a higher quality product than semi-refined oil. Refined oil and seed cake by-products have export market potential.

Currently there are two plants in Dar es Salaam producing refined edible oil - Rajani Mills and Mikocheni Oil Mills, both privately owned. The oil is sold to wholesalers for the retail market, and Rajani Mills also exports oil and seedcake.

A large proportion of cooking oil for the domestic market is imported (eg: palm oil from Malaysia). Shams proposes to sell its products to wholesalers, the Zanzibar Army, and on the export market.

4 TECHNOLOGY

A new double refinery plant will be installed. Sunflower and cotton seed will be crushed and the pressed oil neutralised, bleached, filtered, deodorised and packed.

A small laboratory is included in the plant which will carry out quality control tests.

Training arrangements will be made for the Plant/Production Manager and Plant Engineer to visit selected modern plants for in-plant training, and for on-the-job training by the equipment suppliers during installation. Further, one technician from the suppliers will be retained for 6 months, to train plant personnel.

A plant quotation was obtained from a supplier in India in late 1989. Mrs Kitule is at present in communication with an another supplier in the UK for a second quotation. Detailed plant specifications can be drawn up with the assistance of the Industrial Production Institute at the Department of Engineering in Dar es Salaam.

5 SPONSOR

Mrs Kitule graduated in 1978 with a Masters in Food Science and Industrial Technology in the Netherlands and, on returning to Tanzania, started in business. She now owns and manages 3 other companies including a clearing and forwarding business. As her business enterprises have grown, she has acquired additional property, a number of residential houses and two other industrial plots, with an estimated market value of about TSh 500 million.

6 CORPORATE INFORMATION

Shams Trading Agencies Ltd was incorporated in 1978. It has an authorised share capital of TSh 5 million (US$16,700) which is fully paid up. The company is owned by Mrs Zariha Kitule (75%) and her sister Mrs Jamila Mashkur (25%).

7 STAGE OF PROJECT DEVELOPMENT

Shams Trading obtained IPC approval in December 1991, including tax incentives, in particular exemption from corporate tax, sales tax, and import duty. This exemption is for a period of 5 years.

Mrs Kitule commissioned a feasibility study in May'90, and submitted her loan application to CRDB and TIB, which have it still under consideration. She has not approached TDFL.

8 FINANCIAL PROJECTIONS & FINANCING

Full 10 year financial projections were included in the feasibility study of May'90 taking into account the output of the new plant alone. These were prepared in constant terms and in Tanzania Shillings. The projections showed an Internal Rate of Return of the project (after tax) of 66%, and an operating profit margin of 30%. These projections did not assume any tax incentives.

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Annual turnover peaks at US$1.8 million per annum. The plant is assumed to operate at 70% installed capacity during the first year, rising to 80% in the second year, and 90% from the third year onwards. This would mean that raw material stocks sufficient for running the plant 12 months a year will have to be obtained. Working capital assumptions have not been not broken down in the study.

The breakeven analysis shows breakeven is achieved at 36% of peak sales revenue. The payback period based on the proposed financing plan is 5 years, taking into account interest on the loan at 31% and corporate tax at the rate of 50%.

It should be noted that the project cost is likely to be higher than estimated in the feasibility study of May'90, particularly if different equipment is sourced, and taking inflation into account. This will increase the loan and financing requirements and the financial projections will have to be revised in the light of these. However, the tax incentives now granted by IPC should offset the effect of these increased costs to some extent.

9 ECONOMIC BENEFIT

The new plant will employ 14 additional staff.

There is potential for foreign exchange generation from export sales, and domestic sales will substitute imports of refined oils.

After the tax exemption period, government revenue would be generated by way of sales tax (at 25% of gross sales) and corporate tax (at 45% of net profit).

COMPANY PROFILE NO.5 - SKYLINE ENTERPRISES (T) LTD

1 DESCRIPTION OF PROJECT

Skyline Ltd is a private company that has been dealing in and exporting gemstones since 1988. To date, it has bought its gemstones from small scale miners in the Tanga Region. Skyline now wishes to establish its own mines in the region, which is rich in garnets and sapphires. The company started prospecting in 1990, and has a prospecting license for an area covering 17 sq km as well as 14 claims covering a total of 1.3 sq kilometres.

