PD ABL-843

AID 1120-1	AGENCY FOR INTERNATIONAL DEVELOPMENT	1. PAAD NO. 621-T-603A
PAAD	PROGRAM ASSISTANCE APPROVAL DOCUMENT	2. COUNTRY TANZANIA
		3. CATEGORY AGRICULTURAL TRANSPORT ASSISTANCE PROGRAM (ATAP)
		4. DATE September 23, 1991
5. TO: Dale B. Pfeiffer, Director		6. OYB CHANGE NO. N/A
7. FROM: Frederick J. Guymont, Project Development Officer		8. OYB INCREASE N/A
		TO BE TAKEN FROM N/A
9. APPROVAL REQUESTED FOR COMMITMENT OF $17,590,000		10. APPROPRIATION 72-111/21014, BPC.GSS1-91-31621-KG39

11. TYPE FUNDING	12. LOCAL CURRENCY ARRANGEMENT	13. ESTIMATED DELIVERY PERIOD	14. TRANSACTION ELIGIBILITY DATE
☐ LOAN ☒ GRANT	☐ INFORMAL ☒ FORMAL ☐ NONE	10/01/91-06/30/92	Date Grant Agreement signe

15. COMMODITIES FINANCED

16. PERMITTED SOURCE	17. ESTIMATED SOURCE
U.S. only:	U.S. $8,590,000
Limited F.W.:	Industrialized Countries: $9,000,000
Free World: $17,590,000	Local:
Cash:	Other:

18. SUMMARY DESCRIPTION

This PAAD amendment approves for obligation $17,590,000 for program assistance for the importation of commodities, which are related to the Government of Tanzania (GOT) efforts to improve the transport sector in general and to rehabilitate and maintain roads in particular. These funds, in addition to local currency generations which will finance the costs of local road contracts, will allow the achievement of the purpose of the program which is to support the removal of policy and institutional constraints in order to improve the Tanzania Government's capacity to undertake road rehabilitation and maintenance programs. The PAAD amendment also discusses proposed conditions for additional program assistance in the amount of $17,410,000 to be disbursed in FY 93 and 94 (subject to availability of funding) and an additional $2,000,000 in project assistance. The $2,000,000 in project assistance will provide for additional technical assistance, training and commodities to assist in implementation of the policy reforms and other activities under the program. The project funds are the subject of separate amendments to the project authorization and project grant agreement.

- continued -

19. CLEARANCES	DATE
John C. Rose, PRM	9/23/91
N. Keith Romwall, CONT.	9/23/91
Joel E. Schlesinger, D/Dir	9/23/91
Cliff Brown, REDSO/RLA	23 Sep 91

20. ACTION

☒ APPROVED ☐ DISAPPROVED

AUTHORIZED SIGNATURE — DATE 9/24/91

Dale B. Pfeiffer, Director

TITLE

CLASSIFICATION:

The Program Grant Agreement shall contain the following essential terms and conditions, together with such other provisions as are deemed appropriate by A.I.D.:

Conditions Precedent to Disbursement
(FY91 additions of $17,590,000)

Conditions Precedent to Release of Third Tranche.

A third tranche, in the amount of Five Million U.S. Dollars (U.S. $5,000,000), will be disbursed on the basis of actions already taken by the Grantee toward implementation of the Program. The MOW during the last year has drafted a Sustainability Analysis, developed a road maintenance management system, approved a draft construction industry strategy, adopted a set of interim procurement regulations and formulated a training program. Therefore, the only condition precedent to disbursement of the third tranche is the receipt by A.I.D. of a duly completed financing request in form and substance satisfactory to A.I.D.

Conditions Precedent to Fourth Tranche.

Except as A.I.D. may otherwise agree in writing, prior to disbursement of the fourth tranche under the Grant, which shall be in the amount of Twelve Million, Five Hundred Ninety Thousand ($12,590,000) Dollars, or to the issuance by A.I.D. of documentation pursuant to which such disbursement will be made, the Grantee shall furnish or have furnished to A.I.D., in form and substance satisfactory to A.I.D.:

(a) evidence that the Ministry of Works ("MOW") has adopted the Sustainability Analysis it has prepared in-house as the principal strategy document for the rural road sector;

(b) evidence that the MOW has developed economic criteria for prioritizing rehabilitation and maintenance activities;

(c) evidence that the MOW has designated 4,000 kms of rural roads in the five regions of Kilimanjaro, Shinyanga, Mwanza, Ruvuma and Iringa for priority routine maintenance and 400 kms of rural roads in such regions for priority periodic maintenance;

(d) evidence that the MOW has executed contracts to be funded from its own resources (which excludes local currencies generated by donor supported programs) of at least the shilling equivalent of

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U.S. $900,000 for routine maintenance and at least U.S. $600,000 for periodic maintenance in the five regions specified in paragraph (c) above.

(e) evidence that fifty percent of the shilling volume of periodic maintenance contracts, and seventy-five percent of the shilling volume of rehabilitation contracts, in the five regions specified in paragraph (c) above have been awarded to private sector contractors; and

(f) evidence that standard contracts for routine maintenance have been developed and approved by the MOW."

Covenants.

Professional Staffing Requirements: The Grantee covenants that it shall, prior to disbursement of the fourth tranche:

(a) add two engineers to the staff of the Rural Roads Department at headquarters;

(b) assign road inspectors and accountants to field offices in Shinyanga, Mwanza and Kilimanjaro regions;

(c) provide the staff incentives necessary to recruit the personnel necessary; and

(d) adopt a training program in contract and road maintenance management for regional engineers"

Funding Options: The Grantee covenants that, prior to disbursement of the fourth tranche, it shall examine mechanisms such as fuel taxes to generate revenues from domestic sources to fund road maintenance expenses."

Terminal Date for Disbursement:

Terminal Date for Disbursement is amended to provide that no disbursement shall be made after June 30, 1993, except as A.I.D. may otherwise agree in writing.

XD - ABL-843-A
96426

AGENCY FOR INTERNATIONAL DEVELOPMENT

PROJECT DATA SHEET

1. TRANSACTION CODE: A (A = Add, C = Change, D = Delete) — Amendment Number: 01 — DOCUMENT CODE: 3

2. COUNTRY/ENTITY: TANZANIA

3. PROJECT NUMBER: 621-0166

4. BUREAU/OFFICE: USAID/TANZANIA — 6

5. PROJECT TITLE (maximum 40 characters): AGRICULTURAL TRANSPORT ASSISTANCE PROGRAM

6. PROJECT ASSISTANCE COMPLETION DATE (PACD): MM 12, DD 31, YY 95

7. ESTIMATED DATE OF OBLIGATION (Under "B." below, enter 1, 2, 3, or 4): A. Initial FY 91 — B. Quarter 3 — C. Final FY 91

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

A. FUNDING SOURCE	FIRST FY B. FX	C. L/C	D. Total	LIFE OF PROJECT E. FX	F. L/C	G. Total
AID Appropriated Total						
(Grant)	2,000		2,000	4,000	0	4,000
(Loan)						
Other U.S. 1.						
Other U.S. 2.						
Host Country	-	10,500	10,500	-	65,100	65,100
Other Donor(s)						
TOTALS	2,000	10,500	12,500	4,000	65,100	69,100

9. SCHEDULE OF AID FUNDING ($000)

A. APPRO-PRIATION	B. PRIMARY PURPOSE CODE	C. PRIMARY TECH. CODE 1. Grant	2. Loan	D. OBLIGATIONS TO DATE 1. Grant	2. Loan	E. AMOUNT APPROVED THIS ACTION 1. Grant	2. Loan	F. LIFE OF PROJECT 1. Grant	2. Loan
(1) DFA	130	060		2,000		2,000		4,000	
(2)									
(3)									
(4)				2,000		2,000		4,000	
TOTALS									

10. SECONDARY TECHNICAL CODES (maximum 6 codes of 3 positions each): 061 | 079

11. SECONDARY PURPOSE CODE: 220

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

A. Code	BR	BS				
B. Amount	2,000	2,000				

13. PROJECT PURPOSE (maximum 480 characters)

The program purpose is to continue to support the removal of policy and institutional constraints in order to improve the MOW's capacity to undertake road rehabilitation and maintenance programs.

14. SCHEDULED EVALUATIONS: Interim MM 01 YY 93 — MM YY — Final MM 09 YY 95

15. SOURCE/ORIGIN OF GOODS AND SERVICES: ☐ 000 ☐ 941 ☐ Local ☒ Other (Specify) 935

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

This amendment will increase the initial $ two million project grant obligated in FY'88 to $ four million to finance costs of project management, short-term and long-term technical assistance, training, limited amount of commodities and monitoring, evaluation and audit activities for ATAP.

17. APPROVED BY — Signature: Dale B. Pfeiffer — Title: Mission Director — Date Signed: MM 09 DD 24 YY 91

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

C

AMENDMENT NO. 1 TO PROJECT AUTHORIZATION

Name of Country: Tanzania

Name of Project: Agricultural Transport Assistance Program Support Project

Number of Project: 621-0166

1. Purpose of Amendment. The purpose of this Amendment No. 1 to Project Authorization is to add additional funds to the Life of Project Funding and to extend the Project Assistance Completion Date. These changes are being made in conjunction with the fourth amendment to the companion Agricultural Transport Assistance Program for which an additional $17,590,000 is being approved for obligation concurrently with this amendment.

2. Additional Funding. Pursuant to Chapter 10 of Part I of the Foreign Assistance Act of 1961, as amended, and Title II of the Foreign Operations, Export Financing and Related Program Appropriations Act, FY 1991, under the heading "Sub-Saharan Africa, Development Assistance," I hereby authorize an additional Two Million United States Dollars (U.S.$2,000,000) for the Agricultural Transport Assistance Program Support Project. Such Project shall now have a total Life of Project funding of $4,000,000, consisting of the $2,000,000 initially authorized on August 28, 1988 and the additional $2,000,000 authorized by this amendment.

3. PACD Extension. The Project Assistance Completion Date ("PACD") is hereby extended from September 1, 1993 to December 31, 1995. The total Life of Project shall now be approximately seven years and four months from date of initial authorization.

4. Other Terms and Conditions. Except as above amended, all other terms and conditions of the original Project Authorization shall remain in full force and effect.

DATED: 9/24/91

Dale B. Pfeiffer
Mission Director
USAID/Tanzania

Drafted by: C.Brown,RLA CB
Date: 23 Sept 91
Clearances: F.Guymont, PDO Fr Date: 9/24/91

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ACTION MEMORANDUM FOR THE DIRECTOR USAID/TANZANIA

Date : September 20, 1991

From : Frederick J. Guymont, PDO

Subject: Amendment to the Agricultural Transport Assistance Program (ATAP) and to the ATAP Project

Problem:

Your approval is required to amend the subject program in order to authorize an additional $17.59 million in FY91 from the DFA appropriation for the import support component of ATAP and to authorize an additional $2.0 million in FY91 from the DFA appropriation for the project component of ATAP.

Discussion:

Since the signing of the original ATAP Program and Project Agreements in August 1988 and the amendment to ATAP in August 1989 the GOT has taken significant steps towards increasing the technical, financial, and managerial capacity to rehabilitate and maintain rural roads. These actions include:

- Setting up, staffing and funding a Rural Roads Division within the MOW and centralizing responsibilities such as standards setting, specifications, contracting procedures, and guidelines for approximately 25,000 km of regional and selected district roads with the Division.

- Increasing budgets for rural road maintenance significantly and setting aside a portion of the petrol tax for a roads fund.

- Drawing up detailed performance based maintenance budgets and plans for each of the regions in Tanzania.

- awarding rehabilitation contracts to Tanzanian private sector contractors and reducing the amount of rehabilitation done by force account.

- Decentralizing responsibility for operations, planning and budgeting to the regions.

The overall goal of the program remains unchanged: to increase the income and social welfare of the rural population by expanding the volume of inputs, agricultural commodities, and consumer goods transported by road by reducing the costs of road transport services. The program purpose is to continue to support the removal of policy and institutional constraints in order to improve the MOW's capacity to undertake road rehabilitation and maintenance programs.

This amendment describes a $37 million multi year program to assist the MOW in establishing sustainable systems for road rehabilitation and maintenance that are necessary for achieving the program's purpose. Based on past performance and demand for commodities, $5 million in the form of a cash transfer will be released upon signature of the Grant Agreement. One further cash transfer of $12.59 million will be made upon the satisfaction of the following conditionality.

(i) Evidence that the MOW has adopted the Sustainability Analysis it has prepared in-house as the principal strategy document for the rural road sector;

(ii) Evidence that the MOW has developed economic criteria for prioritizing rehabilitation and maintenance activities;

(iii) Evidence that the MOW has designated 4,000 km of roads in five regions for priority routine maintenance and 400 kms of roads in five regions for priority periodic maintenance;

(iv) Evidence that MOW has executed contracts to be funded from its own resources (which excludes local currencies generated by donor support programs) of at least the shilling equivalent of U.S. $900,000 for routine maintenance and at least U.S. $600,000 for periodic maintenance in the five regions; and

(v) Evidence that fifty percent of the shilling volume of periodic maintenance contracts in five regions has been performed by private sector contractors; that seventy-five percent of the dollar volume of rehabilitation contracts in five regions has been performed private sector contractors; and that standard contracts for routine maintenance have been developed and approved.

When this conditionality is met, the MOW will have taken a large step towards the organizational structure, private sector contractor capabilities and financial reforms necessary for a sustainable roads program. Further conditionality is outlined in the PAAD for subsequent authorizations and obligations.

The cash transfers will fund the import support program begun under the AEPRP. Originally ATAP was designed as a CIP but the disbursement mechanism was changed to a cash transfer in August of 1991. ATAP had been designed as a CIP because dollar tracking was not permitted under the DFA legislation in place in 1988. Dollar tracking is now permitted. The import support program under ATAP will continue to operate the same way as the AEPRP. Importers will apply through the Bank of Tanzania (BOT). The BOT will send the licenses it approves to USAID for its concurrence. After the import license is issued by BOT, the importers deposit local currency at the CRDB which, through its correspondent bank, confirms the Letters of Credit.

The local currency generated supports the Rural Roads Division and will be used primarily to develop Tanzanian private sector contractors' ability to rehabilitate and maintain rural roads.

The project amendment of $2.0 million will provide the RRD with the technical expertise, training and commodities necessary to develop organizationally at both the Central and Regional levels. The principal technical support will be a continuation of the long term advisor position in the MOW, and the Mission PSC Engineer. Other technical support will include road inventory data base development, a bridge and structures inventory, economic criteria development, standard maintenance contract development and analyses of the overall transport sector. Significant funds are also included for monitoring, evaluation and training of both MOW staff and smaller contractors in routine maintenance. The project PACD will be extended until December 31, 1995.

The program amendment also includes a Trust Fund Component. Five percent of the local currency generated will be used to fund a portion of the Mission's operations. This is consistent with the AEPRP and with Amendment three to ATAP.

State 133317 delegates authority to the Mission Director to approve and authorize a PAAD Amendment for U.S. dollars $20 million. The Advice of Program Change, Life of Program Funding was $32 million. The CN expired on August 10, 1991. With the reobligation of $10.41 million and the $2.0 million already obligated under the ATAP Project Component, this means that $19.59 can be obligated this year. State 310373 and 310374 provide the allowance data.

Recommendation:

It is recommended that you sign the attached Program Assistance Approval Document (PAAD) face sheet thereby authorizing additional program assistance of 17.59 million and that you sign the project authorization for an additional $2.0 million. Total program assistance will thus be $28 million and project assistance $4 million.

Approval: ____
Date: 9/24/91

Disapproval: ____
Date: ____

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Amendment to the Agricultural Transport
Assistance Program (621-0166)

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Annexes

List of Tables

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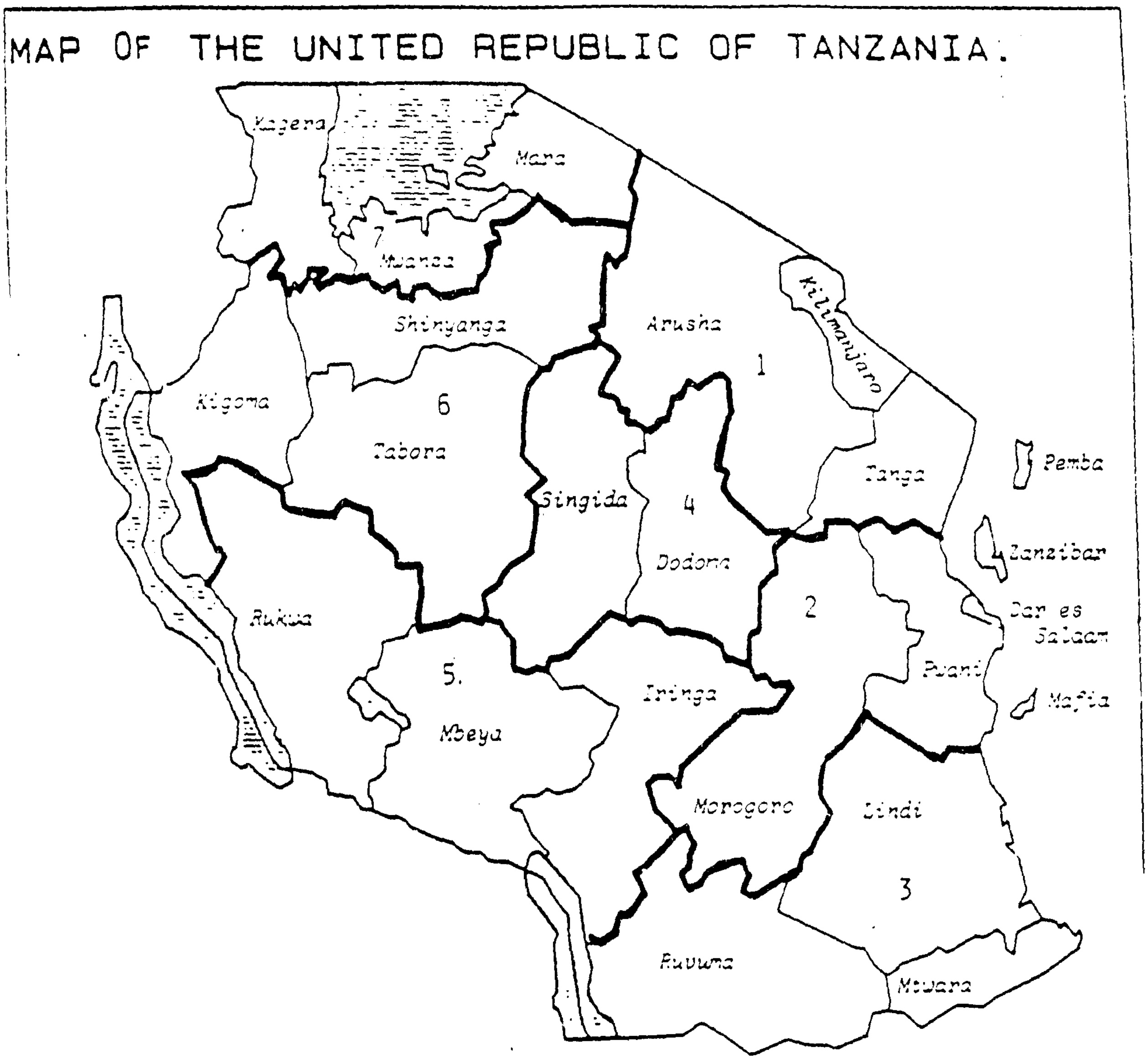
LIST OF ACRONYMNS

AEPRP	-	Africa Economic Policy Reform Program
BOT	-	Bank of Tanzania
CMO	-	Commodity Management Office
CP	-	Conditions Precedent
CRDB	-	Cooperation Rural Development Bank
CRRP	-	Core Rural Roads Program
DHS	-	Deloitte Haskins & Sells
EOP	-	End of Program
ERP	-	Economic Recovery Program
FSN/TCN	-	Foreign Services National Third Country National
GOT	-	Government of Tanzania
IBRD	-	International Bank for Reconstruction and Development (World Bank)
IDA	-	International Development Association (World Bank)
IMF	-	International Monetary Fund
IRP	-	Integrated Roads Project
LC	-	Letters of Credit
MCT	-	Ministry of Communications and Transport
MOW	-	Ministry of Works
NBC	-	National Bank of Commerce
OGL	-	Open General License
PEHCO	-	Plant Equipment Hire Company
PFP	-	Policy Framework Paper
PM	-	Periodic Maintenance
PS	-	Principal Secretary
REO	-	Regional Engineer's Office
REs	-	Regional Engineer
RM	-	Routine maintenance
RRD	-	Rural Roads Division
RRMS	-	Road Maintenace Management System
SAL	-	Structural Adjustment Laon
SAP	-	Structural Adjustment Program
TA	-	Technical Assistance
TRD	-	Trunk Roads Division
US PSC	-	United States Personal Service Contractor
WB	-	World Bank

V

vii. Map of Tanzania



I Update of Background and Program Rationale

A. Tanzania's Performance Under the Economic Reform Program

1. Background and Objectives of the ERP

With its economy in serious distress following the heavy public sector involvement in management of the economy in the 1960s and 1970s, Tanzania faced a series of economic shocks. These included a costly war with neighboring Uganda, the 1979 oil price increase, a deterioration in the external terms of trade in the late 1970s and early 1980s, and back-to-back droughts affecting food production in 1980 and 1981. In June 1982, the GOT announced a three-year structural adjustment program (SAP -- 1983-85) to remedy the situation by (a) restructuring economic activity through better incentive systems, (b) rationalizing producing structures to improve capacity utilization, and (c) improving the public sector's planning and control mechanisms. The SAP was the GOT's first attempt at adjustment, and it was clearly a tentative move in the direction of requisite change, tentative in part because of the political costs implied in a dramatic shift from the economic management rationale of the two preceding decades. Despite these efforts under the SAP (assisted with multilateral and bilateral programs), the economy continued to be troubled, primarily in terms of external imbalances. To cite the main economic problems in the mid 1980s, output and exports were still very low, per capita consumption was down (despite marginal GDP growth), and real producer prices were falling as were real urban incomes. The GOT's assessment by the end of the SAP was that foreign exchange inflows were simply insufficient to cover the demand for external goods and services.

Consequently, the GOT in mid 1986 announced a follow-on program to the SAP, called the Economic Recovery Program (ERP), also scheduled to last for three years. The ERP was considerably more ambitious than its predecessor, especially in terms of policy changes, but also in terms of goals. The objectives were:

(a) to increase food and export crop output:

(b) to rehabilitate physical infrastructure (particularly for the productive sectors);

(c) to increase the use of industrial capacity where efficient; and

(d) to restore internal and external imbalances through prudent fiscal, monetary, exchange, and trade policies.

Specific steps to attain these objectives were:

(a) to increase producer prices (particularly in agriculture);

(b) to bring the exchange rate in line with supply and demand of foreign exchange;

(c) to liberalize the trade regime;

(d) to reduce the fiscal deficit and allocate public resources more efficiently, including those in the hands of parastatals;

(e) to increase the interest rate to compensate for price inflation and limit credit expansion to government to reduce inflationary pressures, while allowing some credit expansion for the private sector;

(f) to redirect foreign assistance flows to more productive purposes; and

(g) to examine ways of reducing the Government's debt-service burden through rescheduling current obligations and restricting further growth of debt.

Under the assumption that a critical constraint to economic growth remained the economy's inability to obtain necessary imports, the architects of the ERP carried out a thorough, sector-by-sector analysis of minimum import requirements over the ERP period, distinguishing between imports needed for investment or rehabilitation, on the one hand, and recurrent production inputs, on the other. These were compared with available sources of foreign exchange, in order to determine the need for extraordinary external financing, including debt rescheduling.

2. ERP Performance

Over the four-year period of the ERP real GDP growth averaged an estimated 4% per annum as against virtual stagnation during the early 1980's and only about 1.6% average annual growth in the three years immediately preceding the ERP. Since agriculture accounts for over 45% of the economy's GDP much of the observed growth is due to this sector which grew by 5% annually over the ERP period. Some of the factors which revamped agricultural output were increases in producer prices to about 70% of world prices, the devaluation of the shilling, the improved supply situation of incentive goods for the farmer and the generally favorable weather conditions.

The ERP policies have provided the framework for the beginnings of economic recovery as well as some improvement in the budgetary situation of the central government. Government revenues increased at a much higher rate than government expenditures. Development expenditures however have followed a more erratic course fluctuating from about 4 to 6.5 percent of GDP.

The government has singled out four priority sectors: education, health, transport and agriculture for ERP extra budgetary allocations.

Since 1980/81 significant changes have occurred in how the government's budget has been financed. In 1980/81 total domestic revenues covered 58% of budgetary expenditures, net domestic borrowing (primarily bank borrowing) covered 24% and net foreign financing contributed 18% of total funding required. By 1985/86 the contribution of domestic revenues had risen to over 71% of total expenditures, mainly as a result of the drop in foreign financing to only 7.6% of total. After the beginning of ERP, consistent with the fiscal objectives of the program and agreements with the IMF, net domestic borrowing by the government has been reduced significantly and was 3.8% of total expenditure in 1989/90. The government is programmed to repay domestic lenders during 1990/91 and 1991/92. Conversely, recent budgets have increased reliance on foreign counterpart donor aid financing, generated in support of the ERP. These have averaged almost one-fourth of total resources needed to cover budgetary expenditures. Foreign financing is tentatively forecast at one-third of total expenditures during 1991/92. However, over time it is inevitable that foreign financing, even if it remains constant in real dollar terms, will decline as a proportion of the total.

The public enterprise sector comprises over 400 separate entities representing 24% of non-agricultural wage employment and generating 13% of the economy's total value added. Parastatal performance continued to be weak. In 1989, the most recent year for which data is available from the Tanzania Audit Corporation, of the 364 parastatals (including commercial and non-commercial public enterprises) audited, 175 (48%) reported a pre-tax profit totalling Tshs. 16.2 billion, while 189 enterprises reported losses of Tshs. 32.9 billion. Of the commercial industrial parastatals, 49 enterprises reported profits totalling Tshs. 3.0 billion while losses from 61 parastatals totalled over Tshs. 13.0 billion.

During the ERP period monetary and credit policies were intended to support the balance of payments and inflation targets of the program, while enhancing financial intermediation by making interest rates positive in real terms.

Monetary and credit targets were repeatedly missed during the ERP period, largely due to deficiencies in agricultural marketing and in the financial system. For example, money supply (M1) rose by 35.8% in CY 1990, down from 41.4% in CY 1989 against a target of 10%. Over 90% of the available bank credit went to 19 parastatals (including cooperatives), thus crowding out the private sector.

Interest rates have been adjusted annually since 1986 to achieve positive real rates. In December 1988 interest rates were raised by 5 percentage points on term and savings deposits (to 29 and 25%, respectively) and by 2 percentage points on some loans (to 31%) as well as on most government borrowing. As of December 1990, the interest rate on 12-month deposits was 4 percentage points above the inflation rate, in compliance with the ERP program.

The GOT has moved rapidly on prices during the ERP. The number of controlled prices dropped from over 400 in the early 1980s to 22 categories in 1987, and was further reduced to 3 categories of essential consumer goods in mid-1991 (petroleum, fertilizer, sugar). The GOT has committed itself to adjusting prices to reflect costs and scarcities of these goods. The few items which still remain under price control will be subject to pricing that avoids subsidies, reflects market conditions, and fully covers import costs through user charges to encourage efficient provision of those commodities to the economy. This should have a positive effect on the public finances. In an important complementary move, the Government has also removed restrictions on private sector marketing of all commodities except for some of those still under price controls. The GOT has also raised producer prices for agricultural commodities to about 70% of world market prices.

The result of the economy's inability to hold the line on credit expansion throughout the ERP period meant that the economy saw a 30 percent increase in the consumer price index, compared with the planned 20 percent. Consequently, the targeted "below ten percent" has had to be pushed into the future, although successive reductions are planned in the coming three years under the new PFP.

The performance of the external sector remains weak despite significant movement on the centerpiece of the reform program, exchange rate management. The adjustment of the exchange rate is central to the process of unification of markets and removal of the rationing which had become prevalent in the Tanzanian economy. Beginning in the late 1970s, the Tanzanian shilling's real exchange rate appreciated significantly through 1985. In early 1986 the government began to adjust the nominal exchange rate, and since that time the observed real exchange rate has depreciated significantly: moving from an index of 2.07 in 1985 to 0.33 in 1990, a depreciation of over 80 percent. The extent of adjustment to date can also be gauged by observing the ratio of the parallel to the official rate. The parallel: official ratio reached a peak of 9:1 by the end of 1985 and has now dropped to about 1.5:1.

The balance of payments continue to benefit from both increased export earnings and from substantial capital inflows. Export earnings (mainly from coffee, tea, cotton, sisal and cashewnuts) rose steadily in the period 1986-90, except for 1987 when coffee prices began to fall and coffee production also declined. Imports remained approximately at the target level, and three times higher than export earnings. As a result, Tanzania continues to face large trade account deficits which have worsened each year, and at the same time the services account has been similarly in deficit primarily because of substantial interest payments. The existence of large net transfers significantly reduced the current account deficits.

Although donor support for the ERP resulted in large capital inflows during the period, Tanzania's relatively heavy indebtedness from the pre-ERP era caused substantial capital outflow resulting in a capital account deficit during the first year of the program (1986/87). The debt relief accorded to Tanzania during the ERP period eased the debt service obligations in the short term. However, as Tanzania's debt stock at the end of 1990 was estimated at over US$5 billion, with an unsustainable debt service ratio of about 85%, the government again successfully sought debt relief from the Paris Club in March 1990 and June 1991.

In line with the ERP, the government continued its external trade liberalization process. By January 1991 the government had begun to administer the OGL through a "negative list" of excluded items and ceilings per importer were removed. The government will increasingly request donors to shift presently tied commodity import support to the OGL. In addition, the OGL facility will no longer be solely financed by multilateral and untied bilateral aid, but will increasingly be given direct support by the government with its own foreign exchange resources.

Import liberalization coupled with the export retention scheme have been instrumental in improving the supply situation of consumer goods. However, much more needs to be done before Tanzania's internal and external imbalances are eased. First, Tanzania's parastatals must be restructured so that production is efficient and consonant with world prices. This restructuring is the focus of the current IBRD/IMF supported ERP reform effort. Second, Tanzania must improve the country's capability to process agricultural output, especially for the export market. Third, despite commendable legislation to make marketing and distribution institutions more efficient, further improvements are needed to streamline the system. Last, but perhaps most important, the transport sector needs upgrading if economic recovery is to be enhanced and sustained.

3. Assessment of Performance

Tanzania has made many commendable changes in the economy since the mid-1980s. The cumulative outcome of Tanzania's gradual reform process has resulted in an economy that now largely relies on market signals for pricing and allocation decisions. Steady implementation of measures in the trade, pricing and exchange rate regimes have resulted in the dismantling of much of the centralized system of controls and administrative allocation that prevailed prior to 1984. This transformation in the structure of economic management has been a key factor in the turn-around in economic performance over the past five years. Since 1986 per capita income and consumption growth has been positive, and the availability of basic consumer goods and inputs has increased dramatically.

While many conditions for further recovery are present, there are several factors of significance that continue to hinder economic growth - and could even halt it. It is therefore necessary to deepen the reform process and wherever possible accelerate the pace of implementation in order to consolidate gains made to date, sustain growth and development and achieve poverty reduction. In particular, the following issues need to be addressed successfully.

