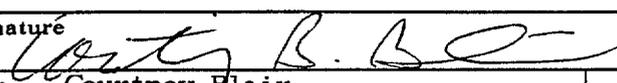
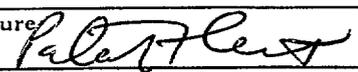


AGENCY FOR INTERNATIONAL DEVELOPMENT PROJECT IDENTIFICATION DOCUMENT FACESHEET (PID)				1. TRANSACTION CODE <input type="checkbox"/> A = Add Revision <input type="checkbox"/> C = Change No. <input type="checkbox"/> D = Delete		DOCUMENT CODE 1	
2. COUNTRY/ENTITY TANZANIA				3. PROJECT NUMBER 690-0274.21			
4. BUREAU/OFFICE AFR		A. Symbol AFR		B. Code <input type="checkbox"/> 06		5. PROJECT TITLE (maximum 40 characters) (RIT) <input type="checkbox"/> RURAL TELECOMMUNICATION IN TANZANIA	
6. ESTIMATED FY OF AUTHORIZATION/OBLIGATION COMPLETION A. Initial FY <input type="text" value="9"/> <input type="text" value="4"/> B. Final FY <input type="text" value="9"/> <input type="text" value="6"/> C. PACD <input type="text" value="9"/> <input type="text" value="9"/>				7. ESTIMATED COSTS (\$000 OR EQUIVALENT, \$1 =)			
				FUNDING SOURCE		LIFE OF PROJECT	
				A. AID		20,000	
				B. Other U.S.		1. 2.	
				C. Host Country		5,000	
				D. Other Donor(s)			
				TOTAL →		20,000	
8. PROPOSED BUDGET AID FUNDS (\$000)							
A. APPRO- PRIATION	B. PRIMARY PURPOSE CODE	C. PRIMARY TECH. CODE		D. 1ST FY <u>94</u>		E. LIFE OF PROJECT	
		1. Grant	2. Loan	1. Grant	2. Loan	1. Grant	2. Loan
(1) DEA	263	063		1,500		20,000	
(2)							
(3)							
(4)							
TOTALS →				1,500		20,000	
9. SECONDARY TECHNICAL CODES (maximum 6 codes of 3 positions each)						10. SECONDARY PURPOSE CODES	
840	063	140	827				
11. SPECIAL CONCERNS CODES (maximum 7 codes of 4 positions each)							
A. Code	BL	BR	INIR	EQTY	DEL	TECH	
B. Amount	5,000	5,000	5,000	10,000	20,000	10,000	
12. PROJECT PURPOSE (maximum 480 characters)							
TO ESTABLISH A FULLY PRIVATE, COMMERCIALY-VIABLE, SELF-SUSTAINING RURAL TELECOMMUNICATIONS COMPANY IN TANZANIA.							
13. RESOURCES REQUIRED FOR PROJECT DEVELOPMENT							
Staff: MISSION: PDO, PROG, CONT, ECON REDSO: REO, RLA							
Funds PD & S Funds - \$50,000							
14. ORIGINATING OFFICE CLEARANCE		Signature 				15. Date Document Received in AID/W or for AID/W Documents, Date of Distribution	
		Title Courtney Blair Project Development Officer		Date Signed MM DD YY 07 08 94		MM DD YY 	
16. PROJECT DOCUMENT ACTION TAKEN <input type="checkbox"/> A S = Suspended CA = Conditionally Approved <input type="checkbox"/> A = Approved DD = Decision Defered <input type="checkbox"/> D = Disapproved				17. COMMENTS			
18. ACTION APPROVED BY		Signature 		19. ACTION REFERENCE		20. ACTION DATE	
		Title Patrick C. Fleuret Acting Director				MM DD YY 07 08 94	

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Project Identification Document**

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Acronyms

ADB	African Development Bank
ATAP	Agricultural Transport Assistance Program
BOT	Bank of Tanzania
FED	Finance and Enterprise Development Program
GDP	Gross Domestic Product
GOT	Government of Tanzania
IMF	International Monetary Fund
IPC	Investment Promotion Center
LART	Loans and Advances Realization Trust
MARS	Multiple Access Rural Services
MOF	Ministry of Finance
MOU	Memorandum of Understanding
MOWT	Ministry of Works and Telecommunications
PANAFTTEL	Panafrican Telecommunications
PDO	Project Development Office
PID	Project Identification Document
PP	Project Paper
RFP	Request for Proposals
RTR	Regional Telecommunications Restructuring Program
RTT	Rural Telecommunications for Tanzania Project
SARP	Southern Africa Regional Program
SAT	Social Action Trust
SIDA	Swedish International Development Agency
TCC	Tanzania Communications Commission
TPTC	Tanzania Posts and Telecommunications Corporation
TTCL	Tanzania Telecommunications Company Ltd
USAID	United States Agency for International Development

I. Executive Summary**Rural Telecommunications in Tanzania (RTT)**

Project Assistance:	\$20.0 million, to be authorized and obligated in tranches beginning with FY94.
Implementing Agencies:	Ministry of Finance, Tanzania Communications Commission, Tanzania Telecommunications Company

A. Introduction

The Rural Telecommunications in Tanzania (RTT) activity is an innovative approach to match private capital and expertise with assistance funding to extend commercially viable telecommunications to rural areas of the country under-served by the existing network. In so doing, it will demonstrate the potential of modern technology and entrepreneurship to resolve a long-standing constraint to development of rural Africa, strengthening social services, stimulating enterprise development, and leading to rural economic growth and improved welfare. Achieving these admittedly ambitious objectives entails setting in place a somewhat unusual mix (for USAID) of very specific regulatory, operational and financial arrangements. USAID/Tanzania has given full consideration to how to structure these arrangements within our traditional modes of assistance -- "project" as well as "non-project" (commodity import program or cash transfer) assistance. Our conclusion was that a hybrid was required to accommodate all of our essential objectives and the implementation approaches required to achieve them. This hybrid mode adheres as far as possible to the familiar USAID Project Identification Document (PID) format to ease the review process.

B. The Regional Program Framework

The USAID/Tanzania telecommunications program proposed here is conceived within the framework of the Southern Africa Regional Program's (USAID/SARP's) Regional Telecommunications Restructuring (RTR) program (690-0274). The RTR program envisions a regional core project addressing regionwide issues and up to three national telecommunications restructuring activities to be implemented as sector or nonproject assistance programs. The RTR program anticipates that the country-specific

telecommunications restructuring programs will have two general objectives: (a) increasing and broadening the access of national users to more cost-effective systems of information transfer; and (b) contributing to increased investments in expanding business opportunities in that country. USAID/Tanzania's RTT project is entirely consistent with these objectives, although not within the sector assistance format originally envisioned.

The Tanzania telecommunications activity will contribute to the objectives of the overall regional program in two ways. First, the USAID/SARP activity is an integrated regional program, consisting of a core support project and several allied country-specific activities. The Tanzania project is one element within this integrated regional program. Second, the analysis done by USAID/SARP in developing the RTR program, and confirmed by USAID/Tanzania's assessments, shows that the weakest links in the regional telecommunications network are in fact the national systems, not regional or international links per se. Hence strengthening national telecommunications systems is the most direct way to strengthen the regional telecommunications network as a whole.

C. Why Telecommunications in Tanzania?

USAID/Tanzania's overall program goal is to foster real economic growth and improved human welfare in Tanzania. We are contributing to economic growth (a) by supporting more effective management of economic infrastructure and (b) by supporting increased private sector employment and income growth. We are contributing to welfare improvements partly by instituting family planning and AIDS programs, and partly by supporting the development of essential infrastructure needed to improve the quality of life in Tanzania.

With respect to infrastructure, USAID/Tanzania has since 1987 been giving special attention to the core commercial infrastructure needed for improved social welfare as well as broad-based growth in employment and incomes within a market economy: rehabilitating rural farm feeder roads with local contractors (our ATAP program), building institutional diversity, market competition and a customer-service ethic in the financial sector (our FED program), providing essential business support services to small local businesspeople seeking to grow (FED), and now, extending cost-effective telecommunications services to rural people. Throughout, our aim is to encourage a realignment of government and private spheres of activity that will lead to improved social welfare, as well as a more effective use of both public and private resources in support of economic growth, greater employment, and increased incomes.

In Tanzania today, the nation's dilapidated telecommunications sector must be transformed to meet the commercial challenges posed by the gathering pace of liberalization and the move to a market economy, and to extend the social and economic benefits of inexpensive modern communications to broad segments of the rural population. Successful telecommunications sector development is key to increased private investment (both domestic and overseas), and is an essential component of the broad and sustained economic growth required to create jobs and raise incomes in Tanzania. Broadly-based rural telecommunications development will (a) reduce the isolation of people in rural areas, while increasing access to essential services; (b) stimulate small scale rural commerce and industry; and (c) provide support services to many other rural development endeavors including agriculture, education, and health. A cross-cutting issue -- and one of growing significance as Tanzania moves further into the era of multi-party democracy -- is enhancing the socio-economic mechanisms that support good governance, including inexpensive, rapid, and broadly-based communication.

Within the context of a multidonor telecommunications sector project led by the World Bank, some big steps have already been taken by the GOT: postal services have been separated from telecommunications services, sectoral regulatory functions have been separated from service delivery functions, and the premise of competitive private commercial telecommunications services has been accepted. Nevertheless, there are a number of constraints to further development of telecommunications -- particularly broad-based rural telecommunications -- that arise from regulatory and institutional considerations. The most important of these include the following: development of transparent procedures for operating license application, evaluation and approval; establishment of guidelines on the length and exclusivity of licensing periods; clarification of the conditions under which a license can be modified or revoked; and clarification of interconnect procedures and payments. Much of this cannot and will not be resolved until experienced international telecommunications firms enter the market with concrete business proposals that will provide the newly-established Tanzania Communications Commission an opportunity to "learn by doing" and thus fulfill its role in fostering a competitive, expansive and service-oriented telecommunications sector.

The regulatory environment influencing specifically private enterprise development is also in a state of evolution. As in the telecommunications sector, many of the most important steps have already been taken: there is now a unified market-based foreign exchange regime, and most controls on prices, marketing, imports and exports have been abolished. However, work remains to be done in streamlining the process of business establishment and investment approvals, reforming land policy to support business growth, clarifying and reducing the burden of business taxation, and establishing recognized procedures for

accommodating international investments, including repatriation of profits. U.S. investors in particular can tolerate little ambiguity in such basic elements of the investment equation.

In sum, USAID/Tanzania is undertaking the RTT project to extend rural telecommunications services required to foster private enterprise growth and improve access to social services, thereby contributing to broad-based employment and income generation while improving rural welfare. In so doing, we will contribute to the resolution of lingering policy and regulatory constraints inhibiting private investment generally and U.S. investment in the telecommunications sector in particular.

D. What Will be Accomplished?

Project Goal and Purpose. The goal of the Rural Telecommunications in Tanzania (RTT) project is to increase income-earning opportunities and enhance social welfare in rural Tanzania. The purpose of the RTT project is to establish a fully private, commercially-viable, self-sustaining rural telecommunications company in Tanzania. These objectives are fully consistent with the sub-goal of USAID/Harare's umbrella Regional Telecommunications Restructuring (RTR) program ("increased investment for expanding business operations"), and with the purpose of the RTR program ("increased and broadened access...to a more cost-effective system of information transfer").

Project Strategy. The RTT purpose will be accomplished by (a) using project resources to foster the establishment of a rural telecommunications company in Tanzania, with investment and management resources provided by a U.S. telecommunications firm, and by (b) resolving key regulatory and procedural constraints inhibiting the development of a private telecommunications industry in Tanzania. The program starts from the premise that the best way to ensure effective sector-wide regulatory and institutional reform in support of private sector telecommunications development is to approach the reform objectives through a specific private sector operational challenge. As conceptualized here, these are essentially two sides of the same coin: the regulatory adjustments required to enable rural private telecommunications will be attained within the context of negotiations for a specific investment proposal. USAID/Tanzania does not believe it would be feasible to sort through the myriad technical and financial issues which attend such reforms in the absence of private sector operational involvement to crystallize the issues; nor do we believe that telecommunications regulatory change per se would be a worthwhile objective in the absence of a near-term private sector response. Consequently the RTT project has been designed to achieve sector-wide regulatory objectives and project-specific operational objectives simultaneously.

Project Activities. The RTT project has one simple, concrete objective: the establishment of a private telecommunications company providing services to rural Tanzania on a cost-effective, sustainable basis. However, the RTT project as such will not directly procure TA and commodities to construct rural telecommunications infrastructure. This will be done by one or more private sector firms. In this sense the RTT project is unlike many traditional USAID projects. Instead of substituting for the private sector, the RTT project provides the resources and support required to attract a U.S. firm to invest in and operate in Tanzania's telecommunications sector. This point is crucial and deserves reiteration:

The RTT project will not provide TA and commodities to build telecommunications infrastructure. Rather, the RTT project will provide resources and support necessary to attract a U.S. telecommunications firm to come to Tanzania and establish a commercially-viable rural telecommunications operation.

The burden of establishing a private, commercially-viable telecommunications service will fall most heavily on the Tanzania Communications Commission (TCC), a newly-founded entity hampered by Tanzania's history of unsustainable centrally-managed telecommunications programs. Action will also be required of the Tanzania Telecommunications Company Ltd (TTCL), which must accommodate interconnection relationships and also, at least informally, endorse the specific investment proposal of the private operator. Additional regulatory actions will be required of the usual range of institutions involved in investment approvals and new business startups, such as the Investment Promotion Center, the Ministry of Finance, the Ministry of Works and Telecommunications, the Bank of Tanzania, and the Registrar of Companies. These considerations provide the framework for the RTT program's initial three areas of project activity: (a) licensing a private rural telecommunications service provider (TCC); (b) providing the interconnections and other facilitative business relationships required to achieve a minimum level of feasibility (TTCL); and (c) providing routine regulatory and procedural clearances to approve a new investment and to establish a new business (various institutions). These three areas of project activity constitute an ambitious but workable program of regulatory accommodation that we believe can be carried out with the active participation of a goal-oriented, profit-motivated private sector operator. Throughout, the identification of issues and options for resolving them will be approached through the catalytic involvement of a U.S. telecommunications firm with a specific business proposal and seeking approval of a specific operating license.

E. How Will the Project be Implemented?

USAID/Tanzania proposes that the RTT project be implemented through sequenced authorizations, analogous to the procedure used to implement multi-year NPA activities. The Project Paper will lay out a planned \$20 million program, but the initial project authorization (FY94) will be for \$1.5 million to support exploratory pre-feasibility assessments, a detailed feasibility assessment, and negotiations leading to an operating license and interconnect agreement, as well as project audit and evaluation activities. The first project amendment will authorize an estimated \$10 million (FY95) for telecommunications equipment procurement, the actual amount to be determined based upon the detailed feasibility assessment. If required, a second project amendment will authorize a maximum of an additional \$8.5 million for service expansion.

Selection of Operating Company, Licensing, and Initial Operations. The initial project authorization will support the activities planned under Phases One, Two and Three. During **Phase One** the GOT will solicit proposals for the establishment and operation of a rural telecommunications system as a joint venture or similar relationship between a U.S. telecommunications company and a Tanzanian partner company. During **Phase Two** a joint USAID/GOT evaluation will determine which two or three proposals to include in the next stage of negotiations. The candidate companies will be invited to come to Tanzania to undertake pre-feasibility assessments as a basis for preparing best-and-final proposals. It is anticipated that each such pre-feasibility assessment will cost roughly \$200,000, of which AID will provide up to \$100,000 on a 50 percent cost-sharing basis. A joint USAID/GOT evaluation will review the best-and-final proposals and select a finalist company. The finalist company will undertake a detailed feasibility assessment as a basis for preparing a business plan and undertaking licensing and interconnection negotiations. It is anticipated that the detailed feasibility assessment will require approximately \$1 million, of which AID will provide up to \$500,000 on a 50 percent cost-sharing basis. During **Phase Three** final approvals will be sought, culminating in issuance of an operating license and negotiation of an interconnect agreement, and it is at this point that USAID/Tanzania will amend the project to make available up to \$10 million for equipment procurement. During **Phase Four** the operating company will import equipment, recruit staff, and begin commercial operations. The legal framework within which commercial activities will be undertaken will be the licensing agreement the private firm has negotiated with the GOT, together with such other collateral business arrangements with TTCL and other entities as may be required.

Financing. We estimate that about \$300,000 of RTT project funds will be required to support pre-feasibility assessments. An additional amount of approximately \$500,000 will be

required to support the detailed feasibility assessment. A further amount estimated at \$200,000 will be required to support licensing, interconnection, and allied regulatory negotiations. An additional amount of approximately \$500,000 will be used for project audits and monitoring and evaluation activities. The source of funds for operations will be (a) private sector investment and operating funds from the U.S. telecommunications investor, plus (b) a USAID disbursement to the GOT of up to \$18.5 million, which will be made available to the rural telecommunications firm for the acquisition of U.S. source/origin telecommunications equipment (USAID Geographic Code 000). Disbursements will be made to the Government of Tanzania for the purpose of financing telecommunications equipment purchases by the operating company. The Ministry of Finance will issue a Financing Request through USAID/Tanzania to FM in Washington, to establish a Bank Letter of Commitment with a U.S. bank. The Bank Letter of Commitment will provide for the issuance of a letter or letters of credit by a Tanzanian commercial bank on behalf of the operating company for U.S. telecommunications equipment. The Bank Letter of Commitment will require the use of AID Regulation 1, and USAID/REDSO review of the requests for letters of credit will ensure compliance. An equivalent amount of equity in the operating company will be issued to the Social Action Trust Fund (Annex H), a private Tanzanian trust established with USAID support to meet long-term private sector and social welfare development objectives.

Management. A Project Coordinator funded through USAID/Harare's core RTR project will manage USAID/Tanzania's RTT project under the supervision of the USAID/Tanzania Project Development Officer, although senior mission management will also play a role, particularly in maintaining a supportive policy dialogue. The Project Coordinator will be assisted by short-term resources available through the RTR project. Periodic evaluations and audits, an impact assessment program, and regular management and implementation reviews will allow the mission to monitor project performance closely.

II. Background

Tanzania's macroeconomic policy performance since the inception of the reform period in 1987 has been measured but solid, resulting in generally satisfactory growth performance. The process of sectoral reform has been uneven, with substantial progress posted in certain key infrastructural sectors such as roads, finance, and telecommunications.

USAID/Tanzania's program has made leading contributions to reforms in the transportation and financial sectors, through our Agricultural Transport Assistance Program (ATAP) and Finance and Enterprise Development (FED) program. Both of these policy-based programs enhance the environment for indigenous private sector development by strengthening the management of key commercial infrastructure to reduce costs and expand market opportunities. The USAID/SARP Regional Telecommunications Restructuring (RTR) program provides a welcome and appropriate vehicle for advancing our infrastructural development objectives in telecommunications, a sector which is simultaneously a profound constraint to and major opportunity for enterprise and employment growth in Tanzania.

A. Tanzania's Economic Growth Performance

From Statism to Market-Based Development. The Arusha Declaration on socialism and self-reliance was the centerpiece of Tanzania's economic policy for almost 20 years. The government of Tanzania embarked in 1986 on a new strategy emphasizing reliance on market forces as the basis for sustainable economic development. Market liberalization (started in 1987) opened opportunities for private participation in agricultural trade. Monetary policy reforms resulted in devaluation of the Tanzanian shilling (TSh) and increasingly liberalized access to foreign exchange. The parastatal reform program, although going more slowly than anticipated, has begun to transfer state-owned enterprises to private sector buyers. These policy changes have resulted in better incentives for several key groups in the economy -- agricultural producers, exporters, and the commercial sector -- and a general reduction in state intervention in the economy. The economy is still in a process of transition, with reforms being implemented at a measured pace.

Expanding GDP. There are indications that the reorientation of policy toward market forces is paying off. Tanzania experienced steady growth in its Gross Domestic Product (GDP) between 1986 and 1992, averaging 3.8 percent per year. Growth in 1993 was even higher, 4.5 percent. With its population of about 25 million expanding at an average annual rate of 2.8 percent, Tanzania's per capita income has been increasing as well, at something over one percent per year. In 1993, average per capita incomes were estimated to be about \$120.

The relative contributions to GDP of the most important sectors have remained unchanged over the reform period, with agricultural output accounting for just under half of GDP while commerce, financial services, and public administration add about 12 percent each. Agriculture's performance, however, has been better than the average throughout the period and has exceeded population growth by more than two percentage points in most years. Since 70 percent of Tanzanians live in rural areas -- and most of these depend on farming for a great share of income -- these data indicate the possibility that pervasive rural poverty may be alleviated by the economic reform program.

Financial Sector Reforms. A financial reform program has been undertaken to encourage competition, diversity and commercial efficiency in the financial sector. First authorized in 1992, 73 private foreign exchange bureaus are now in operation and the private currency market is quite large. Two private international banks (Meridien BIAO and Standard Chartered) opened their doors in 1993, the first private financial institutions in Tanzania in twenty years. Two additional private banks, one Kenyan-owned and one Tanzanian-owned, were licensed in early 1994. Interest rates have been fully liberalized. The yield on government offered Treasury Bills is now market-determined and has ranged between 33 and 38 percent in recent auctions. A foreign exchange auction was instituted in August 1993 to begin the move toward a market-based foreign exchange regime. The foreign exchange auction in turn was replaced by an interbank market in June 1994, which has formally eliminated the GOT's role in foreign exchange allocation.

Exports and Imports. In 1992 exports were \$420 million, 25 percent higher than in 1986, but imports were about 65 percent higher (\$1.5 billion) than they were at the beginning of the restructuring process. Tanzania's balance of payments was increasingly negative over the period 1986 to 1992, although concessional donor assistance also increased and reduced the pressure that shortages of foreign currency for imports would have exerted on the economy. Restructuring efforts are now looking at other incentives to boost exports. Commodity import restrictions have also been removed except for a short negative list of commodities for which government approval is still required (on grounds mainly of security and public health). In 1993, however, export earnings declined, a result in part of unfavorable trends in international prices for major export commodities and in part of domestic marketing and processing problems in major foreign exchange earning crops. Gross external reserves therefore declined from 13.5 weeks of reserves in December 1992 to under eight weeks of reserves in December 1993.

Public Management. Performance has not been positive or steady with regard to management of the public budget. In 1986/87, the government budget deficit amounted to

11 percent of GDP. Deficits were financed by the central bank, the Bank of Tanzania. The impact was very inflationary with annual price increases in the mid-1980s being higher than 30 percent. In the early 1990's, a tight fiscal stance reduced the budget deficit substantially; the 1992 deficit was 2.8 percent of GDP before grants, constituting a surplus of 2.3 percent after grants. In 1993 the situation deteriorated badly, the result of weak expenditure controls, unfocused government spending priorities, and lax revenue collection. The target budget deficit after grants was 1.5 percent of GDP; the actual year-end figure was 8.1 percent. To finance this the government rapidly expanded borrowing from the domestic banking sector. Monetary expansion was further fueled by extensive provision of credit to agricultural cooperatives and marketing boards, coupled with a failure to collect counterpart funds for Treasury-managed commodity import support programs. Inflation for calendar 1993 stood at 25 percent.

1994: Problems and Prospects. A comprehensive package of fiscal measures was introduced in January 1994 to control expenditures and enhance revenue collection. The announced measures included (a) rescinding customs duty exemptions, (b) including excise tax in the sales tax base of locally produced goods, (c) eliminating import tax delayed payment options and collecting import tax arrears, (d) delicensing and stricter monitoring of bonded warehouses, (e) reviewing remaining tax exemptions, (f) imposing a surcharge on car registration, (g) increasing certain withholding taxes, (h) increasing customs duty on imported commodities that are locally produced, (i) increasing customs fees and penalties, (j) monthly allocation of Treasury funds to spending units, (k) eliminating the "float" on government checks, (l) grounding 70 percent of the government vehicle fleet, and (m) closing various embassies.

Monetary measures to manage inflation include raising the minimum reserve requirement and the liquid asset ratio for banks, and increasing the central bank discount rate to 50 percent in January and to 60 percent in March 1994. The shift to a market-based system of monetary management was facilitated by introduction and rapid growth of treasury bill auctions, while the central bank restructured itself to eliminate anachronistic functions such as import and export licensing. In the external sector, most remaining controls were removed on imports, exports, and remittance of profits and dividends.

The rapidly deteriorating macroeconomic situation through late 1993 led to the introduction of an IMF shadow program for the period January - June 1994, with stringent targets for fiscal and monetary management, as well as difficult institutional reform objectives. In addition, the problems stemming from widespread official corruption have been for the first time introduced into the dialogue between donors and government. IMF, World Bank and

GOT reviews of progress under the shadow program show that the main benchmarks are being met, and it is anticipated that a new structural adjustment facility will be negotiated. Despite this encouraging short-term picture, it remains to be seen whether the GOT will be able to marshal the political will and administrative effort required to manage a successful return to long-term fiscal and monetary stability.

B. Reforms to Strengthen Economic Infrastructure

Within this picture of general economic restructuring, three programs of sectoral reform are particularly important as they promise substantial, sustainable upgrading of the economic infrastructure of Tanzania, making investment opportunities more attractive to domestic and foreign investors alike.

Integrated Roads Program. A major program to upgrade the network of roads and railroads received expanded donor support, including from USAID/Tanzania through the ATAP program (621-0165/6) beginning in 1987. By expanding the use of private sector contractors to carry out rural road rehabilitation and maintenance work, the Government of Tanzania has realized gains in efficiency and performance. Recent establishment of a Road Fund, financed by a tax on fuel imports and segregated from the regular government budget, will help to assure sustained maintenance of rehabilitated roads. Given the long distances over which agricultural produce and consumer goods have to be transported in Tanzania, a sustained reduction in transport costs and improved access to transport services (both associated with better-maintained roads) should make a difference to a wide range of businesses.

Financial Sector Adjustment. Reforms and restructuring in the financial sector are of more recent origin (1991/92) but already there is evidence that private businesses' access to efficient financial services is improving. The introduction of private foreign exchange bureaus combined with the liberalization of controls on pricing and access to foreign exchange immediately affected businesses' abilities and incentives to import and export. The opening of two private banks in 1993 increased the level of competition -- and service provision -- in the sector, although for the moment these services are confined to Dar es Salaam. Again, USAID/Tanzania has been instrumental in these reforms and is providing continued assistance to both public and private sectors through the Finance and Enterprise Development (FED) Program (621-0175/6) to continue the process.

Telecommunications Restructuring. A national telecommunications restructuring program was launched in 1993 with financing from the African Development Bank, the Swedish

International Development Agency (SIDA), and the World Bank. Combining both capital and technical assistance, the objective of the program is to correct the system's poor performance and to increase by 70 percent the numbers of working telephone lines available by the year 2000. The \$220 million investment seeks to (a) establish a market oriented regulatory and policy framework introducing private sector participation in non-basic services; (b) facilitate the commercialization of the existing national telecommunications utility; and (c) expand basic services, particularly to business subscribers.

C. USAID's SARP Regional Telecommunications Program

The USAID/Tanzania telecommunications project proposed here is conceived within the framework of the Southern Africa Regional Program's Regional Telecommunications Restructuring (RTR) program (690-0274). The RTR program envisions a regional core project addressing regionwide issues and up to three national telecommunications restructuring activities to be implemented as sector or nonproject assistance programs. The RTR core project will:

- Strengthen the capacity of southern Africans to develop and manage national and regional telecommunications networks through the timely provision of information, analysis, and technical consultation;
- Assist in solving problems being encountered by participants in the regional telecommunications network, particularly those of a legal or regulatory nature, by providing timely, expert technical assistance;
- Lay the groundwork for well-defined, appropriately-sequenced, national restructuring programs; and
- Link private U.S. telecommunications service and equipment suppliers into the regional network in an effort to bring increased levels of investment and efficiency to regional and national telecommunications systems.

The RTR program anticipates that the country-specific telecommunications restructuring programs will have two general objectives:

- increasing and broadening the access of national users to more cost-effective systems of information transfer; and

- contributing to increased investments in expanding business opportunities in that country.

The assistance activity described in this Project Paper is the first of the USAID bilateral programs to be designed under the RTR program umbrella. The Government of Tanzania has already undertaken significant policy and regulatory reforms in the telecommunications sector, and is poised to continue the process. For the first time in Tanzania's history, there is the potential for radically expanding access to telecommunications services through participation of private investors and operators. Improved telecommunications will bring substantial personal benefits to thousands of individual users; will reduce costs and increase efficiency for Tanzania's emerging indigenous business sector; and will strengthen the flow of information within and across all strata of Tanzanian society, thus contributing importantly to USAID/Tanzania's governance objectives. The major policy steps required to legitimize private telecommunications have already been taken by the government of Tanzania, however, there remains a requirement for positive regulatory and licensing actions to accommodate the specific requirements of potential commercial operating companies. These circumstances provide an appropriate context for proposing projectized support to help establish a private telecommunications company to begin meeting the needs of rural Tanzania, and in the process ensure that telecommunications sector reforms are consolidated and effectively implemented.

D. Relationship to USAID/Tanzania Country Program Strategy

USAID/Tanzania's program goal is the attainment of real economic growth and improved human welfare in Tanzania (see program logframe, Annex E). The strategy for realizing this goal revolves around three strategic objectives, two of which are directly related to economic growth and to the telecommunications project assistance described in this document:

- Strategic Objective 1: More effective infrastructure services delivered.
- Strategic Objective 2: Increased formal private sector participation in the economy.

A key target for Mission efforts regarding the first strategic objective is that essential public infrastructure be managed and financed on a sustainable basis. The proposed RTT project will contribute to achieving this objective by engaging the government of Tanzania in the search for commercially profitable, hence sustainable, ways of managing the

telecommunications sector. It is USAID/Tanzania's proposal here that U.S. private investors can -- and will -- play a major role in demonstrating the feasibility of this outcome.

The proposed RTT project also reinforces Mission actions being undertaken in support of the second strategic objective. Target 2.2 in the program logframe emphasizes private enterprise growth and expansion, while Target 2.3 addresses increasing the role of the private sector in shaping public policy. The activity proposed here will directly support the achievement of both targets by extending the regulatory framework to encompass private rural telecommunications service provision, and by helping to set in place a private sector service providing firm.

III. Project Rationale

The project proposed here starts from the premise that the best way to ensure effective implementation of policies supporting private telecommunications is to pursue specific regulatory and licensing accommodations within the context of a private sector operational proposal. The rationale for this approach derives from (a) the overall structure of and current changes re-shaping Tanzania's telecommunications sector; (b) specific sectoral constraints and opportunities, and (c) the nature of other donor programs in the sector.

A. Telecommunications in Tanzania

Telecommunications infrastructure in Tanzania has grossly insufficient capacity and provides its customers service of very poor quality. A 1991 World Bank assessment showed that only three of every thousand Tanzanians had a phone line, a penetration rate 25 percent lower than the average for all countries in Sub-Saharan Africa. Only 60 to 70 percent of installed telephones actually work, and fault rates, at 25-30 per 100 telephones per month, are substantially higher in Tanzania than the average for other countries. The call completion rate for inter-urban and incoming international calls is about 25 percent, compared to an average of 60-70 percent in industrialized countries.

The severe shortage of telephones in Tanzania and the poor service quality pose a major constraint to economic growth. All businesses incur substantial costs through lack of communication with both customers and suppliers, and the burden falls most heavily on the many small, mostly Tanzanian-owned businesses that cannot afford specialized courier services, multiple phone lines, or dedicated fax lines. It is not unusual for businesspeople to miss major opportunities altogether through inability to make timely contact with investors, suppliers, or clients. The effective absence of telecommunications services makes even basic financial operations costly; checks often take 20 days to clear as information among banks is transmitted by mail or courier. Average Tanzanians, of course, pay for these inefficiencies with higher prices for goods and services and, probably, lower availability of information and inputs that could make their work more productive.

The limited access to working phones also has social implications. Recent debate in Parliament over the restructuring of the public telecommunications service directed the attention of the sector's leadership to the negative impact that inadequate rural phone service has on the ability of the majority of Tanzanians to access needed health and other social services. Tanzania's very weak internal communication network has also emerged as a

governance issue, since the dramatically poor service greatly impedes organizational effort and the exchange of information within and among a broad range of civil society institutions.

The Public System. The Tanzania Posts and Telecommunications Corporation (TPTC) has historically been the monopoly provider of all telephone services. In 1991, TPTC operated 188 telephone exchanges, 28 of which were automatic exchanges with a capacity of 85,000 lines. The 160 manual exchanges had a capacity of 19,200 lines. Capacity utilization for telephone exchanges was estimated at 75-85 percent, indicating that the provision of additional lines would require additional capital expenditures and the addition of new exchanges.

A backbone transmission microwave system crosses the country from east to west and from north to south, with connections to the neighboring countries of Malawi, Zambia and Kenya. The north-south systems form part of the regional PANAFTEL network. Direct terrestrial connections to Uganda, Rwanda and Burundi are operational. There is no domestic satellite network. The majority of international services are provided through earth stations at Dar es Salaam and Nairobi. A new international exchange was installed in Dar es Salaam in 1991. The current configuration of the public telecommunications system emphasizes urban rather than rural customers. The telephone density in urban areas is over four times greater than the national average. Dar es Salaam has 23 phones per 1,000 population, for example, compared to 1.4 per 1,000 in the Mwanza/Shinyanga area and 0.8 in the Mbeya-Iringa area.

In 1993, the Government of Tanzania negotiated a \$220 million sectoral restructuring program with three major donors, the World Bank, SIDA, and the African Development Bank (ADB). The objectives of the program include restructuring TPTC to separate postal and regulatory functions, placing remaining telecommunications functions on a commercial footing, and introducing private sector telecommunications service providers.

By the end of 1993 the restructuring of TPTC was underway, and on January 1, 1994, TPTC was divided into three functionally different organizations:

- The Tanzania Communications Commission (TCC) became the government regulatory body for the telecommunications sector;
- The Tanzania Telecommunications Company Limited (TTCL) was formed as the operating company to provide all telecommunications services previously provided by TPTC. TTCL is a limited liability entity incorporated under the Companies Act, and is 100 percent owned by the GOT; and

- The Postal Corporation, a new parastatal, charged with the independent provision of postal services formerly provided by TPTC.

The GOT is now committed to TTCL operating as a profit-making entity, and to the privatization of all or part of the company at some future date. There is no firm timetable for the privatization action and estimates of the time it will take vary widely among persons knowledgeable in the sector. A number of factors are involved: privatization of other state-owned enterprises in other sectors is seen as a greater priority; there are a number of donors involved in TTCL and their interests need to be taken into account; the level of interest from experienced and reputable international private firms in investing and operating basic telecommunications services in Tanzania is not clear; and a number of additional regulatory and legislative actions would be required to privatize TTCL.

Emerging Private Interests. Private sector interests in owning or operating telecommunications services have begun to emerge in Tanzania. An American telecommunications company, with operations inside and outside of the United States, was one of the first to test the potential of Tanzania's telecommunications sector. In 1992 this company expressed interest in buying a controlling interest in TTCL (then the TPTC). Although they received a polite reception at political levels, neither the parent Ministry nor the TPTC wished to pursue serious discussions. Now, however, there are a number of other companies who have begun to develop ideas or to seek business opportunities in the sector, and the first two licenses have been granted to private telecommunications firms for the provision of services supplementing those provided by the public utility.

Millicom, a Luxembourg-registered firm licensed to provide cellular telephone services in Dar es Salaam and Zanzibar, is now planning to commence operations with up to 1,100 subscribers in May - June, 1994. Motorola equipment will be used as the company has had excellent experience with this equipment in Mauritius and other locations. The initial investment is relatively small (approximately \$5 million) but is based on a conservative market analysis by Millicom. There is uncertainty about the capacity of a larger number of subscribers to afford the relatively expensive service.

RCG is a wholly Tanzanian-owned firm licensed to provide a unique payphone service using optically-scanned debit cards rather than coins. Currently, RCG provides only a limited cardphone service in Dar es Salaam. The company has installed three units and, having identified additional demand, is in the process of bringing in seven more. The firm is studying the feasibility of installing cardphones in rural areas and in applications within

cellular networks. The network will be linked to public lines but will be privately managed and maintained by RCG.

Another locally-owned company, Zanzibar Telecommunications Ltd (ZTL), has been licensed by the Government of Zanzibar, but not by the TCC, to operate an earth station for the high speed transmission of data within the country. According to the firm, they have agreements with two customers for such a service. They have purchased substantial amounts of equipment from GTE/Spacenet, much of it U.S. source/origin provided through USAID/Tanzania's import support program. ZTL is also putting together a consortium of international and local firms, and has been licensed by the Government of Zanzibar to operate a cellular telephone system in Zanzibar. The company is currently seeking authority from TCC to expand both services to the mainland.

A fourth company, based in Norway, has been licensed to provide telephone satellite communications, using a relatively low-cost (\$20,000) technology. About 40 installations are currently functional, mainly at remote locations serving a high-value clientele such as petroleum exploration companies and gemstone mining operations.

A leading Tanzanian computer company has recently established a "spin-off" company to enter the telecommunications field, with ideas (which remain proprietary information for the moment) for expanding telephone service in rural areas. The company is only formulating the idea, but is convinced that the service can be provided on a commercial basis and is expected to apply for a license to do so.

Quite recently TTCL has begun to solicit expressions of client interest in a proposed Public Data Communications Network, with packet-switching technology, to provide high quality data transmission services for businesses and other institutions both locally and internationally. The preliminary assessments are being done with the support of a private Finnish consulting firm.

While all of these private sector start-ups and explorations are relatively new, and there is still little hard proof that private sector companies can provide profitable, sustainable telecommunications services which reach large numbers of paying customers, there is, nonetheless, some evidence that this might be the case in the future. Most importantly, each of these experiences has confirmed an important premise underlying USAID/Tanzania's RTT program:

development of the GOT's regulatory and institutional infrastructure in the telecommunications sector can happen very effectively when the private sector articulates its interests and needs directly in the form of a business proposal, an investment plan, and a specific licensing request.

B. Sector Opportunities and Constraints

Six important aspects of the telecommunications sector in Tanzania are reviewed in this section. Particular attention is paid to opportunities and constraints likely to affect private business participation in the sector. USAID/Tanzania's RTT project is designed to compensate for or redress the main sectoral constraints, while building on significant opportunities to enhance the likelihood of success.

Poor Performance of the Present System. The fact that there are so few phones in Tanzania and they work so poorly can be seen either as evidence of insurmountable sector problems, or as an enormous opportunity for business development. The telecommunications opportunity has two dimensions: extending the phone system and improving the quality of service. While TTCL has about 105,000 telephone lines available for subscriber use, the estimated demand for lines is four times that. Business subscribers frequently wait up to a year to be connected. Government subscribers are generally connected in a matter of weeks but residential subscribers often wait years. While waiting lists are kept and reported by TTCL, it is generally assumed that many potential customers do not even feel it is worthwhile signing up. Unmet demand is thus a potential market opportunity.

TTCL is also unable to provide high-quality value-added modern telecommunications services beyond phone and telex, and rapid expansion in such services is not foreseen. Services that are highly specialized (high speed data transmission, for example) may not be appropriate for a public company such as TTCL but should provide a niche market that can be profitably exploited by a specialized or more entrepreneurial commercial operation.