The estimated project cost and financing plan proposed (in May'91) is as follows:

(US$)	Local	Foreign	Total
INVESTMENT COST			
Machinery & Equipment	39,000	286,000	325,000
Vehicles	69,000	347,000	416,000
Workshop tools & Equipment	11,000	83,000	94,000
Building & Civil Works	75,000	-	75,000
Office Equipment & Furniture	17,000	16,000	33,000
Pre Operational Costs	27,000	-	27,000
Total Assets	238,000	732,000	970,000
Working Capital	148,000		148,000
TOTAL US$	386,000	732,000	1,118,000
FINANCING PLAN			
Long Term Loan		732,000	732,000
Equity	238,000		238,000
Overdraft Facility	148,000		148,000
TOTAL US$	386,000	732,000	1,118,000

2 EXISTING BUSINESS

In 1988, when the Tanzanian government lifted restrictions on the buying and selling of gemstones by private enterprises, Skyline was one of 5 companies that qualified for a Master Gemstone Dealer's License. Prior to that, Skyline had been in the textile and stationery printing business. Today there are about 50 companies licensed to trade in gemstones in Tanzania.

Skyline's main present activity is the export of gemstones including rubies, sapphires and garnets. Its export sales in 1988/89 were US$77,400, and they rose to US$221,970 in 1989/90.

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In 1990/91 sales fell to US$98,000. There was an overall fall in the international market as demand from major buyers in USA, Israel and the Middle East was adversely affected by the Gulf War. In Tanzania, the government carried out a crackdown on illegal miners, which affected all mining activity for almost 6 months.

Skyline has established about 20 customers including: Emil Brusius & Co of Idar-Oberstein; Quality Colour Ltd of Bangkok; and Arslan Jewellers Inc of New York. Other buyers are from Israel, Brussels, India, Japan and California.

Skyline employs a gemologist from TGI and selling is done by Managing Director Amon Mukangara. Skyline has 34 employees, of whom 30 are engaged in mining activities including 2 supervisors responsible for buying the gemstones. To date, Skyline has been buying all its gemstones from small scale miners in the Umba mining areas in the Tanga region. Mining has traditionally been carried out in Tanzania by small scale miners, and there are only about 4 companies carrying out large scale mining. Among the companies operating in the Tanga region is Africa-Asia Precious Stones Co Ltd with a mining area covering 9.41 sq km.

Skyline now proposes to go into mechanised mining activities. In October'91, Skyline obtained a prospecting licence for an area 17 sq km in the Umba valley, Tanga region. The Umba valley is well known to geologists as being exceptionally rich in gemstones (garnets and sapphires in particular). Since that time, Skyline has had access to excavators, bulldozers and explosives (on loan from another mining company prospecting in the region) and has carried out its own prospecting.

Skyline employs a Tanzanian mining engineer (who graduated in Canada), and is advised by two experienced Czechoslovakian geologists. Based on their findings, Skyline plans to submit an application by July'92 for a 25 year mining licence for the whole 17 sq km area covered by its prospecting licence. The application must show that a mine would be commercially viable, and quantify the amount of material and the minimum expected life of the proposed mine.

Prior to obtaining the prospecting licence, Skyline had staked 14 claims (each covering 0.09 sq km), 5 of which are in the Morogoro region, and 9 in the Tanga region. These claims are renewable annually by the Commissioner for Mineral Resources.

3 PRODUCTS AND MARKET

The feasibility study (which was prepared in May'91 before Skyline was granted its prospecting licence in the Umba valley), was based on sales of the following uncut gemstones:

(a) Garnets (Pyrope):	4 sizes from 0.5-2 gms to 10+ gms, and 3 grades. Prices range from US$5/kg for Grade C smallest size to US$ 150/kg for Grade A largest size.
(b) Garnets (Rhodolite):	4 sizes from 1-3 gms to 10+ gms. Prices range from US$200/kg for Grade C smallest size to US$8000/kg for Grade A largest size.
(c) Sapphires:	4 sizes from 0.5-1 gms to 5+ gms. Prices range from US$2/kg for Grade C smallest size to US$400/kg for Grade A largest size.

There is a lot of interest in the world market for Tanzanian gemstones. Skyline proposes to sell its gemstones via its existing channels, ie trade fairs and auctions in USA, Europe and Asia. This includes a major gemstone show held by the American Gem Traders Association in Arizona every February, which is attended by gemstone dealers from all over the world. In May'92, Tanzanian gemstone dealers organised an auction in Arusha which for the first time was attended by international buyers.

4 TECHNOLOGY

Skyline propose carrying out alluvial mining of secondary deposits and reef mining of primary deposits. Alluvial mining involves stripping the overburden, then excavating and loading ore for transport to the washing plant where the ore is washed, sorted, graded and packed for export. In reef mining, the ore has to be blasted out. Excavating and transport equipment budgeted for include: 1 excavator with breaker and 2 dumper trucks.