The lack of adequate infrastructure impedes economic growth. As one of the government's core responsibilities it will be important to improve Tanzania's basic infrastructure in roads, railways, ports, telecommunications, power, water and elsewhere so that it contributes to improved economic and social prospects. In this context it will be important for government to consider how best to ensure delivery of these services in the future.

There is a need to establish a rational allocation of budgetary resources which responds more effectively to the country's development priorities. In particular, it is necessary for the government to change the composition of public expenditures away from subsidies for parastatals and other nonproductive activities towards operation, maintenance and rehabilitation of the country's productive base such as transportation infrastructure.

The pace of public enterprise reform and privatization should be accelerated in order to reduce the budgetary drain on the government, to contribute to reducing macroeconomic imbalances, and to improve the efficiency of the public sector. While commendable actions have been made to liberalize agricultural marketing such as the restructuring initiatives related to the National Milling Corporation, export marketing (coffee, cotton, cashews) and cooperatives, much more needs to be done to follow policy statements with decisive actions.

The government's commitment to open up the banking system to domestic and foreign private participation points in the right direction. If successfully implemented, this reform should enhance resource mobilization from the private sector and provide more capital for lending. This should make Tanzania more attractive for investors, both foreign and domestic. Importantly, the government needs to follow through in a timely and vigorous manner with specific actions to build up investor confidence.

Despite noticeable progress made in recent years to liberalize Tanzania's trade and foreign exchange allocation through the OGL (Open General Licensing), the trade and payments system remains restrictive and fragmented. The liberalization process under the OGL should be continued, broadened, and made more transparent. The move to establish foreign exchange bureaus should be encouraged and together with timely adjustment on the exchange rate, should help foster greater transparency and efficiency in Tanzania's trade and foreign exchange markets.

B. Road Transport Sector

1. Importance of the Sector to the Economy

(This section should be read in conjunction with what is in the original PAAD).

The earlier discussion of the ERP and its successes and failures suggests several ways in which the transport sector is a key link to the ERP's success. Problems in road transport have had more than a marginal impact on the Tanzanian economy's ability to bring goods, especially agricultural produce, to their export points. This has contributed to shortfalls in foreign exchange earnings, despite the fact that improved producer prices, liberalized marketing procedures, and foreign exchange retention schemes have all provided incentives to increase production for export. Reduced earnings, in turn, affect the economy's ability to either import critical inputs or make debt payments. By the same token, problems in road transport not only contribute to external imbalances, but also affect the public sector budget deficit. Increased public sector borrowing to repair the road systems leads to excessive expansion of the money supply and additional inflationary pressures in the economy.

The importance of an adequate transport system has never been open to question in Tanzania. Indeed, the sums of investment resources (largely external) put into transport, testify to the sector's importance. However, the lack of attention to transport system maintenance jarred the economy, especially since the initiation of the adjustment period in the early 1980s. It is now acknowledged by the Government and the donors alike that transport improvements are a necessary condition for successful adjustment and development, underscoring the importance that transport sector goals and objectives be attained if the ERP is to in turn meet its objectives.

The Government paper announcing the ERP in 1986 has made transport a centerpiece of the GOT's programs since 1986. The "minimum import requirements" laid out by the GOT when the ERP was announced provided that fully 17 percent of the import bill for the 1986/87-1988/89 period should be devoted to transport and communications and that of this amount over 60 percent should be devoted to road transport.

The ERP document initiating the program stated that the second "major objective" of the ERP was to "rehabilitate the physical infrastructure of the country in support of directly productive activities", clearly indicating the importance of transport. When the GOT provided an interim wrap-up of ERP progress in mid-1988, the Government noted that the first of several problems hampering success of the ERP to date had been "structural and physical constraints in transporting and processing agricultural products which led to unsatisfactory export performance and excessive credit growth". As a result, the interim report noted that the GOT's main priorities during the ensuing three years would include, in first place, what was originally the second major objective of the ERP noted above.

The same report gave similar emphasis to the transport sector as it gave to the two main productive sector of the economy, agriculture and manufacturing. The report stated that the first recommendation of a recent "National Transport Policy" was that the country should "concentrate on road rehabilitation". The Policy Framework Paper (developed by the GOT with IMF and IBRD assistance in the latter half of 1988 and mid-1991) similarly stressed road transport improvements as a critical element of policy reform. Of nine key elements of the GOT's public expenditure reform program cited in the PFPs, three deal with rehabilitation and maintenance of infrastructure. It is difficult to look anywhere in the recent documentation on the Tanzanian economy and its adjustment program without seeing references to the importance of the transport sector.

The importance of revamping the national infrastructure within the framework of the on-going reform process is also evident in the Government's launching of the "Integrated Roads Project (IRP)" in March 1991. The first phase of the project (1991-96) is expected to cost nearly U.S. $900 million and attracts the support of 16 donor agencies, pointing further to a commonness of purpose between bilateral and multilateral donors and the Government.

The transport sector which had seriously deteriorated over the past decade, is critical to the attainment of sustained agricultural and industrial growth in Tanzania. Consequently, both donors and the government are placing priority on this sector as reflected by the on-going programs for rehabilitation and maintenance of the economy's infrastructure, particularly the road network.

2. Economic Return of the Rural Roads Program

a. Reduction in Transport Costs

The ATAP goal is to increase the volume of inputs, commodities, and consumer goods transported by road and to reduce the costs of transport services. One way to measure the benefits of the program is to estimate the reduction in vehicle operating costs.

Such an approach in Tanzania certainly underestimates the returns to improved transport. In particular, apart from cost, factors such as convenience, safety, regularity and security are important. Although it is impossible to include these in the cost analysis in any reasonable way, an improvement in the roads is expected to result in an improvement in these non-cost factors. For example, convenience is achieved through good scheduling of services and through handling facilities and procedures which make it easy for the traveller or the shipper to complete arrangements. Safety relates to the dangers of travel, especially accidents. Much of the road network which this program is improving is rather dangerous, particularly in the rainy season. Therefore, road improvement programs which are based on operating cost calculations will under-represent the return to safer transport.

Similarly, regularity of service has the economic advantage of permitting both passengers and businessmen to properly plan their transport requirements. Low traffic volumes lead to irregular service which in turn leads to costs not reflected in the vehicle operating cost estimates. These include longer storage periods, greater losses associated with storage (due to rain, rats, theft, etc.), failure to supply the market when demand is high, and so on. Finally, the security of freight movement is important; losses from pilferage can be a substantial part of transport costs and are not reflected in vehicle operating costs.

Annex B analyzes the cost savings from improved roads under a variety of assumptions in three regions. With Internal Rates of Return of 30 to 55% regular maintenance of the roads is a sound investment solely from the standpoint of a reduction in operation costs.

b. Measuring the Benefits from the New Policy Reform

During the first support effort under AEPRP and ATAP, USAID/T addressed the immediate constraints to road construction: lack of transport related imports and lack of capacity within the public and private sector to carry out road rehabilitation. This first support to Tanzania also sought to assure the more efficient utilization of the economy's resources, by emphasizing the use of private sector construction firms.

The set of policy reforms in this ATAP amendment seeks to ensure that a sustainable systems for rural road rehabilitation and maintenance is set in place in Tanzania. The policy reforms will lead to a program of rehabilitation and maintenance of priority rural roads to certain design standards at the lowest cost. One way of measuring the benefits associated with this effort is by comparing what would happen if the policy changes did not occur (the "without" case) with what would happen if the policy changes did occur (the "with" case).

One analytical approach is to assume that without these additional policies, the existing set of rehabilitated roads (by all donors) will provide a constant level of service without any maintenance for 3 or 5 years at which time the road is totally deteriorated and requires extensive rehabilitation. Obviously this is a simplification, in part because without any maintenance at all the road will deteriorate over time, and consequently, the level of service will fall as manifested in the increased cost of maintenance on vehicles, slower travel time, and the increased transportation costs charged by the transporters. Whatever the case, the rehabilitated roads will be impassable without regular maintenance. Thus, if we assume a major rehabilitation at the end of the 5th year for 15 years and compare the present value of these costs with those costs associated with an ideal maintenance program for 15 years, it is possible to estimate the cost savings to the economy realized from a sustainable maintenance capability.

Table I-1 summarises the results of measuring the benefits from the new policy reform. The net present value associated with regular maintenance and reduced vehicle operating costs for a network of 2,000 km is estimated at $48.1 million. The size of the system that the Rural Roads Division is responsible for is approximately 25,000 km so the cost savings obtained by developing a sustainable roads program is far greater than the amount of the proposed grant.

TABLE 1-1

PRESENT VALUE ANALYSIS OF ATAP
(WITHOUT INCLUDING FOREIGN EXCHANGE BENEFITS)
U.S. DOLLARS

Year	*Regular Mainte-nance/km (With Case)*	*No Maintenance Just Rehabili-tation/km (Without case)*	*Net PV Road Maintenance Savings/km*	*Transport Cost Savings Vehicle/km*	*Number of Vehicles/ km/year*	*Net PV Transport Cost Savings/km*	*Total Kms.*	*Total Net Present Value Savings*
	Col 1	Col 2	Col 3	Col 4	Col 5	Col 6	Col 7	Col 8
1	500.00	0.00		0.00	14,600.00	0.00		
2	500.00	0.00		0.20	14,600.00	2,920.00		
3	500.00	0.00		0.20	14,600.00	2,920.00		
4	500.00	0.00		0.20	14,600.00	2,920.00		
5	1,000.00	10,000.00		0.20	14,600.00	2,920.00		
6	500.00	0.00		0.20	14,600.00	2,920.00		
7	500.00	0.00		0.20	14,600.00	2,920.00		
8	500.00	0.00		0.20	14,600.00	2,920.00		
9	500.00	0.00		0.20	14,600.00	2,920.00		
10	1,000.00	10,000.00		0.20	14,600.00	2,920.00		
11	500.00	0.00		0.20	14,600.00	2,920.00		
12	500.00	0.00		0.20	14,600.00	2,920.00		
13	500.00	0.00		0.20	14,600.00	2,920.00		
14	500.00	0.00		0.20	14,600.00	2,920.00		
15	1,000.00	10,000.00		0.20	14,600.00	2,920.00		
Present Value 12%	3,941.48	10,720.96	6,779.48			17,280.58	2,000.00	48,120,129.13

Notes:

1. *Col 1: Assumes regular/periodic maintenance at $500/km with major work on roads done every five years. Average maintenance cost per km has been estimated by Ministry of Works to be between $429 - 450.*
2. *Col 2: This is a case where no regular maintenance is done but rehabilitation is carried out every five years.*
3. *Col 3: Present value of Col 2 minus present value of Col 1. This gives the impact of ATAP policy change by comparing the "with" and "without" program cost savings.*
4. *Col 5: Assumes a constant flow of 40 vehicles per day for 365 days. Vehicle figures have been obtained from the USAID/T completed Socio Economic Baseline Survey of August 1990.*
5. *Col 8: This provides the Total Net Present Value for undertaking ATAP policy changes, being Col 7 times the sum of cols 3 & 6.*

The cost savings expected as a result of the various policy changes are considerable and exceed the anticipated grant levels. In addition the benefits to importers need to be factored in. In a sense there are two benefits for the price of one. The importers benefit from the dollars that are provided otherwise they wouldn't put down the cash cover. The local currency cash cover is then invested in developing a sustainable rural roads program, in itself another sound investment. It is expected that output per dollar for ATAP commodity import support recipients will rise, providing additional benefits of the program. Similarly, the policy reforms are expected to eliminate the biases against the use of private sector road contractors, thereby easing entry by local and foreign private firms. These policy reforms should have a significant impact on the sustainability of the ATAP program and contribute further to the improvement of Tanzania's policy environment.

3. GOT Policy Actions to Date

The basic objective of the government in the transport sector is to generate immediate improvement in the supply of transport services followed by a more sustained growth in the volume and capacity of services. The effect of the policy changes that were announced in the National Transport Policy four years ago to meet this objective is becoming more noticeable. The changes are in the provision of transport services and the maintenance of the road network.

The private sector now accounts for over 80% of the ownership of trucks. The Regional Transportation Corporation, Cooperatives, and Marketing Boards share of the transport market accounts for the other 20% but their market share is decreasing. Until recently there were major shortages of new vehicles, spare parts, fuel, tires and lubricants. Because of import support programs such as the Open General Licensing System and "own funds imports" the supply of these commodities has improved considerably. USAID's 1987 AEPRP program in the transport sector financed $12 million in imports, consisting mostly of trucks, spare parts and lubricants. In response to demand and studies showing that small trucks are widely used in rural Tanzania, the list of eligible trucks was expanded from 3-9 tons to all trucks up to 18 tons. The OGL recently dropped trucks above 3 tons from its negative list. The increase in demand for transport sector equipment follows the removal of administrative controls. There are now few barriers to entry and tariffs are negotiable.

The policy changes in the area of road maintenance are probably the most significant. Major changes have been made in planning, financing, budgeting, operations and institutional reform and human resources development. In the past road rehabilitation and maintenance responsibility was divided; the Ministry of Works responsible for trunk roads, the Prime Minister's Office responsible for regional roads and the Ministry of Local Government responsible for district roads. Technical and Managerial capacity was weak, most noticeably at the regional and district levels where roads competed with many other activities for management time and money. There was no coordination at the national level and the 20 regions and over 100 districts developed their own systems of maintenance.

Over the last couple of years the changes that have been made include:

- Setting up, staffing and funding a Rural Roads Division within the MOW and centralizing responsibilities such as standards, specifications, contracting procedures, and guidelines for approximately 25,000 km of regional and selected district roads with the Division.
- increasing budgets for rural road maintenance significantly and setting aside a portion of the petrol tax now for a roads fund. The amount is set to increase next year.
- drawing up detailed performance based maintenance budgets and plans for each of the regions in Tanzania.
- awarding rehabilitation contracts to Tanzanian private sector contractors and reducing the amount of rehabilitation done by force account.
- decentralizing responsibility for operations, planning and budgeting to the regions.

These policy changes have implications which Tanzania is still attempting to address including the level of staff and change of skills necessary to run a maintenance program based on private sector contracting rather than force account, the need to develop management information systems, standardized contracts, budgeting, accounting, financial analysis, and reporting systems.

4. <u>Donor Assistance to the Transport Sector</u>

a. <u>Rehabilitation, Maintenance and Institutional Support</u>

The GOT's effort in the road sector is embodied in the Integrated Roads Project whose primary objective is to restore

Tanzania's trunk and regional road networks, which have become an obstacle to the sustainability of the economic recovery program and to develop MOW's institutional capacity to properly manage the road networks. The approximate level of funding in the IRP committed by donors over the next five years is outlined in Table 1-2:

Table 1-2
IRP Donor Funding,
AMOUNT ($ million)

DONORS	INSTITUTIONAL SUPPORT	REHABILITATION	MAINTENANCE
NORAD	1.0	35.5	-
AFDF	2.0	43.2	-
IDA	17.7	117.0	46.0
ODA	1.0	12.6	-
GTZ	2.5	29.0	-
UNDP	2.9	-	-
JAPAN	-	42.0	-
DANIDA	-	57.0	-
NETHERLANDS	-	18.0	-
FINLAND	-	48.4	-
EEC	-	171.0	-
SAUDI FUND	-	11.8	-
ITALY	-	91.7	-
SWISS	-	10.8	-
A.I.D. [1]	2.0	20.4	2.0
TOTAL	29.1	708.4	48.0

Most of the funding as can be seen from the table is concentrated on rehabilitation and includes major projects on the TANZAM Highway and Dar-Moshi Road, the two principal roads in the country. In the rural roads sector funding is further broken down into the categories of routine maintenance, periodic maintenance and rehabilitation. The present levels of funding planned over the next five years are:

1 Includes funds obligated to date

Table I-3 Funding Requirements in Rural Road Sector ($MILLION)			
	Routine Maintenance (20,000 km)	Periodic Maintenance (4,000 km)	Rehabilitation (3,500 km)
IDA	-	68	-
NORAD	4.4	-	-
FINIDA	1.2	-	2.8
SWISS	0.6	-	1.7
GTZ	0.5	-	1.1
EEC	-	-	36.5
UNDP	-	-	2.3
A.I.D. [1]	2.0		20.4
DONOR TOTAL	8.7	68	64.8
TOTAL Cost	45.0	200.0	105.0
Shortfall	36.3	132.0	40.2

1 Includes funds obligated to date

Although these levels are approximate and fluctuate with changes in exchange rates two things are evident, the requirements of the rural road sector are large and Tanzania has to finance a large portion of the cost.

b. Import Support

There are three primary sources of funding imports in Tanzania; the Governments own allocation system, the "own funds" scheme and the BOT administered Open General Licensing System. Some donors, notably the Japanese, still channel funds through the Ministry of Finance. The primary source of donor funding for imports is through the Open General Licensing System. The majority of funding comes from the IDA through its Multisector Rehabilitation, Industrial Adjustment, and Agricultural Adjustment Credits. Other bilateral donor support is provided either directly through the OGL or through programs that closely parallel it. These are programs that are administered through the Bank of Tanzania which approves import licenses and then requires cash cover before letters of credit are opened. They are separate from the OGL because of donor requirements for accountability and commodity eligibility. The GOT refers to these programs as OGL II. The funding provided under the AEPRP would be considered part of OGL II. The following table outlines the financing provided through 1990/1991. Future requirements of the OGL have been estimated on high as $400 million a year as more of Tanzania's imports are financed under it. To sustain this level of funding, the GOT will have to commit a significant amount of its own funds. In the current year the GOT has committed approximately $40 million, its first major contribution.

Table I-4 Financing Provided to the OGL to end 1990/91 (in US$ mn)	
1. Financing provided in the context of World Bank Adjustment Operations	
a) Multisector Rehabilitation Credit (MRC)	$30
b) Industrial Adjustment and Trade Rehabilitation Credit (IRTAC)	
IDA First Tranche, Second Tranche and 2 Reflows	$160
Donor Cofinancing of IRTAC	
Switzerland	$14
United Kingdom	$13
Netherlands	$10
c) Tanzania Agricultural Adjustment Credit (TANAA)	
IDA First Tranche and IDA Reflow	$116
Donor Cofinancing of TANAA:	
Norway	$44
United Kingdom	$23
Netherlands	$21
Germany	$6
2. Parallel Financing ("OGL 2")	
Sweden	$12
A.I.D. [1]	$12
3. Bank of Tanzania Resources	$42
TOTAL	$503

1 Includes only funds obligated

II Program Description

A. Status of Program to date

The ATAP program is a continuation of the 1987 Transport Sector Program funded under the AEPRP. Both programs were designed to provide foreign exchange for policy reforms and local currency generations were designed to support rural road rehabilitation and maintenance. The $12 million dollars in the AEPRP is now fully committed to Letters of Credit and over 2.5 billion shillings have been generated. The exchange rate increased from 70 shillings to the dollar at the beginning of the AEPRP in mid 1987 to the current rate of about 228 shillings to the dollar. A more detailed description of the status of the AEPRP is included in Annex C. ATAP was structured into two parts: a non-project component and a projectized technical assistance and training component. The non project component was designed to:

(1) provide foreign exchange for transport equipment and spare parts;

(2) link the foreign exchange financing to GOT progress in implementing sub-sectorial policy reforms including consolidating the institutional responsibilities for rural roads, increasing recurrent financing for rural road rehabilitation and maintenance, and expanding the use of private sector contractors for rural road rehabilitation;

(3) increase domestic financial resources for the road sub-sector by programming counterpart funds for rehabilitation and maintenance.

The technical assistance and training components were designed to provide the GOT with specialist skills to improve technical capabilities of staff in order to achieve the overall program objectives.

The initial Program Grant Agreement was signed on August 31, 1988 for $7.21 million. The import support program of $5.21 million was designed as a CIP becuase, in 1988, dollar tracking was not permitted under the DFA. The Mission amended this to a cash transfer with disbursement procedures identical to the procedures in the original transport sector program since dollar tracking is now permitted under the DFA. The funds will likely be quickly committed to Letters of Credit since the BOT has about $15 million in applications pending. Two million dollars were obligated for projectized TA and training. Subsequently, the Grant Agreement was amended on 08/21/89 to increase program funding by an additional $5.20 million. The CPs for the release of the first tranche of ATAP program funds have been met. The CPs to initial disbursement of ATAP funds called for:

(1) the establishment of a Rural Roads Division within the MOW;

(2) the submission of a maintenance plan to USAID on the classified road network; and

(3) the award of road rehabilitation contracts to private firms.

A new RRD has been established within the MOW that has specific terms of reference and a Division status similar to that of the Trunk Road Division. A Chief Engineer was appointed to head the RRD and five civil engineers were assigned to the RRD at the headquarters level. In the regions, 19 Rural Road Engineers were appointed and assigned to manage the rehabilitation and maintenance of rural roads.

In FY89/90 the Tanzania Parliament approved an operating budget of TShs 65 million for the newly established RRD. The budget was increased to TShs 1.2 billion in FY90/91. The FY91/92 budget is TShs. 1.5 billion for routine and periodic maintenance. The MOW's projections on the RRD's future budget figures for maintenance are TShs 5 billion for FY92/93, and 6 billion for FY93/94.

A maintenance plan has been submitted to USAID that identifies the conditions of the road network, the type and maintenance, the estimated cost, and the amount and source of financing. The plan was used to develop the FY91/92 road maintenance budget for the RRD/MOW.

Since ATAP was signed in August 1988, three road contracts for the rehabilitation of some 250 km of rural roads were awarded to two local firms. Another three contracts for the rehabilitation of some 300 km of rural roads will soon be signed with another three contractors. Design and supervision contracts relating to the rehabilitation of rural roads were also awarded to three private firms. With the exception of one contract with a parastatal construction contractor and consultant, all local firms are in the private sector. Table II-1 summarizes the contracts.

The project component of ATAP has funded a USPSC engineer in the RRD, a TCNPSC engineer in the Mission, training in the U.S. and third countries, commodities including vehicles, computers and other office equipment, and a socio-economic survey that developed baseline information in a number of the regions where rural road

TABLE II-I
Ongoing Rural Roads Activities

Activity	Region	Length (kms)	Contractor	Amount Million Shs.
Rehabilitation Construction # 1	Kilimanjaro	142	BECCO	1,670
Rehabilitation Construction # 2	Shinyanga	73	Dhiyebi	327
Rehabilitation Construction # 3	Shinyanga	79	Dhiyebi	245
Rehabilitation Construction # 4	Shinyanga	72	MECCO	220
Rehabilitation Construction # 5	Shinyanga	90	Dhiyebi	303
Rehabilitation Construction # 6	Mwanza	112	Nyanza Road Works	580
Rehabilitation Construction # 7	Shinyanga	81	Godes	422
Supervision # 1	Kilimanjaro	142	-	35
Supervision # 2 and 3	Shinyanga	152	M-Konsult	50
Supervision # 4 and 5	Shinyanga	162	NEDCO	50
Supervision # 6 and 7	Mwanza - Shinyanga	193	-	35
Design	Iringa	265	Interconsult	13
Design	Mbeya	268	Tan-Consult	11
Design	Ruvuma	240	NEDCO	12
Design	Kagera	183	Mak-Consult	16

rehabilitation is underway. A long term training program for headquarters and regional rural roads personnel is being developed. The USPSC and TCNPSC engineer have been heavily involved in the development, award and monitoring of construction contracts. In conjunction with the RRD they have also been developing a long term sustainable roads program document.

The following CPs to Second Disbursement have been be met by the GOT as a requirement for the release of the $5.2 million, obligated under the FY89 Grant Agreement Amendment:

(1) evidence that all conditions to the disbursement of the initial 5.21 million dollars continue to be met and that the GOT is in compliance with all material provisions of the Agreement;

(2) evidence that a detailed maintenance plan has been developed for a single region under the jurisdiction of the RRD of the MOW where road rehabilitation and maintenance is a priority concern;

(3) evidence that measures to protect roads from the damaging effects of overloaded vehicles have been developed and that the GOT has selected options to address this problem; and

(4) evidence that road rehabilitation and maintenance contracts funded with local currency generated under the program contain sound technical and environmental criteria and standards.

All conditions precedent to the disbursement of the initial $5.21 million grant under ATAP have been met and the GOT is in compliance with all material provisions of the Agreement.

The MOW has developed a Road Maintenance Management System (RMMS) for all twenty regions in the country. The RMMS was introduced to all MOW senior staff through a workshop forum after which the RMMS was officially endorsed as the applicable maintenance planning document of the MOW. As a result of the RMMS it is now possible for the MOW to prepare a maintenance plan that determines the most effective ways of performing maintenance work, identifies the manpower, equipment and financial resources required for execution of the work, and establishes procedures for reporting work and evaluating performance.

In April 1991, a report on road safety measures was prepared for the MOW. The report also covered the problems relating to overweight vehicles. The report assessed the physical damage caused by overloading, estimated the costs of damage, pointed out that overloaded vehicles are a main cause of the road network destruction, and recommended actions to control the problem through the establishment and enforcement of axle load limitations using weighbridges.

Contract documents for on-going rural road rehabilitation have been submitted to USAID by MOW. The documents have been reviewed by USAID and the documents contain sound technical and environmental criteria. The documents require that:

(1) borrow pits are filled and levelled;

(2) drainage ditches, which are susceptible to erosion, are lined or paved;

(3) construction camps are provided with adequate clean water, and sanitary facilities; and

(4) construction wastes are disposed properly and spoil areas are levelled.

The contractors currently engaged in road rehabilitation in Shinyanga Region are complying with the environmental standards called for in the contract documents. Borrow pits are level and flat but with enough cross slope to drain water; ditches are being paved in areas where they are susceptible to erosion; construction camps are clean, water is provided and proper sanitary facilities and services are being provided; and overall clean up of construction wastes and spoil areas continues. The consultant currently developing a training plan for the RRD/MOW has also been requested as part of his terms of reference to review and incorporate environmental criteria and standards into the training curriculum to be developed for RRD staff.

B. Objectives of the Program Amendment

The overall goal of the program remains unchanged: to increase the income and social welfare of the rural population by expanding the volume of inputs, agricultural commodities, and consumer goods transported by road by reducing the costs of road transport services. The program purpose is to continue to support the removal of policy and other constraints in order to improve the MOW's capacity to undertake road rehabilitation and maintenance programs. This amendment describes a multi year program to assist the MOW in establishing sustainable systems for road rehabilitation and maintenance that are necessary for achieving the program's purpose. Based on the development of the sustainability analysis, a road maintenance management system and other reforms, $5 million will be disbursed as the third tranche upon signature of the Grant Agreement. Three further disbursements totalling $30 million will be conditioned on further policy reforms. The program will help the MOW achieve many of the aims outlined in their recently completed sustainability analysis (Annex D). The Program Logframe is included as Table II-2

Table II-2
LOGICAL FRAMEWORK
TANZANIA AGRICULTURAL TRANSPORT ASSISTANCE PROGRAM
(621-0166)

GOALS	OBJECTIVELY VERIFIABLE INDICATORS	MEANS OF VERIFICATION	ASSUMPTIONS
To increase the income and sound welfare of the rural population by expanding consumer goods transported by road and to reduce the costs of transport services	Increased volume of commodities transported, lower unit costs for mt/km, increased freight, reduced transport fares, better better supplied to health clinics	Update of socio-economic baseline survey, village surveys, evaluations	Tanzanian economy continues to expand, trucking deregulation continues, foreign exchange available.
PROGRAM PURPOSE:			
To support policy reforms for improving the GOT's capacity to identify, select, finance, and undertake rehabilitation and maintenance activities on rural roads	-More efficient MOW RRD which effectively identifies, prioritizes, finances and implements the rehabilitation and maintenance requirements for rural roads	Yearly performance reports, project implementation reports	GOT is able to retain trained staff and Rural Transport will remain a policy and budgetary priority
OUTPUTS			
1. Increase capability in RRD and in regions 2. Private sector involvement in rural road rehabilitation maintenance, design and supervision 3. Fully funded routine and periodic maintenance	-The GOT is financing and implementing a plan for adequately maintaining rural roads -Increased participation of the private sector in road rehabilitation, mainten-ance, design and supervision -Increased number of Tanzanian personnel trained in areas critical in the roads sub-sector -GOT donor coordination system established for the roads sub-sector	GOT Budgets and expenditure data Number of private contracts Records of GOT/private firms	Funds are available in a timely fashion. Tanzanian contractors can readily obtain equipment and spare parts. Tanzania contractors respond to financial and training incentives.
INPUTS	**OBJECTIVELY VERIFIABLE INDICATORS**	**MEANS OF VERIFICATION**	**ASSUMPTIONS**
Import Support - $30 million Project Assistance - $2 million Technical Assistance Training Commodities	Letters of Credit Opened Local Currency Deposited Goods arrive in country TA personnel carry out their activities Training activities identified and completed	Bank statements on dollar and local currency accounts from CRDP, Shipping Documents, End use checks, PIO/Ts, Project Implementation Reports, site inspections	There is a demand for commodity imports. MOW and USAID can identify and agree on TA, Training and Equipment needs.

For RRD's rehabilitation maintenance program to be sustainable, decisions, actions and resources must be coordinated in a timely manner. The decisions, actions and resources required are categorized into four broad program areas:

- enact and enforce appropriate road policy reforms
- develop effective MOW staff, institutional procedures and management systems
- develop the private sector
- secure funding

MOW already has many of the elements in place or partially implemented, but several critical elements are still to be established.

1. Policy Reform

In the policy area a number of issues need to be addressed including the extent of the road network under the MOW, the development of priorities, the extent of force account work, donor coordination and sources of funding.

MOW has to sort out with other ministries the responsibility for the road network. MOW has increasingly become involved in the urban and district road program because it has a greater capability and access to donor financing. MOW recently took over responsibility for a number of roads in Dar es Salaam. The road network under MOW must be defined and its true extent and condition measured. There is an immediate need to undertake an inventory and condition survey of roads and bridges. This will determine the extent of RRD's responsibilities and required resources levels. All roads under the RRD are classified as regional roads. While MOW has the capability it does not as yet have the capacity.

MOW needs to develop prioritization guidelines to assist in the implementation of its programs. Decisions to allocate resources between rehabilitation, periodic, and routine maintenance are often arbitrary and not based on established engineering and economic principles.

It is doubtful that sufficient funds and other resources will be available every year to undertake all the needed maintenance and GOT/MOW must identify priority roads and region which will receive a minimum level of resources each year. The past practise of spreading limited maintenance funds over the whole country resulted in the neglect of all roads.

The GOT has promoted the idea of local contractor involvement in the ERP, in the IRP and in RRD's rehabilitation and maintenance program. GOT has approved a draft National Construction Industry Development Strategy. Now the policy must be enacted and implemented. The most pressing issue concerning private sector involvement in the program is the proportion of work to be undertaken by contractors and the proportion to be undertaken by force account. The MOW/RRD/REO need policy guidelines on this issue to plan and develop their staffing and training program, to determine MOW equipment requirements and to give the private sector the confidence and assurance to invest in the equipment and manpower necessary to carry out their share of the work.

The types of work to be contracted to the private sector must also be determined. The private sector is presently participating in large rehabilitation and periodic maintenance contracts, but not in less capital intensive routine maintenance works including labor based maintenance and bridge rehabilitation and repairs.

