PD-ABH-224
85312

US AGENCY FOR INTERNATIONAL DEVELOPMENT

AFRICA VENTURE CAPITAL PROJECT

FINAL

PRE-FEASIBILITY REPORT ON ESTABLISHMENT OF A VENTURE CAPITAL FUND IN

T A N Z A N I A

CONTRACT NO. AFR-0438-A-00-0006-00
TASK ORDER 21

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MAY 4, 1992

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THE MISSION

At the request of the US AID Mission in Dar es Salaam, Harvey & Company, Inc mounted a two-man mission to undertake a preliminary investigation of the potential for venture capital in Tanzania and its possible role within the US AID Mission's proposed Finance and Enterprise Development Program.

The investigation mission consisted of Douglas L. Leavens, Project Director of the Africa Venture Capital Project at Harvey & Co, Inc, and John Leech, Deputy Chairman of Rural Investment Overseas Ltd. They visited Tanzania from March 11 - 21, 1992 and held discussions in London and Harare both before and afterwards.

This report, presenting the mission'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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PREFEASIBILITY STUDY FOR A VENTURE CAPITAL FUND TANZANIA

SECTION 1 SUMMARY REPORT

1.1 What is 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 productive sector in Africa.

1.2 Political Background

Tanzania has made substantial progress towards a pluralistic democracy and a free market economy. The dominance of the single ruling party is waning; its Central Committee is about to approve a pluralist system allowing for the growth of new political parties. New parties have been formed but not yet registered.

Government has ceased to be autocratic and its style has become pragmatic. Socialist ideology is no longer the motivation either for the making of policy or for the exercise of power. Policy statements stress political and economic liberalisation. Most observers and donor agencies are convinced that the desire for reform is genuine and the process is likely to become irreversible, in the face of co-ordinated donor pressure, the urgency of ending Government subsidies to parastatals, and growing popular support for change.

1.3 Economic Developments

Tanzania's economy continues to languish, due principally to lack of foreign exchange and overdue reforms. Real growth in GDP has steadily declined from 5.7% in 1987 to an estimated 2.5% in 1991 (less than the growth in population). Although some export volumes, particularly of cotton, have increased, external debt over the same period has risen from $ 4.9 billion to over $ 6 billion. Depreciation of the currency followedsuit with a straight line from TShs 64 = $ 1 in 1987 to a current TShs 270. An IMF stabilisation programme has been agreed and is being carried through in spite of obvious difficulties. There is evidence of the will of Government to implement it.

New legislation testifies to progressive liberalisation of the economy. The Foreign Exchange Regulations 1991, the Foreign Exchange Act 1992, and Bureaux de Change Policy Guidelines allow Tanzanians to hold foreign exchange and freely to sell it to authorised dealers. The Banking and Financial Institutions Act 1991 allows local and foreign investors, on their own or in partnership, to establish commercial banks and financial institutions. A number of foreign banks, notably Standard Chartered, ANZ Bank and Bank of Baroda, have registered their interest. Several Tanzanians are also preparing proposals for submission to the Bank of Tanzania.

The Public Corporations Act 1992 provides a framework for restructuring the 340 or so state enterprises which are collectively estimated to be losing some TShs 2 billion ($ 8 million) per week. Reform plans include the winding up of parastatal holding companies, performance contracts with monopoly suppliers such as utilities and railways, and a review to determine those which should be liquidated, retained or offered to the public.

Inflation will remain an obstacle to Government attempts to regulate the currency and implement reforms. It could, however, assist investment once private sector activity has been rehabilitated. The official annualised rate to September 1991 is said to have been 20.4%; a real rate would be substantially higher and even the Bank of Tanzania is uncertain about reaching the official target of 14% by June.

1.4 Encouragement for the Private Sector

Government efforts to encourage the private sector take three forms: direct incentives, creating the policy environment, and privatisation. The National Investment (Promotion and Protection) Act 1990 makes available a range of incentives for the private investor. It also established the Investment Promotion Centre for promotion, regulation, co-ordination and monitoring of all new investment. The IPC is aiming to become a one-stop investment centre, with an inter-ministerial committee meeting once a month to give all necessary licences to approved projects. IPC has itself realised that more than policy declarations is required to change the system. It has therefore commissioned (via the Commonwealth Secretariat) a study on de-bureaucratisation.

In the policy area Government is now fully aware that the greatest handicaps to performance are the lack of competition and the consequent lack of competence. In February 1990 it published its National Investment Promotion Policy. This still has a dirigiste air and contains restrictions on foreign investment in small trades and businesses; but it abolished industrial licensing and its aim is clearly to encourage private investment.

A Presidential Commission of Enquiry into Public Revenues, Taxation and Expenditure has also been deliberating on how to make the tax system more responsive to the needs of the new policy, though without ignoring its social consequences. Its recommendations included the winding up of unnecessary public institutions and government departments, as well as the reorganisation of Customs and sales tax administration. With such a wholesale review it may well prove possible to make further representations to ensure that the resulting legislation takes greater account of the interests of business. The Chambers of Commerce report that Government solicits their views on draft Bills and actually takes them into account.

Privatisation is itself the clearest appeal to the private sector. Its costs will be heavy in both political and financial terms, but the World Bank seems ready to support it with a substantial structural adjustment lending programme. The Bank is proposing a privatisation investment fund which it is urging other international and bilateral institutions, CDC and DEG among them, to join. Though that fund will have venture capital features by supporting purchasers of parastatal assets with equity, it will be aimed essentially at larger and more complex operations than the present US AID concept. It now remains for Government to make the decisions on sectors and disposals of individual parastatals.

1.5 Financial Sector Developments

Mainland Tanzania has two commercial banks, the National Bank of Commerce (NBC) and the Co-operative and Rural Development Bank (CRDB). Both are state owned and both are essentially insolvent; their business is being maintained with funds advanced by the Bank of Tanzania. Due to their inefficiencies, most business transactions are done on a cash basis. Some 33% of the money supply is thought to be outside the banking system.

The system suffers from a chronic lack of liquidity. Now that access to foreign currency has been facilitated by donor import support programmes and liberalisation, a shortage of TShs has appeared as the major constraint on investment. Mechanisms for capital formation through collection and investment of local savings will need to be an essential part of the recovery programme.

After almost 25 years of state monopoly banking, the Bank of Tanzania last November published guidelines for the licensing of competing private institutions. A healthy interest has been shown both domestically and from abroad. The former may be due to the limitation that no single shareholding should exceed 5% of core capital (a minimum of TShs 1 billion), so that a promoter's share in a potentially powerful institution can be had for as little as $ 200,000.

Other financial institutions in Tanzania tend to be in the same plight as the commercial banks. Tanzania Investment Bank, Tanzania Housing Bank and the National Insurance Corporation have all had to resort to circumventing international accounting standards by neglecting to make provisions against doubtful loans so as to hide their insolvency. The one exception is Tanganyika Development Finance Co Ltd (TDFL) which has cleaned up its portfolio and may even pay a dividend next year although its accrued losses have not been fully extinguished.

The World Bank has approved a $ 200 million credit in support of financial sector reform, to be applied in conjunction with a full programme of technical assistance to the BoT and other institutions and departments concerned. A Loans and Advances Realisation Trust (LART) has been formed to unburden the banks of their irrecoverable lending, clear up their balance sheets and give them a new start. LART will assess the non-performing assets on behalf of the Treasury, which will issue short and medium-term government paper to the banks, whilst LART will be left to make what it can of the underlying loans.

Bank restructuring can then begin. A DANIDA team working on CRDB has raised the possibility of foreign participation, or even ownership. The loss-making co-operative business might be hived off to a new Co-operative Bank, leaving CRDB as the main financier of commercial agriculture. Similarly fundamental reviews are in train for NBC. Aside from rationalisation, the main need of both is to be left to make their own decisions, and to sharpen up their skills through training, automation and bringing in new partners.

1.6 Gaps in the Financial System

With the assistance of the World Bank and the IMF, Government has already begun to fill in certain discernible gaps in the financial system. Encouragement for the setting up of private commercial banks and institutions to attract and recycle savings is one area. Another will be the creation of a privatisation fund. Action is likely on two levels: donor funds to support such obligations to the state as are necessary to be requited, and an investment fund to provide fresh capital to relaunch viable enterprises. IDA and other donors are likely to cater for the former in return for continuing reform; the Bank, CDC and DEG appear keenly interested in the latter.

Even if a privatisation fund operates as an asset management and merchant banking agency, it will not perform three essential functions: the identification of capable entrepreneurs, co-responsibility in their businesses, and supporting them with management and other services to achieve success. These are functions essential to the development of entrepreneurship in the current transition from state control to private sector initiative.

A further gap is the lack of equity capital. Businessmen interviewed on the constraints on development of their enterprises were unanimous in citing the lack of capital as the most critical. In view of the inability of the banks to provide credit, of most of the development finance institutions to lend, and of the lack of TShs, such capital can currently come only from outside. To leave matters in this state would condemn Tanzania and its enterprises to increasing their already sizeable external indebtedness.

Other initiatives are needed and might well be pursued in conjunction with a private sector programme: debt conversion for discounted investment in local currency; directing counterpart funds from the Commodity Import Program (CIP) into support of TSh investment; and backing for the creation of a Stock Exchange and secondary securities market which will encourage investment by making shares tradeable. A CIDA report on the last of these aspects is currently in preparation.

