

PDBAO 033

UNITED STATES OF AMERICA  
AGENCY FOR INTERNATIONAL DEVELOPMENT



P. O. Box 9130,  
Dar es Salaam, Tanzania

November 24, 1982

Murl Baker  
AFR/DR  
U.S. Agency for International  
Development  
Washington D.C. 20523

Dear Murl:

Attached is the original signed copy of the Resources for Village Production and Incomes PP Amendment. Our understanding from Brian is that AID/W wants to review it even though the Mission has authority to authorize it ourselves. You may receive some extra unsigned copies by pouch that were sent out by accident.

Please reproduce 50 copies for Mission use and let us know when the review is scheduled. If you could have the reviews while Art was there it would be helpful.

Sincerely,

*Marge*  
Margaret Bonne  
Program Office

c.c. Brian Kline  
AFR/EA/T Rm. #1058A to 1060A NS  
US Agency for International Development  
Washington D.C. 20523

AGENCY FOR INTERNATIONAL DEVELOPMENT

**PROJECT DATA SHEET**

1. TRANSACTION CODE

C A = Add  
C = Change  
D = Delete

Amendment Number

1

DOCUMENT CODE

3

2. COUNTRY/ENTITY

United Republic of Tanzania

3. PROJECT NUMBER

621-0155

4. BUREAU/OFFICE

AFR

5. PROJECT TITLE (maximum 40 characters)

Resources for Village Production and Income

6. PROJECT ASSISTANCE COMPLETION DATE (PACD)

MM DD YY  
1 2 3 1 8 4

7. ESTIMATED DATE OF OBLIGATION

(Under 'B.' below, enter 1, 2, 3, or 4)

A. Initial FY 8 0

B. Quarter 4

C. Final FY 8 4

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

A. FUNDING SOURCE	FIRST FY			LIFE OF PROJECT		
	B. FX	C. L/C	D. Total	E. FX	F. L/C	G. Total
AID Appropriated Total				14,470	530	15,000
(Grant)	( )	( )	( )	(14,470 )	( 530 )	(15,000 )
(Loan)	( )	( )	( )	( )	( )	( )
Other U.S.						
1.						
2.						
Host Country					25,510	25,510
Other Donor(s) IDA & DANIDA				7,800	9,200	17,000
<b>TOTALS</b>				22,270	35,240	57,510

9. SCHEDULE OF AID FUNDING (\$000)

A. APPROPRIATION	B. PRIMARY PURPOSE CODE	C. PRIMARY TECH. CODE		D. OBLIGATIONS TO DATE		E. AMOUNT APPROVED THIS ACTION		F. LIFE OF PROJECT	
		1. Grant	2. Loan	1. Grant	2. Loan	1. Grant	2. Loan	1. Grant	2. Loan
(1) FN	133	010		10,175				15,000	
(2)									
(3)									
(4)									
<b>TOTALS</b>				10,175				15,000	

10. SECONDARY TECHNICAL CODES (maximum 6 codes of 5 positions each)

111 140 150

11. SECONDARY PURPOSE CODE

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

A. Code BR BS PART TECH  
B. Amount

13. PROJECT PURPOSE (maximum 480 characters)

A strengthened and expanded agricultural support and delivery system for the provision of production related goods and services in villages.

14. SCHEDULED EVALUATIONS

Interim MM YY MM YY Final MM YY  
1 1 8 3 1 1 8 4

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 35 page PP Amendment.)

This amendment cuts the project life from seven to four and a quarter years and total funding from \$45.0 million to \$15.0 million.

17. APPROVED BY

Signature

Title

Director, USAID/Tanzania (Acting)

Date Signed

MM DD YY  
1 1 24 8 2

18. DATE DOCUMENT RECEIVED IN AID/W, OR FOR AID/W DOCUMENTS, DATE OF DISTRIBUTION

MM DD YY  
1 12 0 3 8 2

# RESOURCES FOR VILLAGE PRODUCTION AND INCOME (621-0155)

## PP AMENDMENT #1

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#### ANNEXES

Annex A : Revised Logical Framework

Annex B : Project Amendment Cables

Annex C : Input Marketing Study of the Mbeya Region:

Executive Summary

Annex D : Detailed Project Budget.

**RESOURCES FOR VILLAGE PRODUCTION AND INCOMES  
(621-0155)**

**AMENDMENT 1**

**SUMMARY AND RECOMMENDATIONS**

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The original PP was approved for a \$45.0 million grant to the Tanzania Rural Development Bank (TRDB) to be disbursed over seven years which included a six month pre-implementation period and two 3-year phases. The amended project will run for four and one quarter years with a PACD of 12/31/84. Generally, it will include the activities scheduled for pre-implementation and Phase I and require \$15.0 million instead of the original \$16.1 planned through the end of Phase I. (Phase II funds totaled \$28.9 million). Approximately \$5.7 million (originally \$15.0 million) will be used for institution building, including some commodity purchases, while \$9.3 million (originally \$30.0 million) will be a grant credit to TRDB to use to import inputs or raw materials for inputs which will be sold to suppliers for shillings and those shillings used for lending in areas where past repayments and socio-economic analysis indicate high pay off areas. The project outputs and end conditions are generally those scheduled for Phase I with some revisions made, resulting from project implementation experience.

The changes do not substantially alter the original social, economic and technical analyses. The original conclusions of soundness in these areas remain valid. However, the substantial cut in the grant credit from \$30.0 million to \$9.3 million and the shortened life of the project means that the objective of TRDB financial self-sufficiency will not be achieved. Thus, a new financial analysis for the Bank has been completed which shows that although financial self-sufficiency will not be achieved, TRDB will, through external assistance, remain solvent and a viable institution.

There are series of issues relating to government policy on the Bank's operation and autonomy. Special conditions have been put into the Project Agreement Amendment signed August 31, 1982 to address these concerns. The Mission through its newly established Policy Analysis Office and Program Office will closely monitor development in these areas. A detailed discussion of the issues appears in Section III.

Because of these serious policy concerns and the fact that the Mission's annual budgets through 1987 have been reduced, AID/Tanzania recommends that AID/Washington amend the project

to make the changes described above and in detail in the body of this paper. Attached as Annex B are the exchange of cables between AID/Washington and the Mission concerning this amendment.

The change in procurement resulting from the amendment will be cuts from the amounts authorized in the four waivers in the PP. However, the original waiver from Geographic Code 000 to Code 935 for the purchase of Lister engines for the maize mills and the sole source proprietary procurement waiver for the same engines specified that one thousand sixty-five units would be purchased at a value of \$5,113,000. The cost estimate, based on the U.S. price, proved to be approximately 40% higher than the British price. Thus, from England, 1065 engines were purchased for \$3,720,000. Because of the success of the maize mill portfolio, the amended project will finance loans for approximately 285 additional mills, or a total of 1350 mills during the life of the project. The estimated cost of the Lister engines for the mills will be \$4,715,000.

## I. BACKGROUND

### A. USAID Assistance to TRDB

#### 1. Agriculture Credit Project

USAID assistance to the Tanzania Rural Development Bank (TRDB) began in 1974 with the Agriculture Credit Project which had a life of project funding of \$3,750,000. The purpose of the project was to strengthen and improve the Tanzania Rural Development Bank as a rural credit institution with an associated purpose to increase food crop productivity, overall food crop production goals, and net farmer income among target groups due to efficient utilization of credit. The planned outputs were (a) an increase in agricultural lending, particularly for food crop production, and (b) improvements in TRDB operations including an increase in qualified staff, training in project development and analysis, improved financial analysis, and increased decentralization of operations.

The Agriculture Credit Project had a significant impact on TRDB operations. TRDB has expanded its professional staff, decentralized the loan approval process, developed loan policies and procedures, provided in-country and overseas training and developed a performance evaluation system.

#### 2. Resources for Village Production and Income

Based on the achievements of and lessons learned from the Agriculture Credit Project, the Resources for Village Production and Income Project (RVPI) was designed as a follow-on activity to build on the successes of the Agriculture Credit Project by continuing institutional development and supporting and expanding lending activities which were most profitable to farmers, villages and TRDB.

The objective of RVPI is to provide resources to villages which increase agricultural productivity, rural production and village self reliance. To meet this objective, the original Pp proposed a \$30.0 million capital grant to be disbursed in two 3-year phases to finance the imports of scarce commodities, materials and equipment to enable local firms and villages to manufacture agricultural implements, agricultural processing equipment, and to build facilities to improve input distribution and product marketing capacity. In addition to the \$30.0 million capital grant, an institutional grant of \$15.0 million was to be provided to strengthen, streamline and decentralize TRDB's lending program over the seven year life of project.

The large institutional grant to TRDB was judged essential for three reasons a) at present in Tanzania, the TRDB has a major role in providing inputs to farmers b) in a capital scarce country such as Tanzania, credit is often required to purchase inputs so that while the suppliers manufacture the inputs from raw materials provided from the foreign exchange, the farm level purchase of those inputs would require credit availability and for this credit to be available a strong well managed financial institution is required. c) The TRDB wants to focus on its role as a credit institution and assist other organization to take over input distribution. The Mission agrees with this objective and is providing support to the Bank to assist it in this transition.

Expenditures during phase I for both institution building and the capital grant were to total \$16.1 million for the period through the end of FY 1983. The primary difference between Phase I and Phase II was that Phase II would double lending from TSh. 33 million to Tsh. 66 million per year. This was to be accomplished by expanding the loan portfolios proven to be profitable during Phase I.

#### B. Project Implementation

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Although the project is behind schedule by 9-12 months, all major activities are now under implementation. On the institution building side, four advisors, three under a host country contract with Agricultural Cooperative Development International (ACDI) are in place at TRDB. The Procurement Advisor (a host country PSC) has been in-country for approximately a year and has been instrumental in helping the Bank procure engines and steel for the maize mills. The Financial Advisor who was originally contracted under the Agricultural Credit Project has continued to serve the Financial Directorate of TRDB. In March of 1982, ACDI placed the planning Advisor and Training Specialist in the Bank.

Training is proceeding on schedule . Thirteen long-term participants will be sent to the U.S. for training and six individuals have gone to the U.S. or third countries for short professional courses. A seminar was held at the Bank to improve administration and management. Bank officials, with the help of the advisors, are developing improved procedures and manual orders. Decentralization of the loan process continues to be strengthened. In relation to the grant credit for the National Food Credit Program (NAFCREP) \$6.2 million has been obligated and nearly 50% of this amount expended for various foreign exchange components of the loans as of September 1982.

An important component of the project is to develop alternative agricultural input distribution channels which would enable TRDB to reduce its input distribution responsibilities.

Under an IDA project, a countrywide input distribution study was to be carried out. Since IDA has yet to begin implementation of

its project this study has been delayed. TRDB, in collaboration with the Ministry of Agriculture and the Mbeya Regional Authorities, however has initiated a pilot study of the input marketing system in the Mbeya Region. The objectives of the study were to quantify the demand for various inputs in the Mbeya Region, analyze the present system of inputs distribution, and to make recommendations for short and long-term strategies to confront the input distribution impasse. From the recommendations of the study, TRDB has decided to move forward with NAFCREP funds to support on a pilot basis the Village Service Centers, i.e. inputs retailing outlets. It is currently planned that they will be managed in the near term by the Tanganyika Farmers' Association (TFA), a private cooperative, and in the long term by the reinstated cooperative unions.

More details on RVPI project activities and accomplishments are contained in Section V B, Implementation To Date.

### C. Relationship of Project to Other AID Activities

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TRDB has offices in all twenty regions of Tanzania and maintains twenty-two sub-regional or district offices. AID's support to TRDB through RVPI, thus, does not intentionally favor any particular region or geographic area, but RVPI complements and is complemented by other AID supported projects which do have a regional or area focus. AID, through the Arusha Planning and Village Development Project (APVDP), has supported the development of a Rural Development Plan for the Arusha Region. TRDB activities supported by RVPI in Arusha Region have been emphasized because of the complementarities that do exist. In collaboration with APVDP, TRDB's NAFCREP program funded the Themi Cooperative for the establishment of an agricultural implements factory. Themi received a loan for the purchase of the raw material for the manufacturer of oxen drawn equipment, APVDP provided technical assistance and machinery to the factory. The Makumira Bakery Project benefited from a loan under TRDB's Experimental Lending category of the NAFCREP program for the purchase of machinery and a pickup truck and received the necessary guidance and planning assistance through the APVDP small-scale industries component. For 1982, TRDB will make additional NAFCREP funds available for the Themi Cooperative. TRDB will also support the development and manufacture of a manual maize mill in Arusha under the new small scale enterprise loan portfolio.

With the reduction in funding for the project emphasis on long-term training will be reduced abroad and concentrate on training designed to upgrade regional and district office staff for improved accounting, bookkeeping and overall management

capabilities will be increased. RVPI will seek more collaboration with AID's Training for Rural Development II Project (TRD II). TRDB middle and upper level management have and will continue to participate in TRD II sponsored management seminars. At the village level, TRD II is currently evaluating training needs and an eventual outcome of village level training provided by TRD II will be a better understanding of the use of credit amongst TRDB's clients.

The RVPI project will complement the recently approved Farming Systems Research Project (FSR) through its efforts directed towards improving the agricultural input distribution system in Tanzania. This activity will facilitate farmer adoption of new agricultural techniques and improved seed varieties. The FSR Project will further clarify the production benefits regarding fertilizer usage, and this will aid TRDB in focusing its seasonal loans on inputs to other areas and inputs where payoff is greatest, and improve the probability of repayment in farming systems when fertilizer is a proven productive input.