Donor involvement in the road sector is expected to surpass USD 1 billion over the next 5 years. Most (over $900 million) of assistance is being coordinated through the IRP. Some donor programs and assistance are not consistent with GOT/MOW policies.

More coordination and enforcement of policies are required. Some issues and areas requiring attention are:

- donor funded equipment purchases for the MOW vs policy of commercial plant hire pools;
- donors providing staff incentives to GOT/MOW staff which may not be sustainable without donor assistance; and,
- use of foreign contractors and consultants rather than using or developing the local capacity.

The sources of local revenues available to finance RRD's program are limited. The scope and budget for the program have been estimated, but sources of revenue and levels of financing are still to be determined. The GOT recently established a Road Fund financed from the sale of fuel and from vehicle licensing fees. The Road Fund was legally established in June 1991. The funds are to be used to support the road sector, but procedures for the operation and management of the fund have yet to be established. The priorities and activities which the Road Fund will support have not been determined. Is it exclusively for maintenance? or will it also fund other activities such as weight control? Will funds be regionally distributed according to recorded fuel purchases? Will the fund be used for "special projects", so that the public can see immediate benefits? Will funds be proportioned to urban and district roads as well as trunk and regional roads? Will private sector contracts be supported by the fund?

2. <u>Institutional Development</u>

In November, 1990, the former MOW was split into the Ministry of Communications and Transport (MCT) and the Ministry of Works (MOW). MOW was given the responsibility for trunk and regional roads. In late 1990, MOW carried out an organizational review and developed a draft organizational structure for the new ministry. The draft has been approved by the Minister and recently received final GOT approval.

The GOT was aware that changes needed to be made in its procurement regulations in order to permit contract award decisions made by the PS, REs and department directors of MOW. In November, 1990, GOT/MOW adopted a set of "interim procurement regulations" prepared by a GOT task force. These regulations will remain in effect until GOT undertakes a complete revision of its procurement regulations, scheduled for implementation by the end of 1993. A present constraint is the lack of approved procedures and contract documentation to implement the interim regulations. The GOT/MOW have approved tender documents and procedures for large rehabilitation contracts, but do not yet have appropriate documents or procedures for smaller contracts for road maintenance works.

In early 1990 MOW decided to develop its own Road Maintenance Management System (RMMS) through its TRD and RRD with the assistance of existing TA. The system was designed to be compatible and consistent for both trunk and regional roads. The draft RMMS and manual were pretested in 3 regions and finalized during FY 90/91. The FY 91/92 annual work program and performance budgets were developed using the RMMS for Trunk and Regional roads in all regions. The FY 91/92 maintenance work scheduling, reporting and cost accounting will be controlled and monitored by RRD/TRD using RMMS. All elements of the RMMS have not been developed or fully tested. A road inventory module and a module for monitoring contract maintenance have yet to be developed. The RMMS will provide appropriate data and timely information to all levels of management. It is expected that computers will be used to assist TRD/RRD and REOs to summarize and analyze the data as well as to generate standard reports. The software to manage and manipulate the data has not been developed.

The training and career development of RRD/REO staff is essential to ensure a sustainable program. Proposed new staffing levels based on the new organizational structure for RRD/REOs have not been set. The lack of an approved organizational chart with staffing levels is a serious constraint. Position descriptions and description of duties are needed at all levels.

Most donors have training components included in their programs and projects. There is some duplication and inconsistency in the programs. Many reports, studies and proposals have been put forward over the past few years, but there is not yet an accepted training program for RRD and REOs which coordinates all the participating organizations and institutions. A long-term training strategy is being developed through ATAP assistance.

MOW needs to carry out a study to "rationalize" its staff to reflect the shift from force account operations to contracting of works and decentralization of operations to the regions. Shifts of personnel from TRD to RRD and REOs should be considered to balance staffing and to provide additional career development opportunities within MOW.

3. Development of Local Contracting Capacity

The construction industry is perhaps the single most important element in Tanzania's investment program with approximately 50% of total capital formation (i.e. roads, railways, ports, schools health facilities, offices, factories, irrigation schemes, dams) realized through this sector. Local contractors have recently won IRP funded rehabilitation and periodic maintenance contracts on trunk roads worth more than Tsh. 5 billion. In addition, local and foreign contractors are programmed to carry out more than 1000 km of periodic maintenance in FY 91/92.

GOT/MOW and the majority of donors actively support local contractor involvement and the response by contractors is stronger than originally predicted. The problem has evolved from one of gathering institutional and donor support for contractor involvement in road works to one of developing and assisting the contractors to undertake a greater share of the programmed works.

The MOW has also embraced the principal of using local contractors to undertake routine and periodic maintenance. There is considerable potential for expansion of contractor involvement in this area once appropriate contract documents and procedures are developed.

The rehabilitation works should be programmed to match the local contracting capacity. It is recommended that REOs undertake force account rehabilitation only if there is excess capacity after fully implementing the RM and PM programs. Donor programs supporting force account rehabilitation will decrease as the local contracting capacity is expanded to perform the works.

There is no routine maintenance of regional roads presently undertaken by the private sector. However, it is a high priority of RRD to develop documents and procedures to contract routine maintenance. It is the intention of RRD to introduce maintenance by contract at a level consistent with the REO's ability to manage the contracts.

Maintenance contractors will vary in size and scope and contract documentation and procedures must be developed for each of the following classes of contractor:

- Major Contractors: These contractors will carry out large periodic maintenance projects. Eventually these contractors may also be used to conduct all routine maintenance of a complete district or region.

- General Purpose Contractors: These contractors will carry out a wide range of activities by mechanized or labor-based methods. They may be engaged for specific activities such as maintenance grading, culvert replacement or for all routine maintenance of defined roads.

- Petty Contractors: These contractors will carry out the labor-intensive activities such as vegetation control, drain clearing and pothole patching.

A national contractor registration system must be adoped to identify qualified contractors for different classes and sizes of contracts. Such a system will speed the process of prequalifying awarding maintenance contracts.

While the development of the construction industry is a key requisite to a sustainable roads program, the development of local consulting engineering capacity is also an important requirement. The consulting industry will be expected to do much of what the MOW has done in the past such as designs tender document preparation, inspection of construction and payment verification. The industry is characterized by many small firms but, because of the road program over the last five years, their experience level is increasing.

4. Revenue Generation and Program Financing

Forecasting program costs and estimating future revenues is a tricky business even if accurate, complete data are available. Forecasting and estimating in Tanzania is difficult not only due to lack of data, but also due to lack of clear GOT policies and the fact that most of Tanzania's income is agriculturally based which makes it vulnerable to weather and price fluctuations.

The constraints to development of a sustainable financing scheme for the road program are many. The sources of local revenue available are limited and the ability and commitment of the government to budget increasingly higher amounts of funds for road maintenance is not certain. The major immediate constraint is the undefined scope of the regional roads rehabilitation and maintenance program.

Early in the development of IRP it was proposed that regional roads become the responsibility of MOW under a newly created Rural Roads Division. It was felt that MOW and RRD would be overwhelmed by taking over the entire (estimated to be 25,000 km) regional road network at one time. Under the IRP, GOT agreed:

- to assume responsibility for routine maintenance of 7000 km of Regional roads in FY 91/92, increasing to 10000 in FY 95/96.

- to begin its periodic maintenance (PM) program with 650 km of regravelling and 700 km of reshaping in FY 91/92 increasing to 1200 km of regravelling and 750 km of reshaping in FY 95/96. A 5 year periodic cycle for regravelling was assumed.

- to rehabilitate 2250 km of existing regional gravel roads and upgrade 4500 km of earth roads to gravel road standards.

In addition, it was agreed to give priority to regional roads in 11 "Core" regions. These roads were to receive higher levels of maintenance funding than "non-Core" roads and also to receive the bulk of the PM and rehabilitation works.

Beginning in FY 90/91, the responsibility for all regional roads was assumed by MOW/RRD. For FY 91/92, the total regional road network has increased to approximately 17000 km. This is more than double the network upon which the IRP program is based. The current MOW/RRD program for Regional roads can be described as follows:

- RRD's network will grow from about 17,000 km in FY 91/92 to 25,000 km in FY 95/96. The increase will be the result of upgrading district and essential feeder roads to regional road standards;

- Routine maintenance will be carried out on the entire network each year; and,

- Periodic maintenance (regravelling) will be carried out on a 7 year cycle. This means that the PM program requirement will grow from 2500 km in FY 91/92 to 3500 km in FY 95/96;

- Rehabilitation of 500 km is programmed for each of the next 5 years.

The comparison of the financial requirements of the IRP program and that required by the current MOW/RRD program are shown on Table II-3

TABLE II-3		REGIONAL ROADS MAINTENANCE PROGRAM REQUIREMENT					
ITEM		FY 91/92	FY 92/93	FY 93/94	FY 94/95	FY 95/96	
Routine Maintenance KM	IRP	7000km	7000km	8000km	8500km	10000km	
	RRD	14500km	15000km	15500km	16000km	21500km	
Periodic Maintenance KM	IRP	1400km	1400km	1550km	1600km	1650km	
	RRD	2000km	2150km	2250km	2300km	3500km	
REGIONAL ROADS MAINTENANCE BUDGET (USD '000)							
ITEM		FY 91/92	FY 92/93	FY 93/94	FY 94/95	FY 95/96	
Routine Maintenance Budget	IRP	3,004	3,010	3,591	3,742	4,666	Cost/km 429
	RRD	6,525	6,750	6,975	7,200	9,675	Cost/km 450
Periodic Maintenance Budget	IRP	5,754	5,970	7,369	7,767	9,897	Cost/km 4,110
	RRD	20,000	21,500	22,500	23,000	35,000	Cost/km 10,000
Total Maintenance Budget	IRP	8,758	8,890	10,960	11,509	14,563	
	RRD	26,525	28,250	29,480	30,425	44,675	

It is obvious that the financial requirements of the two programs differ significantly. Currently, GOT is committed to financing 100% of the recurrent budget (routine and periodic maintenance) for regional roads by FY 95/96 based on the IRP work program.

In January 1991, a study was carried out under the auspices of the WB to assist GOT develop a program to finance recurrent maintenance cost for trunk and rural roads. The study's aim was to assess the present status of revenue generation in the road sector and to recommend a course of action for the GOT to meet the financial commitments of the IRP.

The roads sector generates revenue through a number of taxes and fees. They are summarized along with expected level of funds to be generated for FY 90/91.

	SOURCE	$M
1.	Excise duty	1.3
2.	Sales tax on petroleum	14.3
3.	Sales tax on veh. & spares	9.9
4.	Sales tax on tyres and tubes	5.5
5.	Road Fund (fuel tax)	4.2
6.	Vehicle licenses, etc.	0.6
		=======
		$ 35.8

While this is the amount of funds the sector generates, only the Road Fund is dedicated to road programs. The other revenues go to the Treasury and are reapportioned each year during budget negotiations with the various ministries.

The Road Fund fuel tax has been increased to seven shillings per liter. This and other new taxes and fees are expected to generate $20 million annually. Operating procedures and priorities for use of the Road Fund have not yet been established. It is not clear if the Road Fund is meant to fully finance the road program or if general treasury revenues will also be required.

C. Constraints and Conditionality

The previous section outlines the issues MOW must address to achieve its objective of a sustainable system for rural road rehabilitation and maintenance. The constraints to meeting these objectives can be divided into four categories:

- absence of clear policies
- weak institutional capacity
- inexperienced private sector
- inadequate domestic financing

This amendment deals with these constraints through two principal means. Thirty-five million dollars in non project assistance will support a multi year reform agenda. Three cash transfers of totalling $30 million will be made when program conditionality is attained. An initial cash transfer of $5 million dollars will made upon signature of the grant agreement to reward past performance by the MOW. The MOW during the last year has drafted a sustainability Analysis, developed a road maintenance management system, approved a draft construction industry strategy, adopted a set of interim procurement regulations and formulated a training program. These cash transfers will continue to support imports related to the transport sector. U.S.A.I.D. is considering expanding the list of imports to include petroleum products. This could serve two purposes, firstly, it could give U.S.A.I.D. leverage in discussions with MOF on fuel tax earmarks to MOW and the level of the fuel tax. Secondly it is a large source of local currency in the event demand for other commodities is low. U.S.A.I.D. will also investigate expanding the list to commodities that potentially relieve constraints in the transport sector and improve the performance of the sector. The local currency generated will continue to support MOW road rehabilitation and maintenance activities.

Project assistance will be provided for analytical, training and management activities. Analytical studies will include yearly updates of the socio economic baseline survey, review of road sector financing alternatives, transport sector analysis, assistance to the MOW in the development of economic criteria for prioritizing road activities and assistance in developing a road inventory data base. The assistance will also include development of standard contract documents for maintenance and structure rehabilitation. Accountants, inspectors and engineers will be trained in seven regions. In addition small contractors will be trained in routine maintenance and training will continue in the Road Maintenance Management System. The PSC Engineer position in the Ministry will be extended to six years and the Mission Engineer to five years.

Table II-4 outlines the policy agenda that will be discussed with the GOT. This agenda will form the basis for the conditionality in the program. Basically there are two types of conditionality. One set of conditions requires the MOW to make fundamental changes in the way it operates. It must develop and apply economic criteria for prioritizing rehabilitation and maintenance activities. Prioritization must be expanded to classes of roads and regions.

These criteria are necessary because the MOW will always have financial or physical constraints which limit the amount of rehabilitation or maintenance that can be done in a given year. The MOW is required to develop plans to generate sufficient revenue to fully cover routine maintenance and partially fund periodic maintenance requirements by 1995/1996.

In the past the MOW has gone to the Government each year during the annual budgeting cycle. It has become clear that this strategy will not work. Funding requirements for maintenance alone will reach $45 million by 1996 for a 25,000 km network. A reliable source of revenue must be available. The MOW will soon receive a portion of the fuel tax generated by petroleum sales and this likely will have to be increased in the future.

The second type of conditionality sets specific performance targets for MOW staff size, composition and location, volume of contracts awarded to the private sector, and the level of financing for periodic and routine maintenance. These can be measured so there will be little ambiguity whether they have been met or not. These are significant conditions however; by 1995/1996 the MOW will be spending nearly $4 million on routine and periodic maintenance in five regions, periodic and routine maintenance will be largely in the hands of the private sector, and 600 km will have been rehabilitated. Finally the MOW in the regions will be developing, awarding and administering contracts for rehabilitation, periodic and routine maintenance, and construction supervision. This will represent a significant shift in responsibility from the headquarters to the regions.

D. Risk Assessment

The 1988 ATAP document foresaw several potential risks inherent in the program. AID might have incorrectly assumed that rural transportation would remain a GOT and AID priority. In hindsight this risk did not materialize. Both the GOT and AID have if anything, a stronger commitment to the rural roads sector in part because of the program's success. AID might have incorrectly

TABLE II-4

ATAP POLICY MATRIX AGENDA

OVERALL OBJECTIVE	FY 92	FY 93	FY 94
To fully establish a sustainable system for road rehabilitation & maintenance involving elements of the public and private sectors.	MOW prepares policy statement on contracting, subcontracting and joint ventures. MOW develops economic criteria for prioritizing rehabiliation and maint. activities. MOW adopts sustainability analysis as principal strategy document.	GOT adopts policy MOW adopts and uses economic criteria	MOW implements policy
Program Theme 1: Institutional Development			
(a) To Strengthen the capability of MOW, RRD & REDs	- Add 2 Engrs to RRD - Road Inspectors & Accountants assigned to Mwanza, Shinyanga and Kilimanjaro - Training Strategy for contract & maint. mgmt adopted	- Add 2 more Engrs to RRD - Inspectors & Accountants in 1 additional region - 20 staff trained in contract & maint management	- Add 2 more Engrs to fully staff RRD - Inspectors & Accoutants in 5 regions - 25 more staff trnd in contract & maintenance management
(b) To improve performance of MOW, RRD & REDs	300 km rehabilitated 4,000 km routine maintained per year 400 km periodic maintained	450 km rehabilitated (Cumulative) 4,000 km routine maintained (per year) 400 km periodic maintained (additionally)	600 km rehabilitated (Cumulative) 4,000 km routine maintained (per year) 400 km periodic maintained (additionally)
Program Theme 2: Private Sector Involvement			
(a) To undertake rehabilitation (b) To undertake routine maintenance (c) To undertake periodic maintenance (d) To undertake contract supervision for rehabilitation & periodic maint	75% of $ volume is pvt contracts in 5 regions Develop & approve standard contract instruments 50% of $ volume is pvt contracts in 5 regions rehab-100% of $ volume is pvt contract 5 regions p.m.-25% of $ volume is pvt contracts in 5 regions	80% of $ volume is pvt contracts in 5 regions NLT 10 contracts or 30% of $ volume in 5 regions pvt. 60% of $ volume is pvt contracts in 5 regions rehab-100% of $ volume is pvt contract p.m -50% of $ volume is pvt contract	85% of $ volume is pvt contracts in 5 regions 20 more contracts or 60% of $ volume is pvt. 70% of $ volume is pvt contracts in 5 regions rehab-100% of $ volume is pvt contract p.m.-75% of $ volume is pvt contract
Program Theme 3: Financial Soundness			
(a) To prioritize routine & periodic maintenance	MOW will designate 4,000 km of roads in 5 regions for priority routine maintenance and 400 km of roads in 5 regions for priority periodic maintain.		
(b) To fully fund routine maint	MOW spends from own revenues 50% of budgetted $ 450/km in 5 regions	MOW spends 75% of $450/km in 5 regions	MOW spends 100% of $ 450/km in 5 regions
(c) To fully fund periodic maint.	MOW spends from own revenues 15% of budgetted $10,000/km in 5 regions	MOW spends 25% of $ 10,000/km in 5 regions	MOW spends 50% of $ 10,000/km in 5 regions
(d) To improve road sector financing	GOT examines mechanisms to generate revenues from domestic sources to fund road maintenance	GOT prepares plan to implement revenue generations	GOT implements plan to fully fund routine maintenance from own revenue by 1995/96.

assumed that institutional development was more effective than direct project financing. There is general agreement among GOT officials and donors that AID has followed the right approach in developing the RRD and private sector contractors. AID worried that it might get out in front of other donors in its emphasis on private contractors. AID did get out in front but this, in fact, had a positive effect of directing the approach for other donors to follow. AID felt that the GOT might not be able to reorganize and rationalize responsibilities for road works. The GOT did reorganize its ministries creating in 1990 a Ministry of Works responsible for all trunk roads, regional roads, and essential district roads. Finally, the heart of AID's program was the reliance on private sector contractors. They do exist in Tanzania, they can rehabilitate roads and they will invest in equipment.

With experience comes more insight. While many of the risks foreseen in 1988 either did not materialize or proved manageable, a number of risks still remain.

Policy

The GOT has stated that MOW will evolve from a "blue collar" ministry responsible for carrying out road construction to a "White collar" ministry responsible for managing road works. Government wages are very low. A senior engineer in MOW currently takes home less than $40 a month. In order to attract and retain qualified staff, MOW needs to improved its wage - benefit package and add incentives. However, MOW cannot do this in isolation from all the other GOT ministries. There are only two ways for the GOT to improve wages. The first would entail increasing its budget for civil servant salaries. It cannot do this because of IMF imposed budget ceilings. The alternative is to reduce its overall workforce. This flies in the face of Tanzania's long-held but unstated policy of giving a job to practically anyone who wants one, in order to keep down unemployment and possibly avert civil unrest. No one would dispute that qualified GOT staff ought to get better pay. However converting a good idea into government policy may prove problematic. The GOT will have to consider special incentives such as GOT provided housing and transport for engineers which has been done in the past for MDs and professors. This will particularly be necessary in the regions where supplemental employment opportunities are few.

Institutions

Tanzania has a history of periodically reorganizing ministries and departments. The Ministry responsible for roadworks has undergone three major reorganizations since independence, and it is more stable than many. No sooner had the new Ministry of Works been established, with a Trunk Roads Division and Rural Roads Division, than various GOT and donor officials began discussing a merger of trunk and rural roads. The reasoning ran that having two divisions is really a duplication of effort. While this argument has a certain logic, it fails to consider that MOW has for many years been responsible solely for trunk roads and staff have consequently developed a bias. Without a separation of personnel, planning and budgeting for an initial period of time, rural roads would most likely get short shrift. The risk of merger before the RRD can hold its own is somewhat countered by our presence.

Capacity

With reorganization, the RRD has become responsible for all regional and essential feeder roads totalling nearly 25,000 km. Responsibility for the 50,000 km of district and unclassified roads still falls to the district councils and is budgeted through the Ministry of Regional Administration and Local Government. However, district councils have neither the qualified personnel nor the funds to adequately maintain this vast network. It is possible that pressure will be exerted on MOW to take over responsibility for the majority of rural roads. This would no doubt overwhelm the fledgling RRD.

Financing

Under the IRP the GOT has committed itself to financing about $15 million of routine and periodic maintenance from its own budget by 1995/96. This figure is closer to $45 million if the expanded network is included. Tanzania has experienced a positive growth rate the past five years. Some economists and proponents of policy reform would attribute this to the Economic Recovery Program. While good policies are undoubtedly important, the positive growth is also a result of good weather. Tanzania relies on agriculture for 50% of its GDP and 80% its export earnings. If the country enters a cycle of bad weather, this will adversely affect the economy which in turn will play havoc with the GOT budget. It might be difficult to raise even $15 million. Regardless of its good intentions, the GOT may have such severe strains on essential allocations of funds, it may not be able to fulfill its commitment.

Private Sector

The very commitment of the GOT and donors to private sector contracting for road works poses the risk that demand will overwhelm supply. Contractors, eager for business, may take on more work than they can handle and consequently perform less than satisfactorily. Poor performance might give private sector contractors a bad name prompting a return to force account road construction. It is felt that by awarding small maintenance contracts along side larger rehabilitation works, new companies will gain the experience required to eventually take on larger contracts.

<u>Donors</u>

The IRP involves 16 donors, all with their own polices, procedures and special interests. The GOT has shown a remarkable capacity to more or less accommodate them all. The IRP was only launched officially in March of 1991, although some donors have contributed to road rehabilitation and maintenance for a considerable length of time. Donor commitments run through 1995/96 even though everyone readily admits a sustainable rehabilitation and maintenance program could take longer to be achieved. The question is: will donors stay the course? The risk is that they won't, being satisfied with the immediate, more easily attained successes. Donor fatigue may set in before sustainability is assured.

III Update of Feasibility Analyses

A. Institutional Analyses

1. Bank of Tanzania

The Bank of Tanzania (BOT) manages the foreign currency reserves of the Government of Tanzania. One of its major roles is to issue Import Licenses through the Directorate of Import Licensing. There are various import support programs funded by donors. The GOT also allocates a portion of its foreign exchange reserves for imports.

Applications are submitted to the Directorate of Import Licensing. Normally a covering letter from the importer specifies what program he is applying for. In the case of the U.S.A.I.D. program, applications are reviewed by both the Director of Import Licensing and by the Import and Data Analysis Branch. Applications are checked for

- eligibility of commodities
- completeness of the import license application (includes pro forma invoices)

When a batch of import licenses have been screened they are sent to U.S.A.I.D. for concurrence. Once this has been received, the BOT sends a "letter of allocation" to the importers. The allocation letter shows the amount of the approved allocation and the approved commodities. The letter also instructs the importer to deposit the Tanzania shilling equivalent into the CRDB and establish a Letter of Credit. Import Licenses were initially valid for six months.

A review of the licensing system in 1990 by Deloitte, Haskins and Sells (DHS) for U.S.A.I.D. found that the process runs smoothly. Applications were processed in a reasonably timely way. Applications were adequately filed at the BOT although there was room for improvement in the filing system. There was a good working relationship between U.S.A.I.D. and BOT. DHS did find that the BOT relied heavily on U.S.A.I.D. for its review of applications, basically forwarding the applications with little screening.

In the last year or so there has been a noticeable improvement. Very few of the applications sent over by the BOT have been rejected by U.S.A.I.D. This could be due to importers better understanding requirements of the program but the BOT has improved its review process.

Another problem area centers around the issuing of import licenses. Many licenses are issued for which no local currency is deposited. Importers, particularly the public sector, apply for licenses, and, when they are approved, begin to search, often unsuccessfully, for the cash cover. The large number of import licenses that expire make it difficult to predict the dollar drawdown rate. As the funds in the dollar account approach zero, the BOT has issued import licenses in excess of the dollars available. The account actually reached zero this summer because of delays in releasing the first tranche of ATAP funds. In some cases importers deposited local currency for which no dollar LCs could be opened. Customers were given the option of keeping the local currency on deposit and locking in the exchange rate or obtaining refunds. In order to approve funds control, the Bank has shortened the validity of an import license to three months from six months.

2. National Bank of Commerce

The National Bank of Commerce (N.B.C) is the major commercial bank in Tanzania and from 1970 to 1984 was the only commercial bank on the mainland. N.B.C has a network of almost 200 branches across the country and over 200 mobile offices. Over 90% of the deposits are in the N.B.C. Until 1989 N.B.C was the only mainland bank allowed to open Letters of Credit. N.B.C's rapid expansion of its branch network without the necessary planning and trained personnel, led to a sharp decline in quality of service in both the established and new branches. N.B.C. also had the typical problems of parastatals, low employee morale in part because of low salaries, no accountability, and little concept of customer service.

N.B.C managed the initial $6 million under the AEPRP transport sector program. There were a number of early problems including the transfer of the funds to a German Bank from Morgan Guaranty in New York. The funds were transferred back to Morgan when the Mission learned of the transfer.

Early in the program interest was not credited to the account inspite of the agreement to do so. U.S.A.I.D. has never received a clear explanation from N.B.C. why this was the case. Problems also were encounted in accounting for the dollar disbursements. Statements were not forwarded in a timely fashion by N.B.C., the reporting was not clear and it was difficult to find out who was responsible for the account at N.B.C. The Mission Commodity Management Officer spent a good deal of time monitoring the account and attempting to communicate with N.B.C. and Morgan. AID/Washington's assistance had to be enlisted to try to get replies to the Mission enquiries. All of these factors let to the Mission's decision to transfer the second $6 million to C.R.D.B.

3. Co-operative and Rural Development Bank

CRDB's primary function in the early stages of the transport sector program was to maintain an interest bearing Special Account into which the local currency cash cover from importers was deposited and from which disbursements to the MOW were made. To date the reporting by CRDB has been clear and timely. Reports are received on a monthly basis which show opening balance, deposits by importers, interest, withdrawls, and the closing balance. The system has been effective in ensuring cash cover is paid. One concern that had been noted was that communications between branch offices and the home office were sometimes slow and local currency deposits were not transferred in a timely manner. This hadn't been a major problem because interest had been credited retroactively. Another concern identified in the DHS study was that CRDB did not appear to have developed systems to monitor payment of the cash cover that is deferred. Over the last year or so a number of steps were taken to address this problem. CRDB has been crediting the Local Currency Account in a timely fashion when the imported goods arrive in country.

In late 1989 CRDB received authorization from the GOT to open up LCs in competition with the NBC. Because of problems with NBC, the Mission transferred the second $6 million under the transport sector program to CRDB. In general the reporting from CRDB on the dollar account through its correspondent bank, Bankers Trust in London, has been good. Interest has been credited to the account on a regular basis. There have been a couple of problems however. One is that the time between the deposit of local currency and the opening of the LC is too long even though CRDB operates the local currency account. One part of the Bank does not communicate well with other parts. Another problem is CRDB does not manage the dollar account closely and at times has been unaware of the balance in the account. Instructions have been sent to Bankers Trust to open up LCs when there were insufficient dollars in the account. The U.S.A.I.D. Commodity Management Officer has in a number of other cases raised questions about the account that CRDB has been very slow to answer. The CMO is working with CRDB to improve their management of both the dollar and local currency accounts.

4. Rural Roads Division

In the past, rural road rehabilitation and maintenance received little attention. Although part of the problem was budgetary, a fragmented institutional responsibility in the regions and districts contributed to the problem. MOW was responsible for trunk roads, the Prime Minister's Office for regional roads and the Ministry of Local Government for district roads. The Prime Minister's Office and the Ministry of Local Government had many other responsibilities and, as a result, roads were often neglected. This was most apparent at the district level where budgets were very tight and where there was very little technical and managerial ability. In response to this situation, a Rural Road Division (RRD) was established within the MOW with overall responsibility to plan, budget, and implement a rational development and maintenance program for non trunk roads. About 25,000 kms of non trunk roads (formerly regional and district roads) were reclassified as regional roads under the responsibility of the MOW.

The specific functions and responsibilities of the RRD are:

- Authority for setting policy guidelines, developing priorities, contracting strategies, and procedures for rural road rehabilitation and maintenance.
- Advice and participation in the annual budget preparation for rural road maintenance to ensure that the budget fully reflects the cost of the work to be done and the implementation capacity of the institutions involved. Actual responsibility for the preparation of the annual budget rests with the Regional Engineers Office (REO) under the MOW.

Currently RRD is staffed with five engineers, two technicians, and two secretaries at the MOW headquarters. At the regional level one rural road engineer has been assigned to each of the twenty regions of the country. The rural road engineer reports to the regional engineer who also supervises a trunk roads engineer.

When the RRD was first established in 1989/90 an annual budget amounting to TShs.65 million was allocated to cover headquarters costs. The budget for RRD in 1990/91 was increased by 1.2 billion TShs. and by 1.5 billion TShs. for FY 91/92 to cover recurrent maintenance costs.

RRD is being asked to maintain more of the district and urban road networks because of the lack of expertise at the district level, greater capability within the RRD, and better access to donor financing. However this taxes RRD's ability to do its own work. It certainly has the capability of taking on more work but does not yet have the capacity.

The staff assigned to the RRD at the headquarters and regional offices is a dedicated and efficient group of engineers and technicians. However, with the work program and activities being undertaken and planned by the RRD, supplemental staff is required. At the headquarters more engineering staff will be required over the next three years, as well as supporting staff such as secretaries and accountants. In the regional engineering office inspectors, accountants and other supporting staff will also have to be assigned to carry out the increased responsibilities for managing rehabilitation and maintenance construction.

The execution of maintenance and rehabilitation operations have been decentralized to REOs under the direction of the REs. Contracts can be developed and signed at the regional level for maintenance and supervision. The regions will increasingly become the focus of rural road activities with RRD's role in the future evolving to one of standards setting, donor coordination, training, national budget preparation and policy guidance.

There is still uncertainly as to the structure of the Roads Division within MOW. A proposal to consolidate Trunk Road Division (TRD) and RRD is under consideration. So are proposals to raise both TRD and RRD to directorate level, to establish a special planning unit to coordinate TRD and RRD, and to establish a new Inspectorate Division. U.S.A.I.D. is concerned about any reorganization plan which diminishes the responsibility and effectiveness of the RRD. We feel that combining responsibilities with trunk roads could lead to emphasis on trunk roads at the expense of rural roads. The size of the network (25,000 km), different types of construction and maintenance, and requirements for different types of contractors would make it difficult to combine the two divisions.

5. Tanzania Private Sector Contractors

As recently as two years ago, involvement of the local private sector in MOW's road program was nil. The issue of private sector involvement was debated and, with the urging and support of donors and the local construction industry, it was endorsed by the GOT.

The GOT/MOW began supporting the local contracting industry through the USAID funded Core Rural Roads Program (CRRP) program, the IDA funded Trunk Roads Regravelling program and the IDA funded emergency and periodic maintenance works. The IDA programs are open to both foreign and local contractors, while the CRRP is restricted to local contractors.