In short, there are opportunities for expanded private sector involvement in Tanzanian telecommunications, even if TTCL successfully completes its present restructuring. Exploiting these opportunities will require matching technologies and marketing strategies to market demand, while negotiating workable licensing and interconnection agreements with TCC and TTCL.

Key Changes in the Business Investment Climate. Tanzania's current investment climate can be characterized as one which is increasingly open to private investment, domestic or foreign. A number of barriers to business entry have been removed in recent years, although a number of obstacles to such investment remain in place.

In 1990, the passage of the National Investment Act established the Investment Promotion Center (IPC) and an investment code designed to attract foreign and private investment into various sectors of the economy through the use of incentives and guarantees. The incentives offered include a tax holiday for the first five years, exemption of import duties, and relief from sales tax on equipment for the approved investment. Other special incentives can be approved for investments in specially designated growth sectors such as mining. Repatriations of profits, dividends, and debt repayment as appropriate are also permitted by law. Tanzania is also a member of the International Center for Settlement of Investment Disputes and the Multilateral Investment Guarantee Agency (MIGA).

However, the investment code is implemented in a weak and uncoordinated fashion. One example pertains to the murky legal environment for joint ventures. There is some uncertainty as to whether foreign investors are actually entitled to the various incentives when they have local partners. Similarly, approval by the IPC does not automatically guarantee that other departments of the Government will relinquish their statutory or discretionary authority. Some of the other approvals that potential telecommunications investors must acquire without help from the IPC involve registration of the company, acquisition of land or other fixed property, and securing of special licenses. These are specific examples of a general problem, which is that the official GOT policy to encourage investment is not well understood nor perhaps even accepted by all implementing agencies, which leads to delays and confusion that discourage many possible investors. Private investors in the sector must therefore be prepared to put considerable time into preliminary discussions.

Experience with Private Telecommunications. The history of the award of the cellular service license for Dar es Salaam and Zanzibar provides a dramatic illustration of the process of learning-by-doing that the Government has used in its dealings with potential private investors in the telecommunications sector.

In 1992, a proposal for the establishment of cellular services was submitted by a local communications company in conjunction with a foreign telecommunications equipment supplier. The applicant received a letter of approval, in principle, from the Ministry of Communications. Shortly thereafter, several other local and foreign firms expressed interest

in establishing cellular operations. The TPTC invited all interested parties to submit formal proposals, but did not provide either detailed technical specifications or evaluation criteria. On the basis of this "bidding," a prominent European telecommunications firm was selected. Following protests by other bidders regarding the lack of transparency of the bidding process, the TPTC again requested bids, this time providing technical specifications. Two weeks after the bids were due, however, the technical specifications were revised to give "greater flexibility" to bidders in their choice of technology. Interestingly, the firm that won the initial bidding elected not to participate in the second round. This firm then withdrew from the negotiations with TPTC two days before the award of the license as it was unable to secure adequate guarantees of exclusivity. Another bidder, Millicom, the current licensee, was then selected and, six months later, accepted a license providing no guarantees of exclusivity, although the assumption is that there will be little or no competition for two or three years.

Of the nine proposals reportedly received against the second tender, five or six were short-listed and two of the short-listed firms were from the United States. The ultimate licensee, Millicom, is not a U.S. firm but will be using mostly U.S. equipment. The results of this process show clearly that international firms, including U.S. companies, consider the telecommunications market in Tanzania worthy of consideration for investment. It also demonstrates that local private sector entities have an interest in different facets of the telecommunications field. In fact, Millicom, the awardee of the cellular license under the request for proposals, has a local firm as a minority investor; this investor is reportedly eager to increase its share of ownership.

The history of this first private sector licensing process, however, also draws attention to a critical aspect of making the sectoral climate more hospitable to such investment. The transparency of the investment approval process is critical. If the "rules of the game" are not clear, losers are bound to feel that they were in some way cheated and prospective investors will be discouraged.

Financing and Macroeconomic Management. The goal of monetary policy in Tanzania is to reduce growth in money supply to control inflation, stabilize the exchange rate, increase foreign reserves and enhance the effectiveness of a competitive financial system. Table 1 summarizes the situation for 1989-93.

Table 1. Fiscal and Monetary Management Indicators, January 1989 to June 1993 (Bank of Tanzania)

Year	Percent Growth Money	Percent Growth Credit	Percent Rise in Prices	Interest Rates (percent)
1989	29	45	26	20-31
1990	43	36	20	20-31
1991	27	36	22	20-31
1992	42	-5	22	18-31
1993	28	46	25	37

Money supply and consequently prices have continued to increase at very high rates. The Bank of Tanzania (BOT) has not been successful in controlling the situation. Failure on the part of Government to better coordinate its revenue and spending may be part of the explanation. Measures to restrict credit, liberalize interest rates and limit the amount of refinancing that banks could undertake were not successful in reducing monetary growth but did succeed in reducing bank financing available for private sector entrepreneurs.

The Bank of Tanzania has recently begun to offer Treasury Bills on the open market. The purpose is twofold: first, it will offer a way for government to finance its expenditures without resorting to central bank financing; and second, it offers an additional policy instrument to the BOT in its pursuit of improved money supply control. It is quite likely that the yields on the T-bills will become the benchmark for setting interest rates by the commercial banks. There is as yet no organised secondary market for T-Bills, however the BOT plans to establish such a market in July, 1994.

Financial markets in Tanzania are relatively undeveloped. Prior to 1992 there were three state-owned commercial banks, three development banks, cooperatives and an insurance company. Two private foreign banks were licensed in 1992 and began operations in 1993; two locally-owned banks were licensed in early 1994. Financial services nevertheless consist mostly of short term credit instruments. There are no organised equity markets although recent steps have been taken to establish a capital markets authority under the wing of the BOT (under the FED program, USAID/Tanzania is providing training and short-term technical assistance to get the fledgling capital markets development authority operational).

As part of the effort to liberalize the financial sector, the state-owned banks were restructured. Non-performing loans were a significant part of their portfolio. For example, 37 percent of outstanding loans of the National Bank of Commerce were non-performing as of mid-1990. 95 percent of those were owed by parastatals. In 1991 the government set up the Loans and Advances Realization Trust (LART), to which all non-performing loans were transferred for resolution. The outstanding value of bonds issued by LART is Tsh 61.7 billion or about 26 percent of total commercial bank lending as of June 1993.

What all this means for the availability of business finance is that most new enterprises will not be able to raise equity on the local markets. Foreign entrepreneurs interested in investing in Tanzania will most probably have to source much, if not all, of the required investment capital offshore, especially in a capital-intensive sector such as telecommunications.

Most foreign investors, however, prefer to seek local financing for working capital. In the short term, interest rates may pose a barrier as they are expected to continue at high levels. The most recent auction of 182 days T-Bills yielded a 45 percent return. Government is currently operating on a cash based budget system, and its demands via the T-Bill market will continue to be high. The 1993/94 deficit is estimated to be about 18 percent of GDP. For as long as the fiscal crisis continues, therefore, crowding out of the private sector in the loanable funds market should be anticipated. In addition, real interest rates could be as high as 20 percent if the 1993 inflation rate of 25 percent remains steady.

Finally, further devaluation of the Tanzanian shilling will have implications for foreign currency debt incurred by a foreign investor. Borrowing on the local market and prospective currency devaluations mean that a potential investment which does not generate significant foreign exchange earnings itself must offer a very high rate of return to be attractive.

An Evolving Telecommunications Sector. The National Investment Act of 1990 states that postal and telecommunications services is an area of strategic importance reserved exclusively for investment by the public sector, except where special licenses may be granted. With the passage of the new Tanzania Telecommunications Act on December 24, 1993, the authority for granting such licenses is granted to the TCC. Four important issues, however, must be addressed by the TCC before a potential private investor can confidently and correctly submit an application for a license.

Clear procedures for license application, evaluation, and approval still need to be developed and issued by TCC. Section 10 gives the Commission broad authority to issue licenses "under such conditions as shall be determined by the Commission." While some sort of

payments are to be made to the TCC with regard to licensing (Sections 10 and 18), neither the amounts nor the justifications are specified.

Section 19 of the Act gives TCC the authority to decide on license periods but provides no guidelines as to how such a determination will be made. Some minimum period needs to be identified to permit a private investor to recover the investment. There is also some question as to the modification or revocability of a license during the period of effectiveness as specified in this section. The Act cites that "extraneous factors" can cause such modification but does not define these factors.

The Act in Section 21(2) states that an applicant for approval of equipment used to connect to TTCL's system may be required to comply with other requirements of the Commission or to satisfy "some other person with respect to any matter." However, an interconnection between any rural or private telecommunications systems and the TTCL system is essential. Again, TCC and TTCL need to provide assurances that interconnect arrangements will not be problematic and some guidance as to how they may be done.

The Act in Section 5(m) grants broad authority to the TCC to regulate tariff rates with a view to eliminating "unfair business practices" among operators. No additional guidance as to what constitutes such practices in this sector is provided.

These four issues derive from specific features of the 1993 Telecommunications Act. There are other issues, not touched on in the current Act, that are also likely to be of concern to potential private investors interested in rural or low-population density areas. Two stand out: first, the possibility of getting exclusive franchises either for the provision of service to a specified area or for the provision of a specified service; and second, the possibility of incentive payments for extending service to widely-dispersed customers.

Most potential foreign private investors would want assurance of an exclusive license for a particular service, at least during a start-up period, before going to the expense of preparing a detailed proposal for an investment. In part, this stems from the difficulty in Tanzania of assessing market size. There seems to be a feeling that commercial markets for some new technologies will be too expensive for people who now think they want them. A period of exclusive licensing provides some guarantee to the investor that at least a minimum number of subscribers can be secured before competition enters in. Another factor in this request for exclusivity may also be simply to lower the risk of financial failure as a firm unfamiliar with the Tanzanian business environment adapts to the cost and returns structure of the area. At

this time, however, the GOT appears reluctant to consider granting what is perceived as a "private monopoly".

The second concern will stem from telecommunications service providers accustomed to operating in other countries (particularly the U.S.) where it is a declared government policy to assure universal service, that is, provision of basic telephone services to everyone, no matter where they live. This is not yet articulated policy in Tanzania and it is clear that universal coverage is still some way in the future. However, the GOT is currently beginning to draft its national telecommunications policy in response to Parliamentary request, and the issue of whether to compensate private as well as public providers of telephone services for extending coverage to high-cost customers through some sort of industry-specific cross-subsidy arrangement will be under consideration.

Technology and Service Options. Telecommunications technology in general is a rapidly-evolving area. New equipment, software, and protocols are being developed with the rapidity once restricted to computers. Technological "problems" tend to be more constraining in systems already installed than they are in new systems or add-ons to existing systems.

TTCL's telephone system in Tanzania is based on a central automatic switching exchange connected by wirelines and microwave to other exchanges (some of which are manual switching) and to subscribers. Different technologies (wireline, coaxial cable, cellular, microwave, fiber optic, and satellite) are already integrated into the existing system or can be implemented as an "overlay" on the current plant and equipment. New investments must resolve equipment compatibility questions within the context of licensing, spectrum allocation, and interconnect agreements.

In the rural areas of Tanzania, the exchanges are connected by wirelines to very few subscribers. To expand that service, the current state of the telecommunications technology shows that in the establishment of new rural systems and some urban systems, instead of laying new line between the exchange and the new subscribers, it is more cost-effective to set up a radio transmitter that interfaces with the exchange, and connects the new subscriber to the transmitter and the rest of the system through radio signals. These wireless Multiple Access Rural Services (MARS) technologies have been evaluated for use in rural areas, especially where the topography is irregular, and there is low customer density, uncertain electrical grid availability, and other sub-standard conditions such as severe weather. Commercial applications are in place in Australia.

The technologies available for mobile cellular telephone services can also be adapted and extended in a cost effective fashion to rural areas. Much of the expense of mobile cellular systems are the complicated systems necessary to allow the mobile subscriber to move from cell to cell in a "seamless roaming" fashion. The rural telecommunications company may choose to provide full mobile cellular services to the urban areas and pockets of rural areas, and offer fixed cellular/MARS for the subscribers outside of the "seamless roaming" areas, at substantially less cost. Depending on distance and terrain, even more remote locations may be more cost-effectively served by satellite links.

Given this range of possible technologies, expert advice is needed to develop the system design which is most appropriate to the subscriber-geography-cost configuration in any given situation. Any such design will, of course, be subject to frequency spectrum available and interconnection requirements with the TTCL or any other license holder.

The range of options is similarly broad on the service side -- even for rural services where voice connections are the dominant need. Very simple value added services could prove of great social and economic value to rural and poorer urban subscribers. Voice mail systems, for example, would allow users without phones at their residence or business to use public call boxes at any time to send and receive messages, and have been tested in Mexico and Brazil with great success. Low cost paging systems could be introduced for itinerant artisans and rural health workers. In community centers, telecommunications business facilities could be established offering phone, telex, and fax services.

A full range of commercially oriented telecommunications services could be offered by a rural telephone company to and from a defined service area and could cover the region, the nation, and international connections. These could be offered by a rural telephone company itself as well as other entities (sublicense holders, competitors).

Other examples of available services include switched and private data transmission services (for financial transfers or pipeline monitoring), videotext, mobile cellular, and distance learning packages. The opportunities for the provision of new and useful services through the use of new technologies are wide open for Tanzania. The constraint will be incorporating them into a commercial system which is both profitable and affordable.

C. Other Donor Programs

Donor assistance to the telecommunications sector is provided within the framework of the GOT's Telecommunications Restructuring Program (TRP), a major multi-donor program

with funding commitments now totalling approximately \$250 million. The World Bank's Third Telecommunications Project provides the bulk of the financial support for TRP, and has already been outlined in Section II(B) and Section III(A). Other donors include the African Development Bank (ADB), SIDA, EEC, DANIDA, JICA, Kuwait Fund, and Belgian aid. The main activities of each donor are summarized below:

World Bank. The Bank is financing (a) microwave radio installations linking Dar es Salaam and six major towns, (b) cable networks in the Dar es Salaam area; (c) upgrading of an existing earth station outside Dar, (d) purchase of spare parts for existing plant, (e) installation of digital exchanges in four major towns, and (e) installation of spur facilities on the main digital microwave routes.

ADB. The ADB is financing (a) expansion of exchange capacity in Dar es Salaam and four major towns, (b) fiber optic lines in Dar es Salaam, (c) a digital microwave system for Dodoma/Mwanza, and (d) vehicles and training.

SIDA. SIDA is financing expansion of exchange and transmission capacity in several parts of Dar es Salaam.

EEC. The EEC is financing the Southern Highlands sub-project, including (a) line transmission facilities linking six southern towns, and (b) digital microwave systems linking Iringa with three major towns including Dodoma.

DANIDA. DANIDA funds will finance equipment in the Tanga and Moshi areas.

JICA. JICA funds will finance rehabilitation of existing cable installations in the Dar es Salaam area.

Kuwait Fund. The Kuwait Fund has financed a feasibility study for line expansion in the Dar es Salaam area, and is expected to finance the installation project as well.

Belgium. Belgian assistance will finance a new exchange for Zanzibar.

Discussions held while preparing this Project Identification Document indicate that the World Bank and SIDA welcome USAID involvement in the telecommunications sector, especially in the context of introducing private sector investment supplemental to TTCL investments or activities, and especially with respect to serving rural populations. USAID's leadership in developing private sector solutions to Tanzanian development problems is well recognized

within the donor community and the GOT. Based on successful experience with multi-donor coordination in the context of the ATAP, FED, family planning and AIDS programs, USAID/Tanzania has every reason to expect that a good level of collaboration will be achieved in this activity as well. One possible product of that collaboration may be a re-direction of World Bank funds designated for rural telecommunications. A relatively small portion of the Third Telecommunications project funds (\$3 million) is designated to support rural telecommunications. Ongoing discussions with the World Bank and the TCC suggest it may be possible for those funds to be used to provide rural government institutions with the equipment required to interface with new and upgraded telecommunications services, including the USAID-sponsored rural service provider.

IV. Project Description

A. Project Goal and Purpose

The **goal** of the Rural Telecommunications in Tanzania (RTT) project is to increase income-earning opportunities and enhance social welfare in rural Tanzania. The **purpose** of the RTT project is to establish a commercially-viable, self-sustaining rural telecommunications company in Tanzania. These objectives are fully consistent with the sub-goal of USAID/Harare's umbrella Regional Telecommunications Restructuring (RTR) program ("increased investment for expanding business operations"), and with the purpose of the RTR program ("increased and broadened access...to a more cost-effective system of information transfer").

B. Governance Objectives

Improvements to infrastructure generally, and telecommunications infrastructure in particular, will serve governance objectives as well as economic development objectives.

USAID/Tanzania's Democracy-Governance Assessment (February-March 1994) concluded that, from a democratic governance standpoint, better infrastructure will make it easier to distribute newspapers, to convene both partisan and educational meetings, and, more generally, to share important information throughout the society. One factor that has become increasingly apparent in assessing the spread of civil society in Tanzania is the requirement for decent physical infrastructure. While rehabilitating roads and telecommunications systems is not generally considered part of democratic development, decentralized access to and maintenance of physical infrastructure proves to be a great help in the development of commercial and other associational network communications, and improvement from a base as poor as Tanzania's will contribute significantly to a climate conducive to civil society development.

C. Project Strategy and Activities

Project Strategy. The RTT purpose will be accomplished by (a) using project resources to foster the establishment of a rural telecommunications company in Tanzania, with investment and management resources provided by a U.S. telecommunications firm, and by (b) resolving key regulatory and procedural constraints inhibiting the development of a private telecommunications industry in Tanzania. The program starts from the premise that the best way to ensure effective sector-wide regulatory and institutional reform in support of private

sector telecommunications development is to approach the reform objectives through a specific private sector operational challenge. As conceptualized here, these are essentially two sides of the same coin: the regulatory adjustments required to enable rural private telecommunications will be attained within the context of negotiations for a specific investment proposal. USAID/Tanzania does not believe it would be feasible to sort through the myriad technical and financial issues which attend such reforms in the absence of private sector operational involvement to crystallize the issues; nor do we believe that telecommunications regulatory change per se would be a worthwhile objective in the absence of a near-term private sector response. Consequently the RTT project has been designed to achieve sector-wide regulatory objectives and project-specific operational objectives simultaneously.

Project Activities. The RTT project has one simple, concrete objective: the establishment of a private telecommunications company providing services to rural Tanzania on a cost-effective, sustainable basis. However, the RTT project as such will not directly procure TA and commodities to construct rural telecommunications infrastructure. This will be done by one or more private sector firms. In this sense the RTT project is unlike many traditional USAID projects. Instead of substituting for the private sector, the RTT project provides the resources and support required to attract a U.S. firm to invest in and operate in Tanzania's telecommunications sector. This point is crucial and deserves reiteration:

The RTT project will not provide TA and commodities to build telecommunications infrastructure. Rather, the RTT project will provide resources and support necessary to attract a U.S. telecommunications firm to come to Tanzania and establish a commercially-viable rural telecommunications operation.

The burden of establishing a private, commercially viable telecommunications service will fall most heavily on the Tanzania Communications Commission (TCC), a newly-founded entity hampered by Tanzania's history of unsustainable centrally-managed telecommunications programs. Action will also be required of the Tanzania Telecommunications Company Ltd (TTCL), which must accommodate interconnection relationships and also, at least informally, endorse the specific investment proposal of the private operator. Additional regulatory actions will be required of the usual range of institutions involved in investment approvals and new business startups, such as the Investment Promotion Center, the Ministry of Finance, the Ministry of Works and Telecommunications, the Bank of Tanzania, and the Registrar of Companies. These considerations provide the framework for the RTT program's initial three areas of project

activity: (a) licensing a private rural telecommunications service provider (TCC); (b) providing the interconnections and other facilitative business relationships required to achieve a minimum level of feasibility (TTCL); and providing routine regulatory and procedural clearances to approve a new investment and to establish a new business (various institutions). These three areas of project activity, which will take place concurrently, constitute an ambitious but workable program of regulatory accomodation that we believe can be carried out with the active involvement of a goal-oriented, profit-motivated private sector operator. The fourth area of project activity will be to initiate the provision of rural telecommunications services.

D. Overall Regulatory Objectives

The RTT project does not encompass a detailed, highly technical policy agenda on telecommunications sector policy issues, that is to say, we are not following the policy-based approach provided for within the framework of the SARP umbrella program. However, this does not mean that USAID/Tanzania's program has no policy objectives. Although the government of Tanzania has already made the major decisions required to foster private investment in telecommunications, there remain many regulatory impediments to implementing this policy. Hence, USAID/Tanzania's policy targets are articulated as a set of project implementation benchmarks, and are based on performance within the context of a specific operational program. This reflects a series of USAID/Tanzania conclusions on the best way to seek an improved environment for private sector telecommunications development. First, private sector service providers are best equipped to identify real constraints and propose practical, effective policy or regulatory solutions. Second, the current state of regulatory and institutional flux in Tanzania's telecommunications sector makes it likely that a very broad policy agenda would be outpaced or outmoded by events. Third, we have found through our policy dialogue in other sectors (transport, finance) that the GOT moves most readily to adjust policies when the issues and options can be framed in terms of specific on-the-ground circumstances. Accordingly, the RTT program will pursue telecommunications sector reform issues forcefully, but indirectly, by sponsoring a specific private sector operational intervention, and by using this as a lens to focus our dialogue on key regulatory issues inhibiting private rural telecommunications investment. At this point it appears that the substantive content of the regulatory accomodations will encompass the issues outlined below.

- Development of clear procedures by TCC for license application, evaluation and approval, including guarantees of confidentiality, clarification of the payments required, and other documentation to be submitted.

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- Establishment of guidelines by TCC regarding the determination of license periods, and any periods of exclusivity that might be granted.
 - Clarification of the conditions under which a license can be modified or revoked.
 - Clarification of interconnect procedures and payments. The requirements of the Commission as well as the requirements of TCCL must be made clear within the context of a specific business proposal.
 - The process by which tariff rates are evaluated by the TCC should be established and guidance developed with regard to what constitutes "unfair" practices. Some process of administrative appeal should be in place.
 - Development of a policy on telecommunications services in Tanzania and, specifically, the commitment of the government to the provision of rural services in areas where they are not likely to be commercially viable.

In addition to addressing these areas of telecommunications sector regulation, the GOT will have to assure that the remaining policy, regulatory, and institutional barriers to the operation of any private business are also addressed. The areas which are likely to be most critical to effective business start-up of a rural telecommunications operating company are:

- The legal standing of joint ventures in which a U.S. private investing/operating company holds the majority of shares.
- The process of business registration, which must be completed in a timely matter.
- The acquisition of land. An accelerated process for identifying and acquiring lease rights to appropriate land is needed.
- Approval of investment incentives. These will include: tax holidays; import licenses; customs exemptions; sales tax exemptions; repatriation of profits, dividends, and debt repayments.

E. Specific Implementation and Regulatory Benchmarks

The RTT program is organized conceptually around four areas of project activity (outlined below as Activities A through D), and is organized sequentially into four phases, each with clear performance-based implementation and regulatory benchmarks (Chart 1 below). Our strategy in selecting specific regulatory benchmarks is based on these principles: the benchmarks will be fully consistent with macroeconomic and sectoral policy adjustments already laid out by the GOT with IMF and World Bank support; the regulatory benchmarks will be clearly within the management interest and institutional capabilities of relevant GOT institutions; the regulatory benchmarks will not threaten the revenue streams of the government or other telecommunications service providers; and the regulatory benchmarks will be amenable to clear assessment of progress based on performance.

Activity A: License a Rural Service Provider. The objective of Activity A is to obtain TCC licensing of at least one private rural telecommunications company.

- Phase 1 Benchmark: GOT solicits private telecommunications investment proposals from U.S. companies while spelling out the regulatory framework within which a potential investor will be expected to operate.
- Phase 2 Benchmark: GOT selects a finalist proposal.
- Phase 3 Benchmark: TCC licenses the private operating company.

Action in this area is within the management interests and operational responsibilities of the TCC and the Ministry of Works and Telecommunications, with short-term technical assistance, legal advice, study tours, and focused training provided through SARP’s umbrella RTR program.

Activity B: Negotiate a TTCL Interconnect Agreement. The objective of Activity B is to obtain a satisfactory interconnect agreement with TTCL so as to ensure the basic feasibility of the rural telecommunications service.

Chart 1. Implementation Sequencing and Benchmarks

	Activity A: Licensing the Operating Company	Activity B: Developing the Interconnect Arrangement	Activity C: Ancillary Regulatory Approvals	Activity D: Actions leading to business startup and rural service provision
Phase I	GOT releases solicitation with initial regulatory provisions	TTCL gives endorsement to the RFP and provides interconnect parameters	IPC and other key agencies provide agreement in principle	Pre-feasibility assessments undertaken; RTT funds provided to share costs of up to three assessments
Phase II	GOT and USAID review best-and-final proposals and select a finalist	TTCL provides preliminary concurrence for interconnection request of finalist offeror	IPC and other key agencies provide written assessment of finalist offeror	Detailed feasibility assessment undertaken; RTT funds provided to share costs
Phase III	TCC licenses an operating company	TTCL signs interconnect agreement with an operating company	IPC and other key agencies provide final approvals	Pre-operational actions undertaken; RTT funds provided to meet the foreign exchange costs of telecommunications equipment
Phase IV				Operations begin, rural services provided

Phase 1 Benchmark:	TTCL spells out the preliminary interconnection parameters and other company-to-company relationships within which a potential investor will be expected to operate, for inclusion in the TCC solicitation.
Phase 2 Benchmark:	TTCL concurs in or provides a detailed counterproposal to the interconnection request of the winning candidate.
Phase 3 Benchmark:	TTCL signs an interconnection agreement with the private sector telecommunications investor.

Action in this area is, at least in principle, within the management interests and operational responsibilities of the TTCL, with short-term technical assistance, legal advice, study tours, and focused training provided through SARP's core RTR project.

Activity C: Provide Regulatory and Procedural Approvals. The objective of Activity C is to obtain the ancillary approvals required to make an investment and legally establish a new business in Tanzania.

Phase 1 Benchmark:	IPC, MOF, MOWT, BOT, and Registrar of Companies provide agreement in principle for establishment of a private rural telecommunications company in Tanzania.
Phase 2 Benchmark:	IPC, MOF, MOWT, BOT, and Registrar of Companies assess finalist offerors and provide specific endorsement of or counterproposals to the regulatory requests contained in the proposal of the finalist offeror.
Phase 3 Benchmark:	IPC, MOF, MOWT, BOT, and Registrar of Companies provide their final approvals as required by statute and procedure.

Action in this area is, at least in principle, within the management interests and operational responsibilities of the entities involved, but it is foreseeable that the process may be eased through short-term technical assistance, legal advice, study tours, and focused training provided under the umbrella of SARP's RTR program.

Activity D: Business Startup and Rural Service Provision. The objective of Activity D is to begin providing initial rural telecommunications services.

- Phase 1 Benchmark: RTR funds released to support solicitation preparation and related negotiations. RTT funds released to share costs of commercial pre-feasibility assessments.
- Phase 2 Benchmark: RTR funds released to support competitive selection process. RTT funds released to support detailed feasibility assessment by finalist firm.
- Phase 3 Benchmark: The winning firm imports equipment, acquires the appropriate sites, develops a detailed business and implementation plan, hires and trains personnel, and carries out other practical start-up tasks required during the pre-operational period. RTT funds released to meet the foreign exchange costs of telecommunications equipment.
- Phase 4 Benchmark: Commercial operations and rural service provision begin.

Action in this area will be largely the responsibility of the newly-licensed operating company. Although it will be the responsibility of the firm itself to develop a plan of operations meeting the sustainable rural service provision objectives of this project, it is possible to outline some possible operational options that may be pursued by the private telecommunications service provider company. The key features of possible telecommunications systems are sketched out below, to convey an idea of what a commercial, privately owned and managed network providing rural telecommunications services might look like.

The simplest network design for reaching rural customers, and the one which could be most rapidly installed in rural Tanzania, seems to be a rural cellular (radio wireless) system. Technology is off-the-shelf, installation can begin with the establishment of only one or two cell sites to start, and additional subscribers and cells can easily be added as market demand grows. Service points would not be limited to a user's homes or businesses, but would include schools, health clinics, banks and post offices, and village cooperatives. There will be a basic cellular system operating in Dar es Salaam by the middle of 1994, so there will be models to follow for the requisite regulatory, spectrum allocation, and interconnect

agreements that must be negotiated with TCC and TTCL. However, a rural-only system would not be financially sustainable due to (relatively) low density population, low value traffic, and low income levels.

By including urban as well as rural consumers in the network, expansion could be more rapid as there would be a greater density of users in a relatively small area. This would drive down the per-user costs of construction and operation of the system, and could provide rural subscribers with a higher quality service as well. Integrating a cellular or other wireless system with the existing wireline system, by negotiating an agreement with TTCL, would accomplish this objective. Such a negotiation in principle could be for sale, lease, or interconnection with current wireline infrastructure; in practice, TTCL is unlikely to agree to negotiate anything other than an interconnection agreement.

A wide range of specialized value-added services could also be provided to users in any such network: voice mail, messaging, paging, high-speed data transmission, faxes, and so on. These have been suggested as services which provide high returns so they could be integrated into a more basic phone system to generate revenues needed to cross-subsidize poorer rural consumers.

The most feasible approach will likely contain elements of all these options, including for instance urban to urban links via some combination of wireline and wireless technologies to provide a "backbone" system for provision of high value and high density telecommunications, coupled with rural to urban links along the urban-to-urban "backbone", which will bring rural traffic into the network. Obviously, there are many permutations of technologies, financing mechanisms, and marketing strategies that will have to be worked through by any investor while negotiating a specific operating license.

V. Factors Affecting Further Project Development

A. Proposed Solicitation and Competitive Selection Process

The solicitation and competitive selection process lies at the core of the proposed RTT project, because it is within this process that key regulatory and operational objectives will be approached and ultimately met. Therefore it is appropriate to provide a detailed discussion of the proposed approach.

The initial TCC solicitation will define in preliminary terms the circumstances under which a license will be issued to a rural telecommunications company, and will encompass specific technical, regulatory, and financial parameters relevant to the entry of a private investor/operator into the telecommunications sector. Technical assistance and training will be provided through SARP's RTR program to the Tanzanian implementing agencies to ease the process of preparing the solicitation. Since it is intended to solicit the involvement of a U.S. telecommunications firm, the GOT will use USAID's standard approach to advertisement in the United States (Commerce Business Daily) as well as publication in appropriate telecommunications industry journals such as Telephony.

With the publication of the solicitation, potential U.S. operators of the rural telecommunications services company will have an understanding of the range of commercial services that could be provided under the license. They will have a precise definition of the minimal rural service obligations required, and a ballpark estimate of their cost based on certain technology and tariffing assumptions. They will have an estimate of the technical specifications, clientele served, and the commercial value of the existing TCCL infrastructure. They will have an up-to-date understanding of the investment approval and business establishment process in Tanzania. A briefing session for all interested firms will be held in the United States by GOT implementing agencies in collaboration with USAID/Tanzania to provide additional information.

Firms will be asked to provide information on their organizational and financial capability to provide the kinds of services described in the solicitation. Criteria will include:

- Operating experience, especially in rural areas or developing countries;
- Financial strength (audited financial statements); and

- Business character (corporate references, Dun & Bradstreet reports).

It is anticipated that up to three companies will be short-listed and asked to develop best-and-final proposals. Evaluation of the proposals will be the responsibility of the GOT, monitored and supported by USAID through the RTR project. The GOT will employ a professional telecommunications firm with the requisite legal and technical expertise to evaluate the proposals. Short-listed firms will be notified in writing by the GOT and asked for their best-and-final proposals. (This will not be a Handbook 11 host-country contracting process. USAID funds will not be used to finance a contract between the GOT and the telecommunications firm.)

The best-and-final proposals will require the short-listed firms to carry out preliminary assessments in Tanzania. Briefing sessions will be provided for the short-listed investors by GOT implementing agencies in collaboration with USAID/Tanzania staff in Dar es Salaam. The proposals to be developed will contain the essentials of the five year business plan of the operation, including:

- Description of services to be offered, where offered, when offered, tariffs to be charged;
- Special arrangements required such as degree and duration of exclusivity required for services;
- How baseline rural service obligation schedule will be met or exceeded, including details on special services/tariffs for lowest income or emergency use;
- Capital investment plan, with description of equipment to be acquired, acquisition schedule, and discussion of interconnection/compatibility strategy;
- Capital structure, including a description of shareholding structure, with clear exit/buyout criteria and mechanisms for each shareholder;
- Project cash flow, balance sheet, and income statements with appropriate supporting schedules; and
- Staffing plan, including a presentation and costing of projected training needs.

Selection of the winning U.S. operator/investor will be done by the GOT, with the input of USAID/Tanzania, technical support through the RTR program, and REDSO/ESA staff as needed.

B. Proposed Implementing Agencies

The RTT program involves a number of agencies, at least peripherally. The core implementation responsibilities fall on the Ministry of Finance, the Tanzania Communications Commission, and the Tanzania Telecommunications Company Ltd.

Ministry of Finance. The MOF will be the grantee, and will be responsible for managing the equipment procurement funds with a local commercial bank as agent. This approach parallels USAID/Tanzania's time-tested approach to the management of cash transfer dollars.

Ministry of Works and Telecommunications. The MOWT will manage the competitive selection process that will result in the establishment of a rural telecommunications operating company.

Tanzania Communications Commission. The TCC will develop appropriate regulatory processes and will apply these processes (regarding, inter alia, allocation of spectrum, approval of tariffs, and definition of service area) in the issuance of an operating license to the rural telecommunications operating company as described above.

Investment Promotion Center. The IPC will be asked to approve the proposed investment and to assist in the pursuit of all subsequent investment approval procedures. It may also be necessary for the IPC to obtain from the Attorney-General's office a favorable interpretation of the investment code with regard to the legal status of joint ventures.

Tanzania Telecommunications Company Ltd. An interconnection agreement will be negotiated with TTCL. In addition, TTCL may wish to lease or sell equipment or other resources in the defined service area to the operating company, and may choose as well to participate in the equity of the company.

Other GOT Entities. Local authorities and the Ministry of Lands, Housing, and Urban Development will have to approve the land leases or subleases (the latter perhaps negotiated with other public or private entities).

Social Action Trust. The Board of the Social Action Trust (SAT) has agreed in principle to accept an ownership interest as provided for within the framework of this proposed project, and will need to negotiate detailed arrangements as the project moves forward.

Telecommunications Operating Company. The firm selected will be responsible for negotiating all required regulatory, financial, and technical aspects of the telecommunications investment. The firm will also be responsible for identifying and importing the required telecommunications equipment.

C. Proposed Financial Plan

Cost Estimate. RTT project costs fall into five categories: (a) an amount of approximately \$200,000 that will be used to support the costs of negotiations leading to the licensing and operation of a rural telecommunications firm; (b) an amount of approximately \$300,000 that will be used on a matching grant basis in undertaking pre-feasibility assessments; (c) an amount of approximately \$500,000 that will be used on a matching-grant basis in undertaking a detailed feasibility study; (d) an amount of approximately \$500,000 that will be used for project audits and monitoring and evaluation activities and (e) an estimated amount of \$18,500,000 for telecommunications equipment.

Overall Budget. USAID financing for RTT totals \$20 million of DFA project assistance. Table 2 below presents an overall budget and a schedule of obligations.

Table 2. Budget and Obligations ('000)

<u>Source of Funding</u>	<u>(FY94)</u>	<u>(FY95)</u>	<u>(FY96)</u>	<u>Total</u>
DFA	\$1,500	\$10,000	\$8,500	\$20,000

Methods of Financing. Table 3 below presents an outline of planned methods of financing the activities contemplated in the RTT project.

Table 3. Project Activities and Methods of Financing

<u>Item</u>	<u>Implementation Method</u>	<u>Method of Payment</u>
Negotiations	PIL, AID Contract	Advances, Reimbursement
Pre-Feasibility Studies	Grant	Advances, Reimbursement
Feasibility Study	Grant	Advances, Reimbursement
Audit, Evaluation	AID Contract	Direct Payment
Telcoms Equipment	Bank L/Com	Direct Payment

Project Budget. Table 4 below presents the project budget.

Table 4. Project Assistance: USAID Contribution and LOP Funding ('000)

<u>Item</u>	<u>USAID Contribution</u>	<u>Planned LOP Amount</u>
Negotiations	\$200	\$200
Pre-Feasibility Studies	\$300	\$300
Feasibility Study	\$500	\$500
Audit, Evaluation	\$500	\$500
<u>Telcoms Equipment</u>	<u>\$18,500</u>	<u>\$18,500</u>
Total	\$20,000	\$20,000

Commodity Financing Arrangements. When a finalist offeror has been selected by the GOT, a disbursement will be made to the MOF for the purpose of establishing a fund to finance telecommunications equipment purchases by the operating company. The Ministry of Finance will issue a Financing Request through USAID/Tanzania to FM to establish a Bank Letter of Commitment with a U.S. bank that will provide for the issuance of a letter or letters of credit by a Tanzanian commercial bank on behalf of the operating company for U.S. telecommunications equipment. Once the Bank Letter of Commitment is established, the operating company will be authorized to submit requests for issuances of letters of credit

to the local bank, through USAID/Tanzania. The Bank Letter of Commitment will require the use of USAID Regulation 1, and USAID/Tanzania review of the requests for letters of credit will ensure compliance. In situations where the operating company has a special buyer/supplier relationship pursuant to the conditions of Reg 1, only one proforma invoice would be required from the supplier. Otherwise, the operating company will be expected to obtain a reasonable number of quotations for each proposed procurement to establish price reasonableness. The REDSO/ESA Commodity Management Office will assist the Mission in monitoring compliance with these requirements.

Equity in the operating company will be issued by the operating company to the Social Action Trust Fund, according to a schedule to be agreed during the licensing negotiations and development of the company's initial Business Plan.

Equity Financing Arrangements. The USAID funds will be granted to the government of Tanzania, to be used as investment capital to finance telecommunications equipment purchases and therefore help to establish the rural telecommunications company in Tanzania. However, the government of Tanzania has no desire to hold an ownership interest in the otherwise private rural telecommunications firm, nor would such ownership be consistent with public policy. It is equally inappropriate for the funds involved to be simply turned over to a private firm. Accordingly, a middle ground has been identified that preserves both the private ownership of the telecommunications company and the Tanzanian public's interest in the development assistance funds. The Ministry of Finance has determined that, in exchange for the \$18.5 million worth of telecommunications equipment, the private operating company will agree to provide an ownership interest to the Social Action Trust Fund, a wholly private and wholly Tanzanian investment fund established by the Ministry of Finance under a predecessor USAID program (Finance and Enterprise Development, 621-0175/76). The Social Action Trust, a unique (in Tanzania) financial institution charged with investing in Tanzania's private sector, has agreed with this approach in principle. MOUs documenting the specific arrangements will be required as part of each of the best-and-final proposals to provide services and will be included in the Project Paper as supplemental documentation required for project approval.