The RVPI will also complement and support efforts by other donors in Tanzania. TRDB's proposed support through the NAFCREP program to Ubungo Farm Implements Factory will increase the supply of oxen drawn implements for the EEC sponsored Oxen Training Centers in Iringa Region where farmers have been trained in use of animal equipment but due to lack of foreign exchange, implements have been lacking. TRDB assistance to Tanganyika Farmers Association for the establishment of Village Service Centers in Mbeya Region will compliment DANIDA'S support of the Mbeya Region and cooperative development.

#### D. Project Amendment

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##### 1. Mortgage Problem

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In early 1982 it was apparent that funding of AID activities worldwide was being cut, including overall program levels in Tanzania. Thus, USAID/Tanzania reviewed its portfolio of projects giving specific attention to those projects having substantial funding requirements in future years. RVPI was the largest of these. During the program review it was decided that to continue funding RVPI at the original level was unrealistic at USAID/T's new program levels, and the decision was made to submit an amendment to AID/W limiting the project to its first phase and reducing USAID/T's contribution from \$45.0 million to \$15.0 million. A decision on support to the second phase of the project will be deferred until a later date and will be dependent on project success and certain GOT policy issues.

## 2. Policy Environment

In addition to reviewing the project in terms of its mortgage problem, USAID/T and AID/W had concerns regarding Tanzania Government policies as they affect TRDB's ability to function as viable agricultural credit institution (see Annex B). In particular, USAID/Tanzania was concerned that the Tanzanian Government was compelling TRDB to provide for seasonal input loans which had very poor repayment rates and uncertain profitability, that parastatal crop authorities were in serious arrears on their TRDB loans which drained TRDB's liquidity and depressed its cash-flow position, and that TRDB's continued involvement in input distribution was requiring major portions of TRDB staff time which would otherwise be allocated to loan administration and supervision. The Mission also expressed concern about TRDB's role in the planned redevelopment of cooperatives. Additionally, AID/W expressed some concern about the low interest rates changed by the Bank. AID/W and USAID/Tanzania agreed that these issues should also be addressed in the Amendment.

## II. REVISED PROJECT ACTIVITY AND RATIONALE

### A. Project Goal and Purpose

The goal and purpose remain unchanged from the original project paper. The Mission continues to promote as an important aspect of its development strategy, increased productivity, production and income-generating activities and improved marketing of goods and services in villages. This project contributes to this goal by strengthening and expanding the commercial support and delivery system for the provision of production related goods and services in villages. The Resources for Village Production and Income Project is important and relevant to both the U.S. and Tanzanian development efforts and complements other AID projects directed at increased agricultural production. The CDSS specifically mentions the promotion of small-scale industries such as agro-processing and manufacture of improved tools and agricultural equipment, both important loan activities of the project.

### B. Revised Project Components.

The main project components will continue to be institution building and a capital grant to TRDB for term loans. However, Phase II of the project will be eliminated and the activities described as part of Phase I will extend until the end of CY 1984. Total project financing will be cut from \$45 million to \$15 million, of which \$9.3 million will be for the capital grant. The loan portfolios supported by the project will be reduced and there will be some geographical selection to make portfolios more manageable and profitable. The amended Project Activity Completion Date will be December 31, 1984.

The project is divided into five principal components which correspond to the End of Project Status Condition (EOPS) in the logical framework. The achievement of these conditions and supporting outputs were to result from contributions by both AID and IDA. However, because of the delay in IDA disbursements of the credits for the project, the revision of the EOPS and outputs reflect an assistance program which assumes no IDA support and with the lower AID contribution of \$15.0 million.<sup>1/</sup> When IDA credits are available, their support will complement RVPI.

<sup>1/</sup> The IDA \$10.0 million credit was to be signed in late 1980 or early 1981. For technical reasons the signing was delayed for one year. Then serious implementation problems arose in contractor selection and commodity procurement. Recently the IBRD froze all transfers to Tanzania until its overdue IDA loan payments were made. This problem has not been resolved as of September, 1982 when this amendment was prepared.

1. Component 1: Strengthening the Institutional Capacity of the TRDB TO serve Villages:

The most important output in support of this component is upgraded TRDB staff capability at both headquarters and field levels. The project will provide in-service training and long-term participant training as originally planned. However, there will be a shift of emphasis to more in-service training and short courses with a corresponding shift of funding from U.S. long-term participants to the short-term, in-country training. Special attention will be given to upgrading the skills of bookkeepers and regional accountants. This shift reflects the shorter term of the project and the fact that 13 TRDB personnel will be overseas for one or two year "topping off" professional training as of 10/82. No additional participants will receive long-term training, under the amended project.

The ACDI team has the responsibility to plan and contract for short-term, in-country training needs. These needs are identified and jointly approved by ACDI, TRDB and AID as part of a yearly training plan. It is expected that at the end of the project the Training Section will have the capacity to prepare the yearly detailed training plan and that a long-term (5-year) training strategy will be complete.

A second output in this component is improved management and operating procedures within TRDB. The ACDI team is working on an operations and procedures handbook and manual orders for the directorates of: Finance, Operations, Planning and Research, Manpower Development and Administration, and Regional Supervision and Coordination. These will be completed within the year and then the team will test and establish these procedures before the end of the project. Additionally the project will support managerial and financial training that contributes to this output.

The third output is improved financial viability and growth of the TRDB throughout the 80's. The reduced assistance in the amended project will not result in attainment of this output. The \$9.3 million capital grant for the TRDB's loan portfolio and other donor and GOT assistance will enable the TRDB to have a cash flow sufficient to continue operations throughout the project period. However, the Bank will not be self-sustaining at the end of the project period. Additional grant assistance or debt relief will be required through 1987-88 to help the TRDB continue operations. For a more detailed discussion of the question, see the revised financial analysis, Section IV, E.

The project will continue to contribute to TRDB's financial viability through the improved loan repayments and arrearage collections. The Maize Mill loan portfolio, the largest funded

by the Project, is showing a 92% repayment rate at the end of fiscal year '82 and further improvements are expected.

The PP discussion of the fourth output of improved planning and decision-making still reflects the main project activity in this area. But the final output of this component, an effective overall operating structure was to be achieved at the end of Phase II. Only limited accomplishments in this area will result now that the project has been shortened.

## 2. Component 2: Improving Village Capacity-Client Development

The activities in support of this component remain as described in the original PP. This component was and will continue to be the smallest of the project.

## 3. Component 3: Increased Investment, Production and Commercial Activities in the Village.

Under this component the project will provide the materials and resources required for the lending programs. The expanded lending, except for the new small-scale enterprise portfolio will be in areas of known profitability as described in the original PP under Phase I activities. However, some adjustments have been made to reflect additional information on loan repayment trends and the fact that Phase II has been eliminated, necessitating certain portfolio and geographical focuses. The lending activities of the NAFCREP which will be supported by the AID capital grant are:

- a. Seasonal lending for improved hand tools
- b. Term loans for:
  - (1) Oxen implements
  - (2) Grain mills
  - (3) Village service centers
  - (4) Small scale enterprises

The justification and discussion of the first four of the loans is essentially the same as the original paper. However, the institutional framework in the rural areas is again changing and this will impact the Village Service Center (VSC) loans. The VSC's were conceived as an alternative input supply and distribution channel to the Bank's present system, but the institutional home and coordinating/planning arrangements were not clear. However now that the government is planning to re-establish village cooperatives as a major marketing and input supply organization, it appears that they offer

potential as the supporting structure for the VSC. Whether this new cooperative structure will be in place in time for RVPI support is not known. However, AID and TRDB have gone ahead and identified some pilot activities in the Mbeya Region in the South as tests of the VSC concept. Also, similar pilot activities are expected to be established in the Arusha Region beginning in 1984 under the Arusha Production Project. The Mbeya activities are discussed under Component 4, alternative input supply and distribution systems, and in Annex C, "Input Marketing Study of the Mbeya Region", Executive Summary.

The government initiative on cooperative development will be supported by RVPI through the Village Service Center portfolio lending and through short-term technical assistance and training provided by ACDI. The details of this advisory assistance have not been planned, but both TRDB and AID believe assistance will contribute to the project objective of identifying alternative input supply and distribution systems.

The experimental loan portfolio that was to be the basis for expanded lending in Phase II will be restructured to focus on small scale rural enterprise loans. Lending to date under the experimental loan program was primarily for commercial rural enterprises. Because of foreign exchange and credit shortages, these small businesses benefited substantially from TRDB loans and at the same time were judged good credit risks. In order to promote private sector development in rural Tanzania, the revised project will establish a small scale enterprise loan fund using the balance of money available from the original experimental loan portfolio. A private sector loan fund in socialist Tanzania in many ways is still an experimental loan portfolio.

Two areas that have been eliminated from the original Phase I program are godowns and village transport loans. Repayment rates on the godowns financed by general NAFCREP funds have been very low. The Bank has little leverage over the village once the building is constructed, making collection difficult. The high foreign exchange cost for both the purchase and operation of tractors and lorries was judged a serious problem with the transport loans. Given the overall cutback in the program, these portfolios were dropped from project support.

#### 4. Component #4: Improved Input Distribution and Services, Especially in Villages.

The present system of distribution of agricultural inputs and related support services continues to be one of the most serious constraints to improved agricultural productivity and production in Tanzania. To date, no agreement towards an appropriate solution has been reached. However, the one point of agreement appears to be that the function should be removed from TRDB. The approach in the original PP design was to do a

detailed nationwide study of the problem through the IDA-funded project with AID collaboration. As IDA has yet to begin disbursing funds under its project, AID and TRDB with collaboration through the Ministry of Agriculture undertook an input marketing study of a single region, Mbeya, as a case study for the nation. Based on the results of the Mbeya study, TRDB plans to fund pilot activities designed to promote improved input availability. The study reviewed the present channels of input distribution alternatives within the zonal, regional and district contexts and prepared strategies for the improvement of the supply of inputs and their channels of distribution.

The recommendations of the study vis-a-vis distribution are as follows:

(1) Given its rapidly increasing costs, coupled with an inadequate record keeping system, it is recommended that TRDB be gradually relieved from its role of inputs distribution in the Mbeya Region.

(2) In the long term, it is recommended that the reconstituted cooperative unions and societies be responsible for the distribution of all agricultural inputs. It is envisioned that each cooperative society will own and operate its own center for retailing and distributing farm inputs, with potential for depots at the village level.

One alternative suggested in the study for the near term and which both USAID and TRDB support is the provision of financing to the Tanganyika Farmers' Association (TFA) to open new branches and better stock its existing outlets. The TFA branches will function as VSC's. Some on-lending to farmers may be undertaken by TFA but generally the Mbeya study pointed out that a fair amount of cash business is expected. Right now, shortages of foreign exchange have limited the availability of many farm inputs. Generally for TFA client farmers the constraint is availability of inputs, not the funds to purchase the supplies. In poorer farm regions this may not be the case, but TFA Village Service Center loans would give TRDB valuable information and experience concerning the concept. The loan will also be easy to administer if the on-lending were limited and made the responsibility of TFA. TFA and the re-emerging cooperative movement offer a new input supply channel as an alternative to the present TRDB system. The project evaluation will consider the value and potential replicability of these pilot activities.

For more details on the potential alternative, see Annex C of this amendment which includes the Executive Summary of the Input Marketing Study of Mbeya Region. A copy of the complete study is available from AFR/DR/EA.

**5. Component 5: Improving National Institutional Coordination for more Effective Support of Villages.**

The Phase I output of this component, that is, improved planning for coordination and delivery of services and goods, will be achieved as described in the PP. The Phase II output is dropped from the project.

**C. Revised Project Budget and Inputs**

The proposed amendment cuts the total funding from \$45.0 million to \$15.0 million and at the same time shortens the life of project from seven years to four and one-quarter years. The obligations to date have been for a pre-implementation phase and activities planned under Phase I of the original project design.

Generally implementation is between 9 months to 12 months behind schedule. The obligation schedule is as follows:

FY	Amount (\$000)	Cumulative Total
1980	3,000*	3,000
1981	3,175*	6,175
1982	4,000*	10,175
1983	2,825	13,000
1984	2,000	15,000

\*Obligated

The 1982 increment of \$4.0 million will be used for project activities in line with the amended project priorities. It was obligated in late August 1982 when this document was being prepared their allocation within the project is as follows:

	Revised LOP Budget	
	Total	Earmarked Thru 9/30/82
<b>I. Technical Assistance</b>		
<b>A. ACDI</b>		
--Long-term salary & benefits (9PY)	1210	415
--Short-term salary & benefits(12PY)	410	100
--Overhead	365	120
--Contingency	30	--

<b>B. Other</b>		
--Long-term salary and benefits (Procurement Advisor)	225	150
--Short-term salary and benefits	100	60
	---	---
Sub-Total	2340	845
 <b>II. Training</b>		
<b>A. ACDI</b>		
--Short-term	500	200
--Long-term	625	275
 <b>B. Other</b>		
--Short-term (Pre ACDE contract)	30	30
--Long-term (Pre ACDI contract)	50	50
	---	---
Sub-Total	1205	555
 <b>III. Commodities</b>		
A. Vehicles	925	570
B. Office supplies & business mach.	400	400
C. Other	50	50
	---	---
Sub-Total	1375	1020
 <b>IV. Other Costs</b>		
A. Evaluation (3.5 pm)	60	60
B. Vehicle operation	300	200
C. Salaries (Admin. assistant)	30	30
D. Travel	50	40
E. Contingency	150	50
F. Miscellaneous	150	150
	---	---
Sub-Total	740	530

V. NAFCREP	Total	9/30/82
A. Agricultural Implements (hand tools & oxen drawn plows)	1840	940
B. Maize Mills (1350 mills)	5400	4230
C. Farm service centers	800	140
D. Small scale enterprise	1050	700
E. Seasonal <sup>a/</sup> -	250	250
Sub-Total	9340	6260
TOTAL	15000	9210- <sup>b/</sup>

a/ A one-time seasonal loan was made for endosulfan because RVPI - offered the most expeditious means of procuring the required pesticide.

b/ Some obligated funds have not been earmarked to project - components, thus the difference between the obligated total of \$10,175,000 and this figure.