The feasibility study was prepared based on estimates of primary and secondary ore reserves of 81,000 and 90,000 cubic metres respectively. The estimated recovery rate for primary deposits is 200g garnets per cubic metre, and from secondary deposits is 600g garnets and 50 g sapphires per cubic metre.

The project cost is based on establishing a washing plant at the project site with a capacity to handle up to 12,000 cubic metres of ore pa. Residential and office facilities will also be erected at the mine site.

5 SPONSOR

Skyline's Managing Director, Amon Mukangara, is also the majority shareholder of the company. He trained as a valuation engineer, and was a lecturer at the ARDHI Institute in Dar es Salaam, which provides advanced diplomas in land based professions. In 1988, when Skyline was granted its master gemstone dealers licence, he left ARDHI to work full time with Skyline. After a maiden trip to Idar Oberstein in Germany to meet with buyers, he gained experience in gemstone trading, and has since travelled to Europe, USA, and Asia. He has twice attended the American Gem Trade Association annual gemstone show in Arizona.

Contact with current market trends is maintained via subscriptions to trade journals aimed at dealers, cutters, and collectors: the Lapidary Journal and a journal issued by the International Colourstone Association (USA). Mr Mukangara has been in touch with the Gemological Institute of America, the German Gemological Institute, and the Gemological Institute of Great Britain, and intends to send Skyline staff for training in the grading and sorting of stones.

6 CORPORATE INFORMATION

Skyline Enterprises Ltd was incorporated in 1984. It has a share capital of TSh 15 million which is fully paid up. Its shareholders are A.Mukangara (60%) and two other individuals who hold 20% each.

7 STAGE OF PROJECT DEVELOPMENT

Skyline commissioned a feasibility study of its proposed expansion into mining in May'91, and submitted this to TIB for a loan application. TIB has not responded, and Skyline have since applied to TDFL for loan financing, where the project is under consideration. TDFL have indicated a line of credit from the EC for procurement of equipment may be available, but they will require a higher percentage of equity (40-45%).

Since the feasibility study of May'91, Skyline has obtained a licence to prospect in a 17 sq km site. Actual mineral resources indicated by recent prospecting activities need to be taken into account, and equipment needs revised. Mr Mukangara believes that the total project cost can be maintained but this probably reflects constraints on Skyline's own resources and ability to raise loan financing on its present equity base. Mr Mukangara indicated Skyline would be interested in another equity partner.

8 FINANCIAL PROJECTIONS AND FINANCING

Full 10 year financial projections were included in the feasibility study of May'91. The projections were prep constant terms in Tanzanian Shillings. These show an i Rate of Return of the project after tax of over 50%, ar operating profit margin of 57%.

The financial projections assume that the processing p operates at 50% capacity in Year 1, rising to 70% from onwards. Annual turnover peaks at US$2 million sales annum.

An analysis of the financial projections shows breakev achieved at 36% of peak sales revenue. The payback pe 3 years, taking into account servicing a loan of US$73 (at 14.5% interest) and corporate tax at 50%.

Working capital comprising two months' mining and proc costs, debtors of one month's sales revenue, and credi one month's salaries are included. There is no provis bad debts.

9 ECONOMIC BENEFIT

The project would create direct employment for a furth Tanzanians, 8 of whom will hold managerial and skillec positions.

Government revenue would be generated from corporate from royalties on gemstone exports. Total corporate receipts over the 10 year period is estimated at US$9

Foreign exchange would also be generated from gemston sales. Total sales revenue over the 10 year period i estimated at US$19 million.

approvals over the past three years of $ 8 million. It is seen as evidence that many small and medium-scale local entrepreneurs are now actively developing financially attractive new business. Much of this is aimed at domestic markets.

TDFL wants now to finance only companies that agree to go public within a measurable time. It expects TIB in due course to become responsible for running the capital market and wants to prepare the candidates for flotation. A diversification study recently commissioned by TDFL has recommended initiatives in merchant banking, venture capital (fund and non-fund based), a leasing subsidiary and other financial services.

An investment in a venture capital fund would therefore fit in well with TDFL's plans. It would enable its staff to benefit from becoming familiar with its operations as well as to receive specific venture capital training.

TANZANIA INVESTMENT BANK (TIB)

TIB was set up in 1970 to make available long and medium-term finance for economic development and to provide allied services. It is wholly owned by Government (60% directly, 30% through NBC and 10% through National Insurance Corporation). TIB's resources have come mainly from the World Bank and ADB, and from donor agencies in Canada, Germany, Norway and Sweden.