D. Proposed Analytic Agenda

Social Analysis. To establish the social relevance and socio-economic feasibility of the RTR project, USAID/Tanzania undertook a full-scale social analysis early in the process of project development. That analysis is included as Annex F. A summary is presented below.

A reliable private telecommunications service in rural Tanzania would have broadly positive impact at a number of levels (communities, institutions, enterprises, and individuals) and in several different sectors (the private business sector, social and educational services). At present service in the districts is so poor and subscribers are so few that differences in impact would hardly be discernible between those places already served by telephones and those which are not; all would benefit. The existing main point of difference is between those having or not having postal facilities. In the case of those without, people have to physically travel to the district headquarters even to find out when payday is (teachers, other civil servants), and experience considerable delay in receiving or sending news about significant events and emergencies. Provision of comprehensive facilities, including a post office and reliable public and private telephones, would ease these problems considerably. The costs and unreliability of the current system also have negative implications for the smooth functioning of educational and health care institutions, especially when these are faced by emergency situations (for example, student illness, shortage of essential medicines, and the like). Throughout the area surveyed, which was selected to be representative of conditions in rural areas of Tanzania generally, provision of an efficient and reliable telecommunications system would have numerous positive impacts, including the following.

First, the total communications-related costs for the consumer would be reduced. At present, in the absence of telephone services, people already spend more money on transportation for communication-related purposes than the standard monthly service charges for private telephones or the cost of toll calls. For a businessman from Lushoto, for example, round trip bus fare to Dar es Salaam is currently Tshs 5,000, while the cost of a 3-minute long-distance telephone call is estimated at Tshs. 500, and monthly telephone charges average Tshs. 3,000 to 4,000. As an example of the potential savings to just one enterprise, the manager of a technical training institution near Lushoto estimates that reliable communication by telephone or radiocall would save that institution Tshs. 1 million per year in foregone petrol consumption and vehicle maintenance, even factoring in purchase price and installation costs of equipment.

Second, the input of time required by the demands of communication would also be reduced. For example, travel to Dar es Salaam from Tanga or Lushoto requires at an absolute minimum two full days, and more likely three. The traveller thus loses three person-days of productive time, as well as incurring direct cash expenditures and reducing the efficiency and productivity of his/her enterprise, institution, or household. An efficient system would also reduce time expenditure in organizations where telephones are already installed, by improving the successful connection rate from its current 25 percent level and cutting down on the length of time required to obtain connections through operator-assisted calls.

Third, the loss of income would be minimized by reliable telecommunications. The proprietors of several owner-operated businesses observed that when something comes up demanding travel to town for communications purposes, there is no option but to close the business. Farmers, teachers, administrators and others also lose income if their working day is interrupted or curtailed by the demands and needs of communication.

Fourth, reliable telecommunications would increase the efficiency of both private and public institutions as well as their capacity to perform their functions. With the exception of primary and secondary schools, most institutions in Tanzania do not operate at their full capacity, and none reaches its full potential, due at least in part to communications-imposed constraints. Instructional time in schools is lost when teachers have to travel elsewhere simply to find out when they will be paid; the quality of instruction is diminished by shortages of supplies. Likewise, the effective operation of health care facilities is hampered by the inability to procure medicines and other requirements in a timely fashion. In both cases these current conditions would be ameliorated by efficient communication.

Beneficiaries of the RTT project would thus include a range of individual and institutional consumers and providers. Private individuals would benefit because the direct costs to them of communication would be reduced and the efficiency of communication, especially with relatives and friends living in both rural and urban areas, would be enhanced. Business enterprises would also experience reductions in their direct costs of doing business, and would minimize losses of productive time and earnings due to diversion of effort into communications. Public and private institutions would also enjoy cost savings, as well as improved efficiency of their operations and higher quality of services they provide.

The need for and impact of a reliable telecommunications system in rural Tanzania cuts across gender lines. Both men and women understand the importance of being able to communicate with people in other areas quickly and easily. The only real distinction that can be drawn on the basis of gender is that many of the businesspeople interviewed are male. This is linked to the structure of opportunity in Tanzanian society, biases in the educational system and the control and management of resources which are predominantly in the hands of men. The health and educational institutions are administered by both men and women, and the community representatives are both male and female. All of these individuals appreciate the benefits to themselves and the organizations and constituencies which they represent of an efficient and viable communication network.

In sum, rural and urban Tanzanians both, especially those working in institutions, enterprises, and administration, are eager for access to reliable communications. Under the

present system, excessive time, money, and other resources are being expended in communications-related activities. The most realistic communications alternative for these individuals and the organizations and businesses they represent is a reliable and accessible telecommunications network. A telecommunications system which meets these conditions would result in substantial costs savings for the consumer, would improve the effectiveness, quality, and efficiency of operations for public services and private enterprises, and would provide at least the potential for involving citizens more closely in processes of economic and political change and development.

Technical and Financial Feasibility. USAID/Tanzania undertook a feasibility study to establish the broad parameters under which a U.S. firm might be interested in a Tanzania rural telecommunications activity. The results of that feasibility assessment were that (a) the most important feasibility questions related to regulatory accommodations and the specific terms of a licensing/interconnect agreement; (b) there are a mix of ways in which a company might position itself in the Tanzanian telecommunications market so as to earn acceptable levels of revenue while serving a rural clientele; and (c) hardware-oriented decisions about technologies and specific equipment requirements are less important than and must flow from prior understandings about financing, markets, and regulatory provisions. The feasibility study is included as Annex G.

Proposed Design of Economic Analysis. The global literature on telecommunications strongly supports the presumption that additional investments in telecommunications services, especially in low-income countries currently with low penetration rates of basic telephone services, will result in large economic benefits to the economy as a whole. In the Project Paper, some effort will be made to estimate the projected magnitude of benefits which the RTT project will have on the Tanzanian economy.

To estimate the value of upgrading the quality of telecommunications in Tanzania will involve measurement of the possible impacts on the economy in general. Much of this work has been done in other developing countries, and should be readily adaptable to Tanzania. Particular attention should be given to the effects of improved rural communications on the economy. This should strengthen the rationale stated in this PID that USAID intervention in this particular market is needed because of the failure of the current providers to respond. It should also provide a value for regulatory reform which would underpin the proposed level of assistance. The analysis should show that an improved regulatory environment will have a positive, and measurable, impact on the economy. The study may also show that the public benefits of wider and higher quality telecommunications service are greater than the private benefits. This would lay the basis for the analysis which may justify subsidization by

USAID. The analysis should identify both the immediate beneficiaries of improved telecommunications services, and the ultimate incidence of the general economic improvement.

Issues for the Institutional Analysis. The RTT project has substantial regulatory reform objectives, and success hinges importantly on gaining the self-motivated support of individuals and institutions participating in the sector. Some preliminary information on the various institutions and individuals involved as "stakeholders" in the sector has already been provided in this PID. The key groups are:

- the private operating companies who have shown interest and begun to operate in the telecommunications sector;
- the GOT's regulatory and operating institutions in the sector, TCC and TTCL;
- various other agencies of the GOT concerned with the articulation of policy objectives in the sector, such as the IPC, the Registrar of Companies, and the Ministry of Communications, Works, and Transport;
- those enterprises and individuals demanding expanded and improved telecommunications services; and
- the donors providing financial and technical assistance in the sector.

More detailed institutional analysis of each of these groups will be carried out in during Project Paper preparation. The first step will be to describe what the interests of each group are with regard to the establishment of a private, commercial, for-profit rural telecommunications operating company in Tanzania. In each case, it will be essential to distinguish between the mandate (or official position) of an organization, the administrative capabilities of that organization to carry out that mandate, and the political will the organization has to carry out the mandate.

E. Preliminary Environmental Concerns

Possible RTT-sponsored activities which may have a potential adverse environmental impact include: (a) land loss, erosion and decline of landscape values if microwave towers are constructed; and (b) land loss and erosion resulting if new land lines are installed.

Microwave transmission equipment might possibly be used in the rural network construction and will be located on mountain tops in the countryside. To minimize the impact on wildlife, the buildings will be located away from national parks and other protected areas. Fences will be built around the buildings, restricting access to these facilities. Minimal amounts of land will be affected by these buildings. If required, microwave facilities should be built near major roads to reduce the amount of land taken from production and erosion which access roads may cause. If required, the design of microwave facilities will be aesthetically pleasing and such units will not be placed in areas of high tourist activities.

Installing or replacing new landlines is unlikely, however, if done will normally use existing ducts and cable passageways in buildings and roadways and across streambeds and rivers. It is expected that the installation of new land lines will be minimal.

F. Mission Management Plan

Within USAID/Tanzania, the RTT program will be managed by the Project Development Office, which is responsible for the bulk of the implementation actions associated with the Mission's Strategic Objective One (improved management of public infrastructure) and Strategic Objective Two (employment growth through private sector development). Overall supervision of program implementation will be the responsibility of the Project Development Officer. That officer will be assisted by the Deputy PDO and other professional and technical office staff. On a day-to-day basis, the RTT program will be managed by a Program Coordinator, to be recruited through SARP's umbrella RTR project. The Program Coordinator will receive specialized assistance through short-term technical assistance accessed through the RTR project. The REDSO Commodity Management Office will provide TDY support for overseeing the telecommunications equipment investment. Periodic evaluations and audits, an impact assessment program, and regular management reviews (including semiannual Project Implementation Reviews) will allow the Mission to monitor program performance closely.

G. Design Strategy

The chart below indicates tasks to be completed in finalizing the RTT design for an initial \$1.5 million obligation, as well as tentative responsibilities for carrying them out during July and August 1994.

Chart 2. Design Strategy

Task	Responsibility
Economic Analysis	Mission Economist
Institutional Analysis	Contractor
Environmental Impact Statement	REDSO/ESA
Finalize Financial Plan	Mission Controller
Vulnerability Assessment/Audit Plan	Mission Controller
Monitoring and Evaluation Plan	Mission Eval & Impact Advisor
Complete Negotiations with GOT	Mission PDO/DIR
Prepare Project Paper	Mission PDO

H. Preliminary Monitoring and Evaluation Plan

The RTT monitoring and evaluation plan will be embedded within the overall USAID/Tanzania monitoring and evaluation program as an element of the Mission's annual Assessment of Program Impact, and will encompass four levels of program activity: inputs, outputs, purpose-level accomplishments, and goal-level accomplishments. Input monitoring (that is, monitoring the progress of technical negotiations and feasibility assessments, monitoring equipment acquisition) will take place as part of the routine process of project implementation. Output monitoring (primarily tracking progress in achieving project implementation/regulatory benchmarks) will be documented in routine semi-annual implementation reviews, as will progress toward establishing a self-sustaining commercially viable rural telecommunications company. Input, output and purpose-level monitoring can thus be accomplished as elements of routine project management activities, and will be the responsibility of the Project Coordinator, supervised by a USDH project officer.

Determining the impact of the RTT program constitutes goal-level monitoring. This cannot be done within the context of routine project management and will require special resources. Under the supervision of the Mission's Monitoring and Impact Advisor, sample surveys and case studies of the RTT user population (individuals, businesses, institutions, and villages) will be undertaken to determine the magnitude of employment, income, and social welfare benefits achieved through provision of more extensive and higher quality rural telecommunications services.

I. PD 20 -- Preliminary Assessment

This project manifestly intends to encourage at least one U.S. investment in Tanzania, it is not foreseen that this will lead to relocation and loss of jobs in the U.S. The purchase of U.S. telecommunications equipment will rather serve to expand U.S. markets, and the opportunity to establish an operating company in Tanzania will generate additional employment. The participation of a U.S. firm in the operating company is the equivalent of provision of technical assistance by a contract firm except that the U.S. firm will draw its profit directly from commercial undertakings rather than from USAID as a donor agency. Tanzania's infrastructure, regulatory framework and business prospects are not such as would encourage the U.S. firm to give up a U.S. base in favor of wholesale Tanzanian expansion.

ANNEX A

Preliminary Logical Framework

Preliminary Logical Framework

Narrative	Verifiable Indicators	Means of Verification	Assumptions
<p>Program Goal: Broader objective to which this project contributes:</p> <p>Income increases and improvements in social welfare among rural clientele of the telecommunications company.</p>	<p>Measures of Goal Achievement:</p> <ol style="list-style-type: none"> 1. Number of firms operating in defined service areas increases. 2. Volume of trade into and out of service areas increases. 3. Household income indicators show an upward trend. 4. Social service access and delivery statistics show an upward trend. 	<ol style="list-style-type: none"> 1. USAID-sponsored sample surveys and case studies among client populations. 	<p>Assumptions:</p> <ol style="list-style-type: none"> 1. Natural disasters do not occur in sequential years. 2. Entrepreneurs are able to identify profitable business opportunities in rural areas. 3. Business climate in general remains favorable.

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<p>Project Purpose:</p> <p>To establish a self-sustaining, commercially viable private rural telecommunications service providing company in Tanzania.</p>	<p>Conditions that will indicate purpose has been achieved -- End of project status:</p> <ol style="list-style-type: none"> 1. Telecommunications license granted to private telecommunications firm. 2. Firm is registered and initiates operations among rural clientele. 3. Firm pays applicable taxes on revenue. 4. Firm remits profits. 	<ol style="list-style-type: none"> 1. Registrar of Companies; IPC. 2. Audited annual financial statements. 3. Annual management report of private firm. 	<p>Affecting purpose-to-goal links:</p> <ol style="list-style-type: none"> 1. Tanzanians in rural areas will have the financial capacity to pay for needed services supplied by private sector operators (in for-profit companies). 2. The political environment will continue to remain favorable to private participation in the telecommunications sector. 3. The selected U.S. private investing/operating company will be able to manage the Tanzanian operation efficiently enough to derive a profit. 4. The overall economic performance of the economy as a whole will be adequate to provide a reasonable environment for sustained, profitable business operations.
<p>Project Outputs:</p> <ol style="list-style-type: none"> 1. Regulatory framework revised to encourage private sector operations in telecommunications. 2. Business start-up and overseas investment regulations clarified. 3. Private operating firm is licensed to provide rural (and other) telecommunications services. 	<ol style="list-style-type: none"> 1. Private companies bid competitively for establishment of services; operate at profit. 2. Legal status of the operating company is clear and appropriate business approvals and incentives are provided. 	<ol style="list-style-type: none"> 1. Direct report: Number of bids received by GOT in response to RFP. 2. Public revenue reports: Amount of taxes paid by private operating companies to the GOT Treasury. 3. TTCL reports: Amount of interconnect fees paid by private license-holders to TTCL. 4. TCC reports: Number of inquiries and applications for other services received by TCC. 	<p>Affecting output-to-purpose links:</p> <ol style="list-style-type: none"> 1. There is a commercial market for telecommunications services in the rural areas which is not being met by TTCL. 2. U.S. telecommunications companies are interested in investing in and operating telecommunications in Tanzania. 3. The GOT is committed to expanding access to telecommunications services in Tanzania and to opening the sector to private investment.

Inputs: Activities and Types of Resources:	Level of Effort/Expenditure for each activity:		Assumptions:
<p>1. Establishment of parameters for private sector investment/operation in provision of telecommunications services in defined service area including significant rural population; use of parameters to identify and select a private investor/operator.</p> <p>2. Drafting of new regulations, procedures, institutional operating guidelines to define appropriate regulatory and institutional environment for private operator to provide rural telecommunications services on profit-making basis in defined service area.</p> <p>3. Analysis of institutional development, reform, and training needs, particularly for institutions in the telecommunications sector (e.g., TCC, TTCL).</p> <p>4. Coordination with other donors and private enterprises participating in telecommunications sector development.</p> <p>5. Monitoring of macroeconomic, regulatory and institutional environment for private telecommunications operating companies with recommendations for further adjustments.</p>	<p>1. SARP RTR core project buy-in to Global Bureau IQC for telecommunications services: \$400,000.</p> <p>2. SARP RTR core project technical assistance from institutional contractor: \$1.5 million.</p> <p>3. Long-term Project Coordinator resident in Dar, \$500,000 for three years.</p> <p>4. PD&S: Coverage of technical assistance costs for design-related analyses not picked up by RTR core project.</p> <p>5. RTT Equipment Fund: \$18.5 million.</p> <p>6. RTT support for negotiations, pre-feasibility studies, and feasibility study: \$1,000,000.</p> <p>7. RTT Evaluation/Audit: \$500,000.</p> <p>8. Mission staff time: 2.3 person-years (PY).</p> <p>9. REDSO staff time: 0.1 PY.</p>	<p>1. RTR Core project reports.</p> <p>2. RTR institutional contractor reports.</p> <p>3. Mission PIR reports.</p> <p>4. Reports of the operating firm.</p> <p>5. Reports of the Ministry of Finance as the Grantee.</p> <p>6. Reports of the Social Action Trust (designated as the holder of the equity).</p>	<p>1. It will be possible for the GOT and its various telecommunications organizations to agree on the appropriate project activities.</p> <p>2. It will be possible, during the extended design and discussion associated with the development of the RFP, to develop a clear understanding of minimal rural service requirements.</p> <p>3. Adequate and sufficiently reliable information on potential market demand will be developed and will show that such demand is large enough to interest a U.S. private investing/operating company.</p> <p>4. Other donors will agree to the specifications included in the draft RFP as well as the general approach to the Program.</p> <p>6. The RTR core project implementation goes as scheduled.</p> <p>7. The institutional contractor is able to recruit and field technical expertise as expected.</p>

ANNEX B

Pre-PID Guidance Cable

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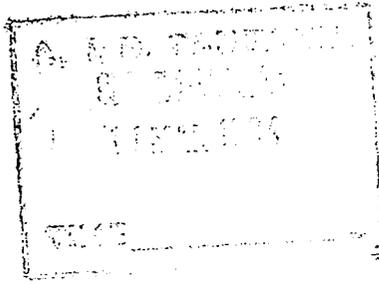
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SUBJECT: SOUTHERN AFRICA REGIONAL PROGRAM (SARP) REGIONAL
TELECOMMUNICATIONS RESTRUCTURING PROGRAM (690-0274/78)

REF: HARARE 08585

1. SUMMARY: THE ECPR FOR THE SUBJECT PROGRAM WAS HELD TUESDAY JUNE 22, 1993. IT WAS CHAIRED BY ACTING DEPUTY ASSISTANT ADMINISTRATOR FOR AFRICA, TIM BORK, AND WAS ATTENDED BY REPRESENTATIVES FROM AFR/SA, GC/AFR, AFR/DDP, AFR/ARTS, AFR/ONT, PRE/CAP, PRE/EM, FA/PPE, FA/OP, FA/B, AND USAID/HARARE. THE PROPOSED PROGRAM IS FOR DOLLARS 75 MILLION, WITH DOLLARS 60 MILLION FOR NON PROJECT ASSISTANCE (NPA) AND DOLLARS 15 MILLION FOR PROJECT ASSISTANCE (PA). THE SARP MISSION DIRECTOR MAY EXERCISE HIS DOA 551 AUTHORITY TO APPROVE AND AUTHORIZE THE PROJECT PAPER. WHILE PA WILL BE AVAILABLE TO ALL SARP COUNTRIES, THE NPA WILL BE AVAILABLE TO A MAXIMUM OF THREE. A SEPARATE PAAD WILL BE DESIGNED FOR EACH NPA COUNTRY. GIVEN THE NEWNESS OF THIS TYPE OF INVOLVEMENT, THE ECPR RECOMMENDED THAT THESE PAADS BE APPROVED IN USAID. MOST USAID/W ISSUES WERE RESOLVED DURING OR SHORTLY AFTER THE ECPR. THE MAJOR OUTSTANDING CONCERN ON USE OF CASH VERSUS A CIP AND BUY AMERICA ISSUES WAS RESOLVED

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THROUGH A CABLE FROM THE MISSION, HARARE 08585, THE FIRST FOUR PARAGRAPHS OF WHICH ARE APPENDED HERE. END SUMMARY.

2. (A) THE ECPR BEGAN WITH A DISCUSSION BY THE MISSION OF THE BACKGROUND TO THE TELECOMMUNICATIONS PROGRAM. THE MISSION DESCRIBED THE RATIONALE FOR USAID INTERVENING IN THE SECTOR, INCLUDING THE IMPACT OF TELECOMMUNICATIONS ON DEVELOPMENT IN SOUTHERN AFRICA. THE PROPOSED PROGRAM IS

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FOR DOLLARS 75 MILLION. OF THIS, DOLLARS 15 MILLION WILL BE PROJECT ASSISTANCE AND DOLLARS 60 MILLION WILL BE NON-PROJECT ASSISTANCE (NPA). PROJECT ASSISTANCE WILL BE AVAILABLE TO ALL COUNTRIES THAT ARE MEMBERS OF THE SOUTHERN AFRICAN DEVELOPMENT COMMUNITY (SADC). NPA RESOURCES WILL BE AVAILABLE FOR A MAXIMUM OF THREE COUNTRIES. TO BE ELIGIBLE FOR NPA, A COUNTRY MUST BE UNDERTAKING MAJOR POLICY REFORM IN THE TELECOMMUNICATIONS SECTOR.

(B) THE PROGRAM WILL USE A MODULAR APPROACH FOR NON PROJECT ASSISTANCE WHICH WILL BE SUFFICIENTLY FLEXIBLE TO RESPOND TO THE SPECIFIC POLICY NEEDS OF THE RELEVANT COUNTRIES. AN INDIVIDUAL PAAD WILL BE PREPARED FOR EACH COUNTRY RECEIVING NPA RESOURCES. DUE TO THE NEWNESS OF A POLICY-BASED APPROACH FOR AID INVOLVEMENT IN THIS SECTOR AND THE USES OF NPA RESOURCES TO LEVERAGE SUCH REFORM, THE ECPR CONCLUDED THAT THE PAADS BE REVIEWED AND APPROVED BY USAID/W.

(C) THE ECPR DECIDED TO HAVE FURTHER CONSULTATIONS WITH THE SARP MISSION BEFORE PROVIDING DEFINITIVE GUIDANCE. THE FOLLOWING SECTIONS DESCRIBE THE ISSUES THAT WERE DISCUSSED IN THE ECPR AND SUBSEQUENT TO IT AND THE RESULTING GUIDANCE TO THE FIELD.

3. ISSUE 1: CHOICE OF TELECOMMUNICATIONS SECTOR

(A) DISCUSSION: THE ECPR REVIEWED THE INITIAL RATIONALE FOR INVOLVEMENT IN THE TELECOMMUNICATIONS SECTOR, WHICH INCLUDES THE CONTRIBUTION OF TELECOMMUNICATIONS TO OVERALL ECONOMIC DEVELOPMENT IN A COUNTRY, ITS CRITICAL ROLE IN INTRA-REGIONAL AND INTERNATIONAL TRADE AND INDUSTRIAL DEVELOPMENT, THE POTENTIAL FOR SIGNIFICANT U.S. PARTICIPATION IN THE SECTOR ON A MEDIUM AND LONG-TERM BASIS IN AN IMPROVED POLICY ENVIRONMENT, AND THE TECHNOLOGICAL CHANGES IN THE SECTOR WHICH GREATLY EXPAND OPTIONS FOR EFFECTIVE DELIVERY OF SERVICES. THE ECPR REVIEWED THE CHOICE OF INVESTMENT IN TELECOMMUNICATIONS AND THE ANTICIPATED RATES OF RETURN IN RELATION TO OTHER SECTORS. THE MISSION ADDRESSED THESE CONCERNS BY DISCUSSING THE IMPORTANCE OF ADEQUATE AND RELIABLE TELECOMMUNICATIONS TO POTENTIAL INVESTORS.

(B) GUIDANCE: IT WAS DETERMINED THAT TELECOMMUNICATIONS IS AN APPROPRIATE SECTOR FOR FINANCING UNDER THE SADC AUTHORIZATION STATUTE (FAA 496(0) INDUSTRIAL DEVELOPMENT AND TRADE (INCLUDING PRIVATE SECTOR INITIATIVES) PROVISION, AND THAT INVOLVEMENT IN THIS SECTOR IS CONSONANT WITH THE AGENCY'S BROAD-BASED ECONOMIC GROWTH GOALS AND POTENTIAL PROGRAMMATIC THRUSTS OF THE NEW

INITIATIVE FOR SOUTHERN AFRICA.

4. ISSUE 2: MAXIMIZING U.S. PARTICIPATION IN THE SECTOR

(A) DISCUSSION: MUCH OF THE DISCUSSION CENTERED ON HOW TO MAXIMIZE U.S. PARTICIPATION IN THE TELECOMMUNICATIONS SECTOR WHILE STILL ACHIEVING POLICY REFORMS THAT PROMOTE INCREASED EFFICIENCY AND PRIVATE SECTOR PARTICIPATION AND COMPETITION IN THE TELECOMMUNICATIONS SECTOR IN SOUTHERN AFRICA. THE U.S. IS A WORLD LEADER IN TELECOMMUNICATIONS TECHNOLOGY, HARDWARE, SOFTWARE AND MANAGEMENT OF SYSTEMS. U.S. INTERESTS RANGE FROM MANUFACTURERS. THE RCPR NOTED THAT THESE PARTIES WILL BE ACTIVELY INTERESTED IN THE PROPOSED PROGRAM AND THAT THE PROGRAM SHOULD BE STRUCTURED TO RESPOND TO THESE GROUPS IN A CONSTRUCTIVE MANNER AND TO FULLY INCORPORATE U.S. TELECOMMUNICATIONS ACTORS INTO PROGRAM IMPLEMENTATION.

(B) MECHANISMS WERE DISCUSSED WHICH APPEAR TO MEET THIS OBJECTIVE, INCLUDING THE PROPOSED PROJECTIZED ASSISTANCE TO FULLY INFORM U.S. INVESTORS OF POTENTIAL SOUTHERN AFRICAN MARKETS AND OF CHANGES IN EXISTING POLICIES LIMITING OR PROHIBITING INVESTOR PARTICIPATION. ALSO DISCUSSED WERE MECHANISMS FOR DIRECTING PROCUREMENT TO U.S. TELECOMS FIRMS THROUGH SUCH THINGS AS PUBLIC OR PRIVATE SECTOR COMMODITY IMPORT PROGRAMS. THE MISSION NOTED THAT PAAD DEVELOPMENT COULD INCLUDE ANALYSIS TO DETERMINE THE DEGREE TO WHICH COMMODITY IMPORT PROGRAMS OR

OTHER DISBURSEMENT MECHANISMS COULD BE USED TO MAXIMIZE ACHIEVEMENT OF PROGRAM GOALS AND U.S. INVOLVEMENT. INITIALLY, THE MISSION AND POL OBJECTED TO A COMMODITY IMPORT PROGRAM TIED TO PUBLIC SECTOR TELECOMMUNICATIONS EQUIPMENT, FEELING THAT PROVISION OF EQUIPMENT ON A GRANT BASIS AT THE ANTICIPATED FUNDING LEVEL COULD UNDERMINE POLICY EFFORTS TO INCREASE PRIVATE SECTOR PARTICIPATION. BASED ON FURTHER CONSULTATIONS IT WAS DETERMINED BY THE MISSION THAT IN CERTAIN CIRCUMSTANCES AND WITH CREATIVE DESIGN, BOTH PRIVATE AND PUBLIC SECTOR COMMODITY IMPORT PROGRAMS COULD LEVERAGE SIGNIFICANT PRIVATE SECTOR PARTICIPATION IN THE TELECOMMUNICATIONS SECTOR.

(C) FUNDING OF FEASIBILITY STUDIES: PPC NOTED THAT PROJECT DESIGN MAY INVOLVE FEASIBILITY STUDIES. THERE IS AN INTER-AGENCY AGREEMENT THAT THE TRADE AND DEVELOPMENT AGENCY (TDA) IS RESPONSIBLE FOR ALL FEASIBILITY STUDIES FOR TRADE PROMOTION AND THAT ALL FUNDS FOR SUCH ACTIVITIES WILL BE TRANSFERRED TO TDA. MISSION IS ADVISED THAT IF YOU ONLY PLAN A FEASIBILITY STUDY AND DO NOT INTEND TO

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FUND THE FOLLOW-ON PROJECT, THEN YOU MAY HAVE TO TURN OVER SUCH FEASIBILITY STUDY FUNDING TO TDA.

GUIDANCE: IT WAS DETERMINED THAT THE INDIVIDUAL PAADS MUST PROPOSE MEANS TO MAXIMIZE U.S. INVOLVEMENT IN THE SECTOR. NON-PROJECT ASSISTANCE DISBURSEMENT MECHANISMS WILL BE IN THE FORM OF A PRIVATE OR PUBLIC SECTOR COMMODITY IMPORT PROGRAM. IF THE FOREIGN EXCHANGE REGIME IN THE INDIVIDUAL COUNTRY DOES NOT WARRANT A COMMODITY IMPORT PROGRAM, ANY ALTERNATIVE DISBURSEMENT MECHANISM PROPOSED MUST DEMONSTRATE THAT U.S. PROCUREMENT WILL BE MAXIMIZED.

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EACH PAAD MUST INCLUDE A DETAILED ANALYSIS OF THE TOTAL DEMAND FOR TELECOMMUNICATIONS EQUIPMENT FOR THE SECTOR DURING THE PROPOSED LIFE OF THE PROGRAM, WITH RELEVANT CATEGORIES OF BUYERS IDENTIFIED (BOTH PUBLIC AND PRIVATE SECTOR). THIS INFORMATION, ALONG WITH THE POLITICAL, TECHNICAL, AND ECONOMIC ANALYSES, WILL BE USED TO DETERMINE THE APPROPRIATE DISBURSEMENT MECHANISMS AND LEVEL OF FINANCING FOR EACH PROPOSED COUNTRY PROGRAM. SEE PARA. 10 BELOW FOR DISCUSSION OF BUY AMERICA OPTIONS.

5. ISSUE 3: PEOPLE LEVEL IMPACT

(A) DISCUSSION: THE ECPR QUESTIONED THE DEGREE TO WHICH PROGRAM IMPACT WILL BE MEASURED AT THE HOUSEHOLD LEVEL AND WHETHER THE PROPOSED PROGRAM SATISFIES DFA GUIDANCE REGARDING PEOPLE LEVEL IMPACT. ACCORDING TO THE MISSION, THE PROGRAM IS DESIGNED TO OBTAIN PEOPLE LEVEL IMPACT THROUGH INCREASED ACCESS TO TELECOMMUNICATIONS SERVICES, WHICH WILL BE MEASURED AT THE HOUSEHOLD LEVEL WITH PARTICULAR ATTENTION TO TRADITIONALLY UNDER-SERVED AREAS SUCH AS RURAL POPULATIONS.

(B) GUIDANCE: THE ECPR DETERMINED THAT THE PID/PATP CONFORMS WITH GUIDANCE REGARDING PEOPLE LEVEL IMPACT AND THAT THE SPECIFIC INDICATORS FOR MEASURING IMPACT WILL BE SET FORTH IN EACH PAAD.

6. ISSUE 4: CONDITIONALITY

(A) DISCUSSION: THE PID/PATP PRESENTS SEVERAL INDICATORS

OF EXPECTED ACHIEVEMENT AT THE END OF THE FIVE-YEAR PROGRAM. EACH INDICATOR IS ASSOCIATED WITH INCREASED ACCESS TO TELECOMMUNICATIONS SERVICES. ANNEX C OF THE PROGRAM DOCUMENT PRESENTS ILLUSTRATIVE CONDITIONALITY SHOWING THAT ACTIONS TO INCREASE ACCESS TO SERVICES MAY

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RANGE FROM PRIVATE SECTOR MANAGEMENT CONTRACTS TO SALE OF A CONTROLLING INTEREST IN THE PT AND T BY THE END OF THE PROGRAM. DURING THE ISSUES MEETING, A DISCUSSION CENTERED AROUND THE PROGRAM'S END OBJECTIVE. THE MISSION EXPLAINED THAT ITS OBJECTIVE WOULD BE QUOTE EFFECTIVE PRIVATE SECTOR CONTROL UNQUOTE OF THE SECTOR IN THE SELECTED NPA COUNTRIES, BUT REQUESTED THAT NO ONE SPECIFIC BENCHMARK, SUCH AS 51 PERCENT PRIVATE SECTOR OWNERSHIP, BE DICTATED NOW DUE TO THE VARYING APPROACHES WHICH MAY BE USED IN EACH COUNTRY.

(B) GUIDANCE: EACH PAAD MUST PROVIDE A DETAILED DESCRIPTION OF HOW QUOTE EFFECTIVE PRIVATE SECTOR CONTROL UNQUOTE WILL BE ACHIEVED IN EACH COUNTRY. TARGETS AND CONDITIONALITY LEADING TO THIS END MUST ALSO BE EXPLICITLY OUTLINED IN EACH PAAD.

7. ISSUE 5: MANAGEMENT OF THE PROGRAM

DISCUSSION:

(A) THE PID/PAIP DOCUMENT ACCOMMODATES, AS MUCH AS POSSIBLE, MISSIONS' EXPRESSED CONCERNS ABOUT THE MANAGEMENT BURDEN. NEVERTHELESS, IT IS QUOTE PROBABLE THAT THE NEW PROGRAM WILL ADD A QUOTE POLICY DIALOGUE UNQUOTE BURDEN AT THE UPPER LEVEL OF MISSION MANAGEMENT, WHICH PARTICULARLY IN THE CASE OF ZAMBIA, FURTHER STRETCHES CAPABILITY LIMITS. UNDER ANY ARRANGEMENTS, THE PROGRAM WILL REQUIRE SOME MANAGEMENT ATTENTION.

(B) IN ADDITION, IT IS POSSIBLE THAT OTHER SADC MEMBER COUNTRIES, SUCH AS NAMIBIA OR MOZAMBIQUE, MAY BE IN A POSITION TO MOVE FORWARD ON THE POLICY FRONT IN THE TELECOMMUNICATIONS SECTOR. IF ONE OF THE CURRENTLY IDENTIFIED COUNTRIES IS NOT MAKING SUFFICIENT HEADWAY IN POLICY REFORM, PROGRAMMATIC IMPACT MAY BE MAXIMIZED BY TARGETING RESOURCES AT A DIFFERENT SADC COUNTRY.

(C) THE ECPR NOTED FURTHER THAT THE MANAGEMENT BURDEN WILL FALL PRIMARILY UPON THE SARP MISSION AND THAT NPA ASSISTANCE AND THE CONCOMITANT POLICY DIALOGUE ARE TIME CONSUMING ACTIONS. THE MISSION WAS ASKED TO REVIEW CRITICALLY ITS OWN AS WELL AS OTHER MISSIONS' CAPACITY TO MANAGE THE PROPOSED MULTI-COUNTRY INITIATIVE EFFECTIVELY.

(D) GUIDANCE: BEFORE APPROVAL OF INDIVIDUAL PAADS, PARTICIPATING MISSIONS SHOULD BE ASKED FOR A FORMAL DETERMINATION OF THEIR ABILITY TO MANAGE ACTIVITIES ASSOCIATED WITH THIS PROGRAM.

8. ISSUE 6: OTHER DONORS

(A) DISCUSSION: AS NOTED IN THE PID/PAIP AND THE MISSION'S OPENING STATEMENT, OTHER DONORS, BOTH BILATERAL AND MULTILATERAL ARE ACTIVELY INVOLVED IN THE TELECOMMUNICATIONS SECTOR. AT PRESENT, MOST PROVIDE ASSISTANCE DIRECTLY TO THE PARASTATAL ENTITY WITH LITTLE OR NO POLICY CONDITIONALITY LINKED TO THEIR PROGRAMS. ASSISTANCE IS NORMALLY IN THE FORM OF TIED LOANS. THE ECPR EXPRESSED CONCERN ABOUT PROGRAM IMPLEMENTATION VULNERABILITIES AND USAID'S ABILITY TO EFFECTIVELY INFLUENCE THE ACTIONS OF OTHER DONORS IN THIS SECTOR DUE TO COUNTRY SPECIFIC COMMERCIAL INTERESTS. THE MISSION ADVANCED THE IDEA THAT POLICY CHANGES RESULTING IN PRIVATE SECTOR PARTICIPATION AND INVOLVEMENT IN THE SECTOR ARE THE MOST EFFECTIVE MEANS FOR LEVELING THE PLAYING FIELD FOR U.S. MANUFACTURERS AND U.S. INVESTORS. THE MISSION NOTED THAT A JUNE 1992 STATE DEPARTMENT STUDY OF INTERNATIONAL FINANCING OF TELECOMMUNICATIONS MADE THIS SAME POINT. WITH INCREASED PRIVATE PARTICIPATION AND THE PROPOSED END GAME OF EFFECTIVE PRIVATE SECTOR CONTROL, TIED AID TO GOVERNMENTAL OR PARASTATAL ENTITIES IS OF LITTLE IMPACT, SINCE INVESTMENT AND PROCUREMENT DECISIONS WILL BE MADE ON A COMMERCIAL BASIS.

(B) GUIDANCE: EACH INDIVIDUAL COUNTRY PAAD SHOULD INCLUDE AN EXPANDED DISCUSSION OF SPECIFIC DONOR ACTIVITY IN THE TELECOMMUNICATIONS SECTOR. THIS DISCUSSION SHOULD NOTE THE TYPE OF ASSISTANCE, ANY POLICY CONDITIONALITY ASSOCIATED WITH THE ASSISTANCE, AND ANY RESTRICTIONS WHICH

OTHER DONORS ARE PLACING ON THE USE OF FUNDS. ACTIVITY BY OTHER DONORS THAT WOULD JEOPARDIZE ACHIEVEMENT OF USAID PROGRAM OBJECTIVES IN A GIVEN COUNTRY WOULD CAUSE RECONSIDERATION OF USAID'S PARTICIPATION IN THAT COUNTRY. THE SAME MISSION SHOULD CONTINUE TO MONITOR, COORDINATE, AND LIAISE WITH OTHER DONORS DURING THE DEVELOPMENT OF THE INDIVIDUAL COUNTRY PAADS.

9. ADDITIONAL PE/PAAD PREPARATION GUIDANCE

(A) CONSTRAINTS ANALYSIS

-- (1) EACH INDIVIDUAL PAAD SHOULD CONTAIN A DETAILED ANALYSIS OF THE MACROECONOMIC SITUATION IN THE COUNTRY, THE SECTOR SPECIFIC CONSTRAINTS (INCLUDING THE

TECHNOLOGICAL AND FINANCIAL ASPECTS OF THE SECTOR OPERATING ENTITY IN THAT COUNTRY), AND A RATIONALE FOR THE LEVEL OF FUNDING IN THAT COUNTRY. GENDER ISSUES MUST ALSO BE ADDRESSED.

-- (2) DUE TO THE INTERRELATED NATURE OF INVESTMENT IN THE TELECOMMUNICATIONS SECTOR AND THE GENERAL INVESTMENT CLIMATE IN THE COUNTRY, EACH PAAD SHOULD INCLUDE AN ANALYSIS INDICATING ADDITIONAL CONDITIONALITY WHICH MAY BE REQUIRED DUE TO PROBLEMS IN THE GENERAL INVESTMENT CLIMATE.