A detailed budget showing the local costs and foreign exchange breakout and TRDB contribution of \$23.6 million appears in Annex D. Since this budget is an implementation tool it is presented in the format of the project financial implementation status report. The IDA \$10.0 million credit is not included in budget calculations because of the continuing delays in disbursement. However, it is expected that within the new year the first major expenditure will be made. DANIDA has pledged \$7.0 million for general support to TRDB lending activities but no firm plan for use of the funds has been established.

The revised budget generally keeps the same ratio of the capital grant to other costs; that is, 2:1, as found in the original budget. This ratio reflects the need at TRDB for both loan capital and institutional strengthening.

The revised plan for the NAFCREP grant credit allocates funds to various portfolios based on repayment records and development priority of the portfolios. The portfolio allocations are summarized below:

<u>NAFCREP Lending Category</u>	<u>Total AID Contribution</u> (\$000)	<u>% of Contribution</u>
A. Agricultural Implements	1840	19.7
B. Maize Mills	5400	57.8
C. Farm Service Centers	800	8.5
D. Small Scale Enterprise	1050	11.3
E. Seasonal	250	2.7
Sub-Total	9350	100.0

The allocation of the AID credit to the NAFCREP portfolios will put over 57.8% of the money into maize mills, given that the three-year mill loans have the highest repayment rate of any portfolio in the Bank. The financial return to the village is high and the economic benefit substantial. The average maize mill cash flow to the village shows its net present value (at a 15% discount rate) of Tsh. 2500 after only four years.

Loans for hand tools and oxen plows and other implements also have a favorable return on investment. With "oxenization" and better hand tools the farmer can extend the amount of land under cultivation and thus substantially increase production. It is estimated that an additional TSh. 24,000 in total revenue can be generated from the use of ox plows. Seventy-eight percent of AID credit will be allocated to these two highly productive loan categories. Finally, a small-scale enterprise category will be added to encourage private sector development. Under the prior experimental loan program funds were extended to a bakery. Future activities which will be funded by this category include a loan for the poultry industry, and for the production of small hand grinding mills.

The revised project budget for technical assistance provides funding for the originally planned four advisors but for shorter terms:

<u>Advisor</u>	<u>Term</u>
Finance/Accountant	9/81-9/84 (3 years)
Planning Advisor	3/82-9/84 (2-1/2 years)
Training Specialist	3/82-9/84 (2-1/2 years)
Procurement Advisor	9/81-9/83 (2 years)

The training budget has provided approximately 28 person years of long-term U.S. training for 13 participant to "top off" their professional skills as follows:

- (1) B.S. Ag Economics/Range Management
- (2) M.S. MBA
- (3) M.S. Economics Planning
- (4) M.S. Accounting
- (5) A.S. Accounting and Computer Science
- (6) B.S. Accounting and Computer Science
- (7) B.A. Business Administration
- (8) B.A. Business Administration
- (9) M.S. Agricultural Economics
- (10) M.S. Agricultural Economics
- (11) M.S. Agricultural Economics
- (12) A.S. Accounting
- (13) A.S. Accounting

The amended project provides for completion of the training of the 13 participants. No other long term training is provided.

A detailed training program is established at the beginning of each fiscal year. The in-country program for the next two years will include:

<u>Workshop/Seminar</u>	<u>Number</u>
(1) Management Seminars	4 per year
(2) Loan Procedure Workshop for Project Officers/Credit Supervisors	20 per year
(3) Bookkeeper Training Courses	4 per year
(4) Driver Training Course	2 per year
(5) Clerk/Typist Workshop	2 per year

Additionally, it is expected that eight individuals per year will attend short courses in the U.S. or a third country. The training will be in international procurement and purchasing, senior management development, management training, production of training materials, and organizational analysis, methods and procedures. In addition training is provided to TRDB personnel through AID's Training for Rural Development II Project (TRD II). TRD II will sponsor management seminars for TRDB middle and upper level managers periodically throughout the remaining years of the project. Also, TRD II is presently evaluating village level training needs. Future village level training will include upgrading the management skills of village leaders and private entrepreneurs and improving their understanding as to the proper use of TRDB credit.

## III. POLICY FRAMEWORK FOR TRDB DEVELOPMENT

The TRDB as one of Tanzania's better-managed parastatals is having an important positive impact on village development through resource transfers for increased village production and income. However, there are certain government policies and conditions that impact on its autonomy and financial viability. To some extent these are limiting TRDB operation as a banking institution and its ability to become financially self-sufficient. Achievement of this project's purpose and objectives, as well as the advisability of additional AID assistance for TRDB rests, in part, on the resolution of policy issues and conditions which are discussed below. To assist AID and the TRDB to understand the impact of these policies and conditions, and to inform the government of their implications, monitoring requirements are set in each area.

**A. Repayment of Parastatal Loans:**  
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A major factor influencing TRDB's liquidity, cash-flow and overall financial position is the remittances which TRDB receives from the parastatal crop authorities who are responsible for the collection of the seasonal input loans for their respective crops. Over the past several years, repayments to TRDB by the crop authorities have been far below the amounts the recipients have repaid to the crop authorities. As a result of these parastatal arrearages, TRDB's financial position has deteriorated. Therefore, to determine more precisely the effect parastatal non-repayment has on TRDB's financial position and relending ability for the more profitable portfolios supported by the project, USAID has required that TRDB provide information which indicates the amounts of loans disbursed for those crop-specific inputs which the parastatal crop authorities have responsibility for repaying to TRDB, and the total amounts repaid by the crop authorities against these disbursements over the 1980/81 and 1981/82 fiscal years and on a semi-annual basis thereafter. This information will enable TRDB and USAID to take appropriate action with the responsible Tanzanian Government authorities to secure timely repayment, and thus, insure that TRDB will be able to maintain and expand its lending into more profitable areas.

**B. Loan Portfolio Selection**  
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Prior to the development of RVPI Project, it was determined that seasonal crop loans, most notably fertilizer loans, had a 50-60% repayment rate. The reasons given for this low repayment rate are the farmers' lack of training and understanding in the use of credit, TRDB's lack of sufficient manpower for the proper administration and supervision of loans, and the undetermined profitability of fertilizer as a productive input in some parts of the country. As a result of the generally low repayment

rates for seasonal inputs, USAID decided not to support seasonal lending under the project. Likewise, TRDB indicated that it would also like to reduce its volume of seasonal lending because of the low repayment rates. However, in recent years TRDB has been instructed to continue to lend for seasonal crop inputs, albeit at a large loss of TRDB financial resources. Therefore, to delineate to the responsible Tanzania Government authorities the various ramifications of TRDB's involvement in seasonal crop lending, and to evaluate the severity of this constraint as it inhibits TRDB from pursuing the goals of the project, i.e., the development of sound financial practices and expanded lending in profitable portfolios, USAID will require that TRDB provide information which indicates the volume of seasonal crop lending and associated repayment rates over the 1980/81 and 1981/82 TRDB fiscal years and on a quarterly basis thereafter.

#### C. Alternative Agricultural Input Distribution Channels:

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The most fundamental constraints to increased agricultural production in Tanzania are the insufficient supplies of important agricultural inputs such as oxen drawn implements and hand tools and the lack of efficient channels for their distribution. Furthermore, TRDB's responsibility for the distribution of inputs, particularly fertilizer, has pre-empted large portions of TRDB staff time which otherwise could be devoted to loan administration and supervision. While the use of the NAFCREP grant for the importation of commodities and raw materials for the manufacture of important agricultural inputs will help alleviate the supply constraint, another objective of the project will be for TRDB to gradually rid itself of the inputs distribution function by developing and supporting activities which will improve the input distribution system. To this end, USAID requires that TRDB provide information to USAID indicating the quantities of fertilizer and other inputs TRDB distributed over the 1980/81 and 1981/82 fiscal years and on a quarterly basis thereafter. Also, USAID requires that TRDB provide quarterly status reports outlining those activities TRDB has initiated toward achieving the goal of reducing its involvement in input distribution or changes being made outside of TRDB which affect TRDB's input distribution responsibilities.

#### D. Cooperative Development

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TRDB has recently been designated as the institution responsible for financing the re-emergent cooperative unions in Tanzania. A major function of the cooperative unions will be input and product marketing which is currently the responsibility of the parastatal crop authorities. The exact configuration of the cooperative structure has yet to be defined by the Tanzania Government. AID's main concern, however, is

that the most important concepts of cooperatives, as a form of business enterprise, be strictly followed. In order to be effective they must be financially viable and members must be able to control their cooperative on a democratic basis. As TRDB is to be the principal financial institution supporting the cooperative movement, it is important that the cooperatives and other TRDB clients at every level be allowed to use TRDB loan capital for profitable agriculture and commercial enterprises. This is necessary to insure full and timely loan repayment to TRDB. As a first step in the monitoring process, TRDB will provide AID with an explanation of the methodology for determining how, to whom, and for what inputs TRDB loans are provided. On a quarterly basis, thereafter, TRDB will provide information to AID on changes within TRDB and the Tanzanian Government structure which illustrate or effect changes in the ability of TRDB clients to operate independently.

#### E. Interest Rates

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Interest rates are set by law at 9.5% for commercial clients, 9.0% for individuals, 8.5% for cooperatives and parastatals, and 7.5% for villages. For many rural credit institutions in developing countries, the cost of administering seasonal farm loans is as high as 20%. If inflation is added to the interest rate as well as a bad debt allowance, a fair market interest rate for the cost of money is quite high. Even for large commercial loans where the administration costs are much lower, interest rates higher than they are now set by Tanzanian law would be in order. Both AID and TRDB supports higher interest rates that reflect the true cost of money.

TRDB officials have recommended increases in interest rates to the Bank of Tanzania and the Ministry of Treasury. Although the low interest rates make financial self-sufficiency on the part of TRDB more difficult, the NAFCREP loan programs supported by the project do provide highly profitable technologies to borrowers. TRDB is not capturing its fair market share of the return, but without TRDB loans many villages and farmers would not have access to the maize mills, tools, carts, etc. Given these economic benefits and the fact that the Government as part of its Structural Adjustment Program is seriously considering interest rate reform, continued AID support to TRDB is justified. To assist the Government in its analysis and decisions related to interest rates, AID will request on an annual basis that the TRDB make an estimate of the NAFCREP portfolio administrative and borrowing costs expressed as an interest rate for the portfolio loans. Where possible, a similar estimate of the individual RVPI supported portfolios will be provided. This information will contribute to donor efforts, presently led by the IMF and IBRD to adjust the price of money to its true costs.

**F. Project Agreement Conditions**  
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In the Project Agreement, Amendment 3 of August 31, 1982 the following special conditions relating to the monitoring of the issues listed above were included.

"The Grantee and A.I.D. agree to establish a project monitoring system as part of the project to be used to identify project implementation difficulties, to insure that goods and services financed under the project are used effectively and that progress is being made towards the achievement of project objectives. The parties further agree in order to achieve project objectives TRDB should be free of constraints which hinder it from becoming an autonomous, financially viable agricultural credit institution, in terms of the Act establishing TRDB. To this end TRDB will provide to A.I.D. by September 1982 and on a quarterly basis thereafter sufficient information to enable the parties to monitor:

A. TRDB's ability to exact prompt remittances of credit repayments from parastatal crop authorities and improvements in the fiscal accountability of these organizations to TRDB:

B. TRDB's ability to apply standard and sound financial management practices to the selection of loan portfolios and borrowers;

C. TRDB's ability to develop alternative agricultural input distribution channels and to free itself from input distribution responsibilities; and

D. The degree of operational autonomy granted to TRDB clients such as cooperative unions and individual enterprises.

A Project Implementation Letter has also been issued requesting the interest rate information on a semi-annual basis

The USAID project officer will work with the Mission's newly formed Policy Analysis Office and Program Office to monitor and analyze the information provided by TRDB. They will be discussing this information with counterparts at the Ministry of Finance and the Bank of Tanzania. The objective is to adjust GOV policy to allow TRDB to operate as an independent self-sufficient financial institution in a relatively free market setting.

## I/. PROJECT ANALYSIS

### A. Technical Analysis

The objective of the original technical analysis was to explain and demonstrate how the technologies to be distributed under the project-financed portion of the NAFCREP program will address the major constraints to raising agricultural productivity, production and marketing in the villages; are most appropriate from the perspective of both villages and the economy; and will help villages become self reliant.

The analysis considered loans for hand tools, oxen implements and carts, grain mills, and village service centers. In each case the loan items and related technologies were judged: (1) to be profitable, (2) to relieve serious farm constraints, and (3) to reduce recurrent foreign exchange requirements. Since the new loan portfolio includes only those technologies listed above and previously evaluated, the analysis remains valid. Although special technologies relate to the new small-scale enterprise category of loans, but the promotion and use of the private sector is in line with AID's development approach.

### B. Social Soundness Analysis

No significant social or political factors have developed to alter the conclusions that:

- (1) The project is consistent with the social and political environment;
- (2) The lending activities will have a positive social impact;
- (3) No cultural and social constraints exist which would prevent acceptance and diffusion of the technologies.

The ultimate beneficiaries remain a cross section of rural villagers. If cooperatives become important intermediaries for input supply, an analysis of their composition, cultural acceptability and organizational structure will be undertaken by the project.

### C. Environmental Analysis

No changes in the Project affect the original negative determination of the Initial Environmental Examination.