Its first few years of operation were successful. The rapid deterioration in the economic climate then began to affect the performance of its borrowers, and increasingly their ability to service loans denominated in foreign currency. Devaluation made foreign exchange prohibitively expensive, to the extent that insufficient TSh were being generated to service loans or purchase essential imports to keep plants running.

TIB's balance sheet is shored up by the assumption that loans are performing and accrued income will be collectable. Between 1988/89 and 1989/90 devaluation increased gross income from TSh 983 million to TSh 1.7 billion, and the bank's assets from TSh 4.9 billion to TSh 7.8 billion. If proper provisions were made, it is likely that TIB would find it hard to remain solvent. In any event it is due for restructuring along with other parastatals. In this connection it has submitted wide-ranging proposals for diversification into merchant banking, deposit taking from corporate clients, venture capital, leasing and securities dealing.

Although unable to make significant investments, TIB has a pipeline of applications totalling some TSh 10 billion. About TSh 6 billion of this is thought to consist of potentially viable projects.

Like TDFL, TIB could well gain from an investment in TVCF, through familiarisation with venture capital and training in its techniques. There would be an added community of interests if, as seems likely, TIB will eventually lead developments towards a capital market.

time to time, to facilitate negotiating flexibility and to promote improved financial structuring of investment ventures, so long as these are consistent with prudent operating procedures and Tanzanian law.

2.3 TYPES OF INVESTEE COMPANIES

TVCF will invest principally in existing companies requiring modernisation and expansion capital. Seed financing, investments in start-up companies, management buy-outs and turn-around opportunities are not excluded but should be subject to intense scrutiny. Investment in property, either as speculation or as an avoidable part of the project costs, should be carefully controlled.

The quality of the investee company's management should be one of the principal investment criteria.

2.4 INVESTMENT LIMITS

In order to spread its risks, TVCF should adhere to the following investment limits:

(i) not more than 25% of TVCF's committed capital should be invested in a particular sector

(ii) not more than 10% of TVCF's committed capital should be invested in a single company

(iii) TVCF's goal is not to assume or develop a controlling interest in its portfolio companies, although occasionally such positions may develop. Initial equity investment in a company should not exceed 49% of the total equity.

2.5 FINANCIAL RETURNS

TVCF's portfolio policy should be to achieve a financial return on the Fund which is substantially above the return achieved on low risk bank deposits.

TVCF should aim to invest in companies which have the potential to achieve compound capital growth rates of 30% and above in real terms. This is equivalent to increasing the value of the investment by approximately 5 times in 6 years.

2.6 PARALLEL INVESTMENT

TVCF should actively seek co-financing for its investment ventures, particularly from other equity investors and Tanzanian financial institutions.

It is expected that those parties making parallel investments with TVCF will not dispose of their investments any earlier than TVCF and, when they do, will do so on substantially the same terms as TVCF.

2.7 UNINVESTED FUNDS

Uninvested funds will be placed predominantly in external deposit accounts.

2.8 DISTRIBUTION OF PROFITS

It is envisaged that TVCF's first fund may have a limited life of 10 years, at the end of which all investments will be liquidated. The portfolio policy should be such that a significant profit stream can be expected to build up from year 6 onwards and returns to TVCF's shareholders realised from that time.

3 PORTFOLIO ADMINISTRATION

The underlying principles of TVCF's portfolio administration practices shall be:

(i) Maximum attention should be given to the protection and development of TVCF's assets. The Manager should play a significant role in building up the value of a portfolio company, participating in its strategic planning, operating control, key personnel recruitment and financial management.

(ii) The Manager should seek to recover from projects the full cost of assistance provided to investee companies, in particular any legal, technical or financial services incurred on behalf of an investee company.

(iii) The level of resources devoted to ailing ventures should be closely monitored, and the Investment Committee of TVCF's Board shall promptly be informed of all such cases and consulted on the advisability of writing-down or writing-off any such investments.

(iv) To facilitate a hands-on approach towards successful investment ventures, TVCF should require strict quarterly reporting of operating results, financial position and marketing prospects as well as audited annual accounts from all investment ventures.

(v) TVCF should have the right to Board representation in all investee companies, this right to be exercised at the discretion of TVCF.

(vi) For each investee company, the Manager will appoint a member of its staff to act as Investment Manager to make periodic visits to the portfolio company and report upon the physical and financial progress and prospects of the company's operations.

(vii) TVCF should reserve the right to require each investee company to appoint auditors acceptable to TVCF.

(viii) TVCF should reserve the right to carry out investigations into any aspect of an investee company's activities and affairs at any time and to require the investee company at its own expense to appoint members of the Manager or outside specialists to assist the investee company.