1.7 A possible Role for Venture Capital

Venture capital would appear to respond to some of these needs. It constitutes local currency capital formation and investment, but also encourages others to enter the investment cycle. It supports the development of enterprise and gives confidence to entrepreneurs by enhancing their capacities. It introduces new management techniques and brings to each business its own linkages with sources of technology, export marketing and additional finance.

Financing of small and medium-sized enterprises (SMEs) has a special significance in the African development process. SMEs have been demonstrated to provide the bulk of employment as well as ensuring the rapid growth of an enterprise culture, in industrialised as well as developing countries. However, most institutions dealing with investment agree that promoters either have some money but lack the skills to build a business or, in the case of those leaving the parastatals, possess some management experience but too little capital.

Venture capital could also play a role in Tanzania in modernising the economy. Because of its linkages with venture capital organisations elsewhere, it can copy successful projects and make them accessible to Tanzanian promoters. This ability may be crucial in an environment where much traditional business activity is dominated by non-Africans.

Specific high-growth sectors in Tanzania, as elsewhere, might be mining, equipment leasing, aquaculture, horticultural exports linked with tissue culture, computer applications and services, and high-value aspects of tourism. The last in particular might lend itself to a franchising approach, capable of enhancing further the transfer of successful experience and operating standards.

1.8 The Legislative Environment for Venture Capital

All the legislation cited in the introductory sections above has a bearing on the development of enterprise, and hence of venture capital. In particular, the Banking and Financial Institutions Act 1991 has made possible the establishment of financial institutions of all kinds; whilst the National Investment (Promotion and Protection) Act 1990 has opened up all sectors of economic activity to private enterprise. The latter includes the possibility of forming a venture capital fund not as a controlled financial institution but as a holding company. A future feasibility study would need to determine the most appropriate form.

To facilitate its operations, a venture capital fund needs a particular tax treatment. The fundamental reappraisal of Tanzania's tax structure undertaken by the Presidential Commission of Enquiry into Public Revenues, Taxation and Expenditure provides an opportunity for these matters to be looked at at a time when some flexibility has been introduced into a previously rigid system.

1.9 The Market - Potential Project Flow

Contacts with the private sector and local financial institutions have provided good insights into the willingness of the private sector to engage in new activity. Although responses differed across the country as between Dar es Salaam, Arusha and Zanzibar, it seems clear that the private setor has already been greatly encouraged by liberalisation. All were unanim- - in saying that lack of capital, and no longer government policies, constituted their main handicap.

Lack of capital has two aspects: the small number of moneyed Africans possessing the seed capital to start a business (or willing to declare or repatriate it), and the lack of long-term funds in the financial system. Financial institutions like TDFL and CRDB considered that the former did not seem to inhibit the submission of proposals to them (although Asian sponsors predominated), but it did reduce the number of projects with an acceptable leverage ratio. A reasonable number of projects would therefore be available from those needing to improve the ratio.

Lack of technical back-up was cited as a further inhibiting factor. This was thought to offset the traditional disinclination by promoters to let others into their business. Established enterprises were likely to realise this acutely enough to see it as an additional reason for seeking venture capital.

The views of bilateral investors such as CDC and DEG are inevitably somewhat different. CDC believe that some two-thirds of all project proposals formulated in the country are brought to them. This would certainly be true of medium-sized projects, but less so of the small-scale. CDC's perception may also be influenced by their inability to finance service sectors such as road transport undertakings; and by the fact that CDC, DEG and FMO long ago established TDFL expressly to handle smaller projects and those outside their terms of reference.

Reasons advanced by the local investment institutions in support of a market for venture capital can be summarised as follows -

- Lack of sources of equity capital

- High proportion of applicants unable to meet equity/loan ratios

- Expansion projects unable to borrow because of problems with their leverage ratio

- Sponsors not comfortable with other African investor partners would welcome an institutional shareholding

- The need for management, accounting, product design, marketing or other professional skills to be injected into businesses.

In the course of meetings with financial institutions and entrepreneurs it was possible to identify a range of actual project proposals. Though they might no longer be available to a future venture capital fund, they served to illustrate the variety of a possible dealflow:

Fine flour milling (shortly to be financed by CRDB)

Grain processing (CRDB)

Fruit canning (CRDB - based on two successful examples at Iringa and Mbeya)

Pineapple processing and export (Chrismill Farms Ltd)

Asparagus growing for export (TDFL)

Expansion of cut flower production for export (TDFL)

Aquaculture of prawns (CDC, Interfinas)

Geranium and other essential oils, based on tissue culture propagation (Arusha)

Tissue culture applied to production of flowers and houseplants (Arusha)

Development of high-grade and disease-free banana planting material (Arusha)

Computer assembly, production of audio and video cassettes (Dar es Salaam)

Equipment leasing company (TDFL)

Private medical clinic/sanatorium (Arusha)

Lake Mwanza high-speed shipping links with Kenya and Uganda.

In addition to these actual proposals, a number of sectors hold out promise of yielding projects with good growth potential. Examples of successful projects already exist in some of the following:

Tourism - Eco- and photo-safaris

Mining - Rare minerals, meerschaum, marble

Transport companies to take advantage of trunk and feeder road improvements and liberalisation of marketing

Spin-offs from the privatisation programme (DEG are currently examining these)

A franchising approach for the duplication of successful projects in different regions and adherence to common standards (applicable to tourism and many other activities).

The great majority of these projects are productive and will make a full contribution to the economy by adding value.

By no means all these projects would be found suitable for venture capital on appraisal. Others may be frustrated by bureaucratic delays, lack of air freight capacity or similar problems common in the Tanzanian environment. Nevertheless, the list might well support a modest expectation that a venture capital fund could find some 3 - 4 projects every year which would satisfy its criteria for above-average growth and yield. Indications are that investors would seek yields of 35 - 40% per annum, compared to bank interest of 25% on deposits.

1.10 Potential Partners

Tanzania enjoys a high standing among international and bilateral agencies. In aid terms, more money is available to it than it can absorb. The funding of a venture capital initiative from outside sources should not present a difficulty. Institutions of particular interest would be CDC, DEG, FMO (all the original partners in TDFL). the European Investment Bank which is currently the main source of finance for TDFL, and the ADB which is attempting to expand its private sector financing window. Among foreign private sector institutions, EDESA SA of Luxembourg and the Aga Khan Fund for Economic Development (AKFED) could also be possible investors.

A number of Tanzanian interests might also be approached from the outset. There is interest from two prominent businessmen, one who controls a diversified group of small companies in Arusha, and another in Dar es Salaam. The former has indicated a willingness to invest up to $100,000; the latter is linked with East African Asian interests anxious to obtain US AID support for an East African venture capital initiative and who could be powerful co-investors.

Among other possible local investors are the Diamond Jubilee Investment Trust (also an Aga Khan initiative) and TDFL. A link with TDFL might have important benefits, as explained below.

There are also said to be two family groups which might have the capacity to become early investors.

The question of inviting greater local participation at an early stage has been considered. It is felt that the uncertainties involved in the introduction of venture capital into Tanzania are so formidable that it could be unethical to begin to solicit private non-commercial funds. A distinction needs to be made between inviting investment institutions used to assessing risks and addressing private interests which might be persuaded to invest personal savings purely on the basis that US AID and other international names are involved. That type of investor should be sought only once the Fund has established a visible record of success.

There are practical as well as fiduciary grounds for this. As explained by one of the business groups in Arusha, any capital which an entrepreneur has will go first into his own enterprise. That defines his proper function, as well as the division of labour between the entrepreneur and the providers of capital. It must also not be overlooked that the privatisation programme will make immense demands on the slender investment capacity of Tanzanian citizens.

Additional methods of increasing the pool of investment funds may be sought from two other sources. US AID's new Commodity Import Program, totalling $ 40 million over five years, may be expected to yield some $ 5 - 8 million a year in local currency counterpart funds which can be more freely applied than under the current programme. A modest portion, say $ 2 million, could be channelled into a Trust Fund to support private sector operations. The Trust Fund might then become an investor in a Venture Capital Fund. A second possibility could be through debt conversion or swaps. Some foreign creditors might even be willing to convert their debt instruments directly into equity in a Fund.

A not unimportant consideration affecting the composition of investors is the preponderance of Asians in the business community. Now that parastatals are being disbanded and the administration slimmed, many competent Africans will need to find a role in the private sector. There should be no question of the Fund being limited to assisting only Africans; but it would be counterproductive to AID's objectives if it proved to have served largely the Asian community. There would need to be a clear understanding to this effect with any Asian investors in the Fund.

One solution to this problem could be if, instead of investing in the Fund, the Asian community established an African Entrepreneurship Fund to be applied in conjunction with the Venture Capital Fund's investments. This could be specifically directed at enabling African entrepreneurs to reach a majority holding within a sound equity base for their projects.

1.11 Suggested Linkages

A Venture Capital Fund would be able to benefit from a number of practical linkages. The most important is clearly that with US AID's proposed Finance and Enterprise Development (FED) Program, the relationship with which is discussed below. Secondly, there must be links with the Tanzanian development financing institutions which will be able to provide some of the project flow.

This applies particularly to TDFL, which is still actively financing such projects (but no longer with equity) and is selecting those which can be prepared for an eventual public issue. TDFL therefore promises to become one of the prime movers for the establishment of a capital market. Its new diversified financial services policy also includes merchant banking functions and a leasing company which would provide a sound venture capital investment opportunity. Some confidence can be had in TDFL's capacity to master such diversification since strict supervision by its foreign shareholders (principally CDC which is resident) has kept it solvent throughout the years of economic decline.