## D. Economic Analysis

The institutional policy and macro-economic setting described in the original Economic Analysis is still valid for the proposed amendment. The need, demand and financial return for villages or individuals for grain mills, village service centers, handtools, oxen implements and carts remain essentially as described in the analysis. Each shows a high positive financial rate of return for the village or farmer. Generally the original analysis was not able to quantify the economic benefits and thus no benefit/cost analysis or internal rate of return was calculated. However, based on gross incremental benefits per village, it was estimated that the net economic benefits of each technology are substantial. Further, the analysis recommended that in reviewing loan applications the sequence and phasing of lending shown below be followed to maximize return on the loan portfolios.

- (1) seasonal lending for tools
- (2) grain mills
- (3) oxenization
- (4) village service centers
- (5) village transport.

The amended RVPI loan program generally is following this sequence and phasing and as such is maximizing returns.

Overall the adjustments and cutbacks do not substantially change the economic or financial returns on a per loan or technology basis. The amended project is economically sound.

## E. Financial Analysis

### 1. Original Analysis and TRDB's Actual Performance

When the project paper for the Resources for Village Production & Income Project at the Tanzania Rural Development Bank was prepared in 1979/1980, an extensive analysis of the financial condition of the Bank was developed. The financial section of the project paper included an analysis of the grant funding from USAID which would insure the financial viability of the TRDB at the end of the project in 1987 as well as an evaluation of repayments problems. The conclusion reached in the original project paper was that funding of \$30.0 million excluding technical assistance, was required to insure the establishment of financial self sufficiency.

SCHEDULE 1

TANZANIA RURAL DEVELOPMENT BANK

SCHEDULES OF PROPOSED FINANCIAL CONDITIONS BASED ON HIPE LENDING (US\$10 x 10<sup>6</sup> x 5% - 10%)

1979 - 1985 (000 US\$)

FOOTNOTES TO THIS SCHEDULE AND THE TABLE DESCRIPTIONS ARE AN INTERNAL PART OF THIS SCHEDULE 1/

	1979/80	1980/81	1981/82	1982/83	1983/84	1984/85	1985/86
<b>SCHEDULE I</b>							
<b>INCOME STATEMENT</b>							
INTEREST INCOME	50,956	52,027	69,011	78,555	89,888	98,600	110,400
INVESTMENT INCOME	2,500	1,250	625	312	156	150	150
OTHER INCOME	382	415	489	464	520	570	620
<b>TOTAL INCOME</b>	<b>53,838</b>	<b>53,692</b>	<b>70,125</b>	<b>79,331</b>	<b>90,564</b>	<b>99,520</b>	<b>111,170</b>
<b>EXPENSES</b>							
COST OF FUNDS IDA	10,084	13,626	15,073	17,186	20,418	20,000	19,000
COST OF FUNDS BOT		500	730	875	375	4,750	8,250
FIXED & GEN. EXPENSES	18,500	21,215	24,456	28,136	32,356	37,200	42,780
ADD DEBT EXPENSES/	24,750	25,373	33,825	23,253	22,113	35,427	40,055
<b>TOTAL EXPENSES</b>	<b>53,334</b>	<b>(215)</b>	<b>64,175</b>	<b>(215)</b>	<b>69,451</b>	<b>(21)</b>	<b>97,317</b>
<b>NET PROFIT</b>	<b>504</b>	<b>1,907</b>	<b>5,950</b>	<b>9,546</b>	<b>11,113</b>	<b>1,941</b>	<b>1,853</b>
<b>SCHEDULE II</b>							
<b>BALANCE SHEET</b>							
<b>ASSETS</b>							
FIXED ASSETS	35,180	66,000	83,500	87,500	91,500	96,500	101,500
CURRENT ASSETS	162,434	169,820	180,050	197,055	221,812	219,632	279,042
<b>LIQUIDITY</b>							
INVENTORY	43,051	44,987	12,512	17,491	79,699	88,084	104,132
CASH	59,000	25,000	12,500	12,500	3,125	3,500	4,000
LOANS							
CASH CROP	136,285	191,530	239,016	274,265	316,996	342,000	370,000
FOOD CROP SHORT TERM	48,245	69,647	106,900	140,695	174,800	204,000	230,000
H/LOAN LEND	437,963	492,077	534,484	582,795	668,338	783,835	919,335
ALLOW. BAD DEBT	(136,991)	(162,364)	(191,250)	(214,584)	(243,830)	(279,265)	(319,330)
NET OPEN LOANS	401,500	592,820	657,151	703,191	927,237	1,050,570	1,201,005
<b>TOTAL ASSETS</b>	<b>776,170</b>	<b>898,625</b>	<b>1,035,181</b>	<b>1,197,738</b>	<b>1,312,133</b>	<b>1,458,276</b>	<b>1,692,680</b>
<b>LIABILITIES</b>							
CURRENT LIABILITIES	17,000	20,000	22,000	25,000	29,000	11,000	13,000
FINANCING					446,144	IDA 444,144	IDA 441,144
TOTAL LIABILITIES	113,175	131,913	148,580	148,350	35,000	207,100,000	200,000
GRANTS	258,125	381,913	440,580	473,350	520,144	539,144	694,144
CAPITAL & EQUITY					597,219	710,919	830,217
SUBS. CAPITAL	172,000	172,000	172,000	172,000	172,000	172,000	172,000
RETAIN EARNINGS	15,870	14,790	15,880	25,780	33,070	35,213	36,288
<b>TOTAL CAPITAL</b>	<b>187,870</b>	<b>186,790</b>	<b>187,880</b>	<b>197,780</b>	<b>205,070</b>	<b>207,213</b>	<b>208,288</b>
<b>GRANTS &amp; LIABILITIES</b>	<b>776,170</b>	<b>898,628</b>	<b>1,035,181</b>	<b>1,197,738</b>	<b>1,317,133</b>	<b>1,458,276</b>	<b>1,692,680</b>

- 1/ See Annex for Financial Planning Model Assumptions and Description.
- 2/ Bad Debt Expenses may be overvalued with the proposed improved collections.
- 3/ Interest Income includes a recognition of income for seasonal lending which is included in the cost of the crop loans.
- 4/ Includes 50 million T.Shs. of loans from Cooperative Societies and Unions.
- 5/ Bank of Tanzania short term and long term financing was not incorporated into the original computer model, but has been incorporated into all final schedules on the same basis. See Ratios and Measures of Financial

SCHEDULE 1 (CONT)

TARRANTIA PURA REFINANCING UNIT  
 STATEMENT OF FINANCIAL CONDITION AND STATEMENT OF REVENUES AND EXPENSES  
 1979 - 1986 (in thousands)

	1979/80	1980/81	1981/82	1982/83	1983/84	1984/85	1985/86
<b>SCHEDULE III</b>							
<b>CASH FLOW ANALYSIS</b>							
<b>SOURCES OF CASH</b>							
LOAN REPAYMENTS	106,321	147,497	202,071	251,021	253,780	278,000	308,000
INVEST. INCOME	2,500	1,250	625	312	156	150	150
OTHER BANK INCOME	382	415	449	484	520	560	600
SUBSIDIES	17,500	18,000	19,000	19,000	19,000	19,000	19,000
NET FINANCE	-	S.T. 25,000	S.T. 30,000	S.T. 35,000	L.T. 35,000	L.T. 75,000	L.T. 110,000
FINANCE OTHERS	91,340	63,228	71,278	47,469	18,842	25,000	-
GRANTS NOT AID	17,500	21,000	25,000	30,000	35,000	40,000	45,000
GRANTS AID	2,870	32,600	32,800	32,882	52,612	54,700	52,128
<b>TOTAL CASH RECEIVED</b>	<b>238,414</b>	<b>309,251</b>	<b>381,223</b>	<b>416,160</b>	<b>416,910</b>	<b>492,410</b>	<b>548,778</b>
<b>USES OF FUNDS</b>							
LOAN USE S.T.	121,810	147,218	189,602	200,729	225,877	237,300	259,900
LOAN USE L.T.	71,539	85,213	87,354	105,025	117,503	127,400	146,600
DEBT SERVICE (NET BOT)	10,000	13,625	15,073	17,186	20,418	22,000	27,000
INTEREST	4,753	14,482	14,992	17,685	18,066	20,000	19,000
PRINCIPAL	14,848	23,108	30,056	34,875	38,455	42,000	45,000
OPERATING EXPENSES	18,500	21,275	24,466	28,136	32,355	37,200	42,780
ASSET ACQ.	15,000	25,000	12,500	6,300	3,700	5,000	5,000
NET REPAIR EXPENSES	-	25,000	30,000	35,000	5,000	30,000	10,000
REP. INTEREST	-	500	750	875	875	4,750	8,250
<b>TOTAL CASH USES</b>	<b>242,668</b>	<b>332,315</b>	<b>356,738</b>	<b>410,241</b>	<b>435,777</b>	<b>483,570</b>	<b>517,530</b>
<b>NET CASH FISH</b>	<b>(4,254)</b>	<b>(23,064)</b>	<b>(75,515)</b>	<b>(94,081)</b>	<b>(18,867)</b>	<b>(91,160)</b>	<b>(68,752)</b>
<b>REVENUE &amp; EXPENSES ON FINANCIAL CONDITION</b>							
GRANTS	258,125	329,925	406,723	488,607	597,219	710,919	830,247
REVENUE	93,051	69,987	84,472	69,691	62,824	91,584	108,132
FINANCING	313,175	361,913	416,580	440,350	431,144	549,444	621,144
DEBT SERVICE	14,838	23,608	30,816	35,750	44,340	52,750	61,250
REPAYMENTS	106,321	147,497	202,071	251,021	253,780	278,000	308,000
OPERATING EXPENSES	18,500	21,275	24,466	28,136	32,356	37,200	42,780
LOANS MADE	193,350	232,432	268,956	305,755	343,381	364,700	406,500
REPAIRS	-	-	-	-	-	-	-
LIQUIDITY/LOANS YR + 1	.41	.27	.28	.28	.27	.23	-
LOANS/FINANCING	1.55	1.64	1.65	1.75	1.91	1.92	1.88
DEBT SERVICE/REPAYMENTS	.14	.20	.16	.15	.18	.19	.20
OPERATING EXP./REPAYMENTS	.18	.15	.13	.12	.13	.14	.15

## SCHEDULE 2

TANZANIA RURAL DEVELOPMENT BANK: SCHEDULES OF BALANCE SHEETS, INCOME STATEMENT AND CASHFLOW (IN TANZANIA SHILLINGS). REVISED  
PP AMENDMENT (AUGUST 1, 1982).

Income Statement	Actual w/Adjust 1979/80	Actual w/o Adjust (Subj. to Audit Adjust) 1980/81	Preliminary Actual w/o Adjust (Subj. to Major Adjust) 1981/82	Pro Forma 1982/83	Pro Forma 1983/84
Income-Interest Income Accrued	42,138,087	50,698,647	54,977,636	59,000,000	64,000,000
Investment Income	—	—	—	—	—
Other Income	+ 2,436,706	837,673	1,291,980	1,000,000	1,000,000
Total Income	= 44,574,793	51,536,320	56,269,616	60,000,000	65,000,000
Expenses-Cost of Funds; IDA/Other	9,486,507	9,211,937	13,115,000	12,450,000	11,800,000
Cost of Funds-BOT	—	—	2,722,800	3,200,000	3,500,000
Personnel/Oper. Expenses	23,054,332	30,717,493	27,490,700	30,000,000	33,000,000
Bad Debt Expenses	+ 11,073,885	10,550,408	12,500,000	14,000,000	16,000,000
Total Expenses	= 43,614,724	50,479,838	55,828,500	59,650,000	64,300,000
	960,069	1,056,482	441,116	350,000	700,000
<b>Balance Sheet</b>					
Assets - Fixed Assets	31,794,017	35,274,836	49,636,326	85,000,000	110,000,000
Current Assets	74,415,954	45,246,255	37,966,687	55,000,000	68,000,000
Inventory	46,043,668	63,976,828	42,030,000	54,000,000	69,000,000
Cash	31,679,924	6,007,323	39,533,032	55,000,000	60,000,000
Loans-Net of Bad Debt Allow.	+ 586,201,648	694,751,689	767,556,129	821,000,000	880,000,000
Total Assets	= 770,135,203	845,256,931	936,722,174	1,070,000,000	1,187,000,000
Liabilities-Current	14,921,739	21,635,233	14,112,724	4,000,000	7,300,000
Financed Credits	+ 255,576,944	286,905,441	351,610,998	355,723,722	422,000,000
Total Liabilities	= 270,498,683	308,540,674	365,723,722	422,000,000	457,000,000
Grants	301,417,802	347,450,782	381,385,119	454,000,000	532,000,000
Capital-Retained Earn. & Equit.	+ 182,218,718	483,636,520	189,613,333	190,000,000	644,000,000
Total Grants/Liab. Capital	= 770,135,203	845,256,931	570,998,452	644,000,000	1,187,000,000
			936,722,174	1,070,000,000	1,187,000,000
<b>Sources of Funds and Uses</b>					
Sources-Loan Repayments Net	74,052,590	99,820,507	146,020,254	135,000,000	158,000,000
New Grants & Subsidies	81,162,703	48,412,548	71,186,307	63,000,000	68,000,000
New Credits	21,942,096	25,949,312	33,984,337	70,000,000	35,000,000
Total Normal Inflow	177,157,389	174,182,367	251,140,898	268,000,000	261,000,000
Uses- Loan Disbursements Net	175,173,604	176,413,425	161,973,747	170,000,000	155,000,000
Interest Paid Creditors	9,486,507	9,330,894	9,740,000	9,300,000	8,700,000
Principal Repayments	4,869,068	3,888,307	16,480,750	18,000,000	24,500,000
Increase Inventory	12,714,779	22,710,390	—	12,000,000	15,000,000
Increase Assets	18,663,103	3,941,417	14,361,490	35,000,000	25,000,000
Cash Operating Expenses	18,476,405	25,478,641	29,400,000	26,000,000	27,000,000
Total Cash Outflow	239,413,466	240,763,074	231,955,987	270,300,000	255,200,000
Net Cash Outflow	<62,256,077>	<66,580,707>	19,184,911	<2,300,000>	5,800,000
LIQUIDITY [(1978/79)=97,326,000]	35,069,923	<31,510,784*>	<12,325,873>	<14,625,873>	<8,825,873>
Funding Liquidity Dec.-Dec. Cash	33,668,610	25,909,976	—	—	—
Decrease Liabilities	2,514,923	8,778,084	—	—	—
Increase Dec. Receivables	11,112,544	31,892,647	—	—	—
Gain Disposal Investm'ts.	14,930,000	—	—	—	—
Sub-Total	62,256,077	66,580,707	—	—	—

As part of this project revision, a comparison is made of the financial projections made in 1979/1980 for the fiscal years 1979/1980 through 1986/1987 with the actual results of operations during the period 1979/1980 through 1981/1982. Schedule 1 lists the projections developed in 1979/1980, while Schedule 2 lists the actual performance for 1979/80 to 1981/1982 (and includes a revised estimate of the financial status of the TRDB for the last two years of the project based on \$9 million grant credit.