(ix) The Manager will circulate a quarterly bulletin reporting the growth of target companies and a valuation of the portfolio.

4 SALE OF INVESTMENTS

(i) TVCF's income will arise mainly from the realisation of capital gains from the sale of shares in investee companies. Most typically, shares will be sold at a stage when the prospects for the future operating profitability of an investment venture have been clearly established and are recognisable to potential purchasers of those shares. This will call for the exercise of judgement to ensure that profits are realised at the optimum time.

(ii) In those cases where an investment venture does not meet its original growth and profitability expectations and where the prospects for achieving those objectives are not good, careful consideration should be given to the timely liquidation of TVCF's investment.

(iii) It is recognised that a small proportion of TVCF's investment ventures may fail, but the majority should yield good returns and a minority should yield very high returns.

(iv) When disposal of an investment is under consideration, the full range of the then existing market mechanisms for valuing and promoting such transactions should be explored. In appropriate cases TVCF may enter into subscription agreements that would give purchase options to promoters, original shareholders or management. In such cases, a basis for share valuation should preferably be included in the subscription agreement.

(v) In cases where TVCF's shares in investee companies are intended for sale to the general public, TVCF's local shareholders should be allowed an opportunity to negotiate an allocation of such shares prior to the investments being made more generally available.

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APPENDIX H

LIST OF INTERVIEWS

ACF Holdings Ltd.
P.O. Box 2293, Dar es Salaam, Tanzania;
Tel: 255-51-33441; Fax: 255-51-46267.
P.O. Box 3121, Arusha, Tanzania;
Tel: 255-57-8162; Fax: 255-57-8246.
Faraji, Abdu C., Chairman and director of:
Farmlands Tanzania Ltd.
Tanzania Food Corporation Ltd.
Standard Engineering Co. (T) Ltd.
Bank of Tanzania
Msurri, Mellow, Finance Manager
Lyimo, Mrs. Helen

AMBA Management & Industrial Services Ltd. (IMAIS Ltd.)
P.O. Box 21856, Dar es Salaam, Tanzania;
Tel: 255-51-35105; Fax: 255-51-35105.
Mmasi, L.A., Managing Director & Chief Consultant

Archers Aviation Ltd.
P.O. Box 2055, Zanzibar, Tanzania; Tel: 255-54-31979;
Nairobi 21 61 67.
Griffin, A.R.; Chief Pilot

Arusha X-Ray Center; Consultant Radiologist (private practice medicine)
P.O. Box 7377, Arusha, Tanzania.
Lyimo, Dr. J.J.

Associated Enterprises Limited
21 Pugu Road, 1339/134 Indira Gandhi St., P.O. Box 230,
Dar es Salaam, Tanzania; Tel: 255-51-63044/30026.
Mzena, E.C.; Managing Director

Bank of Tanzania (Central Bank)
P.O. Box 2939, Dar es Salaam, Tanzania;
Tel: 225-51-21291-9; Fax: 225-51-37485.
Kitomari, N.N.; Deputy Governor
Kimei, Charles S., Ph.D.; Principal Economist, Manager Economics Research Dept.
Matafu, S.C.; Manager, Company Matters Department, Directorate of Exchange Control
Mgonja, G.S.; Director, Economic Research and Policy
Chemponda, S.F.; Principal Economist
Kobello, A.E.B.; Senior Economist, Company Matters Department, Directorate of Exchange Control

Bon Voyage Tours & Safaris (tour operator)
P.O. Box 7185, Arusha, Tanzania.
Kavishe, Didas

Bondeni Seeds Ltd. (grain, seeds)
P.O. Box 192, Arusha, Tanzania;
Tel: 255-57-7434/3383/3528.
Vohora, Yog, Director - associated companies:
Tanganyika Land Agency Ltd.
Karamu Coffee Estate Ltd.
Kongoni coffee Estate Ltd.
Kirin Coffee Estate Ltd.
Kilimani coffee Estate Ltd.
Rasha Agricultural & Industrial Enterprises Ltd.
Tanzania Cartons Ltd.

Business Care Services
Dar es Salaam, Tanzania
Mbuguny, Rashidi

Cargo Freighting Services, Ltd.
Dar es Salaam, Tanzania;
Tel: 255-51-.
Lugembe, David J.; Managing Director

Centre for the Development of Industry (CDI)
rue de L'Industrie 28, 1040 Brussels, Belgium
Tel; 32-2-513 41 00; Fax: 32-2-511 75 93
Hinzen, Dr. Eckhard; Head of Section, Economic & Financial Studies, interventions & EC Netweork Division, ACP-EEC Lome Convention

Co-Operative and Rural Development Bank (CRDB)
P.O. Box 268, Dar es Salaam, Tanzania;
Tel: 255-51 46239; Fax: 255-51-38080.
Magani, Philip A., Chairman and Managing Director.
Christian, David; Senior Industrial Engineer.
Sweddy, M.M.; Head of Appraisal.