Other institutions such as TIB and CRDB may also be useful allies since they still receive project proposals, even whilst they are unable to perform. A venture capital fund would wish to see them restructured so that they can once more become effective long-term lenders.

Tanzania also has a number of consulting organisations which could help a Fund in its task of supporting the management of investee companies. The Tanzania Industrial Studies and Consulting Organisation (TISCO) has a professional staff of 40 who might usefully perform a range of specialist functions on behalf of investee companies. So could the growing number of private consulting firms. Such arrangements would relieve the Fund management of having itself to engage staff to deliver the high input of management support services which will be required by projects in Tanzania.

1.12 Management Options

Professional venture capital management will be crucial to the success of a Fund, in Tanzania even more than elsewhere in Africa. It is clear that such a capacity does not exist in Tanzania and an experienced expatriate manager will need to be engaged.

Support for such a manager could come from a number of local institutions which are capable of providing services such as project identification and appraisal, monitoring, accountancy and accommodation. More importantly, they could provide the local knowledge, of people and procedures, without which no Fund could operate. Both TDFL and TIB have shown some interest in such arrangements. CDC's office in Dar es Salaam would be a further possibility.

Corporate fund management might also be engaged. The corporate manager might, as in Ghana, be CDC where they are also the principal investor. Alternatively, if there is no such principal or qualified investor, an independent organisation which is not itself an investor might be hired to manage the Fund, as has been done with EDESA in Zimbabwe. In both cases it is principally left to those organisations to ensure the qualified and competent management of the Fund.

These options will need to be examined further in the light of the capacities of the organisations which will eventually constitute the investors in the Fund.

1.13 Structural Options

The possibilities for constituting and structuring a Venture Capital Fund in Tanzania would seem to be as follows.

(1) A Fund composed of one principal investor, joined at the outset by a modest local investment, with a progressive local share underwritten by the principal investor. The Fund might itself be incorporated as a company; otherwise management would be by a separately constituted management company, controlled in proportion to the holdings in the Fund.

(2) A Fund in which the external investors might be EIB, FMO, AKFED and others. It could be based on TDFL, which would be a local investor in addition to those under Model (1) above.

The investors would jointly appoint an expatriate manager who would work with one or more TDFL executives under training.

(3) A Fund constituted largely as in Model (2), with links to several local institutions but more independently placed. Management would be contracted to a professional organisation such as EDESA. Management's responsibility would be the creation of an indigenous venture capital management organisation which could take advantage of the demonstration effects of the original Fund in due course to launch and manage a number of new ones.

Under this model the location of the Fund would not be predetermined. It might have the flexibility to establish itself in, for instance, Arusha where much of the available business appears to be. Later Funds could be set up in other centres, including Zanzibar which the mission found currently unprepared for a venture capital initiative but likely in due course to yield useful projects.

The role of principal investor and provider of the initial management might, as in Ghana, be taken on by CDC. A local interest of, say, 20% might be assured by the businessmen identified (one of them possibly representing some East African Asian investment), and perhaps the Diamond Jubilee Investment Trust.

The Fund and its operations might be located within the CDC offices. An expatriate venture capital manager and Tanzanian executive under training would be in charge, under a local Board or Advisory Committee.

All three models would seem to be appropriate to the Tanzanian situation. The model chosen will, in the first instance, depend upon the identity, capacities and preferences of the investors. These also are issues which a feasibility study would need to clarify.

1.14 Financial Parameters for Viability

A Fund of $ 5 million might be invested in some 25 -30 projects over a 5-year period. That assumes an average investment of $ 150,000 in projects which, on normal equity/loan ratios, might have a total average value of $ 1 million.

If the Fund was fully subscribed at the outset, there would be an early income of perhaps $ 500,000 (allowing for first year investments) reducing year by year as the Fund is invested. Given that early projects would not be greenfield ventures, dividends might begin to accrue from Year 3. For similar reasons, the first capital gains might be realised in Year 5, enabling reinvestment to begin and break-even to be reached.

The slower start-up and maturing of projects in Tanzania is likely to extend the period of US AID support through the Africa Venture Capital Project. Depending upon the management arrangements, an estimate of total inputs might be some $350,000 per annum for, say, 4 years, or a total of $ 1.4 million. This takes into account the intensive assistance likely to be required to make projects grow.

1.15 Supporting Measures - Possibilities for US AID Inputs

A venture capital fund on this scale can clearly not be regarded as an end in itself but as auxiliary to a concerted programme such as the US AID FED. On one level, it would be a valuable practical demonstration of how the policy changes, institutional and private sector strengthening measures, as well as concrete inputs such as the CIP, can result directly in increased economic and private sector activity. Venture capital can become a living case study for the effectiveness of these measures.

On a different level, it can be a device for AID to measure directly the impact of its private sector support activity and adjust its components in the light of practical experience. Among the components which can already be seen as helpful overall, but specifically assist a future venture capital initiative are the following -

- Sponsoring of training attachments with US or other firms, enabling graduate business students to obtain insights into management decision making (this would be particularly valuable for women graduates who are more diffident about decision making)

- Assisting with the building up of capital markets, both formal and informal, by making available US and other experience in this field; this will be vital to the development of exit mechanisms enabling the Fund to rotate its investments in timely fashion

- Facilitating linkages between Tanzanian and US Chambers of Commerce to kindle a greater US interest in trade and investment with Tanzania (the Chairman of the Dar es Salaam Chamber of Commerce has submitted a list of US equipment sold by his company)

- Provision of entrepreneurship training could yield immediate benefits as much new investment will have to come from those making the transition from trading to manufacturing

- Co-ordination and collaboration with other donor agencies could enhance the impact of the whole programme.

Some of these matters could be organised at relatively little cost and without straining the Mission's administrative capacities. They might be turned over to OPIC, Chambers of Commerce, businessmen's clubs and the like.

1.16 Replicability

Establishment of a Fund would not be an end itself. The need for venture capital is widespread throughout the country, and the essence of applying it successfully is proximity to the projects. It is therefore likely that a number of such Funds will in due course be required in different locations. The initial Fund should be replicable, either by local groups capable of absorbing its techniques or by groups of local investors who recognise its potential. In the latter case a Fund management capacity might be built up in Tanzania to assist the growth of new Funds.

1.17 Who would benefit

The immediate benefits of a venture capital initiative would accrue to the entrepreneurs of investee companies. Whilst an average size of undertaking might have total assets in the region of $ 1 million, a number at the lower end of the financing scale would be in the $ 300,000 - 400,000 asset range. These are enterprises typically creating employment for between 10 and 50 people.

There would be a multiplier effect in two directions. First, jobs and incomes would grow in proportion to the growth of the enterprise induced by the introduction of venture capital. Secondly, by turning over its money at 5 - 6 year intervals, the total number of projects financed out of the initial Fund would double and treble, thus making the advantages of job creation more widely available. This in turn would expand both family incomes and savings.

In the present circumstances of Tanzania, the entrepreneur has to be the carrier of development. Assisting people to create new businesses and grow with them will accelerate the process. The practice of venture capital will also act as a demonstration. It is likely to be copied, formally through the setting up of new funds, and informally by inspiring family or community groups to adapt and modernise forms of financing which are already in their traditional culture.

Beyond what has already been said, the investment of the Fund should not be weighted in favour of any particular segment of the population. The supporting FED Program would, however, gain a potential receptor mechanism for some of those who have benefited from its activities for the advancement of women, the less privileged and the spread of the enterprise culture generally.

For AID the opportunity cost of these benefits is relatively modest. It fits well into the overall FED objective of private sector growth leading to increased employment and incomes. Over a 10 - 12 year life of the Fund, a four-times factor could be applied (composed of enterprises doubling their size, and a second investment cycle), so that some 6,000 jobs might be created directly at a cost to the Mission and AVCP of, say, $ 1.4 million. That would represent a leverage of $ 233 per job created.

Compared with the FED as a whole, the venture capital initiative could well be the least burdensome in administrative terms. It is likely to be self-administering and call only for monitoring.

1.18 Towards Implementation

Assuming that the Mission adopts the proposals and sense of this report, the following steps would be required towards its eventual implementation -

(1) Discussion of the principles with some of the parties involved, principally the potential investors.

(2) A request to Harvey & Co, Inc to commission a full feasibility study under the AVCP, to cover inter alia -

- the market for venture capital and the likely rate of project development
- identification of a first list of entrepreneurs and investee companies
- identification of investors and their contributions
- location and organisational and financial links
- legal structure of the Fund and its management
- tax treatment of the Fund, its investors and its investments
- viability of the Fund and the requirement for AVCP support costs.

(3) Agreement by the investors on the proposals outlined in the feasibility study and preliminary discussions with the BoT and IPC.

(4) Negotiation of any tax dispensations with the Ministry of Finance.

(5) Approvals from BoT and IPC.

(6) Incorporation and subscriptions of capital.

1.19 Recommended Action

This report has been prepared under the AVCP at the request of the US AID Mission in Tanzania to whom it is addressed. On the basis of its findings, the two-man mission from Harvey & Co, Inc would now make the following recommendations -

(1) That the Mission consider incorporating a Venture Capital Fund along the lines described as a valuable and practical auxiliary to the overall FED Program.

(2) If approval is obtained for that Program, the Mission request Harvey & Co to commission a full feasibility study.

(3) Provided that the feasibility study indicates that such a Fund can be viable and its operations are likely to achieve present expectations, that the Mission support the Fund financially to the stated extent.