At the time CRRP was developed, there was a fear that the capacity of the local construction industry was not sufficient to undertake the work. But, the response of the local construction industry has far exceeded original expectations. In December 1989, the first rehabilitation contracts were awarded to local contractors. Since then, MOW has awarded a total of seven contracts for the rehabilitation of gravel roads. The total value of these contracts is approximately $20 million. A further twelve contracts will be awarded prior to the end of 1991.

Rehabilitation Works

The local contracting capacity for large (greater than $1 million) rehabilitation contracts will be stretched once the 12 pending contracts are awarded. There about 10 local contractors prequalified for major contracts and virtually all will be executing large rehabilitation contracts by the end of 1991. However, there are a large number of smaller contractors, mostly with building construction experience which are available if appropriate sizes of contracts and types of work are tendered. In addition, a program to assist and support local contractors is available through the National Construction Council which has been implementing a program to train and assist local contractors to execute rural road rehabilitation and maintenance.

Periodic Maintenance

The GOT/MOW have also embraced the principle of using private sector contractors to undertake routine and periodic maintenance and their involvement will begin this financial year. There is considerable potential for expansion of private sector involvement in this area.

Over 60 firms responded to a prequalification notice for periodic and emergency maintenance (PM) works including 50 Tanzania contractors. Forty two contractors were prequalified including 30 local contractors. A number of local contractors were prequalified without possessing 100% of the required equipment, but they showed an ability to hire/purchase the equipment if awarded a contract. This shows both a strong commitment on the part of GOT and a strong response from the local contracting industry.

For its FY 91/92, MOW has taken the very ambitious approach of contracting nearly all its PM Works. The IDA agreed to fund up to 85% of the costs provided the works were contracted. Because of IDA regulations and concern over the limited capacity of the local private sector, the prequalification and bidding were open to international firms. The annual size of the PM program is about $30 million including both trunk and rural roads.

RRD's PM program is based on a seven year recurrent cycle for regravelling. This means that the PM needs will grow from 2000 km in FY 91/92 to 3500 km in FY 95/96. The immediate capacity of the local construction industry to carry out this program is doubtful; therefore, foreign firms and the REOs through force account will need to undertake a portion of the program.

The mix of contract and force account PM will be assessed annually in each region. The proportional split will be determined by contractor availability and capacity in the region and the capability of the REO. The amount of donor support to a region will also be a factor until it is phased out by FY1995/96.

Routine Maintenance Works

There is presently no routine maintenance (RM) of regional roads undertaken by local contractors; but, it is a high priority of MOW/RRD to begin RM contracting. Under the IRP, the MOW/REOs are authorized to use special Interim Procurement Regulations for contracting works. The Contracts Control Unit of MOW has begun to develop documents and procedures for contracting routine maintenance and other minor works. It is the intention of MOW/RRD to introduce maintenance by contract to the limit of the REO's ability to manage the contracts.

The majority of local contractors are engaged in building works. These contractors have varying potentials for expanding into civil works, but many are well managed and are capable of undertaking smaller contracts especially bridge and structural works.

Financial Constraints of the Construction Industry

The primary constraint to expanding the private sector capacity is the lack of capital to purchase equipment. The problem is compounded by the general unavailability of credit. Local banks are short of cash to lend to contractors and interest rates are presently 25% to 30%.

Local contractors have no ready access to foreign exchange for spare parts and hiring foreign experts to help manage their operations. Recent changes in the banking laws have allowed local firms to open forex accounts but the limitations on the accounts do not yet permit contractors the access and control they need to operate efficiently.

Contractors have access to foreign exchange through several programs such as the OGL and import support whereby they can legally convert Shillings to hard currency for the importation of equipment and spares. These programs are essential, but the contractors must still come up with 100% of the Shillings. It normally takes from 3 to 6 months from the time of application to the time of delivery of commodities procured through these schemes. This is workable for large equipment purchases or bulk orders of spares, however, the procedures are not responsive to the often immediate needs of the contractors for specific spares.

The most readily available source of hard currency for contractors would be foreign exchange bureaus trading daily. The GOT is evaluating the situation and is developing the rules and regulations to govern these bureaus. Hopefully within the next few years they will be a reality.

Under the IRP, MOW is establishing a parastatal plant-hire company, PEHCO which will hire plant to both REOs and local contractors at commercial rates. A second, private plant hire company is also planned during the IRP. This will increase equipment available and might be particularly useful to smaller contractors. There is a risk that the GOT will end up subsidizing plant pools if there is low usage, undermining the private sectors. The volume of force account work vs private sector contracting will have to be closely monitored.

Local Consulting Industry

Tanzania has a very active consulting engineering industry with over 100 registered firms. Most firms have experience in design and supervision of buildings and site development, but little experience in road works. In the past, road design and supervision was primarily carried out by international firms with only limited involvement by local firms.

It is GOT/MOW policy to maximize the use of local consultants and develop the local capacity to design and supervise road works. Under the CRRP, eight contracts have been awarded to local private sector firms for the design and supervision of regional roads. Most international consultants are encouraged and often required to joint venture with local consultants when submitting proposals.

An approved strategy for involving local consultants in the supervision of PM and RM contracts has yet to be developed. REOs have the authority to contract with consultants, and it is expected that they will contract supervision and design works to local consultants if they lack the in-house capacity to carry out the tasks. RE's feel they "only" need transport and dollars and then they can handle the supervision work. They will be reluctant to spend their own funds for this service in the absence of a clear policy.

The acceptance by MOW of private sector involvement in road rehabilitation contracts and GOT/MOW acceptance of contract procedures and standards has happened quickly and is still gaining momentum. GOT/MOW and most donors actively support private sector involvement and the response of the private sector is stronger than originally predicted. The problem has evolved from one of gathering institutional and donor support for private sector involvement in road works to one of developing and assisting the private sector to undertake an ever greater share of the programmed works.

B. Technical and Financial Analyses

1. Import Support Program

Demand for resources under transport sector program was initially weak. It took two years, May 1988 through May 1990, to open $5 million in Letters of Credit. However, demand for the resources increased considerably as evidenced by the opening of $7 million in LCs from May 1990 to June 1991. Table III-1 lists quarterly deposits of shillings into the Local Currency Account. There were two primary reasons demand was initially weak, firstly the banks involved and the importers were unfamiliar with the program and secondly the list of eligible items was initially too restrictive, including only construction equipment and spare parts.

The eligibility list was slowly expanded. In December of 1988 raw materials for fabricating and reconditioning spare parts and raw materials for retreading tires were added. In mid 1989 the list was expanded to include lubricants and capital equipment for retreading vehicles tires, manufacturing brake linings, and machining vehicle parts. In August of the same year, trucks in the 3-9 ton range were included and in February 1991, all trucks up to 18 tons. The increase in demand was primarily due to the inclusion of lubricants and trucks. However, given the numbers of repeat customers, familiarly and satisfaction with the program were also reasons for increased usage.

The program has tried to be flexible. Importers of spare parts for construction equipment (the local Caterpillar dealer) and trucks wanted a facility to import parts quickly to respond to customer requests for equipment that couldn't be furnished off-the-shelf. USAID worked with the BOT to approve general import licenses with the only stipulation that the parts be in the supplier's catalog. Letters of Credit were then opened and parts were ordered as customers needed them. This cut down waiting times from as much as 3-6 months to less than one month.

TABLE III-1
LOCAL CURRENCY DEPOSITS

PERIOD	AMOUNT (000) SHILLINGS
July-September '88	63,495
October-December '88	44,767
January-March '88	52,554
April-June '89	95,396
July-September '89	46,186
October-September '89	261,412
January-March '90	136,153
April-June '90	104,990
July-September '90	275,062
October-December '90	622,329
January-March '91	349,594
March-June '91	293,071

The transport sector program competes with the Open General Licensing System (OGL). With the exception of small trucks less than 3 tons, trucks have been removed from the OGL negative list. In the near future the OGL negative list will likely be further reduced and small trucks will be included. Although there will be increased competition the U.S.A.I.D. program enjoys some advantages. In addition to responding to importers particular needs, such as the example mentioned previously, importers know that if they have any problems they can come to U.S.A.I.D. and that the mission is prepared to work with the GOT to solve them.

The eligibility list might be expanded to include primary petroleum products (i.e., crude oil for further refining into gasoline). Financing petroleum products could give USAID leverage in discussions with the GOT on energy pricing and the use of fuel taxes as a dependable source of revenue to finance the growing budgetary requirements of the MOW. While the GOT has taken some tentative steps in allocating a portion of the fuels tax to roads (7 shillings per litre), the requirements are much larger. Road sector financing is a key part of program conditionality and is key to the overall objective of the program - to fully establish a sustainable system for road rehabilitation and maintenance.

Another area of potential demand is the construction sector. Contractors are beginning to believe that road rehabilitation and maintenance through the private sector might just be for real. Contractors will have to invest in equipment in order to compete for work. The market for spare parts should also increase. USAID is supporting sufficiently high mobilization payments that will allow contractor to purchase some of their equipment requirements. We are also willing to work with construction contractors to take advantage of our program, and to include equipment contractors might need on the eligible list.

Rasing the necessary local currency for cash cover could pose problems. Credit is generally unavailable and banks have been unwilling to issue many letters of guarantee. USAID is resisting the temptation to get into a credit program and, at this time, is not willing to relax its requirements beyond the 20% down, 80% at the time the goods arrive in Tanzania with a bank letter of guaranty. We believe credit is a function of the financial sector and that we should resist the temptation for a quick fix by providing the financing ourselves. Tanzania has to reform its financial institutions and allow private banking. The Mission will be discussing this in the context of this program and in other meetings with Donors and the GOT.

2. Rehabilitation and Maintenance Requirements

The MOW has developed through its Road Maintenance Management System detailed maintenance and rehabilitation plans by region for the next three years (Table III-2).

TABLE III-2
Rehabilitation and Maintenance Costs by Region

REGION	TOTAL ROAD NETWORK KMS	FY 91/92			FY 92/93			FY 93/94		
		REHAB	PM	RM	REHAB	PM	RM	REHAB	PM	RM
ARUSHA	1,268	-	45	1,223	-	207	1,061	-	252	1,016
COAST	709	-	109	600	-	182	527	-	150	559
D'SALAAM	550	-	118	432	-	100	450	-	120	430
DODOMA	747	-	100	647	-	149	598	-	151	596
IRINGA	1,098	216	77	781	245	90	1,006	210	163	933
KAGERA	847	120	99	645	115	148	699	110	147	700
KIGOMA	723	-	82	641	-	143	580	-	145	578
K'JARO	716	105	58	488	122	114	602	127	120	596
LINDI	624	31	123	537	35	183	431	35	173	441
MARA	618	-	46	572	-	122	496	-	124	494
MBEYA	1,711	215	127	1369	157	147	1,564	168	121	1,590
MOROGORO	968	65	106	767	100	120	848	70	154	814
MTWARA	873	35	54	784	30	105	768	40	160	713
MWANZA	1,261	50	101	1110	62	150	1,111	-	230	1,031
RUKWA	854	-	65	764	-	95	759	75	170	684
RUVUMA	704	129	96	479	144	130	574	134	161	543
SHINYANGA	946	154	70	722	165	110	836	-	110	836
SINGIDA	803	-	116	687	-	130	673	-	161	642
TABORA	1,006	-	115	876	-	115	891	-	120	886
TANGA	904	101	65	738	116	150	754	95	167	737
TOTAL	17,918	1,221	1,772	14,892	1,291	2,690	15,228	1,064	3,099	14,819
COST KM		$30,000	$10,000	$450	$30,000	$10,000	$450	$30,000	$10,000	$450
TOTAL COST (MILLION $)		36.6	17.2	6.7	38.7	26.9	6.9	31.9	31.0	6.7
TOTAL YEARLY COST $ (MIL)				$60.5			$72.5			$69.6

These plans break the requirements down into three categories; rehabilitation, routine maintenance and periodic maintenance. Rehabilitation is defined as restoring to MOW specified maintainable standards, those sections of regional roads which were previously designed and constructed to regional road specifications. Sections of the regional road network not previously engineered and constructed to regional road specifications will require upgrading to bring them to a maintainable standard.

Routine maintenance is comprised of a set of activities which must be continuously applied to the road network to ensure that the designed level of service and the initial capital investment are preserved. For regional roads, the principal activities are grading, clearing drains, vegetation control, culvert cleaning, and minor structures repair.

Periodic maintenance is comprised of a set of maintenance activities which are carried out at specific intervals to ensure that the designed level of service and initial capital investment are preserved. For regional roads, the principal periodic maintenance activities are regravelling gravel roads, reshaping earth roads and replacing timber bridge decks. The cost per km for each of these types of activities can be estimated in order to come up with an estimate of total costs. Based on an network of 18,000 km and the assumed levels of rehabilitation and maintnenance, yearly costs vary from $60 to $72.5 million. At 25,000 km, which is the most recent estimate of network size, the requirements are proportionally higher.

The U.S.A.I.D. program over the next three years focuses on five of the seven regions that were identified by the GOT as key areas for the production of export crops. Rehabilitation construction contracts are underway in one region Shinyanga and soon will be signed for Mwanza and Kilimajaro regions. The other two regions that the program is likely to focus on are Iringa and Ruvuma although the program could possibly include Mbeya and Kagera regions. The conditionality in the program requires that the MOW funding for routine maintenance increase from 50% to 100% over three years on a prioritized network of 4000 km. Using $450 per km the GOT contribution would increase from $0.9 to $1.8 million. For periodic maintenance the MOW contribution would increase from 15% to 50% over a three year period. Using a periodic maintenance target of 400 km per year the cost would increase from $0.6 million in year one to $2.0 million in year 3. The MOW program in those regions is outlined in table III-3:

TABLE III-3 MOW Program in Iringa, Kilimanjaro, Ruvuma, Mwanza and Shinyanga										
	Total Network kms	1991/1992			1992/1993			1993/1994		
		Rehab	PM	RM	Rehab	PM	RM	Rehab	PM	RM
Iringa	1,098	216	77	781	245	90	1,006	210	163	933
Kilimanjaro	716	105	58	488	122	114	602	127	120	596
Ruvuma	704	129	96	479	144	130	574	134	161	543
Mwanza	1,241	50	101	1,110	62	150	1,111	0	230	1,031
Shinyanga	946	154	70	722	165	110	836	0	110	836
Total (km)	4,705	654	402	3,580	738	594	4,129	471	784	3,939
Cost/km		$30,000	$10,000	$450	$30,000	$10,000	$450	$30,000	$10,000	$450
Total Cost ($ million)		$19.6	$4.0	$1.6	$22.1	$5.9	$1.9	$14.1	$7.8	$1.8
GOT contribution		0	0.6	0.9	0	1.3	1.3	0	2.0	1.8
Funding Gap		$19.6	$3.4	$0.7	$22.1	$4.6	$0.6	$14.1	$5.8	$0.0

Counterpart funding

The counterpart funds in the program would be used for rehabilitation, periodic and routine maintenance. The following tables outline the sources and illustrative uses of the counterpart funds

Table III-4 Sources of Funds	
Program	Amount ($million)
1987 Transport Sector Program	12
1988 ATAP	5.21
1989 ATAP Amendment	5.2
1991 ATAP Amendment	35
Total	57.41

Table III-5 Uses of Funds							
Location	Type of Activity	Amount ($m)	Type of Activity	Amount ($m)	Type of Activity	Amount ($m)	Total
Shinyanga	Rehabilitation	7.5	PM	2.9	RM	0.3	10.7
Kilimanjaro	Rehabilitation	7.5	PM	2.4	RM	0.2	10.1
Mwanza	Rehabilitation	3.0	PM	2.5	RM	0.35	5.8
Iringa	Rehabilitation	15.7	PM	2.2	RM	0.3	18.2
Ruvuma	Rehabilitation	6.5	PM	3.5	RM	0.2	10.2
5 regions	Supervision	2.0	-	0.2	RM	0.2	2.4
Subtotal		42.2		13.7		1.5	57.4

The rehabilitation needs are in excess of the funds available while the periodic and routine maintenance requirements closely approximately the funds available. The above uses of funds is indicative and will be evaluated each year by the Interministerial Steering Committee that manages the local currency account and changed, if necessary, to account for actual construction cost, exchange rate variations and changes in program emphasis. An example of changes in program emphasis might be greater resources devoted to routine maintenance at the expense of rehabilitation or periodic maintenance.

3. <u>Technical Assistance, Training and Equipment Requirements</u>

The principal technical assistance provided under ATAP has been a Contract Specialist who is located in the RRD. Over the last year and a half the Contract Specialist has worked closely with the RRD to:

- initiate rehabilitation and construction supervision contracts on four sections of road in Shinyanga Region.
- tender, negotiate and sign three other construction contracts in Shinyanga, Mwanza and Kilimanjaro
- finalize rehabilitation design in Iringa, Mbeya, Ruvuma and Kagera regions

- develop with the RRD and other donors detailed rehabilitation and maintenance schedules, cost estimates, equipment and manpower requirements on a regional basis

- draft the RRD long term sustainability analysis

- coordinate with other donors involved with the RRD and with the IRP.

During trips to the construction site the Contract Specialist has worked with the regional rural road engineer, construction supervisors and contractor to define responsibilities under the supervision and construction contracts. As a result of these activities, he has developed a close working relationship with the RRD, senior managers in the MOW, other donors, contractors and engineering firms. More importantly, he has involved his counterparts in the process with the result that the RRD has developed significant expertise in construction contracting, budget estimating and planning.

One of the key duties of the Mission TCN Engineer, who is project funded, has been to help the RRD outline the program to the MOF. The Mission Engineer is responsible for normal implementation duties such as outlining to the MOW and MOF their responsibilities under the Grant Agreement, reviewing documentation submitted by the GOT to satisfy CPs, reviewing design, supervision and construction contracts and recommending whether they be funded under the program, keeping records of disbursements from the local currency account, estimating future needs for local currency and submitting project implementation reports. The Mission Engineer also plays a key role in determining what the RRD needs to develop sustainable maintenance programs and how it will go about doing it. The RRD and the Mission Engineer, have worked closely on the formal training program and, along with the MOF, on the management of the local currency account. The formal training program has included training in rural road maintenance in Kenya and the U.S.

Under the program, the following levels of technical assistance training and equipment have been provided through August 31, 1991.

Expenditures to August 1991

<u>Project management</u>		
PSC Ministry of Works	-	$ 300,000
PSC Mission	-	$ 150,000
Short Term TA, COWIConsult	-	$ 100,000
Sub-total	-	$ 550,000
<u>Training</u>		
Training in U.S.	-	$ 20,000
Computer Training in Tanzania	-	$ 3,000
Training in Kenya	-	$ 7,000
Sub-total	-	$ 30,000

<u>Monitoring and Evaluation</u>			
DHS study		-	$ 30,000
Sub-total		-	$ 30,000
<u>Commodities</u>			
Office equipment, vehicles		-	$ 70,000
Sub-total		-	$ 70,000
Total to date		-	**$ 680,000**

The project component of the program will be amended to provide the TA, training, and equipment requirements necessary to help the RRD achieve its objectives outlined in the sustainability analysis. The following illustrative budget has been developed:

<u>Project Management</u>			
PSC Ministry of Works	4.3 x $200,000/yr	-	$ 860,000
Mission PSC	4.3 x $150,000/yr	-	$ 645,000
Sub-total			$1,505,000
<u>Technical Assistance</u>			
Road Inventory Data Base Development 0.5 yrs x $200,000/yr		-	$ 100,000
Bridge and structures Inventory 0.5 yrs x 200,000/yr		-	$ 100,000
Economic Criteria Development to Prioritize Road Maintenance Activities 0.25 yrs x $200,000/yr		-	$ 50,000
Development of Standard Maintenance Contract Documents, and Procedures 0.25 x $200,000/yr		-	$ 50,000
Transport Sector analyses 0.5 x $200,000		-	$ 100,000
Sub-total			$ 400,000
<u>Training</u>			
Contract Supervision for Engineers and Road Inspectors in five regions 0.5 yrs x $200,000/yr		-	$ 100,000
Management of Petty Maintenance Contracts for Engineers and Accountants and Contractor Training 1.0 yr x $200,000		-	$ 200,000
500 kilometers x $450/k		-	$ 225,000
Sub-total			$ 525,000
<u>Monitoring & Evaluation</u>			
Socio-economic impact data collection and evaluation (yearly)		-	$ 340,000
Project evaluations (2)		-	$ 180,000
Village studies (4)		-	$ 75,000
Audits		-	$ 100,000
Sub-total			$ 695,000

<u>Equipment</u>

Three 4 wheel drive vehicle	-	$	75,000
Computer, Printer, Software	-	$	10,000
Photo copier	-	$	10,000
Miscellaneous supplies	-	$	10,000
Overhead Projector, Screen, Slides	-	$	5,000
Sub-total		$	110,000
Contingencies	-	$	85,000
Total August 91 - December 95	-	$3,320,000	
Grand Total	-	**$4,000,000**	

Project Management will continue through to the PACD of December 1995. The progress that has been made to dates plus the significant steps to be taken to achieve sustainability warrant this level of assistance. Significant further work needs to be done to develop a road inventory data base in the program's regions. This will follow up on work currently planned by the RRD and EEC. Bridge and structures need to be inventoried. This must be undertaken so that the economic criteria that are developed to prioritize road maintenance activities can be applied. Standard contract maintenance documents need to be developed outlining technical specification and payment terms. This will help streamline the contracting process. Regional Engineers will then only need to include data on the specific roads.

Training will increasingly concentrate on the regions with the training of inspectors, accountants and engineers in supervision of rehabilitation and maintenance contracts. Because maintenance contracting has not been tried in Tanzania, it is planned to fund some of the actual maintenance under the training. In this way both the regional technical personnel and contractors will benefit.

One of the tasks of the mid project evaluation will be to evaluate the technical assistance program and make recommendation on any modifications that might be necessary. A more detailed description of the monitoring and evaluation program is included in the next section.

IV. Program Implementation

A. Dollar and Local Access and Accounting Procedures

The foreign exchange provided by the ATAP cash transfer will be deposited in three trenches into an interest bearing, separate, non-commingled Special Dollar account which has been established by the CRDB at a U.S. commercial bank. These funds will permit the BOT to approve Import Licenses and CRDB to establish Letters of Credit to enable approved applicants to import eligible commodities.

The CRDB will maintain books and records related to the Special Dollar Account as are necessary to show deposits and disbursements from the account. These records will contain a copy of the application for the import license, a copy of the letter from BOT which requested AID review of the transaction, a copy of the letter from USAID which indicated AID's concurrence, a copy of Letters of Credit issued to finance the transaction, a copy of the bill of lading evidencing the shipment of the goods financed, a copy of the supplier's commercial invoice and an acknowledgement in writing from the importer that the commodity was in fact received.

The CRDB will provide A.I.D. with a monthly report of all transactions under this account. A.I.D. shall have the right to inspect and audit the books and records maintained by the CRDB relating to the Special Dollar Account. A.I.D. also shall have the right to audit the correspondent bank that opens up the LCs on behalf of CRDB.

A Special Local Currency account will be established at the Azikiwe Street Branch of the CRDB. The account will be interest bearing. Local currencies deposited for foreign exchange allotments under ATAP will be paid into this account. Five percent of the local currency generations will be reserved for a Trust Fund for use in defraying the costs incurred by USAID/Tanzania in the operation of its programs in Tanzania. Monthly reports will be submitted to USAID by CRDB listing deposits by importers, interest earned during the month, and any withdrawals.

USAID realizes that the requirement for one hundred percent cash coverage prior to opening a Letter of Credit presents problems to a number of importers. Consequently AID has agreed that any importer may deposit a minimum of twenty percent of the local currency equivalent of his foreign exchange allocation provided a bank guaranty has been secured for the balance. The balance must be fully paid before the shipping documents will be released to the importer. The balance is paid at the exchange rate in effect on the day of the deposit.

Local currency in the account will support the rural road rehabilitation and maintenance program of the MOW. A Special Committee comprised of members from the MOF and MOW will meet regularly to approve disbursements from the account. USAID will attend and will receive minutes of the meetings. Since there will be frequent disbursements to finance on-going contracts, many of the withdrawals will be routine. The present practice of both the Interministerial Working Committee and an Interministerial Steering Committee, composed of Principal Secretaries, approving all withdrawals is unnecessary. The Interministerial Steering Committee should only need to approve the overall program that will be financed by the local currency. It can also be kept informed of the program's progress and the status of payments from the Special Local Currency Account. U.S.A.I.D. will be working with MOF and MOW to streamline the local currency disbursement procedures.

As is the case with the Special Dollar Account, USAID from time to time will audit the local currency account. CRDB will maintain import licenses issued by BOT, records of deposits into the account, monthly statements, any letter of guaranty issued and copies of shipping documents.

B. Condition Precedent and Covenants

1. Conditions Precedent

The CPs under the Transport Sector Reform Program funded under the AEPRP were tied to reforms in the amount of funding for the transport sector, the inclusion of private sector contractors in rural road rehabilitation and maintenance, and the establishment of the Rural Roads Division within the MOW. The reforms under ATAP and the first amendment to ATAP began to focus on the long term maintenance of the rural road network. This PAAD amendment will continue to emphasize maintenance, increased budgetary resources to the rural road sector, and the expanded involvement of private sector Tanzanian contractors. This will lead to the overall objective of the program which is the establishment of a sustainable system for road rehabilitation and maintenance involving elements of the public and private sectors.

With its draft Sustainability Analysis, the MOW and the RRD have taken the initial steps in developing a long term program for the roads sector. The following conditionality is designed to keep the RRD focussed on priority regions and committing more of its own resources to the program. The Sustainability Analysis should become not only a planning document but something that sets specific targets and timetables and is something the MOW should evaluate its progress against. It also should be continually updated to reflect experience.

An important aspect of the Sustainability Analysis was its recommendation that the GOT adopt and use economic criteria for priority rehabilitation and maintenance requirements. The conditionality also requires that the MOW focus on priority regions and the priority roads in those regions. The MOW will have to develop, adopt and use criteria for deciding which roads are maintained and the extent of maintenance, because it will never be able to do everything that needs to be done. It has to decide where its limited financial and technical resources will accomplish the most. Following the third disbursement of $5 million for the development of the Sustainability Analysis, a Road Maintenance Management System, a training program and other reforms, three cash transfers totalling $30 million are planned over the life of the program at yearly intervals contingent upon satisfaction of the following conditionality:

Prior to the fourth disbursement of $12.59 million under the Grant, or to the issuance of documentation pursuant to which such disbursement will be made, the Grantee will, except as the parties may otherwise agree in writing, furnish to A.I.D., in form and substance satisfactory to A.I.D.

(a) The MOW formally adopts the Sustainability Analysis as the principal strategy document for the Rural Roads Sector.

(b) The MOW develops economic criteria for prioritizing rehabilitation and maintenance activities.

(c) MOW will designate 4,000 km of regional roads in five regions for priority routine maintenance and 400 km of roads in five regions for priority periodic maintenance.

(d) MOW executes contracts from its own resources equivalent to $0.9 million for routine maintenance of regional roads and $0.6 million for periodic maintenance in those five regions calculated at the current exchange rate of 228 shillings to the dollar.

(e) Fifty percent of the dollar volume of periodic maintenance contracts in five regions is performed by private sector contractors. Seventy-five percent of dollar volume of rehabilitation contracts in five regions is performed by private sector contractors. Standard contracts for routine maintenance are developed and approved.

Prior to the fifth disbursement of $8-$12 million under the Grant, or to the issuance of documentation pursuant to which such disbursement will be made, the Grantee will, except as the parties may otherwise agree in waiting, furnished to A.I.D., in form and substance satisfactory to A.I.D.:

(a) The MOW adopts and uses economic criteria for prioritizing rehabilitation and maintenance activities.

(b) MOW undertakes routine maintenance of 4,000 km per year and periodic maintenance on 400 km per year and executes contracts from its own resources equivalent to $1.35 million for routine maintenance and $1.00 million for periodic maintenance in the five regions at the average exchange rate prevailing in the year prior to the disbursement.

(c) Ten contracts or not less then 30% of shilling volume of routine maintenance in five regions is done by Tanzanian private sector contractors. Not less than 60% of the periodic maintenance is done by private sector contractors.

Prior to the sixth disbursement of $8-$12 million under the Grant, or to the issuance of documentation pursuant to which such disbursement will be made, the Grantee will, except as the parties may otherwise agree in writing, furnish to A.I.D., in form and substance satisfactory to A.I.D.

(a) MOW undertakes routine maintenance of 4,000 km per year and periodic maintenance of 400 km per year and executes contracts from its own resources equivalent to $1.8 million for routine maintenance and $2.0 million for periodic maintenance in the five regions at the average exchange rate prevailing in the year prior to the disbursement.

(b) Twenty contracts or 60% of the dollar volume of routine maintenance contracts are undertaken by private contractors. Seventy percent of dollar volume of periodic maintenance contracts is done by private contractors.

(c) The GOT implements a plan to fully fund routine aintenance from its own domestic revenue sources.

The last two sets of conditionality are indicative of the performance that will be expected over the life of the program. These are the areas that U.S.A.I.D. and MOW think need to be emphasized if the objective of a sustainable program is to be achieved. Each year there will be a joint review of the conditionality and prior to subsequent obligations it will be adjusted if necessary.

2. Covenants

As part of the amendment adding funds for the third and fourth tranches, the Grantee covenants that, except as A.I.D. may otherwise agree in writing to:

(a) add two engineers to the staff of the RRD at Headquarters.

(b) assign regional road inspectors and accountants to Mwanza, Shinyanga and Kilimanjaro regional engineers' offices.

(c) provide sufficient staff incentives to recruit the necessary personnel.

(d) adopt a national training program in contract and road maintenance management of regional roads for regional engineering staff.

(e) Examine mechanisms such as the fuel tax to generate revenues from domestic sources to fund road maintenance.

Covenants to future disbursements will likely include increasing the RRD staff size at headquarters, the addition of inspectors and accountants to two more regions and the training of up to 50 people in the regions in contract and maintenance management. The covenants will be reviewed each year along with the conditionality.

C. Implementation Schedule

The following table outlines the implmentation schedule for the program. It assumes that the PAAD amendment is signed in September 1991. The first set of CPs in this program amendment expected to be met in June of 1992 and the following set a year later, and the third in June of 1994. The cash transfers will occur shortly thereafter. With the $10.41 million recently reobligated and the $5 million immediate disbursement there should not be a funding gap.

D. Monitoring and Evaluation

The ATAP Program will provide dollars to support imports in the transport sector. These imports will result in local currency generations which will finance road rehabilitation, maintenance and institutional strengthening. The program will be monitored by both the USAID Commodity Management Officer and by the TCN engineer. They will work with their counterparts at the MOF, BOT, CRDB and MOW to insure that the proper analysis and reporting is accomplished.