Commonwealth Development Corporation (CDC)
One Bessborough Gardens, London, SW1V 2JQ;
Tel: 44-71-828-4488.
Boyd, Alistair; Deputy Chief Executive.
Goddard, Jeffrey C.; Regional Investment Manager.
Rodmell, Graham A.; Director of Legal Services
Selby, Nicholas; Director of Finance.
Killick, David; Director, New Business.
Peck, Donald; Senior Financial Analyst, New Business Development.

Commonwealth Development Corporation (CDC)
P.O. Box 2535, Dar es Salaam, Tanzania;
Tel: 255-51-20283/46281/46720; Fax: 255-51-46720.
Pierson, Derek; Representative Tanzania
Howard, Nicholas; Executive Tanzania

Coopers & Lybrand Certified Public Accountants
P.O. Box 45, IPS Building, Dar es Salaam, Tanzania
Tel: 255-51-29031/32401; Fax: 255-51-29034
Urasa, Godfrey S., Senior Partner
Seushi, Ibrahim.
Muhato, Wanjiku
Ngeiluma, Alex
Smyth, Dennis

Crown Agents
Dar es Salaam, Tanzania;
Tel: 255-51-.
Harrison, Michael; Representative

Dar es Salaam Chamber of Commerce
P.O. Box 41, Dar es Salaam, Tanzania;
Tel: 255-51-21893/23759.
Mzena, E.C.; Chairman
Mkwawa, Mr.; Executive Director
Mwinyi, Ndugu Ali Hassan; President (not met)

Delegation of the Commission of the European Economic Community
Dar es Salaam, Tanzania;
Tel: 255-51-.
Carro, Dr. Angel; Economic Advisor
Harbo, Karl, Delegate

DEG - Deutsche Investitions und Estwicklungsgesellschaft mbH
Belvederestrasse 40, D-5000, Koln 41 (Mungersdorf, Germany;
Tel: 221-4986-349; Fax: 221-4986-105.
Heymanns, Berndt; Head of Division, East Africa
Seibert Oliver; Project Assistant

East Africa Development Bank
Dar es Salaam, Tanzania;
Tel: 255-51-.
Inkya, Aron; Regional Director

Enterprise Plus Limited
Willow Wood House, North Church lane, Ashley Green, Bucks
HP5 3PX, England; Tel. 44-442-870391; Fax: 44-442-870345
Muth, Hanns Peter; General Manager.
Ford, Adrian P.; Director.

Executive Travel Service Ltd. (tours and safaris)
P.O. Box 7462, Arusha, Tanzania;
Tel: 255-57-8050; Fax: 255-57-8050.
Sirikwa, E.P., Executive Director.

Farmlands Tanzania Ltd.
P.O. Box 3121, Arusha, Tanzania;
Tel: 255-57-8162; Fax: 255-57-8256.
Cran, F. Derik, Director

General Electronics & Electrical Services Ltd. (GEES)
P.O. Box 7543, Dar es Salaam, Tanzania
Tel: 255-51-51815/51064; Fax: 255-51-51815
Maige, Asman A.; Managing Director
Agents for:
Du-Pont Howson
George Stanley Paper Limited
Henderson Security Ltd.

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Ibina Publishers, Ltd.
Dar es Salaam, Tanzania
Tel: 255-51-
Stika, Kimwaga; Managing Director

Industrial Promotion Services (Tanzania) Ltd. (IPS)
P.O. Box 9241, IPS Bldg., Independence Ave., Dar es Salaam, Tanzania; Tel: 255-51-20483/24334
Hyderally, Kabir; General Manager

Inter-Consult Ltd.
P.O. Box 423, Dar es Salaam, Tanzania;
Tel: 255-51-46705/30384; Fax: 255-51-46750.
Mosha, Dr. Strato P., Head - Computer Service & Mechanical Engineering

International Finance Advisory Services Ltd. (Interfinas)
P.O. Box 7125, Dar es Salaam, Tanzania;
Tel: 255-51-30844/30292/38677; Fax: 255-51-46752.
Simba, Iddi; Chairman
Mbuguny, Rashidi; Business Care Services
Irene; Financial Controller

Investment Promotion Centre
P.O. Box 938, Dar es Salaam, Tanzania;
Tel: 225-51-46848/46850; Fax: 225-51-46851.
Kahama, Hon. C. George; Director-General
Asmani, A.L.T.; Director Research and Planning
Laban, C.M.; Personal Assistant to Director General
Naiko, Ole; Division of Investment Services.