(4) That the Mission, in conjunction with Harvey & Co, negotiate detailed terms and conditions with the identified investors for the creation, management and operation of the Fund.

(5) That the Mission consider the establishment of a Trust Fund constituted with local currency funds from the operations of the CIP and that such a Trust will become an investor in the Venture Capital Fund, and in any additional Funds which might subsequently be established in Tanzania.

(6) That, in the context of the FED Program, the Mission continue a close association with the Fund and engage in support activities which may enhance its effectiveness in achieving the FED's objectives.

SECTION 2 OVERVIEW

2.1 The Economy

Tanzania has suffered from low growth, an overvalued exchange rate, a poor balance of payments, and an overall deteriorating economic performance. The Economic Recovery Programme (ERP) introduced in 1988 and the subsequent Economic and Social Action Plan (ESAP) aimed at correcting this negative situation by encouraging growth in industry and agriculture, introducing market-based producer and consumer prices and adjusting exchange and interest rates.

Government has acted vigorously on the exchange rate, reducing the differential between the official and parallel market rates from a peak of 800% in 1985 to some 30% currently. Retention accounts and the Open General Licence (OGL) system have made foreign exchange for imports accessible; the OGL system is being progressively liberalised. Foreign exchange bureaux have recently been licensed and it is no longer an offence to own foreign currency. The budget deficit has been brought under control and its financing by banks drastically reduced. Inflation has fallen from over 30% in 1988 to 20.4% in 1991.

Incentives have also been provided for production, particularly in the all-important agricultural sector. Agricultural prices and marketing have been liberalised; and steps have been taken to improve agricultural research and extension services.

Civil service reform is proceeding. Ghost workers have been eliminated and improved measures for controlling the establishment introduced; these include a standstill on hiring new adminsitrative personnel. Government appears to have accepted IMF proposals for retiring all government employees at age 50 instead of 55. This is thought to affect 30% of civil servants and 50% of parastatal employees, with a possible total of 300,000. Redundancy and retirement benefits are likely to be met by UNDP and others. They will include assistance for those affected to become established in the private sector.

2.2 Financial Sector Developments

The financial sector is government-owned, heavily regulated and inefficient. There is no clear separation of fiscal and banking activities. The need for greater autonomy from Government and improving efficiency through greater competition has now been recognised. The Banking and Financial Institutions Act 1991 has allowed local and foreign investors, alone or in partnership, to establish commercial banks and financial institutions. A number of foreign banks, notably Standard Chartered, ANZ Bank and Bank of Baroda, are seeking to re-establish their former operations; but there is also considerable interest on the part of Tanzanians, alone or in partnership with, for instance, Meridien International Bank.

The two existing banks, National Bank of Commerce (NBC) and Co-operative and Rural Development Bank (CRDB), are state-owned and insolvent. The Bank of Tanzania (BoT) has in the past provided them with unlimited funds. In line with other parastatals, they are now to be restructured and even privatised. Their current inefficiencies 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.

Interest rate policy needs to become more flexible, so as to encourage local resource mobilisation and allocation. There are proposals to replace multiple rates with a single fixed maximum applying to all banks, and to allow them to set deposit rates. The BOT has also for the first time set a primary discount rate, initially at 27%, to encourage banks to seek funds from depositors rather than turning automatically to the central bank.

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.

Agricultural credit constitutes one of the main weaknesses of the financial system. It accounts for 60% of bank lending and has been used to subsidise the co-operative unions which are plagued with weak management, high operating costs and resulting debts. Since 1987 Government has progressively liberalised most agricultural products, enabling the private sector to participate in marketing operations. 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.

A new Co-operative Act has also been approved. Detailed audits of the 27 co-operative unions are under way and should be completed by the third quarter of 1992.

An SDR 150 million Financial Sector Adjustment Program is being implemented under World Bank auspices. This has included the setting up of a Loan Asset Recovery Trust (LART) at the Treasury, accompanied by a LART Loans Recovery Tribunal with a life of three years. Transfer of non-performing assets on the books of NBC, CRDB and Tanzania Investment Bank (TIB) is now beginning;

in return they will receive Government bonds. Provisions will have to be made against remaining loans in line with critera laid down by BoT.

2.3 The Parastatals

The Public Corporations Act 1992 provides a framework for restructuring some 340 state enterprises which are collectively estimated to be losing around TShs 2 billion ($ 8 million) per 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 parastatal sector, 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 mangement 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.

Some privatisation activity is already observable in the state farm sector, agro-industry, mining, manufacturing and hotels. However, the earliest proposals in the leather and textile sectors appear to have made no concrete progress. The World Bank has supported further subsector studies for oils, tea, coffee, sugar, metals, wood and paper. These are being followed by studies for chemicals and non-metallic mineral products.

Privatisation may offer a number of attractive opportunities for the private sector, though neither the process nor the turnaround is likely to be swift. It will also make substantial 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.

A proposed list of priority parastatal enterprises to be privatised is at Appendix C.

SECTION 3 THE INVESTMENT SCENE

3.1 Entrepreneurship in Tanzania

Entrepreneurship is being encouraged in Tanzania in a multiplicity of ways. The National Investment (Promotion and Protection) Act 1990 introduced a range of incentives for the private 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 established under the same legislation. Two Presidential Commissions of Enquiry have recently reported, one on reform of the monetary and banking system, the other on public revenues, taxation and expenditure. Both show evidence of favouring the growth of the private sector.

The private sector is also 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 in developing them.

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 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 by 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.

However, the World Bank survey found that there was a decline in investment over the period. Since public investment had already been curtailed earlier, the fall was mainly in private investment. Nevertheless, one-quarter of the sample significantly increased their investment and all but one of those were among the more efficient. As for the future, all but four of the private firms expected to invest significantly more over the next three to five years. The great majority of these are or intend to become exporters.

An African Development Bank (ADB) study on the establishment of African financial intermediaries, also carried out in 1989, uses a different indicator. It projects entrepreneurial activity on the basis of the pipelines of three financial institutions, Tanganyika Development Finance Company 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. The projects straddled virtually all economic sectors, such as fishing, brewing, woodworking, transport, hotels, stationery, paint, textiles, mining, cattle fattening, salt extraction etc.

The mission's discussions with TDFL, CRDB and Tanzania Investment Bank (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. More and more demand therefore goes unsatisfied; but all institutions report a continuing flow of applications.

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 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.

Unless this problem can be solved, new investment is likely to be predominantly Indian. Estimates are that up to 90% of all commercial activity is already controlled by the Asian community. To allow this to continue into a future of opportunity for the private sector would be to court social tensions. Ways must be found to assist the indigenous African to realise his aspirations. The positive assistance of the Asian community itself could act as a beneficial element.

Foreign investors are once again becoming interested in Tanzania. The Investment Promotion Centre recently announced that nine outside organisations had sought approval for major projects: Romanex International of Canada for prospecting of nickel, copper and cobalt deposits; the Aga Khan Fund for Economic Development

(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. For them, too, it will be important to find able Africans as partners.

3.2 Regional variations

Tanzania is a large country with provincial centres which differ substantially from each other in resources, climate and attitudes. Whilst Dar es Salaam is the centre of manufacturing industry, it is closely followed by Arusha which, by virtue of its milder climate, is also an ideal location for tourism and horticulture. In the north-east, Mwanaza has substantial lake fisheries and cattle, but also a hinterland rich in gold, diamonds and other minerals. In the south, Lindi and Mtwara are the centre of the cashew nut industry, Songea and Iringa serve the rich tea, timber and farming areas of the Southern Highlands, extending to the wheatlands of Mbeya near the border with Zambia. In between lie other known mineral deposits, including coal, which the Tanzam Railway may by now have made economic to mine. A few miles off the coast are the islands of Zanzibar and Pemba, totally different in culture, people and potential from the mainland.

The mission visited three of these centres: Dar es Salaam, Arusha and Zanzibar. Zanzibar, traditionally the centre of the spice trade, has a predominantly Afro-Arab population which is still suffering the aftermath of the repressive socialism imposed on it with Chinese and East German severity. Its potential lies in tourism, which the Aga Khan and others are beginning to develop; farming, both traditional spices and alternative crops being developed with the help of British aid; and small industries for which its population of predominantly small traders should be well suited.

Whilst the people of Dar es Salaam are conscious of the need and opportunity to develop new enterprises based on personal initiative and to share in privatisation, much of their energy is for the time being channelled into service industries.
Financial and management consultancies have blossomed, run mostly by former Government officers; but there are also some technical

offices headed by experienced professionals. Some have made the transition to industry, and more can be expected to do so when the parastatals start to shed their managers. But for the time being such industry as is in private hands is mainly Asian.

One explanation may be that people in the capital still tend to look to Government for a lead. They are so used to reading the political and economic portents that their decision-making capacity is undermined. There are exceptions. Investment Projects Promotion Ltd (IPP) is a 10-company conglomerate owned by Reginald Mengi, formerly of Coopers & Lybrand. A more recent and more technically based enterprise is General Electronics & Electrical Services Ltd (GEES) owned by A.A. Maige. The latter is typical of the a thin layer of young Africans who have confidence in their own ability and are able to find the necessary starting capital.

In Arusha this trend is considerably more pronounced. At a lunch hosted by Abdu Faraji the mission were able to meet some 20 business people from the area. They were engaged in horticulture and biotechnology, tourism, poultry, mineral water, trading, the medical field, the food industry and other manufacturing, textiles and sisal Some were individual enterprises, others mini-conglomerates grouping not necessarily related activities. All were practitioners and took part in a lively discussion designed to establish their major difficulties, their need for capital and their view of further investment.