Country PAADs
-- (3) THE PAAD MUST INCLUDE AN EXPANDED DISCUSSION OF THE POTENTIAL FOR U.S. INVESTMENT IN TELECOMMUNICATIONS IN SOUTHERN AFRICA, INCLUDING EXAMPLES OF U.S. INTEREST EVIDENCED TO DATE AND EXPERIENCE IN SIMILAR COUNTRIES WHERE PRIVATE SECTOR PARTICIPATION IS PERMITTED.

(B) HOST COUNTRY COMMITMENT

EACH PAAD SHOULD INCLUDE AN ANALYSIS WHICH DISCUSSES THE LEVEL OF COMMITMENT TO CHANGE OF THE RELEVANT MINISTRIES OF FINANCE AND COMMUNICATIONS. FOR THOSE MINISTRIES OBJECTING TO CHANGE, THE ANALYSIS SHOULD EXPLAIN WHY. THE MISSION SHOULD CONTINUALLY ASSESS THE HOST COUNTRY LEVEL OF COMMITMENT TO SECTORAL REFORM THROUGHOUT DEVELOPMENT OF THE PAAD.

(C) BUY AMERICA

THE DESIGN FOR TECHNICAL ASSISTANCE TO BE PROVIDED THROUGH THE PROJECT SHOULD ENSURE THAT THE PROJECT PROVIDES ASSISTANCE IN THE DEVELOPMENT OF SPECIFICATIONS AND STANDARDS FOR INTERCONNECT SERVICES AND EQUIPMENT TO ENSURE THAT U.S. MANUFACTURERS ARE ABLE TO COMPETE ON AN EQUAL BASIS WITH SUPPLIERS FROM OTHER COUNTRIES.

(D) LOCAL CURRENCY: THE ECPR MADE CLEAR THAT, IN ACCORDANCE WITH THE DFA NPA GUIDANCE, LOCAL CURRENCY GENERATIONS WERE TO BE USED IN SUPPORT OF THE SECTOR PROGRAMS OBJECTIVES IN ALL CASES, NOT JUST WHERE SPA GUIDELINES PERMITTED THIS. (SEE CONFLICT WITH PARA. 10C BELOW). SUBSEQUENTLY, AT THE ZAMBIA CPSP REVIEW, THE PREDOMINANCE OF DFA GUIDANCE WAS EMPHASIZED BY DAA/AFR, BUT THE ZAMBIA MISSION DIRECTOR STATED THAT PROGRAMMING LOCAL CURRENCY TO SECTORS WOULD LIKELY BE CONSISTENT WITH THE SPA IN ZAMBIA. (FOR EXAMPLE, PROGRAMMING LOCAL CURRENCY IN SUPPORT OF TELECOMMUNICATIONS RESTRUCTURING WOULD ALLOW THE GOVERNMENT THE DISCRETION TO MANAGE THE SPECIFIC LINE ITEM BUDGETS AND EXPENDITURES, YET STILL FULFIL

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(E) PD 20. USAID/W UNDERSTANDS THAT THE MISSION IS CAREFULLY REVIEWING WITH THE RLA THE EFFECT ON THE PROJECT OF RECENTLY-ISSUED PD 20, GUIDELINES TO ASSURE USAID PROGRAMS DO NOT RESULT IN THE LOSS OF JOBS IN THE U.S. THE PP SHOULD CAREFULLY DOCUMENT COMPLIANCE WITH THIS P.D.

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10. BUY AMERICA: MISSION RESPONSE

SUBSEQUENT TO THE ECPR, THE MISSION SENT A CABLE ADDRESSING MANY OF THE ISSUES RAISED CONCERNING BUY AMERICA, WHICH ARE CONTAINED IN THE FIRST FOUR PARAGRAPHS OF HARARE 08585, AUGUST 6, 1993. THEY ARE APPENDED HERE TO PROVIDE A COMPLETE EXPLANATION OF ALL ACTIONS SUBSEQUENT TO THE ECPR. FOLLOWING IS THE CABLE:

(1) THIS CABLE PROVIDES ADDITIONAL CLARIFICATION OF THE INFORMATION PROVIDED IN REFTEL WHICH STATED THAT THE MISSION BELIEVES THAT THE SUBJECT PROGRAM DESIGN CAN BE

SUBJECT:

EFFECTIVELY MODIFIED TO ADEQUATELY TAKE INTO ACCOUNT BUY AMERICA CONCERNS. SPECIFICALLY, THE DISCUSSION BELOW PROVIDES ILLUSTRATIVE EXAMPLES ON HOW THE AGENCY'S QUOTE BUY AMERICA UNQUOTE CONCERNS WILL BE TAKEN INTO ACCOUNT IN PROGRAM DESIGN AND SHOULD BE TREATED AS AN ADDENDUM TO THE PID/PATP. AS NOTED IN REFTEL (HARARE 8246), AT THE ECPR REVIEW, AND IN THE PID/PATP, THE MISSION INTENDS TO PRESENT THE FINAL PAAD DOCUMENT(S) TO USAID/W FOR APPROVAL IN FY 94-95. THIS PROCEDURE WILL PROVIDE USAID/W WITH ANOTHER OPPORTUNITY TO REVIEW THE PROGRAM AND DETERMINE IF THE QUOTE BUY AMERICA UNQUOTE CONCERNS HAVE BEEN ADEQUATELY ADDRESSED.

(2) U.S. DOLLAR PROGRAMMING WILL USE A VARIETY OF MODES WHICH ARE PRESENTED ILLUSTRATIVELY BELOW DEPENDING ON THE FX MECHANISM IN EACH OF THE PROPOSED COUNTRIES. THE DETAILS OF THESE PROPOSALS WILL BE APPROPRIATELY ANALYZED IN COUNTRY-SPECIFIC SITUATIONS BEFORE THE MISSION CAN CONFIRM THAT THE ILLUSTRATIVE MODES OR SOME FORM OF MODIFICATION TO THE SAME WILL BE INCORPORATED INTO FINAL DESIGN. IT SHOULD BE NOTED THAT THE MISSION HAS ALREADY CONSULTED WITH FA/PPE AND FA/OP TO DETERMINE IF THE EXPERTISE OF COMMODITY OFFICERS COULD BE INCORPORATED INTO THE DESIGN TEAM. EFFORTS WILL ALSO BE MADE TO INCLUDE THE REGIONAL COMMODITY OFFICER IN REDSO/NAIROBI IN THE DESIGN ACTIVITY. BELOW, PLEASE FIND SOME OF THE SPECIFIC MODES WHICH WILL BE EXPLORED DURING THE DEVELOPMENT OF THE FINAL

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PAADS IN FY 94-95.

(A) A COMMODITY IMPORT PROGRAM FOR PRIVATE SECTOR

IMPORTS: THIS MODE WILL BE EXPLORED IN EACH COUNTRY, TAKING INTO ACCOUNT THAT THE FUNDAMENTAL PREREQUISITE FOR A SUCCESSFUL CIP IS SIMPLY THAT THE COUNTRY OR SECTOR NEEDS THE FOREIGN EXCHANGE; (DAA/FA-POL/OD MEMO DTD/APRIL 1993) THE KEY HERE WILL BE A DETERMINATION TO WHAT EXTENT THE PRIVATE SECTOR WOULD BE WILLING TO UNDERTAKE THE ADMINISTRATIVE ACTIONS REQUIRED TO TAP CIP FOREIGN EXCHANGE WHEN FOREIGN EXCHANGE IS READILY AVAILABLE ON THE OPEN MARKET. A CRITICAL ASPECT OF THE FOREIGN EXCHANGE MARKET SYSTEM TO BE ANALYZED DURING PAAD(S) DEVELOPMENT IS THE EXTENT TO WHICH THE HOST COUNTRY HAS AN ACTIVE AND SAVVY BANKING SECTOR AND CAN NEGOTIATE EXPEDITED CLEARANCE FOR CIP FINANCED MERCHANDISE. IT IS CLEAR THAT AN UNDERDEVELOPED BANKING SYSTEM IS INDEED A MAJOR CONSTRAINT. BUT WE WILL EXAMINE IN SUCH SITUATIONS THE EXTENT TO WHICH U.S. BANKS COULD BE A MAJOR SOURCE OF FREE TECHNICAL ASSISTANCE TO LOCAL BANKS, IN AN EFFORT TO ESTABLISH THEMSELVES IN THE MARKET.

(B) A COMMODITY IMPORT PROGRAM FOR PUBLIC SECTOR IMPORTS. ALL OF THE ABOVE ANALYSES WILL BE CARRIED OUT UNDER THIS MODE, IN ADDITION TO GATHERING OF INFORMATION ON HOST COUNTRY GOVERNMENT TENDER BOARDS AND THE ROLE THEY PLAY WHEN COMPETITION IN INTERNATIONAL TENDERS IS USED.

IN THIS CASE, THE MISSION WILL SEEK TO DESIGNATE PARTICULAR KINDS OF COMMODITIES TO BE ELIGIBLE FOR CIP FINANCING IN ORDER TO MAXIMIZE THE ACHIEVEMENT OF PROGRAM OBJECTIVES AND AT THE VERY LEAST NOT UNDERMINE SUCH REFORMS. FOR EXAMPLE, IF GREATER PRIVATE PARTICIPATION AND INVESTMENT IN THE TELECOMMUNICATIONS SECTORS IS DESIRED, THE MISSION MAY DECIDE AFTER CAREFUL ANALYSIS OF THE SECTOR IN THE PARTICULAR COUNTRY THAT A PUBLIC SECTOR CIP MIGHT BE MORE APPROPRIATE FOR ACCOMPLISHING GOVERNMENT OBJECTIVES SUCH AS A RURAL TELEPHONE SYSTEM EXTENSION, WHICH MAY BE LESS ATTRACTIVE FOR PRIVATE INVESTMENT.

(C) LOCAL CURRENCY PROGRAMMING

WHERE FEASIBLE AND PERMITTED UNDER SPA GUIDANCE, LOCAL CURRENCY PROGRAMMING WILL BE FOR BUDGETARY SUPPORT IN THE TELECOMMUNICATIONS SECTOR, WITH SPECIAL FOCUS ON RETRENCHMENT FINANCING AND RURAL EXTENSION OF TELEPHONE SERVICE WHEN NEGOTIATIONS SUGGEST THAT THESE ARE THE HOST COUNTRY PRIORITY.

(D) ESTABLISHMENT OF A TRAINING/TECHNICAL ASSISTANCE FACILITY:

PROJECT ASSISTANCE/USDOLLARS IN THE TELECOMMUNICATIONS

SECTOR WILL FINANCE TRAINING REQUIREMENTS FOR U.S. EQUIPMENT THAT IS FUNDED UNDER THE GRANT. THE FUND WOULD BE CAPITALIZED WITH PROJECTIZED PROGRAM RESOURCES AND WOULD NOT REQUIRE LOCAL CURRENCY COUNTERPART FUNDS. THIS INTERVENTION WOULD BE ATTRACTIVE WHERE HOST GOVERNMENTS WISH TO PROVIDE SOME ADVANTAGE TO AN INDIGENOUS IMPORTER-INVESTOR TO STRENGTHEN PRIVATE INDIGENOUS PARTICIPATION IN THE TELECOMMUNICATIONS SECTOR.

(3) USAID/ZIMBABWE BELIEVES THAT WHILE IMMEDIATE AMERICAN TRADE INTERESTS IN TELECOMMUNICATIONS EQUIPMENT SALES CAN BE ADDRESSED IN THE MODES EXPLORED ABOVE, THE POLICY REFORMS ADVOCATED UNDER THE PROGRAM WILL ALSO BE KEY TO PROMOTING THE U.S. TELECOMMUNICATIONS INDUSTRY'S INTERNATIONAL COMPETITIVENESS IN THE SECTOR. MOREOVER, SIGNIFICANT BENEFITS OF EXPANDING INVESTMENT AND SERVICE, AS WELL AS EQUIPMENT MARKETS, WILL ACCRUE WITH THE ACHIEVEMENTS OF PROGRAM POLICY REFORM OBJECTIVES.

(4) THE POLICY REFORMS PROPOSED UNDER THE SUBJECT PROGRAM WILL INCREASE PRIVATE PARTICIPATION IN THE TELECOMMUNICATIONS SECTOR AND INCREASE COMPETITION. THEY WILL LEAD TO THE INTRODUCTION OF NEW SERVICES SUCH AS CELLULAR TELEPHONES AND SATELLITE AND DATA COMMUNICATIONS WHICH SHOULD CREATE SIGNIFICANT INVESTMENT OPPORTUNITIES FOR U.S. TELECOMMUNICATIONS COMPANIES (ESPECIALLY SERVICE PROVIDERS) AND SHOULD ENHANCE THE COMPETITIVENESS OF THE U.S. TELECOMMUNICATIONS INDUSTRY.

10. BASED ON THE ECPR AND THE ADDITIONAL INFORMATION PROVIDED BY THE MISSION IN HARARE 08585, REPEATED ABOVE, THIS CABLE PROVIDES APPROVAL FOR USAID/HARARE TO PROCEED WITH DEVELOPMENT OF THE PROPOSED TELECOMMUNICATIONS RESTRUCTURING PROGRAM AND FOR THE DIRECTOR, USAID/HARARE, OR HIS DESIGNEE, TO AUTHORIZE THE PROJECT. INDIVIDUAL PAADS FOR NON-PROJECT ASSISTANCE WILL BE REVIEWED AND APPROVED BY USAID/W.

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3. HOW DOES THIS PROGRAM ACCORD WITH THE OVERALL STRATEGY FOR REGIONAL TELECOMMUNICATIONS DEVELOPMENT OUTLINED IN THE PAIP/PID FOR THE SOUTHERN AFRICA REGIONAL TELECOMMUNICATIONS RESTRUCTURING PROGRAM (690-0274/78)?

A. THE NEW PROPOSED STRATEGY DEVIATES FROM THE APPROACH OUTLINED IN THE OVERALL PROGRAM DOCUMENT WHICH STIPULATED MAJOR POLICY REFORMS ARE THE CRITERIA FOR PARTICIPATION IN THE NONPROJECT ASSISTANCE COMPONENT OF THE PROGRAM. IN PRESENTING ITS RATIONALE FOR THE PROJECT ASSISTANCE APPROACH, USAID/TANZANIA INDICATE& THAT THE MAJOR POLICY CONSTRAINTS TO INVESTMENT IN THE TELECOMMUNICATIONS SECTOR HAVE BEEN VIRTUALLY REMOVED THROUGH REFORMS UNDER THE WORLD BANK PROGRAM. IT WAS UNCLEAR TO THE COMMITTEE THE CHAIN OF EVENTS SINCE THE PAIP/PID WAS APPROVED IN USAID/W IN FY 1993, WHICH LED TO THE EVENTUAL TURNOVER IN THE TELECOMMUNICATIONS SECTOR AND HOW THIS LED TO THE MISSION'S DECISION ON A PROJECT APPROACH. ADDITIONALLY, THE CABLE IS UNCLEAR HOW THE TANZANIA PROGRAM WILL CONTRIBUTE TO REGIONAL DEVELOPMENT OF TELECOMMUNICATIONS.

B. RECOMMENDATION: THE PID SHOULD DESCRIBE THE RELATIONSHIP BETWEEN THE OVERALL SARP ACTIVITY AND ELABORATE ON THE REFORMS IN THE TELECOMMUNICATIONS SECTOR UNDER THE WORLD BANK AUSPICES WHICH LED TO THE MISSION'S DECISION.

4. HOW DOES THIS PROGRAM RELATE TO USAID/TANZANIA'S STRATEGY?

A. AFR/DP NOTED THAT SOME CHANGES HAVE OCCURRED WHICH INDICATE A NEED TO REVIEW THE RELATIONSHIP BETWEEN THE ACTIVITY AND THE MISSION'S PROGRAM.

B. RECOMMENDATION: THE PID SHOULD DETAIL HOW THIS ITS STRATEGIC OBJECTIVES.

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5. WHAT IS THE RELATIONSHIP BETWEEN THE WORLD BANK PROGRAM AND THE USAID/TANZANIA PROJECT?

A. THE WORLD BANK APPEARS TO BE A MAJOR PLAYER IN THE TELECOMMUNICATIONS SECTOR IN GENERAL (THROUGH THE THIRD TELECOM PROJECT) AND IS PLANNING OR ALREADY OPERATING ACTIVITIES IN RURAL SERVICE DELIVERY. SINCE THE TELECOM PROJECT IS EXPECTED TO FINANCE TELECOMMUNICATIONS

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TAGS:

SUBJECT:

EQUIPMENT, THE COMMITTEE, ESPECIALLY THE COMMODITY OFFICE, EXPRESSED CONCERN ABOUT THE RELATIONSHIP BETWEEN THE USAID/TANZANIA AND WORLD BANK ACTIVITY AND THE COMPATIBILITY BETWEEN THE SYSTEM SUPPORTED BY THE WORLD BANK AND THE ONE WHICH WILL BE CREATED WITH USAID FUNDING.

B. RECOMMENDATION: THE PID SHOULD EXPLAIN THE RELATIONSHIP BETWEEN THE WORLD BANK AND THE USAID/TANZANIA ACTIVITY, SPECIFYING WHETHER THERE WILL BE COMPATIBILITY BETWEEN THE SYSTEMS AND WHETHER USAID HAS BEEN INVOLVED AND THE EXTENT OF THAT INVOLVEMENT IN DEVELOPING THE SPECIFICATIONS FOR EQUIPMENT.

6. WHAT IS THE NATURE OF THE REFORMS THAT THE MISSION EXPECTS TO ADDRESS THROUGH THE PROPOSED QUOTE OPERATIONALIZED APPROACH UNQUOTE AND WILL THESE REFORMS BE INSTITUTIONALIZED?

A. THE MISSION NOTES THAT THE BANK HAS ADDRESSED MAJOR REFORMS BUT IT IS UNCLEAR FROM THE CABLE DESCRIPTION THE NATURE AND EXTENT OF REFORMS THE MISSION IS EXPECTING TO EFFECT WITH ITS ASSISTANCE. THE MISSION NOTES RELATIVELY MINOR REGULATORY ACCOMMODATIONS AS REQUIRED TO COMPLETE THE RESTRUCTURING WHICH HAS TAKEN PLACE UNDER WORLD BANK

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AUSPICES. ALSO, THE COMMITTEE NOTED THAT SOME REQUIRED REFORMS MAY ACTUALLY GO BEYOND THE TELECOMMUNICATIONS SECTOR TO OTHER ISSUES, SUCH AS REPATRIATION OF PROFITS. USING THE OPERATIONAL APPROACH OF GETTING APPROVAL FOR AN INVESTMENT BY A PRIVATE TELECOMMUNICATIONS FIRM MAY INDEED FERRET OUT AND REMOVE THE OBSTACLES FOR INVESTMENT. HOWEVER, THE OPERATIONALIZED APPROACH SHOULD NOT SUBSTITUTE FOR ADEQUATE PLANNING IN THE PROJECT PAPER AND THAT THE COMMITTEE ADVISES THAT THE MISSION SHOULD HAVE A CLEAR PICTURE IN TERMS OF VERIFIABLE BENCHMARKS FOR THE ACHIEVEMENT OF THESE REFORMS PRIOR TO THE INTRODUCTION OF THE INVESTMENT APPROVAL PROCESS. ADDITIONALLY, THE COMMITTEE IS CONCERNED THAT THIS APPROACH DOES NOT FACILITATE THE PATH FOR JUST ONE INVESTOR, THEREBY SUPPORTING THE DEVELOPMENT OF A MONOPOLY. FINALLY, IT IS UNCLEAR WHETHER THE MISSION INTENDS TO ESTABLISH CRITICAL CONDITIONS WHICH THE GOVERNMENT OF TANZANIA MUST MEET BEFORE THE GRANT FUNDS ARE MADE AVAILABLE.

B. RECOMMENDATION: THE PID SHOULD GIVE A CLEAR INDICATION OF THE IMPORTANCE OF OBTAINING AND/OR

INSTITUTIONALIZING REFORMS VS. ESTABLISHING ONE COMPANY, SINCE CONFLICTS BETWEEN THESE OBJECTIVES MAY ARISE DURING IMPLEMENTATION. THIS SHOULD BE REFLECTED IN THE PROJECT OBJECTIVES. THE PID ALSO SHOULD INDICATE THE NATURE OF THE REFORMS, WITHIN AND WITHOUT THE TELECOMMUNICATIONS SECTOR, REQUIRED TO ATTRACT PRIVATE INVESTMENT; SHOW HOW THE REFORMS WILL BE INSTITUTIONALIZED BEYOND THE ONE INVESTMENT SUPPORTED BY THE PROJECT; AND INDICATE THE CRITICAL STEPS THE GOVERNMENT OF TANZANIA MUST TAKE BEFORE FUNDS CAN BE DISBURSED.

7. DOES THE PROPOSED APPROACH MAKE GOOD BUSINESS SENSE?

A. THE MISSION PRESENTS AN INNOVATIVE APPROACH TO EFFECTING POLICY REFORMS AND ATTEMPTS TO DEAL DIRECTLY WITH THE ISSUE OF HOW TO GET PRIVATE INVESTMENT. HOWEVER, BECAUSE THIS APPROACH IS INNOVATIVE, THE MISSION WILL NEED TO ESTABLISH WHY THEY BELIEVE THIS APPROACH WILL WORK AND WHETHER THE ARRANGEMENTS, E.G. FOR A SILENT PARTNER WITH THE SOCIAL ACTION TRUST, USAID PROCUREMENT RULES, ETC. WILL BE ATTRACTIVE FOR A PRIVATE INVESTMENT.

B. RECOMMENDATION: THE PID SHOULD PRESENT A RATIONALE FOR WHY THE APPROACH WILL BE ATTRACTIVE TO A PRIVATE COMPANY AND ITS CHANCES FOR SUCCESS.

8. WHAT IS THE SOCIAL ACTION TRUST AND WHY HAS IT BEEN CHOSEN AS A SILENT PARTNER RATHER THAN A JOINT VENTURE BETWEEN A TANZANIAN FIRM AND A U.S. PARTNER?

A. THE CABLE INDICATES THAT THE SOCIAL ACTION TRUST WILL BE GIVEN EQUITY SHARE IN THE U.S. FIRM'S INVESTMENT IN EXCHANGE FOR THE FIRM'S RECEIPT OF DOLLARS 19.5 MILLION IN COMMODITIES FINANCING. IT IS UNCLEAR FROM THE CABLE WHETHER THERE ARE LOCAL FIRMS CAPABLE OF INVESTMENT AND WHY THE U.S. FIRM SHOULD NOT BE ABLE TO DECIDE ON ITS LOCAL PARTNER. IF LOCAL FIRMS ARE CAPABLE OF INVESTING BUT DON'T HAVE THE CAPITAL, COULD THE MISSION HAVE DEVISED WAYS TO ADDRESS THIS ISSUE TO FACILITATE LOCAL PRIVATE PARTICIPATION. ALSO, SINCE A TIME FRAME HAS NOT BEEN

PRESENTED FOR THE DEVELOPMENT OF A STOCK EXCHANGE, THE SUGGESTION THAT THE SOCIAL ACTION MUST HOLD THE GOVERNMENT OF TANZANIA'S EQUITY IN THE INVESTMENT UNTIL A PUBLIC OFFERING IS ABLE TO BE MADE DOES NOT OFFER ASSURANCES THAT THIS INVESTMENT WILL TRULY REMAIN A PRIVATE ONE. MOREOVER, IT IS UNCLEAR WHY THE SOCIAL ACTION TRUST WAS CHOSEN AND WHAT IT IS.

B. RECOMMENDATIONS: THE PID SHOULD DOCUMENT AND JUSTIFY ITS APPROACH FOR USING THE SOCIAL ACTION TRUST, INCLUDING

DISCUSSING THE EXISTENCE OF LOCAL FIRMS CAPABLE OF JOINT PARTNERSHIPS AND WHETHER THEIR PARTICIPATION COULD BE FACILITATED, WHETHER THE PROPOSED APPROACH MAKES BUSINESS SENSE FOR THE INVESTOR BASED ON EVIDENCE, THE RATIONALE FOR CHOOSING THE SOCIAL ACTION TRUST, AND THE LIKELIHOOD OF A PUBLIC OFFERING; AND EXPLAIN THE GOVERNMENT OF TANZANIA'S INVOLVEMENT IN THE COMPANY AFTER THE FUNDS HAVE BEEN GRANTED.

9. WHAT IS THE VALUE OF THE INVESTMENT IN RURAL TELECOMMUNICATIONS AND WHAT SHARE OF THAT DOES THE DOLLARS 19.5 MILLION REPRESENT?

A. THE CABLE DOES NOT INDICATE THE VALUE OF THE INVESTMENT. THIS ISSUE IS IMPORTANT BECAUSE THE DOLLARS 19.5 MILLION IS IN EFFECT A SUBSIDY TO A PRIVATE U.S. INVESTOR AND THE COMMITTEE WISHES TO INSURE THAT THE INVESTOR WILL BE INVESTING A SIGNIFICANT AMOUNT OF HIS/HER OWN RESOURCES. IF THE FINANCING OF THE TELECOMMUNICATIONS EQUIPMENT IS AN INDUCEMENT FOR THE INVESTOR, THE PROJECT COMMITTEE QUESTIONED HOW THE MISSION DETERMINED THE AMOUNT OF INDUCEMENT THAT WOULD BE REQUIRED TO GET THE INVESTMENT AND WHETHER THE FULL DOLLARS 19.5 MILLION IS REQUIRED. ALSO, SINCE THE MISSION PROPOSES THAT THE INVESTOR BE A MINORITY OWNER (49% OR LESS) OF THE COMPANY WITH THE SOCIAL ACTION TRUST OWNING THE MAJORITY (PRESUMABLY, FROM THE EXCHANGE OF DOLLARS 19.5 MILLION FOR EQUIPMENT

FINANCING FOR EQUITY), DOES THIS MEAN THAT THE VALUE OF THE INVESTMENT IS UNDER DOLLARS 40 MILLION?

B. RECOMMENDATION: THE PID SHOULD INDICATE THE VALUE OF THE INVESTMENT AND HOW IT DETERMINED THE AMOUNT OF EQUIPMENT FINANCING WHICH WOULD PROVIDE AN INCENTIVE OR INDUCEMENT FOR THE U.S. COMPANY TO INVEST; AND HOW IT WILL ESTABLISH MAJORITY SHARES FOR THE SOCIAL ACTION TRUST.

10. IS THERE POTENTIAL FOR ABUSE OF THE SUPPLIER/IMPORTER RELATIONSHIP WHICH IS ALLOWED UNDER REG 1, SECTION 2 0 1 . 2 3 3 ?

A. THE COMMODITY OFFICE NOTED THAT IN CASES WHERE DIFFICULTY EXISTS IN REPATRIATION OF FOREIGN EXCHANGE, IT WAS UNCLEAR TO THE COMMITTEE WHETHER THIS IS AN ISSUE FOR TANZANIA.

3 B. RECOMMENDATION: THE PID SHOULD INDICATE WHETHER THERE IS POTENTIAL FOR ABUSE OF THE SUPPLIER/IMPORTER RELATIONSHIP AND IF SO, HOW IT WILL BE ADDRESSED.

11. DOES THE PROPOSED STRATEGY CONFIRM WITH ECPR GUIDANCE COMMUNICATED TO THE FIELD IN REF. B?

A. IT APPEARS THAT THE PROPOSED APPROACH IS IN ACCORDANCE WITH THE CONCERNS OF THE ECPR. HOWEVER, AS THE MISSION DEVELOPS THIS PROGRAM, IT SHOULD DO SO IN CONFORMANCE WITH ECPR GUIDANCE NOTWITHSTANDING THE GUIDANCE ON DEVELOPING A NPA ACTIVITY.

B. RECOMMENDATION: THE MISSION SHOULD ENSURE THAT PID DEVELOPMENT ACCORDS WITH ECPR GUIDANCE AND TO THE EXTENT THAT THE PID DEVIATES, SHOULD PROVIDE DETAILED JUSTIFICATION.

11. USAID/TANZANIA IS HEREBY AUTHORIZED TO DEVELOP THE TANZANIA TELECOMMUNICATIONS ACTIVITY AS OUTLINED IN REF A, BASED ON THE PROJECT COMMITTEE REVIEW AND RECOMMENDATIONS OUTLINED HEREIN. AS THIS ACTIVITY IS PLANNED AS AN FY 1994 AUTHORIZATION/OBLIGATION, AFR/W REQUESTS

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USAID/TANZANIA TO RECONFIRM THAT IT CAN MEET THIS PLANNED DEADLINE. IN CONSIDERING THIS SCHEDULE, THE MISSION SHOULD NOT ASSUME FIELD APPROVAL AUTHORITY SINCE THIS DECISION IS DEFERRED UNTIL PID REVIEW AND AFR/W CANNOT GUARANTY THE OUTCOME OF THE PID REVIEW AND MISSION'S REQUEST. IF AFTER DUE CONSIDERATION THE MISSION DETERMINES THAT IT CANNOT MEET THIS SCHEDULE, THE MISSION IS REQUESTED TO ADVISE AFR/SA AND USAID/SARP IMMEDIATELY SO THAT REPROGRAMMING OPTIONS FOR THE FUNDS CAN BE EXERCISED.

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ANNEX C

USAID/SARP RTR Program PID/PAIP Approval Cable

ANNEX D

Initial Environmental Examination

**Initial Environmental Examination
or
Categorical Exclusion**

PROGRAM LOCATION: Tanzania

PROGRAM TITLE: Rural Telecommunications for Tanzania (RTT)

FUNDING: US\$ 20,000,000
Initial Year FY94
5-Year LOP

IEE PREPARED BY: Erik Loken, REDSO/ESA
Regional Environmental Officer

ENVIRONMENTAL ACTION RECOMMENDED:

Positive Determination	_____
Negative Determination	_____ <u>X</u> _____
Categorical Exclusion	_____ <u>X</u> _____
Deferral	_____

SUMMARY OF FINDINGS AND RECOMMENDED ENVIRONMENTAL THRESHOLD DECISION:

Planned RTT/RTR project technical assistance, training and other implementation support services qualifies for a **Categorical Exclusion** pursuant to Sections 216.2(c)(1)(i), and 216.2(c)(2)(i) and (iii) of USAID's Environmental Procedures (22 CFR 216).

Based on the above discussion, it is also recommended that the project receive a **Negative Determination** pursuant to Section 216.3(a)(2)(iii) of said Procedures. This recommendation is based on the finding that this RTT project activity will not result in significant adverse environmental impacts on Tanzania's natural and physical environment, provided that the planned regional telecommunications demonstration activity is designed and implemented in an environmentally sound manner. To ensure that this is, in fact, the case, this recommended negative environmental threshold decision is made subject to the following conditions:

1. That a comprehensive assessment be completed during the Project Paper design of the existing environmental institutional capacity in Tanzania, focussing on the capacity of existing GOT telecommunications institutions, e.g., the TCC, the TTCL, and national or regional environmental agencies or programs to properly oversee the environmental

design and implementation of planned sectoral development activities. The assessment will cover current GOT capacities in the areas of: (1) environmental laws and regulations, (2) capacity to conduct, or otherwise oversee, environmental assessments of development projects, and (3) the level of experience in incorporating environmental considerations into project design and implementation, i.e., environmental monitoring, evaluation and mitigation considerations. Rather than simply focussing on the written environmental regulations and procedures, the assessment will include an analysis of the capacities of the individuals charged with administering the regulations, and a sampling of previously completed sectoral projects (to the extent available), to determine the extent to which environmental considerations (including public participation) are taken into account and implemented in practice. The results of this assessment will be included in the Project Paper and used to determine what (if any) steps should be taken to promote the achievement of USAID's current stated priority objective of integrating environmental considerations into all aspects of development decision-making and implementation. In addition, the assessment will identify additional technical assistance, training and/or other inputs required to address or compensate for institutional shortcomings identified by the assessment in the capacity of the concerned host country institutions to properly assess, monitor and evaluate the environmental implications of sectoral development activities, including, most importantly, the planned U.S. regional demonstration activity.

2. That the RFP to be issued soliciting interest in the RTT activity require offerors to include a section describing the potential environmental impacts of the proposed regional development activity, together with a plan for mitigating any adverse environmental impacts to the maximum extent practical. And that this information be included in the evaluation of firm proposals, in addition to the other planned criteria for selecting the regional telecommunications private investment/operating company.

CONCURRENCE:

Bureau Environmental Officer:
John J. Gaudet, AFR/ARTS

Approved: _____
Disapproved: _____
Date: _____

CLEARANCE:

GC/AFR: _____

Date: _____

INITIAL ENVIRONMENTAL EXAMINATION Rural Telecommunications for Tanzania (RTT)

I. Activity Description

Project Goal and Purpose. The goal of the Rural Telecommunications in Tanzania (RTT) project is to support economic growth and employment generation in Tanzania. The purpose of the RTT project is to increase income-earning opportunities and enhance social welfare in rural Tanzania. A key **output** leading to the achievement of this purpose is establishment of a commercially-viable, self-sustaining rural telecommunications company in Tanzania.

Project Strategy. The RTR purpose will be accomplished by (a) using project resources to foster the establishment of a Tanzanian majority-owned rural telecommunications company in Tanzania, co-owned and operated by a U.S. telecommunications firm, and by (b) resolving key regulatory and procedural constraints inhibiting the development of a private telecommunications industry in Tanzania.

Project Activities. The RTT project will establish a private telecommunications company providing services to rural Tanzania. However, the RTT project as such will not directly procure TA and commodities to construct rural telecommunications infrastructure. This will be done by one or more private sector firms as part of a for-profit commercial venture. About \$500,000 of RTT project funds will be required to support the negotiations required to set in place the requisite licensing, interconnection, and regulatory actions. Throughout, the identification of issues and options for resolving them will be approached through the catalytic involvement of a U.S. telecommunications firm with a specific business proposal and seeking approval of a specific operating license. The source of funds for operations will be (a) private sector investment and operating funds from the U.S. telecommunications investor, plus (b) the USAID project grant to the GOT of \$20 million (less approximately \$500,000 as noted above), which will be made available to the rural telecommunications firm for the acquisition of U.S. source/origin telecommunications equipment. The legal framework within which the activities will be undertaken will be the licensing agreement the private firm negotiates with the GOT, together with such other collateral business arrangements with TTCL and other entities as may be required.

Regional (SARP) project funds will also be used to provide technical assistance, training and other support services required to assist the Mission and GOT in successfully completing these activities.

II. Discussion

The RTT project will not directly engage in construction of telecommunications or other infrastructure. However, the level of control that USAID (and the GOT) will exercise during

at least the initial implementation of the private sector activity provides an opportunity for a conventional, "up-front" review of the environmental implications of the proposed Program intervention.

This up-front approach towards environmental review is always more desirable in that it affords the opportunity for mitigative design modifications in an activity before final decisions have been reached and investments have been made. It also provides the opportunity for the mitigation of any adverse impacts associated with the intervention before (rather than after) they occur, usually resulting in significant additional savings in the expenditures required for often costly corrective measures. Finally, lessons learned from this initial sectoral development activity should also provide useful insights for guiding the course of similar subsequent telecommunications development activities throughout the country and ensuring that this sector of Tanzanian development is implemented in an environmentally sound and sustainable manner.

III. Preliminary Environmental Review

Telecommunications development activities, such as that proposed here, generally can be expected to have minimal effects on the environment (Staff Appraisal Report for the United Republic of Tanzania Third Telecommunications Project, April 1993, World Bank, Annex 3-6, page 1). Major potential negative environmental effects from such activities are generally limited to the following areas:

Air Pollution. CFC gas leakages might occur as a result of additional air conditioning installations within project buildings to protect expensive electronic/microwave equipment from detrimental ambient conditions, e.g., dust, humidity, etc.

Land Loss/Degradation. Soil erosion might occur from building and other telecommunications infrastructure construction and rehabilitation activities.

Wildlife and/or Tourism Impacts. These might be associated with the construction of telecommunications infrastructure, e.g., microwave transmission towers, transmission lines, buildings, etc., in certain environmentally significant areas of the country, e.g., national parks and other protected areas, wildlife migratory routes, etc.

However, such telecommunications improvement activities can also be expected to result in significant positive environmental effects as well. In particular, more efficient telecommunications can be expected to substitute for personal transportation and other less efficient communications mechanisms resulting in reduced environmental pollution and enhanced energy conservation. In addition, improved telecommunications services should also facilitate the dispersion of health services and emergency care to more remote rural areas of the country.

RECOMMENDED ENVIRONMENTAL THRESHOLD DECISION:

Planned RTT/RTR project technical assistance, training and other implementation support services qualifies for a **Categorical Exclusion** pursuant to Sections 216.2(c)(1)(i), and 216.2(c)(2)(i) and (iii) of USAID's Environmental Procedures (22 CFR 216).

Based on the above discussion, it is also recommended that the project receive a **Negative Determination** pursuant to Section 216.3(a)(2)(iii) of said Procedures. This recommendation is based on the finding that this RTT project activity will not result in significant adverse environmental impacts on Tanzania's natural and physical environment, provided that the planned regional telecommunications demonstration activity is designed and implemented in an environmentally sound manner. To ensure that this is, in fact, the case, this recommended negative environmental threshold decision is made subject to the following **conditions**:

1. That a comprehensive assessment be completed during the Project Paper design of the existing environmental institutional capacity in Tanzania, focussing on the capacity of existing GOT telecommunications institutions, e.g., the TCC, the TTCL, and national or regional environmental agencies or programs to properly oversee the environmental design and implementation of planned sectoral development activities. The assessment will cover current GOT capacities in the areas of: (1) environmental laws and regulations, (2) capacity to conduct, or otherwise oversee, environmental assessments of development projects, and (3) the level of experience in incorporating environmental considerations into project design and implementation, i.e., environmental monitoring, evaluation and mitigation considerations. Rather than simply focussing on the written environmental regulations and procedures, the assessment will include an analysis of the capacities of the individuals charged with administering the regulations, and a sampling of previously completed sectoral projects (to the extent available), to determine the extent to which environmental considerations (including public participation) are taken into account and implemented in practice. The results of this assessment will be included in the Project Paper and used to determine what (if any) steps should be taken to promote the achievement of USAID's current stated priority objective of integrating environmental considerations into all aspects of development decision-making and implementation. In addition, the assessment will identify additional technical assistance, training and/or other inputs required to address or compensate for institutional shortcomings identified by the assessment in the capacity of the concerned host country institutions to properly assess, monitor and evaluate the environmental implications of sectoral development activities, including, most importantly, the planned U.S. regional demonstration activity.
2. That the RFP to be issued soliciting interest in the RTT activity require offerors to include a section describing the potential environmental impacts of the proposed

regional development activity, together with a plan for mitigating any adverse environmental impacts to the maximum extent practical. And that this information be included in the evaluation of firm proposals, in addition to the other planned criteria for selecting the regional telecommunications private investment/operating company.