IRAMBA Management & Industrial Services Ltd.
P.O. Box 21856, Dar es Salaam, Tanzania;
Tel: 255-51-35105; Fax: 255-51-35105.
Mmasi, L.A., Managing Director & Chief Consultant

Jitegemee Small Scale Industries Zanzibar
P.O. Box 784, Zanzibar; Tel: 255-54-30710/1 or 30712
Said, Mohammed S.; Acting General Manager
Saleh, Suleiman; Acting Production Manager
Machano, Issa; Principal Secretary, Ministry of Trade, Industries & Marketing (not met).
Songa, Mr.; Deputy Principal Secretary, Ministry of Trade, Industries & Marketing (not met).

Kibo Products Company
P.O. Box 2111, Arusha, Tanzania;
Tel: 255-57-8162; Fax: 255-57-8256.
Cran, Faye, Director

Ministry of Labour
DSM Regional Office, UWT Street, Dar es Salaam, Tanzania.
Dandi, Mr.; Assistant Labor Commissioner

Motel Impala ltd. (hotel/tour)
P.O. Box 7302, Arusha, Tanzania.
Mattasia, Laisser Ole
Mrema, Melleo

National Bank of Commerce (government owned commercial bank)
Dar es Salaam, Tanzania
Rashidi, Dr.; Managing Director (not met)

Perfect Printers Ltd.
P.O. Box 1487, Arusha, Tanzania.
Lyimo, Perfect

Philip Construction & Transport Co. Ltd.
(construction and hotelier)
P.O. Box 2151, Arusha, Tanzania.
Daniel, Michael, Proprietor:
Arusha Resort Center
Hote Arusha by Night
Annex Hotel, Arusha

Precision Flights (Africa) Ltd.
(crop spraying/commercial charters)
P.O. Box 1636, Arusha, Tanzania.
Shirima, Michael

Ranger Safaris Ltd. (tour operator)
Mountain Village, P.O. Box 9, Arusha, Tanzania.
Moledina, Abbas

Rural Investment Overseas, Ltd. (RIO) London Office
8 Chester Square Mews, London SW1W 9DS, England. SW1W 9DS;
Tel: 44-71-823-4727; Fax: 44-71-259-9717.
Leech, John; Deputy Chairman.

Rural Investment Overseas, Ltd. (RIO) Head Office
Westbourne House, Station Road, Stroud, Glos. GL5 3AP
Tel: 44-45-375-3116; Fax: 44-45-375-3142.
Kam, Fiona; Financial Manager

Sima International Ltd. (exporters of fruits and vegetables)
P.O. Box 1175, Dar es Salaam, Tanzania
Tel: 255-51-48948/48949; Fax: 255-51-48949
Mutabuzi, S.K.; Managing Director

Sishya Enterprises Ltd. (industrial consultants, textile, leather, papers, export and import)
P.O. Box 1468 Arusha, Tanzania;
Tel: 255-57-3814; Fax: 255-57-8242.
Jincen, Prosper V., Managing Director

Tanzania Chamber of Commerce Industry & Agriculture
P.O. Box 9713; Tel: 255-51-41115 (residence)
Mgeta, Donnat L.; Hon. Secretary

Tanzania Development Finance Company Ltd. (TDFL)
P.O. Box 2478, Dar es Salaam, Tanzania;
Tel: 255-51-25091-4.
Senkoro, Hatibu, General Manager.
Rweyemamu, Valentine L.K.; Director of Finance
Batanyita, Wenceslaus A., Director, Directorate of Project Appraisal & Investigation.
Mlunde, B.P., Director of Project Supervision.

Tanzania Food Corporation Ltd.
P.O. Box 3121, Arusha, Tanzania.
Tuhoye, David L., General Manager

Tanzania Industrial Studies and Consulting Organization (TISCO)
P.O. Box 2650, Dar es Salaam, Tanzania;
Tel: 255-51-31421-3; Fax: 255-51-30420.
Kamuzora, E.L., Director General.

Tanzania Investment Bank (TIB)
P.O. Box 9373, Dar es Salaam, Tanzania;
Tel: 255-51-28581-9; Fax: 255-51-46934,
Simba, Iddi; Chairman
Mwaikambo, Gibbons; General Manager.
Amoafo, J. G.; Technical Advisor
Kibona, A.U.; Manager, Development Department
Malaki, W.A.; Director of Projects Supervision.
Nsemwa, Naftal M.; Director, Planning and Development.
Mossile, A.W.; Director, Project Appraisal.
Mbala, F.; Appraisal Officer

TDFL (Tanzania Development Finance Company Ltd.)
P.O. Box 967, Arusha, Tanzania.
Mtei, Edwin, Chairman TOGA (farmer, former Minister of Finance GoT, Director IMF).