A review of the original projections compared with actual performance for three years shows that during the first two years (1979/1980 and 1980/81) Bank liquidity was substantially more negative than originally projected, but that during the third year of the project projections (1981/1982) Bank performance, as measured by net cash flow was approximately 35% better than originally projected. (Table I).

Table I	Projected Cash Flow	Actual Cash Flow
	(TSh)	(TSh)
1979/1980	(4,274,000)	(62,256,077)
1980/1981	(23,064,000)	(66,580,707)
1981/1982	(14,485,000)	(19,184,911)
Totals	(12,853,000)	(49,729,236)

The liquidity position of TRDB remains precarious. The substantial negative cash flows of 1979/1980 and 1980/1981 severely drew down the assets of the Bank and at 30 June 1980 the Bank was drawing on TSh. 20 million overdraft from the Commercial Bank to cover its negative cash flow. During this two-year period the economy of Tanzania deteriorated markedly and loan repayments declined as percentage from the rate in years prior to 1979/1980 which had averaged 70-72%. Another important factor which contributed to the liquidity situation at the TRDB was the slow start-up of USAID project. Table 2 lists the projected grant funding and the actual funding as effectively received by the Bank.

Table 2	Project Inflow USAID (TSh.)	Actual Inflow USAID (TSh.)	Difference (TSh.)
	-----	-----	-----
1979/80	2,870,000	---	2,870,000
1980/81	32,800,000	2,300,000 approx.	30,500,000
1981/82	32,800,000	21,000,000 approx.	11,800,000
	68,470,000	23,300,000	45,170,000

Comparing Table I totals with those of Table 2 it can be seen that the TSh. 36.8 million difference between projected and actual cash flow is largely explained by the TSh. 45.1 million delay in effective receipt of USAID grant funds. <sup>1/</sup> Additionally the delay in disbursement of the IDA credit seriously limited liquidity for the same years.

During fiscal year 1981/1982 Bank performance improved substantially. Collections increased almost 50%, while new loan disbursements declined 9%. The receipt of USAID grants of TSh. 36 million also relieved the liquidity situation which had become precarious during 1979/80 and 1980/81 so that the Cash Balance as of June 1982 was approximately TSh. 40 million compared with a Cash Balance as of 30 June 1981 of TSh. 6 million.

Because of limited availability of loan funds during the three years since the original projections were developed, the Bank has had to cut new loan disbursements below the planned level and has also limited the amount of new credits. This has resulted in a reduced debt service load from the original projections.

## 2. Loan Repayments

Collections as a percent of amounts fallen due for repayment declined during 1979/80 and 1980/81 from approximately 71% to 63% by 30 June 1981. During fiscal year 1981/82 the repayment rate recovered to almost 69% which is a remarkable recovery since the collections to amount fallen due ratio is

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1/ The difference between the projected and actual flow of AID assistance results from an overly optimistic schedule for the disbursements in the original PP. Most of AID financing for NAFCREP was for foreign exchange items such as Lister Engines and steel that required substantial time to order and receive. Loans could not be made until these items were available to the borrower.

based upon cumulative amounts fallen due during the two very difficult years of 1979/80 and 1980/81.

USAID grant funds under the existing project and the preceeding USAID project have been concentrated on lending for grain mills. The grain mill portfolio has the highest repayment rate and is the most successful portfolio at TRDB. Table 3 lists the performance of the USAID sponsored grainmill portfolio.

The grain mill loans are 36-month installment loans with a 3-month grace period. Therefore the loans fall due 1/3 in each of the 3 years after disbursement. The positive adjustment in 1980/1981 resulted from the transfer of grain mills from another portfolio to the USAID Grain Mill portfolio. The negative adjustments resulted from the re-scheduling of loans for mills which have become inoperative but which were subsequently repaired with parts supplied under RVPI as well as the transfer of some loans to a new USAID Grain Mill portfolio.

### 3. Revised Projections

The proforma statements on schedule 2 for fiscal years 1982/1983 and 1983/1984 are based on the following assumptions.

	GRANTS (In TSh, '000)	
	1982/1983	1983/1984
USAID	33,000	33,000
DANIDA	20,000	20,000
Other	10,000	15,000
	-----	-----
	63,000	68,000
NEW CREDITS		
BOT (Net of Repayments Prior Year)	25,000	10,000
IOA/Other	45,000	25,000
	-----	-----
	70,000	35,000

The grant and credit assumptions are based on a USAID commitment of \$9.0 million as re-scheduled through 30 September 1984, continued availability of IDA credits (currently cut off) and increased funding by Bank of Tanzania (TSh. 50 million 1981/1982, 75 million 1982/1983, 85 million 1983/1984). It should be noted that the BOT credit limit is TSh 100 million and

TABLE 3

Fiscal Year and	Disbursed	Interest	Adjustment	Current Year Repayments	Accumulative Repayments	Past Due	Principal Repayment Percent	Principal and Interest Accrual Repayment Percent
6/79	5,925,949	195,903	--	239,968	239,968	206,970	53.6	37.3
6/80	10,150,084	1,434,670	(28,925)	1,858,526	2,098,494	483,916	81.2	52.6
6/81	12,740,456	2,370,661	717,616	5,758,435	7,856,929	2,160,556	78.4	63.4
6/82	<u>2,971,446</u>	<u>2,244,363</u>	<u>(340,256)</u>	<u>7,524,420</u>	<u>15,381,349</u>	<u>1,289,717</u>	<u>92.0</u>	<u>81.3</u>
TOTALS	31,787,935	6,245,599	(121,565)					

31

that the credit is for one year renewable, but not roll over. Beginning in FY 1985/1986 the terms of BOT credit may not be supported by TRDB.

Both the Government of Tanzania and TRDB management are taking action to curtail operating expense increases but a conservative allowance for 10% annual increases is calculated in operation expenses.

With the planned USAID support through FY 1983/1984, TRDB will operate at a somewhat reduced level and will experience continued liquidity problems. If the government decides to change certain banking policies and required conditions, then the Bank's liquidity position could improve substantially. For example, a directive to parastatals to pay overdue loans to TRDB on a priority basis would improve TRDB's cash position dramatically. Similarly, if TRDB were able to select its loan portfolio free of government interference and forced selection, then a more profitable mix of loans would result. Higher interest rates would earn the Bank more income and place it in a better liquidity position.

Ultimately the TRDB's important position in village development and maize production will ensure BOT support for the institution even during periods of serious cash flow problems. The institutional capacity of TRDB continues to grow in spite of the liquidity problems, and in time, TRDB will achieve institutional maturity with improving financial self sufficiency and substantial banking and finance capacity.

## V. Implementation

### A. Relations and Responsibilities

The responsibilities and relations will remain, for the most part, as described in the original PP. Some adjustments have been made in the nature and type of AID contributions resulting from the delay in IDA financing. TRDB responsibilities in the overall government financial framework has not changed, but plans are being established to give the TRDB substantial responsibility in the development of cooperatives. The timing and exact nature of this responsibility are still being formulated.

Finally, USAID/Tanzania and contractor administration and responsibilities are as originally outlined in the PP.

### B. Implementation To Date

#### 1. FY 1980-1981

The pre-implementation period of the project has been completed. A technical assistance contract was negotiated and signed in early FY 82 and the Procurement Advisor was recruited and assumed his duties in September 1981. Procurement of Project vehicles and household effects for the contract team is completed. All conditions precedent have been met, the 1981 NAFCREP plan was approved, and Letters of Commitment for all 1981 NAFCREP commodities have been issued. Implementation of the institutional development component has fallen approximately 9 - 12 months behind schedule from the original implementation plan as presented in Annex II-J of the original PP. The delay in signing the technical assistance contract with ACDI prevented many of the implementation actions under the institutional development component from being achieved as originally scheduled. Also, the IDA funded project has yet to begin, and many of the RVPI Project activities complemented and, in some cases, depended on implementation of activities under the IDA Project.

## 2. FY 1982

The institutional development component of the project has begun in full with the arrival of the full technical assistance team in March 1982. The TRDB 1982 Training Plan was approved and training activities are now well underway. A program of loan reconciliation and analyses of TRDB field operations has been initiated. From these preliminary analyses of TRDB loan portfolios and administration, a TRDB Operations and Procedures manual will be developed. TRDB, in collaboration with the Ministry of Agriculture and the Mbeya Regional authorities, has completed an agricultural input marketing study in Mbeya Region, and TRDB is moving forward with the funding of pilot Village Service Centers. This activity will alleviate some of TRDB's input distribution responsibilities in the region as well as contribute to the overall improvement of the agricultural input distribution system in Tanzania. A schedule of implementation activities for FY 82 follows:

## 3. FY 82

### October:

- Technical assistance contractor selected: ACDI
- 1982 NAFCREP Plan prepared
- 1982 TRDB Training Plan prepared
- Bids for steel for agricultural implements factory let

November:  
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--Bids for Maize Mill steel let

December:  
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--Bids for Maize Mill steel received

--Bids for agricultural implements factory steel received

January:  
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--Suppliers for agricultural implements factory selected

February:  
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--Suppliers for maize mill steel selected

--Project Review initiated by AID

March:  
-----

--ACDI long-term technical assistance team arrived.

--AID financed institutional development component begins in full

--TRDB 1982 Training Plan approved by AID

--Steel for agricultural implements factory procured through Nairobi arrives

--Placement of long-term participants under 1982 training plan begins (continue throughout year)

--Field trip to Iringa, Mbeya Regions: visit TRDB Regional offices, discuss with EEC-funded Oxen Training Center project officials, discuss with TFA officials areas of collaboration regarding Village Service Centers, discuss VSC concept with Mbeya and Iringa Regional officials.

--AID project Review completed: Dar 1282 sent to AID/W

April:  
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--ACDI advisors prepare work plan

--In-country management seminars began

- Short-course training begins (continue throughout year)
- Mbeya Region input marketing study initiated by TRDB with Ministry of Agriculture and Mbeya Regional collaboration.

May:  
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- Program of loan account reconciliation begins (continue throughout year)

June:  
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- New formalized courses for TRDB Project Officers begins
- Mbeya input study begins
- AID/W concurrence of Mission project review received (State 127219)

July:  
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- ACDI Financial Advisor prepared basic accounting system for field personnel
- ACDI Financial Address prepares computerized financial accounting system for Head Office records.
- 1983 NAFCREP loan portfolio analysis begins (continues throughout year)
- Mbeya Input Study completed, findings presented to TanGov authorities
- Development of TRDB operations and Procedures Manual begins

August:  
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- Long-term participants begin training
- 1982 Project Agreement signed (\$4.0 million)
- Project monitoring system implemented

September:  
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- 1982 NAFCREP Plan approved by USA
- 1983 TRDB Training Plan submitted to USAID for approval

- First monitoring report due.
- NAFCREP procurement initiated (continue throughout year)
- Analysis of TRDB field operation begins (continue throughout year)

### C. Implementation Plan

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#### FY 1983:

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Major implementation activities for FY 83 are the NAFCREP loans to TFA for the establishment of pilot Village Service Centers to test alternative agricultural input distribution systems and Ubungo Farm Implements (UFI) for the manufacture of oxen drawn implements and hand tools which will be supplied to their retailers, TFA, and the Iringa RIDEP which is supported by the EEC. Training activities will be on-going as well as the analysis of TRDB's NAFCREP portfolios, NAFCREP Procurement, and the development of more efficient operations and procedures. A tentative schedule of implementation activities for FY 83 follows:

#### FY 83:

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#### October:

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- Negotiations with Tanganyika Farmer's Association (TFA) for the establishment of pilot Farm Service Centers begins
- Replacement of ACDI Financial Advisor
- Negotiations with Ubungo Farm Implements UFI for the manufacture of oxen-drawn equipment begins
- Cooperative study initiated

#### November

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- Loan reconciliation program completed
- Loan agreement with TFA finalized
- Loan agreement UFI finalized
- 2nd In-country management seminar

--In-country accounting and bookkeeping training begins

--Coop study completed with pilot project for Arusha Region

**December:**  
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--1983 Training Plan submitted to AID for approval

**January:**  
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--1983 Training Plan approved by AID

--1983 Project Agreement signed (\$2,825,000).

--Second Monitoring Report due.

**February:**  
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--Placement of short term participants under 1983 Training Plan begins

--On-going NAFCREP procurement

--On-going NAFCREP portfolio analysis

--On-going development of Operations and Procedures Manual

**March:**  
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--Operations and Methods division prepares guidelines for improved loan administration

--Short course training under 1983 Training Plan begins (continues throughout year)

--In-country training and management seminars begin

**April:**  
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--TFA establishes pilot Farm Service Centers (Mbeya Region)

--Project evaluation

--Third Monitoring Report Due.