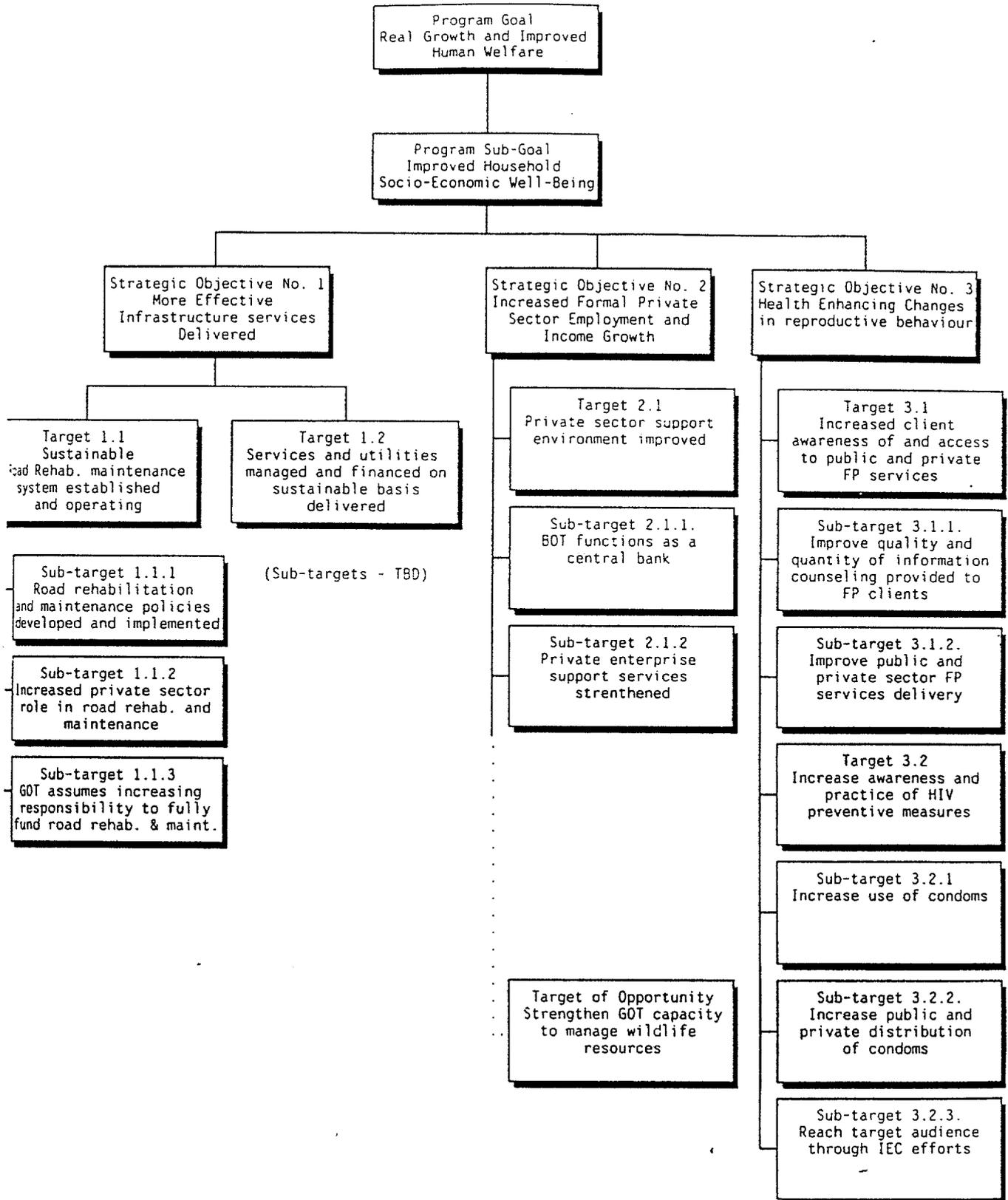
ANNEX E

USAID/Tanzania Program Logframe

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USAID/TANZANIA CPSP
OBJECTIVE TREE

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ANNEX F

Social Analysis

Rural Telecommunications in Tanzania

Social Soundness Analysis

Anne Fleuret
Courtney Blair
Herment Mrema
Mwanasera Mwinyi

USAID/Dar es Salaam

June 1994



1. Executive Summary

The World Bank argues that reliable telecommunications are critical to economic recovery in Tanzania. As exemplified by Tanga Region, the current state of telecommunications in both urban and rural areas of Tanzania cannot be described as reliable. Interviews with over 150 private individuals, business owners, civil servants, and institutional managers in five districts of Tanga Region reveal that the current state of communications is unreliable, haphazard, time-consuming, and expensive; and that the demand and need for reliable and accessible communications facilities are high.

Almost one-quarter of those interviewed identified "communications" generally or telephones specifically as a key constraint in the management of their day-to-day operations. A further 16% identified transportation as such a constraint. This is significant because transport is itself a critical component of communications strategies throughout the Region.

Of those respondents having telephones (45% of the sample), 80% rate the service as "unreliable"; many of these say that lines have been out of order for periods of months or even years. As a consequence, both telephone subscribers and those without telephones have developed multiple alternative communication strategies: personal travel, sending messengers, letters through the post office and/or hand-delivered, telegrams, radiocall, and/or telex. Each of these alternatives results in greater costs to the consumer than if reliable telephones at current installation, service, and toll rates were available. Costs to the consumer include not only cash but time, lost production and business, and personal inconvenience.

There is little consumer confidence in either the reliability or the accessibility of telecommunications services under the present system. For businesses, institutions and communities, cost is not the most critical issue. Many of these already have telephones which do not work; while costs incurred in accessing alternative means of communication are excessive. In strictly economic terms the Rural Telecommunications in Tanzania Project is feasible, so long as reliability and accessibility can be assured.

Apart from reducing costs to the consumer, the project will also improve the efficiency and capacity of public-sector and non-governmental service providers, and offers the prospect of enhancing the participation of the public in processes of political, social, and economic change.

2. Introduction

The Rural Telecommunications in Tanzania project is intended to extend telecommunications services to rural areas of the country, in order to foster the development of private enterprises and to improve rural dwellers' access to social services. This will be achieved by the establishment of a private telecommunications company which will provide cost-effective and sustainable services to rural Tanzania.

As the World Bank states, "A reasonably reliable telecommunications sector is crucial to the sustained economic recovery of Tanzania" (1993:1). The Bank document identifies the need for timely and accurate market and other information, economic costs incurred as a consequence of unreliable communications, and the sector's potential as a foreign exchange earner, as key development-related issues. To this should be added such concerns as the role of telecommunications in enhancing civic awareness and public participation in political processes, and improving access to critical services such as education and health care.

The objective of this analysis is to assess how realistic and feasible the project goal and purpose are given extant conditions in present-day Tanzania. The analysis has been prepared by a team of four USAID/Tanzania employees using existing written sources as well as conducting qualitative and quantitative research in five predominantly rural districts of northeastern Tanzania. The work was done over a three-week period in May, 1994. The results of the team's findings and its assessment of the practicability of the project are presented below.

3. Context

Tanzania is physically a very large country, with a total area of over 883,000 sq km and a population in excess of 25 million people. The capital and principal city, Dar es Salaam, has a population currently estimated at 1.5 million; of the 20 administrative regions into which the mainland is divided, all but three have urban entities whose populations exceed 50,000 individuals. Zanzibar and Pemba Islands contain over 700,000 people, a quarter of them in Zanzibar town. High densities of rural population are found in the highland areas of both northern and southern Tanzania, and along the southern shores of Lake Victoria. The population is also quite mobile. People move readily from one rural area to another, or to urban areas, in search of seasonal or long-term employment. Urban dwellers as well may visit their rural areas of origin and/or other population centers for work or recreation.

The physical distances that separate both urban and rural concentrations of population from one another, as well as the mobility of the population, demand a well-developed system of infrastructure for timely and efficient communication. Unfortunately, in present-day Tanzania, the infrastructure cannot be described as well-developed. Many roads are in a poor state of repair; access to many district administrative centers is impeded or altogether curtailed during the rainy seasons. The rail network is not co-ordinated and does not serve some areas of the country at all. Airline service within the country is also unreliable and inadequate.

Both the government and various donors have made substantial efforts to rehabilitate and expand the degraded and inadequate road and rail transport systems; but poor as the roads and railways may be, they are models of efficiency in comparison with the telecommunications network. There is presently only one supplier of telephone services, the Tanzania Telecommunications Company, which was created in early 1994 by disaggregating the functions of the former Tanzania Posts and Telecommunications Corporation. These services are characterized by insufficient capacity and abysmally poor quality. On the side of capacity, at the end of 1991 Tanzania had approximately 78,000 lines available for subscriber use, whereas official demand was four times higher. "Official" demand refers to those who have applied for telephone service, and who are recorded on waiting lists. Unofficially, demand is significantly greater because many people who want the service do not bother to submit an application. Only 0.3% of the population have telephones, and most of the people who have telephones are located in urban areas. Even in the towns, where 80% of the lines are concentrated, applicants for telephone service may have to wait five years or more before being connected, and may have to make both official and unofficial payments to obtain service. Recorded demand is expected to increase at a rate of 10% or more per year for the next 10 to 15 years.

Once a subscriber is finally connected, the quality of the service he or she receives is very poor. One-third or more of subscribers have telephones which do not work. Despairing businesspeople have been driven to take out advertisements in the local press offering to supply their clients with carrier pigeons for purposes of communication, or complaining of lengthy interruptions of service on particular numbers. Those whose telephones do work have about one chance in four each time they dial of completing a local call, because of congestion and faulty equipment. Outside of the principal towns, the exchanges are manual and all calls must be booked through operators. Service delays of over four hours on operator-assisted calls are commonplace, which in turn leads to cancellation of many of the booked calls. Telephones frequently go out of service and repairs take on average ten days to be effected. In some areas repair problems appear to be intractable. Billing and payment of accounts are also poorly managed, with many bills being erroneous--if they are received by the subscriber at all--and payments often not credited to the correct account.

In order to understand more fully the constraints on communication imposed by the deficiencies of the telephone system, and the alternative communication strategies used by rural people in Tanzania, the social soundness analysis team spent one week in Tanga Region, northeastern Tanzania, visiting rural and urban areas. Tanga Region was selected for this exercise because it exhibits a wide range of rural and urban conditions within reasonable distances, and provides a basis for making generalizations about existing telecommunications conditions and issues in Tanzania as a whole. Five districts--Pangani, Tanga, Lushoto, Korogwe, and Handeni--were visited. In each of these districts, census wards representing the predominant characteristics of the district were selected, with the assistance of district officials. Brief profiles of the districts and wards are given below.

--Pangani: Pangani East, Madanga, and Bushiri. Pangani town is 50 km south of Tanga, where the Pangani River flows into the Indian Ocean. The district is predominantly rural, producing coconuts, cassava, cashews, maize, beans, rice, sweet potatoes, and bananas.



About half of the area is under sisal plantations. Pangani town has telephone service, but for the past several weeks communication has been available only within the town as wires connecting Pangani with other exchanges have been cut and not yet replaced. Madanga and Bushiri both lack postal and telephone facilities, and privately-owned transportation.

--Tanga: Pongwe and Mwakidila. Both are mixed areas containing many farmers who grow predominantly coconuts, rice, cassava and sweet potatoes, but having easy access to employment and income-generating opportunities in Tanga town. Institutions and private individuals in both localities have telephones, but in both places the entire system is presently out of order; in Pongwe residents reported no service for the past two years due to cable thefts. Public transportation is readily available.

--Lushoto: Lushoto town, Magamba. Farmers in the productive highlands grow maize, potatoes, beans and bananas for their own consumption, as well as a wide range of vegetables and fruits as commercial crops. Telephones within Lushoto town are functioning, but it is difficult to impossible to make long-distance calls. The telephone service to Magamba and surrounding institutions has not been working for approximately the past 18 months, and private individuals and institutions both incur substantial costs in travelling to Lushoto to obtain communications services.

--Korogwe: Korogwe town, Msambizi, Magoma. A large part of Korogwe District is under sisal plantations. Local farmers produce maize, beans, sweet potatoes and cassava, and a variety of fruits. Many town workers have farms in the area as well. Korogwe town has telephone service which has been largely out of order for the past two months. According to the District Administrative Officer the problem is not theft of wire, but a major technical fault which the authorities seem unable either to explain or to rectify. Transportation, however, is readily available to town dwellers. Those in Msambizi and Magoma have no postal or telephone service and in the latter area particularly public transportation is seriously constrained.

--Handeni: Mkata. Time constraints did not permit travel to the district headquarters at Chanika. Mkata village is on the main Dar-Moshi trunk road, but has access neither to electricity nor to telephone service. The local residents produce food crops such as maize, cowpeas and cassava; the sole commercial crop is cotton, and forest products and wood are also sold. Villagers must travel 51 km one-way on a very poor road to Handeni to obtain postal and telephone services.

Information about the communities and the services available were obtained in focus group discussions with local authorities and knowledgeable persons. In the course of the assessment individual and group interviews and discussions were also conducted with over 150 private individuals, businesspeople, civil servants, and managers of institutions such as schools and hospitals. The data collected in the course of these interviews show that the dismal picture of telecommunications service as noted above is an unfortunate reality for rural and urban people alike.

Respondents were first asked to identify the principal constraints to success or problems which they faced in the conduct of business, institutional management, or personal affairs. 23% of those responding identified "communications" generally or telephone problems explicitly as a key constraint in their day to day operations. Transportation, which is an important element of alternative communication strategies, was identified as problematic by 16%. Other constraining issues include inadequate operating capital, low purchasing power in the local population, inadequate utilities, supplies, equipment and/or facilities, and the seasonality of business.

Of the organizations and people surveyed, 45% have a personal or office telephone, while 55% do not. Given the paucity of telephones, especially in rural areas of Tanzania, those with access to telephone services are over-represented in the interviews; but their experiences serve to underscore the deficiencies of the existing system.

The first point that emerges from the discussions with those possessing telephones is that having a phone is not the same thing as having telephone service. Of those respondents with a telephone, 80% rate the service as "unreliable". In some cases the telephone has been non-functional for periods of months or years. These long-standing failures are attributed to a number of causes, including thefts of telephone wires, fallen trees, flooded underground cables, and shortages of competent technical personnel. Those few who have positive comments about the service qualify them by noting that long-distance calls or calls outside of the immediate local area are very difficult to make, either because of technical faults or unresponsive operators at manual exchanges. One shopkeeper at Pongwe noted that even when the telephone works he might wait as long as it takes to go to Tanga and return using public transportation, and still not be connected. Respondents' estimates of the proportion of time that the telephone is out of order range from less than 5% to "most of the time".

Both telephone subscribers and those without telephones have adopted multiple alternative communication strategies in order to compensate for the shortcomings of the current telecommunications system. By far the most frequently used option (55% of responses) is personal travel, either by a family member, the proprietor of a business or institution, or an employee or messenger. Such travel is generally by public means (bus or daladala) and at personal expense; less than 10% of such travel is accomplished by the use of transportation that is owned by the individual or institution. In addition to fares, travellers have other expenses, including food and accommodation, as well as the loss of time from their business or enterprise. These direct and indirect costs far exceed the long distance tolls that would be payable (in some cases they are in excess of the monthly service charges for a private telephone). Personal travel, however, does offer some advantages, in that other objectives can be achieved (purchase of stock, seeing relatives and friends, placing orders).

Letters are a distant second to personal travel as a communication strategy, at 22% of responses. Most letters are sent through the post office, while some are sent privately, for example, hand carried by bus drivers or other regular travellers, described by one businessman as "a personal DHL service". There is considerable mistrust of the post office due to negative experiences: delayed mail (two months transit time from Mtwara to Pangani, for example), letters in transit being opened and contents abstracted, failure of the post office

or postal agent to collect or deliver mail, inaccessibility of the post office (Mkata in Handeni District, for example, has no postal services; villagers must travel 51 km one-way to Handeni town by Landrover over a miserable road to collect their mail).

Other communications strategies identified include: use of pay telephones at post offices or in private homes, 10% of responses; radiocall, 6%; telegram, 4%; and telex, 2%. Each of these means has its attendant complications as well. Use of pay telephones often requires an element of personal travel to the post office, and the phone may or may not be working. In examples given of using private telephones in individuals' homes, the payments requested in many cases seem exorbitant (shs. 500 for a local call, for example). For some institutions a radiocall system is useful and effective, but for others its value is limited. Mkata Sawmill, for example, is linked only to its sister institutions in the parastatal TWICO. There is no provision for direct communication with customers, whether by radiocall or other means, and business consequently suffers. Telegrams are dispatched from the post office by telephone. They are an efficient means of communication, but only if the telephone lines are functioning. Some respondents reported that in cases when phone lines are out, telegrams are dispatched by the post office personnel as ordinary letters (but not at reduced cost to the consumer, nor even necessarily with his or her knowledge). Telex equipment is very expensive (one businessman quoted a purchase price of Tshs. 6 million) and, being tied into the telephone system as well, also experiences interruptions and delays.

Respondents were also asked to comment generally on the availability of news and information in their locality. A number of individuals and institutions own radios and both receive and send news and information through this medium. People tune in to Radio Tanzania Dar es Salaam and offshore stations both. Rather fewer have reliable access to up-to-date print media. The use of these channels of communication, including Radio Tanzania's notification and message transmittal services, or paid advertisements in the Daily News, was not spontaneously mentioned by any of the respondents. For the most part these businesses and institutions do not advertise and do not obtain information about the availability of goods and services through these means.

4. Participation

From the interviews and focus group discussions conducted by the social analysis team, it is clear that interest in reliable telecommunications is not limited by income, gender, or the type of business or institution. Most people in rural Tanzania want a reliable telecommunications system and are willing to pay for such a system. This holds true for men, women, households and businesses. The real distinction in project participation lies in the differing needs and perceptions of individual households on the one hand, and institutional and business consumers on the other. Many households in rural Tanzania would seemingly be content to have one or two phones in the community that are available for personal use; the expressed desire to own a phone in the home was limited. Businesses and institutions, on the other hand, want their own phones, often with several lines.

--Participation and income. Amount of income is not a deterrent to the willingness to pay for telephone calls, but would be a barrier to many households becoming subscribers.

Business people, institutional managers, and community representatives are willing to pay for individual phone calls, as well as monthly service charges and installation costs, as long as the system works. These consumers, as well as some individuals, also have the financial capability to pay for the service; many of them, in fact, pay already. One primary school headteacher whose school does not yet have a telephone but very much desires one, noted that the monthly service cost would amount to just Tshs. 10 per parent, an easily affordable amount. Given current financial capabilities and communication needs, the project should target businesses, institutions, and communities rather than individuals. If telephones are made available at the community level, individual consumers will still participate in and benefit from the project, even without subscribing to telephone service in the home.

--Participation and social institutions. Of the different types of institutions surveyed, those most interested in and dependent on telecommunications are the social institutions. At present, the primary school at Mkata, for example, relies on people passing through town for news of the availability of teachers' salaries. Workers at health care institutions feel the need for rapid communication in cases of serious illness, death, or shortage of critical medicines. Churches feel the need for a reliable telecommunications system for similar reasons. Some churches have radiocall, but they cannot always get through on it (the same can be said of their phone under the current telecommunication system); thus, they cannot always reach congregants or other churches in the diocese in the event of an emergency. The ability to contact people, whether to pass along news of a relative's illness and need for care or to request/order badly-needed supplies for a school, is necessary to the proper functioning of any social institution. The institutions surveyed understand this--even the churches, which seem to suffer from a near-constant shortage of funds, are willing to put up the money to become part of a telecommunications system, as long as that system works.

--Participation and community awareness. Implementation of the Rural Telecommunications in Tanzania project opens up the prospect of enhanced participation by individuals and communities in political processes. Given government and party domination of both radio and newspaper channels, their utilization for the enhancement of awareness and promotion of civic participation is presently limited. A reliable private telecommunications network, however, would provide the possibility of alternative channels for opening up the access of rural people to additional sources of news and information, especially in the currently changing political and economic environment.

5. Feasibility

The unreliability and limited distribution of telecommunications facilities has a number of implications for the way in which business is conducted in Tanzania, the local attitudes towards the expansion of telephone availability in rural areas, and the feasibility of the RTT project. Under present conditions, people are more willing to spend large sums on transportation for communication purposes than they are to spend a smaller amount for unreliable telephone services. Many of the people interviewed, particularly those who operate small to medium enterprises or who manage institutions such as health facilities and schools, would very much like to have telephone services--but not under the present system. The problems and failures which attend this system have seriously undermined public trust in

postal and telecommunications services. A fundamental problem for any new telecommunications venture will be the necessity, compounded by the difficulty, of gaining the trust and confidence of the public and repairing the tarnished image of telecommunications in several critical areas. These include:

--Reliability. An issue central to the success of the Rural Telecommunications in Tanzania project is the need to create, promote, and sustain a reputation for reliability. The present system is dismissed as unreliable by as many as four-fifths of consumers. Potential customers are discouraged from even applying for service by this negative assessment. The project must take steps to ensure that it is not identified as a mere extension of the existing system, but as a completely new initiative using technologies that make it reliable.

Generally speaking, whether or not communication problems were given as a constraint to the success of a business, all the businesspeople surveyed think there is a benefit to having a phone and a reliable telecommunications system. These proprietors understand that using a fast, local method of communication will save them the time and money involved in paying transport fare to go to another town to use the phone, or the time delay in waiting for a response to a letter or telegram. The key is to make them understand that the new system will be reliable--it won't go out for months on end, be fixed and work for a few weeks, and then go out again.

--Accessibility. A second element critical to the success of Rural Telecommunications in Tanzania is facilitating and expanding public access to telephone services. Under the existing system, for example, Tanga Region has only ten telephone exchanges to serve its population of over 1.3 million people. Of these exchanges, only one, in Tanga town itself, is fully automatic. People, businesses and institutions are thus discouraged from using telephones, or requesting their installation, not only due to their unreliability, but their inaccessibility as well. The new system must therefore expand and broaden its coverage so as to make facilities, even communal facilities, more widely available to the consumer.

--Cost. For businesses, institutions, and communities, the cost of telephone service is not the most critical consideration. Many of them already have telephones, the majority of which do not function properly. Costs incurred in providing alternative means of communication are substantial, often exceeding what is paid for non-functioning telephone services. Therefore, in strictly economic terms, the project is feasible, so long as the conditions of reliability and accessibility are met.

6. Impact and Beneficiaries

A reliable private telecommunications service/facility in rural Tanzania would have broadly positive impact at a number of levels (communities, institutions, enterprises, and individuals) and in several different sectors (the private business sector, social and educational services). At present service in the districts surveyed by the social analysis team is so poor and subscribers are so few (with the exception of Tanga town) that differences in impact would hardly be discernable between those places already served by telephones and those which are not: ALL would benefit. The existing main point of difference is between those having or

not having POSTAL facilities. In the case of those without, like Magoma and Mkata, people have to physically travel to the district headquarters even to find out when payday is (teachers, other civil servants), and experience considerable delay in receiving or sending news about significant events and emergencies. Provision of comprehensive facilities, including a post office and reliable public and private telephones, would ease these problems considerably. The costs and unreliability of the current system also have negative implications for the smooth functioning of educational and health care institutions, especially when these are faced by emergency situations (for example, student illness, shortage of essential medicines, and the like). Throughout the area surveyed, which was selected to be representative of conditions in rural areas of Tanzania generally, provision of an efficient and reliable telecommunications system would have numerous positive impacts, including the following.

--The total communications-related costs for the consumer would be reduced. At present, in the absence of telephone services, people already spend more money on transportation for communication-related purposes than the standard monthly service charges for private telephones or the cost of toll calls. For a businessman from Lushoto, for example, round trip bus fare to Dar es Salaam is currently Tshs 5,000, while the cost of a 3-minute long-distance telephone call is estimated at Tshs. 500, and monthly telephone charges average Tshs. 3,000 to 4,000. As an example of the potential savings to just one enterprise, the manager of a technical training institution near Lushoto estimates that reliable communication by telephone or radiocall would save that institution Tshs. 1 million per year in foregone petrol consumption and vehicle maintenance, even factoring in purchase price and installation costs of equipment.

--The input of time required by the demands of communication would also be reduced. For example, travel to Dar es Salaam from Tanga or Lushoto requires at an absolute minimum two full days, and more likely three. The traveller thus loses three person-days of productive time, as well as incurring direct cash expenditures and reducing the efficiency and productivity of his/her enterprise, institution, or household. An efficient system would also reduce time expenditure in organizations where telephones are already installed, by improving the successful connection rate from its current 25% level and cutting down on the length of time required to obtain connections through operator-assisted calls.

--The loss of income would be minimized by reliable telecommunications. The proprietors of several owner-operated businesses observed that when something comes up demanding travel to town for communications purposes, there is no option but to close the business. Farmers, teachers, administrators and others also lose income if their working day is interrupted or curtailed by the demands and needs of communication.

--Reliable telecommunications would increase the efficiency of both private and public institutions as well as their capacity to perform their functions. With the exception of primary and secondary schools, most institutions in Tanzania do not operate at their full capacity, and none reaches its full potential, due at least in part to communications-imposed constraints. Instructional time in schools is lost when teachers have to travel elsewhere simply to find out when they will be paid; the quality of instruction is diminished by

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shortages of supplies. Likewise, the effective operation of health care facilities is hampered by the inability to procure medicines and other requirements in a timely fashion. In both cases these current conditions would be ameliorated by efficient communication.

--Beneficiaries of the Rural Telecommunications for Tanzania project would thus include a range of individual and institutional consumers and providers. Private individuals would benefit because the direct costs to them of communication would be reduced and the efficiency of communication, especially with relatives and friends living in both rural and urban areas, would be enhanced. Business enterprises would also experience reductions in their direct costs of doing business, and would minimize losses of productive time and earnings due to diversion of effort into communications. Public and private institutions would also enjoy cost savings, as well as improved efficiency of their operations and higher quality of services they provide.

The need for and impact of a reliable telecommunications system in rural Tanzania cuts across gender lines. Both men and women understand the importance of being able to communicate with people in other areas quickly and easily. The only real distinction that can be drawn on the basis of gender is that many of the businesspeople interviewed are male. This is linked to the structure of opportunity in Tanzanian society, biases in the educational system and the control and management of resources which are predominantly in the hands of men. The health and educational institutions are administered by both men and women, and the community representatives are both male and female. All of these individuals appreciate the benefits to themselves and the organizations and constituencies which they represent of an efficient and viable communication network.

7. Conclusion

Rural and urban Tanzanians both, especially those working in institutions, enterprises, and administration, are eager for access to reliable communications. Under the present system, excessive time, money, and other resources are being expended in communications-related activities. The most realistic communications alternative for these individuals and the organizations and businesses they represent is a reliable and accessible telecommunications network. A telecommunications system which meets these conditions would result in substantial costs savings for the consumer, would improve the effectiveness, quality, and efficiency of operations for public services and private enterprises, and would provide at least the potential for involving citizens more closely in processes of economic and political change and development.

ANNEX G

Feasibility Study

A Feasibility Study

on

**Rural Telecommunications
and
The Creation of a Joint-Venture
U.S.-Tanzanian For-Profit Company**

**Submitted to
The U.S. Agency for International Development
Dar es Salaam, Tanzania**

**By
The National Telephone Cooperative Association
2626 Pennsylvania Avenue, N.W.
Washington, D.C.**

**Final Report
January 26, 1994**

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I. Executive Summary

A. Background

The mandate given by USAID/Tanzania to the National Telephone Cooperative Association study team was to assess the viability of establishing a private company to provide telecommunications service to rural areas of Tanzania.

Such a company would consist of a U.S. telecommunications company or consortium of companies as the operating and managing partner, and the Social Action Trust as the Tanzanian partner. The study team was asked to identify and quantify the economic, regulatory, legal and technical constraints to establishing such an enterprise.

During the period January 4-14, 1994, the study team conducted interviews in Dar es Salaam and in the Kilimanjaro and Arusha Regions with key government and private sector figures.

Interviews in Dar es Salaam were designed to enable the team to identify general telecommunications goals and policies, collect both general information and detailed data on the delivery of existing and planned telecommunications services, and gain enough understanding of the nation's cultural, social and political framework to judge whether such an undertaking would be feasible within the context of those considerations.

Further interviews and site visits, primarily intended to quantify the level of demand and ability to afford service, were carried out in an area roughly encompassed by Marangu District, Kilimanjaro Region to the east and the city of Arusha, Arusha Region, to the west.

This area was selected for study because it reflects economic

conditions necessary for a successful, financially feasible telecommunications company, such as a strong agricultural sector, growth opportunities for business (tourism in particular), relatively high per capita income and, for a rural area, relatively high population density.

Should it not appear to be financially feasible for a private company to succeed in a region with these characteristics, the likelihood of success in any other region is extremely problematic.

Other rural areas appear, based on anecdotal information, to be attractive and feasible as well; in particular the southern highlands and the mining areas warrant further study. The general conclusions drawn and recommendations made in this report for the Arusha and Kilimanjaro Regions may be applied to other relatively financially well-off rural regions, although a more detailed study of these areas would be necessary before absolute certainty could be reached on this point.

B. Principal Findings

It is possible and feasible for a U.S. investor to establish a for-profit company that will, within five years, recoup its initial investment plus generate an acceptable level of profit. However, this system will have to serve some urban areas as well as rural if it is to be financially feasible.

For the purposes of this report, three options were explored. According to financial projections, only Option A is financially feasible.

Option A

This scenario reflects the structure and operations of a private telephone company serving the entire Kilimanjaro and Arusha Regions -- that is, all areas in the Regions, whether classified now (in the latest census report) as rural, urban or mixed.

The key element to the viability of such an endeavor is the issue of obtaining a franchise -- a license as the exclusive provider of service in a given area. This option implicitly recommends that the Tanzania Telecommunications Company (TTC) cease its unprofitable operations in the Regions; thus, it would require extensive negotiation with TTC on this issue. It would also require a realignment of World Bank Third Telecommunications Project monies designated for new equipment for TTC to use in serving Arusha.

This option would also include the ability to obtain access to the radio spectrum for the provision of fixed common carrier microwave services, basic exchange telecommunications radio services, mobile cellular service and personal communications services.

Option A points to a projected return of between 19 percent and 42 percent.

Option B

Under this scenario, the company would receive the exclusive right to serve the rural areas, and it would also be licensed to compete with TTC in the urban areas (via cellular and other mobile wireless services). TTC would continue its urban operations, and the new company would interconnect to TTC facilities for trunk (long-distance) and international calling.

Access to the spectrum for the provision of fixed common carrier microwave services, mobile cellular services and personal communications services would be necessary.

It is anticipated that urban service would be exclusively cellular. For the purposes of financial projections in this report, the rural service is also anticipated to be cellular, although in actuality other technologies could be used.

Financial projections indicate that Option B will not be feasible for an outside investor. It does not appear to be possible, from a profit standpoint, to recoup the necessary plant investment in a timely fashion.

Option B points to a projected return of between 5.5 percent and 21 percent.

Option C

This option best reflects the idea of a completely rural service provider, as proposed by USAID/Tanzania in its Scope of Work for this study.

The company would serve only the rural districts of the two Regions and would be denied a license to serve or compete against TTC in the urban areas.

Financial projections indicate that Option C will not be feasible for an outside investor. It does not appear to be possible, from a profit standpoint, to recoup the necessary plant investment in a timely fashion.

Option C points to a projected return of -3 percent to 5.2 percent.

Other Income Sources

Other services could be offered by the telephone system which would enhance its revenues (see page 15 for a full discussion and additional figures). Such services could add enough revenue to change Option B into a potentially desirable option, but work needs to be done to quantify the demand for such services.

We do not believe that the creation of a private high-speed data network would be an appropriate method by which to subsidize rural telecommunications, because a provider who must use such

revenues to subsidize rural service cannot compete against the network or networks already being built.

USAID/Tanzania's only other workable option for rural-only service would be to stimulate the development of not-for-profit community telephone membership corporations. However, in accordance with USAID/Tanzania's instructions, an evaluation of the feasibility of such an option was not undertaken and thus is not included in this report.

C. Policy Recommendations

A number of legal and regulatory issues have been identified as constraints to the development of this proposed telephone system, and indeed to any private provider, and thus to the development of a sophisticated, competitive telephone industry capable of delivering service to the majority of Tanzanian residences and businesses.

Those deemed absolutely essential to this undertaking are starred. Without recommended policy changes in these areas, we would judge it to be highly unlikely that a foreign investor would even consider looking at Tanzania.

The remainder -- those without stars -- would probably not in and of themselves, or taken as a whole, immediately discourage an investor from considering Tanzania. However, they will likely need to be dealt with before an investor would be willing to make a firm commitment.

***** 1). An articulated national policy and goals must be developed in order to guide investor decisions and regulatory and legislative oversight.**

Tanzania needs a clearly defined and articulated overall goal for its telecommunications industry. Without such an overarching goal, policy decisions will be made on a piecemeal basis.

As an example, the United States' national goal of providing "universal" service -- service to every home and business -- is the driving force behind the use of low-cost government funds to develop and maintain rural telephone systems and the establishment of a variety of funding mechanisms to channel revenue within the telephone industry to small, high-cost companies (high cost being a result of serving sparsely populated areas).

2. A number of licensing and regulatory issues must be dealt with.

***** A. Franchise area**

A license to provide wireline service for rural areas of the Arusha and Kilimanjaro Regions should be exclusive. The Communications Act should be changed to ensure that the company can obtain an exclusive franchise to provide wireline service in the area until it is clearly evident that competition would not result in an unprofitable operation.

Existing demand would best be met by a single wireless provider, but this does not rule out wireless competition in the area.

***** B. Business license**

The Investment Promotion Centre's procedures should be streamlined to eliminate unnecessary burdens on potential investors and to ensure that business licenses are issued in a timely fashion.

***** C. Spectrum allocation**

The Tanzania Communications Commission should develop clear allocation decisions that provide incentives to potential licensees, *e.g.*, sufficient spectrum to provide a viable service and market areas that make it economical to provide the service in rural areas.

TCC should also develop regulations that take into account the need for and benefits of providing radio-based services in rural areas.

***** D. Issues regarding the Commission's authority and discretion**

The Communications Act contains a number of unclear provisions that need to be narrowed or repealed. Among them:

a) The extent of the Tanzania Telecommunications Commission's (TCC) authority to license a new provider of basic exchange service for a rural area is not clear in the Act;

b) TCC's discretion to require proficiency examinations as licensing conditions should be abolished. This is an unnecessary burden on any company; and

c) The Act gives the Commission the authority to decide license periods. Investors will need long enough licensing periods to recover their investments. Thus, licenses for wireline service should be of indefinite duration; for wireless services, we recommend a 10-year licensing period.

E. Tanzania Communications Commission (TCC) conflicts

Investor confidence will be stimulated if employee overlap between the Tanzania Communications Commission and the state telephone company is minimized or eliminated, and if there are

assurances that TCC will operate in a fair and open manner.

It would be premature to evaluate whether the three levels of bureaucracy provided for in the new law will result in confusion. However, investor confidence will grow if clear lines of authority and policy-making are put in place.

Prior associations and present pecuniary interests in issues before the government can prevent individuals from acting in the best interests of the public. The TCC is obligated to accept former employees of the TPTC/TTC, which makes possible an unhealthy overlap between the operating company and the regulatory body.

We recommend that for the next three years, no former TPTC/TTC employee be allowed to act in other than a purely clerical function in any matter involving a present or potential conflict between TTC and another operator or licensee subject to the jurisdiction of the TCC.

F. Interconnection

Interconnection among providers in Tanzania will be necessary for the success of rural service, or indeed of a competitive, multi-provider industry. Ideally, the Tanzania Telecommunications Commission (TCC) should have the authority to order, and so order, TTC to provide interconnection.

The Act states, "A person applying for an approval under this section (approval of equipment used to connect to the public telecommunications licensee) may be required by the Commission to comply with such requirement as the commission may think appropriate; and those requirements may include the requirements to satisfy some other person with respect to any matter." [Emphasis added].

The parameters reflected by "some other person" and "any matter" are unacceptably broad. This provision should be defined

or eliminated.

G. National and local law relationships

The Communication Act fails to clarify whether it takes precedence over conflicting local and regional laws. A clear articulation is recommended, especially in the area of land rights and the acquisition of rights of way.

3. Partnership Issues/The Social Action Trust

The structure of the Social Action Trust/U.S. investor partnership must allow for the U.S. telephone company to exercise full management and operational control.

Without this assurance, it is highly unlikely any U.S. telephone company would be willing to enter into this venture.

II. Technical and Financial Considerations

A. Basic Scope

Under this study, an evaluation was conducted of three options for providing rural telephone service. The Kilimanjaro and Arusha Regions were selected for analysis as a representative sample.

The successful implementation of any of these options is dependent upon the World Bank's Third Telecommunications Project being completed on schedule, in order to provide proper interconnection facilities.

The following alternatives were considered:

Option A --

Service to be provided by the proposed joint venture corporation would include the urban areas. This alternative assumes the corporation can acquire the existing rights and applicable facilities for inclusion in the new entity. It also envisions that this corporation will be the only licensed operating telephone system in the two regions.

Option B --

This option would allow for the continuation of the Tanzania Telephone Corporation's (TTC) service in the two urban centers, Moshi and Arusha. The new corporation would provide service to the rural areas of the two regions (defined as all areas other than the Arusha and Moshi central districts) and also have a license to provide cellular service to the urban areas of Moshi and Arusha. No other telecommunications service provider would be licensed in these areas.

Option C --

This option considers only the provision of rural service in the

areas outside of the cities of Moshi and Arusha.

All three options show no tax expenses for the study period due to the tax holiday provided for new investments, as approved by the Investment Promotion Centre. This holiday extends for five years after the investment begins to earn a profit.

Rural service being a high cost service, it needs some method of averaging that high cost with the lower unit cost as exhibited by urban areas. Without some special conditions, a purely rural system will not be feasible or will require such high rates that it will not be able to offer marketable services.

B. Technical Feasibility

The technology proposed in the study makes use of a cellular type fixed radio system for all stations in the rural areas and some conventional wireline plant within urban areas where high density and special services needs can better be met with conventional plant.

The cellular radio technology will allow for the investments in facilities to be made at the time service is provided (in contrast with providing wire plant, which must include investments that will not provide any revenue for as much as 10 or even 20 years after the facility is installed).

Advances in this technology have made the cost of providing service to completely unserved areas competitive with the costs of a completely new wire plant. Some cell sites and remote units are proposed to be connected with fiber optic facilities either directly buried in the ground or attached to power company transmission or distribution support structures. An arrangement for this would need to be negotiated to secure TANESCO's permission for such installations.

The security of the equipment and cables can better be

protected from vandalism in the urban environment. As detailed plans proceed, some mixture of fiber, wire cables and radio services may prove to be more cost effective but, for purposes of this study, were not considered in the review of feasibility.

The study further provides for connecting to TTC at the point where the urban and rural areas interface for the provision of trunk service, international service and Telex services to the remainder of the country and to the rest of the world.

It would be useful to review the points of connection as soon as the basic service conditions are determined. The provider envisioned in this study will have high capacity facilities interconnecting its various sites and would be in a good position to provide a link between the urban centers and a major portion of the route between several other cities in other regions.

The following radio frequencies would need to be licensed to provide all of the network and services projected in the study:

- I. 450 megahertz (500 channels) for rural fixed cellular services.
- II. 900 megahertz (500 channels) for cellular mobile and fixed services
- III. 2 gigahertz microwave frequencies for interconnection of cells and central switching offices.
- IV. Optional use of 6 gigahertz microwave

C. Interconnection Arrangements

The study proposes interconnection with TTC for both local service to the urban areas (Extended Area Service) and for trunk and

international service. The study is based on connecting with digital multiplex on fiber optic facilities, although alternatives such as microwave would be within the cost parameters used.