Table IV-1

Implementation Schedule

Project Management

No.	Item	Date	Responsibility
1	PAAD Amend Authorized	Sept. 1991	AID
2	Project Amend Authorized	Sept. 1991	AID
3	Grant Agreement Amends Signed	Sept. 1991	AID/MOF
4	PIR Reports	semi-annual	AID
5	Socio Economic Survey Updates	annual	AID/MOW
6	Mid-Program Evaluation	Jan. 1993	AID/MOW
7	End of Program Evaluation	Sept. 1995	AID/MOW
8	Village Studies	1992-1995	AID/MOW
9	Non Federal Audits	Sept. 1991,1993,1995	AID/CRDB/BOT/MOW
10	1st Set CPs in Amend Met	June 1992	MOW/AID
11	2nd. Set CPs in Amend Met	June 1993	MOW/AID
12	3rd Set CPs in Amend Met	June 1994	MOW/AID
13	PACD	Dec. 1995	

Institutional Development

No.	Item	Date	Responsibility
10	Policy Statement Priv sect.Contracting	June 1992	MOW
11	MOW Devel Econ.Crieria for Prior.roads	June 1992	MOW
12	MOW Adopts Criteria	June 1993	MOW
13	MOW Applies Criteria	June 1994	MOW
14	Road Inventory Begins	Sept. 1991	MOW/RRD
15	Road Inventory Completed	June 1992	MOW/RRD
16	4,000 km Priority and 400 km Periodic Maintenance Roads designated	July 1992	MOW/RRC
16	Bridge Inventory Begins	Sept. 1991	MOW/RRD
17	Bridge Inventory Ends	June 1992	MOW/RRD
18	Increased RRD/REO Staff	June 1993,1994,1995	MOW/RRD

Private Sector Involvement

No.	Item	Date	Responsibility
19	Road Rehab Contracts signed Kilimanjaro, Mwanza, Shinyanga	Aug. 1991	RRD
20	Road Rehab. Contracts Tendered Ruvuma, Irringa	Sept. 1991	RRD
21	Road Rehab Contracts signed Ruvuma,Irringa	March 1992	RRD
22	Road Rehab Contracts Completed, Shinyanga,250km	Sept. 1992	RRD
23	300 Km Road Rehab	June 1993	RRD
24	450 Km Road Rehab	June 1994	RRD
25	600 Km Road Rehab	June 1995	RRD
26	Maintenance Contracts Drafted	Oct. 1991	RRD/REO
27	Std. Maintenance cotracts Approved	Jan. 1992	MOW/RRD
28	Maintenance Trng. Prog. Designed	June 1992	RRD/AID
29	Maintenance Trng Begins	Nov. 1992	RRD
28	400 Km Periodic Main	June 1993	RRD/REO
29	800 Km Peridic Main	June 1994	RRD/REO
30	1200 Km. Peridic Main	June 1995	RRD/REU
31	Supervision Contracts Kilimanjaro Mwanza, Shinyanga signed	Sept. 1991	RRD
32	Supervision Contracts Irringa Ruvuma drafted	Sept. 1991	RRD
33	Supervision Contracts Mbeya, Ruvuma begin	March 1992	RRD
34	Labor based Contractor training Begins	Sept. 1992	RRD
35	Contractor registration system developed and adopted	Dec. 1991	NCC/MOW
36	Contractors registered	June 1992	NCC/MOW
37	Bridge designs ready	Dec. 1992	RRD

Financial Soundness

No.	Item	Date	Responsibility
38	GOT Studies Funding Mechanisms for Road Main	June 1992	MOF/MOW
39	GOT Plan to Imp. Revenue Generation	June 1993	MOF/MOW
40	GOT imp. plan to fully fund road main by 1995/1996	June 1994	MOF/MOW
41	GOT spends \$0.9 million for routine Main. and \$0.6 million for per. mainten.	June 1992	MOW
42	GOT spends \$1.35 million for routine Main. and \$1.0 million for per. mainten.	June 1993	MOW
43	GOT spends \$1.8 million for routine Main. and \$2.0 million for per. mainten.	June 1994	MOW

The dollar portion of the program will be monitored in the Mission by the Commodity Management Officer. Once the conditions precedent have been met and the dollars transferred, the CMO will be monitoring import applications, local currency deposits and LCs that are opened. Monthly statements will be required for both the dollar and local currency accounts. The CMO will track disbursement rate, types of goods imported, and source and origin of goods. He will also keep importers informed of possible American suppliers of goods and, from time to time, end use surveys will be undertaken. Dollars and local currency deposits will be maintained in separate accounts.

In the past the Mission has received outstanding support from the REDSO Commodity Management Officer. Regular REDSO assistance will be requested during the life of this program. The REDSO CMO will review the Mission's action on import applications submitted by BOT for USAID concurrence, end use checks, and will advise on possible changes to the commodity eligibility list.

From time to time non federal audits of the dollar and local currency accounts will be performed to be sure the correct cash cover is being deposited, the correct amount of interest is being credited to the dollar and local currency accounts and that disbursements from the local currency account are properly documented and accounted.

The local currency expenditures will be monitored by the Mission TCN Engineer. Regular meetings will be held with the MOW. USAID will concur with any withdrawals from the local currency account. It will also continue to review rehabilitation and maintenance contracts funded with local currency. USAID will be an observer on a committee including the MOF and the MOW that approves local currency expenditures.

The Mission TCN Engineer will make regular visits to the construction sites and report on progress. He will also review reports submitted by MOW on construction progress. As part of USAID's internal management system, Project Implementation Reports will be done on a semi-annual basis.

Evaluation

The Mission evaluation program will be managed by the Rural Economy Advisor (REA) in co-ordination with the TCN Engineer and the WID Officer. The evaluation work will build on the Socio-Economic Baseline survey completed in early 1991 by a Tanzanian consulting firm. A key part of the evaluation program will be to institutionalize evaluation within the MOW. The REA and WID Officer will be working with the Planning Unit of the MOW on all aspects of the evaluation program.

A number of indicators have been identified that can be used to evaluate the program's success in meeting its purpose, removing policy and other constraints in order to improve MOW's capacity to undertake road rehabilitation and maintenance programs, and to achieving its goal, increasing rural incomes by expanding the volumes of inputs, agricultural commodities, and consumer goods transported by road by reducing the costs of transport services.

The output indicators include:

- MOW/RRD/REOs can plan, budget and administer road rehabilitation and maintenance at the national and regional level;

- Private firms can design, supervise and execute road rehabilitation and maintenance operations;

- GOT finances all routine maintenance and 50% of periodic maintenance from its own revenues by the end of the program;

- 600 km of road are rehabilitated, 400 km of road undergo annual periodic maintenance, and 4000 km routinely maintained yearly in 5 regions.

Impact indicators include:

- Increased traffic volumes, increased vehicle registration and decreased operating costs;

- Increased volume of work and number of private sector contractors;

- Increased tonnage hauled, people employed, number of businesses, volume of trade;

- Increased passenger counts, decreased fares, better supplied clinics;

- Growth in income.

The key to the evaluation program will be a yearly updated Socio-Economic Baseline Survey which collected information in five general areas:

- Characteristics of the roads and the surrounding areas;

- Transportation and marketing in the survey areas;

- Present state of agriculture in the study areas;

- Commerce and industry along the survey roads;

- Quality of life of the people in the survey areas.

In 1995 the work will be expanded to include an evaluation of the impact of rehabilitated roads on transport, commerce and the rural population.

Two formal evaluations are envisaged during the life of the program. The first, scheduled for January 1993, will validate the ATAP design and include a preliminary assessment of impact and sustainability. An end of program evaluation will validate any modification of program design stemming from the first evaluation, and will assess and analyze program impact and sustainability. The evaluation is scheduled for September 1995. Both of these evaluations will use the data generated in the updates to the Socio-economic survey.

The final aspect of the evaluation will include four in-depth studies of villages affected by ATAP and will be conducted by MSc or PHD candidates in the Department of Economics, Geography or Sociology at the University of Dar es Salaam or the Department of Rural Economy at Sokoine University of Agriculture. The research will be incorporated into post-graduate theses and used by the EOP evaluation team.

With the exception of the two formal programs evaluations, all work will be done by Tanzanian consulting firms, universities or research bureaus.

V. Status of Negotiations with the GOT

A series of meetings has been held with the MOW over the last four months. The first set of meetings and discussions concerned the development of the sustainability analysis by the MOW. At these meetings it was decided that the sustainability analysis would form the basis of the program amendment. U.S.A.I.D. would support aspects of the sustainability analysis at a funding level that was felt to be sufficient to attain its objective - to fully establish a sustainable system for road rehabilitation and maintenance involving elements of the public and private sector. At the end of our program the MOW would have in place the necessary policies, organizational structure at headquarters and the regions, and private construction contractor capability to carry out a roads programs. The ingredient lacking would be financing. The GOT however is being required to significantly increase funding to sector as a condition for cash releases. U.S.A.I.D. recognized that over the life of the program, the GOT would only be able to finance increasing percentages of periodic and routine maintenance costs. Rehabilitation costs would be donor financed in the near term.

With the sustainability analysis as a basis the draft PAAD amendment was prepared. The draft was distributed to a committee within the MOW which included the Chief of Construction and Maintenance, the MOW Planning Unit and the Rural Roads Division. In particular the policy matrix and conditionality were discussed in detail and minor changes were negotiated. Much of the work in the development of the conditionality was negotiated during the preparation of the sustainability analysis so there were no contentious issues.

Following the incorporation of changes to the document the PAAD amendment was presented to the MOF as a document that reflected AID and MOW collaboration and agreement. MOF questions were addressed and the final document prepared.

Annex A Proj: 621-0166 (Grant Agreement)

THE UNITED REPUBLIC OF TANZANIA

MINISTRY OF FINANCE

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

P.O. Box 9111,
DAR ES SALAAM

In reply please quote:

Ref. No. TYC/E/550/7

16th September, 1991

USAID/TANZANIA

OFF	ACT	INFO
DIR		✓
D.DIR		
PDC		✓
ENG	✓	✓
PPS		
ECON		
W/D		
ARD/FAO		
PO		✓
RHR		
TRG		
CON		✓
EXO		
GSO		
LIB		
RE'D BY		
ACTION		

A. I. RECEIVED
17 SEP 1991
TIME

Mr. Dale B. Pfeiffer,
Director,
USAID/Tanzania,
P.O. Box 9130,
DAR ES SALAAM

Dear Mr. Pfeiffer,

RE: US DOLLAR 19.590 MILLION PROJECT AND PROGRAM GRANT

The Government of the United Republic of Tanzania has been pleased to learn, from your letter of September 10, 1991, that the Government of the United States has proposed a US $.19.590 million grant to Tanzania during the 1991 US fiscal year to assist our Government in its efforts to improve its agricultural road transport system. It is also our understanding that $ 2 million of the proposed grant will be for project activities while the balance ($ 17.590million) will be used to supplement the existing import support program.

The proposed grant is highly desired as it will assist in enhancing our capability in the rehabilitation and maintenance of our agricultural transport system which continue to be an essential element for the success of our Economic Recovery Program.

We would therefore kindly request your assistance in assuring approval from your Government of the proposed $ 19.590 million grant at your earliest convenience.

Yours Sincerely,

M.T. Kibwana

for PRINCIPAL SECRETARY

2. ECONOMIC RETURN OF THE RURAL ROAD PROGRAM

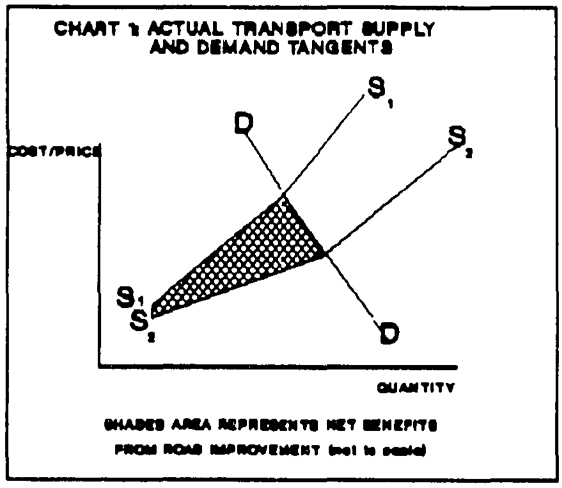
2A. Method Used to Estimate Benefit/Cost of USAID/Tanzania ATAP Program

1.0 One basic assumption of the analysis which follows is that there is enough competition and regulation in the transport system to make charges for service equal to costs with reasonable allowances for return to capital invested. This implies either competition and easy entry into trucking to eliminate excess profits or sufficient regulation so that prices are controlled with respect to the costs. Under these assumptions, the benefits from improving rural roads are estimated from the reduction in vehicle operating costs.

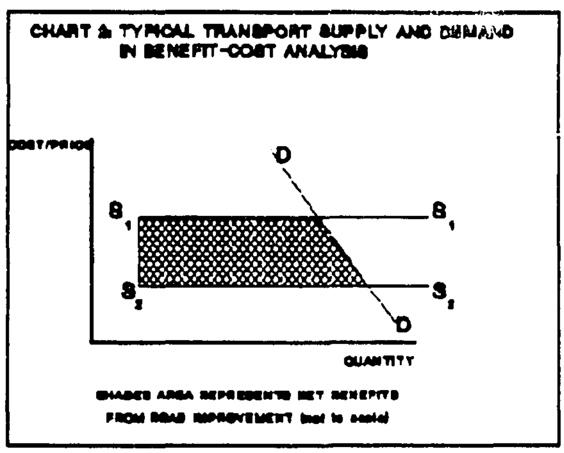
1.1 Such an approach in Tanzania certainly underestimates the returns to improved transport. In particular, apart from cost, factors such as convenience, safety, regularity and security are important. Although it is impossible to include these in the cost analysis in any reasonable way, an improvement in the roads is expected to result in an improvement in these non-cost factors. For example, convenience is achieved through good scheduling of services and through handling facilities and procedures which make it easy for the traveller or the shipper to complete his/her arrangements. Safety relates to the dangers of travel, especially accidents. In principle the insurance premiums are meant to reflect safety, but there is little differentiation in use and location in Tanzania, and no particular reason to believe that insurance premiums reflect the correct value of safety. Much of the road network USAID is improving is rather dangerous, particularly in the rainy season. Therefore, road improvement programs which are based on operating cost calculations will under-represent the return to safer transport.

1.2 Similarly, regularity of service has the economic advantage of permitting both passengers and businessmen to plan properly their transport demands, low traffic volumes lead to irregular service and consequently costs associated with transportation not reflected in the vehicle operating cost estimates. These include longer storage periods, greater losses associated with storage (due to rain, rats, theft, etc.), failure to supply the market when demand is high, and so on. Finally, the security of freight movement is important; losses from pilferage can be a substantial part of transport costs and are not reflected in vehicle operating costs.

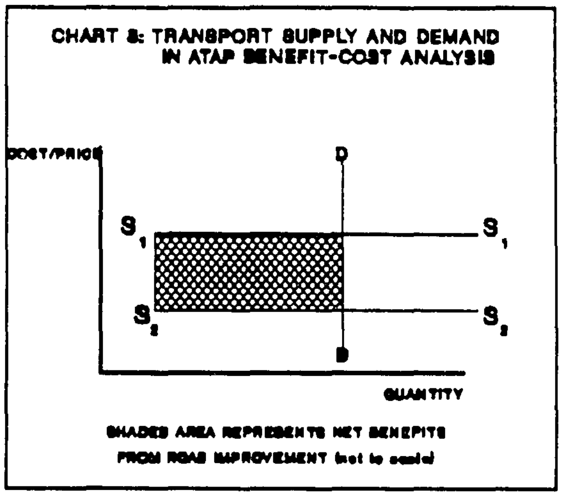
1.3 The preceding discussion can best be understood in Chart 1 where three scenarios are represented Chart 1 represents the actual situation in Tanzania. The demand for transport services (DD) depends on the price; the lower the price the more transpo... services are demanded. The supply of transport services is not perfectly elastic as entry is limited due to the shortage of foreign exchange to purchase vehicles and spares (ATAP tries to alleviate this problem). Before the road improvement the supply of transport services is given by S1-S1; after road improvement, costs are lower so the supply curve shifts downward to S2 S2. The benefits of the program are represented by the shaded area.



1.4 In chart 2, a typical transport supply and demand situation is presented. Now, however, the supply curve (S1 S1 before improvement; S2 S2 after improvement) are elastic, illustrating a situation where there is sufficient competition to prevent any above normal profits (Policy Reforms supported by the IMF, World Bank and Donors assist Tanzania to create a market-based competitive environment).



1.5 Chart 3 represents the situation assumed in this analysis. Transport Demand is not affected by price of transport services (which is typical of most rural Tanzania), and so it is represented by a vertical line, DD. The vehicle operating costs are used to represent the price. The change in vehicle operating costs is taken to equal the change in price. Hence, improving a road results in the supply curve shifting downwards as shown in Chart 3.



1.6 The second consideration in estimating vehicle operating costs is to take into account the price distortions arising from: Overvalued exchange rates, duties and tariffs, legislated minimum wages and unrealistic interest rates and other distortions of the equilibrium price structure (The next IMF ESAF and Associated Policy Framework for 1992-95 hopes to remove most of these distortions). There are many corrections that in principle should be made, but this analysis limits itself to the following:

1. The interest rate used is 30%. This represents the best judgement on the scarcity of capital in the Tanzanian economy. (The analysis is of course done in constant prices so there is no inflationary correction in the 30%; instead, this is estimated as the opportunity cost of capital).

2. The foreign exchange rate is taken at shillings 250 per US dollar. This reflects the extent of the devaluation that would be necessary to bring the balance of payments into equilibrium (defined roughly as non-capital goods imports equal exports plus debt service on borrowed capital. Bank of Tanzania estimates shillings 230 per US dollar as the equilibrium exchange rate).

3. All taxes and duties are excluded from the economic costs (These are considered merely as transfer costs).

4. Unskilled labor wage rates are adjusted downward to 80% of the government determined minimum wage reflecting the opportunity cost of labor. Due to the large unemployment, particularly of school leavers and the existence of overemployment in government departments and parastatals.

1.7 The preceding corrections are made with the objective of making a more realistic estimate of the scarcity value of capital, labor and foreign exchange resources. In particular, it is recognized that the existing condition of the Tanzanian economy faces an acute shortage of foreign exchange and private investment funds are limited. Under such conditions priority needs to be given to saving foreign exchange and directing capital to sustainable high return ventures.

<u>Characteristics of Vehicles and Roads</u>

<u>Vehicle characteristics:</u>

1.8 The characteristics of the vehicles used in the calculations are summarized in Table 1. These estimates are based on information supplied by dealers and experience of vehicle operators with these vehicle types.

TABLE 1: Vehicle characteristics

Type	Make/Model	Selling Price Tsh ('000)	CIF Price Tsh ('000)	KM Life time on Improved Road*
1. Passenger car/taxi	Datsun 1600	1680	1200	150,000
2. Light van	Landrover Station Wagon	2850	1900	200,000
3. 7-ton truck	Isuzu	3980	2700	600,000
4. 12-ton truck	Fiat	10540	6800	600,000
5. Bus (45 seats)	Leyland	9250	7200	450,000

* All weather passable gravel road

2.0 Table 2 illustrates the financial and economic costs of the vehicles. Tyres are excluded and accounted separately in the vehicle operating costs. Financial costs are calculated as the c.i.f. value plus duty, cost of local components and a mark-up. Economic costs are calculated by using a factor of 2.5 multiplied by the foreign exchange and local component costs.

Table 2: Cost of Vehicle

Vehicle type	Financial Cost Tsh ('000)	CIF Value Tsh ('000)	Local Completion Tsh ('000)	Mark-up	Economic Tsh ('000)
Passenger car/taxi	2424	1200	0	504	6260
Light Van	3192	1900	0	912	7030
7-ton truck	11980	6800	1100	2720	35375
Bus (45 seats)	15900	7200	1500	5760	36150

1 Financial cost = c.i.f. value + 20% duty + local component + mark-up, except for vehicles less than 1 ton for which duties and taxes are

60%.

2. Economic costs = 2.5 x foreign component (c.i.f. + 50 of local completion) + local component (50% of local completion cost + 100% mark-up)

Component estimates of vehicle operating costs

2.1 The components of cost used are as follows:-

- fuel consumption
- Oil consumption
- Tyre consumption
- Maintenance - spares
- Maintenance - labor
- Depreciation and interest
- Insurance
- Crew time.

The methodology used to estimate the values of those components is a variation of standard methods worked out for the particular conditions in Tanzania. By way of illustration, a brief discussion follows.

Fuel consumption

2.2 Fuel consumption is estimated by using the ratios of the standard consumption for the vehicle speed associated with the road - unimproved or improved (all weather gravel road). Financial costs for fuel are estimated using actual pump prices. Economic costs are estimated by first removing taxes and duties, then correcting for the foreign exchange rate.

Cost for fuel are estimated using actual pump prices. Economic costs are estimated by first removing taxes and duties, then correcting for the foreign exchange rate.

Oil Consumption

2.3 Standard factors are used for the road type (improved/unimproved), vehicle type and speed. Oil prices are actual selling prices for estimating financial costs and corrected using the shadow exchange rate to determine the economic price.

Tyres

2.4 Estimate of tyre use are based on estimates of tyre lifetime for vehicle type on gravel roads. These are based on operator experience in Tanzania. The lifetime Kilometers and cost of tyres provide the tyrewear estimates and the financial and economic costs.

Maintenance - Spare parts

2.5 To estimate the financial cost of spare parts, the formula used is as follows:

$$f\,(PRICE)\,(1+M).\ (1+TARIFF)$$

where f = a factor which gives the use of spares per kilometer

PRICE = the c.i.f. price of the spares

M = the marketing mark-up

TARIFF = the duty and tax rates.

The estimates uses recorded c.i.f. prices of the spare parts and M = .40; TARIFF = .45.

2.6 To estimate the economic cost of spare parts the formula used is:

$$f\,(PRICE)\,(SFOREX) + f\,(PRICE).(M)$$

where SFOREX is the shadow foreign exchange rate.

Maintenance - labor

2.7 The method used to estimate the labor cost of maintenance is to determine the hours of maintenance required per kilometer and use a cost of Tshs. 80 per hour. The maintenance requirement for an improved gravel road are estimated from experience of operators as determined through interviews. Labor requirements for poorer road conditions are increased according to the state of the road.

Depreciation and Interest

2.8 First, estimate the lifetime kilometers for vehicle use on gravel roads. Second, adjust estimates for unimproved roads by a factor of 60% or 40% depending on how bad the road is. Third, estimate the average daily trip length on the basis of vehicle use pattern. This should give annual kilometers. Finally, lifetime kilometers divided by annual kilometers gives vehicle lifetime.

2.9 Once the vehicle lifetime is defined as above, the interest and depreciation are compiled from basic textbook procedures.

Insurance

3.0 Insurance is an annual fiscal charge and is prorated over the annual kilometers.

Crew

3.1 Crew time is calculated on the basis of information from operators. Drivers are paid on average Tshs. 8,000 while conductors are paid Tshs. 5000 per month.

3.2 **Value of Additional Agricultural Output**

Apart from user-cost saving associated with improved rural roads, they are also benefits due to induced additional agricultural output. Benefits are estimated as the value of additional agricultural output less production and transport cost of the increased output.

Summary of the benefit-cost analysis

3.3 The preceding simple benefit-cost estimation procedure provides an economic justification of rural roads improvement under the USAID/Tanzania ATAP program. Benefits clearly exceed costs as judged from the large rates of return (IRRs in Table 3). In addition, other non-quantifiable benefits abound: the capacity of local contractors is being enhanced; Government institutional reform to enable districts to coordinate, administer and maintain rural roads on a regular basis is off to a good start, and the CIP component of ATAP is on track.

2B. MEASURING THE BENEFITS FROM THE NEW POLICY REFORM

3.4 During the first support effort under AEPRP and ATAP 1 USAID/T addressed the immediate constraints to road construction: Lack of transport related imports and lack of capacity within the public and private sector to carry out road rehabilitation. This first support to Tanzania also sought to assure the more efficient utilization of the economy's resource by emphasizing the use of private sector construction firms.

3.5 The second set of policy reforms under this ATAP amendment seeks to ensure that regular road maintenance capability for rural roads is set in place in Tanzania. This means once roads are rehabilitated, these will be maintained in a cost efficient manner. One way of measuring the benefits associated with this effort is by comparing what would happen if the policy changes did not occur (the "without" case) with what would happen if the policy changes did occur (the "with" case).

3.6 One analytical approach is to assume that without these additional policies, the existing set of rehabilitated roads (by all donors) will provide a constant level of service without any maintenance for 3 or 5 years at which time the road totally falls apart and requires extensive rehabilitation. Obviously this is a simplification, in part because without any maintenance at all the road will deteriorate over time, and consequently, the level of service will fall as manifested in the increased cost of maintenance on vehicles slower travel time etc., and the increased transportation costs charged by the transporters. Whatever the case, the rehabilitated roads will be depleted without regular maintenance. Thus, if we assume a major rehabilitation at the end of the 5th year for 15 years and compare the present value of these costs with those costs associated with an ideal maintenance program for 15 years, it is possible to estimate the cost savings to the economy as a result of the change in policies.

3.7 Table 4 summarises the results of measuring the benefits from the new policy reform. The net present value associated with regular maintenance and reduced vehicle operating costs are U.S. $48.1 million. These cost savings are considerably greater than the amount of grant estimated at about U.S. $30 million.

3.8 If rehabilitation is done after every three years (Table 5), the net present value associated with the policy reform is reduced by 20% to US $ 38.5 million. The policy changes are still beneficial compared to the program cost of U.S. $30 million.

3.9 Finally, if we assume a 50% reduction in transport cost savings per vehicle, from 20 cents to 10 cents (Table 6), the net present value associated with the policy reform is reduced by 36% to U.S. $30.8 million. These cost savings are still greater than the amount of the grant.

<u>Summary</u>

4.0 The cost savings benefits expected as a result of the various policy changes are considerable and exceed the anticipated grant levels. In addition, it is expected that output per dollar for ATAP commodity import support recipients will rise, providing additional benefits of the program. Similarly, the policy reforms are expected to eliminate the biases against the use of private sector road contractors, thereby easing entry by local and foreign private firms. These policy reforms should have a significant impact on the sustainability of the ATAP program and contribute further to the improvement of Tanzania's policy environment.

Table 3: SUMMARY OF BENEFIT-COST ANALYSIS OF IMPROVING EXISTING RURAL ROADS UNDER USAID/T PROGRAM*

Region	District	Road Number	Road length (Km)	NPV Cost ('000 T.Shs)	NPV Benefits ('000 TShs)	NPV Benefits - 20% ('000 T.Shs)	NPV Cost +20% ('000 T Shs)	IRR %
Shinyanga	Kahama	1	29.0	7294	59986	46530	58527	37.1
		6	9.7	2852	9771	7247	9201	28.2
		8	6.3	2102	16162	12509	15742	36.3
	Shinyanga	1+1A	36.0	14002	46739	34590	43938	28.0
		3+4	72.0	22394	141164	108452	136685	34.2
		5	53.0	14768	91574	70306	88621	34.0
		9	37.4	12432	55031	41538	52544	30.6
	Maswa	1+7	73.2	23398	87138	65030	83458	29.0
		2	79.1	21591	81762	61091	77444	29.1
Mwanza	Kwimba	2	46.8	11040	134088	105062	131880	41.6
		3+4	31.2	9476	138809	109152	136914	43.8
		5+5a	35.2	12539	55979	42276	53472	30.7
Kilimanjaro	Hai	1	13.8	5042	75901	59712	74892	44.1
		2	7.9	2339	63155	50056	62687	51.6
		3	3.1	2267	67503	53549	67049	52.0
		4	12.4	5050	176877	140492	175867	55.1
	Moshi	1+2	19.7	9429	221503	175316	219617	49.8
		5	4.4	2107	24456	19143	24034	41.0
		6	6.2	3554	54801	43130	54090	44.4
		7	3.7	1772	33056	26091	32702	46.8
		8	10.4	3530	36547	28531	35841	39.7
		11	7.6	2193	42366	33454	41928	47.3
		13	8.7	2153	48722	38547	48291	49.3
		15	1.4	544	12815	10143	12706	49.8
		16	2.7	1172	21850	17246	21616	46.8
		17	2.5	447	16834	13378	16745	56.1
		18	2.8	683	16598	13142	16462	50.2
	Rombo	1	4.9	1075	24320	19241	24105	49.3
		7	4.5	2572	35615	27990	35113	43.4

* The IRRs for the rural roads improvement program under ATAP range between 28% and 55%. Since the opportunity cost of capital in Tanzania is about 10 - 15%, the program is feasible.

TABLE 4

PRESENT VALUE ANALYSIS OF ATAP
(WITHOUT INCLUDING FOREIGN EXCHANGE BENEFITS)
U.S. DOLLARS

Year	*Regular Mainte-nance/km (With Case)*	*No Maintenance Just Rehabili-tation/km (Without case)*	*Net PV Road Maintenance Savings/km*	*Transport Cost Savings Vehicle/km*	*Number of Vehicles/ km/year*	*Net PV Transport Cost Savings/km*	*Total Kms.*	*Total Net Present Value Savings*
	Col 1	Col 2	Col 3	Col 4	Col 5	Col 6	Col 7	Col 8
1	500.00	0.00		0.00	14,600.00	0.00		
2	500.00	0.00		0.20	14,600.00	2,920.00		
3	500.00	0.00		0.20	14,600.00	2,920.00		
4	500.00	0.00		0.20	14,600.00	2,920.00		
5	1,000.00	10,000.00		0.20	14,600.00	2,920.00		
6	500.00	0.00		0.20	14,600.00	2,920.00		
7	500.00	0.00		0.20	14,600.00	2,920.00		
8	500.00	0.00		0.20	14,600.00	2,920.00		
9	500.00	0.00		0.20	14,600.00	2,920.00		
10	1,000.00	10,000.00		0.20	14,600.00	2,920.00		
11	500.00	0.00		0.20	14,600.00	2,920.00		
12	500.00	0.00		0.20	14,600.00	2,920.00		
13	500.00	0.00		0.20	14,600.00	2,920.00		
14	500.00	0.00		0.20	14,600.00	2,920.00		
15	1,000.00	10,000.00		0.20	14,600.00	2,920.00		
Present Value 12%	3,941.48	10,720.96	6,779.48			17,280.58	2,000.00	48,120,129.13

Notes:

1. *Col 1: Assumes regular/periodic maintenance at $500/km with major work on roads done every five years. Average maintenance cost per km has been estimated by Ministry of Works to be between $429 - 450.*
2. *Col 2: This is a case where no regular maintenance is done but rehabilitation is carried out every five years.*
3. *Col 3: Present value of Col 2 minus present value of Col 1. This gives the impact of ATAP policy change by comparing the "with" and "without" program cost savings.*
4. *Col 5: Assumes a constant flow of 40 vehicles per day for 365 days. Vehicle figures have been obtained from the USAID/T completed Socio Economic Baseline Survey of August 1990.*
5. *Col 8: This provides the Total Net Present Value for undertaking ATAP policy changes, being Col 7 times the sum of cols 3 & 6.*

TABLE 5

PRESENT VALUE ANALYSIS OF ATAP
(WITHOUT INCLUDING FOREIGN EXCHANGE BENEFITS)
U.S. DOLLARS

Year	*Regular Mainte-nance/km (With Case)*	*No Maintenance Just Rehabili-tation/km (Without case)*	*Net PV Road Maintenance Savings/km*	*Transport Cost Savings Vehicle/km*	*Number of Vehicles/ km/year*	*Net PV Transport Cost Savings/km*	*Total Kms.*	*Total Net Present Value Savings*
	Col 1	Col 2	Col 3	Col 4	Col 5	Col 6	Col 7	Col 8
1	500.00	0.00		0.00	14,600.00	0.00		
2	500.00	0.00		0.20	14,600.00	2,920.00		
3	500.00	0.00		0.20	14,600.00	2,920.00		
4	500.00	4,000.00		0.20	14,600.00	2,920.00		
5	1,000.00	0.00		0.20	14,600.00	2,920.00		
6	500.00	0.00		0.20	14,600.00	2,920.00		
7	500.00	0.00		0.20	14,600.00	2,920.00		
8	500.00	4,000.00		0.20	14,600.00	2,920.00		
9	500.00	0.00		0.20	14,600.00	2,920.00		
10	1,000.00	0.00		0.20	14,600.00	2,920.00		
11	500.00	0.00		0.20	14,600.00	2,920.00		
12	500.00	4,000.00		0.20	14,600.00	2,920.00		
13	500.00	0.00		0.20	14,600.00	2,920.00		
14	500.00	0.00		0.20	14,600.00	2,920.00		
15	1,000.00	4,000.00		0.20	14,600.00	2,920.00		
Present Value 12%	3,941.48	5,915.09	1,973.61			17,280.58	2,000.00	38,508,383.35

Notes:

1. Col 1: Assumes regular/periodic maintenance at $500/km with major work on roads done every five years. Average maintenance cost per km has been estimated by Ministry of Works to be between $429 - 450.