**May:**  
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--Recommendations for improved field operations implemented

## June:

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- First long-term participants return
- 1983 NAFCREP Plan submitted for approval

## July:

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- Continued NAFCREP Planning
- Continued NAFCREP Procurement
- Continued training activities
- Fourth Monitoring Report due.

## August:

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- 1983 NAFCREP Plan approved by AID

## September:

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- NAFCREP procurement initiated

## FY 1984

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Individual project activities for FY 84 will depend on progress made up to this point. Throughout the year on-going research and evaluation of NAFCREP lending will continue as well as in-country training, management seminars and short course offerings to TRDB personnel. The procurement of NAFCREP commodities will be continued, but greatly reduced. In FY 84 Ubungo Farm Implements will have produced as yet an unspecified quantity of oxen-drawn equipment and hand tools under TRDB's NAFCREP lending program which will be supplied to their retailers, TFA and the Iringa RIDEP which is supported by the EEC. TFA with TRDB financing will have established pilot Farm Service Centers in Mbeya and possibly Arusha Regions to test alternative agricultural input distribution systems.

The management seminars which will take place throughout the project will produce a series of recommendations for the improvement of TRDB operating procedures. These recommendations will be tested and incorporated into the Operations and Procedures Manual. A tentative schedule of implementation activities for FY 84 follows.

FY 84:  
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October:  
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- NAFCREP procurement on-going.
- Research and evaluation of NAFCREP lending on-going.
- In-country training and management seminars on-going.
- Fifth monitoring report due

November:  
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- U.F.I. produced oxen drawn implements and hand tools distributed to TFA, EEC Oxen Training Centers and other U.F.I. retailers.
- TFA operated Village Service Centers Established

December:  
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- Review of TRDB operations and procedures on-going

January: - Dec 1984  
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- Evaluation of impact of TFA managed Form Service Center; feasibility of expanding in other regions.
- Continued testing and refinement of new TRDB Operations and procedures.
- End of Project Report prepared by ACDI
- Evaluation of monitoring reports to measure progress towards reliving TRDBs constraints.
- Final evaluation
- All long term participants will have returned.
- All NAFCREP procurement completed under project.
- Computerized financial accounting system in operation.

## VI. EVALUATIONS AND MONITORING

A detailed review of the project was undertaken as part of the preparation of this amendment. The changes in the project as embodied in the amendment have acted as a mid-term evaluation of project. This review coupled with the monitoring and data collection and analysis built into the project have provided ample opportunity to weigh project alternatives and adjust project inputs. Additionally, the new, special policy monitoring arrangements that were discussed in Section III above add another means for critical review.

A detailed outside evaluation will take place 2nd quarter 1983. This evaluation, well before project termination, will evaluate the extent of success in achieving the project purpose, end status and outputs. With ample time remaining in the program, some further achievement in the project will be attained, but generally the project's impact on village production and income as well as TRDB's institutional capacity can be identified. This evaluation will provide an independent judgement of the project inputs and output levels but will also assess:

1. The role and demonstrated performance of the TRDB in general
2. Whether it will continue to engage in direct distribution of agricultural inputs to farmers.
3. The changed responsibilities of the Bank with regard to farmer marketing cooperatives, regional cooperative unions and farmer service centers.
4. General policy issues for the operation of the TRDB as discussed previously in Section III.

The evaluation along with AID/Tanzania project and policy monitoring will be the basis for a decision on future AID support for the TRDB.

The evaluation team will consist of three individuals, each working for approximately one month. Collectively their skills will include: financial management and administration, agricultural economics, farm input supply and distribution, and credit policy and institutional planning.

The task of a final evaluation of the project will be relatively simple after the completion of the 1983 evaluation. The Mission will determine if outside assistance will be required to complete the final evaluation. Funds have been budgeted for an independent consultant to complete the evaluation.

Amended: September 1982  
U.S. LOP Funding: \$15.0 million

PROJECT DESIGN SUMMARY  
LOGICAL FRAMEWORK

Project Title & Number Resources for Village Production and Income  
(621-0155)

NARRATIVE SUMMARY	OBJECTIVELY VERIFIABLE INDICATORS	MEANS OF VERIFICATION	IMPORTANT ASSUMPTIONS
<p><u>Program Goal</u> Improved well being and increased participation of the rural poor in a growing economy.</p> <p><u>Project Goal</u> Increased productivity, production and income generating activities and improved marketing of goods and services in villages.</p> <p><u>Project Purpose</u> A strengthened and expanded commercial support and delivery system for the provision of production related goods and services in villages.</p>	<p><u>Measures of Goal Achievement</u> Improved Standard of Living</p> <p>Loan repayment rates improve, increased demand for services.</p> <p><u>End of Project Status</u> 1. Increased institutional capacity of TRDB to serve villages.</p> <p>2. Increased village participation and absorptive capacity.</p>	<p>Project evaluations and studies</p> <p>Research department's impact studies</p> <p>1.1 Employee performance evaluations.</p> <p>1.2 Project evaluations</p> <p>1.3 Financial reports.</p> <p>2.1 Village records of lending activities.</p> <p>2.2 Numbers of loan request.</p> <p>2.3 TRDB repayment records.</p>	<p>TanGov goals are implemented through appropriate policies and programs.</p> <p>Increased productivity will result in increased economic returns to the producers and their families.</p> <p>Increased availability and more effective provision of required goods and services will lead to increased productivity and production. Farmers want to produce more.</p> <p>1.1 TanGov will provide the essential capital and policy support to the TRDB despite the current balance of payments and national budget crises.</p> <p>1.2 Inter-institutional roles and responsibilities are defined.</p> <p>2.1 Villages do have the potential in terms of human, organizational, and physical resources to meet the condition.</p>

PROJECT DESIGN SUMMARY  
LOGICAL FRAMEWORK

Project Title & Number Resources for Village Production and Income  
(621-0155)

NARRATIVE SUMMARY	OBJECTIVELY VERIFIABLE INDICATORS	MEANS OF VERIFICATION	IMPORTANT ASSUMPTIONS
	<p><u>End of Project Status</u></p> <p>3. Increased production and village incomes.</p> <p>4. Improved marketing infrastructure and services especially in villages.</p> <p>5. Improved national institutional coordination for more effective support of villages</p>	<p>3.1 National Surveys</p> <p>3.2 Research Division evaluations</p> <p>3.3 Project evaluations</p> <p>4.1 TRDB and NMC records Project evaluations.</p> <p>4.2 Research Division Studies and reports, including information on goods available in villages.</p> <p>4.3 Activities resulting from inter-institutional seminars.</p> <p>4.4 Mbeya Study</p> <p>5. Delivery records of TRDB, NBC and other institutions.</p> <p>5.1 Seminar proceedings.</p> <p>5.2 TanGov policy statements.</p> <p>5.3 Institutional operating procedures.</p>	<p>3. Significant expansion of village enterprise outside the area of traditional seasonal food and export crop production are possible.</p> <p>5. Concerned entities intend and want to coordinate; only the methodology and mechanisms are lacking.</p>

Approved: September 1982  
U.S. LOP Funding: \$15.0 million

PROJECT DESIGN SUMMARY  
LOGICAL FRAMEWORK

Project Title & Number: Resources for Village Production and Income  
(621-0155)

NARRATIVE SUMMARY	OBJECTIVELY VERIFIABLE INDICATORS	MEANS OF VERIFICATION	IMPORTANT ASSUMPTIONS
<p>Increased institutional capability of TRDB through:</p> <p>a. TRDB staff capability at both headquarters and field levels</p>	<p>1.a.(1) Project Officers and Credit supervisors will improve quality of loan appraisals lending procedures, collections, and delinquency controls.</p> <p>1.a (2) Regional Managers will improve branch and portfolio management.</p>	<p>1.a (1) TRDB documents.</p> <p>1.a (2) Regional Manager reports and Zonal Managers' evaluations.</p> <p>1.a (3) Personnel evaluations, and</p>	<p>1.a (1) Adequate staff will be hired.</p> <p>1.a (2) Adequate numbers of qualified Managers are identified after Zonal Managers are approved.</p>
<p>Improved management and operating procedures within TRDB.</p>	<p>1.a (3) Headquarters staff improve management.</p> <p>1.b (1) Information is available in a timely manner.</p> <p>1.b (2) Operating guidelines and procedures are prepared and implemented.</p> <p>1.b (3) Appropriate but simple to use forms are prepared and implemented areas of Bank operations.</p>	<p>TRDB policy directives, and work assignments.</p> <p>1.b (1) Financial reports</p> <p>1.b (2) TRDB manuals and training materials.</p> <p>1.b (3) TRDB forms and procedures.</p>	<p>1.a (3) Training provided is appropriate and Bank management initiates required changes.</p>

PROJECT DESIGN SUMMARY  
LOGICAL FRAMEWORK

Amended: September 1982  
U.S. AID Funding: \$15.0 million

Project Title and Number Resources for Village Production and Income  
(621-0155)

NARRATIVE SUMMARY	OBJECTIVELY VERIFIABLE INDICATORS/	MEANS OF VERIFICATION	IMPORTANT ASSUMPTIONS
1.c. Financial viability and growth	1.c. (1) Borrowers are liable for repayment	1.c. (1) Villages not repaying don't receive new loans. Regional reports.	1.c. (1) There are not competing give-away programs.
	1.c. (2) NAFCREP Collections improve 2% a year.	1.c. (2) Financial reports	1.c. (2) Drought or other unforeseen disasters don't significantly affect loan repayments
	1.c. (3) Bank is liquid through 1984.	1.c. (3) Financial and audit reports	1.c. (3) No new major policy changes are made.
	1.c. (4) Expanded lending	1.c. (4) Financial records, regional manager reports	1.c. (4) Village demand exists and resources are available.
1.d. Improved planning and decision making at all levels.	1.d. (1) Systematic data collection and analysis of on-going activities.	1.d. (1) Research Division studies, reports and recommendations	1.d. (1) Research Division activities given greater emphasis by TRDB.
	1.d. (2) Increased field staff ability to service loans and repayment rates improve.	1.d. (2) Performance evaluations, Financial records.	1.d. (2) Additional field staff is hired and transport is available.
	1.d. (3) Appropriate management and Project management system training is achieved through the project.	1.d. (3) Project documents	1.d. (3) Increased ability is desired by staff
2. Improved village capacity through client development	2.1 Improved repayment rates	2.1 Financial reports	
	2.2 Adequate records are kept by villages	2.2 Observations and evaluation such as credit impact studies	

PROJECT DESIGN SUMMARY  
LOGICAL FRAMEWORK

Amended: September 1982  
U.S. LOP Funding: \$15.0 millic

Project Title and Number Resources for Village Production and Income  
(621-0155)

NARRATIVE SUMMARY	OBJECTIVELY VERIFIABLE INDICATORS	MEANS OF VERIFICATION	IMPORTANT ASSUMPTIONS
<p>3. Increased investments, production and commercial activities in villages through expanded lending in area of known return.</p>	<p>2.3 Effective supervision of individual borrowers by village or cooperative</p> <p>2.4 Sound work plans organized and implemented</p> <p>3. -grain mill loans -village service center loans -farm implement loans -oxcart and plow loans</p>	<p>2.3 Observation and evaluation</p> <p>2.4 Credit supervisor's trip reports. Observation.</p> <p>3. TRDB records. Impact studies. Evaluations. Loan Records.</p>	<p>3. Assumptions in economic analysis are valid.</p>
<p><u>Output</u></p> <p>4. Improved marketing infrastructure and services, especially in villages.</p>	<p>4.1 Rationalization of present inefficiencies in input distribution.</p>	<p>4.1 TanGov policy on distribution responsibilities</p>	<p>4.1 TanGov will continue to recognize problems in these areas and give priority to resolving them.</p>

September 1982  
U.S. LOP Funding: \$15.0 million

PROJECT DESIGN SUMMARY  
LOGICAL FRAMEWORK

Project Title and Number Resources for Village Production and Income  
(621-0155)

NARRATIVE SUMMARY	OBJECTIVELY VERIFIABLE INDICATORS	MEANS OF VERIFICATION	IMPORTANT ASSUMPTIONS
<p>4.a. Alternative system for management, and administration of ag input procurement and distribution is tested</p> <p>5. Improved national institutional coordination for more effective support of the villages.</p>	<p>4.2. Mbeya results</p> <p>5.1 Communication and cooperation among TRDB, PMO, KILIMO, marketing authorities improved.</p>	<p>4.2 TRDB/AID study.</p>	<p>4.2 Present system can be improved.</p> <p>5. Intent for coordination exists. Only mechanisms and methodologies are lacking</p>
<p><u>Inputs and Magnitude</u></p>	<p>Please See Revised Budget and Inputs</p>		

bt

UNCLASSIFIED \*  
RR ABANDON  
D: 1397/01 065 \*\*  
22:  
25Z MAR 82  
EMBASSY DAR ES SALAAM  
TO SECSTATE WASHDC 5151  
BT  
UNCLAS DAR ES SALAAM 01387

ANNEX B

PROJ: 62-154(1)

CLASS: UNCLASSIFIED  
CHRG: AID 3/5/82  
APPV: DIR:ABANDIT  
DRFTD: AD:FRILEY  
CLEAR: 1 AMB:DCM  
DISTR: AIDC&R-4 DIR AD  
AMB DCM CHRON

AIDAC

AA/APP BUDDY FROM AMBASSADOR AND AID DIRECTOR

STATE FOR AF-PRINCETON LYMAN

E.O. 12065: N.A.