A detailed study on interconnection arrangements and their cost recovery should be conducted.

D. Financial Feasibility

1. Investment and Revenue Projection Charts

The data contained in the revenue projections and growth projections was prepared by interpolating information contained in the World Bank Third Telecommunications Project dated April 2, 1993 and from data collected from TTC. This interpolation is reflected in the main table (table and charts follow page 20).

Main Table

This table provides analysis of the projected income and cost data of TTC from the World Bank report. The data from the Bank report was considered to be more reliable, and contains tariff rate changes per the agreement between TTC and the World Bank.

The chart's revenue projections also include a traffic growth of 10 percent per year, which should be considered very reasonable. The revenue per working line is computed for both telephone and telex services for each of the years forecasted. The revenue per working line was then adjusted and applied to the projected demand in each of the three options to determine the forecasted revenues. The adjustments are explained further in each of the options.

The operating expenses are grouped in three main categories: salaries and bonuses, other operating expenses excluding depreciation (includes operations, maintenance, marketing, customer services, etc.); and depreciation expenses.

Salaries and bonuses expenses per employee were computed and applied to the number of employees projected for this corporation. It is estimated that an employee work force of 10 employees per 1,000 telephone lines would be adequate for this joint venture corporation. This represents a significant reduction from the TTC projections, which range from 24 to 43 employees per 1,000 working lines.

Other operating expenses were computed on the basis of per working line. Depreciation is calculated using a 10-year period to fully depreciate the original investment. Plant and other investment required is described under each of the three options.

The data from this table is used in each of the three options with appropriate adjustments to reflect economic and other considerations.

2. Basic Conclusions

a. Feasibility

From an investor's point of view, Option A is the only definitely attractive option. It affords a reasonable rate of return on investment.

Options B and C may be feasible if a national policy is established to provide for a rural telecommunications adjustment fund to be applied to revenue exchanges between large urban use service providers and rural providers. Specifically, we would recommend the provision of a low-interest loan to service debt and the creation of a rural telephone fund to equalize the distribution of revenue by sharing higher revenue income with lower revenue income.

This would be similar to the adjustments provided by Interexchange carriers through the Universal Service High Cost Fund in the United States.

b. Cross-Subsidization

Under each of the three options, the return on investment could be increased if additional telecommunications services were provided on the network.

Such services would include private line networks, high-speed data transmission, special assemblies, custom calling features (such as three-way calling, call waiting and teleconferencing), directory advertising and publishing (yellow pages), and so on.

A detailed study would be necessary in order to quantify the demand for such additional services. The study team found it inappropriate to devote time to assessing the demand for such services in light of the fact that the current network is incapable of providing even basic telephone service.

However, we believe that 10 percent to 15 percent in additional revenue per year could be generated for each of the three options through additional services when the basic network is in place.

This amount would not be significant enough to shift Option C into the "desirable" category; new revenue projections indicate a return of between -1 percent and 9 percent.

Option B may move into the realm of possibility, as new revenue projections indicate a return of between 10 percent and 29 percent.

Option A becomes even more attractive, with a return of between 24 percent and 50 percent.

c. A High-Speed Data Network?

The idea of providing a private-line, high-speed data network should be considered separately because it requires the

construction of additional facilities and also introduces the element of competition.

The idea of creating a private line network to subsidize rural service fails to take into account the fact that at least one and possibly more private line networks are already being built. Two licenses for private-line high-speed data networks have already been issued (i.e, competition exists).

Additionally, a detailed study, well beyond the scope of our mandate, would be needed to quantify the size, scope and cost of such a network, and the degree of demand (and hence revenue) for its services.

The threshold question becomes, would it even be financially worthwhile for the investor company to build such a network? We suggest that any investor would have grave doubts about doing so once it learns that:

1) it will have a competitor or competitors; and

2) the competition will not be required to subsidize rural services, and thus can plow back all revenue into the basic business and eventually underprice and/or outserve the investor.

It would be very difficult for the investor to compete successfully under such conditions. Thus we cannot recommend the creation of a private line network as a stand-alone method of cross-subsidization. Coupled or joined with a high-cost fund and the franchise for an urban area, it might be an added boost for the company, depending on the competition situation.

We maintain that a high-cost support fund is the most appropriate method by which to deliver the support necessary to bring modern telecommunications to rural areas.

c. Issues Regarding the World Bank's Core System

1. Privatization

There is a growing worldwide movement to privatize state telephone systems, introduce competition to a sole provider, or sell off unprofitable parts of monopoly telephone systems.

This movement began in the U.S. with the breakup of the Bell Company. Since then Mexico, Argentina, Australia, New Zealand, England, Hungary, Poland, Germany and other countries are preparing to enter, are engaged in, or have completed the process of introducing multiple providers or selling off unprofitable state-owned assets.

The lead story in the International Finance Corporation's *Review* (Summer, 1993), called "Private Sector Helps to Meet Rising Demand for Infrastructure Services," reports:

"...Power, telecommunications, transportation and environmental services...have recently begun opening up to the private sector around the world, following many years in which they were almost completely closed to it, primarily because of the widely held view that it was the role of the government to provide infrastructure services.

"Now, however, many countries have come to realize that public resources simply cannot pay for the investments needed in infrastructure."

We would suggest that the possibility exists that the Bank's resources could be used to stimulate and complement outside investment. It should be recognized, however, that the Bank's intended support of TTC may fail to stimulate such outside investment in the immediate future.

2. Reallocating Monies

Under Option A, a full rural and urban franchise, the Bank could either shift its monies to from Arusha to another region or regions, or consider putting it toward a rural telephone fund.

It should be kept in mind that it is entirely possible that there are at least several other geographic areas destined to receive Bank-funded equipment that could also profitably be served by an outside investor or investors.

Options B and C would, of course, require no adjustments, but then again they appear insufficiently attractive to attract an investor.

3. World Bank and TTC

The World Bank will have a significant ownership stake in the TTC. Were the TTC to establish a rural support fund its profits would be reduced by a concomitant amount.

The charts and explanations that follow illustrate how the financial projections were developed and conclusions reached.

Exclusive Franchise (Option A)

Chart 1

Projected Demand

Chart one shows the projected subscriber line demand for Arusha and Kilimanjaro Regions by urban and rural areas. The assessment of demand normally requires analyzing of revenues, access usage, new services, line growth, population, etc.

Due to limitation of available revenue, usage, and traffic data, the subscriber lines connected and those customers who were on the waiting list for connection were used as the basis to determine effective demand for 1995.

In addition, the 1995 demand was adjusted by 10 percent to reflect pent-up demand. This demand results from the existing conditions, under which it is virtually impossible to obtain service and that given to current subscribers is wholly inadequate.

The demand growth from 1996-2000 is conservatively computed at 10 percent annual growth as compared to 10 percent to 14 percent annual growth predicted for this area. The new system proposed herein can satisfy demand for services on a timely basis.

Exclusive Franchise (Option A)

Chart 2

Revenue and Cost Projections

This chart displays the projected income analysis for the years 1995-2000. In determining the revenue projections under this option, the TCC projected revenue per line was reduced to 90 percent for urban customers and to 50 percent for rural customers.

This is due to lower economic conditions in rural areas.

Expense projections are based on per line or per employee as explained in the Main Table. The investment required in 1995 under this option is approximately T SH 31.5 billion (\$63 million), which includes purchase of existing plant facilities owned and operated by TTC in this Region for T SH 5.5 billion (\$11 million).

(NOTE: All conversions between the Tanzanian shilling and the U.S. dollar are based on a rate of U.S. \$1 = T SH 500).

The figure of T SH 5.5 billion for existing facilities is derived from average figures represented by the net book value of plant as of 12/31/92. The purchase of existing facilities could be in the form of stock ownership in the joint venture corporation (this figure should be negotiated down, as it represents the cost of certain facilities that will be discarded by the new corporation).

The network cost of plant, associated installation costs, and overhead expenses are aggregated in the setting of the cost for urban stations at \$2,500 per subscriber and for rural stations at \$3,200 per subscriber (wireline). (These numbers are based on the average U.S. cost per subscriber line and also take into account costs as used in the World Bank study).

Interconnection expenses are projected at zero, which reflects the proposal that originating and terminating calling will be equal in amount and each company will "bill and keep" the revenues from the calls originating in its respective area.

The salary expenses are computed based on an average of 10 (compared to four in the U.S.) employees per 1,000 access lines.

Foreign exchange loss is forecast for each of the projected years, based on the data from the referenced study.

The return on net investment under this option ranges from 19 percent to 42 percent for the years forecasted. The return on net

investment would be higher if it were leveraged with favorable debt financing. This would be an option to be considered in attracting a U.S. investor to this region.

**Rural Franchise/Urban Competition (Option B)
Chart 1
Projected Demand**

The same methods as used in Option A are applied in Option B. The demand figures are adjusted to reflect that 50 percent of the pent-up urban demand can be acquired by the cellular operation.

**Rural Franchise/Urban Competition (Option B)
Chart 2
Revenue and Cost Projections**

The revenue per line rate used in the previous study for urban areas was increased by ten percent to reflect higher rates for cellular as compared to fixed service.

The revenue projection for the rural portion used fifty percent of the basic revenue projection to reflect lower rural revenue.

Salary expenses were computed by applying salaries and bonus expenses per employee projected for TTC, but using 10 employees per 1000 working lines. Other operating and maintenance expenses were computed by using the study demand estimates times the quantity of projected lines.

The plant and other investment reflects a \$1,500 per station cost for urban stations and a \$3,200 cost for rural stations (wireless). Telex revenues are projected at only 50 percent of the urban rate.

Depreciation is again taken over a ten year period.

The total plant and other investment required under this option is about T SH \$15 billion (\$30 million) in 1995. This includes purchase of existing plant from TTC for T SH 852 million (\$341,000). Based on the projected revenues and expenses, the return on net investment is between 5.5 percent and 21 percent, which is low in terms of attracting a U.S. investor.

Rural Service Only (Option C)

Chart 1

Projected Demand

This chart shows the projected demand for both Arusha and Kilimanjaro rural areas, as explained in Option A, Chart 1.

Rural Service Only (Option C)

Chart 2

Revenue and Cost Projections

The revenue projections under this option are projected at 50 percent of the revenue per line of that used in the TTC study, due to the lower revenues available from rural subscribers.

Initial investment required for this option is T SH 11.2 billion (\$22.4 million). This option provides the lowest rate of return for the investor, averaging between -3 percent and 5.2 percent.

To make this option attractive for an investor, it is essential that some sort of debt leveraging and high-cost support be provided to rural telephone providers to offset the high cost of providing service in the rural areas.

Tanzanian Rural Telephone Project

Main Table

Analysis of Projected Revenue and Expense Data
 (Source: World Bank Third Telcom Project)
Revenues and Expenses in Millions of T Shillings
 Other data in T Shillings

Description/ year	1995	1996	1997	1998	1999	2000
Telephone Revenue	37,624	51,788	66,084	77,172	87,598	100,036
Telex Revenue	25,262	33,357	41,374	49,530	57,770	67,402
Total Revenue	62,886	85,145	107,458	126,702	145,368	167,438
Avg no. of working lines	93,335	113,018	129,600	135,000	135,000	135,000
Telephone Rev per working line	403,107	458,228	509,907	571,644	648,874	741,007
Telex rev per working line	270,659	295,148	319,244	366,889	427,926	499,274
Total revenue per working line	673,767	753,376	829,151	938,533	1,076,800	1,240,281
Total operating expense excl dep	29,357	38,381	46,790	54,365	62,019	62,019
Salaries and bonus	10,979	14,407	18,304	22,655	27,834	34,182
Number of employees	4,048	3,922	3,838	3,817	3,250	3,250
Salaries/bonus per employee	2,712,204	3,673,381	4,769,151	5,935,289	8,564,308	10,517,538
Other operating exp (exclude dep)	18,529	23,959	28,401	31,671	34,146	36,901
Other operating exp per line	198,521	211,993	219,144	234,600	252,933	273,341
No. of employees/1000 L (WB st)	43	35	30	28	24	24
Number of empl this project	10	10	10	10	10	10

Tanzanian Rural Telephone Project

Option A

Chart 1

PROJECTED SUBSCRIBER LINE DEMAND FOR ARUSHA AND KILIMANJARO REGIONS

Region/year	1995	1996	1997	1998	1999	2000
Arusha urban area	11,248	12,373	13,610	14,971	16,468	18,115
Arusha rural area	2,250	2,475	2,723	2,995	3,294	3,624
Kilimanjaro urban area	10,121	11,133	12,246	13,471	14,818	16,300
Kilimanjaro rural area	4,750	5,225	5,748	6,322	6,954	7,650
=====						
TOTAL	28,369	31,206	34,326	37,759	41,535	45,689
=====						
Total Population	2992642	3082421	3174894	3270141	3368245	3469292
Ratio of subs. to population	0.0095	0.0101	0.0108	0.0115	0.0123	0.0132

NOTES

1. DEMAND IN ARUSHA & KILIMANJARO REGIONS IS EXPECTED TO GROW BETWEEN 10-14% THROUGH YEAR 2000. FOR THIS ANALYSIS, A GROWTH RATE OF 10% IS USED.

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Tanzanian Rural Telephone Project

Option A Projected Revenues and Expenses

Chart 2

Description / year	Millions T Shillings					
	1995	1996	1997	1998	1999	2000
Telephone Revenue	9,163	11,458	14,025	17,296	21,596	27,128
Telex and other revenue	6,153	7,380	8,781	11,101	14,242	18,279
Total operating revenue	15,316	18,838	22,807	28,397	35,838	45,407
Salary expense	769	1,146	1,637	2,241	3,557	4,805
Other oper. exp (excluding depre	5,632	6,615	7,522	8,858	10,506	12,489
Total operating expenses (excl de	6,401	7,762	9,160	11,099	14,063	17,294
Depreciation	3,159	3,538	3,955	4,414	4,919	5,474
Interconnect expense	0	0	0	0	0	0
 Total operating expenses	 9,560	 11,300	 13,115	 15,513	 18,981	 22,768
 Operating income	 5,756	 7,538	 9,692	 12,883	 16,857	 22,639
Foreign exchange money loss	292	692	1,180	1,397	1,570	1,810
Net operating income	5,464	6,847	8,512	11,487	15,287	20,830
 Total Plant and other investment	 31,592	 35,383	 39,553	 44,140	 49,186	 54,737
Net plant and other investments	28,433	31,845	35,598	39,726	44,268	49,263
 Return on net plant investment	 19.2%	 21.5%	 23.9%	 28.9%	 34.5%	 42.3%

Tanzanian Rural Telephone Project

Option B

Chart 1

PROJECTED SUBSCRIBER LINE DEMAND FOR ARUSHA AND KILIMANJARO REGIONS

Region/year	1995	1996	1997	1998	1999	2000
Arusha urban area	3,166	3,483	3,831	4,214	4,635	5,099
Arusha rural area	2,250	2,475	2,723	2,995	3,294	3,624
Kilimanjaro urban area	3,677	4,045	4,449	4,894	5,383	5,922
Kilimanjaro rural area	4,750	5,225	5,748	6,322	6,954	7,650
=====						
TOTAL	13,843	15,227	16,750	18,425	20,268	22,294
=====						
Total Population	2992642	3082421	3174894	3270141	3368245	3469292
Ratio of subs. to population	0.0046	0.0049	0.0053	0.0056	0.0060	0.0064

NOTES

1. DEMAND IN ARUSHA & KILIMANJARO REGIONS IS EXPECTED TO GROW BETWEEN 10-14% THROUGH YEAR 2000. FOR THIS ANALYSIS, A GROWTH RATE OF 10% IS USED.

Tanzanian Rural Telephone Project

Option B Projected Revenues and Expenses

Chart 2

Description / year	Millions T Shillings					
	1995	1996	1997	1998	1999	2000
Telephone Revenue	4,445	5,558	6,804	8,390	10,476	13,160
Telex and other revenue	947	1,136	1,352	1,709	2,193	2,814
Total operating revenue	5,392	6,695	8,156	10,099	12,669	15,974
Salary expense	375	559	799	1,094	1,736	2,345
Other oper. exp (excluding depre	2,748	3,228	3,671	4,323	5,126	6,094
Total operating expenses (excl d	3,124	3,787	4,469	5,416	6,862	8,439
Depreciation	1,494	1,658	1,837	2,035	2,252	2,491
Interconnect expense	0	0	0	0	0	0
Total operating expenses	4,618	5,445	6,307	7,451	9,114	10,930
Operating income	775	1,249	1,849	2,648	3,554	5,044
Foreign exchange money loss	39	115	225	287	331	403
Net operating income	735	1,135	1,624	2,361	3,223	4,641
Total Plant and other investment	14,944	16,577	18,374	20,350	22,524	24,915
Net plant and other investments	13,449	14,919	16,536	18,315	20,271	22,423
Return on net plant investment	5.5%	7.6%	9.8%	12.9%	15.9%	20.7%

Tanzanian Rural Telephone Project

Option C

Chart 1

PROJECTED SUBSCRIBER LINE DEMAND FOR ARUSHA AND KILIMANJARO REGIONS

Region/year	1995	1996	1997	1998	1999	2000
Arusha urban area	0	0	0	0	0	0
Arusha rural area	2,250	2,475	2,723	2,995	3,294	3,624
Kilimanjaro urban area	0	0	0	0	0	0
Kilimanjaro rural area	4,750	5,225	5,748	6,322	6,954	7,650
=====						
TOTAL	7,000	7,700	8,470	9,317	10,249	11,274
=====						
Total Population	2992642	3082421	3174894	3270141	3368245	3469292
Ratio of subs. to population	0.0023	0.0025	0.0027	0.0028	0.0030	0.0032

NOTES

1. DEMAND IN ARUSHA & KILIMANJARO REGIONS IS EXPECTED TO GROW BETWEEN 10-14% THROUGH YEAR 2000. FOR THIS ANALYSIS, A GROWTH RATE OF 10% IS USED.

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Tanzanian Rural Telephone Project

Option C Projected Revenues and Expenses

Chart 2

Description / year	Millions T Shillings					
	1995	1996	1997	1998	1999	2000
Telephone Revenue	1,411	1,764	2,159	2,663	3,325	4,177
Telex and other revenue	947	1,136	1,352	1,709	2,193	2,814
Total operating revenue	2,358	2,900	3,511	4,372	5,518	6,991
Salary expense	190	283	404	553	878	1,186
Other oper. exp (excluding depre	1,390	1,632	1,856	2,186	2,592	3,082
Total operating expenses (excl de	1,580	1,915	2,260	2,739	3,470	4,267
Depreciation	1,120	1,232	1,355	1,491	1,640	1,804
Interconnect expense	0	0	0	0	0	0
 Total operating expenses	 2,700	 3,147	 3,615	 4,229	 5,110	 6,071
 Operating income	 (341)	 (247)	 (104)	 143	 408	 920
Foreign exchange money loss	(17)	(23)	(13)	15	38	74
Net operating income	(324)	(224)	(91)	127	370	847
 Total Plant and other investment	 11,200	 12,320	 13,552	 14,907	 16,398	 18,038
Net plant and other investments	10,080	11,088	12,197	13,416	14,758	16,234
 Return on net plant investment	 -3.2%	 -2.0%	 -0.7%	 0.9%	 2.5%	 5.2%

III. Legal and Regulatory Feasibility

A number of legal and regulatory constraints stand in the way of a climate amenable to multiple telecommunications providers.

Those which we believe must be dealt with before a foreign investor will consider Tanzania are starred. The others must also eventually be rectified but probably will not, on their own, discourage an investor from at least considering Tanzania.

A. National Policy and Goals for Telecommunications

1. There is no articulated policy to guide investor decisions and regulatory oversight.

The clear articulation of a national public policy goal is missing in the Tanzania Communications Act, 1993, ("Act") and the Tanzania Telecommunications Company Incorporation Act, 1993 ("Incorporation Act"), both signed into law on December 21, 1993.

The articulation of a goal or plan for the country is particularly important in view of the broad discretion given to the new Tanzania Communications Commission ("TCC"). In the absence of an overriding policy, potential private investors will have to make guesses about the government's priorities. Inconsistencies are likely to abound in the government's decision-making and investors will have difficulty implementing systems that can operate in coordination with systems already in place or planned for the future.

2. A national policy would promote the development of service to rural areas.

The United States' experience illustrates why a national policy is necessary to the success of any private venture aimed at

providing effective and adequate telecommunications services in Tanzania.

The U.S. Communications Act of 1934 contains a universal service mandate that has the goal of establishing a nationwide system by wire and radio so as to make available telecommunications services to all the people at reasonable and affordable rates. This mandate is based on the assumption that a nationwide system is essential to the national security, the health and safety of the people and the promotion of interstate commerce.

The Universal Service mandate has allowed the national government and the states to create a regulatory structure that takes into account the capital intensive nature of providing telecommunications services in general and the missing economies of scale that result in the higher cost of providing service to less densely populated and remote rural areas. These characteristics are common to natural monopolies and the provision of other utility services such as power and gas, but only telecommunications has the unique mandate of universal service.

Federal Communications Commission access charge rules based on universal service objectives have been a key to the success of rural telephone companies. The rules have allowed for a system under which small company common line costs attributable to interstate services are reported and accounted for under a pooling system that provides for the filing of a common tariff based on the total revenue requirements for non-traffic sensitive interstate costs.

Under this system, some larger local exchange carriers that do not participate in the pool have a long term support payment obligation equal to the difference between the projected revenue requirement for these costs and the projected revenue recovered by the pool based on a nationwide common carrier line (loop cost) rate. This support is used to fund the common line revenue requirement for carriers that do not collect sufficient common line revenue to balance their common line costs.

Another form of support for rural areas is the Universal Service Fund. The Fund is actually an expense adjustment mechanism that provides more than \$750 million to companies whose unseparated loop costs (plant used for connecting subscribers to the central office in the exchange area) are in excess of 115 percent of the national average for these costs. Higher than average loop costs are generally attributable to longer loop lines and associated maintenance cost of loops in rural areas. The Universal Service Fund was established to give local carriers the benefit of an expense adjustment aimed at keeping local rates affordable in rural areas.

There are other types of cost allocation incentives that are provided for in the FCC rules and regulations to small carriers, whereby they can assign higher traffic-sensitive costs to the interstate jurisdiction, and recover those costs from the long-distance providers.

The Rural Electrification Act has also facilitated the national policy of universal service by making available technical assistance, construction practices, financial integrity and regular audits to assure compliance with federal laws and policies, and low cost loans to telephone companies providing service to rural areas.

3. A rural support fund should be established to ensure service in rural areas.

We recommend the establishment of a mechanism for redistributing or averaging cost to ensure service to high cost rural services that cannot be cost based but are necessary to development of the national economy. Mention of a "rural telecommunications development fund" (Phase III World Bank Rural Fund) is made in the loan documents submitted as the Telecommunication Policy of the United Republic of Tanzania.¹

¹ At Annex 1-1, page 10, included in Report No. 11539-TA, April 2, 1993, World Bank Document containing Staff Appraisal Report of the Third Telecommunications Project, United Republic of Tanzania.

The Tanzania Policy document states that one of the goals of the sector policy is to extend basic services to the rural areas in order for the majority of the population to enjoy the benefits of telecommunications and also to support economic development. It also states that the government will compensate the operating entity where it requires the provision of telecommunications services to non-viable areas.

Lastly, the Policy states that the Phase III World Bank Rural Fund will be established for the extension of the network to rural areas. Fund contributions will be calculated separately from the tariffs and made explicit to the financing of rural telecommunications. Funding is expected to come from service users, operating entities, the Government, etc.

The Phase III World Bank Rural Fund is an idea that has not come to fruition. However, should it do so, we recommend that all providers of basic exchange service to rural areas be recipients of any fund payments.

Averaging and tariff adjustment mechanisms should not be overlooked as a means to encourage operations in rural areas. In the U.S., these mechanisms have worked well because they implicitly promote a national policy that recognizes that cost averaging and tariff adjustment mechanisms are key ingredients in fulfilling the Universal service goal of providing a nationwide system available to all the people.

B. Licensing and Regulatory Issues

1. Franchise Issues

A. The Commission's authority to grant franchises is not clear.

The extent of the TCC's authority to license a new provider of basic exchange service for a rural area is not clear in the Act. This question arises because Section 12 of the Act gives the TCC the power to designate the telecommunication successor to the Tanzania Posts and Telecommunications Corporation ("TPTC") as the "public telecommunication licensee to perform all or any of the functions relating to the operation and provision of telecommunication systems and services" in Tanzania.

It is not clear whether the TCC can designate more than one telecommunications successor to the TCC. This is a problem because the Act gives the "public telecommunications licensee" but not other licensees privileges ordinarily associated with an exclusive franchise and necessary for the operation of a public utility service.

In addition, the designation of but lack of definition of the term "public telecommunications licensee" along with the lack of a national policy leaves undefined the extent and nature of the service obligations of the successor company, TTC, as well as others providing wireless service only or a combination of wireline and wireless service to areas not previously served by TPTC or acquired from TTC.

B. The company will need an exclusive franchise and all the privileges and powers given a "public licensee" to provide adequate service and protect its investment.

If TTC alone can be a "public licensee," the playing field will not be level and the TTC will remain the monopoly provider of

wireline services in every part of the country.

Wireline providers must have the ability to condemn property, pay reasonable prices for rights of way and have reasonable access to facilities on the right of way to operate a landline system effectively. The Act (Sections 23 and 24) gives these rights to the "public telecommunications licensee" but not others.

The Act contains other provisions that are more favorable to the "public licensee:" Section 68 provides a penalty for assault of an officer or employee of a public telecommunication licensee in the performance of his duties; and Section 69, a penalty for touching, tampering with, damaging or removing installations, plants or parts of these. Section 74 requires written approval of the "public licensee" to perform certain maintenance functions that may interfere with facilities.

The only provision that appears to cover other licensees is Section 77. That provision calls for a three hundred thousand shilling fine and/or imprisonment up to three years upon conviction for wilful removal, damage, or destruction of any installation or plant used for telecommunications or postal services.

The definitional problems in the Act can be cured in a number of ways that would encourage investors to bring telephone service to rural areas. Our recommendation is that the Act be modified to make it clear that any licensee who provides service to the general public is a "public licensee" and has all the privileges given to a "public licensee" under the Act. This is a necessary first step to allow the company to operate as a public utility on an equal footing with TTC.

This change would permit operations in a manner similar to the way common carriers of telecommunications services operate in the U.S. on an intrastate or interstate basis. In exchange for the right to an exclusive license in a particular territory or on a set band of frequencies and given geographic area, the carrier provides service to the general public on request. The extent of regulation of

common carriage is dependent generally on the extent to which competition exists and the extent of competition, of course, on the demand for the particular services.

Our technical analysis under Option 1 concludes that the existing demand for telecommunications service in the Arusha region would be best met by a single wireline provider. This does not rule out wireless competition in the area.

A license to provide wireline service should be exclusive. We recommend that the Act be changed to ensure that the company can obtain an exclusive franchise to provide wireline service in the area until it is determined that competition will not result in wasteful duplication of facilities and loss of investment. Exclusive franchise areas for the provision of telecommunications and other utility services are common in the U.S. and have been a potent means of attracting investment in rural areas that cannot support more than one provider of costly and capital intensive services.

2. Business License

A. Investors can obtain significant benefits from the incentives provided under the National Investment Protection and Promotion Act of Tanzania.

These affect the transfer and retention of foreign exchange earnings, tax exemptions and land use.

(1) Section 30 of the Act² guarantees the transfer of foreign currency out of Tanzania.

(2) Sections 20, 22 and 23 provide substantial exemptions of income and sale taxes, and custom duties. Approved foreign or local enterprises receive a 5 year income tax holiday on taxable

² Hereafter, references in this part to Sections are to provisions of the Protection Act.

profit. Import duties on machinery and equipment required for the enterprise are excused, as are sales taxes on this equipment.

(3) Investors granted a certificate of approval can apply to the Minister of Lands for a lease of appropriate land for term suited to the requirement of the enterprise but no longer than 99 years. Section 26.

B. The procedures for obtaining a certificate of approval from the Investment and Promotion Centre should be streamlined to ensure the rapid deployment of adequate services to rural areas in Tanzania.

The current approval process is not needed to accomplish economic development goals or satisfy public interests concerns. These concerns can be adequately considered by the government when it approves licenses to provide telecommunications services. If the objective of the certification process is to record the identity of entities eligible for the incentives for investing in the economy, a simple registration process can serve that purpose.

Applicants should not have to prove that economic benefits will ensue from investments in public utility services like telecommunications. Telecommunications services are an essential tool to the production, trade and commerce that fuels a nation's economy.

Current provisions of the Protection Act require applicants to submit business plan information approval certificates for foreign or local investment in new enterprises or expansions of an existing enterprise, Section 10 of protection Act. The application has to be accompanied by a statement showing the likely contribution of the enterprise to the country's economic development.

The Centre has sixty days to consider an application for approval. This period appears reasonable and might be if a certificate were automatically granted when the Center fails to act

within 60 days. However, it appears that the actual time needed to obtain a certificate can exceed 60 days by a considerable margin. A potential investor can only complain to the IPC Director if an application is not processed in a timely fashion; there is no remedy for delay. Having potential investors wait for certification frustrates rather than promotes investment.

In view of this, the Act should be amended to allow for a simple registration procedure after an investor has begun to do business and invested in an enterprise in the country. A simple procedure of registration will allow the Centre to have sufficient records to ensure that companies seeking the incentives provided by the Act have in fact invested assets in Tanzanian enterprises.

3. Spectrum Allocation

A. Access to the electromagnetic spectrum is essential for the success of any rural service.

Any company that wishes to succeed in providing rural telecommunications services must have sufficient spectrum to enable it to provide a full complement of services and compete with other radio based communications services.

An array of telecommunications services have been developed and are being provided over the electromagnetic portion of the spectrum. In the U.S., spectrum-based services such as Basic Exchange Telecommunications Services offered at (450 MHz and higher), Specialized Mobile Radio Service, (450 MHz and higher) fixed microwave common carrier services (2 and 6 GHz) cellular service (800 MHz and above) are being used both to complement and compete with wireline services.

Basic Exchange Telecommunications Radio Services ("BETRS") service, for example, is a radio provided service used in remote areas where wire is too expensive but considered a basic service (tariffed at the basic local service rate instead of usage as is

the case with mobile cellular service).

Fixed microwave common carrier service is used in lieu of wire links in urban and rural environments, but is considered essential as an alternative to wire links, particularly in the west where terrain and distances make wire too costly.

Cellular services and Specialized Mobile Services are generally considered as alternatives to exchange services. In the case of cellular and Specialized Mobile Services, the introduction of the services has provided competition for wireline services and immediately resulted in tremendous demand and growth levels in excess of predictions. In May 1994, the first licenses for personal communications services will be issued in the U.S. The demand for these completely mobile personal services is expected to be in the range of 60 million subscribers in the U.S. by the year 2000.

The emergence of personal communication services and the growth of other radio based communications services is expected to continue to bring down the cost of providing radio-based services and may ultimately result in the migration of all voice traffic to radio-based communications services.

B. Investors in rural systems need assurances that TCC regulations on spectrum allocations and licensing will make the provision of telecommunications services to rural areas a priority.

The Act fails to state a national policy or commitment to allocate spectrum and issue licenses so as to ensure that rural areas receive the benefits of the array of developed and emerging spectrum-based services.

Section 10 merely gives the TCC authority to issue licenses "under such conditions as shall be determined by the Commission." There is no provision for the type of service to be provided on particular bands of the spectrum. Nor is there any indication of whether or how the TCC is to determine how the public interest will

be satisfied by giving licenses for particular uses of the spectrum.

The only mention of the public interest is with respect to the TCC's power to consider the public interest in making regulations to govern harmful interference to other communications and to establish minimum performance standards for the manufacture, import, sale, shipment and use of electronic appliance. Section 10(2).

This state of affairs leaves the TCC free to make the rules as it goes. It also means that investors will have a difficult time planning radio services, not knowing whether and when particular services will be authorized on certain bands. It will also be very difficult to determine how to demonstrate the merits of a particular request for the use of the radio spectrum. These problems can be cured if the TCC uses its discretion to come up with some clear allocation decisions that provide incentives to potential licensees, e.g., sufficient spectrum to provide a viable service, market areas that make it economical to provide the service in rural areas.

In addition, the TCC should come up with regulations that take into account the need and benefits of providing radio-based services in rural areas. For example, it could reserve or allocate spectrum for the rural radio service or indicate that it will use a lower payment scheme for rural licenses so as to give investors an incentive to operate in these less attractive areas.

4. Authority/Discretion Issues

The Commission's (TCC) licensing powers are too vague to provide investors adequate guidance and protection of their investment in the license.

A. Section 11 of the Act gives the TCC authority to include conditions requiring payments either upon the grant of a license or periodically.

Payment amounts are in addition to application fees provided for in Section 17. They are determined by the Commission and payable to it.

This provision, coupled with the absence of a guiding national policy and the enumeration in the Third Schedule (#40) to the Act of a right to accept donations, opens the licensing process to big money and speculation in licenses. The Company will have additional and unproductive transactional costs if this provision is left intact.

B. The TCC's power to modify licenses will be a detriment unless it is restricted.

Section 19 gives the TCC the power to modify the conditions of the licenses it issues for providing telecommunications services or access to the spectrum. This can be done at any time. Licensees can appeal TCC modification decisions only on procedural issues or on grounds that the decision of the TCC was based on "extraneous factors."

"Extraneous factors" is not a defined term in the law. The company will need to know that the TCC will not modify licenses after the fact without its consent. Otherwise, the license is a one-way, revocable contract that obligates the company to provide service but allows the TCC to change its mind -- something, it could presumably do if a different applicant came along with another plan.

C. The Act should be changed to abolish the TCC's discretion to require proficiency examinations as a licensing condition.

This is an unnecessary burden to which to subject an outside investor.

The application fees required of applicants should sufficiently ensure that applicants will not engage in expensive licensing

proceedings unless they have competent staff to provide services. Likewise, the regulation of equipment standards should ensure that sanctions for violations of standards take into account proper training of technical assistants.

D. The Act imposes sanctions for violating unreasonable and unenforceable license conditions.

Section 20 of the Act allows the TCC to cancel a license and impose on the licensee a fine as it "thinks fit" for connecting to the system (the licensee's system) any other telecommunication system or equipment not authorized.³

In addition, the licensee can lose a license for providing by means of the system any telecommunication service not authorized by the license. These provisions will be impossible to enforce. The equipment violation would require a licensee to inform the TCC of every single piece of equipment it uses in providing service or to list in its license each and every type of present and yet-to-be-built piece of equipment it might use to provide service.

The provision of service assumes that licensees will be able to minutely define the technical capabilities of the transmission facilities used in a system. In addition, it envisions a static view of a system. Today's technology is an evolving one in which telecommunications no longer involves the transmission of voice only but encompasses the transmission of voice, data and video and the manipulation of this data to include a variety of enhanced services made possible by the use of digital switches and various software applications.

E. The Act leaves to the Commission the authority to decide on license periods.

³ Interestingly, Sections 55 and 58 provide set amounts for violations of postal provisions of the Act.

Investors will need long enough periods to recover their investments within the licensing period. Licenses for wireline service should be of indefinite duration as the public is protected by the government's ability to impose sanctions for violations. Further, no public assets are used as the transmission medium, as is the case of spectrum used for wireless services.

In the case of wireless services, the Act should provide guidelines to ensure that periods are sufficient to allow recovery of the investment given the construction requirements imposed by the TCC. We recommend a 10-year licensing period for wireless services. This period is related to the projected useful life of the investment and the assumed period for depreciating assets under each of the three options.

The Act or regulations should also provide assurances that licensees that have substantially performed the obligations imposed in their licenses will receive a renewal expectancy when their initial license period expires. Section 18 (3) provides that the TCC may renew licenses but gives no clue on the criteria it may use to decide whether a license can be renewed.

F. The Act contains unnecessary licensing provisions that will impede the delivery of service to rural areas.

Section 63 contains a special provision that seems to augment the general licensing provision of Section 9 and establish that a license is needed to "offer for sale, sell or possess for sale any telecommunication equipment; or possess any radiocommunication equipment without a license."

If this provision means that a license is needed to possess or sell phones, answering machines, transmission equipment, switching equipment and other materials, it should be repealed. Licensing this type of transaction will be an administrative nightmare. More importantly, it is not necessary and will only add one more set of regulatory burdens with which a potential investor

will have to contend.

5. Tanzania Communications Commission Issues -- Including Its Authority and Discretion

A. Investors need to know who has the decision-making power in regulating telecommunications.

It is too early to tell whether the three levels of bureaucracy created by the new law will result in a maze of confusion. Investor confidence will grow if clear lines of authority and policy making are put in place.

The Act gives policy making powers to a Minister of Communications and the TCC. Section 7. The Minister is required to notify the TCC of general policies that are to apply and to ensure that the policies are carried out. Section 7. The TCC in turn has been given a long list of enumerated powers and functions, many of which specifically provide for policy making. Second Schedule to Act. This could result in major confusion if the Minister and TCC disagree about powers and functions.

A Secretariat headed by a Director General is responsible for administering and managing the functions and affairs of the TCC. Section 8. There is no inherent problem with this structure. However, problem may result if the Director General is a former TPTC/TTC employee.

B. Investors need assurances that the TCC will conduct its business in a fair and open manner.

The Act allows the TCC to make its own rules of procedure. First Schedule (#14). This is normal for an administrative agency. Rules should provide adequate opportunities for making presentations and rebutting evidence in cases of contested applications or complaint proceedings. The Act gives the TCC the

power but not the duty to hear complaints, publish proposed regulations, seek comments and promulgate regulations. Hopefully, these powers will be included as duties when TCC makes adopts its rules of procedure.

In addition, record retention and access to public documents should be implemented. Parties should have the opportunity to see the records upon which contested applications and complaint proceedings are based. This is particularly important in the absence of notice or open meeting requirement provisions in the First Schedule to the Act. The wide discretion and powers given the TCC can only be checked by adequate public access to the decision-making process.

Another concern is the TCC's power to receive donations from any source and to raise funds by any lawful means. Second Schedule (#40) This power, if accompanied by secret proceedings, could add multiple hidden costs to doing business before the TCC.

C. Investors competing with TCC for service or territory should have assurances that the TCC will render fair decisions.

Revolving door and conflict of interest rules recognize that prior associations and present pecuniary interests in issues before the government prevent individuals from acting apart from self-interest.

The potential problem in the case of the TCC or TCC employees is that Section 7(c) of the Vesting of Assets & Liabilities Act obligates the TCC to accept former employees employed in regulatory services by the TPTC/TTC and designated for employment with the TCC by a transitional committee set up under the Vesting Act. This problem is compounded by the TCC's authority to delegate its "powers, functions, and duties" to any of its officers or employees.

We recommend that TCC rules provide that for the next three

years, no former TPTC employee be allowed to act in other than a purely clerical function in any matter that involves a present or potential contest between TCC and another operator or licensee subject to the jurisdiction of the TCC.