2. Col 2: This is a case where no regular maintenance is done but rehabilitation is carried out every three years.

3. Col 3: Present value of Col 2 minus present value of Col 1. This gives the impact of ATAP policy change by comparing the "with" and "without" program cost savings.

4. Col 5: Assumes a constant flow of 40 vehicles per day for 365 days. Vehicle figures have been obtained from the USAID/T completed Socio Economic Baseline Survey of August 1990.

5. Col 8: This provides the Total Net Present Value for undertaking ATAP policy changes, being Col 7 times the sum of cols 3 & 6.

TABLE 6

PRESENT VALUE ANALYSIS OF ATAP
(WITHOUT INCLUDING FOREIGN EXCHANGE BENEFITS)
U.S. DOLLARS

Year	*Regular Mainte-nance/km (With Case)*	*No Maintenance Just Rehabili-tation/km (Without case)*	*Net PV Road Maintenance Savings/km*	*Transport Cost Savings Vehicle/km*	*Number of Vehicles/ km/year*	*Net PV Transport Cost Savings/km*	*Total Kms.*	*Total Net Present Value Savings*
	Col 1	Col 2	Col 3	Col 4	Col 5	Col 6	Col 7	Col 8
1	500.00	0.00		0.00	14,600.00	0.00		
2	500.00	0.00		0.10	14,600.00	1,460.00		
3	500.00	0.00		0.10	14,600.00	1,460.00		
4	500.00	0.00		0.10	14,600.00	1,460.00		
5	1,000.00	10,000.00		0.10	14,600.00	1,460.00		
6	500.00	0.00		0.10	14,600.00	1,460.00		
7	500.00	0.00		0.10	14,600.00	1,460.00		
8	500.00	0.00		0.10	14,600.00	1,460.00		
9	500.00	0.00		0.10	14,600.00	1,460.00		
10	1,000.00	10,000.00		0.10	14,600.00	1,460.00		
11	500.00	0.00		0.10	14,600.00	1,460.00		
12	500.00	0.00		0.10	14,600.00	1,460.00		
13	500.00	0.90		0.10	14,600.00	1,460.00		
14	500.00	0.00		0.10	14,600.00	1,460.00		
15	1,000.00	10,000.00		0.10	14,600.00	1,460.00		
Present Value 12%	3,941.48	10,720.96	6,779.48			8,640.29	2,000.00	30,839,547.68

Notes:

1. *Col 1: Assumes regular/periodic maintenance at $500/km with major work on roads done every five years. Average maintenance cost per km has been estimated by Ministry of Works to be between $429 - 450.*
2. *Col 2: This is a case where no regular maintenance is done but rehabilitation is carried out every three years.*
3. *Col 3: Present value of Col 2 minus present value of Col 1. This gives the impact of ATAP policy change by comparing the "with" and "without" program cost savings.*
4. *Col 4 Assumes a reduction in transport cost savings by 50%.*
5. *Col 5: Assumes a constant flow of 40 vehicles per day for 365 days. Vehicle figures have been obtained from the USAID/T completed Socio Economic Baseline Survey of August [illegible].*
6. *Col 8: This provides the Total Net Present Value [illegible] undertaking ATAP policy changes, being Col 7 times the sum of Cols 3 & 6.*

Annex C

AEPRP STATUS

A. PROGRAM PURPOSE

The purpose of the Africa Economic Policy Reform Program (AEPRP) is to assist the Government of Tanzania to reduce or eliminate transportation constraints to increased agricultural production and marketing through an improvement of policies affecting the transportation sector, and by increasing the amount of foreign exchange and local currency resources available to finance the import of equipment for the transport sector and construction equipment for the maintenance and rehabilitation of rural roads.

B. PROGRESS TOWARDS MEETING EOPS

The $12 million funds under the AEPRP program were disbursed through a cash transfer (tied to the procurement of certain eligible commodities) to the GOT after all CPs under the program were fully met.

In meeting these CPs the GOT:

(i) Increased the amount of the 1987/88 National Development Budget allocated to the Transport sector by 25% in real terms over the 1986/87 levels. Since then, the GOT has continued to increase the budget at a minimum of 25% every year.

(ii) Awarded road rehabilitation contracts competitively to private sector or parastatal firms without preference.

To date 3 out of the 4 road contracts for which actual road rehabilitation has began were awarded to local private firms. An additional 3 road contract packages are to be signed this month with three other local private firms.

To assure competitiveness one local private contractor was disqualified as a lowest bidder because it was determined he had prior information on the confidential engineer's estimates and used same to prepare his bid.

The parastatal company that was awarded one contract package was disqualified to bid on the next series of contract packages after it was determined it had no capacity to undertake more contracts, thus demonstrating the GOT has no preference to either parastatals or private firms, but to performance.

On the commodity import side of the program, so far, the $12 million FX has been utilized by local firms and agents to import road trucks, construction equipment, spare parts and lubricants. The cash covers generated has been used to finance road rehabilitation contracts with local contractors. Approximately $10 million equivalent in contracts have been awarded to date to local contractors to rehabilitate some 300 kms of rural roads.

C. PROGRAM OUTPUTS

The anticipated program outputs that focus on agricultural transport and marketing are:

(a) an increase in priority and extent of rural roads serving agricultural production areas;

(b) an increase in Tanzania private sector capacity to design, construct and maintain rural roads;

(c) an increase in trucking capacity;

(d) an increase in the efficiency of commerce, especially marketing of agricultural inputs and commodities; and

(e) an improvement in the information base on which future policy and resource allocation discussions are made in the transport sector.

These anticipated outputs are continually being achieved under the program e.g.:

(a) The GOT places such high priority on rural roads that the FY91 GOT budget for rural roads has been increased fourfold compared to that of FY90 budget. Some 300 kms of rural roads are currently being rehabilitated using local contractors. Some 950 kms of rural roads have been designed and bid documents are ready. These would soon be contracted out and their rehabilitation would increase the extent of rural roads serving agricultural production area. N.B. The rural roads being rehabilitated under the program are in the so called "Core Regions", which are regions that were selected as agriculturally productive on the basis of socio-economic criteria. This criteria and selection was reviewed and approved by USAID in 1988 when the AEPRP program implementation began.

    The GOT seems poised to continue in increasing the priority and extent of rural roads over at least the next 5 years to 6 years.

(b) The capacity of the Tanzania private sector to design and rehabilitate rural roads has increased since the AEPRP program began.

Three local private firms have designed some 950 kms of rural roads and a local private contractor is rehabilitating some 200 kms of rural roads. Three more local private contractors are to begin rehabilitation of rural roads in the coming few months. The GOT is currently in the process of finalizing bid documents to award periodic maintenance contracts to local private firms.

(c) The trucking capacity is continuously being increased as agents and firms import trucks and spare parts under the CIP component of the program. To date $7 million of the $12 million AEPRP funds has been used for importation of truck and truck spares.

(d) To assess and gauge the above and all associated socio-economic impacts of rehabilitation and maintaining rural roads using AEPRP funds, a contract was signed between USAID and Agriconsult, a local private consulting firm. The contract called for a written report that provides socio-economic information in four areas where USAID-supported road rehabilitation and road maintenance is being undertaken.

When updated by planned similar follow-up studies, this information will provide a basis for assessing the socio-economic impact of A.I.D.'s rural road improvement efforts under the AEPRP program.

The contractor has completed the survey work and has submitted the final report.

The contractor's survey report provided answers to the questions concerning:

(1) the characteristics of the road and surrounding area;

(2) transportation and marketing;

(3) agriculture;

(4) commerce and industry; and

(5) quality of life.

In answering these questions the contractor disaggregated the survey data along important socio-economic dimensions, including gender, socio-economic category, ethnic identity, urban/rural locations, and other dimensions that emerged as significant as the survey progressed.

Major finding include the following:

- Few vehicles use rural roads
- Most people walk from place to place
- More men than women travel as passengers
- Women are more concerned than men about health services
- Most goods are carried by people rather than hauled by vehicles
- The average per capita income at the four sites, $26-$91, is well below the average of $280 per annum
- Very few people have off farm income
- Most rural people have little or no expendable income and men do most of the purchasing
- Women spend daily 6 hours hauling water and 7 hours to collect firewood.

Any change to the above findings from future follow-up surveys would shed light onto the people-level impact of rehabilitating rural roads.

USAID is currently investigating ways and means for GOT to institutionalize this activity as an integral part of its road program.

(e) In March 1991, the USAID Rural Economic Advisor conducted a preliminary impact survey along two partially rehabilitated rural roads in Shinyanga region. His findings included:

- increased mobility, especially in the rainy season
- improved evacuation of crops
- better supply of agricultural inputs and consumer goods
- increased public transport at lower costs
- increased marketing choices for agricultural produce
- more purchasing choices (bargain shopping)
- people perceive roads as very important

D. IMPORTANT ISSUES AND/OR PROBLEMS

During the first two years of the program implementation local currency generation was slow. However the disbursement of the FX has dramatically increased during the past year as the commodity eligibility list expanded, economic activity continued, and importers became more familiar with the program. The local currency generation from the $12 million AEPRP began in May 1988 and up to May 1990 (two years) only $5 million in local currency generated was generated. From May 1990 to March 1991 the equivalent of $7 million was generated.

The following actions were taken by USAID and the GOT to speed local currency generations:

(i) The eligibility list which initially was restricted to road construction equipment and spare parts, truck spare parts and tires, was expanded to include spare parts required for road maintenance, tools and equipment for repair work, raw material for fabricating and reconditioning spare parts, ancillary equipment permitting fuller and more efficient use of primary equipment (e.g., forklifts for loading trucks), raw materials for retreading tires (excluding rubber compound chemicals and fertilizers), capital equipment for retreading vehicle tires, manufacturing brake linings, machine vehicle parts or performing other similar operations on vehicular components or parts, brake fluids and other essential lubricants, pickups and trucks up to 17 tons category.

(ii) Cash cover requirements were relaxed in that importers were allowed to deposit not less than 20 percent of the value of the commodity to be imported, in lieu of 100 percent, for the L/C to be opened and the balance, subject to a bank guarantee, to be paid when the goods are delivered at the port of entry.

At this state of the program implementation, the main issues is not the slow rate of draw down of the FX and the corresponding rate of local currency generation, but the problem centers around the fact that currently there is no FX to draw down.

The $12 million funds of AEPRP has been committed to L/credit and the $10.41 million ATAP funds cannot be used until such time that the proposed mechanism of disbursement, which is similar to that used under the AEPRP, is instituted. It is expected that all the resulting paper work would be finalized soon so that the normal draw down on the FX can resume. The rate of local currency generation is expected to increase, judging by the interests shown on the part of importers and because the eligibility list has been expanded to widen the range of commodities to be imported under the program. In this regard the major expansion included pickups and trucks up to 17 tons capacity as eligible commodities under the program. The demand for this range is very promising. To date import applications worth $12 million have been approved. Cash cover equivalent to $10 million has been deposited. The balance is to be deposited soon.

Regarding the actual road rehabilitation activities being undertaken by the two local contractor (Dhiyebi and MECCO), the work, overall, is progressing well although more slowly than expected. Dhiyebi has accomplished 35 percent of the work while 70 percent of the contract time has elapsed.

MECCO, the parastatal firm, has accomplished 20 percent of the work while 70 percent of the contract time has elapsed. The major cause for the delay is lack of construction equipment and/or spare parts. RRD/MOW is aware of the problem and the two contractors have officially been requested to attend to these problems immediately and improve their work progress.

A recent USAID inspection/visit to the above contract sites has revealed the existence of certain sections of road where special attention must be given by the supervisory staff, i.e., Rural Road Engineer and the consulting Resident Engineer. In this regard some fill sections have not been raised high enough and/or were not filled with proper selected materials; culvert outlet ditches were not dug long enough to drain water, and drifts were not constructed long enough to avoid scour and the subsequent washouts to both approaches of the road. These issues were discussed with the RRD/MOW. The RRD has instructed the supervisory staff on site to rectify the problem immediately.

Annex D

DRAFT

SUSTAINABILITY ANALYSIS

OF

RURAL ROADS DIVISION

REHABILITATION AND MAINTENANCE PROGRAM

Prepared By:

Ministry of Works
United Republic of Tanzania

June 1991

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SUSTAINABILITY ANALYSIS
of
RURAL ROADS DIVISION'S ROAD PROGRAM

1.00 Road Program Sustainability Definition

The overall objective is to fully establish a sustainable system for road rehabilitation and maintenance involving elements of the public and private sectors.

1.10 Rehabilitation

Rehabilitation of Regional roads is defined as restoring, to MOW specified maintainable standards, those sections of Regional roads which were previously designed and constructed to Regional road specifications. Sections of the Regional road network not previously engineered and constructed to Regional road specifications will require upgrading to bring them to a maintainable standard.

The rehabilitation program will finish once all previously engineered and constructed regional road sections are restored to maintainable standards. At that point the Regional road program will consist only of maintenance and upgrading.

Tanzania will be fully capable of rehabilitating the Regional road network when:

- MOW has the ability to identify and prioritize road sections requiring rehabilitation. Prioritization will be based on sound economic criteria. The ability to identify and prioritize road sections can be either an in-house capacity or it can be contracted to local consulting engineering firms or academic institutions. If the work is contracted, MOW must be capable of directing the process.

- Local consulting engineering firms have the ability to design rehabilitation works and prepare contract documents.

- RRD/REOs are able to administer, direct and control the contracting process for rehabilitation design work.

- The local construction industry has the capacity to execute the rehabilitation program.

- REOs have the ability to supervise the execution of the

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works. The ability to supervise the works can either be an in-house capacity or contracted to local consulting engineering firms. If contracted, REOs must have the capacity to administer, direct and control the process.

- GOT can secure adequate financing to fund the program.

- GOT/MOW has the ability to measure the social/economic impact of the rehabilitation program and to use the information to adjust or modify the program. The ability to measure impact can either be an in-house capacity or contracted to local consulting engineering firms or academic institutions. If contracted, GOT/MOW must have the capacity to administer, direct and control the process and to use the information.

1.20 Road maintenance

Road maintenance is comprised of a defined set of activities which, when applied to the Regional road network, preserve GOT's capital investment and ensure a specified level of service to road users. Road maintenance of Regional roads is divided into two categories: (1) Routine Maintenance (RM) and (2) Periodic Maintenance (PM).

Routine Maintenance is comprised of a set of activities which must be continuously applied to the road network to ensure that the designed level of service and the initial capital investment are preserved. For Regional roads, the principal activities are grading, clearing drains, vegetation control, culvert cleaning and minor structures repair.

Periodic Maintenance is comprised of a set of maintenance activities which are carried out at specific intervals (not yearly) to ensure that the designed level of service and the initial capital investment are preserved. For Regional roads, the principal periodic maintenance activities are regravelling gravel roads, reshaping earth roads and replacing timber bridge decks.

Road maintenance is continuous and is required as long as the road is operational.

GOT/MOW will be fully capable of carrying out routine maintenance of the Regional road network when:

- RRD/REOs have the ability to measure and assess the extent and condition of the Regional road network. Local consulting firms may be contracted to collect

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data, but RRD/REOs must have the capability of using and updating the data.

- RRD/REOs are capable of planning RM activities, estimating resources required, and scheduling work.

- The local construction industry and REO staff have the capacity to execute the RM program. Execution of RM will be carried out by contractors to the maximum extent possible. REO forces will undertake RM when contractors are not available and/or when force account units can effectively execute the works.

- RRD/REOs have the capability to administer, direct and control RM activities whether carried out by contractors or force account.

- GOT provides financing to wholly fund the RM program with revenue generated within Tanzania.

- RRD/REOs have the ability to measure the impact of the RM program and to use the information to adjust or modify the program.

GOT/MOW will be fully capable of carrying out periodic maintenance of the Regional road network when:

- RRD/REOs are capable of planning PM activities, estimating resources required, and scheduling work.

- MOW/RRD have the ability to design PM works and prepare contract documents.

- The local construction industry and REO staff have the capacity to execute the PM program. Execution of PM will be carried out by local contractors to the maximum extent possible. REO forces will undertake PM when local contractors are not available or when force account units can demonstrate a capability and efficiency superior to contractors.

- Local consulting engineering firms have the ability to supervise all PM works.

- RRD/REOs have the ability to administer, direct and control all PM activities whether carried out by contractors or force account.

- GOT provides financing to wholly fund the PM program with revenue generated within Tanzania.

- RRD/REOs have the ability to measure the impact of the

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PM program and to use the information to adjust or modify the program.

2.00 SUSTAINABILITY PROGRAM AREAS

For RRD's rehabilitation and maintenance program to be sustainable, decisions, actions and resources must all be coordinated and made available in a timely manner. The decisions, actions and resources required are categorized into four broad program areas:

1. Enact and Enforce Appropriate Road Policy Reforms
2. Develop Effective MOW Staff, Institutional Procedures and Management Systems
3. Develop the Private Sector
4. Secure Funding

Each of the program areas contains multiple elements. GOT/MOW already has many of the elements in place or partially implemented, but several critical elements are still to be established. In this section, the four program areas mentioned above are discussed in this section along with the various elements. Section 3.0 presents a graphical implementation schedule showing the timing and sequence of actions to be taken in order to arrive at a sustainable program by FY 95/96.

2.10 Enact and Enforce Appropriate Road Policy Reform

Major changes have recently occurred and will continue to occur to Tanzania's road program. Repercussions from these changes will continue to affect the program for years. In order to manage the changes and ensure greater efficiency of implementation GOT/MOW must develop, enact and enforce policies concerning maintenance priorities, private sector involvement in the program, donor involvement in the program, preparing strategies for short-term/long-term responsibilities for district and urban road networks, vehicle weight control and revenue generation/funding sources for the road rehabilitation and maintenance programs.

The issues and recommended actions presented in this section are presented from the point of view of RRD's program sustainability. Some of the policy issues discussed below

require action from ministries other than MOW and from MOW divisions other than RRD.

2.11 Road Maintenance Policy and Guidelines

GOT/MOW needs to agree upon policies or guidelines for several issues which impact on Regional Roads rehabilitation and maintenance program. The issues are:

Clarification of Institutional Responsibilities The responsibility for trunk and regional roads is well defined and sits with TRD and RRD respectively of MOW. Responsibility for urban, district and feeder roads is less clear. Officially, urban and district roads are the responsibility of the city and district councils and their staffs, but these institutions have neither the capability nor the capacity to carry out their work programs. TRD and RRD have increasingly become involved in the urban and district road programs because MOW has a greater capability and greater access to donor financing. Responsibility for 220 km of Dar es Salaam roads was recently transferred to MOW.

Much of the assistance and time devoted to urban and district roads is informal; and, while TRD/RRD have the capability to be involved in other road programs, they do not yet have the capacity. It is also uncertain that GOT has the capacity and resources to fully undertake these programs at present, but a policy/strategy is essential for future planning and securing resources such as donor assistance.

Action: GOT needs to either develop a strategy for the transfer of responsibility for District and Urban roads to MOW (gradually or at some future point time); or, GOT needs to commit itself to developing the capacity within urban and district councils to undertake road rehabilitation and maintenance programs.

Setting Rehabilitation/Maintenance Priorities MOW needs to develop prioritization guidelines to assist in the implementation of its programs. Decisions to allocate resources between rehabilitation, periodic and routine maintenance are often arbitrary and not based on established engineering and economic principles.

In order to facilitate the application of priorities and other elements of the program, the Regional road network must be defined. The true extent and condition of the network is not known. There is an immediate need to undertake a road inventory and condition survey of the Regional roads. There is no numbering system for Regional roads.

It is doubtful that sufficient funds and other resources will be available every year to undertake all the needed maintenance and rehabilitation to the regional road network. Scarce resources can be better utilized if guidelines are established to identify priority roads and activities. Questions such as the following should be addressed: Should paved roads receive priority over gravel roads? Should some regions receive priority over other regions? Should rehabilitation be deferred in favor of recurrent maintenance? Should recently rehabilitated roads in good condition receive priority over those in poor condition? Should drainage activities receive priority over surface repairs? etc.

Action: MOW/RRD needs to design and carry out a road inventory and condition survey of all Regional roads. A road numbering system is to be developed. Once the extent and condition of the network is established, a reclassification exercise may be necessary to bring important regional roads into the REOs program and to prioritize roads in the event that available resources are insufficient to cover the entire network.

GOT/MOW needs to prepare guidelines for the establishment of maintenance priorities. MOW should set priorities for maintenance types and activities, but priorities between classes of roads (urban, trunk, regional and district) and between regions must be established together with other concerned ministries.

2.12 Local Contractor Involvement

GOT has promoted the idea of local contractor involvement in the Economic Recovery Program (ERP), in the IRP and in RRD's rehabilitation and maintenance program. GOT is discussing a draft National Construction Industry Development Strategy, approval for which is expected in FY 91/92. Once the policy is adopted, it must be enacted.

The most pressing issue concerning private sector involvement in the program is the proportion of work to be undertaken by contractors and the proportion to be undertaken by force account. MOW/RRD/REO need policy guidelines on this issue to plan and develop its staffing and training program, to determine MOW equipment requirements and to give the private sector the confidence

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and assurance to invest in the equipment and manpower necessary to carry out their share of the work.

The types of work to be contracted to the private sector must also be determined. The private sector is presently participating in large rehabilitation and periodic maintenance contracts, but not yet in less capital intensive routine maintenance works.

Other policy issues which affect the private sector and indirectly the RRD's program are:

- preferential treatment of local contractors
- definitions of local vs foreign contractors
- joint ventures between local and foreign firms
- access to foreign exchange and credit

Action: GOT/MOW needs to approve and begin implementation of the National Construction Industry Development Strategy.

GOT/MOW needs to develop guidelines for the proportion of works to be undertaken by force account and by contract.

2.13 Donor Involvement

Donor involvement in the road sector is expected to surpass USD 1 billion over the next 5 years. Most (over USD 900 million) of assistance is being coordinated through the IRP. Some donor programs and assistance are not consistent with GOT/MOW policies. More coordination and enforcement of policies is required. Some issues and areas requiring attention are:

- donor funded equipment purchases vs GOT policy of commercial plant hire pools;
- donors providing staff incentives to GOT/MOW staff which may not be sustainable without donor assistance; and,
- use of foreign contractors and consultants rather than using or developing the local capacity.

Action: GOT/MOW needs to be more involved in donor program development to ensure better compliance with GOT/MOW policies, guidelines and strategies.

2.14 Revenue Generation

The sources of local revenues available to finance RRD's program are limited. The scope and budget for the program have been estimated, but sources of revenue and levels of financing are still to be determined.

Under the original IRP program, RRD was to undertake routine maintenance for 7000 km and periodic maintenance for 1400 km of regional roads in FY 91/92 assuming a periodic maintenance cycle of 5 years. The program was to increase to 10000 km of routine maintenance and 2000 km of periodic maintenance by Fy 95/96. Routine maintenance was estimated at USD 450/km and periodic maintenance at USD 5000/km.

There are now 14000 km of regional roads programmed for routine maintenance in FY 91/92 and the network will increase to 17000 km by FY 95/96. The periodic maintenance program will expand from 1700 km/yr in FY 91/92 to 3000 km in FY 95/96, assuming an initial cycle of 8 years decreasing to 5 years by FY 95/96. The cost/km for routine maintenance is now estimated at USD 500/km and periodic maintenance at USD 10,000. This means that the financial requirements of RRD's maintenance program will increase by more than 250% from the original IRP estimates.

Action: GOT needs to commit itself to increasing the funding to match the expanded regional road network or to reducing the network to match available resources. Another option is to delay the date for which GOT assumes total responsibility for fully funding periodic maintenance which is now planned for FY 95/96.

GOT recently established a Road Fund in which accrues funds from the sale of fuel and from vehicle licensing fees. Funds have been accruing since July 1990 and the Road Fund was legally established in June 1991. The funds are to be used to support the road sector, but procedures for the operation and management of the fund have yet to be established. The priorities and activities which the Road Fund will support have not been determined. Is it exclusively for maintenance? or will it also fund other activities such as weight control? Will funds be regionally distributed according to recorded fuel purchases? Will the fund be used for "special projects", so that the public can see immediate benefits? Will funds be proportioned to urban and district roads as well as trunk and regional roads? Will private sector contracts be supported by the fund?

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Action: GOT/MOW needs to prepare priorities for spending funds generated through the Road Fund. GOT needs to establish procedures for disbursing funds from the Road Fund in such a way that the funds and projects are known at the time MOW prepares its annual work program and budget.

2.20 Develop Effective MOW Staff and Institutional Procedures and Management Systems

The structure of regional road administration in Tanzania has been subjected to frequent and disruptive changes over the past 20 years. Generally, the changes have not been positive. Responsibility for road maintenance and rehabilitation was given to institutions ill equipped to carry out the task, scarce technical skills were spread between several institutions assigned to perform the same tasks. The result of these changes has been confusion, poorly organized planning, demoralized staff, quality of work has declined sharply and there has been ineffective long-term institutional and work force development.

GOT/MOW, through the IRP, have adopted a coordinated approach to address these constraints. The approach consists of:

1) Consolidating all responsibility for Regional Roads within a newly reorganized MOW. The new structure establishes RRD at MOW headquarters with responsibility for national planning, technical supervision, monitoring, systems development, standards setting, training and funds allocations. It further establishes REOs with the decentralized responsibility for the execution of Regional road maintenance and rehabilitation;

2) Modifying existing regulations which impede local procurement, task-work contracting and timely payment of funds to permit efficient road maintenance operations;

3) Development and implementation of management systems to plan, monitor and control operations; and

4) Recruit and train skilled staff at all levels to manage and implement Regional road rehabilitation and maintenance.

2.21 Adoption of New MOW/RRD/REO Organization Structure and Filling Vacant Positions

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The former Ministry of Communications and Works (MCW) was assigned responsibility for all Regional and Essential Rural Roads in early 1989. A Rural Roads Division (RRD) was established with responsibility for regional roads, including national planning, technical supervision of Rural Roads Engineers (RREs), funds allocation, monitoring, standards setting and training. The execution of maintenance and rehabilitation operations were decentralized to Regional Engineers Offices (REOs) under the direction of the Regional Engineers. New positions of Rural Road Engineers were established with the responsibility for Regional road maintenance and rehabilitation.

In November, 1990, the former MCW was split into the Ministry of Communications and Transport (MCT) and the Ministry of Works (MOW). MOW was given the responsibility for Trunk and Regional roads. In late 1990, MOW carried out an organizational review and developed a draft organization structure for the new ministry. The draft has been approved by MOW and is awaiting final GOT approval.

<u>Action:</u> The new organization chart needs to be approved by GOT; next, job titles and position descriptions must be developed and approved for all levels of the new organization. Existing staff must be confirmed into the positions and new staff must be recruited to fill vacancies.

2.22 <u>Development and Enactment of Modified Procurement and Contracting Procedures</u>

In order to enhance the road rehabilitation and maintenance capacity in the country, GOT/MOW have chosen to utilize private sector contractors. Historically, public sector contractors and force account units (under the direction of the Regional engineers) have carried out road works in Tanzania. It has been 15 years since the local private sector has been participated in national road programs.

GOT was aware that changes needed to be made in its procurement regulations in order to permit contract award decisions, at realistic monetary levels, to be made by the PS, REs and department directors of MOW HQ. In November, 1990, GOT/MOW adopted a set of "interim procurement regulations" prepared by a GOT task force. These regulations will remain in effect until GOT undertakes a complete revision of its procurement regulations, scheduled for implementation by the end of 1993.

A present constraint is the lack of approved procedures and contract documentation to implement the interim regulations. GOT/MOW have approved tender documents and procedures for large rehabilitation contracts, but do not yet have documents or procedures for smaller piece work contracts for road maintenance works.

There is a need for two types of standard maintenance contracts in addition to the existing contract for rehabilitation works. These are described in detail in Section 2.3. One type is a Unit Rate Contract with indefinite quantities and the other is a fixed price/fixed quantity contract suitable for petty works such as ditch clearing and vegetation control.

Large contractors have been identified and prequalified for rehabilitation and periodic maintenance works, but small contractors to undertake petty maintenance contracts have not yet been identified or approved.

REs are not experienced in contracts administration. They need to be familiar with tendering procedures, bid evaluation, negotiations, change orders, contract amendments and claims.

Action: GOT/MOW need to prepare and approve standard contract documents and procedures for unit price and petty maintenance contracts. MOW needs to provide prequalification guidelines to REs for identification and prequalification of contractors in each region.

REs need to be trained in contracts administration and supervision.

Local contractors need to be trained to understand new contract documents and procedures.

2.23 Development and Implementation of Management Systems

During the time which Regional roads were under the Prime Minister's Office, each region had its own system for managing its road program. When MOW assumed responsibility for Regional roads, RRD was assigned the responsibility for developing a standard management system to be implemented in every region. REOs in 12 regions will be receiving long-term technical assistance to assist them establish management systems and improve operations.

In early 1990 MOW decided to develop its own maintenance management system through its TRD and RRD with the assistance of existing TA. The system was designed to be compatible and consistent for both trunk and regional roads.

The draft Road Maintenance Management System (RMMS) and manual were pretested in 3 regions and finalized during FY 90/91. The FY 91/92 annual work program and performance budgets were developed using the RMMS for all Trunk and Regional roads in all regions. The FY 91/92 maintenance work scheduling, reporting and cost accounting will be controlled and monitored by RRD/TRD using RMMS.

All elements of the RMMS have not been developed or fully tested. A road inventory module and a module for monitoring contract maintenance are yet to be developed. The RMMS will provide appropriate data and timely information to all levels of management. It is expected that computers will be used to assist TRD/RRD and REOs to summarize and analyze the data as well as to generate standard reports. The software to manage and manipulate the data has not been developed.

All levels of staff at REOs and MOW HQ require intensive training in the use and operation of the RMMS. One of the principal objectives of technical assistance programmed to the REOs will be to assist the REOs to implement the RMMS. Technical assistance to MOW HQ is required to update and modify the system and to train TRD/RRD management to use the system. The RMMS will require substantial revisions in first two years of operation and minor revisions thereafter.