The findings were revealing. Virtually all gave lack of capital as their most troublesome constraint; it ranked higher by far than government policies, which emerged as a much greater concern at a similar occasion in Dar es Salaam. Most had clear plans for expansion or new investment and thought they would want to make use of venture capital if available. Some felt confident enough in their own management abilities, but others were interested in drawing on outside support. Revealingly, when asked if they might want to become investors in a venture capital fund, they said the first use for their capital would be in their own business.

From discussions with other investors, both Tanzanian and foreign, it seems clear that the same independent spirit may well be present in other provincial centres.

3.3 The Investment Promotion Centre (IPC)

IPC is responsible for promotion, co-ordination, regulation and monitoring of investment. All local and foreign investment must be submitted to it for approval. Such approval is automatic for local investment not exceeding $ 125,000 or $ 250,000 for foreign

but carries privileges only above these figures. The approval process
is said to take a maximum of 60 days if there are no queries. Ministries are given 14 days for a response, otherwise they are deemed to have no objections. New legislation will make IPC a one-stop investment centre with powers to grant all approvals and licences on behalf of other Ministries. An inter-ministerial committee within IPC is to sanction these at monthly meetings. The water and electricity undertakings are to have representatives within IPC, which also intends to form a land bank to offer sites to new investors.

Since its creation in 1990 IPC has handled 850 applications, of which 250 have been approved. Many of the others are said to have had financial or management weaknesses or had to update their feasibility studies in line with erosion of the currency. Sceptics say that the volume consists less of serious applicants than of speculators who believe that an approval can become a negotiable asset. No discrimination is said to be applied in relation to the Indian problem. The Chairman expressed their motto as, "Level up, not down."

It is difficult at this stage to know whether IPC's mission is to help or hinder. It appears to be doing all in its power to smooth the path of the investor. This includes the commissioning of a Commonwealth Secretariat study on de-bureaucratisation which shows the extent to which he continues to be in the grip of officials. Yet IPC still has to show that its own powers will be used beneficially and not to strengthen its own authority.

3.4 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 deteriorating economic climate then began to affect the performance of its borrowers, and increasingly their ability to service loans denominated in foreign currency. Devaluation made currency prohibitively expensive, to the extent that insufficient TShs were being generated to service loans or purchase essential imports to keep plants running.

TIB's balance sheet is shored up by the fiction that loans are performing and income collectable. Between 1988/89 and 1989/90 devaluation increased gross income from TShs 983 million to 1.7

billion, and the bank's assets from TShs 4.9 billion to 7.8 billion. In effect TIB is insolvent and due for restructuring along with other parastatals. 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 any significant investments, TIB has a pipeline of applications totalling some TShs 10 billion. About TShs 6 billion of this is thought to consist of potentially viable projects.

3.5 Tanganyika Development Finance Company Ltd (TDFL)

TDFL was established in 1962 by CDC and the West German and Tanganyikan Governments to stimulate the growth of local business through investment in mining, industry, tourism, housing and the processing of agricultural and primary products. The German and Tanzanian shares are now held respectively by DEG (20.8%) and TIB (24%). The Dutch FMO joined in 1965 and now holds 24.2%; EIB converted its bonds into equity in 1986 and now holds 15% of the shares but without voting rights. CDC's present holding represents 15.8%.

TDFL passed through much the same difficulties as TIB, and by end-1989 the value of its portfolio, net of provisions, had fallen to US$ 1.7 million. Since then its fortunes have improved and its accumulated losses reduced from TShs 102 million to 45 million at end-1991. Its debt/equity ratio then stood at 56:44 and its investment portfolio at TShs 1.83 billion, consisting of 58 investments, of which more than half are residual equity investments. Due to its distance from Government, better management, and shareholder supervision (principally from CDC), TDFL is currently the only financial institution which is solvent.

TDFL's main business is in foreign currency lending and it is now the main source of external finance for the small and medium-sized business. It provides loans ranging from US$ 30,000 to 1 million, at the upper limit representing 10% of a maximum US$ 10 million project cost. Its main resources come from EIB but other outside investors are considering increasing their equity and loan investment. The World Bank has recently concluded that TDFL is the only financial institution in Tanzania whose soundness enabled it to be considered as a channel for the Bank's industrial restructuring funds; the main reservation was TDFL's small equity base.

At end-November 1991 TDFL's project pipeline consisted of 64 applications with a total project cost of US$ 44.6 million. Of these, 8 (equivalent to US$ 3.5 million) had been received during the preceeding two months. Five projects with a total funding requirement of US$ 3 million were under active appraisal; a further 12 (totalling US$ 8 million) were under pre-appraisal investigation. This compares with total approvals over the past three years of US$ 8 million. It is seen as evidence that many small and medium-scale local entrepreneurs are now actively developing financially attractive new businesses. Many of these are 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 be 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.

3.6 Commercial Banks

Commercial banks should be playing a vital role in the provision of short-term finance, working capital and export support. The two state-owned banks are patently incapable of fulfilling this role. Both are insolvent and kept from collapse only by support from the Bank of Tanzania.

National Bank of Commerce (NBC) received the assets and activities of the former external banks when these were nationalised. It has suffered principally from government-directed lending. NBC now has a new and professional Chairman, the Bank of Tanzania is examining its loan portfolio, and Coopers & Lybrand are investigating interbranch activities and internal accounts. A "model branch" is being developed in Dar es Salaam, automation is to be introduced, the flow of information improved, staff levels reduced, and the branch network rationalised.

By requiring NBC to fund the parastatal enterprises, Government has, in effect, borrowed the entire deposit base of NBC. Treasury is now to issue bonds in replacement of non-performing assets transferred to LART, and it must set a rate of interest related to the cost of NBC's deposit base so that NBC can compete effectively for new deposits needed to finance an expansion of its lending. For this it will also need a better equity base, and plans include the sale of shares to the public.

Co-operative and Rural Development Bank (CRDB) is in a similar position. It was burdened with non-commercial activities, particularly in favour of the co-operative unions, and cannot become self-sustaining without strict separation of its developmental and non-banking activities. A Banking Commission has agreed that CRDB should become an independent commercial bank, with BoT divesting itself of its shareholding. This may involve hiving off the entire co-operative operations, including much of the rural branch network, to a separate Co-operative Bank.

CRDB management believe that the main criteria for viability are to be left to make their own decisions, independent of Government pressure; to sharpen up their skills through training, retrenchment, automation and new partners; and rationalisation through the closure of inefficient branches, or their transfer to the Co-operative Bank.

Both banks are still processing applications under the OGL and import support schemes. CRDB also has a World Bank line of credit for agricultural restructuring. They report a measure of activity, particularly in agricultural processing and new areas such as prawn farming. CRDB consider that the smallest project should have a capitalisation of US$ 200,000. If people have money, they lack the skills; some of those coming from the paratsatal sector may possess them, but are unlikely then to have the capital.

3.7 Licences and Procedures

The post-IPC approval process is still arduous. Many who have already gone through it report that it takes up to two years. The Commonwealth Secretariat study on de-bureaucratisation lists 16 separate licences and approvals currently required once the IPC Certificate of Approval has been obtained. In addition there are three types of annual licences, transaction licences such as export or import licences, and applications for tax registration and exemptions. Only once all these hurdles have been passed can a company begin operations, including the construction of its factory.

There is some confidence that the process will eventually be streamlined and significantly accelerated when all these approvals are obtainable within IPC. This will not happen overnight, and there is a danger that in the interim it may supplant more smoothly functioning arrangements operating in provincial centres such as Arusha.

3.8 Facilitators

Procedural problems as well as the scarcity of technical talent among entrepreneurs have led to the establishment of a variety of consultancy organisations. Chief among these 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 or overseas resources as appropriate.

TISCO appears to have a sound reputation. Its clients include the World Bank, Commonwealth Secretariat, SADCC, CIDA and JAICA, as well as parastatal and private organisations. It has carried out project studies, includng rehabiltation, sectoral examinations such as on the 29 national and regional marketing companies, and wider studies, eg for a SADCC export marketing strategy. Since TISCO earns fees adequate to cover 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 is providing management for the successful weekly Business Times which it helped to start. A growing number of others is evidence that there is an expanding client base in the private sector. Such consultancies can, however, help also to stimulate private investment by making up for the technical and managerial deficiencies of the new entrepreneur.

SECTION 4 INVESTMENT OPPORTUNITIES

4.1 Current project proposals

In the course of meetings with financial institutions and individual entrepreneurs it was possible to identify a range of actual project proposals. Though they may no longer be available to a future venture capital fund, or be proved otherwise unsuitable, the following will serve to illustrate the variety of a possible dealflow.

Fine flour milling (shortly to be financed by CRDB)

Grain processing (CRDB)

Fruit canning (CRDB - based on two successful examples at Iringa and Mbeya)

Pineapple processing and export (Chrismill Farms Ltd)

Asparagus growing for export (TDFL)

Expansion of cut flower production for export (TDFL)

Aquaculture of prawns (CDC, Interfinas)

Geranium and other essential oils, based on tissue culture propagation (Arusha)

Tissue culture applied to production of flowers and houseplants (Arusha)

Development of high-grade and disease-free banana planting material (Arusha)

Computer assembly, production of audio and video cassettes (Dar es Salaam)

Equipment leasing company (TDFL)

Private medical clinic/sanatorium (Arusha)

Lake Mwanza high-speed shipping links with Kenya and Uganda.