SUBJ: REVIEW OF RESOURCES FOR VILLAGE DEVELOPMENT  
- PROJECT (621-0155)

REF: DAR 1282

1. WE HAVE COMPLETED OUR INTERNAL REVIEW OF THE SUBJECT PROJECT. BEFORE DISCUSSING OUR FINDINGS WITH THE TANZANIAN RURAL DEVELOPMENT BANK, THE MINISTRY OF FINANCE AND OTHER CONCERNED TANZANIAN INSTITUTIONS, WE SEEK YOUR ENDORSEMENT OF THE ACTIONS DISCUSSED BELOW SO THAT WE MAY SPEAK TO THE TANZANIANS IN FULL CONFIDENCE THAT THE STEPS WE WILL PROPOSE TO THEM ARE FULLY SUPPORTED BY AID/W. THESE STEPS, AS DETAILED BELOW, ARE: 1) TO REVISE THE SCOPE AND TIME FRAME OF THE PROJECT TO COVER ONLY THE FIRST PHASE OF THE PROJECT ACTIVITIES COVERED BY OBLIGATIONS IN FY 82 AND 83, 2) TO DEAUTHORIZE FUNDS REQUIRED IN THE SECOND PHASE (APPROXIMATELY \$31 MILLION, 3) TO MAKE CHANGES IN THE IMPLEMENTATION OF THE FIRST PHASE WHICH WOULD REDUCE THE GEOGRAPHIC SCOPE OF THE PROJECT IMPACT TO WHAT NOW APPEARS A MORE MANAGEABLE MAGNITUDE, 4) TO AMEND THE PRESENT PROJECT PAPER AND PROJECT AGREEMENTS TO ACCORD WITH THE PRECEDING STEPS, 5) TO INCLUDE IN PROJECT AGREEMENT AMENDMENT FOR 1982 OBLIGATIONS COVENANTS OR CONDITIONS CONCERNING THE STRENGTHENED FINANCIAL VIABILITY OF THE BANK, 6) TO PREPARE A NEW PROJECT PAPER TO BE SUBMITTED IN THE LATTER PART OF FY 83 FOR A FOLLOW-ON PROJECT IF AND ONLY IF THE FULL SCALE EVALUATION PLANNED IN 83 INDICATED THAT THE FIRST PHASE OF THE PROJECT HAD CREATED THE APPROPRIATE MANAGERIAL ENVIRONMENT, AND THE TANZANIAN GOVERNMENT'S POLICY FRAMEWORK WERE SUCH THAT THE FOLLOW-ON PROJECT COULD BE CERTIFIED TO BE ECONOMICALLY FEASIBLE.

## 2. FINDINGS OF THE PROJECT REVIEW

A. THE RESOURCES FOR VILLAGE PRODUCTION PROJECT IS IMPORTANT AND RELEVANT TO BOTH THE U.S. AND TANZANIAN DEVELOPMENT EFFORTS, AND COMPLIMENTS OTHER AID PROJECTS DIRECTED AT INCREASED AGRICULTURAL PRODUCTION.

PROJECT IS CLOSELY COORDINATED WITH THE \$12 MILLION IDA/IBRD PROJECT COMMERCIALLY, TECHNICALLY AND FINANCIALLY.

200 - C. PROJECT PROVIDES CRITICAL INSTITUTIONAL DEVELOPMENT SUPPORT TO THE TRDB.

- D. RESOURCE TRANSFER ELEMENT IS FOCUSED ON AND LIMITED TO THE BANK'S MOST VIABLE PORTFOLIO AND IS THE MAJOR SOURCE OF FINANCE FOR SMALL, RURALLY-BASED ENTREPRENEURS.

- E. PROJECT SUPPLIES MAJOR TOOL FOR U.S. ENCOURAGEMENT AND SUPPORT FOR GOVERNMENT PLANS FOR RE-ESTABLISHMENT OF PRODUCER MARKETING COOPERATIVES AT VILLAGE AND REGIONAL LEVELS AND DISMANTLING OF CROP PARASTATAL FIELD ROLE IN MARKETING. THE PRESENT PROJECT PROVIDES THE FLEXIBILITY TO PROVIDE TECHNICAL ASSISTANCE FROM A MAJOR U.S. COOPERATIVE ORGANIZATION FOR THIS PROCESS.

- F. OVERALL FINANCIAL STATUS OF TRDB IS FRAGILE IN THAT THE GOVERNMENT VIEWS THE BANK AS A VEHICLE FOR THE REDISTRIBUTION OF RESOURCES TO THE RURAL POPULATION. PROGRAMS AND POLICIES MAY BE IMPOSED WHICH THREATEN OVERALL FINANCIAL VIABILITY CONTRARY TO THE DESIRES OF THE BANK'S MANAGEMENT AND RESULT IN TERMINATION OF U.S. ASSISTANCE.

### 3. RECOMMENDATIONS

- A. CURRENT PROJECT AUTHORIZATION OF \$45 MILLION FOR SEVEN YEARS SHOULD BE REDUCED TO APPROXIMATELY \$14 MILLION OBLIGATED DURING FISCAL YEARS 1981-1983 WITH PHYSICAL IMPLEMENTATION THROUGH FY 1984. THE REMAINING \$31 MILLION, INTENDED ORIGINALLY FOR THE SECOND PHASE OF THE PROJECT, SHOULD BE DEAUTHORIZED. THE DECISION REGARDING AID SUPPORT FOR A SECOND PHASE SHOULD PROPERLY BE DEFERRED UNTIL SUBMISSION OF A NEW PROJECT PAPER IN THE LATTER HALF OF FY 1983.

### 99 DISCUSSION:

THE DECISION TO PREPARE SUCH A PAPER WOULD DEPEND ON THE RESULTS OF A COMPREHENSIVE PROJECT EVALUATION OF THE FIRST PHASE OF THE PROJECT. THIS EVALUATION WOULD FOCUS

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IMPROVEMENT OF OUTPUT LEVELS BUT WOULD ALSO ASSESS:

1) THE ROLE AND DEMONSTRATED PERFORMANCE OF THE TRDB,  
2) GOVERNMENT DECISIONS REGARDING WHETHER THE TRDB WILL  
OPERATE AS A PROFIT-MAKING INSTITUTION, 3) WHETHER  
IT WILL CONTINUE TO ENGAGE IN DIRECT DISTRIBUTION OF  
AGRICULTURAL INPUTS TO FARMERS, 4) THE CHANGED RESPONSIBILITIES  
OF THE TRDB WITH REGARD TO FARMER MARKETING  
COOPERATIVES, REGIONAL COOPERATIVE UNIONS AND FARMER  
SERVICE CENTERS. THE TANZANIAN GOVERNMENT PLANS MAJOR  
CHANGES IN THE ADMINISTRATIVE STRUCTURE OF GOVERNMENT.  
IT IS OUR PRESENT UNDERSTANDING THAT TRDB WILL BE  
ASSUMING NEW RESPONSIBILITIES VIS A VIS THE AGRICULTURAL  
COOPERATIVE SYSTEM. UNTIL MORE IS KNOWN ABOUT THE  
IMPACT OF THESE CHANGES ON THE TRDB'S ABILITY TO PERFORM  
ITS FUNCTIONS AND COMMITMENTS OF FINANCIAL AND TECHNICAL  
SUPPORT MUST BE LIMITED TO THE INSTITUTION BUILDING  
AND MODEST LIAISON CREDIT CONTAINED IN THE FIRST PHASE.  
ON THE OTHER HAND, GIVEN THE IMPORTANCE OF THE  
INSTITUTION WITHIN THE AGRICULTURAL SECTOR AND THE  
CENTRAL ROLE IT PLAYS IN THE AID AGRICULTURE PRODUCTION  
STRATEGY FOR TANZANIA WE BELIEVE THAT A CONTINUATION OF  
AID SUPPORT FOR THE FIRST PHASE OF THE PROJECT IS FULLY  
JUSTIFIED.

- B. THAT THE MISSION PROCEED TO AMEND THE PRESENT  
PROJECT PAPER AND PROJECT AGREEMENT TO: 1) REFLECT THE  
SHORTENED LIFETIME OF THE PROJECT, AND 2) REDUCE THE  
SCOPE OF COVERAGE OF THE AID-FINANCED TRDB ACTIVITIES  
TO A GEOGRAPHIC AREA CONSISTENT WITH THE MANAGEMENT  
CAPABILITIES OF THE TRDB.

#### DISCUSSION:

THE NEED FOR PROJECT PAPER AND PROJECT AGREEMENT  
MODIFICATIONS FLOW FROM THE DECISION TO RESTRUCTURE THE  
PRESENT PROJECT. WE HAVE DECIDED TO TAKE ADVANTAGE OF  
THE OPPORTUNITY TO REINFORCE THE POSITION THAT TRDB  
RESOURCES MUST FLOW IN SUCH A WAY AS TO FACILITATE,  
NOT SQUELCH, THE EMERGENCE OF A MORE VIGOROUS PRIVATE  
SUBSECTOR IN AGRICULTURE. THERE ARE INDICATIONS THAT  
SOME SENIOR TANZANIANS SHARE THIS VIEW. CHANGES BEING  
ANNOUNCED IN THE STRUCTURING OF PRODUCER COOPS,  
REGIONAL COOP UNIONS, FARMER SERVICE CENTERS, THE  
TANGANYIKA FARMER'S ASSOCIATION, ETC., APPEAR TO PROVIDE  
THE OPPORTUNITY TO MOVE IN THIS DIRECTION AND OUR  
INTENTION IS TO HAVE THE REVISED PROJECT DESIGN AND  
AGREEMENT REFLECT THIS TREND.

- C. IN THE COURSE OF DISCUSSIONS WITH THE BANK  
MANAGEMENT AND SENIOR FINANCE AND PLANNING OFFICIALS  
THE MISSION WILL CLEARLY INDICATE THE NECESSITY FOR THE  
GOVERNMENT TO FOLLOW A POLICY ALLOWING THE TRDB TO  
OPERATE AS A BANKING INSTITUTION WHICH MUST EARN A  
RETURN ON ITS INVESTMENTS SUFFICIENT TO COVER ITS  
COSTS AND REPAY ITS DEBTS.

#### DISCUSSION:

THERE ARE SOME INDICATIONS THAT TRDB WILL BE REQUIRED TO

BORROW FROM THE CENTRAL BANK FUNDS WHICH WOULD BE TURN  
BE LOANED TO FARMERS UNDER THE SEASONAL LENDING PROGRAM.  
THE CENTRAL BANK WOULD HAVE TO BE REPAYED FROM GENERAL  
TRDF PROCEEDS. SINCE THE RECENT REPAYMENT RATE BY  
FARMERS OF SEASONAL CREDIT HAS BEEN LESS THAN 50%, THIS  
WOULD MEAN THAT TRDF WOULD BE STUCK WITH THE LOSS ON A  
PORTFOLIO WHICH IT WOULD HAVE TO COVER FROM EARNINGS  
FROM OTHER PORTFOLIOS INCLUDING, PRESUMABLY, THE NON-  
SEASONAL INPUT PROGRAMS WHICH AID SUPPORTS. WHILE THE  
ABOVE SCENARIO IS NOT CONFIRMED, WE NEVERTHELESS INTEND  
TO MAKE CLEAR TO TANZANIAN AUTHORITIES THAT ANY POLICY  
DECISIONS REGARDING "TRANSFER PAYMENTS" TO FARMERS WHICH  
THREATEN THE FINANCIAL VIABILITY OF THE TRDB AS AN  
INSTITUTION WOULD CALL INTO QUESTION OUR WILLINGNESS TO  
CONTINUE TO PROVIDE ASSISTANCE TO TRDB EVEN IN THE  
REMAINDER OF THE FIRST PHASE OF THE PROJECT. WE INTEND  
TO SECURE ASSURANCES FROM TANZANIAN AUTHORITIES THAT  
THEY SHARE OUR VIEWS ABOUT THE NEED FOR FINANCIAL  
SOLVENCY FOR TRDB. WE HOPE THAT NEITHER WE NOR THEY  
DESIRE TO REPEAT THE MISTAKES WHICH HAVE LED THE  
NATIONAL MILLING CORPORATION (TO CITE ONE WELL KNOWN  
EXAMPLE) INTO TECHNICAL BANKRUPTCY.

4. THE ABOVE SUMMARIZES THE RESULTS OF THE RESOURCES  
FOR VILLAGE PRODUCTION PROJECT REVIEW. THESE REVIEWS  
WERE CONDUCTED WITH THE FULL PARTICIPATION OF ALL SENIOR  
AID AND EMBASSY STAFF. WE BELIEVE THE RECOMMENDATIONS  
SERVE TO IMPROVE THE PROJECT CONCEPTUALLY AND MANAGERIAL-  
LY AND TO INCORPORATE THE CONCERNS OF BOTH THE FIELD AND  
WASHINGTON ABOUT ITS RELEVENCY TO PRESENT DIRECTIONS  
IN AMERICAN ECONOMIC ASSISTANCE POLICY. WE REQUEST

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YOUR SPEEDED CONFIRMATION OF THE TERMS PROPOSED IN  
PARAGRAPH ONE ABOVE SO THAT WE CAN BEGIN OUR DISCUSSIONS  
WITH THE TANZANIANS AS SOON AS POSSIBLE. MILLER

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USAID DISTR: (5/11/82)

PROJ: 621-0155(F

ACTION: AGR

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INFO: PRM

TOR: 075

RF

CN: 14768

CHRON

CHRG: AGR

ACTION COPY

ACTION:

NO ACTION NECESSARY

INFO: AGR

REPLIED BY:

AIDAC,

E.O. 12065: N/A

TAGS:

SUBJ: TANZANIA RESOURCES FOR VILLAGE PRODUCTION AND IN-COME (621-0155)

REFS: (A) DAR 1387 (B) DAR 1282 (C) STATE 65049

1. AID/W CONCURS WITH MISSION THAT SUBJECT PROJECT WORKING WELL AND PROVIDING MID-TERM FINANCING FOR AGRICULTURAL PRODUCTION AND PROCESSING EQUIPMENT TO PRIVATE SECTOR RURAL COOPS AND VILLAGES. AID/W FULLY SHARES MISSION CONCERN THAT OVERALL EFFORT MAY BE RENDERED FUTILE BY INAPPROPRIATE TANGOV DEVELOPMENT POLICIES. SUCE POLICIES ARE IMPEDING INSTITUTIONAL DEVELOPMENT OF THE TRDB AS A VIABLE FINANCIAL INTERMEDIARY AND DAMPENING THE POSITIVE IMPACT OF THE BANK'S OPERATIONS IN PROMOTING INCREASED AGRICULTURAL PRODUCTION. AID/W, WITH MODIFICATIONS NOTED BELOW, ACCEPTS MISSION'S PROPOSAL TO USE SUBJECT PROJECT AS MEANS OF INFLUENCING POLICY CHANGES BOTH IN RESPECT TO (A) THE BANK AS A SELF-SUSTAINING DEVELOPMENT INSTITUTION AND (B) THE ROLE WHICH TRDB AND OTHER INSTITUTIONS CAN PLAY IN PROMOTING AGRICULTURAL DEVELOPMENT. TOWARD THIS END, AID/W AGREES TO FREE UP FY 82 ALLOTMENT OF DOLS FOUR MILLION FOR PROJECT WITH

STIPULATION THAT MISSION INITIATE MONITORING PROCESS WHICH WILL IDENTIFY POLICY CHANGES AND ANTICIPATED IMPACT (SEE PARA. 3 BELOW). A REVIEW OF THESE POLICY CHANGES WILL BE MADE PRIOR TO RELEASE OF FY 1983 FUNDS. AID/W AGREES THAT PHASE II OF THE PROJECT SHOULD BE DEAUTHORIZED.