Action: RMMS is to be implemented in all regions for FY 91/92 including a road inventory and condition survey which is to be designed and carried out in FY 91/92.

Regular workshops to train RRD/REO staff to use the RMMS need to be scheduled continuously for the first few years of RMMS implementation.

RMMS manual will need to be updated and reprinted at the end of FY 91/92.

A "sub-system" or module for monitoring contracts will need to be developed and integrated into RMMS. The activities, units and standards must be the same as for Force Account work.

Software needs to be developed to assist RRD/REOs to summarize and analyze RMMS data and to generate management reports.

2.24 Workforce Development and Training

The training and career development of RRD/REO staff is essential to ensure a sustainable program. Proposed new staffing levels based on the new organization structure for

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RRD/REOs have not been set. The lack of an approved organization chart with staffing levels is a serious constraint. Position descriptions and description of duties are needed at all levels.

Most donors have training components included in their programs and projects. There is some duplication and inconsistency in the programs. Many reports, studies and proposals have been put forward over the past few years, but there is not yet an accepted training program for RRD and REOs which coordinates all the participating organizations and institutions.

RRD at present is a highly flexible cadre of 5 committed professionals which adapt to the frequently changing demands of establishing a new division, new systems and managing the implementation of the CRRRP. These activities are in addition to normal duties of national planning, technical supervision, monitoring, standard setting and training.

Because the new organization structure is not yet final, the exact number and qualifications for RRD's staff are not known, but it is obvious that the current staffing of 5 engineers in RRD is insufficient to manage the work program. The number of professional staff required should be increased by at least a factor of three.

RRD/REO do not have sufficient support staff. Technicians, accountants, training officers and computer operators will be required to support the programs.

The REO staffing needs and capability of existing staff are not known in sufficient detail to develop a comprehensive training program. The Trunk Roads Sections of the REO are much better staffed than the Rural Roads Sections, so it is expected that training will need to concentrate on RRD/REOs.

RRD is undertaking an assessment of existing training facilities and programs available in Tanzania which will form the basis of a future MOW/RRD training program.

If RRD/REOs are to be efficient, effective and sustainable, not only do their staffs need to be adequately trained, but personnel management and incentives need to address the current situation of low salaries, lack of career planning and a lack of performance incentives.

An incentive scheme for MOW has been prepared and is being discussed.

<u>Action:</u> MOW/RRD needs to prepare and implement a training program and strategy.

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MOW needs to carry out a study to "rationalize" its staff to reflect the shift from force account operations to contracting of works and decentralization of operations to the regions. Shifts of personnel from TRD to RRD and REOs should be considered to balance staffing and to provide additional career development opportunities within MOW.

GOT/MOW needs to approve its new organization structure, decide on staffing levels and prepare position descriptions for all positions.

MOW needs to approve an evaluation system and implement a performance based incentive scheme.

2.30 Development of Local Contracting Capacity

The construction industry is perhaps the single most important element in Tanzania's investment program with approximately 50% of total capital formation (i.e. roads, railways, ports, schools health facilities, offices, factories, irrigation schemes, dams, etc) being realized through this sector.

As recently as two years ago, involvement of the local private sector in MOW's road program was nil. The issue of private sector involvement was debated and at the urging of donors and the local construction industry, it was embraced by GOT. Through the National Construction Council (NCC), a program to train and assist local contractors to execute rural road rehabilitation was begun. There were many constraints such as availability of contractors, capability of those available, lack of appropriate contracting procedures and standards.
Nevertheless, GOT and donors went forward with plans to involve the private sector in road works. In 1987, GOT and USAID entered into an agreement to implement the Core Rural Roads Rehabilitation Program (CRRRP) using local Tanzanian contractors to rehabilitate 1,500 km of rural roads. Approximately Tsh 4 billion (USD 20 million) have been committed to fund the works.

Local contractors have recently won IRP funded rehabilitation and periodic maintenance contracts on Trunk roads worth more than Tsh 5 billion. In addition, local and foreign contractors are programmed to carry out more than 1000 km of periodic maintenance in FY 91/92.

Tanzania has a very active consulting engineering industry with over 100 registered firms. Most firms have experience in design and supervision of buildings and site development, but little experience in road works. Road design and

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supervision was primarily carried out by international firms or by ministry staff with only limited involvement by local firms.

It is GOT/MOW policy to maximize the use of local consultants and develop the local capacity to design and supervise road works. Under the CRRRP, 8 contracts have been awarded to local private sector firms for the design and supervision of regional roads. As well, most international consultants are encouraged (often required) to joint venture with local consultants when submitting proposals for road works.

GOT/MOW and the majority of donors actively support local contractor involvement and the response by contractors is stronger than originally predicted. The problem has evolved from one of gathering institutional and donor support for contractor involvement in road works to one of developing/assisting the contractors to undertake an ever greater share of the programmed works.

GOT/MOW have also embraced the principle of using local contractors to undertake routine and periodic maintenance. There is considerable potential for expansion of contractor involvement in this area once appropriate contract documents and procedures are developed.

2.31 The National Construction Industry Development Strategy

GOT/MOW commissioned the *National Construction Industry Development Strategy* to be prepared by the National Construction Council (NCC). The strategy presents policy and guidelines for the GOT and donors and covers all aspects of the industry. This strategy was prepared, discussed and has been submitted for final approval.

Policies affecting the Regional road program are:

1. Donor agencies and foreign contractors are encouraged to make increasing use of local contractors.

2. GOT to develop and expand the existing contracting capacity to the fullest.

3. Labour-based construction and maintenance methods will be fostered in order to reduce requirements on foreign exchange.

4. Local contractors will be given preferential treatment when bidding against foreign firms.

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5. Local contractors will be given adequate access to foreign exchange to enable them to develop and perform satisfactorily.

6. Current effort to train local contractors and to offer them advisory and technical assistance will be continued and enhanced.

7. Force account and parastatal contractors will be assessed on their economic viability and will be considered for support or dissolution as appropriate.

Action: GOT/MOW needs to adopt and enact the National Construction Industry Development Strategy. All donors and ministries need to be informed of the strategy and bring their programs in line with GOT policy.

GOT/MOW need to prepare and approve standard contract documents and tender procedures for three classes of rehabilitation and maintenance contracts.

MOW/NCC need to identify and register (prequalify) local contractors for the different types and sizes of contracts.

2.32 Local Contracting Capacity for Rehabilitation Works

A review of the local contracting industry carried out by NCC several years ago, identified seven local contractors with the potential to under take gravel road rehabilitation works. These contractors were prequalified for the CRRRP contracts. These contractors have been awarded 9 rehabilitation contracts worth over USD 25 million. A second prequalification exercise was carried out in 1990 prequalified an additional two contractors capable of undertaking large (greater than USD 1 million) rehabilitation contracts.

The 9 contractors mentioned above have an estimated capacity to undertake about 300 km of rehabilitation per year with an estimated contract value of about Tsh 2 billion (USD 10 million). The existing contractors can probably double their capacity and undertake 600 km per year which would be about Tsh 4 billion (USD 20 million).

These same few contractors are also considered for trunk and urban road rehabilitation and also periodic maintenance contracts. If they are awarded these other types of contracts, then their capacity to undertake regional road rehabilitation will be proportionally diminished.

The donor supported rehabilitation works which are being executed by force account are expected to decrease during the IRP.

Action: The rehabilitation works should be programmed to match the local contracting capacity. It is recommended that REOs undertake force account rehabilitation only if there is excess capacity after fully implementing the RM and PM programs. Donor programs supporting force account rehabilitation will decrease as the local contracting capacity is expanded to perform the works.

Local consulting firms will be employed to undertake the design and supervision of all major rehabilitation works.

2.33 Local Contracting Capacity for Periodic Maintenance Works

Periodic maintenance needs will grow from 1700 km in FY 91/92 to between 3000 km and 4000 km in FY 95/96. For its FY 91/92 program, MOW has taken the very ambitious approach of contracting 100% of its PM works. The WB agreed to fund up to 85% of the costs provided the works are carried out by contractors. Concern over the limited capacity of the local contractors and WB contracting regulations resulted in the prequalification and bidding being opened to international firms. The total size of the PM program is estimated to be $30 million including both trunk and rural roads.

The immediate capacity of the private sector to carry out this program is doubtful; therefore, the REOs may need to develop a certain capacity to undertake the portion of the program which the private sector cannot.

Over 62 firms responded to the prequalification notice including 50 Tanzania contractors. Forty-two contractors were prequalified including 30 Tanzanian contractors. Some of the contractors were prequalified without possessing the required equipment based on their "promises" to hire/purchase the equipment if awarded a contract. Nevertheless, this shows both a strong commitment on the part of GOT and a strong response from the local contracting industry.

The donor supported periodic maintenance which is being executed by force account is expected to decrease during the IRP.

Action: Periodic maintenance will initially be carried out by a mix of private sector contractors and REO force account units. It is recommended that most regions have one regravelling unit capable of 75 km to 100 km of regravelling

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annually. This unit would concentrate on smaller sections (spot regravelling) and the private sector concentrate on longer sections.

The mix of contract and force account PM will be assessed annually in each region. The proportional split will be determined by contractor availability/capacity in the region and the capability of the REO. The amount of donor support to a region will also be a factor.

Supervision of PM works will be carried out by local consulting firms.

2.34 <u>Local Contracting Capacity for Routine Maintenance Works</u>

There is no routine maintenance of regional roads presently undertaken by the private sector. However, it is a high priority of RRD to develop documents and procedures to contract routine maintenance. It is the intention of RRD to introduce maintenance by contract at a level consistent with the REO's ability to manage the contracts.

Maintenance contractors will vary in size and scope:

- **Major Contractors:** These contractors will carry out large periodic maintenance projects. Eventually these contractors may also be used to conduct all routine maintenance of a complete district or region.

- **General Purpose Contractors:** These contractors will carry out a wide range of activities, by mechanized or labor-based methods. They may be engaged for specific activities such as maintenance grading, culvert replacement or for all routine maintenance of defined roads.

- **Petty Contractors:** These contractors will carry out the labor-intensive activities such as vegetation control, drain clearing etc.

Major contractors will probably be the same ones identified for rehabilitation and periodic maintenance contracts. But, the general purpose and petty contractors will need to be identified and prequalified.

The majority of local contractors are engaged in building works. These contractors have varying potentials for expanding into civil works, but many are well managed and are capable of undertaking general purpose and petty contracts. The petty contracting capacity will vary greatly from region to region.

The size of the routine maintenance contracts will be generally small and not require much equipment. Therefore, small regionally based contractors are expected to carry out the petty contracts.

Action: MOW/RRD/REOs need to develop and approve strategy for undertaking routine maintenance by contract. The strategy must set out targets for the proportion of works and types of activities to be contracted.

GOT/MOW needs to develop and approve standard contract documents and procedures for general purpose and petty contracts. REOs and contractors need to be trained to use and administer the contracts.

MOW/NCC need to identify and approve (prequalify) small contractors in the regions with the capability to undertake routine maintenance works.

2.35 Financial Constraints of the Local Contracting Sector

The primary constraint to expanding the private sector capacity is the lack of capital to purchase equipment. The problem is compounded by the general unavailability of credit. Local banks are short of cash to lend to contractors and interest rates are presently 25% to 30%.

Local contractors have limited access to foreign exchange for spare parts and for hiring foreign experts to help manage their operations. Recent changes in the banking laws have allowed local firms to open foreign exchange accounts and some local contractors have accounts offshore, but the limitations on the accounts do not yet permit contractors the access and control they need to operate efficiently.

Contractors have access to foreign exchange through several programs which such as the OGL and CIP whereby they can legally convert Shillings to hard currency for the importation of equipment and spares. These programs are essential, but the contractors must still come up with 100% of the T. Shillings. It normally takes from 3 to 6 months from the time of application to the time of delivery of commodities procured through these schemes. This is workable for large equipment purchases or bulk orders of spares, the procedures are not responsive to the often immediate needs of the contractors for specific spares.

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Action: GOT and Bank of Tanzania need to implement procedures to respond to demands for foreign exchange and allow contractors to covert Shillings to foreign exchange for reasonable expenditures.

OGL and import support programs should be designed to permit contractors to more readily access foreign exchange.
All rehabilitation and PM contracts need to have adequate mobilization provisions which encourage investment in new equipment and materials.

Plant hire companies should offer hire purchase schemes to contractors.

2.36 Staffing Constraints of the Local Contracting Sector

There is a shortage of skilled construction and mechanical supervisors available in Tanzania. Forex problems prohibit the procurement of experienced staff from outside the country and contractors are reluctant to hire expensive foreign staff without assurances of continued contracts.

Shifting of MOW staff to the private sector has not occurred. It was predicted that MOW staff would be enticed to shift to the private sector because of greater financial benefits. To date, this has not been the case. The private sector does not offer sufficient security to attract established MOW staff. The issue may surface as the private sector becomes more and more established, but there is now the expectation that MOW staff will remain with the MOW for the near future. However, MOW will be competing with the private sector for the additional staff it needs to implement its road programs.

The intake of engineering students at the University of Dar es Salaam and the technical colleges at Arusha and DSM have recently been increased in expectation of a growing demand. But experienced personnel from the level of operators and foremen up to engineers and construction managers will be increasingly difficult to find as the contracting industry assumes a greater and greater share of RRD's program.

Action: GOT should permit local contractors to access to foreign exchange to recruit and hire foreign technical assistance if the local capacity is insufficient.

NCC's contractor training programs should be continued and expanded as required.

2.37 Definition of Local Contractors

At present, local contractors are legally defined solely on the basis of the nationality of the owners. This narrow definition restricts the participation of some locally based, but foreign owned, firms that generate most of their revenue in Tanzania. If additional criteria such as principle place of business, number of Tanzanian employees or percentage of earnings derived from Tanzanian contracts are considered, then foreign investment would be encouraged and the local capacity could be expanded.

The issues of joint ventures and sub-contracting between foreign and local firms also needs to be redefined.

Action: GOT needs to review its definition of foreign and local contractors with the aim of promoting foreign investment in the sector while maintaining preferential conditions for local; contractors.

2.40 Revenue Generation and Program Financing

Forecasting program costs and estimating future revenues is a tricky business even if accurate, complete data is available. Forecasting and estimating in Tanzania is difficult not only due to lack of data, but also due to lack of clear GOT policies and the fact that most of Tanzania's income is agriculturally based which makes it vulnerable to weather and price fluctuations.

The constraints to development of a sustainable financing scheme for Regional road program are large. The sources of local revenue available are limited and the ability and commitment of the government to budget increasingly higher amounts of funds for road maintenance is not certain. The major immediate constraint is the undefined scope of the Regional roads rehabilitation and maintenance program.

2.41 Scope of the Regional Road Rehabilitation and Maintenance Programs

Early in the development of IRP it was proposed that Regional roads become the responsibility of MOW under a newly created rural roads division. It was felt that MOW and RRD would be overwhelmed by taking over the entire (estimated to be 20,000 km) at one time. Under the IRP, GOT agreed:

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* to assume responsibility for routine maintenance of 7000 km of Regional roads in FY 91/92 and increase to 10000 in FY 95/96.

* to begin its periodic maintenance (PM) program with 650 km of regravelling and 700 km of "reshaping" in FY 91/92 increasing to 1200 km of regravelling and 750 km of reshaping in FY 95/96. A 5 year periodic cycle for regravelling was assumed.

* to rehabilitate 2250 km of existing regional gravel roads and upgrade 4500 km of earth roads to gravel road standards.

In addition, it was agreed to give priority to Regional roads in 11 "Core" regions. These roads were to receive higher levels of maintenance funding than "non-Core" roads and also to receive the bulk of the PM and rehabilitation works.

Beginning in FY 90/91, the responsibility for all Regional roads was assumed by MOW/RRD. For FY 91/92, the total Regional road network has increased to approximately 17000 km. This is more than double the network upon which the IRP program is based. The current MOW/RRD program for Regional roads can be described as follows:

* RRD's network will grow from about 17,000 km in FY 91/92 to 20,000 km in FY 95/96. The increase will be the result of upgrading District and essential feeder roads to Regional road standards;

* Routine Maintenance will be carried out on the entire network each year; and,

* Periodic maintenance (regravelling) will be carried out on a 7 year cycle. This means that the PM program will grow from 2000 km in FY 91/92 to 2500 km in FY 95/96;

* Rehabilitation of 500 km is programmed for each of the next 5 years.

The comparison of the financial requirements of the IRP program and that required by the current MOW/RRD program are shown on Table 1.0.

For the purposes of this analysis, US dollar amounts are used because it is less likely to be affected by inflation, devaluations, etc. than the Tanzanian Shilling.

TABLE 1 REGIONAL ROADS MAINTENANCE PROGRAM							
ITEM		FY 91/91	FY 92/93	FY 93/94	FY 94/95	FY 95/96	
Routine Maintenance KM	IRP	7000km	7000km	8000km	8500km	10000km	
	RRD	14500km	15000km	15500km	16000km	16500km	
Periodic Maintenance KM	IRP	1400km	1400km	1550km	1600km	1650km	
	RRD	2000km	2150km	2250km	2300km	2500km	
REGIONAL ROADS MAINTENANCE BUDGET (USD '000)							
ITEM		FY 91/92	FY 92/93	FY 93/94	FY 94/95	FY 95/96	
Routine Maintenance Budget	IRP	3,004	3,010	3,591	3,742	4,666	Cost/km 429
	RRD	6,525	6,750	6,980	7,425	7,880	Cost/km 450
Periodic Maintenance Budget	IRP	5,754	5,970	7,369	7,767	9,897	Cost/km 4,110
	RRD	20,000	21,500	22,500	23,000	25,000	Cost/km 10,000
Total Maintenance Budget	IRP	8,758	8,890	10,960	11,509	12,563	
	RRD	26,525	28,250	29,480	30,425	32,880	

It is obvious from Table 1 that the financial requirements of the two programs differ significantly. Currently, GOT is committed to financing 100% of the recurrent budget for Regional roads by FY 95/96 based on the IRP work program.

Table 1 shows GOT's financial commitment to funding the Regional roads program as per the IRP agreement. Under the IRP agreement, GOT is committed to assuming an annually increasing percentage of the recurrent costs until it has assumed 100% by FY 95/96. Table 2 also shows the amount of GOT financing required to assume responsibility for its present program by FY 95/96

TABLE 2 REGIONAL ROADS MAINTENANCE BUDGET (US$'000)						
ITEM		FY 91/92*	FY 92/93	FY 93/94	FY 94/95	FY 95/96
Total Maintenance Budget	IRP	8,758	8,890	10,960	11,509	12,563
	RRD	26,525	28,250	29,480	30,425	32,880
% GOT Contribution		50%	60%	75%	85%	100%
Minimum GOT Contribution	IRP	4,379	5,334	8,220	9,783	12,563
	RRD	13,263	16,950	22,110	25,861	32,880
* Actual allocation for Regional Roads for FY 91/92 was Tsh 1.512 billion (US$ 6,050,000)						

It is obvious from Table 1 that the financial requirements of the two programs differ significantly. Currently, GOT is committed to financing 100% of the recurrent budget for Regional roads by FY 95/96 based on the IRP work program.

Table 1 shows GOT's financial commitment to funding the Regional roads program as per the IRP agreement. Under the IRP agreement, GOT is committed to assuming an annually increasing percentage of the recurrent costs until it has assumed 100% by FY 95/96. Table 2 also shows the amount of GOT financing required to assume responsibility for its present program by FY 95/96

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Action: GOT/MOW needs to agree on the scope of Regional road program. The agreement is expected to follow the completion of the road inventory and condition survey planned for FY 91/92. Donors should be included in the discussions, especially WB and those supplying direct assistance to Rural roads programs. This issue impacts every aspect of the program, such as number of staff to be recruited or trained, amount of equipment, number of contractors required and financial needs of the program.

2.42 Sources of Revenue

In January 1991, a study was carried out under the auspices of the WB to assist GOT develop a program to finance recurrent maintenance cost for trunk and rural roads. This study's aim was to assess present status of revenue generation in the road sector and to recommend a course of action for GOT to meet the financial commitments of the IRP.

Tanzania has 6 major sources of revenue from the road sector. They are summarized below along with expected level of funds to be generated for FY 90/91.

	SOURCE	$M
1.	Excise duty	1.3
2.	Sales tax on petroleum	14.3
3.	Sales tax on veh. & spares	9.9
4.	Sales tax on tyres and tubes	5.5
5.	Road Fund (fuel tax)	4.2
6.	Vehicle licenses,etc.	0.6
		$ 35.8

While this is the amount of funds the sector generates, only the Road Fund is dedicated to road programs. The other revenues go to the Treasury and are reapportioned each year during budget negotiations with the various ministries.

A Roads Fund was established in June 1991 which will receive funds generated from a fuel tax of 7.5 Shillings/liter. These new taxes and fees are expected to generate an additional $20 million.

Operating procedures and priorities for use of the Road Fund have not yet been established. It is not clear if the Road Fund will eventually, fully finance the road program or if general treasury revenues will also be required annually.

Action: Revenues from the Road Fund need to be prioritized between the different road classes and types of activities.

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Procedures for programming and disbursing Road Fund revenues need to be established and implemented.

If MOW/RRD decide to carry out the present expanded work program rather than the IRP program, then new IRP expenditure targets need to be developed which reflect both the increased kilometers of the Regional road network and the increased cost/km of periodic maintenance.

GOT should revise accounting procedures for salaries, plant and administration such that total costs of roads program are consolidated within MOW so that a true cost of the road program can be monitored.

3.00 Sustainability Action Plan

The recommended actions for each of the of the program elements discussed in Section 2 are listed in the following timelines. Taken as a whole they represent the action plan required to achieve a sustainable Regional road program by FY 95/96.

It is obvious from the Action Plan that most of the program elements for sustainability need to occur within the first two years of the program. The first years are when the policies and systems are to be developed and implemented.

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Annex E

5C(1) - COUNTRY CHECKLIST

Listed below are statutory criteria applicable to the eligibility of countries to receive the following categories of assistance: (A) both Development Assistance and Economic Support Funds; (B) Development Assistance funds only; or (C) Economic Support Funds only.

A. COUNTRY ELIGIBILITY CRITERIA APPLICABLE TO BOTH DEVELOPMENT ASSISTANCE AND ECONOMIC SUPPORT FUND ASSISTANCE

1. **Narcotics**

a. **Negative certification** (FY 1991 Appropriations Act Sec. 559(b)): Has the President certified to the Congress that the government of the recipient country is failing to take adequate measures to prevent narcotic drugs or other controlled substances which are cultivated, produced or processed illicitly, in whole or in part, in such country or transported through such country, from being sold illegally within the jurisdiction of such country to United States Government personnel or their dependents or from entering the United States unlawfully? — NO

b. **Positive certification** (FAA Sec. 481(h)). (This provision applies to assistance of any kind provided by grant, sale, loan, lease, credit, guaranty, or insurance, except assistance from the Child Survival Fund or relating to international narcotics control, disaster and refugee relief, narcotics education and awareness, or the provision of food or medicine.) If the recipient is a "major illicit drug producing country" (defined as a country producing during a fiscal year at least five metric tons of opium or 500 metric tons of coca or marijuana) or a "major drug-transit country" (defined as a country that is a significant direct — N/A source of illicit drugs significantly affecting the United States, through which such drugs are transported, or through which significant sums of drug-related profits are laundered with the knowledge or complicity of the government):

(1) does the country have in place a bilateral narcotics agreement with the United States, or a multilateral narcotics agreement?

(2) has the President in the March 1 International Narcotics Control Strategy Report (INSCR) determined and certified to the Congress (without Congressional enactment, within 45 days of continuous session, of a resolution disapproving such a certification), or has the President determined and certified to the Congress on any other date (with enactment by Congress of a resolution approving such certification), that (a) during the previous year the country has cooperated fully with the United States or taken adequate steps on its own to satisfy the goals agreed to in a bilateral narcotics agreement with the United States or in a multilateral agreement, to prevent illicit drugs produced or processed in or transported through such country from being transported into the United States, to prevent and punish drug profit laundering in the country, and to prevent and punish bribery and other forms of public corruption which facilitate production or shipment of illicit drugs or discourage prosecution of such acts, or that (b) the vital national interests of the United States require the provision of such assistance?

c. Government Policy (1986 Anti-Drug Abuse Act of 1986 Sec. 2013(b)). (This section applies to the same categories of assistance subject to the restrictions in FAA Sec. 481(h), above.) If recipient country is a "major illicit drug producing country" or "major drug-transit country" (as defined for the purpose of FAA Sec 481(h)), has the President submitted a report to Congress N/A

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listing such country as one: (a) which, as a matter of government policy, encourages or facilitates the production or distribution of illicit drugs; (b) in which any senior official of the government engages in, encourages, or facilitates the production or distribution of illegal drugs; (c) in which any member of a U.S. Government agency has suffered or been threatened with violence inflicted by or with the complicity of any government officer; or (d) which fails to provide reasonable cooperation to lawful activities of U.S. drug enforcement agents, unless the President has provided the required certification to Congress pertaining to U.S. national interests and the drug control and criminal prosecution efforts of that country?

2. **Indebtedness to U.S. citizens** (FAA Sec. 620(c): If assistance is to a government, is the government indebted to any U.S. citizen for goods or services furnished or ordered where: (a) such citizen has exhausted available legal remedies, (b) the debt is not denied or contested by such government, or (c) the indebtedness arises under an unconditional guaranty of payment given by such government or controlled entity? NO

3. **Seizure of U.S. Property** (FAA Sec. 620(e)(1)): If assistance is to a government, has it (including any government agencies or subdivisions) taken any action which has the effect of nationalizing, expropriating, or otherwise seizing ownership or control of property of U.S. citizens or entities beneficially owned by them without taking steps to discharge its obligations toward such citizens or entities? NO

4. **Communist countries** (FAA Secs. 620(a), 620(f), 620D; FY 1991 Appropriations Act Secs. 512, 545): Is recipient country a Communist country? NO
If so, has the President: (a) determined that assistance to the country is vital to the security of the United States, that the recipient country is not controlled by N/A

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the international Communist conspiracy, and that such assistance will further promote the independence of the recipient country from international communism, or (b) removed a country from applicable restrictions on assistance to communist countries upon a determination and report to Congress that such action is important to the national interest of the United States? Will assistance be provided either directly or indirectly to Angola, Cambodia, Cuba, Iraq, Libya, Vietnam, Iran or Syria? Will assistance be provided to Afghanistan without a certification, or will assistance be provided inside Afghanistan through the Soviet-controlled government of Afghanistan?

5. **Mob Action** (FAA Sec. 620(j)): Has the country permitted, or failed to take adequate measures to prevent, damage or destruction by mob action of U.S. property? NO

6. **OPIC Investment Guaranty** (FAA Sec. 620(l)): Has the country failed to enter into an investment guaranty agreement with OPIC? NO

7. **Seizure of U.S. Fishing Vessels** (FAA Sec. 620(o); Fishermen's Protective Act of 1967 (as amended) Sec. 5): (a) Has the country seized, or imposed any penalty or sanction against, any U.S. fishing vessel because of fishing activities in international waters? (b) If so, has any deduction required by the Fishermen's Protective Act been made?

a. NO

b. N/A

8. **Loan Default** (FAA Sec. 620(q); FY 1991 Appropriations Act Sec. 518 (Brooke Amendment)): (a) Has the government of the recipient country been in default for more than six months on interest or principal of any loan to the country under the FAA? (b) Has the country been in default for more than one year on interest or principal on any U.S. loan under a program for which the FY 1990 Appropriations Act appropriates funds?

a. NO

b. NO

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9. **Military Equipment** (FAA Sec. 620(s)): If contemplated assistance is development loan or to come from Economic Support Fund, has the Administrator taken into account the percentage of the country's budget and amount of the country's foreign exchange or other resources spent on military equipment? (Reference may be made to the annual "Taking Into Consideration" memo: "Yes, taken into account by the Administrator at time of approval of Agency OYB." This approval by the Administrator of the Operational Year Budget can be the basis for an affirmative answer during the fiscal year unless significant changes in circumstances occur.)

N/A

10. **Diplomatic Relations with U.S.** (FAA Sec. 620(t)): Has the country severed diplomatic relations with the United States? If so, have relations been resumed and have new bilateral assistance agreements been negotiated and entered into since such resumption?

NO

11. **U.N. Obligations** (FAA Sec. 620(u)): What is the payment status of the country's U.N. obligations? If the country is in arrears, were such arrearages taken into account by the A.I.D. Administrator in determining the current A.I.D. Operational Year Budget? (Reference may be made to the "Taking into Consideration" memo.)

As of 1990 Tanzania was not in arrears.

12. **International Terrorism**

a. **Sanctuary and support** (FY 1991 Appropriations Act Sec. 556; FAA Sec. 620A): Has the country been determined by the President to: (a) grant sanctuary from prosecution to any individual or group which has committed an act of international terrorism, or (b) otherwise support international terrorism, unless the President has waived this restriction on grounds of national security or for humanitarian reasons?

NO

NO

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b. **Airport Security** (ISDCA of 1985 Sec. 552(b). Has the Secretary of State determined that the country is a high terrorist threat country after the Secretary of Transportation has determined, pursuant to section 1115(e)(2) of the Federal Aviation Act of 1958, that an airport in the country does not maintain and administer effective security measures?

NO

13. **Discrimination** (FAA Sec. 666(b)): Does the country object, on the basis of race, religion, national origin or sex, to the presence of any officer or employee of the U.S. who is present in such country to carry out economic development programs under the FAA?

NO

14. **Nuclear Technology** (FAA Secs. 669, 670): Has the country, after August 3, 1977, delivered to any other country or received nuclear enrichment or reprocessing equipment, materials, or technology, without specified arrangements or safeguards, and without special certification by the President? Has it transferred a nuclear explosive device to a non-nuclear weapon state, or if such a state, either received or detonated a nuclear explosive device? If the country is a non-nuclear weapon state, has it, on or after August 8, 1985, exported (or attempted to export) illegally from the United States any material, equipment, or technology which would contribute significantly to the ability of a country to manufacture a nuclear explosive device? (FAA Sec. 620E permits a special waiver of Sec. 669 for Pakistan.)

NO

NO

NO

15. **Algiers Meeting** (ISDCA of 1981, Sec. 720): Was the country represented at the Meeting of Ministers of Foreign Affairs and Heads of Delegations of the Non-Aligned Countries to the 36th General Assembly of the U.N. on Sept. 25 and 28, 1981, and did it fail to disassociate itself from the communique issued? If so, has the President taken it into account? (Reference may be made to the "Taking into Consideration" memo.)

Yes, and it failed to disassociate itself from the communique. This was taken into considera tion in the approval of the 1991 OYB.

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16. **Military Coup** (FY 1991 Appropriations Act Sec. 513): Has the duly elected Head of Government of the country been deposed by military coup or decree? If assistance has been terminated, has the President notified Congress that a democratically elected government has taken office prior to the resumption of assistance?

NO

N/A

17. **Refugee Cooperation** (FY 1991 Appropriations Act Sec. 539): Does the recipient country fully cooperate with the international refugee assistance organizations, the United States, and other governments in facilitating lasting solutions to refugee situations, including resettlement without respect to race, sex, religion, or national origin?

YES

18. **Exploitation of Children** (FY 1991 Appropriations Act Sec. 599D, amending FAA Sec. 116): Does the recipient government fail to take appropriate and adequate measures, within its means, to protect children from exploitation, abuse or forced conscription into military or paramilitary services?