Almost all of these projects are productive and of benefit to the economy through added value. They may not all be found suitable for venture capital, though many have the appearance of good growth prospects under competent management. Others could be frustrated by bureaucratic delays and constraints such as lack of adequate infrastructure, air freight capacity or any of the obstacles still common in the Tanzanian environment. Annual growth rates would need to average 35 - 40% pa to yield a return attractive in relation to bank interest of 25% on deposits.

4.2 Indicative Sectors

In addition to these actual proposals, a number of sectors hold out promise of projects with good growth prospects and yield potential. Examples of successful projects already exist in some of the following:

Tourism - Eco- and photo-safaris

Mining - Rare minerals, meerschaum, marble

Transport - Enterprises to take advantage of trunk and feeder road improvements and liberalisation of product marketing

Spin-offs from the privatisation programme (DEG are currently examining these)

A franchising approach for the duplication of successful projects in different regions and adherence to common standards (applicable to tourism and many other activities).

4.3 Sourcing of Projects

The main sources of such projects are likely to be the existing institutions such as TDFL and, when reorganised, TIB and CRDB, which have already recognised that venture capital is an important component of sound project financing. There is thus no question of competition. Nor will competition arise with agencies such as CDC and DEG which are also equity investors, since typical venture capital projects are considerably smaller than those in which they can invest directly.

Additional sources of projects would be organisations such as TISCO, Interfinas and other consultants. However, it is to be expected that the existence of a venture capital fund would lead in time to direct approaches from promoters.

SECTION 5 A ROLE FOR VENTURE CAPITAL

5.1 Financial and other Needs of the Entrepreneur

TDFL, TIB and CRDB were virtually unanimous in describing the problems of entrepreneurs as -

- Applicants who cannot meet their portion of an acceptable leverage ratio

- Expansion projects unable to borrow because their equity/loan ratios are overstretched

- Projects needing TShs which, thanks to OGL and commodity import schemes, are in shorter supply than foreign exchange

- Promoters whose management or technical capacity is too weak for the potential development of the project

- Marketing skills are becoming more important, so that marketing connections and factors such as product design are needed in addition to mangement, accounting and other professional skills

- African entrepreneurs who do not welcome other Africans in their business but would accept institutional funds and guidance.

5.2 Gaps in the Financial System

The availability of credit and capital of all kinds is still the major weakness of the financial system. Rehabilitation of commercial banks will in time ease the shortage of TShs and bring more money into formal circulation. Progressive liberalisation of access to foreign exchange, already well under way, will enable TShs to be exchanged at improved rates. Both developments should provide enterprises with working capital, raw materials and spare parts, and export finance.

Demand for medium and long-term capital will in the short run be exacerbated by the privatisation programme. Even allowing for sharply written down net values, the assets on offer represent the bulk of the country's industrial infrastructure. The World Bank is therefore proposing a \$ 60 million privatisation fund to operate alongside purchasers of parastatals. The preference is for a closed fund with a life of ten years which will then sell its holdings in the market, to the owners or to a mutual fund.

The Bank is proposing subscriptions of \$ 20 million from IDA, six donor agencies contributing an average of \$ 5 million each, and financial institutions some $ 10 - 20 million. Management might be by a very small management company, with the routine work contracted to a commercial bank. UNDP has agreed to finance a feasibility study. DEG are working along parallel lines, having already obtained DM 8 million in trust funds from the German government. They have commissioned a study by Peter Muth which is concentrating on identifying actual privatisation opportunities to which these funds can be immediately applied. CDC have also developed a concept for a privatisation fund, linked to arrangements for the management of assets acquired.

The principal gap, however, is equity capital for the smaller and newer enterprise promoted by African entrepreneurs. For the time being none of the local institutions is able to provide this. It can therefore come only from outside and is likely to flow into the larger enterprises which can conveniently be accessed by foreign institutions. The small man, who needs management and other support alongside the capital, will be unable to compete.

There is a need for other initiatives which might well be pursued by donors alongside a private sector support programme: Debt conversion for discounted investment in local currency; directing counterpart funds from commodity import programmes into support for TSh investment; and backing for the development of a capital and securities market which will encourage investment by making shares tradeable. CIDA is currently addressing the last of these with a study which should be available shortly.

5.3 The potential Role of Venture Capital

Venture capital would appear to respond perfectly to the needs of the smaller African entrepreneur. It provides both equity and local currency financing, and therefore promotes capital formation directly and by encouraging others to enter the investment cycle. It supports the development of enterprise and gives confidence to entrepreneurs by enhancing their capacities, financially and in the management area. It introduces new management techniques and brings to each business linkages with sources of technology, export marketing and additional finance.

The financing of small and medium-sized enterprises (SMEs) has a special significance in the African development process. SMEs have provided the bulk of employment and assured the rapid growth of an enterprise culture in both industrialised and developing countries. However, it is clear that African promoters either have some money but lack the skills to build a business or, if from the parastatals, possess some management experience but little capital.

Venture capital can also play a role in modernising the economy. Through its links with similar organisations elsewhere, it can copy successful projects and make them accessible to Tanzanian promoters. This may be crucial where activity is dominated by non-Africans.

SECTION 6 A POSSIBLE VENTURE CAPITAL FUND

6.1 Potential Contributors and Investors

Tanzania enjoys a high standing among international and bilateral agencies. In aid terms, more money is available than it can absorb. The funding of a venture capital initiative from outside sources should therefore not present a difficulty. Institutions of particular interest would be the original partners in TDFL, ie CDC, DEG, FMO and now the EIB. The ADB is currently attempting to expand its private sector financing window, whilst the East African Development Bank may well be interested in entering a demonstration project which it could replicate elsewhere. Among foreign private sector institutions, EDESA SA of Luxembourg and the Aga Khan Fund for Economic Development (AKFED) could also be possible investors.

A CDC interest might make it possible to employ the formula adopted in Ghana, where CDC has agreed to provide 60% of the total Fund and underwritten a further 30% which is available to local investors in addition to a 10% share taken by a local merchant bank. A management company is being established whose capital will be subscribed in proportion to subscriptions to the Fund. Under this formula both Fund and management will be progressively localised. It remains to be seen whether CDC is sufficiently confident of an adequate project flow to sustain such an arrangement.

If no such clear parentage is forthcoming, but the external investors are still related to TDFL, a Fund might be based on that institution. Alternatively, a heterogeneous body of contributors might argue for a free-standing Fund which hires an outside professional venture capital management organisation such as EDESA, as is being done by the local investors in a Fund in Zimbabwe.

6.2 Potential Tanzanian Investors

One Tanzanian investor, the Abdu Faraji organisation ACF Ho dings Ltd, has already made a provisional pledge of $ 100,000 to future Fund. It is likely that Iddi Simba of Interfinas Lt. would also wish to be associated, personally or as nominee o. Nitin Madhvani. Other potential investors mentioned are: Girish Chande of JV Group; Wilfram Mwaikitwange, currently Chairman of the Tanzania Chamber of Commerce, Industry & Agriculture; and IPP Ltd, who have already promoted the Entrepreneurial Development Fund which makes small sums available to craftsmen, then provides them with formal loans as they grow.

Consideration was, however, given to the wisdom of inviting wider local participation at an early stage. It is felt that the uncertainties involved in the introduction of venture capital into Tanzania are so formidable that it could be questionable to begin to solicit private non-commercial funds. A distinction needs to be made between inviting investment institutions used to assessing risks, and adressing oneself to private interests which might become persuaded to invest personal savings on the apparent security of an association with US AID and other international names. That type of investor should be sought only once the Fund is on a stable basis and has established a visible record of success.

There is a further justification for this beyond the fiduciary aspect. The primary role of the entrepreneur and the saver must be to invest in their own business. At a time of scarcity of capital there is a proper division of labour between the entrepreneur and the investor. The privatisation programme will soon be making extreme demands on both, and especially on the slender investment capacity of the Tanzanian citizen.

6.3 Non-indigenous Investment

There are two local investment organisations sponsored by the Aga Khan and the Ismaili Community. Industrial Promotion Services Ltd (IPS) is an old-established body which assists business development with advice, connections and funding. The Diamond Jubilee Investment Trust takes participations in worthwhile enterprises and makes investments for the benefit of the community. The Trust is likely to be interested in an investment in a Venture Capital Fund.

A number of the more successful Asian businessmen could also eventually be minded to invest. One name mentioned was Girish Chande of the JV Group. There are others of high standing.

A more substantial initiative has already come from Nitin Madhvani, a resident of Kenya but a Ugandan national. As President and Chief Executive of Madhvani International SA he submitted a proposal for an all-Africa Fund to US AID. After preliminary discussions this became limited to East Africa and eventually to Tanzania only. The proposal is for a Risk Capital Fund located in the USA but targeted on Tanzania. A central requirement is that US AID provide exchange risk guarantees.

The Madhvani initiative offers a number of possibilities, partly in association with a Tanzania Venture Capital Fund (VCF), partly in parallel. An important qualification may be that any exchange risk guarantees be a separate arrangement between US AID and the US Fund, so that co-investors in a VCF are not accorded different treatment. Possible options may be as follows -

(1) An offshore US-based Fund which becomes one of the external investors in the VCF (akin to an Expatriate Fund being planned for investment in Ghana as a possible accompaniment to the Ghana VCF) .

(2) The Madhvani plan is greatly more ambitious than the current proposals for a VCF; Madhvani may therefore consider a modest initial investment in the VCF, perhaps through his associate Iddi Simba.