2. PROCEDURALLY, DEAUTHORIZING SECOND PHASE OF PROJECT WILL REQUIRE PROJECT PAPER AMENDMENT REVIEWED AND APPROVED BY AID/W. DOCUMENT SHOULD EXPLAIN PROJECT AND PROGRAM RATIONALE FOR DEAUTHORIZING SECOND PHASE OF PROJECT (INTER ALIA, SHIFT IN EMPHASIS FROM CAPITAL RESOURCE TRANSFER TO INSTITUTION BUILDING AND TECHNOLOGY TRANSFER, MAINTENANCE OF CORE PROGRAM ELEMENTS AT REDUCED PROGRAM FUNDING LEVELS, RESOLUTION OF PROGRAM MORTGAGE PROBLEM AND LEVERAGING POLICY CHANGE). DOCUMENT SHOULD ALSO CONTAIN BRIEF PROJECT DESCRIPTION, REVISED IMPLEMENTATION PLAN AND FACD AND RE-VISED BUDGET.

3. CONCURRENTLY, MISSION REQUESTED TO INITIATE A MONITORING PROCESS ENABLING AID TO IDENTIFY POLICY CHANGES INFLUENCED BY THIS PROJECT AND THE ANTICIPATED IMPACT OF SUCE POLICY CHANGES. BELOW ARE INDICATED TYPES OF POLICIES WHICH WE BELIEVE MERIT MONITORING. THE MISSION SHOULD SUPPLEMENT OR MODIFY IN ACCORDANCE WITH MISSION'S CONCERNS STATED IN

REFS A AND B. AID/W IS INTERESTED IN MONITORING TANGOV POLICIES WHICH GOVERN THE TRDB AND IMPACT ON ITS AUTONOMY AND FINANCIAL VIABILITY. SPECIFIC POLICIES AND CONDITIONS ARE, INTER ALIA, EXACTING PROMPT REMITTANCE OF CREDIT REPAYMENTS FROM OTHER INTERMEDIARIES, AUTHORITY TO SET APPROPRIATE INTEREST RATES, APPLICATION OF STANDARD AND SOUND FINANCIAL MANAGEMENT PRACTICES IN SELECTING POTENTIAL BORROWERS, SHIFTING RESPONSIBILITIES FOR DISTRIBUTION OF COMMODITIES PROCURED ON CREDIT TO BANK CLIENTS, ETC. SECOND. THE MONITORING SHOULD IDENTIFY AND EVALUATE CHANGES IN TANGOV DEVELOPMENT POLICIES WHICH WILL AFFECT THE SUCCESS OF THE BANK'S CREDIT OPERATIONS. SPECIFIC POLICIES AND CONDITIONS ARE, INTER ALIA, OPERATIONAL AUTONOMY GRANTED RURAL COOPERATIVES AND INDIVIDUAL ENTERPRISES, REQUIRING STRICTER FISCAL ACCOUNTABILITY FROM PARASTATAL ORGANIZATIONS, ALLOWING FINANCIAL INTERMEDIARIES TO OPERATE ON A SELF-SUSTAINABLE BASIS RATHER THAN AS A MEANS OF EFFECTING RESOURCE REDISTRIBUTION, FREEING UP OF MARKETS AS A MEANS OF IMPROVING THE ALLOCATION OF SCARCE RESOURCES. THIS MONITORING PROCESS WILL BE USED TO DETERMINE WHETHER OR NOT TO PROVIDE ADDITIONAL FUNDING IN FY 83 FOR THE FINAL YEAR OF

THE PROJECT. ACCOMPANYING OR AS PART OF THE PP AMENDMENT, MISSION IS REQUESTED TO PROVIDE A SHORT DESCRIPTION OF HOW SUCH A MONITORING SYSTEM IS EXPECTED TO FUNCTION, REPORT SCHEDULE AND FORMAT. THE MISSION SHOULD PLAN SEMI-ANNUAL REPORTS WITH THE FIRST SUCH REPORT EXPECTED O/A THE END OF FY 82.

ADVISE OF ANY NEEDED ASSISTANCE. HAIG

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EXECUTIVE SUMMARY

For Input Marketing Study: Mbeya Region

Findings

(1) An evaluation of the TRDB Mbeya Regional Office was made with regard to its role as a distributor of agricultural inputs. Our findings are as follows:

- Approximately one-third of all professional man hours available annually are expended on the distribution of inputs.

- In FY 80/81 the overhead cost of the Regional Office attributable to inputs distribution amounted to 1.5 percent of the value of inputs disbursed. In FY 81/82, this amount increased to 1.9 percent, for an increase of 27 percent over the preceding year.

- The increased overhead cost noted above is due exclusively to higher costs for personnel in the face of declining amounts of inputs distributed.

- Records in the Regional Office of quantities of inputs disbursed in many cases do not coincide with the quantities shown in the Management Information Report at TRDB Headquarters.

(2) An evaluation of other distribution agents in the Mbeya Region was made in order to determine their potential for an enlargement of their role in inputs distribution. Our findings are as follows:

- Tanganyika Farmers' Association: TFA has two existing branches in the Mbeya Region which serve a diversity of agricultural producers. Most sales, although not all, are on a cash basis. Despite the present economic difficulties in Tanzania, TFA is continuing to expand. Top management indicated an interest in expanding the number of its branches in the Mbeya Region, should financing be made available through TRDB or some other financing institution.

- Crop Authorities: In general, the crop authorities are well positioned to distribute all inputs (i.e., for both food crops and cash crops) to their client producers. At the same time, in recent years the crop authorities have suffered substantial losses due to high overhead costs and generally low commodity prices.

- Regional Trading Company: Although the RTC has an extensive network of outlets in the Region (15 shops and depots), it has neither the necessary technical competence nor the inclination to permit an expansion of its current role as a distributor of inputs.

- Agricultural and Industrial Supply Co., Ltd.: AISCO has opened a branch in Iringa which purportedly serves the Mbeya Region as well as Iringa. Although AISCO expresses interest in extending its role in the distribution of inputs, there are no plans for expansion in the Mbeya Region.

- Tanzania Seed Company: While in the past TANSEED was interested in developing its own network of retail outlets, the company is now attempting to spin-off this activity to contract stockists. There appears to be no interest on the part of TANSEED to become a general distributor of agricultural inputs.

(3) Based upon a sample survey of 330 farmers in the 13 agro-economic zones of Mbeya Region, it has been found that:

- The lack of available supplies has been identified by farmers as the primary constraint to greater use of seasonal inputs, purchased hand tools and ox-drawn plows.

- The problems due to a lack of credit notwithstanding, there is a significant portion of farmers who are willing to pay cash for their inputs.

(4) Based in part upon the foregoing survey results, as well as upon discussions with the inputs distributors discussed in (2) above, it has been found that shortages of fertilizer, hand tools, and ox plows plus related spare parts have become endemic. Production of UFI has been consistently less than the quantities ordered by its distributors over the past several years. Fertilizer production declined in 1981 over the level of 1980; and operations at the Tanga plant have been in suspension since January 15, 1982. In both cases, the production shortfalls are due to the scarcity of foreign exchange for the purchase of the necessary raw materials.

#### Recommendations Vis-a-Vis Supply Issues

(1) To expand the supply, both of hand tools and ox plows plus related spare parts, UFI should immediately seek funding for foreign exchange for the purchase of the necessary raw materials. One potential source of such funds is USAID's Resources for Village Production and Income Project.

(2) The critical shortage of fertilizer notwithstanding, it is recommended that no foreign exchange be made available to TFC for the importation of raw materials for fertilizer production under the Resources for Village Production and Income Project. In view of TFC's relatively high costs of production, such funding would be an uneconomical use of scarce foreign exchange resources.

#### Recommendations Vis-a-Vis Distribution Issues

(1) Given its rapidly increasing costs, coupled with an inadequate record keeping system, it is recommended that TRDB be gradually relieved from its role of inputs distribution in the Mbeya Region.

(2) In the long term, it is recommended that the reconstituted cooperative unions and societies be responsible for the distribution of all agricultural inputs. It is envisioned that each cooperative society will own and operate its own center for retailing and distributing farm inputs, with potential for depots at the village level.

(3) To fill the near-term void left by the withdrawal of TRDB as a distributor of inputs, the following actions are recommended for the Mbeya Region:

- Financing under TRDB experimental lending funds should be made available to TFA for the opening of district-level branches at Kyela and Mbozi.

(4) To permit a realization of the economic of rail freight, it is recommended that TRDB experimental lending funds be made available to TFC or some other interested third party for the construction of additional godowns at MAZARA rail-heads in the Mbeya Region.

## Resources for Village Production and Income (621-0155)

## Detailed Project Budget

Project Specific Input	Actual Obligations as of 5/26/81 Amend.#2		Amendment #3 (FY 82 Obligation)		Amendment #4 (FY 83 Obligation)		Amendment #5 (FY 84 Obligation)		Expected Total Contribution	
	AID	TRDB	AID	TRDB	AID	TRDB	AID	TRDB	AID	TRDB
<b>01 Technical Assistance</b>										
Long-term tech. assist.	415	-	-	10	380	15	295	15	1090	40
Short-term tech. assist. (including training)	250	100	50	140	350	180	260	100	910	520
Overseas training	215	20	60	55	200	90	150	100	625	265
Procurement	400	-	-	-	-	-	-	-	400	-
Contingency/Inflation	-	-	-	-	-	-	30	-	30	-
Overhead	-	-	120	-	140	90	105	100	365	190
Other Advisors	150	-	100	-	105	-	-	-	355	-
Sub-total	1430	120	330	205	1175	375	640	315	3775	1015
<b>02 Local Salaries &amp; Services</b>										
Salaries	50	180	-	850	-	1520	-	1600	50	4150
Housing/Construction	200	-	-	-	-	-	-	-	200	-
Vehicle Operations	150	130	50	45	25	1010	50	1050	275	2235
Miscellaneous	250	20	-	10	-	-	-	-	250	30
Contingency/Inflation	-	-	50	-	-	-	-	-	50	-
Sub-total	650	330	100	905	25	1530	50	2650	875	6415
<b>03 Off-shore Procurement</b>										
Vehicles	300	-	270	40	255	240	100	-	925	280
Travel	20	-	20	-	10	10	-	-	50	10
Housing & Commodities	180	-	-	-	-	-	-	-	180	-
Contingency/Inflation	-	-	50	-	50	-	-	-	100	-
Sub-total	500	-	340	40	315	250	100	-	1255	290
<b>04 Direct AID Inputs</b>										
Evaluation	-	-	100	-	-	-	-	-	100	-
Short-term tech. assist.	100	-	-	-	-	-	-	-	100	-
Long-term training	100	-	-	-	-	-	-	-	100	-
Short-term training	60	-	10	-	10	-	-	-	80	-
Miscellaneous	85	-	-	-	-	-	-	-	85	-
Contingency/Infation	-	-	-	-	30	-	-	-	30	-
Sub-total	345	-	110	-	40	-	-	-	495	-

Project Specific Input	Actual Obligations as of 5/26/81 Amend.#2		Amendment #3 (FY 82 Obligation)		Amendment #4 (FY 83 Obligation)		Amendment #5 (FY 84 Obligation)		Expected Total Contribution	
	AID	TRDB	AID	TRDB	AID	TRDB	AID	TRDB	AID	TRDB
<b>05 NAFCREP Procurement</b>										
Seasonal	250	4630	-	1940	-	-	-	-	250	-
Lister engines & spares	2400	-	1230	-	115	-	350	-	4095	-
Maize mills (steel & construction)	350	1550	500	280	240	-	35	-	1125	-
Service Centers		140	-	270	65	-	-	-	65	-
Small Scale Enterprise	150	-	550	450	350	-	200	-	1250	-
Agricultural Implements	100	-	840	120	500	-	425	-	1865	-
Sub-total	3250	6320	3120	3060	1270	3000 <sup>1/</sup>	1010	3500 <sup>1/</sup>	8650	15880
PSI 01-05 TOTAL	6175	6770	4000	4210	2825	5915	2000		15000	23600

<sup>1/</sup> Estimated