A particularly baffling aspect of the TCC's authority is in Section 21(2), which gives unspecified persons ("some other person") a veto power over applications to connect equipment to a "public telecommunication licensee."

It states "A person applying for an approval under this section (approval of equipment used to connect to the public telecommunications licensee) may be required by the Commission to comply with such requirement as the commission may think appropriate; and those requirements may include the requirements to satisfy some other person with respect to any matter. [Emphasis added].

"Some other person" and "any other matter" reflect entirely too broad a set of parameters. This provision should either be repealed or narrowed down to some meaningful context by regulation.

D. Regulation of rates for telecommunications services will be tolerable only if the private investor is allowed to recover a fair and attractive return on capital invested in the enterprise.

Utilities are generally allowed to recover their operating expenses and taxes plus a return sufficient to attract capital to the enterprise.

Where rates are set by the state, regulators generally look at the cost of debt and the return necessary to attract equity to determine a fair return. In the absence of regulation, utility providers are allowed to charge what the market will bear.

In an environment where services are being newly privatized, if rates are regulated, the investors must have the additional

assurances that regulatory procedures will be governed by fair procedures that contain provisions for an appellate forum to correct agency decisions that are arbitrary. This is of particular concern because the TTC is given broad authority in Section 5(m) to regulate telecommunication tariff rates and the Act contains no provisions for appeal of decisions of the TCC with respect to tariff or other regulations.⁴

One solution to this potential problem would be for the TCC to take a position similar to the FCC's forbearance policy. Under that policy, the FCC does not require the filing of tariffs for certain nondominant common carriers that would otherwise be subject to rate regulation. As a result of this policy, in the past, the FCC did not regulate the rates of cellular carriers or even long distance carriers like MCI.⁵

A forbearance policy would allow the company to adjust its rates quickly. The ability to adjust rates quickly is important in Tanzania where the continual devaluation of the Tanzanian shilling is resulting in an increase in debt servicing costs, high inflation and foreign exchange losses. A forbearance policy would also help put the company on a level playing field with TTC. The Ministry of Communications has agreed that the predecessor of TTC, the TPTC shall adjust tariffs semi-annually by March and September in each year to cover inflation and devaluation.⁶

⁴ The Act in Section 19 does provide an appeal to the High court in cases involving modifications of a license on procedural grounds or grounds that a decision was extraneous.

⁵ The United States Court of Appeals for the District of Columbia held that the Communications Act does not permit the FCC to excuse tariff filings for carriers under its jurisdiction. It is that decision which is pending review in the United States Supreme Court.

⁶ Ministerial Directive No. 1 of the Ministry of Communications and Transport (para. 6) and March 3, 1992 Memorandum of Understanding between the Government of the United Republic of Tanzania through Telecommunications the Ministry of Communications and Transport and Tanzania Posts and Telecommunications Corporation, (Appendices and.....) [these are in World Bank

6. Interconnection

The need for interconnection among providers of telecommunications services is essential to the operation of a public switched network in the nation. It is not essential that there be but one provider for a national system but it is essential that providers interconnect with each other for a national system to operate.

Interconnection is also essential to maximum utilization of the network. Each subscriber's service increases with the ability to communicate with each other subscriber gaining access to the network. In the U.S., interconnected service among common carriers serving different territories is taken for granted. The interconnection of competitive providers has not always been voluntary but has been accomplished through a variety of means, including litigation as well as federal and state regulatory mandates.

Interconnection among providers in Tanzania will be necessary for the success of any rural service. The Act does not mandate interconnection but gives the TCC authority to "resolve issues of interconnection between networks where the operators involved are not able to reach agreement on terms of interconnection." Section Schedule (#32)

Ideally, the regulatory body should have the authority to order interconnection, particularly if only one entrenched provider exists as is the case with TTC. Equal access should also be provided. This means that the quality and terms of interconnection offered by the "public telecommunications licensee" to others should be comparable to the interconnection and access the licensee gives itself. We recommend that the TCC should make the obligation to interconnect a condition to the grant of any license. It seems to have sufficiently broad powers under the licensing provisions to do this. Sections 9, 10, 11 and 12 of the Act.

7. National/Local Law Relationships

The Communications Act does not indicate whether it takes precedence over conflicting regional or local laws. Preemption of regional and local laws that interfere with the provision of telecommunications services and the operation of licenses obtained from the TCC should be part of the national policy. A clear articulation in the area of land occupancy and the acquisition of rights of way is particularly important. Otherwise, district and regional councils with authority over land may stop projects with heavy fees, fines or other regulatory schemes.

C. Partnership Issues

1. Operational Control

In order for this venture to succeed, the American business investor must be able to exercise managerial and operational control over the affairs of the corporation, partnership or venture that will be licensed to provide one or any number of services by wire or radio.

In view of this, the Social Action Trust documents should give the Trust sufficient authority to invest in the venture on terms that will allow operational control by the American telecommunications company. Thus, even if the Trust owns 51 percent of the equity in the venture, operational control must be given the telecommunications company for the venture to succeed.

Operational control may be achieved in a number of ways, including the use of non-voting stock, the creation of a holding company and subsidiaries, or other means permitted by Tanzanian corporate and commercial laws. Issues involving corporate equity interests and operating control will have to be negotiated after a thorough analysis of corporate capital requirements, the feasibility of configuring the Board to achieve operational control by the

American company, and other factors.

These issues will require further study.

The last available draft of the Deed of Trust document that would create the Trust contains provisions that could be an obstacle to operational control by an American company.

2. Convening meetings

Schedule H (#2) gives the Board of the Trust the power to "convene" meetings of the "shareholders, directors, or management personnel" of any company ("wherever resident or incorporated") in which Trust Funds are invested. The provision could be an obstacle if it is intended to be a condition of investment in a venture.

The right to convene board or shareholder meetings is ordinarily governed by the incorporating jurisdiction's corporate laws and company bylaws. These, in turn, generally require notice and other threshold showings before shareholders can require the convening of special shareholder or board of director meetings.

The right to convene meetings of management personnel would be very unusual. It is not clear what personnel would be considered management. In addition, the ability to convene "management personnel" suggests that the Trust might involve itself in the day-to-day operations of the venture or the operating American company.

The dangers implicit in this scenario are obvious. The Trust's interest in ensuring sound management practices can be met in other ways, including a thorough analysis of the operating company's prospectus, business plans and expertise prior to investment, and close monitoring of the financial performance of the company.

3. Reorganization power

Schedule H (#4) of the draft Trust document also gives the Board of the Trust the power "to approve, concur in, promote or join in carrying into effect any proposals or offers" for company reorganizations.

If this power means only the power to "approve" and not a veto power to "disapprove", it is acceptable. If it is interpreted to mean a veto power, this would be unacceptable to the American company needing operational control.

4. Capital Investment

We have assumed that the Trust will invest \$20 million U.S. in the venture. Schedule B(#4)(b) of the draft Trust document states that (for investments in commercial projects) no more than 10 percent of paid-in capital of the Trust Fund shall be invested in any one company. This provision may prevent investment of the full \$20 million in the venture unless 1) it is certain that paid-in capital will always equal or exceed \$200 million U.S. or 2) special waiver or discretionary authority otherwise allows the Trust Board to ignore this criteria.

APPENDIX 1

INTERVIEWS

(arranged
alphabetically)

In Dar Es Salaam

Mr. Mats Gronlund
Programme Officer
Swedish International Development Agency

The donor situation in general is confused. There is little coordination. Tanzania is the recipient of much aid, but it is not efficiently focused. A further complication is the lack of in-country representation by all donors.

Discussed some specific Scandinavian projects, such as the hydro project in Tanga being run by all three Scandinavian foreign aid agencies. Also discussed problems with tied aid, such as many makes of (non-compatible) equipment being funnelled to a given project.

He does not believe a serious investor in telecomm would view Tanzania positively, considering the current situation.

SIDA has stepped in with telecomm equipment, spare parts and technical assistance in network design but the need is so great that the result has been little more than jury-rigging the system to keep it from collapsing completely.

Consultants have had a difficult time working with the TPTC, as their input has not been given the consideration it warrants.

Trying to create an institutional development package is difficult. Attitudes toward work are difficult to change. He is hopeful about Mr. Mapunda as DG but is waiting to see concrete results. The need for consensus decision-making complicates and slows reform.

Millicom is based in Luxembourg. The majority shareholder (40%) is a Swedish company. Ultimate Security has 17% and TTC has 25%. (NOTE: Millicom has no office in Dar but is represented by TTC, which could not provide a contact name or number).

TANESCO's infrastructure is marginally better due to simpler equipment. Billing and collection is also a problem for them.

Hon. George Kahama
Director
Investment Promotion Centre

Discussed IPC's requirement for a potential foreign investor. To receive a certificate (license), an investor submits a standard application and a proposal or business plan. In 30-60 days the plan is accepted or rejected. If approved, the company pays T SH 100,000 as a fee, which covers the cost of processing. Salaries are paid by the Ministry of Finance.

The certificate provides a package of incentives and serves as a guarantee that the investor can repatriate its profits and dividends. Incentives include a five-year tax holiday and the right to import, free of the usual 40% duty, inputs to set up the business.

An investor can apply for registration before or after receiving the IPC certificate.

The certificate can be revoked if there is no sign of progress. The investor must file with IPC an implementation plan, six-month progress reports (2-3 pages) and a list of all equipment that will be imported.

In the case of a joint venture, the CEO would apply, and the certificate would be issued in the company's name. The foreign partner is given a separate certificate.

Should an investor need to bring in more material after a year or two, or in a steady stream, it would be subject to taxation. However, such additions would be tax-free if the investor filed an expansion application.

Zanzibar has a separate IPC -- a company can receive a license there and operate on the mainland, and vice versa.

Some 489 certificates have been issued in the last three years. None have been rejected. Of the total, 74 are purely foreign ventures and 178 are joint ventures. They reflect the investment of more than \$1 billion U.S., and have created 68,000 jobs, all since 1990.

Expropriation cannot be achieved simply by passing a law. It has to go through the courts. The GOT would have to negotiate a fair price with the investor; if not possible, the issue would go to the International Center for the Settlement of Investment Disputes, in Zurich.

Dr. C. S. Kimei
Manager, Economic Research Department
Directorate of Economic Research and Policy
Bank of Tanzania

The Bank of Tanzania's role is to advise on macro-economic issues and interface with multilateral donors. It is working now on the evolution of financial markets and a stock exchange.

The Bank was managing special funds to aid the rural sector. This is no longer feasible because of the switch to a market economy -- the rural sector is not efficient enough to warrant diverting funds to it.

Income distribution is concentrated in areas of permanent cash crops -- the southern highlands and fertile northern highlands. Thus income distribution follows geography. A main constraint to growth is the lack of telecommunications.

Discussed bilateral donors in general. The Japanese are doing electrification, water systems, roads and utilities in the Moshi/Arusha/Kilimanjaro area. The Swedes are in Tabora and some central areas. The Swedes, Danes, and Norwegians are in the southern highlands.

He referred to World Bank study on banking -- without efficient telecomm and post, banking is difficult and unsophisticated (lack of data transfer, automatic teller machines, etc.) Impossible to mobilize funds in rural areas. Minimum 20 days to transfer money from town to town.

He raised the issues of hidden costs being necessary to get the phone fixed, based on personal experience.

Tourism is just beginning as an industry. Right now Tanzania is getting a quarter as many tourists as Kenya -- about 146,000 (1991 figure) versus 600,000. Each visitor brings \$130 to the local economy. (Note: this figure seems very low considering the artificially high rates paid in hard currency by non-residents for major services such as hotels and national park fees). The lack of quality hotels, and the poor facilities (such as phones) lead them to stay in Kenya and travel into Tanzania. This, coupled with the lack of industrial base, means agriculture has been driving the economy.

He defines rural as anything outside the urban center -- 5/10 kilometers, or where the town's construction stops.

(Note: He provided several census and population studies. Due to the multiple and conflicting definitions of rural, the team chose to use the government's census report of 1988's definition of urban, rural and mixed areas (each department in each region is so

classified).

Mr. Motoo Konishi
Resident Representative
The World Bank

Discussed overview of the Bank's Third Telecommunications Project. He believes the Bank's target is relatively modest. The technical aspect is the most easily accomplished -- changes in corporate mentality are problematic.

The difference between Telecomm Three and its predecessors is that: 1) now TTC has a sense of ownership and; 2) a foreign telecomm company will be brought in to "twin" with TTC on a long-term basis. Hiring consultants has not worked well.

The Commission will regulate performance but not set tariffs. Ideally, it will create a healthy climate for competition.

"Without telecommunications, there is not going to be private investment."

An IFC team is coming at the end of the month to investigate the possibility of setting up a high-speed data transmission link between major cities. "We have been wondering if a rural component could be built onto it --letting the carrier drop off to rural areas."

We discussed demand. The level of awareness of the usefulness of phones varies from region to region.

Change, investment and income opportunities are all coming too slowly. There are goods in the stores but a lack of income with which to buy them. Hence, there is growing public dissatisfaction with the pace of reform.

However, there is an awareness that it is out of the question to

return to what existed before.

Ms. Mwanaidi S. Maajar
Attorney at Law
Maajar & Rwechungura

Ms. Maajar represents businesses that have pending applications before the Investment Center. She believes the Protection Act was poorly drafted and needs to be simplified. The 60-day time frame for considering applications for certificates of approval can in fact mean virtually anything.

The Act's procedures are unnecessary and the IPC is slowing and burdening investor efforts to do business in Tanzania. She believes the Center is too understaffed (16 employees) to process applications in a timely manner.

She also believes the IPC has too much discretion -- it actually reviews the feasibility of a business proposal and requires that investors set up a corporation, open books, register with the Registrar of Corporations and deposit funds, all prior to obtaining a certificate of approval from the IPC.

Mr. A.B. Mapunda
Director General
Tanzania Telecommunications Company

and

Mrs. G.N. Mpatwa
Director of Corporate Planning
Tanzania Telecommunications Company

He is disappointed with performance of foreign telecommunications companies thus far and is considering not renewing some licenses that have already been granted.

He says the TTC is very interested in serving rural areas and that all consumers must be served.

The current network was installed about 1950. It's been a patchwork system since then. There are a few digital switches but poor transmission facilities.

We discussed the World Bank plan, the different donors involved and their respective areas of responsibility. For instance, the EEC's \$30 million will be used in four key regions in the south, and SIDA will pick up some beach and tourism areas.

The World Bank's Telecomm Project will bring an expansion of switching centers, a fiber backbone network in selected regional centers, and institutional development -- training and technical assistance, spare parts and maintenance.

Mr. Mapunda identified personnel problems as one of the biggest challenges. Training and development of staff is paramount. "We want to be close to the customer." This is hard to achieve because performance and motivation are, he says, very poor. Money is not being collected and slips through peoples' hands.

He believes competition is healthy, and wants to use it to get service to people.

We discussed the definition of "rural" -- breakdown geographically is by (in order) state, region, district, ward, village. For TTC's purposes, anything at or below the district level qualifies as rural.

Mr. Sebastian Mathew
Managing Director
Meridien Bank

He believes there is investor confidence but is unsure how long it will be sustained. The deficit, financing problems and

collection of revenue are all problems. He believes the GOT is managing the economy better than most other African governments, as it understands the interrelationships among financial issues.

Inflation is running at 20%-30% per year. Meridien's prime rate is 37% plus 2%. Lending for business ventures is available provided the borrower has collateral equal to 100% of the proposed loan.

When farmers begin receiving proper and timely payments, the economy will pick up. Middlemen get too much profit and due to other inefficiencies farmers often wait a year or more to get paid for a crop they have sent to market.

He discussed the history of the banking industry, nationalization in 1967 and the Financial Institutions Act of 1991, which allowed for private banks.

He does not believe nationalization will ever occur again.

There are no electronic banking links but he needs one badly. Horizon Communications out of Zambia were looking at a joint venture for this but it did not work out.

He believes the priority businesses with potential are, in order, tourism, telecomm, mining and agriculture, especially nut processing.

Hon. George Mbowe
Chairman
Parastatal Reform Commission
Ministry of Finance

The current policy is to allow outside investment, but he is not sure of future directions -- ideas are being considered. The current thinking is that the government could allow majority foreign ownership.

He needs help and advice in developing ideas for the management of all spectrum. The first spectrum initiative was when Cable and Wireless (UK) asked for a cellular license. C&W projected 10,000 subscribers in Dar by 2000 and believed this was not enough to accommodate more than one company. The GOT thinks it is possible to allow two or three.

His definition of rural: areas unreachable by roads and/or telephones.

We discussed the IPC, and also utilities in general. The thinking on this has been changing day to day. Telecommunications has been/was classified as reserved for the government. Now there is consideration of the idea of selling shares, with the Government being the majority shareholder.

However, privatizing TTC is far down the list of "must dos." Creating a stock exchange is the first priority.

Shares could also be sold to individuals, as long as one main shareholder provided the technology. That shareholder must be reputable, be linked with telecomm, and have research and development ties/access. In answer to a question, yes, this could be a consortium, with a lead partner.

How can a consortium or single lead investor demonstrate credibility? It would be subjected to the following evaluation:

- * What is the investor offering?
- * Is the technology compatible with what exists now?
- * Is the technology going to remain on the market over the next 5-10 years?
- * How successful has that technology been in other countries?
- * Who are the investors?
- * Can the investor stand up to a thorough vetting by the ITU or, in the case of a U.S. company, reliable in-country sources, such as the World Bank or the Embassy?

From what range of officials would a company need clearance? The TTC would evaluate from a technical standpoint; the Ministry of Works and Communications from a macro policy standpoint; and the IPC from an investment standpoint.

For associated land and property issues, the Ministry of Land must be involved. The question of land titles is an issue because of the shrinking amount of arable land, which has led to conflicts.

The Secretariat of the Commission will have to map the country in order to issue licenses for spectrum. A tariff structure has to be developed.

Mr. Alphonse Ndakidemi
Director of Communications
Ministry of Works, Communications and Transport

General overview of (former) TPTC and dissolution of TPTC into TTC and TCC, the new regulatory body.

He discussed the appointment process for TCC Commissioners and their responsibilities, among which will be the licensing of new operators. He also discussed how the TCC will support itself (by a fee levied on operators for such things as frequency licenses, installation and maintenance). "Operators" will not be limited to telecommunications concerns but will include the postal service, DHL, and so on.

A "Rural Telecommunications Operators Committee" will be created to facilitate communications among/between rural providers.

In regard to service projections, there are 150,000 people on the waiting list for service. "It is not possible for everyone to have phone service, but we want to reduce the waiting list" with the help of the World Bank loan.

Proposed Payphone Company

TTC has been very difficult to work with but is changing now. One of the World Bank conditions is that they have to change their culture. Fees are a problem because there are so many -- a license fee, a premises fee, a connection fee, a usage fee, and a usage charge (24%).

He needs \$2 million to launch his business. He plans to use optical cards and will sell them directly in high-density areas. Discussed well-to-do rural areas such as Mwanza, Shinyaga, Chunga, Iringa.

TTC will be letting three licenses for payphone providers. (At this time he has no license or payphone booths).

Mr. Roger Sidhu/Gondwe
Operations Manager
UNISYS

His company is working to provide a high-speed data link service, and has received a license in Zanzibar. Everything else covered was off the record.

Mr. Octavian Temu
Managing Director
National Insurance Corporation of Tanzania, Ltd.

A general discussion of economy. Economic growth is running about 4% per year and should continue, provided the political situation remains stable. He is confident that it will. No one anticipates or wants a return to the old days.

Regarding privatization, he is not sure whether the public favors it or not -- his impression is that the changes it has brought are not very popular (lots of goods in stores, but too little income to

pay for them).

NIC has a number of branches around the country which he would like to see tied together by a data network. It is difficult to achieve an adequate flow of money and information without better telecommunications facilities. His business suffers from the inadequacy of facilities. Quantity and quality are both poor.

The demand for insurance is largely in well-established cash crop areas -- cotton, sisal, tea, coffee. Phones are probably not appropriate for "pastoral" people. There is a vandalism problem -- people in rural areas don't understand or appreciate telephones, he believes.

Business demand is high but TPTC/TTC has not been pinpointing the key areas -- Arusha, Iringa, Tanga, etc. If it were up to him, though, he would concentrate on improving the existing facilities before extending service to more people.

In the Kilimanjaro and Arusha Regions

Mr. H.C.L. Kawiche
Director of Finance and Planning

and

Mr. Manubhai Patel
Special Assistant to the Managing Director

and

Mr. W.J.G. Mallya
Company Secretary

The Tanganyika Farmers' Association, Ltd.
Arusha

TFA has 5,000 members ranging from small individual farmers to large estates. TFA's primary job is input supply.

Being a national organization, TFA has 13 branches. Because 99% of its members have no phone, they must go to the nearest branch to buy supplied (as opposed to calling for delivery, which would be ideal).

All branches have excess inventory on hand. They could do with less if there were better communication among the branches and between the branches and their customers. The same goes for suppliers. "It is easier to communicate with a supplier in the UK than in Tanga," said the finance director. Sometimes TFA resorts to hiring a middleman to take the bus to Dar to buy from suppliers, as it is easier than calling.

Mail takes weeks, if it arrives at all. They want to set up a data network tying together the branch offices but cannot with the lines that currently exist.

We discussed the general agricultural situation. Timber, tea,

coffee, pyrethrum are all rural-based and so production and/or processing could be stimulated by better communications.

They would buy at least a half-dozen lines for the main office if they were available.

Mr. John Kipokola
Executive Secretary
Marangu Community Development Association

and
Dr. S.J. Mamuyu
Chairman
Marangu Community Development Association

This is a self-help society started by people who retired back home to Marangu after working in Dar or overseas most of their lives.

It is engaged in a heifer project to improve the milk supply; reforestation; putting in a piped water system; improving the primary schools; and doing family life education to lower the teen pregnancy rate and AIDS rate.

There is a high demand, especially among expatriates living in Nairobi and the UK, for a good phone system. We discussed local taxes, the local government's set-up and operations, how to get OKs and approvals at local level for land and construction, how to work with the district council.

They believe, as a general rule of thumb, that anyone who can afford a brick home and electricity can probably afford a phone. This is about one out of every five residences.

Mr. Thomas Kimaro
Chairman and Managing Director

**Alpine Tours, Ltd.
Marangu**

and

**Ms. Jane Lugano
Park Warden, Tourism
Kilimanjaro National Park
Marangu**

There are many well-off people in the region who have come back in retirement and are frustrated by the lack of phones. The relative wealth of the area also translates into a significant number of people now living in Dar or overseas (e.g., his daughter is studying in London).

The Marangu Hotel has two lines, one for a new fax; apart from that, the only phones are at the Lutheran and Catholic churches, Mr. Kimaro's home, an Outward Bound camp, and the park entrance.

Based on his knowledge of tourism and hotel needs (10 new hotels are under construction in the area) he thinks the district could use 200 new phones instantly and 1,000 within three years.

The park itself has no phone beyond the entrance. This is a concern from a safety standpoint, although the incidence of accidents is low (18 out of 21,000 climbers last year required emergency assistance). Having cellular phones in the huts would be great. When people come off the mountain they would also like to be able to call home.

Calls: to Moshi, 3 minutes is 200 shillings. Dar is 500 for 3 minutes. Nairobi is 2,000 for 3 minutes. The installation fee is T SH 50,000 and the monthly fee is T SH 1500.

Paying incrementally or even significantly more is not an issue --there are hidden costs in keeping one's phone up and running, so people already pay a great deal more than the figures suggest.

All the local businesses -- 60 tour operators, safaris, hotels, etc. need phones. On second thought, he believes 1,000 new lines is a low estimate.

Mr. and Mrs. Mbowe
Owners
Aishi Hotel
Machame, Kilimanjaro Region

Mr. Mbowe is a retired businessman and government official. The couple runs a 28-bed hotel on the road to the Shira Plateau route up the mountain. Each room has a phone but there is only one line to the outside. Outages are frequent and repairs do not last long. They paid T SH 2,000,000 in direct and hidden costs to have the phone installed.

Having a phone is key to their business. They would like several more lines and a fax. They believe many other area businesses, especially hotels, would pay a significant amount for reliable service.

Mr. A.S. Mperella
Regional Telecommunications Manager
Kilimanjaro Region
TTC
Moshi

The exchange has a 6,000-line capacity but only serves 4,000 lines (3,000 in the city of Moshi) because of a shortage of cable. The waiting list numbers 800, but this is a misleading figure because people feel that putting their names on the list is a pointless endeavor. He believes demand might be two or three times his current capacity.

The new installation charge (raised at World Bank insistence) is

T SH 50,000. Of that, T SH 20,000 is a security deposit/payment fund.

A local call is T SH 9 for the first three minutes. International is \$8.50 per minute.

(NOTE: There is no relationship between actual costs and assessed costs. These rates are artificial and illogical. They serve to clog the network with local traffic and deprive it of needed international calling).

Revenues per month: T SH 50,000,000 to T SH 70,000,000 for local and trunk (long-distance) calls; T SH 20,000,000 to T SH 30,000,000 for international.

He has 200 staff, of whom 60-70 are installers/repairmen. He blames the poor service on a lack of trucks and parts. Between zero and three trucks may be working on a given day. With adequate resources, he could serve another 15,000 lines by adding "only a few" staff.

Appendix 2

ISSUES RECOMMENDED FOR FURTHER STUDY

- 1. Establishment of a national policy goal for the telecommunications industry**
- 2. Structure of the legal entity vis a vis the Social Action Trust**
- 3. Spectrum management**
- 4. Interconnection arrangements and cost recovery**
- 5. Tariff regulations**
- 6. Creation of franchise rights**
- 7. Adequate separation of TTC and Communications Commission staff**

ANNEX H

Social Action Trust

THIS DEED OF TRUST is made the 3rd day of May, 1994

B E T W E E N

The **GOVERNMENT OF THE UNITED REPUBLIC OF TANZANIA** acting through the Principal Secretary, Ministry of Finance (currently Peter Ngumbulu) and of P.O. Box 9111 Dar es Salaam ("**the Settlor**")

A N D

The Honorable Chief Justice, Court of Appeal of Tanzania (currently Hon. Mr. Justice Francis L. Nyalali) and of P.O. Box 9004 Dar es Salaam ("**the Appointor**")

A N D

THE UNITED STATES AGENCY FOR INTERNATIONAL DEVELOPMENT acting through the Mission Director in Tanzania (currently Dale B. Pfeiffer) and of P.O. Box 9130 Dar es Salaam ("**the Appointor**")

A N D

PROF. IBRAHIM LIPUMBA
University of Dar es Salaam, P.O. Box 30165, Dar es Salaam

PROF. COSTA MAHALU
Ministry of Higher Education and Technology, P.O. Box 2645, Dar es Salaam

MR. GRAY MGONJA
Bank of Tanzania, P.O. Box 2939, Dar es Salaam

DR. FATMA MRISHO
Ministry of Health, P.O. Box 9083, Dar es Salaam

MR. STEVEN MWORIA

Computer Corporation of Tanzania Ltd., P.O. Box 1583, Dar es Salaam
("the Trustees")

WHEREAS:

- (1) The Settlor will generate equivalent Tanzanian Shillings from dollar disbursements made under the provisions of the Program Grant Agreement for the Finance and Enterprise Development Program ("USAID Grant") dated 28th August, 1992 and subsequent amendments thereto, between the Settlor and the United States of America acting through the United States Agency for International Development;
- (2) The Settlor is desirous of founding the Trust herein mentioned and has made arrangements to capitalize such Trust with ninety (90) percent of the local currency funds to be generated under the USAID Grant to be held by the Trustees upon the trusts hereof and the Trustees have agreed to act as Trustees hereunder;
- (3) The Settlor agrees to exempt from all taxes, levies and duties, the interest and other income earned by the Trust as long as the same are applied for charitable purposes in accordance with the terms and conditions of this Deed and the USAID Grant; and
- (4) The Appointor shall be the Chief Justice of the Court of Appeal of Tanzania and the Director of USAID acting jointly unless specified otherwise.

NOW THIS DEED WITNESSES as follows:

SECTION 1 - INTERPRETATION

1.1 This Deed is divided into Sections and the Sections are divided into Clauses. Schedules A, B, C, D, E, F, G, and H, shall constitute an integral part of the Agreement, and together with the rest of the document shall be considered "the Deed."

1.2 In this Deed the following expressions shall unless the context otherwise requires have the following meanings respectively that is to say:

"Appointor", "Settlor" and "USAID Grant" shall bear the respective meanings assigned to those expressions at the beginning of this Deed, and, where relevant, shall include the successors in title and permitted assigns of the party in question;

"Chief Executive Officer" means the individual appointed by the Trustees in accordance with Schedule G to coordinate and supervise the activities of the Trust on their behalf;

"Grants Manager" means the individual, firm or firms retained to manage grants to non-governmental organizations in accordance with Schedule F;

"Investment Manager" means the individual, firm or firms retained to manage investments of the principal and income of the Trust in accordance with the Investment Guidelines set forth in Schedule B;

"Special Local Currency Account" means the local currency account established under the USAID Finance and Enterprise Development Program;

"Tanzania" means the Mainland of the United Republic of Tanzania, governed under the laws thereof;

The word "**Shillings**" and the symbol "**Tshs**" means shillings in the currency of Tanzania;

"**Trust**" means the Social Action Trust Fund created under this Deed;

"**Trust Fund**" means the amounts deposited by the Settlor under Section 4 of this Deed and income from investment of such amounts, along with any other funds, securities, property or other assets paid or transferred to, and accepted by, the Trustees to be applied to the purposes of the Trust as stated in Section 3 of this Trust Deed and includes such outside funds in addition to the money given to the Trust by the Settlor;

"**Trust Fund Account**" means the account or accounts in which principal of the Trust Fund and income from the investments of the Trust Fund shall be deposited and held;

"**Trust Period**" means the period from the date of this Deed until such time as the Trust is dissolved or is no longer in force;

"**Trustees**" means the Trustees appointed under this Deed and includes their successors and permitted assigns;

The words "**US Dollars**" and the symbol "**US\$**" mean dollars in the currency of the United States of America;

Any reference to a date or time is a reference to that date or time in Dar es Salaam;

References to Recitals, Sections, Clauses and Schedules are to Recitals,

Sections, Clauses of and Schedules to this Agreement; and

Unless the context otherwise requires, words importing the singular only shall include the plural and vice versa.

- 1.3 The headings and Index are inserted in this Agreement for convenience of reference only and shall not affect the construction of this Deed.
- 1.4 Provisions of this Agreement requiring a decision by the Trustees, or concurrence of the Trustees, or other expression of intent by the Trustees, shall unless otherwise expressly indicated refer to a majority vote of a meeting of Trustees constituting a quorum.

SECTION 2 - NAME OF THE TRUST

- 2.1 The Trust hereunder created shall be known as the **SOCIAL ACTION TRUST FUND** and its registered office shall be situated at _____ STREET, P.O. BOX _____ DAR ES SALAAM.

SECTION 3 - AIMS AND OBJECTIVES

- 3.1 The aims and objectives of the Trust shall be:
- 3.1.1 to promote through investment the development of the private sector in Tanzania, working directly with the private sector or through existing institutions; and
- 3.1.2 to use earnings from interest and investments to make grants to non-governmental organizations ("NGOs") registered in Tanzania in order

to assist orphans of the victims of ACQUIRED IMMUNE DEFICIENCY SYNDROME ("AIDS Orphans") to become productive members of society;

3.1.3 if at any point the resources of the Trust become greater than the needs of AIDS orphans, then the aims and objectives of the Trust shall be expanded to benefit child education in Tanzania.

SECTION 4 - DISBURSEMENTS INTO TRUST

4.1 The Settlor shall instruct the commercial bank holding the Special Local Currency Account under the terms and conditions of the USAID Grant to transfer, on a monthly basis, to the Trust ninety (90) percent of all income, in Tanzanian shillings, that has been generated since the previous such transfer under the Finance and Enterprise Development Program and terms and conditions of the USAID Grant and amendments thereto, and one hundred (100) percent of all the interest earned on the Special Local Currency Account. Such income shall be deposited in the Trust Fund Account with a bank or other financial institution designated by the Trustees in writing to, and approved by, the Settlor, and shall be held by the Trustees in trust according to the terms and conditions of this Deed.

SECTION 5 - POWER OF APPOINTMENT

5.1 The Settlor hereby expressly grants to the Appointor all of the powers conferred on the Appointor below and no others. The Appointor shall initially be, jointly, the Chief Justice, Court of Appeal of Tanzania, and the Mission Director of USAID/Tanzania, or their duly acknowledged successors or assigns. The two shall serve jointly until such time as the Mission Director of

USAID/Tanzania resigns as joint Appointor, with not less than 30 days' advance notice in writing to the Settlor. In no case shall such resignation be later than the terminal date of the USAID Grant which generated the initial capital for the Trust.

5.2 For the avoidance of doubt, prior to the resignation of the Director of USAID/Tanzania in the manner aforesaid, the Chief Justice, Court of Appeal of Tanzania, and the Mission Director of USAID/Tanzania shall make joint decisions, each with the concurrence of the other. In the event of a disagreement, the Settlor of the Trust Deed shall make the final decision.

5.3 The Appointors have the power to appoint and discharge Trustees, suspend the activities of the Trust, dissolve the Trust with the concurrence of the Settlor, and other such powers as mentioned within the Trust and Schedules.

SECTION 6 - DUTIES OF APPOINTOR

6.1 The Appointor shall appoint the Trustees and oversee the administration of the Trust in accordance with the terms and conditions of this Deed.

6.2 The Appointor shall not prevail over or in any manner whatsoever influence decisions of the Board of Trustees as to investment funds issued or grants made hereunder. However, if any member of the Board of Trustees shall act in breach of Clause 9.2 or fail in any other way to fulfil his or her responsibilities, the Appointor shall have the right to dismiss the member.

6.3 Subject to the terms and conditions of this Deed the Appointor may remove any Trustee from office and appoint another person in his or her stead. PROVIDED that the Appointor must appoint such other person within sixty

days from the date of removal of the Trustee.

SECTION 7 - POWERS AND DUTIES OF TRUSTEES

7.1 With respect to financial management of the Trust Fund, the Trustees shall:

7.1.1 Ensure establishment of a proper system of books and records and a system of internal control to safeguard the assets of the Trust and ensure that the objectives of the Trust will be achieved. At a minimum, the system of internal control will include policies and procedures that ensure the Trust's ability to record, process, summarize and report transactions and related financial information and to ensure compliance with applicable laws and terms of this Deed.

7.1.2 Obtain an independent audit, from a qualified firm, that is performed in accordance with international generally accepted auditing standards, and present financial statements prepared in accordance with international generally accepted accounting standards including related financial disclosures. **"International standards"** here refers to standards promulgated by the International Federation of Accountants or any successor body with international recognition for providing generally recognized standards. The audit report shall include an opinion on the system of internal control and recommendations for improvements. The Trustees will be responsible for correcting, or providing for the correction of, any deficiencies noted by the auditors in respect to the Trust's financial statements or the Trust's system of internal control.

7.1.3 Open and operate bank accounts and other investment accounts for the purposes of the Trust as shall from time to time be required to achieve the objectives of the Trust and cause all monies received by the Trust to be deposited into the appropriate account.

7.2 In accordance with such directions as may from time to time be given by the Appointor the Trustees shall exercise the following powers, that is to say:

7.2.1 General Powers

7.2.1.1 The Trustees shall have the power to recruit and dismiss a Chief Executive Officer for the Trust, in accordance with the provisions of Schedule G hereof. The Trustees shall have the power to concur in the recruitment and dismissal of the Grants Manager and the Investment Manager, in accordance with the provisions, respectively, of Schedules F and C hereof.

7.2.1.2 The Trustees shall hold, manage, invest and reinvest Trust property and income collected therefrom, and in the event of dissolution of the Trust shall distribute the Trust property and income or proceeds thereof. All actions listed above in this clause shall be done in accordance with the applicable law and instructions set forth in:

[a] Schedule A ("General Purpose, Roles and Objectives of the Social Action Trust Fund") with respect to the underlying philosophy and basic principles of the Trust.

[b] Schedule B ("Investment Guidelines") with respect to

investment of Trust assets;

- [c] Schedule C ("Investment Manager") with respect to the role of the Investment Manager in the Trust investment program;
- [d] Schedule D ("Conflict of Interest and Financial Disclosure Statement") with respect to financial accountability, and management and audit responsibilities of the Trustees and grantees;
- [e] Schedule E ("Grant Guidelines") with respect to grants made to NGOs providing assistance to orphans of AIDS victims in Tanzania;
- [f] Schedule F ("Grants Manager") with respect to the role of the Grants Manager in the operation of the Trust grant program;
- [g] Schedule G ("Chief Executive Officer") with respect to the role of the Chief Executive Officer in the coordination and general supervision of the activities of the Trust; and
- [h] Schedule H ("General Powers of the Board of Trustees") with respect to the Trustee's powers over, inter alia, investment, management, sale, exchange, partition, mortgage, leasing, insurance, and equipment.

7.2.2 Special Powers

7.2.2.1 The Trustees shall use the Trust Fund for the following purposes:

- [a] payment and discharge of any legitimate costs and expenses incurred for the day-to-day operations of the Trust for which the Trustees may be jointly and severally liable as such Trustees;
- [b] the discharge of any incumbrance or any liability affecting any property for the time being forming part of the Trust Fund; and,
- [c] the exercise of any powers conferred by this Deed or by general law including the power to apply and invest trust money.

7.2.3 The Trustees shall also have power:

7.2.3.1 to employ an advocate, accountant or any other agent to transact all or any other business of whatever nature required to be done by the Trustees hereunder (including, but not limited to, the receipt and payment of money) and that each Trustee shall be entitled to be paid all expenses properly incurred in the discharge of his or her duties as enumerated in Clause 7.3, herein, and shall not be responsible for the default of any such advocate, accountant or agent for any loss occasioned by his or her employment;

- 7.2.3.2 to enter into all such contracts and incur such liabilities and to expend any Trust money as may be requisite or incidental to the operation of the Trust in accordance with the trusts hereof;
- 7.2.3.3 to do all such other lawful acts and things (whether or not falling within any of the foregoing categories of powers) as may be requisite or incidental to the proper administration or conducive to the attainment of the objectives of the Trust hereby constituted; and
- 7.2.3.4 to award a cash prize not to exceed an initial amount of Tshs. One Million (TSH 1,000,000) once a year to an individual or organisation for exemplary community service in support of the children of Tanzania. This amount may be adjusted in future years for the effects of inflation at the discretion of the Trustees.
- 7.3 The Trustees may be paid all reasonable travelling, hotel and other expenses properly incurred by them in Tanzania only in connection with their attendance at meetings of Trustees or committees of Trustees or otherwise in connection with the discharge of their duties, and shall be paid a reasonable honorarium, approved by the Appointor.

SECTION 8 - PROCEEDING OF TRUSTEES

- 8.1 The Trustees may regulate their proceedings as they think fit, subject to the specifications in this Deed and Schedules. All Trustees must without exception be notified of all meetings. Questions arising at a meeting shall be decided by a majority of votes. In the case of an equality of votes the chairperson shall have a second or casting vote.