(3) Since a US-based Fund with exchange risk guarantees would take some time to negotiate, VCF may in the interim serve as a demonstration project to encourage the Madhvani investors to set up a larger Fund later on.

(4) A Madhvani-type Fund is likely to be seeking more substantial projects than a VCF; it might therefore be a more appropriate accompaniment to the proposed World Bank Privatisation Fund.

(5) The most pressing need in Tanzania is to increase the resources of the African entrepreneur, so that he can hold his own with the rest of the community; a Risk Capital Fund established by the East African Asian community to support African entrepreneurs, enabling them to put up a more substantial share of the equity of their projects, would do much to reconcile the two communities. The benefits of such a move might make it easier for US AID to agree the exchange risk guarantees.

(6) One method to avoid exchange risk guarantees altogether would be for the US Fund to purchase Tanzanian debt, which is currently available at a 70% discount. Since it is destined for equity subscriptions, this could be invested in a VCF or other Fund in TShs.

It would be suitable to discuss these possibilities with Nitin Madhvani in advance of launching a feasibility study for the VCF.

6.4 Management Requirements

It is clear that a VCF in Tanzania would require a qualified and experienced venture capital manager to be recruited from outside. He would need to be assisted by a small team, who would be trained so as to be able to take over from him in due course.

The precise structure of the VCF management would depend on the identity and capacities of the principal investors. This will also determine whether the management would be incorporated within the VCF or as a separate company. The manager might, for instance, be brought in as part of a corporate management team, which in Ghana was furnished by CDC, and in Zimbabwe by EDESA.

In the absence of a principal investor or qualified management organisation, an individual manager might be based within an appropriate organisation, such as TDFL, with which the VCF would in any event co-operate closely. The inputs which such organisations, as well as the various consultancy bodies, could make should also be taken into account.

6.5 Exit Mechanisms

Successful venture capital relies on the ability to realise capital gains by selling the Fund's holdings at the optimum moment. In current circumstances in Tanzania the only option for this would be a sale to the promoter himself. Although the assumption is that his own substance will have increased even more, he may not be sufficiently liquid at the time.

Some thought is being given to the establishment of a formal capital market; a CIDA study on this subject is awaited. Of rather greater importance than a fully fledged Stock Exchange is a functioning secondary market. An over-the-counter market on which securities of all kinds can be readily traded would be the first step. This may well come into being when the banks have been restructured, but particularly TIB which is likely to be given the main responsibility for capital market development by BoT.

The sale of bank shares to the public, offerings from the privatisation of parastatals - in particular the dealings of a Privatisation Fund - and the flotations for which TDFL is working, will all point up the need for such a market and accelerate its coming into existence. A VCF would therefore not be left to fight this battle alone.

6.6 Supporting Measures

Additional support for a VCF might be derived from a number of sources. In the first place, some of its funding could be assured by the proposed establishment of a Trust constituted with some of the TSh counterpart funds from the Commodity Import Program (CIP). US AID's new CIP, totalling $ 40 million over five years, may yield some $ 5 - 8 million a year in local currency which can be more freely applied than under the current programme. Perhaps some $ 2 million of this might be channelled into a Trust Fund to support private sector operations. The Trust Fund could then become an additional investor in a VCF.

Debt conversion also offers possibilities for investment in the VCF by outside parties on favourable terms. At the current rate of 30 cents to $ 1 the investment of TSh proceeds could be very attractive. Some foreign creditors might even be willing to convert their debt instruments directly into equity in a Fund.

Other measures, such as an Asian community fund and the attracting of Tanzanian expatriate funds are discussed above. An important contribution may be made to the operations of a VCF by the Africa Project Development Fund (APDF). To the extent that it exists to assist African entrepreneurs with pre-investment funding, for feasibility studies and other costs, most of the VCF's clients should be in a position to benefit from it. It would be suitable to arrange with APDF for this to take place under a framework agreement.

6.7 The Field for VCF Operations

It is expected that the VCF would make investments in the range of $ 50,000 - 500,000. The latter would be in exceptional cases only and would reach the upper limit of 10% of the Fund as a whole.

$ 50,000 might amount to 40% of the equity of a smallish enterprise with total equity of $ 125,000 and (on an equity/loan ratio of between 1:1.5 and 1:2) total capitalisation of $ 300 - 400,000. Such an enterprise might create employment for 10 - 30 people, depending on its activity.

$ 500,000 might typically represent 25% of the equity of a larger enterprise with total equity of up to $ 2 million and (on an equity/loan ratio of 1:2) total capitalisation of $ 6 million. In Tanzania such an enterprise might employ up to 200 people.

Most business is likely to be towards the lower end of this scale. A weighted average would therefore be an investment of $ 150,000 representing 35% of a total equity of $ 450,000, and a total capitalisation (on a 1:1.6 ratio) of, say, $ 1 million. Employment created might be 50.

With a total Fund of $ 5 million some 26 - 30 projects are likely to be financed over a first-round period of five years. This would create employment for some 1,500 people initially, but the growth of the enterprises promoted should double this to 3,000. Over a 10-year Fund life, total employment generation through investment and growth combined may therefore amount to 6,000.

6.8 Financial Parameters for Viability

If a $ 5 million VCF were fully subscribed at the outset, there would be an early income (allowing for first-year investments) of perhaps $ 500,000, reducing year by year as more of the Fund is invested. The only other income during the first few years would be from such fees as can be earned. Given that early projects would not be greenfield ventures, dividends might then begin to accrue from Year 3 onwards. For the same reason, the first capital gains might be realised in Year 5, enabling reinvestment to begin and break-even to be reached.

The inevitably slower start-up and maturing of projects in Tanzania is likely to extend the period of US AID support required under the Africa Venture Capital Project (AVCP). In addition, projects will undoubtedly require a substantial and intensive management assistance effort. Depending upon the management arrangements, an estimate of total inputs might be some $ 350,000 per annum for, say, four years, or a total contribution of $ 1.4 million to enable the VCF to become self-supporting.

In order to limit the amount of AVCP support it will be important to ensure that favourable arrangements are made with the Ministry of Finance for the tax treatment of the VCF, its investors and its investments.

SECTION 7 US AID OBJECTIVES

7.1 The Finance and Enterprise Development (FED) Program

US AID's overall objectives for private sector development in Tanzania have been drawn together within the proposed FED Program. Its purpose is to promote economic growth and social progress by strengthening the capacity of the private sector to generate jobs and income. 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 intended to be -

(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 CIP operations in areas important to private sector growth, including social services.

7.2 The Venture Capital Component

The last of these elements, the local currency trust fund, would be constituted with the funds generated by the sale of foreign exchange to the private sector under the CIP. Potential resources are estimated to 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.

Since the trust fund would be non-profit, 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. It would make for easier monitoring of the trust fund's activities, and of the FED Program as a whole, for it to operate through an intermediary with specific and limited terms of reference.

7.3 Potential Linkages

The linkage with the FED Program, both directly and through the trust fund, would in turn serve to make a VCF more effective. A small VCF on the scale envisaged would not be an end in itself or be able to function properly without the flanking measures contained in the FED. On one level, it would be a valuable and practical demonstration of how the policy changes, institutional and private sector strengthening, as well as concrete inputs such as the trust fund can be translated directly into increased economic and private sector activity. Venture capital could become a living case study of the effectiveness of these measures.

On a different level, a VCF can be a device for AID itself to measure directly the impact of its private sector support activity. This could enable it to adjust or fine-tune some of the FED's relevant components in the light of practical experience.

A VCF's linkages should, however, also extend to working closely with institutions like TDFL and, after reconstruction, TIB which may also become channels for the trust fund's investment activities. There would then be a twin-track rationale for co-operation between these institutions, the functional and the identity as instruments for implementing the FED's objectives. Operational linkages may also extend to some of the consulting organisations like TISCO.

7.4 Specific AID Inputs

Among the measures which might specifically assist a future VCF, the following have already been identified -

- Sponsoring of training attachments with US or other firms, enabling graduate business students to obtain insights into management decision making (this would be particularly valuable for women graduates who are more diffident about decision making)

- Assisting with the building up of capital markets, both formal and informal, by making available US and other experience in this field; this will be vital to the development of exit mechanisms enabling the Fund to rotate its investments in timely fashion

- Facilitating linkages between Tanzanian and US Chambers of Commerce to kindle a greater US interest in trade and investment relations with Tanzania (the Chairman of the Dar es Salaam Chamber of Commerce took the initiative to submit a list of US equipment sold by his company)

- Provision of entrepreneurship training which could yield immediate benefits, given that much new investment will have to come from those making the transition from trading to manufacturing

- Co-ordination and collaboration with other donor agencies, which could enhance the impact of the whole programme.

Some of these matters could be organised at relatively little cost and without straining the Mission's administrative capacities. They might be turned over to OPIC, Chambers of Commerce, businessmen's clubs and the like.

7.5 The Benefits

The immediate benefits of a venture capital initiative would naturally accrue to the entrepreneurs of investee companies. However, their fortunes are closely linked with employment creation and that in turn with family incomes.

As set out in Section 6.7 above, an average investee company might have assets in the region of $ 1 million. However, a number at the lower end of the financing scale would be in the $ 300 - 400,000 asset range. These are enterprises typically creating employment for between 10 and 50 people.

There would then be a multiplier effect in two directions. First, jobs and incomes would grow in proportion to the growth of the enterprise induced by the introduction of venture capital. Secondly, by turning over its money at 5 - 6 year intervals, the total number of projects financed out of the initial Fund would double and treble, thus making the advantages of job creation more widely available. This in turn would further expand both family incomes and savings.

In Tanzania, the entrepreneur has now to be the carrier of development. Hence assisting people to create new businesses and grow with them will accelerate the process. The Fund's investments should not be weighted in favour of any particular segment of the population. The supporting FED Program would, however, gain a potential receptor mechanism for some of those who have benefited from its other activities for the advancement of women, the less privileged and the spread of the enterprise culture generally. This alone should give the right opportunities for the development of African business, as well as the employment and income benefits associated therewith.

For AID the opportunity cost of these benefits would be relatively modest. It has been shown that, over a 10 - 12 year life of the Fund, a four-times factor can be applied (composed of enterprises doubling their size, and the Fund applying realisations to a second investment cycle). Some 6,000 jobs might therefore be created directly at a cost to the Mission and AVCP of, say, $ 1.4 million. That would represent a leverage of $ 233 per job created.

7.6 Replicability

The opportunity to see venture capital in operation will also have a demonstration effect. It is likely to be copied, formally through the setting up of new funds, and informally by inspiring family or community groups to adapt and modernise forms of financing which are already established in their traditional culture.

The need for venture capital is widespread throughout the country, and the essence of applying it successfully is proximity to the projects. It is therefore likely that a number of such funds will in due course need to serve different locations. One might indeed argue that the first VCF should be located in Arusha, so that a Dar es Salaam fund would the become a natural extension.

The initial Fund should be replicable either by local groups capable of absorbing its techniques, or by groups of local investors who recognise its potential. A VCF management and training capacity should therefore be considered from the outset to assist the growth of new funds.

Examples already exist of groups which could become the nucleus of new funds. Among them are the institutions like TDFL and TIB which foresee venture capital involvement as part of their diversification or restructuring. But there are also private interests such as the IPP Group's Entrepreneurial Development Fund, the existing mini-conglomerates, and the Aga Khan's Industrial Promotion Services.

7.7 Administrative Considerations

Once established, a VCF initiative could well be the least burdensome component of the FED Program as a whole in administrative terms. As a strictly commercial organisation with its own professional management, it should be fully self-administering. It will be possible to set it up in such a way that, aside from ensuring its linkage with the FED measures, the only demands it will make on the Mission's administrative resources will be for normal monitoring.

SECTION 8 THE NEXT STEPS

Should the Mission see fit to adopt the proposals and sense of this report, the following steps would be required towards its eventual implementation -

(1) Discussion of the principles with some of the parties indicated, principally the potential investors.

(2) A request to Harvey & Company, Inc, as administrators of the AVCP, to commission a full feasibility study under the AVCP, to cover inter alia -

- the market for venture capital and the likely rate of project development
- identification of a first list of entrepreneurs and investee companies
- identification of investors in the VCF and their contributions
- location and organisational and financial links (including any relationship with the proposed Madhvani US Fund)
- legal structure of the VCF and its management
- tax treatment of the Fund, its investors and its investments
- viability of the Fund and the requirement for interim AVCP support for its costs.

(3) Agreement by the investors on the proposals outlined in the feasibility study and preliminary discussions with the BoT and IPC.

(4) Negotiation of any tax dispensations required with the Ministry of Finance.

(5) Approvals from BoT and IPC.

(6) Incorporation and subscriptions of capital.

SECTION 9 RECOMMENDATIONS

This report has been prepared under the AVCP at the request of the US AID Mission in Tanzania to whom it is addressed. On the basis of its findings, the two-man mission from Harvey & Co, Inc would now make the following recommendations -

(1) That the Mission consider incorporating into the FED Program a Venture Capital Fund along the lines described as a valuable and practical component of the overall Program.

(2) If approval is obtained for that Program, that the Mission request Harvey & Co, Inc to commission a full feasibility study.

(3) Provided that the feasibility study indicates that such a Fund can be viable and its operations are likely to achieve present expectations, that the Mission support the Fund financially to the stated extent.

(4) That the Mission, in conjunction with Harvey & Co, Inc, negotiate detailed terms and conditions with the identified investors for the creation, management and operation of the Fund.

(5) That the Mission consider the establishment of a Trust Fund, constituted with local currency funds from the operations of the CIP, and that such a Trust Fund will become an investor in the VCF, and in any additional Funds which might subsequently be established in Tanzania.

(6) That, in the context of the FED Program, the Mission continue a close association with the VCF and engage in support activities designed to enhance its effectiveness in achieving the totality of the FED's objectives.

APPENDIX A

LIST OF PERSONS CONTACTED

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APPENDIX B

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Proposed List of Priority Parastatal Enterprises to be Privatised

Enterprise	Activity
Bagamoyo Farms	coconuts & dairy produce
Basotu Plantations Ltd	wheat production
Bima Motors	car accident repairs
Burns & Blane (Tanzania)	trading (vehicles & spares)
Capital Supplies Co Ltd.	trading
Coastal Region Transport Co. Ltd.	transport
Darbrew Ltd.	brewing
Eastern Africa Publications	publishing
Express Tanzania	handling & forwarding
Fibreboards Africa Ltd.	hardboard manufacturing
Gidagamowd Wheat Co Ltd.	wheat
Giraffe Extract Co Ltd.	wattle/timber production
Hotel Seventy Seven	hotel
Integrated Concrete Industries Ltd.	manufacturing
Iringa Regional Transport Co Ltd	transport
Kahe Estate Ltd.	dairy farming
Kampuni ya Uchukuzi Dodoma	road transport
Kampuni ya Uchukuzi Kagera	" "
Kampuni ya Uchukuzi wa Lindi	" "
Kampuni ya Uchukuzi Mtwara	" "
Kampuni ya Uchukuzi Mwanza	" "
Kampuni ya Uchukuzi Rukwa	" "
Kampuni ya Uchukuzi Tabora	" "
Kariakoo Market Corp.	market
Kilimanjaro Hotels Ltd.	hotel
Kilimanjaro Regional Transport Co Ltd	transport
Kilimanjaro Timber Utilisation Co Ltd.	furniture manufacturers
Kisarawe Brick Factory Co	brick manufacturing
Landrover Tanzania Ltd.	vehicle rehabilitation
Lewa Estates Ltd.	sisal production
Mbarali Rice Farms Ltd	rice production
Mbeya Ceramics Ltd.	ceramic factory
Mbeya Regional Trading Co	trading
Mbozi Coffee Farms Ltd.	coffee production
Mbozi Maize Farms Ltd.	maize production
Mikumi Hotels Co. Ltd.	hotel
Mingoyo Sawmill Co Ltd.	sawmill
Mkata Sawmills Ltd.	sawmill

Mkonge Livestock Co Ltd	dairy farm
Morogoro Canvas Mill Ltd.	textile manufacturing
Morogoro Leather Goods Co. Ltd	manufacturing
Morogoro Regional Transport Co. Ltd.	transport
Morogoro Sisal Estates Ltd.	sisal production
Moshi Handtools	manufacturing
Moshi Hotels Ltd	hotels
Mtwara Cashew Co Ltd.	processing
Mulbadaw Wheat Farms Ltd.	wheat production
Murjanda Wheat Co Ltd.	wheat production
Musoma Textiles Ltd.	textile manufacturing
Mwamkoro Tea Estate	tea production
National Engineering Co Ltd	metal fabrication
National Estates & Designing Corp.	architects & planners
National Lotteries	lottery
National Shipping Agencies Co. Ltd.	agency & handling
National Steel Corp.	trading
New Mwanza Hotels Ltd.	hotel
New Safari Hotel Ltd.	hotel
Ruvu Rice Farms Ltd.	rice farm
Sao Hills Sawmills ltd.	sawmill
Saruji Trucking Co	transport
Setchet Wheat Co Ltd.	wheat farming
Sikh Saw Mils Ltd.	sawmill
State,Travel Service Lted.	tour operator
Stationery and Office Supplies (T) Ltd	trading
Tabora Regional Trading Co Ltd.	trading
Tanganyika Coffee Curing Co Ltd.	coffee processing
Tanganyika Instant Coffee Co Ltd	coffee processing
Tanga Regional Trading Co Ltd.	trading
Petroleum Refining Co. Ltd.	refinery
Tanzania Audit Corporation	auditing
Tanzania Automobile Manufacturing Co Ltd.	vehicle assembly
Tanzania Cables Ltd.	electrical wires
Tanzania Cigarette Co Ltd.	cigaratte
Tanzania Coastal Shipping Line	shipping
Tanzania Concrete Articles Ltd	building materials, furniture
Tanzania Dairies Ltd.	milk processing
Tanzania Dairy Farming	

Co Ltd.	holding co for dairy farms
Tanzania Distilleries Ltd.	distilling
Tanzania Film Co Ltd.	trading
Tanzania Fisheries Corp	fishing
Tanzania Handicrafts Marketing Corp. Ltd.	trading
Tanzania Ind. studies and Consulting Org.	consultancy
Tanzania Legal Corp.	legal firm
Tanzania Maltings Co Ltd.	brewing
Tanzania Oxygen Ltd	manufacturing
Tanzania Tea Blenders Ltd	manufacturing
Tanzania Tractors Manufacturing Co Ltd.	assembly
TBL Farms Ltd	farming
Tembo Chipboard Ltd.	manufacturing
Trailers & Lowloaders Manufacturing Co Ltd.	manufacturing
TTC Gift Shops Ltd	trading
Ubongo Garments Ltd.	garment making
Warret Wheat Farms Ltd	wheat farming