NO

B. COUNTRY ELIGIBILITY CRITERIA APPLICABLE ONLY TO DEVELOPMENT ASSISTANCE ("DA")

1. **Human Rights Violations** (FAA Sec. 116): Has the Department of State determined that this government has engaged in a consistent pattern of gross violations of internationally recognized human rights? If so, can it be demonstrated that contemplated assistance will directly benefit the needy?

NO

N/A

2. **Abortions** (FY 1991 Appropriations Act Sec. 535): Has the President certified that use of DA funds by this country would violate any of the prohibitions against use of funds to pay for the performance of abortions as a method of family planning, to motivate or coerce any person to practice abortions, to pay for the performance of involuntary

NO

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sterilization as a method of family planning, to coerce or provide any financial incentive to any person to undergo sterilizations, to pay for any biomedical research which relates, in whole or in part, to methods of, or the performance of, abortions or involuntary sterilization as a means of family planning?

COUNTRY ELIGIBILITY CRITERIA APPLICABLE ONLY TO ECONOMIC SUPPORT FUNDS ("ESF")

Human Rights Violations (FAA Sec. 502B): Has it been determined that the country has engaged in a consistent pattern of gross violations of internationally recognized human rights? If so, has the President found that the country made such significant improvement in its human rights record that furnishing such assistance is in the U.S. national interest? N/A

Clearances: GC/AFR:MAKleinjan (draft)
AFR/PD:CTerry (draft)
AF/E:MCheshes

5C(2) - ASSISTANCE CHECKLIST

Listed below are statutory criteria applicable to the assistance resources themselves, rather than to the eligibility of a country to receive assistance. This section is divided into three parts. Part A includes criteria applicable to both Development Assistance and Economic Support Fund resources. Part B includes criteria applicable only to Development Assistance resources. Part C includes criteria applicable only to Economic Support Funds.

CROSS REFERENCE: IS COUNTRY CHECKLIST UP TO DATE? — YES

A. CRITERIA APPLICABLE TO BOTH DEVELOPMENT ASSISTANCE AND ECONOMIC SUPPORT FUNDS

1. **Host Country Development Efforts** (FAA Sec. 601(a)): Information and conclusions on whether assistance will encourage efforts of the country to: (a) increase the flow of international trade; (b) foster private initiative and competition; (c) encourage development and use of cooperatives, credit unions, and savings and loan associations; (d) discourage monopolistic practices; (e) improve technical efficiency of industry, agriculture, and commerce; and (f) strengthen free labor unions.

The assistance will foster increased exports, increased imports and private sector road contracts, which will encourage private sector initiative and discourage parastatal construction monopolies.

2. **U.S. Private Trade and Investment** (FAA Sec. 601(b)): Information and conclusions on how assistance will encourage U.S. private trade and investment abroad and encourage private U.S. participation in foreign assistance programs (including use of private trade channels and the services of U.S. private enterprise).

U.S. firms will provide goods under the import program and U.S. firms and individuals will undertake technical assistance and consultancy services.

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3. **Congressional Notification**

a. **General requirement** (FY 1991 Appropriations Act Secs. 523 and 591; FAA Sec. 634A): If money is to be obligated for an activity not previously justified to Congress, or for an amount in excess of amount previously justified to Congress, has Congress been properly notified (unless the notification requirement has been waived because of substantial risk to human health or welfare)?

A Congressional Notification was submitted on July 26, 1991 and 15 - day waiting period expired without objection on August 10, 1991.

b. **Notice of new account obligation** (FY 1991 Appropriations Act Sec. 514): If funds are being obligated under an appropriation account to which they were not appropriated, has the President consulted with and provided a written justification to the House and Senate Appropriations Committees and has such obligation been subject to regular notification procedures?

N/A

c. **Cash transfers and nonproject sector assistance** (FY 1991 Appropriations Act Sec. 575(b)(3)): If funds are to be made available in the form of cash transfer or nonproject sector assistance, has the Congressional notice included a detailed description of how the funds will be used, with a discussion of U.S. interests to be served and a description of any economic poolicy reforms to be promoted?

YES

4. **Engineering and Financial Plans** (FAA Sec. 611(a)): Prior to an obligation in excess of $500,000, will there be: (a) engineering, financial or other plans necessary to carry out the assistance; and (b) a reasonably firm estimate of the cost to the U.S. of the assistance?

N/A

5. **Legislative Action** (FAA Sec. 611(a)(2)): If legislative action is required within recipient country with respect to an obligation in excess of $500,000, what is the basis for a reasonable expectation that such action

No GOT legislative action is required.

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will be completed in time to permit orderly accomplishment of the purpose of the assistance?

6. **Water Resources** (FAA Sec. 611(b); FY 1991 Appropriations Act Sec. 501): If project is for water or water-related land resource construction, have benefits and costs been computed to the extent practicable in accordance with the principles, standards, and procedures established pursuant to the Water Resources Planning Act (42 U.S.C. 1962, et seq.)? (See A.I.D. Handbook 3 for guidelines.)

N/A

7. **Cash Transfer and Sector Assistance** (FY 1991 Appropriations Act Sec. 575(b)): Will cash transfer or nonproject sector assistance be maintained in a separate account and not commingled with other funds (unless such requirements are waived by Congressional notice for nonproject sector assistance)?

Yes, cash transfer funds will be kept in a separate account and will not be commingled with other funds.

8. **Capital Assistance** (FAA Sec. 611(e)): If project is capital assistance (e.g., construction), and total U.S. assistance for it will exceed $1 million, has Mission Director certified and Regional Assistant Administrator taken into consideration the country's capability to maintain and utilize the project effectively?

N/A

9. **Multiple Country Objectives** (FAA Sec. 601(a)): Information and conclusions on whether projects will encourage efforts of the country to: (a) increase the flow of international trade; (b) foster private initiative and competition; (c) encourage development and use of cooperatives, credit unions, and savings and loan associations; (d) discourage monopolistic practices; (e) improve technical efficiency of industry, agriculture and

The assistance will foster increased exports, increased imports and private sector road contracts, which will encourage private sector initiative and discourage parastatal construction monopolies.

(2) Will such local currencies, or an equivalent amount of local currencies, be used only to carry out the purposes of the DA or ESF chapters of the FAA (depending on which chapter is the source of the assistance) or for the administrative requirements of the United States Government?

Yes

(3) Has A.I.D. taken all appropriate steps to ensure that the equivalent of local currencies disbursed from the separate account are used for the agreed purposes?

Yes

(4) If assistance is terminated to a country, will any unencumbered balances of funds remaining in a separate account be disposed of for purposes agreed to by the recipient government and the United States Government?

Yes. The cooperating country is committed to the transport sector that the funds would continue to be used for purposes agreed to even if assistance is terminated.

12. **Trade Restrictions**

a. **Surplus Commodities** (FY 1991 Appropriations Act Sec. 521(a)): If assistance is for the production of any commodity for export, is the commodity likely to be in surplus on world markets at the time the resulting productive capacity becomes operative, and is such assistance likely to cause substantial injury to U.S. producers of the same, similar or competing commodity?

NO

b. **Textiles (Lautenberg Amendment)** (FY 1991 Appropriations Act Sec. 521(c)): Will the assistance (except for programs in Caribbean Basin Initiative countries under U.S. Tariff Schedule "Section 807," which allows reduced tariffs on articles assembled abroad from U.S.-made components) be used directly to procure feasibility studies, prefeasibility studies, or project profiles of potential investment in, or to assist the establishment of facilities specifically designed for, the manufacture for export to the United States or to third country markets in direct competition with U.S. exports, of

NO

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textiles, apparel, footwear, handbags, flat goods (such as wallets or coin purses worn on the person), work gloves or leather wearing apparel?

13. **Tropical Forests** (FY 1991 Appropriations Act Sec. 533(c)(3)): Will funds be used for any program, project or activity which would (a) result in any significant loss of tropical forests, or (b) involve industrial timber extraction in primary tropical forest areas?

NO

14. **PVO Assistance**

a. **Auditing and registration** (FY 1991 Appropriations Act Sec. 537): If assistance is being made available to a PVO, has that organization provided upon timely request any document, file, or record necessary to the auditing requirements of A.I.D., and is the PVO registered with A.I.D.?

No. Assistance is being provided to the GOT.

b. **Funding sources** (FY 1991 Appropriations Act, Title II, under heading "Private and Voluntary Organizations"): If assistance is to be made to a United States PVO (other than a cooperative development organization), does it obtain at least 20 percent of its total annual funding for international activities from sources other than the United States Government?

Assistance is not to a U.S. PVO.

15. **Project Agreement Documentation** (State Authorization Sec. 139 (as interpreted by conference report)): Has confirmation of the date of signing of the project agreement, including the amount involved, been cabled to State L/T and A.I.D. LEG within 60 days of the agreement's entry into force with respect to the United States, and has the full text of the agreement been pouched to those same offices? (See Handbook 3, Appendix 6G for agreements covered by this provision).

Case - Zablocki requirements will be satisfied.

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16. **Metric System** (Omnibus Trade and Competitiveness Act of 1988 Sec. 5164, as interpreted by conference report, amending Metric Conversion Act of 1975 Sec. 2, and as implemented through A.I.D. policy): Does the assistance activity use the metric system of measurement in its procurements, grants, and other business-related activities, except to the extent that such use is impractical or is likely to cause significant inefficiencies or loss of markets to United States firms? Are bulk purchases usually to be made in metric, and are components, subassemblies, and semi-fabricated materials to be specified in metric units when economically available and technically adequate? Will A.I.D. specifications use metric units of measure from the earliest programmatic stages, and from the earliest documentation of the assistance processes (for example, project papers) involving quantifiable measurements (length, area, volume, capacity, mass and weight), through the implementation stage?	Yes
17. **Women in Development** (FY 1991 Appropriations Act, Title II, under heading "Women in Development"): Will assistance be designed so that the percentage of women participants will be demonstrably increased?	No. However socio economic baseline survey of the program, desegregated by sex, has been conducted to permit future program designs address "Women in Development".
18. **Regional and Multilateral Assistance** (FAA Sec. 209): Is assistance more efficiently and effectively provided through regional or multilateral organizations? If so, why is assistance not so provided? Information and conclusions on whether assistance will encourage developing countries to cooperate in regional development programs.	No, this assistance complements multilateral donor activity in the transport sector. To the extent the transport sector in Tanzania is more efficient, regional flows of goods and increased regional cooperation should result.

c. **Marine insurance** (FAA Sec. 604(d)): If the cooperating country discriminates against marine insurance companies authorized to do business in the U.S., will commodities be insured in the United States against marine risk with such a company?

The country does not discriminate against foreign insurance companies doing business outside.

d. **Non-U.S. agricultural procurement** (FAA Sec. 604(e)): If non-U.S. procurement of agricultural commodity or product thereof is to be financed, is there provision against such procurement when the domestic price of such commodity is less than parity? (Exception where commodity financed could not reasonably be procured in U.S.)

The eligibility list of the program does not include agricultural commodity or product thereof.

e. **Construction or engineering services** (FAA Sec. 604(g)): Will construction or engineering services be procured from firms of advanced developing countries which are otherwise eligible under Code 941 and which have attained a competitive capability in international markets in one of these areas? (Exception for those countries which receive direct economic assistance under the FAA and permit United States firms to compete for construction or engineering services financed from assistance programs of these countries.)

NO

f. **Cargo preference shipping** (FAA Sec. 603)): Is the shipping excluded from compliance with the requirement in section 901(b) of the Merchant Marine Act of 1936, as amended, that at least 50 percent of the gross tonnage of commodities (computed separately for dry bulk carriers, dry cargo liners, and tankers) financed shall be transported on privately owned U.S. flag commercial vessels to the extent such vessels are available at fair and reasonable rates?

Yes.
The source/origin of commodity to be procured is Code 935, and U.S. flag commercial carriers are not always available in Code 935 country ports at fair and reasonable rates.

g. **Technical assistance** (FAA Sec. 621(a)): If technical assistance is financed, will such assistance be furnished by private enterprise on a contract basis to the fullest extent practicable? Will the

YES

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facilities and resources of other Federal agencies be utilized, when they are particularly suitable, not competitive with private enterprise, and made available without undue interference with domestic programs? YES

h. **U.S. air carriers** (International Air Transportation Fair Competitive Practices Act, 1974): If air transportation of persons or property is financed on grant basis, will U.S. carriers be used to the extent such service is available? YES

i. **Termination for convenience of U.S. Government** (FY 1991 Appropriations Act Sec. 504): If the U.S. Government is a party to a contract for procurement, does the contract contain a provision authorizing termination of such contract for the convenience of the United States? YES

j. **Consulting services** (FY 1991 Appropriations Act Sec. 524): If assistance is for consulting service through procurement contract pursuant to 5 U.S.C. 3109, are contract expenditures a matter of public record and available for public inspection (unless otherwise provided by law or Executive order)? YES

k. **Metric conversion** (Omnibus Trade and Competitiveness Act of 1988, as interpreted by conference report, amending Metric Conversion Act of 1975 Sec. 2, and as implemented through A.I.D. policy): Does the assistance program use the metric system of measurement in its procurements, grants, and other business-related activities, except to the extent that such use is impractical or is likely to cause significant inefficiencies or loss of markets to United States firms? Are bulk purchases usually to be made in metric, and are components, subassemblies, and semi-fabricated materials to be specified in metric units when economically available and technically adequate? Will A.I.D. specifications use metric units of measure from the earliest programmatic stages, and from the earliest YES

documentation of the assistance processes (for example, project papers) involving quantifiable measurements (length, area, volume, capacity, mass and weight), through the implementation stage?	
l. **Competitive Selection Procedures** (FAA Sec. 601(e)): Will the assistance utilize competitive selection procedures for the awarding of contracts, except where applicable procurement rules allow otherwise?	YES.
23. **Construction**	
a. **Capital project** (FAA Sec. 601(d)): If capital (e.g., construction) project, will U.S. engineering and professional services be used?	This is not a capital project.
b. **Construction contract** (FAA Sec. 611(c)): If contracts for construction are to be financed, will they be let on a competitive basis to maximum extent practicable?	The dollar funds do not finance construction. The local currrency generated from the dollar funds will finance contracts for construction competitively.
c. **Large projects, Congressional approval** (FAA Sec. 620(k)): If for construction of productive enterprise, will aggregate value of assistance to be furnished by the U.S. not exceed $100 million (except for productive enterprises in Egypt that were described in the Congressional Presentation), or does assistance have the express approval of Congress?	This program is not for construction nor does it exceed $ 100 million.
24. **U.S. Audit Rights** (FAA Sec. 301(d)): If fund is established solely by U.S. contributions and administered by an international organization, does Comptroller General have audit rights?	N/A.
25. **Communist Assistance** (FAA Sec. 620(h). Do arrangements exist to insure that United States foreign aid is not used in a manner which, contrary to the best interests of the United States, promotes or assists the foreign aid projects or activities of the Communist-bloc countries?	YES. Source origin is Code 935 which excludes communist block countries.

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26. **Narcotics**

a. **Cash reimbursements** (FAA Sec. 483): Will arrangements preclude use of financing to make reimbursements, in the form of cash payments, to persons whose illicit drug crops are eradicated?

YES

b. **Assistance to narcotics traffickers** (FAA Sec. 487): Will arrangements take "all reasonable steps" to preclude use of financing to or through individuals or entities which we know or have reason to believe have either: (1) been convicted of a violation of any law or regulation of the United States or a foreign country relating to narcotics (or other controlled substances); or (2) been an illicit trafficker in, or otherwise involved in the illicit trafficking of, any such controlled substance?

YES
USAID has to concur to all procurements under the program.

27. **Expropriation and Land Reform** (FAA Sec. 620(g)): Will assistance preclude use of financing to compensate owners for expropriated or nationalized property, except to compensate foreign nationals in accordance with a land reform program certified by the President?

YES

28. **Police and Prisons** (FAA Sec. 660): Will assistance preclude use of financing to provide training, advice, or any financial support for police, prisons, or other law enforcement forces, except for narcotics programs?

YES

29. **CIA Activities** (FAA Sec. 662): Will assistance preclude use of financing for CIA activities?

YES

30. **Motor Vehicles** (FAA Sec. 636(i)): Will assistance preclude use of financing for purchase, sale, long-term lease, exchange or guaranty of the sale of motor vehicles manufactured outside U.S., unless a waiver is obtained?

N/A, under the DFA code 935 countries are eligible.

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31. **Military Personnel** (FY 1991 Appropriations Act Sec. 503): Will assistance preclude use of financing to pay pensions, annuities, retirement pay, or adjusted service compensation for prior or current military personnel? YES

32. **Payment of U.N. Assessments** (FY 1991 Appropriations Act Sec. 505): Will assistance preclude use of financing to pay U.N. assessments, arrearages or dues? YES

33. **Multilateral Organization Lending** (FY 1991 Appropriations Act Sec. 506): Will assistance preclude use of financing to carry out provisions of FAA section 209(d) (transfer of FAA funds to multilateral organizations for lending)? YES

34. **Export of Nuclear Resources** (FY 1991 Appropriations Act Sec. 510): Will assistance preclude use of financing to finance the export of nuclear equipment, fuel, or technology? YES

35. **Repression of Population** (FY 1991 Appropriations Act Sec. 511): Will assistance preclude use of financing for the purpose of aiding the efforts of the government of such country to repress the legitimate rights of the population of such country contrary to the Universal Declaration of Human Rights? YES

36. **Publicity or Propoganda** (FY 1991 Appropriations Act Sec. 516): Will assistance be used for publicity or propaganda purposes designed to support or defeat legislation pending before Congress, to influence in any way the outcome of a political election in the United States, or for any publicity or propaganda purposes not authorized by Congress? NO

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37. **Marine Insurance** (FY 1991 Appropriations Act Sec. 563): Will any A.I.D. contract and solicitation, and subcontract entered into under such contract, include a clause requiring that U.S. marine insurance companies have a fair opportunity to bid for marine insurance when such insurance is necessar or appropriate?

YES

38. **Exchange for Prohibited Act** (FY 1991 Appropriations Act Sec. 569): Will any assistance be provided to any foreign government (including any instrumentality or agency thereof), foreign person, or United States person in exchange for that foreign government or person undertaking any action which is, if carried out by th United States Government, a United States official or employee, expressly prohibitec by a provision of United States law?

NO

B. CRITERIA APPLICABLE TO DEVELOPMENT ASSISTANCE ONLY

1. **Agricultural Exports (Bumpers Amendment)** (FY 1991 Appropriations Act Sec. 521(b), as interpreted by conference report for original enactment): If assistance is for agricultural development activities (specifically, any testing or breeding feasibility study, variety improvement or introduction, consultancy, publication, conference, or training), are such activities: (1) specifically and principally designed to increase agricultural exports by the host country to a country other than the United States, where the export would lead to direct competition in that third country with exports of a similar commodity grown or produced in the United States, and can the activities reasonably be expected to cause substantial injury to U.S. exporters of a similar agricultural commodity; or (2) in support of research that is intended primarily to benefit U.S. producers?

Assistance is for import support program and rehabilitation of rural roads not for the specified agricultural development studies, consultancy, conference, publication or training.

2. **Tied Aid Credits** (FY 1991 Appropriations Act, Title II, under heading "Economic Support Fund"): Will DA funds be used for tied aid credits?	NO
3. **Appropriate Technology** (FAA Sec. 107): Is special emphasis placed on use of appropriate technology (defined as relatively smaller, cost-saving, labor-using technologies that are generally most appropriate for the small farms, small businesses, and small incomes of the poor)?	Yes Labor-base methods are encouraged and promote in road maintenance contracts.
4. **Indigenous Needs and Resources** (FAA Sec. 281(b)): Describe extent to which the activity recognizes the particular needs, desires, and capacities of the people of the country; utilizes the country's intellectual resources to encourage institutional development; and supports civic education and training in skills required for effective participation in governmental and political processes essential to self-government.	The road contracts are opened only to local contractors and consultants.
5. **Economic Development** (FAA Sec. 101(a)): Does the activity give reasonable promise of contributing to the development of economic resources, or to the increase of productive capacities and self-sustaining economic growth?	YES The program directly supports the economic recovery program the country is following.
6. **Special Development Emphases** (FAA Secs. 102(b), 113, 281(a)): Describe extent to which activity will: (a) effectively involve the poor in development by extending access to economy at local level, increasing labor-intensive production and the use of appropriate technology, dispersing investment from cities to small towns and rural areas, and insuring wide participation of the poor in the benefits of development on a sustained basis, using appropriate U.S. institutions; (b) encourage democratic private and local governmental institutions; (c) support the self-help efforts of developing countries; (d) promote the participation of women in the national economies of developing countries	The program foccuses on agricultural production in rural areas where 85 percent of the population, which is poor, is located. Labor-based methods are promoted in road maintenance works. Since the majority of Tanzanian women are involved in agriculture the improvement of agricultural transport will be especially beneficial for the group.

d. Will funds be made available only to voluntary family planning projects which offer, either directly or through referral to, or information about access to, a broad range of family planning methods and services?

N/A

e. In awarding grants for natural family planning, will any applicant be discriminated against because of such applicant's religious or conscientious commitment to offer only natural family planning?

N/A

f. Are any of the funds to be used to pay for any biomedical research which relates, in whole or in part, to methods of, or the performance of, abortions or involuntary sterilization as a means of family planning?

NO

g. Are any of the funds to be made available to any organization if the President certifies that the use of these funds by such organization would violate any of the above provisions related to abortions and involuntary sterilization?

NO

10. **Contract Awards** (FAA Sec. 601(e)): Will the project utilize competitive selection procedures for the awarding of contracts, except where applicable procurement rules allow otherwise?

YES

11. **Disadvantaged Enterprises** (FY 1991 Appropriations Act Sec. 567): What portion of the funds will be available only for activities of economically and socially disadvantaged enterprises, historically black colleges and universities, colleges and universities having a student body in which more than 40 percent of the students are Hispanic Americans, and private and voluntary organizations which are controlled by individuals who are black Americans, Hispanic Americans, or Native Americans, or who are economically or socially disadvantaged (including women)?

This is a code 935 source/origin program and procurements are made on commercial competitive basis.

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12. **Biological Diversity** (FAA Sec. 119(g): Will the assistance: (a) support training and education efforts which improve the capacity of recipient countries to prevent loss of biological diversity; (b) be provided under a long-term agreement in which the recipient country agrees to protect ecosystems or other wildlife habitats; (c) support efforts to identify and survey ecosystems in recipient countries worthy of protection; or (d) by any direct or indirect means significantly degrade national parks or similar protected areas or introduce exotic plants or animals into such areas?

N/A

13. **Tropical Forests** (FAA Sec. 118; FY 1991 Appropriations Act Sec. 533(c)-(e) & (g)):

a. **A.I.D. Regulation 16:** Does the assistance comply with the environmental procedures set forth in A.I.D. Regulation 16?

YES

b. **Conservation:** Does the assistance place a high priority on conservation and sustainable management of tropical forests? Specifically, does the assistance, to the fullest extent feasible: (1) stress the importance of conserving and sustainably managing forest resources; (2) support activities which offer employment and income alternatives to those who otherwise would cause destruction and loss of forests, and help countries identify and implement alternatives to colonizing forested areas; (3) support training programs, educational efforts, and the establishment or strengthening of institutions to improve forest management; (4) help end destructive slash-and-burn agriculture by supporting stable and productive farming practices; (5) help conserve forests which have not yet been degraded by helping to increase production on lands already cleared or degraded; (6) conserve forested watersheds and rehabilitate those which have been deforested; (7) support training, research, and other actions

N/A

which lead to sustainable and more environmentally sound practices for timber harvesting, removal, and processing; (8) support research to expand knowledge of tropical forests and identify alternatives which will prevent forest destruction, loss, or degradation; (9) conserve biological diversity in forest areas by supporting efforts to identify, establish, and maintain a representative network of protected tropical forest ecosystems on a worldwide basis, by making the establishment of protected areas a condition of support for activities involving forest clearance or degradation, and by helping to identify tropical forest ecosystems and species in need of protection and establish and maintain appropriate protected areas; (10) seek to increase the awareness of U.S. Government agencies and other donors of the immediate and long-term value of tropical forests; (11) utilize the resources and abilities of all relevant U.S. government agencies; (12) be based upon careful analysis of the alternatives available to achieve the best sustainable use of the land; and (13) take full account of the environmental impacts of the proposed activities on biological diversity?

c. **Forest degradation:** Will assistance be used for: (1) the procurement or use of logging equipment, unless an environmental assessment indicates that all timber harvesting operations involved will be conducted in an environmentally sound manner and that the proposed activity will produce positive economic benefits and sustainable forest management systems; (2) actions which will significantly degrade national parks or similar protected areas which contain tropical forests, or introduce exotic plants or animals into such areas; (3) activities which would result in the conversion of forest lands to the rearing of livestock; (4) the construction, upgrading, or maintenance of roads (including temporary haul roads for logging or other extractive industries) which pass through relatively undergraded

NO

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forest lands; (5) the colonization of forest lands; or (6) the construction of dams or other water control structures which flood relatively undergraded forest lands, unless with respect to each such activity an environmental assessment indicates that the activity will contribute significantly and directly to improving the livelihood of the rural poor and will be conducted in an environmentally sound manner which supports sustainable development?

d. **Sustainable forestry:** If assistance relates to tropical forests, will project assist countries in developing a systematic analysis of the appropriate use of their total tropical forest resources, with the goal of developing a national program for sustainable forestry? N/A

e. **Environmental impact statements:** Will funds be made available in accordance with provisions of FAA Section 117(c) and applicable A.I.D. regulations requiring an environmental impact statement for activities significantly affecting the environment? YES

14. **Energy** (FY 1991 Appropriations Act Sec. 533(c)): If assistance relates to energy, will such assistance focus on: (a) end-use energy efficiency, least-cost energy planning, and renewable energy resources, and (b) the key countries where assistance would have the greatest impact on reducing emissions from greenhouse gases? N/A

15. **Sub-Saharan Africa Assistance** (FY 1991 Appropriations Act Sec. 562, adding a new FAA chapter 10 (FAA Sec. 496)): If assistance will come from the Sub-Saharan Africa DA account, is it: (a) to be used to help the poor majority in Sub-Saharan Africa through a process of long-term development and economic growth that is equitable, participatory, environmentally sustainable, and self-reliant; (b) to be used to promote sustained economic growth, encourage YES

private sector development, promote individual initiatives, and help to reduce the role of central governments in areas more appropriate for the private sector; (c) to be provided in a manner that takes into account, during the planning process, the local-level perspectives of the rural and urban poor, including women, through close consultation with African, United States and other PVOs that have demonstrated effectiveness in the promotion of local grassroots activities on behalf of long-term development in Sub-Saharan Africa; (d) to be implemented in a manner that requires local people, including women, to be closely consulted and involved, if the assistance has a local focus; (e) being used primarily to promote reform of critical sectoral economic policies, or to support the critical sector priorities of agricultural production and natural resources, health, voluntary family planning services, education, and income generating opportunities; and (f) to be provided in a manner that, if policy reforms are to be effected, contains provisions to protect vulnerable groups and the environment from possible negative consequences of the reforms?

16. **Debt-for-Nature Exchange** (FAA Sec. 463): If project will finance a debt-for-nature exchange, describe how the exchange will support protection of: (a) the world's oceans and atmosphere, (b) animal and plant species, and (c) parks and reserves; or describe how the exchange will promote: (d) natural resource management, (e) local conservation programs, (f) conservation training programs, (g) public commitment to conservation, (h) land and ecosystem management, and (i) regenerative approaches in farming, forestry, fishing, and watershed management.

N/A

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17. **Deobligation/Reobligation** (FY 1991 Appropriations Act Sec. 515): If deob/reob authority is sought to be exercised in the provision of DA assistance, are the funds being obligated for the same general purpose, and for countries within the same region as originally obligated, and have the House and Senate Appropriations Committees been properly notified?

N/A

18. **Loans**

a. **Repayment capacity** (FAA Sec. 122(b)): Information and conclusion on capacity of the country to repay the loan at a reasonable rate of interest.

N/A
(The program is a grant assistance)

b. **Long-range plans** (FAA Sec. 122(b)): Does the activity give reasonable promise of assisting long-range plans and programs designed to develop economic resources and increase productive capacities?

c. **Interest rate** (FAA Sec. 122(b)): If development loan is repayable in dollars, is interest rate at least 2 percent per annum during a grace period which is not to exceed ten years, and at least 3 percent per annum thereafter?

N/A

d. **Exports to United States** (FAA Sec. 620(d)): If assistance is for any productive enterprise which will compete with U.S. enterprises, is there an agreement by the recipient country to prevent export to the U.S. of more than 20 percent of the enterprise's annual production during the life of the loan, or has the requirement to enter into such an agreement been waived by the President because of a national security interest?

N/A

19. **Development Objectives** (FAA Secs. 102(a), 111, 113, 281(a)): Extent to which activity will: (1) effectively involve the poor in development, by expanding access to economy at local level, increasing labor-intensive production and the use of appropriate technology, spreading investment out from

(As described in Section B.6)

c. **Food security:** Describe extent to which activity increases national food security by improving food policies and management and by strengthening national food reserves, with particular concern for the needs of the poor, through measures encouraging domestic production, building national food reserves, expanding available storage facilities, reducing post harvest food losses, and improving food distribution.

An improved road system will encourage domestic food and cash crop production and improve food distribution.

21. **Population and Health** (FAA Secs. 104(b) and (c)): If assistance is being made available for population or health activities, describe extent to which activity emphasizes low-cost, integrated delivery systems for health, nutrition and family planning for the poorest people, with particular attention to the needs of mothers and young children, using paramedical and auxiliary medical personnel, clinics and health posts, commercial distribution systems, and other modes of community outreach.

N/A

22. **Education and Human Resources Development** (FAA Sec. 105): If assistance is being made available for education, public administration, or human resource development, describe (a) extent to which activity strengthens nonformal education, makes formal education more relevant, especially for rural families and urban poor, and strengthens management capability of institutions enabling the poor to participate in development; and (b) extent to which assistance provides advanced education and training of people of developing countries in such disciplines as are required for planning and implementation of public and private development activities.

Selected people will be trained in nonformal road maintenance management and in the the administration of road contracts locally and in-third country institutions of learning.

23. **Energy, Private Voluntary Organizations, and Selected Development Activities** (FAA Sec. 106): If assistance is being made available for energy, private voluntary organizations, and selected development problems, describe extent to which activity is:

N/A

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b. **Local currencies:** Will all local currencies that may be generated with funds provided as a cash transfer to such a country also be deposited in a special account, and has A.I.D. entered into an agreement with that government setting forth the amount of the local currencies to be generated, the terms and conditions under which they are to be used, and the responsibilities of A.I.D. and that government to monitor and account for deposits and disbursements?

YES

c. **U.S. Government use of local currencies:** Will all such local currencies also be used in accordance with FAA Section 609, which requires such local currencies to be made available to the U.S. government as the U.S. determines necessary for the requirements of the U.S. Government, and which requires the remainder to be used for programs agreed to by the U.S. Government to carry out the purposes for which new funds authorized by the FAA would themselves be available?

YES

d. **Congressional notice:** Has Congress received prior notification providing in detail how the funds will be used, including the U.S. interests that will be served by the assistance, and, as appropriate, the economic policy reforms that will be promoted by the cash transfer assistance?

YES

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