Tee-Te Associates Limited
Tee-Te Clearing House Limited
T.D.F.L. Building, P.O. Box 270, Dar es Salaam, Tanzania
Tel: 255-51-20085/38181-D/L 35164
Lyimo, Rose J.; Managing Director

Tofco (T) Ltd. (plant propagation, tissue culture bio-technology)
P.O. Box 3154, Arusha, Tanzania.
Precious, Mr., General Manager

University Press and Print Consulting International
Dar es Salaam, Tanzania
Tel: 255-51-
Mjungu, Yusuf; Managing Director

USAID/Tanzania
ATC House, Ohio/Garden Ave.; P.O. Box 9130, Dar es Salaam, Tanzania; Tel: 255-51-30937/32922; Fax: 255-51-46431.
Pfeiffer, Dale; Director
Schlesinger, Joel; Deputy Mission Director.
Guymont, Fred; Project Development Officer
Fleuret, Patrick; Project Development Officer
Rose, John; Program Officer
Ngowi, Daniel; Economist
Gasabile, Wilson; Project Assistant
Strauss, Joel; Rural Economy Advisor

USAID/REDSO
P.O. BOX 30261, Nairobi, Kenya
Tel: 254-2-331160; Fax: 254-2-330945
Hartland-Peel, Christopher W.; Private Sector Advisor, International Financial Consultant
Buckley, Rose

World Bank, The - Resident Mission - Tanzania
P.O. Box 2054, Dar es Salaam, Tanzania
Tel: 255-51-36240; Fax: 255-51-36410
Mans, Darius; Senior Resident Economist

World Bank, The
1919 Pennsylvania Ave., NW, Washington, DC
Tel: 202-473-2125; Fax 202-466-9082
Hindle, Robert; Division Chief, AF2 IE, Africa.
Cook, David; Division Chief, AF6 IE, Africa.
Phillips, David; Senior Economist, AF6 IE, Africa
Behbehani, Redha; Acting Manager, CFSPS
Adu, Elizabeth; LEGAF, Africa Legal
Byam, Gerard; AF2, Africa Country Operations

Zanzibar Investment Promotion Centre (ZIPROC)
P.O. Box 2286, Zanzibar, Tanzania; Tel. 255-54-32737/31169;
Fax: 255-54-32656.
Mbamba, Feisal S.; General Manager
Pazzi, Hamdun; Senior Officer, Project Coordination
Khatib, Bihindi, Miss; Investment Officer for Business & Service

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APPENDIX I

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Faraji, A.C.; Undated; Study for a private bank or financial institution under legislation consolidated in the banking and financial institutions act 1991. Arusha; ACF Holdings Ltd. Corporation Ltd.

Fleuret, Patrick C.; March 1992; Finance and enterprise development in Tanzania (FED). Internal AID-Tanzania memorandum; Dar es Salaam, Tanzania; USAID-Tanzania.

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GLOSSARY OF ABBREVIATIONS

ADB	African Development Bank
APDF	Africa Project Development Facility
AVCP	US AID Africa Venture Capital Project
BoT	Bank of Tanzania
CDC	Commonwealth Development Corporation
CDI	Centre for the Development of Industry (ACP-EC)
CIDA	Canadian International Development Authority
CRDB	Co-operative and Rural Development Bank
DCP	Debt Conversion Programme
DEG	German Finance and Development Company
EADB	East African Development Bank
EC	European Community
EDF	European Development Fund
EIB	European Investment Bank
FMO	Netherlands Finance Company for Developing Countries
GoT	Government of Tanzania
IFC	International Finance Corporation
IPC	Investment Promotion Centre
IPS	Industrial Promotion Services (Tanzania) Ltd
NBC	National Bank of Commerce
ODA	UK Overseas Development Administration
OGL	Open General Licence
RIO	Rural Investment Overseas Ltd
TDFL	Tanzania Development Finance Company Ltd
TIB	Tanzania Investment Bank
TISCO	Tanzania Industrial Studies and Consulting Organisation
TVCF	Tanzania Venture Capital Fund
US AID	United States Agency for International Development

MEASURES

ECU	European Currency Unit ($1 = ECU 0.7824 on June 2, 1992)
ha	Hectares
T	Tonnes
TSh	Tanzania Shillings

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