- 8.2 The quorum for the transaction of the business of the Trustees may be fixed by the Trustees but shall always be not less than three Trustees.
- 8.3 The Trustees shall appoint one of their number to be the chairperson of their meetings and may at any time remove the person from that office.
PROVIDED that the appointment and removal of a chairperson shall be effected by the written agreement of three Trustees. Unless the person is unwilling to do so, the Trustee so appointed shall preside at every meeting of Trustees at which he is present. But if there is no Trustee holding that office, or if the Trustee holding it is unwilling to preside or is not present within five minutes after the time appointed for the meeting, the Trustees present shall appoint one of their number to be chairman of the meeting.
- 8.4 The Trustees may appoint one or more committees consisting of three or more Trustees for the purpose of making any inquiry or supervising or performing any function or duty which in the opinion of the Trustees would be more conveniently undertaken or carried out by a sub-committee provided that all acts and proceedings of any such sub-committee shall be fully and promptly reported to the Trustees.
- 8.5 All acts done by a meeting of Trustees, or of a committee of Trustees shall, notwithstanding that it be afterwards discovered that there was a defect in the appointment of any Trustee or that any of them were disqualified from holding office, or had vacated office, or were not entitled to vote, be as valid as if every such person had been duly appointed and was qualified and had continued to be a Trustee and had been entitled to vote.
- 8.6 A resolution in writing, signed by all the Trustees entitled to receive notice of a meeting of Trustees or of a committee of Trustees, shall be as valid and

effective as if it had been passed at a meeting of Trustees or (as the case may be) a committee of Trustees duly convened and held. Such a resolution may consist of several documents in the same form, each signed by one or more of the Trustees.

8.7 Any bank account in which any part of the assets of the Trust is deposited shall be operated by the Trustees and shall indicate the name of the Trust.

SECTION 9 - QUALIFICATIONS OF TRUSTEES AND CONFLICTS OF INTEREST

9.1 Qualification of Trustees

9.1.1 The Trustees shall be Tanzanian citizens distinguished by their ethical behavior, commitment to the improvement of the society, and recognized stature in their fields of endeavour. They will serve in their capacity as individuals and not as representatives of their public or private organizations or cultural or religious backgrounds.

9.1.2 In accepting the appointment of Trustee, the individual so appointed shall commit him- or herself to procuring the success and integrity of the Trust in pursuit of its purposes.

9.1.3 A person convicted of a criminal offence or adjudged liable in a civil case or found guilty of professional misconduct shall not serve as a Trustee. During the pendency of proceedings against a Trustee, whether criminal or civil or quasi-judicial, such Trustee shall be suspended.

9.2 Conflicts of Interest

9.2.1 The Trustees shall have no power or authority to lend, deposit or otherwise invest, or to authorize appointed officers, managers and their assistants, or hired agents, to lend, deposit or invest, the Trust Fund monies, to any individual or entity, which is an Affiliate of any individual Trustee.

9.2.1.2 "Affiliate" shall mean any individual member of such Trustee's or appointed officer's immediate family including spouse, parents, brothers, sisters, or children whether natural or adopted, and/or the spouses of such relatives, and/or any firm, business establishment or legal entity which is controlled or owned, in whole or substantial part, by such Trustee or any Affiliate of such Trustee. The Trustees shall ensure that all appointed officers and managers, including but not limited to the Investment Manager, the director or member or senior management of the firm appointed as Investment Manager, the Grant Manager, the Chief Executive Officer, and all other appointed officers, managers, their assistants, and their Affiliates, are subject to the same prohibition with respect to lending, depositing or otherwise investing the principal or income with Affiliates.

9.2.2 All Trustees, Appointed Officers, managers, and their assistants, shall file an annual statement with the Trust, substantially similar to the form attached hereto as Schedule D, disclosing their personal, business and organizational interests and affiliations; and sign an annual conflict of interest statement, substantially similar to the form attached hereto as

Schedule D, declaring whether that Trustee, appointed officer, manager or assistant has or could have any conflicts between his or her duties and his or her obligation. Copies of each of these statements will be provided to the Appointor. Any Trustee, Appointed Officer, manager, or assistant who knowingly falsifies such statement, or who fails to disclose all pertinent information on such statement, will be subject to disqualification under Section 11 hereof.

SECTION 10 - APPOINTMENT, RESIGNATION, REMOVAL AND REPLACEMENT OF TRUSTEES

10.1 General

10.1.1 The number of Trustees shall not be less than three and not more than five.

10.2 Term

10.2.1 One of the original Trustees shall serve a term of one year. A second original Trustee shall serve a term of two years. The remaining original Trustee or Trustees shall serve a term of three years. The Appointor shall determine, by the drawing of lots, which original Trustees will serve one, two and three-year terms.

10.2.2 Subsequently, each Trustee shall be appointed by the Appointor and shall serve a term of three years.

10.2.3 No Trustee shall serve more than two (2) consecutive terms.

10.3 Additional Trustees

10.3.1 The Appointor shall, if it becomes legally necessary to do so, by deed appoint one or more other persons resident in Tanzania to be an additional or new Trustee or Trustees hereof, subject however to the provisions contained in Clause 10.4.1 hereof.

10.4 Replacement

10.4.1 If any Trustee, whether original, additional, or substituted, shall die, or shall give notice of his or her desire to withdraw and be discharged from the trusts hereof under the provisions of Clause 10.5.1, or shall refuse or become unfit or unable to act, or shall be disqualified under Section 11 hereof, or shall be removed under Clause 6.3 hereof, then the Appointor may by deed appoint one or more other persons resident in Tanzania to be a Trustee or Trustees hereof in place of the Trustee or Trustees so deceased, desiring to withdraw and be discharged, refusing or becoming unfit to act, or being disqualified.

10.4.2 Any new or additional Trustee appointed under the provisions hereof shall have such powers, rights, and benefits as to remuneration or otherwise at or prior to his or her appointment as may be agreed in writing between such new or additional Trustee and the person or persons making such appointment.

10.4.3 On every change in the Trusteeship a memorandum shall be endorsed on or permanently annexed to this Deed stating the names of the

Trustees for the time being and shall be signed by the persons so named and any person dealing with the Trust shall be entitled to rely upon such memorandum (or the latest of such memoranda if more than one) as sufficient evidence that the Trustees named therein are the duly constituted Trustees for the time being hereof.

10.5 Resignation

10.5.1 Any Trustee may resign by giving ninety (90) days written notice to the existing Trustees, and the Appointor. On the expiry of such notice, the Trustee shall cease to be a Trustee hereof to all intents and purposes except as to acts and deeds necessary for the proper vesting of the Trust Fund in the continuing Trustees or otherwise as the case may require.

10.6 Incorporation of Trustees

10.6.1 The Trustees appointed hereunder shall be incorporated under the **Trustees' Incorporation Ordinance, 1956 (Cap.375)** and any change in the Trustees shall be notified to the Administrator General of Trustees as required by law and any person dealing with the Trust Fund shall be entitled to rely upon the list of registered Trustees as the duly constituted Trustees of the Trust for the time being.

10.7 Liability of Outgoing Trustee

10.7.1 If a Trustee is removed or retires from the Trust hereof or becomes incapable of acting as a Trustee hereof, such Trustee shall be released from all claims, demands, actions, proceedings, and accounts of any

kind on the part of any person (whether in existence or not) actually or prospectively interested under this Deed in respect of the Trust Fund or the trusts of this Deed for any act or thing done or omitted in execution or purported execution of such trusts other than and except only actions:

10.7.1.1 arising from any act amounting to wilful misconduct or from any act of negligence or from any fraud or fraudulent breach of trust in which such trustee was a party or privy; and

10.7.1.2 to recover from such Trustee trust property or the income of Trust property in the possession of such Trustee or previously received by such Trustee and converted to his or her use.

10.7.2 In the execution of the trusts and powers hereof no Trustee shall be liable for any loss to the Trust Fund arising in consequence of the failure, depreciation, or loss of any investments made in good faith unless such failure, depreciation, or loss shall have been the result of negligence or any wilful and individual fraud or wrongdoing on the part of the Trustee who is sought to be made liable, including an undisclosed conflict of interest.

10.8 Costs of Transition

10.8.1 Acts and deeds required for the proper vesting of the Trust Fund in new or additional Trustees shall be done and executed by the continuing or outgoing Trustee or Trustees at the expense of the Trust Fund.

10.8.2 PROVIDED that an outgoing Trustee who is liable as a Trustee or who

may be liable as a former Trustee for any taxes which may be imposed by the law shall not be bound to transfer the Trust Fund unless reasonable security is provided for indemnifying such outgoing Trustee against such liability.

SECTION 11 - DISQUALIFICATION OF TRUSTEE

11.1 A Trustee shall cease to hold office if he or she:

11.1.1 becomes incapable by reason of mental disorder, illness or injury of managing and administering his or her own affairs; or

11.1.2 is absent without the permission of the Settlor from all the meetings of the Trustees held within a period of six months and the Settlor decides that his or her office be vacated; or

11.1.3 by notice in writing given to the Settlor and Appointor he resigns his or her office; or

11.1.4 is convicted of a criminal offence or is imprisoned; or

11.1.5 is found liable in a civil suit; or

11.1.6 becomes bankrupt or makes any arrangement or composition with his or her creditors; or

11.1.7 is in breach of Clause 9.2 or any other Clauses of this Deed; or

11.1.8 becomes prohibited by law from becoming a Trustee.

SECTION 12 - MEETINGS

12.1 General

12.1.1 The Trustees may act either at a meeting, or in the manner set out under Clause 12.1.3.

12.1.2 Meetings shall be held at the registered office of the Trust, or at such other places as the Trustees may determine from time to time, PROVIDED that all meetings are held in Tanzania.

12.1.3 Participation at a meeting by means of a telephone conference call or similar arrangement which enables all Trustees participating in the meeting to hear each other at the same time shall constitute presence in person at such meeting. Meetings of this nature are only allowed under severe and very extraordinary circumstances, which must be clearly documented.

12.1.4 The Appointor, Chief Executive Officer, and Settlor shall be invited to observe all meetings.

12.1.5 Minutes shall be kept at all meetings, and shall indicate the names of those Trustees who were present, a factual record of the discussion, questions asked, a description of each motion or proposal, a record of votes, and any actions taken. The minutes shall be signed by the Chief Executive Officer, and a Trustee appointed at the meeting, and once signed, shall, except for manifest error, be conclusive evidence of what took place at the meeting.

12.2 Quorum

12.2.1 A majority of the existing Trustees, but not fewer than three Trustees, shall be necessary at all meetings to constitute a quorum for the transaction of Trust business.

12.3 Decisions by Majority

12.3.1 Unless otherwise explicitly provided in this Deed of Trust, decisions of the Trustees shall be made by simple majority vote of a quorum, as defined in Clause 12.2.

12.4 Annual Meeting

12.4.1 The Trustees shall hold their regular and annual meetings at such time and such place in Tanzania as they may determine, subject to the provisions of this Section.

12.4.2 The Trustees shall meet regularly, and at a minimum of every six months.

12.4.3 The Annual Meeting shall be held within three months after the close of the fiscal year. The Trustees will use the occasion of the Annual Meeting to review and approve the audited accounts of the Trust Fund.

12.5 Special Meeting

12.5.1 Any Trustee may call a Special Meeting of the Trustees at such time and such place in Tanzania as the Trustees may determine.

12.6 Notice

12.6.1 Notice of any meeting shall be sent to each Trustee and Appointor by registered delivery mail service at least fourteen (14) days prior to the scheduled date of the meeting of the Trustees.

12.6.2 Like notice shall be sent in respect of meetings arranged by telephone conference calls or similar arrangement.

SECTION 13 - COMMON SEAL

13.1 The Trustees shall maintain a seal with the inscription "**REGISTERED TRUSTEES OF SOCIAL ACTION TRUST FUND**".

13.2 The seal shall be affixed to documents executed by the Trustees and shall be witnessed by at least two Trustees.

SECTION 14 - DISSOLUTION

14.1 Dissolution by Trustees

14.1.1 The Trust may be dissolved at any time by unanimous vote of the existing Trustees, provided written concurrence is given by the Appointor and Settlor.

14.1.2 Dissolution by the Trustees may be carried out only if, in the opinion

of the Trustees, the Trust can no longer fulfil its intended purposes, or for reasons stated by law.

14.1.3 If the Trustees vote to dissolve the Trust, and the vote obtains the written approval of the Appointor and Settlor, or his or her appointed successor, the Trustees shall pay the Trust's liabilities, and distribute its remaining assets to any qualified NGO or NGOs, or institutions or charities engaged in activities substantially similar to that of the Trust in support of AIDS orphans, or children's education.

14.1.4 No Trustee, officer or agent of the Trust, past or present, and their Affiliates, shall receive any share in the distribution of the Trust assets.

14.2 Dissolution or Suspension or Termination by Appointor

14.2.1 The Trust may be dissolved, or its activities suspended, at any time by the Appointor, if, in the written opinion of the Appointor, the Trust cannot be relied upon to fulfil its intended purposes, or if alternative methods are deemed more suitable to fulfil the intended purpose of the Trust. PROVIDED that dissolution of the Trust by the Appointor shall have the concurrence of the Settlor.

14.2.2 In the case of suspension, the Appointor shall determine when and how operations will resume.

14.2.3 In the case of dissolution, the written concurrence of both the Appointor and Settlor shall determine the distribution and operation of the remaining assets in accordance with Clauses 14.1.3 and 14.1.4 hereof.

14.2.4 The appointor has the right to terminate the Trust if Trust funds are used improperly. Failure of the Trustees to provide a scheduled audit report to the Appointor or serious adverse audit findings shall constitute default under the Deed and be considered grounds for termination of the Trust and distribution and operation of the remaining assets of the Trust Fund in accordance with Clauses 14.1.3 and 14.1.4 hereof.

SECTION 15 - MISCELLANEOUS

15.1 Applicable Law

15.1.1 This Deed of Trust shall be governed by the laws of Mainland Tanzania.

15.2 Amendment

15.2.1 This Deed of Trust may be amended only after written concurrence thereof is given by the Appointor, and two-thirds of the Board of Trustees.

15.2.2 The purposes and objectives of the Trust cited in the Recitals section may not be amended.

15.3 Original Copies

15.3.1 There shall be four (4) copies of this document with original signatures, which shall all be considered original copies and shall be deposited with the Administrator General, the Settlor and the Appointor. All other copies of this document, in whole or in part, shall not be considered

original copies.

SCHEDULE A

GENERAL PURPOSE, ROLES AND OBJECTIVES OF THE SOCIAL ACTION TRUST FUND

FOUNDING PRINCIPLES AND BASIC PHILOSOPHY

1. Background: Under the Finance and Enterprise Development Program, USAID and the Ministry of Finance have agreed to establish and capitalize a Trust. The fund will be capitalized using 90 percent of the local currency generated from dollar disbursements under the Finance and Enterprise Development Program and deposited into the Special Local Currency Account, and 100 percent of all the interest earned on the Special Local Currency Account.

2. Objectives: The Trust is established in order to fulfil the following two objectives. The first objective of the Trust is to provide a source of investment funds for private sector growth. The Trust will invest in the Tanzanian private sector, working with existing financial and non-financial institutions, and new institutions as they arise. The second objective of the Trust is to use earnings from interest and investments to make grants to NGOs to assist AIDS orphans. The grants are to focus on community based assistance programs, so that the AIDS orphans are not isolated or stigmatized. The long term objective is to assist the AIDS orphans in becoming productive members of society.

GENERAL ROLES

3. Settlor: The role of the Principal Secretary, Ministry of Finance, acting as Settlor is twofold. The Settlor is to provide 90 percent of the local currency generated from dollar disbursements under the Finance and Enterprise Development Program and deposited into the Special Local Currency Account, and 100 percent of all the interest earned on the Special Local Currency Account. The second role of the Principal Secretary, Ministry of Finance, is to ensure that the interest and income earned from the profitable investments of the Trust Fund are exempt from tax, duty and levies, insofar as the proceeds of the interest and income earned are used for the charitable purpose of assisting AIDS orphans.
4. Appointor: The general role of the Appointor is to appoint, and dismiss if necessary, the Trustees. The Appointor also approves compensation of Trustees.
5. Trustees: The general role of the Trustees is twofold. The first general role of the Trustees is to ensure that the capital base of the Trust is expanded, not eroded. This in turn entails a host of other functions. For example, to preserve the capital base, the Trustees must ensure that there are effective incentives to keep the administrative costs of running the Trust low. In order to expand the capital base, the Trustees must ensure that the Trust Funds are prudently invested. To ensure prudent investment, the Trustees will approve and disapprove proposals coming from the Chief Executive Officer and Investment Manager, but the Trustees will never define the detailed choice set of what the Chief Executive Officer and Investment Manager look at. The choice set is

to be determined by the combination of prudent risk and profitable opportunity. To expand the capital base, the Trustees may also aggressively seek off-shore contributions. The second general role of the Trustees is to ensure that the returns of the investments are effectively providing community based assistance to the orphans of the AIDS pandemic. As with the Trustees' role in reviewing investment proposals, the Trustees will approve and disapprove proposals coming from the Chief Executive Officer and the Grants Manager, but the Trustees will never define the detailed choice set of what the Chief Executive Officer and Grants Manager look at. The choice set is to be determined by the proposals received from grant applicants.

SCHEDULE B

INVESTMENT GUIDELINES

BACKGROUND

1. Capitalization: It is expected that the Trust will initially be capitalised over a three year period, reaching the Tanzanian shilling equivalent of 90 percent of the US dollar disbursements under the Finance and Enterprise Development Program and all the interest earned thereon.

2. Philosophy: The basic investment philosophy will be to aggressively seek profitable returns while ensuring, through a balanced portfolio approach, maintenance of the original capital base of the Trust. Investments shall be sought which support the growth of the Tanzanian private sector. Such investments may be through intermediary institutions, in business ventures, or syndicating funds with other investors to build real property such as office, shopping, or industrial complexes. Upon realization of profits on investments, the Trustees may begin to grant such profits minus operating costs of the Trust management to non-governmental organizations assisting AIDS orphans. The Trustees shall determine a reasonable division as to what portion of profits shall be disbursed in such manner and what portion shall be reinvested. The investment philosophy shall incorporate the principle of building the capital base of the Trust over time so as to ensure increasing profits for disbursement. Solicitation of additional capital from other contributors, both domestic and foreign, shall be encouraged as a valid means to increase the base.

OVERALL INVESTMENT STRATEGY

3. Allocation: The Chief Executive Officer, on the advice of the Investment Manager and concurrence of the Trustees, shall maintain the Trust funds in liquid interest bearing investments until such time as sound business investments can be identified. Care is to be exercised to ensure that risk is balanced in order to protect the capital base. Over time the bulk of invested funds shall be in private sector investments. The capital of the Trust can also be leveraged to obtain other capital.

4. Criteria: Investment in commercial projects must fulfil the following objective criteria:

[a] Each investment will have a full prospectus, marketing and business plan plus financial projections for the next five years, to be prepared and authenticated by an internationally recognized accounting firm;

[b] Not more than 10 percent of the paid-in capital of the Social Action Trust Fund shall be invested in any one company;

[c] Additional specific investment criteria may be determined by the Board of Trustees.

There are no general restraints to be placed on the investment manager as to what sector to invest in, except those investment areas expressly disallowed as detailed below.

5. Prohibitions: Investments will not be made in projects which involve illegal or immoral activities. Also prohibited are investments which are considered by the Trustees to be harmful to the environment or socially destructive, projects which endanger the health of the community, projects of a military or armaments nature, and projects which promote political beliefs or ideologies.
6. Monitoring: The Trustees are responsible for taking such measures as may be necessary to prevent losses including regular monitoring of the financial position of firms in which the Trust has invested. For all investments, the Trustees shall obtain annual progress reports, including financial statements that include an audit report from an independent qualified firm that is performed in accordance with international generally accepted auditing standards. The financial statements shall be prepared in accordance with international generally accepted accounting standards including related financial disclosures. The Trustees are responsible for using the ownership interest of the Trust to help ensure proper management of investments and achievement of suitable rates of return.

SCHEDULE C

INVESTMENT MANAGER

APPOINTMENT

1. The Chief Executive Officer of the Trust will advertise for and competitively select the Investment Manager, subject to the written concurrence of the Trustees. The Investment Manager will receive a competitive annual Tanzanian shilling salary. The Investment Manager may also receive a bonus, to be determined and approved by the Trustees, based on the profitability of the Trust's investments.

POWERS, DUTIES and REPORTS

2. The Investment Manager will manage the assets of the Trust. The Investment Manager will ensure that the Chief Executive Officer is kept up to date on all facets of the Trust's investment activities, and actual and potential implementation problems. The Investment Manager will provide reports as stipulated by the Chief Executive Officer.
3. The Investment Manager will ensure that the Investment Guidelines as stated in Schedule B hereof are followed.
4. The Investment Manager will issue annual and quarterly reports which will be provided to the Chief Executive Officer, the Trustees, the Settlor, and the Appointor. The report will set out the returns of each individual investment project. The Investment Manager's annual report will be audited by an international audit firm, and the results of the investment trust will be evaluated in accordance with the investment

standards of international investment firms in other countries. Every three years, the Investment Manager will competitively select a firm with investment expertise to conduct an independent evaluation of the Trust's portfolio, which will address the risks, returns, and overall quality of the Trust's assets. The Investment Manager will provide copies of the evaluation to the Chief Executive Officer, the Trustees, the Settlor and the Appointor.

OVERSIGHT

5. The Chief Executive Officer shall supervise the Investment Manager. If warranted, the Chief Executive Officer shall dismiss the Investment Manager, subject to the written concurrence of the Trustees.

SCHEDULE D

CONFLICT OF INTEREST AND FINANCIAL DISCLOSURE STATEMENT

1. Upon appointment, each Trustee shall read, prepare, and sign a conflict of interest and financial disclosure form substantially similar to the United States Government Form SF 450 "**Confidential Financial Disclosure Report**", a copy of which constitutes the following four pages of this Schedule.
2. The completed conflict of interest and financial disclosure form will be provided by the new Trustee to the Settlor, the Appointor, and other Trustees within 30 days' of the date of appointment.
3. The completed forms shall be retained in the permanent files of the Trust hereof.

SCHEDULE E

GRANT GUIDELINES

1. Grants will be given to NGOs to provide charitable support to orphans of victims of AIDS in Tanzania. The grants are intended to ensure such orphans can live productive adult lives. For purposes of this USAID Grant and all documents pertaining thereto, an orphan is a child under age 18 who has lost one or both parents to AIDS. Grants will be targeted to the family unit and community support networks, so as not to isolate and possibly stigmatize the AIDS orphan.
2. All NGOs will be formally registered in Tanzania, according to the laws of Tanzania, whether as a school, a religious organization, a voluntary association, or other organization involved in charitable activities and community projects.
3. All NGOs will have a bank account in the name of the organization with two signatures of organization officers required for payments.
4. All grants will be communicated to grantees in writing and will include requirements for a program report outlining the disposition of the program funds.
5. Grants will be made only from Trust earnings from interest and investments.
6. All grant applicants will provide a financial report certified as correct by the directors or officers of the applicant. Applicants requesting a grant amount greater than Tsh 25 million (Tsh 25,000,000) shall provide financial statements for the recipient organization as a whole including appropriate disclosures and an audit opinion from a qualified independent auditor. The Trustees may at their discretion from time to time adjust the threshold grant amount specified in this paragraph upward to compensate

for the effects of inflation. The Trustees shall consider the applicants' demonstrated experience in managing funds and projects when determining the size of grants.

7. Each grant shall contain provisions that require grantees to report not less than twice a year on the results achieved with funds provided by the Trust. Such reports shall be required until all Trust-funded activities are concluded and, or, all Trust-provided funds are accounted for.

8. Grantees must account for all funds received from the Trust. All grantees shall submit financial reports not less than quarterly that include all grant expenditures to date and any unexpended balances, certified as correct by the directors or officers of the grantee. Grantees receiving a grant amount greater than Tsh 25 million (Tsh 25,000,000) shall provide financial statements that include appropriate disclosures and an audit opinion from a qualified independent auditor. The Trustees may at their discretion from time to time adjust the threshold grant amount specified in this paragraph upward to compensate for the effects of inflation.

SCHEDULE F

GRANTS MANAGER

APPOINTMENT

1. The Chief Executive Officer will appoint a Grants Manager, subject to the written concurrence of the Trustees. The Chief Executive Officer will advertise for and competitively select the Grants Manager. The Grants Manager will receive a Tanzanian shilling salary which is locally competitive.

POWERS, DUTIES and REPORTS

2. The Grants Manager will issue annual and quarterly reports to the Trustees, Settlor and Appointor, on the financial standing and results of the grants. Every three years, the Grants Manager will select a firm with expertise in grants to NGOs to conduct an independent evaluation of the grant portfolio, which will address the benefits and costs and overall quality of the grants. The Grants Manager will provide copies of the evaluation results to the Chief Executive Officer, the Trustees, the Settlor and the Appointor.
3. The Grants Manager will ensure broad participation in grant activities by radio advertisement, publication of a newsletter, and articles of notification in the local newspapers. The Grants Manager will openly advertise in local media the opportunity for receiving grants, and the selection criteria for receiving grants.
4. The Grants Manager will appoint an independent grant committee of diverse representatives of upstanding character from the private and non-governmental sector

of Tanzania, subject to the approval of the Chief Executive Officer, to review the grant applications, and propose awards. The grant committee will provide the results to the Grants Manager and the Chief Executive Officer. The Grants Manager will forward the recommendations of the committee to the Trustees. The Trustees shall exercise veto power over the proposed grants. The Trustees shall notify the Chief Executive Officer and the Grants Manager if they do or do not have objections to the proposed grants. The Grants Manager will award the proposed grants based on suggestions from the committee, and recognizing the veto power of the Trustees, and will publish the results in the national media of Tanzania.

5. The Grants Manager will ensure that the Chief Executive Officer is kept up to date on all facets of the Grant activities, and actual and potential implementation problems.

OVERSIGHT

6. The Chief Executive Officer shall supervise the Grants Manager. If warranted, the Chief Executive Officer will dismiss the Grants Manager, subject to the written concurrence of the Trustees.

SCHEDULE G

CHIEF EXECUTIVE OFFICER

APPOINTMENT

1. The Trustees shall advertise for and competitively appoint a Chief Executive Officer. The Chief Executive Officer will receive a Tanzanian shilling salary which is locally competitive. In addition, the Chief Executive Officer will receive a bonus, determined and approved by the Trustees, based on the profitability of the Trust's investments, and the efficient, low cost of administering the Trust's activities and Grants.

POWERS, DUTIES and REPORTS

2. The Chief Executive Officer will participate in the meetings of the Trustees, but without a vote. The Chief Executive Officer will execute all resolutions and/or decisions of the Trustees and, subject to the control of the Trustees, will in general supervise and control all the Trust's business and affairs.
3. The Chief Executive Officer will ensure that the Trustees are kept up to date on all facets of the Trust's activities, and actual and potential implementation problems.
4. The Chief Executive Officer will appoint, supervise and dismiss the Trust's employees. Appointment and dismissal of the Investment Manager and Grants Manager shall be with the concurrence of the Trustees.
5. The Chief Executive Officer will present to the Trustees an annual budget during the

annual meeting, and supplemental budgets as necessary, and an annual work plan which reflects investments and grants. The Chief Executive Officer will work closely with the Investment Manager and Grants Manager during this process.

6. The Chief Executive Officer will submit to the Trustees, at least fourteen (14) days before each annual Trustees meeting, a complete report of the activities and operations of the Trust for the past calendar year, and plans for the new calendar year. The Chief Executive Officer will sign the deeds, mortgages, contracts and other instruments whose execution the Trustees have authorized.
7. The Chief Executive Officer will see that all notices are duly given in accordance with the Deed of Trust, and as required by law, and keep certified true copies of the minutes and resolutions adopted in all meetings of the Trustees, in a book kept for this purpose. The Chief Executive Officer will have custody of all the correspondence files and all other papers and records generated by the business of the Trust.
8. The Chief Executive Officer will ensure that annual reports and returns are prepared and timely filed as required. As necessary, the Chief Executive Officer will notify, in a timely manner, the appropriate government authorities of the amendment or repeal of provisions in the Deed of Trust. The Chief Executive Officer will in general perform all duties incidental to the office, and such other duties and work as may from time to time be assigned by the Trustees.
9. Within the limits delegated by the Trustees, the Chief Executive Officer will keep charge of the funds, receipts and disbursements of the Trust. The Chief Executive Officer shall receive and give receipts for monies due and payable to the trust from any source whatsoever, and deposit all such monies, checks, and other credits in the name of the Trust in such banks, trust companies or other depositories as designated

by the Trustees. The Chief Executive Officer will be in charge of the account books and make them available for inspection by the Trustees, Appointor, Settlor, and auditors, and, whenever required, shall account for the financial conditions of the Trust and of all transactions made. The Chief Executive Officer shall countersign along with a designated Trustee, any grant or investment check or similar instrument. The Chief Executive Officer and one other Officer of the trust to be named by the Trustees will co-sign all operating checks.

10. The Chief Executive Officer shall liaise with the Tanzanian community, and hold an annual meeting open to the public, which summarizes activities and gives a forum for queries. The meeting shall be advertised in the local press and on the radio. The Grants Manager and Investment Manager shall be in attendance, and the Trustees, Settlor, and Appointor shall be invited. The content of the meeting will also review the results of the annual audit, and will cover the management of investments and grants. The Chief Executive Officer will publish in the local national media prevalent concerns voiced during the public meetings, as well as the remedial steps taken.
11. The Chief Executive Officer is subject to the conflicts of interest, disclosure of interests and prohibitions of certain transactions as detailed in Clause 9.2, and additionally, is subject to the following:
 - [a] The Chief Executive Officer shall have no power or authority to lend, deposit or otherwise invest, or to authorize appointed officers, managers and their assistants, hired agents, to lend, deposit or invest, the Trust Fund Monies, to any individual or entity, which is an Affiliate of the Chief Executive Officer.
 - [b] "Affiliate" shall mean any individual member of the Chief Executive Officer's immediate family including spouse, parents, brother, sisters, or children whether natural or adopted and, or, the spouses of such relatives, and any

firm, business establishment or legal entity which is controlled or owned, in whole or substantial part, by the Chief Executive Officer or any Affiliate of the Chief Executive Officer.

- [c] The Chief Executive Officer shall ensure that all appointed officers and managers, including the Investment Manager, the director or member or senior management of the firm appointed as Investment Manager, the Grant Manager, and all other appointed officers, managers, their assistants, and their Affiliates, are subject to the same prohibition with respect to lending, depositing or otherwise investing the principal or income with Affiliates.
- [d] The Chief Executive Officer shall file, and shall ensure that all appointed Officers, managers, and their assistants, shall file an annual statement with the Trust disclosing their personal, business and organizational interests and affiliations. These statements shall be substantially similar to the conflict of interest and financial disclosure form included in Schedule D hereof.
- [e] The Chief Executive Officer shall sign, and shall ensure that all appointed Officers, managers, and their assistants, shall sign a conflict of interest statement declaring whether these individuals are aware of any conflicts between his or her duties and his or her obligation. These statements shall be substantially similar to the conflict of interest and financial disclosure form included in Schedule D hereof.

OVERSIGHT

12. The Trustees shall oversee the activities of the Chief Executive Officer, to ensure compliance with the above.

SCHEDULE H

GENERAL POWERS OF THE BOARD OF TRUSTEES

1. The Trustees shall have all powers to hold immovable and movable property, and investment, management, sale, exchange, partition, mortgage, leasing, insurance protection, improvement, equipment, dealing and disposition, and all other powers of an absolute beneficial owner of the Trust Fund. Their powers shall not be restricted by any principle of construction but shall operate according to the widest generality of which the foregoing words are capable subject always to such limitations thereon as are expressly set forth in the Deed of Trust.

POWER TO VOTE AND GIVE PROXIES

2. With respect to any equity investments constituting the whole or part of the Trust Fund, the Trustees shall have the power to exercise all powers which an individual owner might exercise without being restricted in any way by the office of Trustee including without limitation of any general power herein contained:
 - [a] voting upon or in respect of any shares, securities, bonds, notes, or other evidence of interest in or obligations of any corporation, trust, association or concern (whether or not affecting the security or the apparent security of the trust property), or in respect of the purchase, sale or lease of the assets of any such corporation, trust, association or concern;
 - [b] entering into or establishing any voting trust in respect of any such shares, securities or property, and appointing and removing and replacing any voting Trustees, with specific power to the Trustees to appoint themselves or any one of them as a voting trustee;

- [c] depositing any such shares, securities or property in any voting trust or with any depository designated thereby;
- [d] giving proxies or powers of attorney, with or without powers of substitution, for voting or acting on behalf of the Trustees as the owner of any such property.

POWER TO AGREE TO COMPANY REORGANIZATIONS

3. The Trustees shall have the power, at any time, to approve, concur in, promote or join in carrying into effect any proposal or offer for or leading to the reorganization of any company in whose securities the Trust Fund or any part thereof shall for the time being be invested; the merger of any such company with any other company; the alteration of the rights attached to any investment or property subject to the trusts hereof; the exchange of any investments or property so subject for any other investments or property; or the formation or reorganization or refinancing of any company for the purpose of acquiring any investments or property to become so subject. The Trustees shall have no power to disapprove any of the actions listed in this paragraph.

POWER TO EMPLOY AGENTS

4. The Trustees shall have the power, instead of acting personally, to employ and pay, at the expense of the Trust, any agent or advisor, whether attorney, solicitors, accountants, brokers, banks, trust companies or other agents, advisers or consultants without being responsible for the default of any such person if employed in good faith to transact any business or do any act required to be transacted or done in the execution of the trusts hereof, including the receipt and payment of monies and the execution of contracts and other documents in the name of or on behalf of the

Trustees. PROVIDED that any expenses so incurred may not exceed funds available in the Trust Fund Account and shall have been incurred as legitimate expenses of the Trust.

POWER TO PAY DUTIES AND TAXES

5. In the event of any duties, fees, or taxes whatsoever becoming payable in Tanzania in respect of the Trust or any part thereof in any circumstances whatsoever, the Trustees shall have the power to pay all such duties, fees, or taxes when due out of the Trust Fund Account. The Trustees may pay such duties, fees, or taxes notwithstanding that the same shall not be recoverable from the Settlor, beneficiaries or other persons interested in the Trust or that payment shall not be to the advantage of any such persons.

POWER TO APPORTION BETWEEN INCOME AND CAPITAL

6. Insofar as this Deed of Trust permits, the Trustees shall have the power to treat as income or as capital, or to apportion between income and capital, any dividends, stock, dividend rights, interest, rents, issues and profits derived from any property at any time constituting the whole or any part of the Trust Fund; generally, to determine what part of the receipts of the Trust is income and what is capital whether or not such property was purchased at a premium or discount, and notwithstanding the time when such dividends, stock, dividend rights, interest, rents, issues or profits were earned, accrued, declared, or paid; and to make such reserves out of income or capital as the Trustees deem proper for expenses, taxes, and other liabilities of the Trust. Any decisions of the Trustees under this Clause, whether made in writing or implied from their acts, shall, so far as the law may permit, be conclusive and binding on the Settlor, the beneficiaries and all persons actually or prospectively interested under this Deed of Trust.

**POWER TO TAKE COUNSEL'S OPINION,
TO SUE AND TO DEFEND SUITS**

7. The Trustees shall have the power to take the opinion of legal counsel locally, or wherever necessary or appropriate, concerning any difference arising under this Deed of Trust or any matter in any way relating to the Trust or to their duties in connection with the trusts hereof and, in all matters, to act in accordance with the opinion of such counsel, including without limitation, the institution or defense of any suits.

POWER TO GIVE RECEIPTS

8. The Trustees shall have the power to give receipts for any money, securities or other property or effects so that any receipt so given shall be a sufficient discharge to the person paying, transferring, or delivering the same, and shall effectively exonerate such from seeing to the application thereof or being answerable for any loss or misapplication thereof.

POWER TO EFFECT COMPROMISES

9. The Trustees shall have the power
- [a] to accept any property, whether movable or immovable, before the time at which it is transferable or payable;
 - [b] to pay or allow any debt or claim on any evidence which they may think sufficient;
 - [c] to accept any composition or any security, movable or immovable, for any

debt or any property due to or claimed by the Trustees;

- [d] to allow any time for payment of any debt;
- [e] to compromise, compound, abandon, submit to arbitration or otherwise settle any debt, account, claim or thing relating to the Trust Fund without being liable for any loss to the Trust Fund thereby occurring.

POWER TO GIVE INDEMNITIES

10. The Trustees shall have the power to enter into any indemnity in favour of any former Trustee or any other person in respect of any duty, tax, or fiscal imposition or other liability of any nature prospectively payable in respect of the Trust Fund or otherwise in connection with this Deed of Trust, and to charge or deposit the whole or any part of the Trust Fund as security for such indemnity in such manner in all respects as they shall think fit.

POWER TO ACCEPT GIFTS, ETC.

11. The Trustees shall have the power to accept, acquire, hold, invest and administer gifts, contributions, grants, bequests, and devises of any kind, of real or personal property, from individuals, private and public corporations, governments, bilateral or multilateral financial and development institutions, non-governmental organizations and foundations, in Tanzania and elsewhere.

RESIDUAL POWERS

12. In the management or administration of any property for the time being comprised in the Trust Fund, the Trustees shall have the power to effect or concur in effecting any

sale, lease, mortgage, charge, release, purchase, investment, acquisition, expenditure or other disposition, contract, or transaction, not otherwise authorized, which a person absolutely and beneficially entitled would have had power to effect or to concur in effecting, so that the Trustees shall in relation to the Trust have all the powers of a beneficial owner.

IN WITNESS WHEREOF the parties hereto have hereunto set their respective hands the day and year first above written.

SIGNED as a Deed by the said)
PETER NGUMBULU for and on behalf of the)
GOVERNMENT OF THE UNITED REPUBLIC)
OF TANZANIA in the presence of:)

Name:

Address:

.....

Designation/Qualification:

SIGNED as a Deed by the said)
HON. FRANCIS L. NYALALI)
in the presence of:)

Name:

Address:

216

.....

Designation/Qualification:

SIGNED as a Deed by the said)
DALE B. PFEIFFER for and on behalf of **THE**)
UNITED STATES AGENCY FOR INTERNATIONAL)
DEVELOPMENT in the presence of:)

Name:

Address:

.....

Designation/Qualification:

SIGNED as a Deed by the said)
PROF. IBRAHIM LIPUMBA in the presence of:)

Name:

Address:

.....

Designation/Qualification:

SIGNED as a Deed by the said)
PROF. COSTA MAHALU in the presence of:)

Name:

217

Address:

.....

Designation/Qualification:

SIGNED as a Deed by the said)
MR. GRAY MGONJA in the presence of:)

Name:

Address:

.....

Designation/Qualification:

SIGNED as a Deed by the said)
DR. FATMA MRISHO in the presence of:)

Name:

Address:

.....

Designation/Qualification:

SIGNED as a Deed by the said)
MR. STEVEN MWORIA in the presence of:)

218

Name:

Address:

.....

Designation/Qualification: