621 0166 PDBBR-469

CLASSIFICATION:

AID 1120-1 (5-66)

PAAD

DEPARTMENT OF STATE
AGENCY FOR
INTERNATIONAL DEVELOPMENT

PROGRAM ASSISTANCE
APPROVAL DOCUMENT

1. PAAD NO. 621-T-602

2. COUNTRY: TANZANIA

3. CATEGORY: AGRICULTURAL TRANSPORT ASSISTANCE (ATAP)

4. DATE: AUGUST 3, 1989

5. TO: FRED GUYMONT, ACTING DIRECTOR

6. OYB CHANGE NO.: N/A

7. FROM: EUGENE MORRIS, REDSO/ESA

8. OYB INCREASE: N/A

TO BE TAKEN FROM: N/A

9. APPROVAL REQUESTED FOR COMMITMENT OF: $ 5,200,000

10. APPROPRIATION - ALLOTMENT: 72-1191014 B.P.C.GSSA-89-21621-KG13

11. TYPE FUNDING: ☐ LOAN ☒ GRANT

12. LOCAL CURRENCY ARRANGEMENT: ☐ INFORMAL ☒ FORMAL ☐ NONE

13. ESTIMATED DELIVERY PERIOD: 7/30/89 - 1/31/93

14. TRANSACTION ELIGIBILITY DATE: DATE GRANT AGREEMENT ~~AMENDMENT SIGNED~~

15. COMMODITIES FINANCED

16. PERMITTED SOURCE
U.S. only:
Limited F.W.:
Free World: $5,200,000
Cash:

17. ESTIMATED SOURCE
U.S.: $2,080,000
Industrialized Countries: $3,120,000
Local:
Other:

18. SUMMARY DESCRIPTION

This amendment to ATAP provides an additional $5,200,000 in foreign exchange for the importation of commodities, many of which are directly or indirectly related to the Government of Tanzania (GOT) road rehabilitation and maintenance efforts. These funds, in addition to local currency generations which will finance the costs of local contracts, will allow the achievement of the purpose of the program which is to support the removal of policy and other constraints in order to improve the GOT's capacity to undertake road rehabilitation and maintenance programs.

Conditions Precedent to Second Disbursement (FY 1989 addition of $5.2 million)

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

- continued -

19. CLEARANCES	DATE
REDSO/ESA/IEG:CBROWN(DRAFT)	8/2/89
REDSO/ESA/CM:JPEEVEY(DRAFT)	8/2/89
REDSO/ESA/ANAL:RBURKE(DRAFT)	8/2/89
REDSO/ESA/DDIR:MKSINDING	8/3/89
REDSO/ESA/DIR:SPSHAH	8/3/89
USAID/T/CONT:RDROPIK	8/7/89

20. ACTION: ☒ APPROVED ☐ DISAPPROVED

AUTHORIZED SIGNATURE — DATE: August 15, 1989

TITLE: ACTING DIRECTOR, USAID/TANZANIA

CLASSIFICATION:

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

(b) Evidence that a detailed maintenance plan has been developed for a single region under the jurisdiction of the Rural Roads Division of the Ministry of Communications and Works where road rehabilitation and maintenance is a priority concern;

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

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

Additional General Covenant

The following covenant is included for the amended program:

MCW shall initiate a training program to ensure that RRD staff involved in the design and monitoring of its road rehabilitation and maintenance program are aware of important environmental considerations.

AMENDMENT TO THE TANZANIA AGRICULTURAL TRANSPORT
ASSISTANCE PROGRAM (ATAP)
CIP NUMBER 621-T-602
PROJECT NUMBER 621-0166

ATAP PAAD SUPPLEMENT
(621-0166)
TABLE OF CONTENTS

I. UPDATE OF BACKGROUND AND PROGRAM RATIONALE

A. Macroeconomic Setting

(The following discussion is extracted from Annex 8 to this PAAD supplement, "Macroeconomic Setting Update.")

With its economy in serious distress following the heavy public sector involvement in management of the economy in the 1960s and 1970s, Tanzania faced a series of economic shocks, including a costly war, deterioration of its terms of trade, oil price increases, and back-to-back droughts in 1980 and 1981. Consequently, the Government of Tanzania (GOT) in 1982 undertook a three-year "structural adjustment program" (1983-85), which was a first attempt at adjustment, followed by the announcement in mid-1986 of a three-year "Economic Reform Program" (ERP) for the period 1986-89. The ERP was considerably more ambitious than its predecessor program and, beginning in 1987, gained the support of IMF funding on the basis of a joint GOT-IBRD-IMF policy framework paper (PFP). A second PFP was agreed to in late 1988 to govern the current reform efforts.

The GOT has carried out reform in a number of areas under these various programs, with the single most prominent reforms being in the foreign exchange allocation system. The Tanzanian shilling has been devalued successively since the outset of reforms, by 88 percent in nominal terms since June 1986, and the parallel-official ratio is currently 2-to-1 versus the 7-to-1 ratio in mid 1986. The reforms have covered virtually every sector of the economy, and have contributed to GDP growth exceeding the population growth rates for the first time in many years.

Problems have emerged in the course of the implementation of reforms, however. The GOT has been unable to adhere to PFP-mandated ceilings on credit expansion, particularly to the public sector. This is partly attributable to the deplorable state of the transport sector and its resultant inability to move the bumper crop last year from the producing areas to the consuming or exporting areas of the country. In addition, a deeply entrenched statist mentality has not provided the investment climate needed to produce some of the supply response necessary to yield increased economic growth. On balance, the changes have been great compared with the pre-existing system of economic management. There remains much to be done, however, and the donor community must continue to encourage Tanzania to take the necessary steps.

B. Description of Transport Sector

1. Importance of the Sector to the Economy

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

The earlier discussion of the ERP and its successes and failures suggests several ways in which the transport sector is a key link to the ERP's success. Problems in rail transport have had more than a marginal impact on the Tanzanian economy's ability to bring goods, especially agricultural produce, to their export points. This has contributed to shortfalls in foreign exchange earnings, despite the fact that improved producer prices, liberalized marketing procedures, and foreign exchange retention schemes have all provided incentives to increase production for export. Reduced earnings, in turn, affect the economy's ability to either import critical inputs or make debt payments. By the same token, problems in road transport not only contribute to external imbalances, but also affect the public sector budget deficit leading (as was the case in 1987/88) to increased public sector borrowing, excessive expansion of the money supply, and therefore additional inflationary pressures in the economy. To complete the circle, this unplanned price increase caused an undesirable appreciation in the real effective exchange rate, necessitating further devaluation by the GOT in order to improve balance in the market for foreign exchange.

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

Although the Government did not explicitly mention transport as a constraint to attainment of its goals and objectives, the Government paper announcing the ERP made up for this oversight, and transport has remained a centerpiece of the GOT's programs since 1986. The "minimum import requirements" laid out by the GOT when the ERP was announced provided that fully 17 percent of the import bill for the 1986/87-1988/89 period should be devoted to transport and communications (compared with 16 percent for manufacturing and 25 percent for energy and water), and that of this amount over 60 percent should be devoted to road transport.

The ERP document initiating the program stated that the second "major objective" of the ERP was to "rehabilitate the physical infrastructure of the country in support of directly productive activities," clearly indicating the importance of transport. When the GOT provided an interim wrap-up of ERP progress in mid-1988, the Government noted that the first of several problems hampering success of the ERP to date had been "structural and physical constraints in transporting and processing agricultural products which led to unsatisfactory export performance and excessive credit growth." As a result, the interim report noted that the GOT's main priorities during the ensuing three years would include, in first place, what was originally the second major objective of the ERP noted above. The same report gave similar emphasis to the transport sector as it gave to the two main productive sectors of the economy, agriculture and manufacturing. The report stated that the first recommendation of a recent "National Transport Policy" was that the country should "concentrate on road rehabilitation." The Policy Framework Paper (developed by the GOT with IMF and IBRD assistance in the latter half of 1988) similarly stressed road transport improvements as a critical element of policy reform. Of nine key elements of the GOT's public expenditure reform program cited in the PFP, three deal with rehabilitation and maintenance of infrastructure. It is difficult to look anywhere in the recent documentation on the Tanzanian economy and its adjustment program without seeing references to the importance of the transport sector.

In addition, there is convincing evidence that GOT development budget expenditures for the road transportation sector in fact showed a real (as opposed to nominal) increase between GOT FYs 1986-87 and 1987-88. (The following discussion is based on a paper prepared by Dr. Daniel Ngowi of USAID/T entitled "Tanzania: Transport Sector Budget and AEPRP's Grant Condition.")

7x

First, budgetary resources allocated for the transport sector increased by 230 percent between 1986/87 and 1987/88. The real increase in budget was 47.8 percent for planned road transport development spending. (Both these figures are exclusive of foreign-financed development spending, as are other figures cited.

Table 1. Tanzania: Transport Sector Development Budget
(million TSh)

Category	Budget 1986/87	Budget 1987/88	Percent Change Nominal	Percent Change Real
Total Transport	881.1	3,777.2	328.7	243.0
Road Transport	813.5	1,503.1	84.8	47.8

Source: GOT Submission in Response to CPs for First Disbursement of AEPRP (NOTE: Figures for Total Transport include port development projects.)

Second, as presented in Table 2, actual expenditures under the development budget showed real increases in several categories related to the road sector. In 1987/88 actual expenditures were much closer to those budgeted for the year than were actual expenditures in the previous year, a demonstration that the GOT is increasingly committed to ensuring that budgeted figures are not merely the hollow expressions of intent that they were in previous years. Furthermore, the largest single increase in percentage terms was for regional and district roads which are the focus of ATAP.

Table 2. Tanzania: Transport Sector Development Expenditures
(million TSh)

Category	Expenditure 1986/87	Expenditure 1987/88	Percent Change Nominal	Percent Change Real
Total (excl. ports)	527.7	855.4	62.1	29.7
Communications/Transport	46.3	84.0	81.4	45.1
Roads/Bridges	299.0	544.8	82.2	45.8
Roads	281.3	370.5	31.7	5.4
Classified	249.2	316.6	27.0	1.6
Reg'l and District	32.1	53.9	67.9	34.3
Administration/General	30.0	51.8	72.7	38.1

Source: Ngowi, Tanzania: Transport Sector Budget and AEPRP's Grant Condition, Tables 2.5 through 2.9

2. GOT Policy Actions to Date

In response to several donor-supported initiatives, such as the World Bank's Sixth Highway and Integrated Roads Programs and A.I.D.'s AERP and ATAP activities, the GOT has made a serious attempt to reorganize and streamline its approach to implementing a viable roads program. Responsibility for certain classified roads has been centralized and consolidated by the Ministry of Communication and Works, under the specific jurisdiction of The Rural Roads Division (RRD). (For a detailed description of The RRD and its achievements to date, see Section IV.A., Institutional Analysis.)

The RRD has, with outside technical assistance, developed detailed designs and tender documents for the rehabilitation of 620 Kms. of regional and district roads. Through a major policy decision by the GOT, the rehabilitation efforts will no longer be performed solely by force account; a significant portion of the work will be contracted to private construction companies.

In further support to the due needs of the road subsection, the GOT has increased budget allocations and expenditures for transport.

A policy paper to guide the country's overall program to support the transport sector has been prepared by the MCW and is now before cabinet for approval. Once approved, more detailed plans for various subsections will be developed and, in fact, the MCW/RRD has already begun work on technical standards and other components of a detailed maintenance plan. The transport policy, when approved, would formally introduce, among other things, the following measures:

- maximizing the participation of the private sector in the provision of transport services;
- flexibility in transport service charges among various modes to allow operators to recoup actual costs;
- deregulation to free the movement of goods across regional boundaries from any administrative restrictions and controls which impede the flow of traffic;
- continuation of efforts to strengthen the planning and coordination capacity and capability of the MCW;
- improving the maintenance of existing roads;
- expansion of feeder roads into areas of high agricultural potential; and
- rehabilitating the trunk road network.

The policy paper further identifies country-wide budget allocations for the transport sector and seeks to provide a general prioritization for the allocation of resources, both among the various classes of roads and among functional items (e.g., equipment, training, maintenance facilities).

3. Donor Assistance to the Transport Sector

Donor support for the transport sector in Tanzania has been important. In 1986 and 1987 (there or no comparable data for 1988 available to USAID/T), between 10 and 15 percent of donor capital flows into Tanzania were for the transport/communication sector. Between the two years, support for the transport sector grew more rapidly than overall inflows of assistance, as shown in the following table.

DONOR ASSISTANCE FLOWS TO TANZANIA
(US$ millions; percent)

	TOTAL RESOURCES			TRANSPORT/COMMUNICATIONS		
	TOTAL	CAPITAL	TECHNICAL	TOTAL	CAPITAL	TECHNICAL
1986	670.1	410.3	259.8	80.7	52.0	28.7
1987	779.3	497.3	281.9	112.4	69.7	42.8
CHANGE (%)	16	21	8	39	34	49

Source: UN 1987

A subset of the foreign assistance data which are available for 1988 are data on commodity import programs operated by various donors. The following tables are derived from detailed data available from the Ministry of Finance, Economic Affairs, and Planning, data which exclude AID and IBRD commodity imports.

From these tables, it is clear that commodity import programs are very large in Tanzania (compare the amounts in the table below for total imports and transport imports with the comparable capital assistance figures in the table above) and that they cover virtually every sector of the economy. Furthermore, commodity import programs account for approximately one quarter of total imports in recent years.

Turning to AID's role in the transport sector, AID's potential contribution of $17 million (in commitments in FY87 and FY88) in commodity imports for the transport sector amounts to less than ten percent of annual imports funded out of commodity import programs. On the other hand, compared with total transport sector imports funded by CIPs, the funds made available by AID assume greater importance.

IMPORTS TO TANZANIA FUNDED BY DONOR COMMODITY IMPORT PROGRAMS

SECTOR	IMPORTS (US$ million) 86/87	87/88	88/89	SHARES 88/89
Agriculture	72.20	108.29	76.07	24.7%
Construction	0.20			0.0%
Energy	13.70	11.70	14.41	4.7%
Fisheries	1.20	1.60	5.87	1.9%
Forestry	5.20	4.00	6.55	2.1%
Metals	23.90	30.10	35.90	11.7%
Manufacturing	38.35	44.80	101.32	32.9%
Chemicals	28.70	32.30	65.00	21.1%
Food	1.25	5.70	10.92	3.5%
Paper	2.30	1.30	2.22	0.7%
Textiles	1.40	0.40	2.93	1.0%
Other	4.70	5.10	20.25	6.6%
Mining	3.40	2.60	5.10	1.7%
Non-metal	0.00	1.60	0.40	0.1%
Social Services	3.54	3.76	4.38	1.4%
Transport	35.90	65.60	51.81	17.0%
Water	2.55	0.20	0.20	0.1%
Miscellaneous	0.00	0.00	5.34	1.7%
TOTAL	200.14	274.25	307.35	100.0%

TOTAL TRANSPORT SECTOR COMMODITY IMPORTS, BY DONOR

DONOR	IMPORTS (US$ million) 86/87	87/88	88/89	SHARES 88/89
Canada	3.00		0.61	1.2%
Sweden	9.30	11.80	19.14	36.9%
Norway	0.50	0.70	2.50	4.8%
Japan		5.80	0.80	1.5%
Netherlands			1.60	3.1%
Italy	3.80		1.66	3.2%
EEC			5.60	10.8%
FRG	5.90	15.10	6.05	11.7%
U.K.	12.20	17.80	13.85	26.7%
A.D.F.		14.40		0.0%
Denmark	0.40			0.0%
TOTAL	35.90	65.60	51.81	100.0%

11+

II. PROGRAM DESCRIPTION

A. Objectives of the Program

Analyses conducted during the design of the original ATAP activity, combined with information obtained during the past year, vividly attest to the pivotal role played by the transport sector in Tanzania's attempt to implement the ERP. Thus, this FY 1989 amendment proposes to continue to support the transport sector with additional foreign exchange which will be used to finance the importation of transport related commodities. Likewise, local currency generations will continue to be placed in a special account to fund private sector contracts for road rehabilitation and maintenance programs.

The GOT, through policy changes reinforced by A.I.D.'s Transport AEPRP and ATAP has made important strides in revamping its approach to maintaining the country's road network. Most significantly, the establishment of the Rural Roads Division and the active involvement of private construction firms should provide the appropriate environment to adequately rebuild and maintain roads. The additional funding and conditions attached to this amendment seek to further strengthen Tanzania's capacity to develop and sustain a viable road network which can support increased production, marketing and economic growth. As described in later sections, this amendment supports the original program concept but modifies the reform agenda to focus on maintenance capabilities, sustainability issues and preventive measures to protect the road system once it is brought back into a suitable condition.

The overall goal of the program remains unchanged - to increase the incomes of the rural population by expanding the volume of inputs, agricultural commodities, and consumer goods transported by road and by reducing the costs of road transport services. The program purpose has been streamlined to focus on road maintenance and rehabilitation as the specific objectives of the program. The reference to providing foreign exchange for transport equipment which is considered a means, not an end, has been deleted from the purpose statement. The revised program purpose is to support the removal of policy and other constraints in order to improve the GOT's capacity to undertake road rehabilitation and maintenance programs. In addition to the objectives articulated in the original ATAP PAAD, the following additional policy-oriented objectives are included in this amendment:

1. The development of a detailed road maintenance plan for a single region under the jurisdiction of the RRD;

2. The selection by the GOT of measures to protect the road network from the damaging effects of overloaded vehicles.

12

Technical assistance already provided with ATAP funds will assist with the development of a maintenance plan, in addition to assisting the RRD further develop its institutional capability to plan for and implement road rehabilitation and maintenance works, primarily through contracts with private firms. As a result of the policy reforms expected as a result of this amendment, in addition to the availablity of local currency for road works, by the end of the program in 1993, the following performance targets or accomplishments are expected (not to be confused with the satisfaction of conditions per se):

1. Adequate road construction, maintenance and other transport related equipment and materials will be available to rehabilitate and maintain roads under the jurisdiction of the RRD;

2. An additional 400 kms of roads will be rehabilitated and 2000 kms of roads subject to improved annual maintenance;

3. A functioning Rural Roads Division capable of designing and implementing a technically, administratively, financially and environmentally viable road maintenance program; and

4. The capacity will exist within the GOT to identify and implement measures to prevent the damaging effects of overloaded vehicles.

B. Additional Conditions to Disbursement and Special Covenants

In the Program Grant Agreement Amendment, additional conditions will be stated as follows:

Prior to the disbursement of the second tranche of funding for commodity imports, which totals $5.2 million, or the issuance by A.I.D. of documentation pursuant to which such disbursement may occur, the Grantee shall submit to A.I.D., in form and substance satisfactory to A.I.D.

1. Evidence that all conditions to the disbursement of the initial $5.21 million in FY 1988 funds continue to be met and that the GOT is in compliance with all material provisions of the Program Grant Agreement;

2. By June 30, 1990, evidence that a detailed maintenance plan has been developed for a single region under the jurisdiction of the RRD where road rehabilitation and maintenance is a priority concern; and

13x

3. By June 30, 1990, evidence that measures to protect roads from the damaging effects of overloaded vehicles have been developed and the GOT has selected options/measures to address this problem.

4. By June 30, 1990, evidence that road rehabilitation and maintenance contracts funded with local currency generated under the program contain sound technical and environmental criteria and standards.

The following special general covenants will also be added to the Grant Agreement Amendment:

- The MCW shall initiate a training program to ensure that RRD staff involved in the design and monitoring of its road rehabilitation and maintenance program are aware of important environmental considerations; and

Satisfaction of Conditions

- Condition 2 will be considered satisfied when a maintenance plan has been developed and approved by the MCW/RRD for one region.

The plan will meet criteria to be developed by the MCW/RRD, jointly agreed upon by A.I.D. and the MCW/RRD and specified in project implementation letters. The following objectives are currently contemplated, but may be modified or refined during the course of this program.

a) specify maintenance work to be accomplished within an annual work program;

b) determine the most effective ways to perform maintenance works;

c) identify the resources required to execute the specified maintenance work,

d) schedule for implementing the approved maintenance plan;

e) establish procedures for reporting work and evaluating performance.

The objectives of the maintenance plan described above are expected to be achieved as follows:

1. <u>The plan must specify maintenance work to be accomplished within an annual work program.</u>

   This would require that the implementing agency, (MCW/RRD) would establish a list of individual maintenance work activities (e.g. blading, shaping, culvert clearing/repair, resurfacing etc.) to be performed. Each activity shall then be code numbered and assigned a measurement unit (e.g. kms bladed, number of culverts repaired etc) for purposes of controlling quantities of work accomplished.

   Road system must thereafter be classified on the basis of surface type, width, condition, and the services (in traffic volume) they are expected to provide. Each classified segment is then categorized for its maintenance needs and desired level of service (e.g. blading is to be done, say, once a month for main roads and every 6 months for feeder roads etc) related to the classification of the road system.

2. <u>The plan must determine and direct the most effective ways for performing maintenance work</u>

   The maintenance plan should indicate the best way of performing the various maintenance operations from the standpoint of the quality of workmanship, the economic utilization of manpower and equipment, and the reasonable standards for expected work accomplishments. In this regard, the implementing agency (MCW) should establish in the plan work performance standards for each activity which include I) the most effective crew size for each maintenance function, II) the tools and equipment to be provided, III) material needed, IV) detailed work methods and procedures and V) an estimate of the average daily or weekly result expected when following the standard. These standards shall be developed to provide a realistic basis for estimating resource requirements for annual work programs and budgets.

   In this regard the annual work plan should identify specific kinds of work to be performed, the amount of each kind of work, and the manpower, equipment and material needed to perform the work.

15+

Such programs should initially be developed for individual field management units and later, consolidated for a nationwide program. The annual program shall be developed strictly from three sources, i.e. the current roadway inventory, the adopted level-of-service standards, and the work performance standard all of which have been described above. Any special rehabilitation or betterment work outside periodic and routine maintenance activities shall be defined individually and separately along with the estimates of resource requirements for the work.

3. <u>The plan must identify the human, capital and financial resources for execution of the specified work.</u>

In the maintenance plan, resource requirements shall be estimated for all maintenance activities as follows: I) annual quantities of work units are identified from the work program, II) annual crew-day requirements are completed from estimated productivity rates, III) manpower and equipment requirements are determined from standard staffing patterns and equipment assignment, and IV) material requirement are derived from work programs and performance standards. The plan must demonstrate the extent to which MCW will use its own crews and equipment and the extent to which it will contract it out.

4. <u>The plan must establish procedures for reporting work and evaluating performance.</u>

The plan must incorporate procedures for reporting work with the aim of gathering information on payroll, material/supply expenditure and general cost accounting as well as for collecting management information to review work performance, evaluate progress, guide corrective actions, and for advance planning.

The plan shall be updated and refined every year as more accurate data is collected from field operations. In this regard the plan for the first year shall be based mostly on data that is currently available with the MCW, PMO, MLG and the Ministry of Finance (MOF). Enough data for preparing the first year plan for the Core Rural Road program is available in the COWIconsult study on Feeder Roads. The MCW also has some data on the 10,000 kms of trunk roads for which it has maintenance responsibility.

Primary responsibility for preparing the maintenance plan rests with the MCW and MOF specifically the Rural Roads Division within MCW. Final acceptance that this condition has been satisfied will required evidence that based on the resource requirements identified per section (3) above, the MOF has made a formal budget allocation to implement the approved maintenance program.

Condition 3 will considered satisfied when the responsible GOT Ministries have examined ways to control overloading and selected measures to help control the overloading problem. Again, criteria for selecting control options will be jointly agreed upon by A.I.D. and the GOT and specified in project implementation letters. The issues to be examined are expected to include, inter alia:

(1) the extent of the physical damage currently being caused by overloading;

(2) the financial costs of this damage;

(3) the feasibility of alternative means to control overloading; and

(4) recommendation of specific measures which are technically and financially viable to control the problem of overloaded vehicles.

The final stage of the process will be the selection by the GOT of options/measures to effectively address the problem and the development of a schedule to implement these measures.

C. Satisfaction of Conditions Under the Transport AEPRP and First Trance of ATAP

1. AEPRP

In FY 87, A.I.D. authorized the Transport AEPRP (ESF funded) for an LOP total of $12.0 million. The program was designed as a cash grant, with two disbursements of $6.0 million each. Upon meeting the conditionality for each tranche of $6.0 million, the entire amount was to be disbursed to the GOT, then allocated by the GOT and A.I.D. to individual importers of transport-related equipment in a manner resembling a typical commodity import program. The first tranche of $6.0 million was technically disbursed two months after the agreement was signed when the GOT met the following conditions to initial disbursement:

17x

(1) a 25 percent increase, in real terms, in the national development budget for the transport sector; and

(2) agreement to award road construction and rehabilitation contracts on a competitive basis, including allowing private firms equal opportunity to bid for these contracts.

Since the initial tranche was disbursed, over $35.0 million in applications for licenses to import transport-related equipment have been received. Of this total, approximately $4.5 million in requests have been approved, and about $2.0 million import licenses have been granted and the L/Cs opened. Principal reasons for the slow approval rate, according to a recent USAID/T and REDSO/ESA evaluation, appear to include: applications for ineligible goods, inadequate documentation on the part of applicants for FX, illegitimate invoices, inability of importers to meet the 100 percent cash cover requirement up front, the restrictive nature of the commodity eligibility list and a lack of confidence on the part of private firms that they could secure a significant volume of contracts to justify the cost of imported equipment.

Based on the ongoing monitoring efforts of USAID/T and REDSO as well as the findings of the evaluation, the commodity eligibility list has been expanded twice to include other equipment ancillary to transport equipment and, more recently, to include oil, lubricants and trucks. Evidence suggests that the expansion of the list of eligibility commodities will dramatically speed up the allocation of FX under the program.

All conditions for the disbursement of the second $6.0 million have not been met and the terminal date for meeting these CPs was recently extended to December 31, 1989. One of the two CPs included in the Grant has been met and another CP which was included in the Program Authorization but not in the Grant has also been met as follows:

<u>Grant CPs</u>

(1) The GOT has met the CP which required that construction and rehabilitation contracts have been opened to bidding the private sector contracts. (Recent tenders for road rehabilitation have been provided to private firms by the Rural Roads Division of MCW and contracts have been awarded to private firms for the rehabilitation of the TANZAM Highway.)

(2) The GOT has not met the condition requiring that the Grantee "has awarded a substantial number of contracts for major road construction and/or rehabilitation work to private sector firms". This CP was written in such a way that its satisfaction is open to a wide range of interpretations, mainly because it is described somewhat differently in three places: The text of the PAAD, the Authorization, and the Grant Agreement. Although a substantial number of contracts have, in fact, been awarded to private firms for work on trunk roads, USAID/T has chosen a more narrow interpretation which focuses on contracts for regional and district roads. With 300 kms of rehabilitation work currently out to tender by the RRD, this condition could be met as early as November, 1989.

CPs Not Included in the Grant

A third CP, included in the Authorization, but not the Grant, has recently been met. This condition required that, following the increased budget allocation, the GOT also increase actual expenditures for the transport sector in real terms. (No percentage target was stated.) Between 1986/87 and 1987/88, GOT expenditures for the transport sector, excluding ports and donor-financed activities, increased by almost 30 percent in real terms. Expenditures for regional and district roads increased by 34 percent in real terms over the same period.

(2) ATAP

Four conditions were included in the original Grant Agreement for ATAP. One has been met: evidence that a Rural Roads Division has been established and given national responsibility for the development, prioritization and implementation of rural roads. The RDD is now a fully functioning unit with responsibility for 10,000 kms of trunk and 13,400 of rural roads.

A second condition requiring a GOT-approved plan setting forth adequate measures to maintain its classified road network, with domestic taxes, fees and other financing has apparently been met, but written evidence has not been provided to A.I.D. A national policy paper on transport was approved by the Cabinet in July 1989. The policy paper includes a general plan for maintenance of the nation's road network, including the identification of various financial resources with which to conduct maintenance programs. When the GOT submits a copy of the approved policy paper to A.I.D., this condition will be satisfied.

9+

The third condition requires that a special local currency account be established in the Cooperative and Rural Development Bank of Tanzania. This is strictly a formality at this stage since no LC has been generated under ATAP. It will be met by August 31, 1989.

The final ATAP condition requires that $1.0 million in road rehabilitation contracts for gravel and earth roads be awarded to private sector firms. Once awards for the contracts currently out to tender by the RRD are made, this condition will be satisfied.

At this time, it appears that all CPs for the first tranche of $5.21 million (CIP component) will be met by December 31, 1989, at the very latest.

The original ATAP Grant Agreement included a general covenant requiring an Environmental Assessment covering the use of CIP commodities. However, since the commodity eligibility list has been significantly expanded and the end-use of imported goods will not be monitored, REDSO/ESA and USAID/T have concluded that the more important environmental concerns relate to the design standards and training programs of the RRD. Therefore, an IEE Amendment was prepared by the REDSO/ESA Regional Environmental Officer which gave a negative determination for both the new and prior obligations with respect to local currency expenditures. The IEE Amendment identified potential environmental concerns and prescribed two mitigating measures. These measures are included as CP number 3 and a new general covenant (as specified in the PAAD and Grant Agreement Amendment).

III. UPDATE OF FEASIBILITY ANALYSES

A. Institutional Analysis

1. Rural Road Division

Because of the existing complex, wasteful and fragmented administrative arrangements for the execution of road programs in Tanzania which is characterized by inconsistent technical standards, poor financial control and accountability, the establishment of a new rural roads division in the Ministry of Communication and Works (MCW) to coordinate and have prime responsibility for the rehabilitation and maintenance of the vital roads was agreed to under the ATAP program between the GOT and USAID. This division has now been formally established under the MCW and the current status of its establishment and reorganization within MCW is as follows.

(a) Organization Structure

The RRD, as currently organized, is the central unit that implements national road programs for which the MCW has full responsibility. In terms of lengths of roads, this responsibility translates to the rehabilitation and maintenance of some 10,000 kms of trunk roads and 13,400 kms of rural roads. The division is headed by a chief engineer who is responsible to the Commissioner for Construction and Maintenance. At the headquarters level, the RRD currently is manned with five senior local engineers, two recent graduate engineers, one personal secretary (to the chief engineer), one administrative and manpower officer (includes training), one office attendant and two drivers.

At the regional level the RRD has appointed 19 regional engineers, 19 rural road engineers, 19 trunk road engineers, 19 building engineers, 19 mechanical and electrical engineers, 19 material engineers, and 19 regional works accountants. The GOT has, for the first time, included in the national budget for FY89/90 some 61 million T.sh to be used by the RRD for recurrent expenditures arising from rural road rehabilitation and maintenance activities.

(b) Authorities/Responsibilities

In December 1987, an Inter-ministerial Steering Committee, whose members are Principal Secretaries of the Ministries of Communication and Works, Local Government, Prime Ministers Office and Agriculture, was formed by Presidential Order to oversee the development and implementation of rural road programs in the country. The first task of the Committee was commissioning an organization and management study on rural roads. This study was undertaken by a Danish consulting firm (COWIconsult). In February 1989, the study was completed and all the recommendations of the study were accepted by the Steering Committee. On the basis of these recommendation the RRD was formally established. The establishment of the RRD derives from the Presidention Order of 1987. No any other formal approval is required for its establishment and/or formation.

The RRD is responsible, at the regional level, for the rehabilitation and maintenance of the Core Rural Road Program (vital non-trunk roads) which consists of the rehabilitation and maintenance of some 13,400 kms of essential roads in eleven regions of the country. Other rural roads programs currently being implemented by various donors will continue to be implemented by donors, but are also classified as essential roads. Their implementation eventually will be the

21

responsibility of the RRD. At the headquarters level, the RRD has responsibility for national programming, technical supervision, funds allocation, monitoring, standard setting, and training.

(c) Status of Road Works under the RRD

The RRD has pre-qualified seven local contractors for the rehabilitation of rural roads. Tender documents for 300 kms of roads (4 bid packages) have been issued to the seven pre-qualified contractors, who are required to submit their bid prices by August 4, 1989. Actual rehabilitation work is scheduled to commence soon thereafter (October 1989). Design and bid documents for the rehabilitation of another 320 kms (3 bid packages) are ready and will be issued immediately after the contracts for the first 300 kms (4 bid packages) have been awarded. Six local A&E consulting firms have also been pre-qualified to undertake the design of additional 600 kms rural roads and actual design work is scheduled to begin in November - December 1989. The same A/E firms will also supervise the road rehabilitation contracts, which are scheduled to commence in October 1989.

(d) Status of Technical Assistance to the RRD

According to the Organization and Maintenance (O&M) study on Rural Roads there are significant staff requirements to implement the recommended new institutional construction for rural roads. To support the RRD, the study also recommends a sizeable technical assistance program.

Although technical assistance is required to implement Tanzania's overall road development program, USAID/T does not agree with the high levels of TA recommended under the O&M study. Rather, TA should be highly focussed on the critical areas of training, involving local staff in the implementation of rural road rehabilitation and maintenance so that the sustainability of the program is assured. TA will be provided in the initial stages of implementation to assist MCW and the RRD to develop design criteria and standards for both rehabilitation and maintenance works, prepare contract documents and review bids, assess options to control overloading of vehicles and to develop training programs which include environmental concerns. Under the project component of ATAP the services of one long-term TA advisor to the RRD was budgeted for. Recruitment of this advisor is currently in process (CBD and local notices published) and it is expected that the advisor will be on-board in early October 1989. In the meantime, using ATAP funds, USAID/T recruited in mid April 1989 a short-term TA advisor to assist the RRD in the preparation, evaluation and award of bid contracts for the rehabilitation of the initial package of 300 kms of rural roads.

γ

In addition to assisting and advising the RRD in the management of road rehabilitation contracts, the long-term TA to be provided under ATAP I shall help the MCW in developing a maintenance plan for the region where actual road rehabilitation work is being undertaken. ATAP I funds are also available for short-term TA to help in a) identifying financial requirements and sources of funds for the maintenance plan to be developed and b) assessing truck axle weight limits and overloading problems and recommending remedial actions for same.

B. Economic and Social Analyses

The economic analysis carried out in the original PAAD remains valid. That analysis estimated the internal rate of return (IRR), in economic prices, for the various segments of Tanzania's rural road network that were scheduled for rehabilitation under the core road program. The segments of road were then ranked by net present value. Generally, the IRRs exceeded 35 percent, suggesting adequate justification for their rehabilitation.

If AID continues to work in this sector in future, it would be desirable to carry out more careful economic analyses of these road rehabilitation projects. It is implicit in the analysis prepared for the PAAD that the benefits of rehabilitating each road segment consist of the incremental value added in production along that road segment as a result of the road improvements. What has not been done explicitly is to assess what will happen to incomes of producers, marketers (including transporters), and consumers of the goods incrementally produced. The object of such an analysis would be in part to differentiate among the effects of the road rehabilitation on various income classes. It is likely that information gleaned during the socio-economic surveys done in connection with this program amendment will permit some rudimentary assessment of these effects over time.

USAID/Tanzania is funding a socio-economic baseline survey which will begin in early FY 1990. The survey will provide data which will provide the basis for assessing the impact of the road rehabilitation and maintenance activities financed under the Transport AEPRP and ATAP. Annex 4 contains a detailed Scope of Work for the survey.

23x

C. Demand Analysis

The effective demand for resources under the combined programs (AEPRP and ATAP) has not resulted in a speedy release of foreign exchange. Thus, although conditionality for the first tranche of AEPRP resources was met over a year ago, the effective use of the $6 million made available under the first tranche has to date been only about $2.0 million. One important reason that effective demand has been so weak, one can reasonably argue, is that the GOT has to date issued no contracts for rural road rehabilitation and maintenance work. That situation promises to change in the next few months as the RDD prepares to award contracts for the rehabilitation of 620 kms of regional and district roads. In addition, USAID/T recently has expanded the eligibility list for imports under the AEPRP and will further expand the list of eligible commodities for both AEPRP and ATAP at the time this amendment is approved.

USAID/T and the GOT will periodically review the drawdown rate and uses of the CIP funds to ensure that implementation is proceeding on schedule and that adequate quantities of transport-related equipment is being imported.

Demand for Foreign Exchange Resources

On the basis of detailed studies of road rehabilitation and maintenance, USAID/T has estimated that, over the next five-year period, the demand for equipment will be as follows:

-- $16 million for the MCW for equipment to carry out the "core rural road program;"

-- $12.5 million for local contractors for equipment to implement work contracted out to them under the same core program;

-- $10 million for local contractors for equipment to implement work contracted out to them under the "trunk road program;" and

-- $7.8 million for spare parts for the above.

The preceding items sum to $46.3 million; excluding the trunk roads component results in a total of $34.2 million. The figures in the preceding paragraph are based on an analysis of the equipment costs of (a) rehabilitating 2,400 kilometers of rural roads over the next five years, (b) maintaining 11,000 kilometers of rural roads for five years, and (c) rehabilitating 500 kilometers of trunk roads over the next five years. The figures represent the purchase price of the equipment required to get the work done, not necessarily the depreciation or amortization value of the equipment required. (Of course if the equipment is amortized over a five-year period, and all of it is purchased at the outset, then the two figures would be identical.)

Potential sources of supply for this equipment are many, of course, but currently established sources are few, and total about $21 million:

-- $6-plus million under the AEPRP program, consisting of the entire second tranche plus whatever remains under the first tranche;

-- $10.18 million under the ATAP program, assuming the first tranche of $5.21 million and an additional FY89 obligation of $4.97 million;

-- $5 million of equipment available currently in Tanzania over the five-year period, usable at a rate of $1 million per year.

USAID/T also estimates that, given the nature of the work to be done and the number of contractors involved, the total demand for equipment is likely to be heavier at the outset of the five-year period than at the end. Therefore, between $25 million and $30 million of the demand is likely to materialize over the next two years.

To cover this demand in the next two years, the available supply is about $16 million, given optimistic assumptions about the GOT's ability to the meet conditionality under the AEPRP and ATAP programs. For example, once the first set of contracts for the rural road program are let, the second $6 million of AEPRP funds will be available. As to the first $5.2 million under ATAP, it is anticipated that this will be available for disbursement by the end of 1989. To this $11-plus million should be added the $2 million over these two years consisting of the existing stock of road construction equipment. The total "supply," about $13 million, is clearly short of the projected demand over the next two years.

In addition to the estimated demand for transport-related equipment, plus spares, there will be a significant demand for foreign exchange to import trucks and lubricants, which are now eligible under ATAP. In a recent, informal survey, USAID/T received expressions of interest for the importation of over 400 trucks, of which 215 are in the weight range proposed for

25

ATAP (i.e., 3 to 9 tons). Even if only a fraction of these expressions of interest are valid (e.g., for legitimate uses, LC coverage available, etc.), since the survey was informal and did not reach all prospective importers, there is likely to be a significant demand to import trucks using ATAP funds. Finally, there is no question that the addition of lubricants will raise demand for ATAP funds. Oil and lubricants are consistently among the top five principal imports by Tanzania (in terms of value) each year.

Finally, the PAAD design team has concluded that, given this analysis of demand for foreign exchange resources to purchase road construction equipment, and given the fact that the eligibility list for AID's various CIPs includes not only such equipment and spares but also unrelated items, USAID/T should carefully monitor the situation to ensure that excess demand does not develop to such an extent that the road rehabilitation and maintenance program's objectives are undercut.

Demand for Local Currency Resources

As noted above, the local currency resources generated by AID's two programs are programmed for spending on the rehabilitation and maintenance of rural roads. On the basis of detailed studies of road rehabilitation and maintenance, USAID/T/ENGR has also estimated that, over the next five-year period, the cost of contracts for rural road rehabilitation and maintenance (in US dollar equivalents) is likely to be as follows:

-- $16.5 million for the maintenance of the 11,000 kilometers of rural roads; and

-- $48 million for the rehabilitation of the 2,400 kilometers of rural roads.

Under the AEPRP and ATAP programs, a total of US$22 million in local currency equivalent will be deposited into the special account as the foreign exchange resources are disbursed and utilized by importers. From the foregoing discussion of contract costs, it would appear that over the five-year period the GOT will have little difficulty liquidating this local currency account. Indeed, there will be a need for additional resources, either from the GOT's own sources or from external resources. As in the case of the foreign exchange, USAID/T should carefully monitor this situation with the GOT to ensure that there are sufficient resources available to carry out this program.

IV. FINANCIAL PLAN

The initial $7.21 million obligation for ATAP consisted of a $5.21 million Commodity Import Program (CIP) and $2.0 million for technical assistance and related commodities, training, studies and evaluations. This amendment adds $5.2 million to the CIP component for a new total of $10.41 million. The total LOP for ATAP is increased to $12.41 million.

No additional funds are included for technical assistance and all methods of implementation and financing, as described in the original ATAP PAAD will be unchanged.

The GOT's contribution to the total ATAP program will continue to include the financing of road rehabilitation and maintenance contracts as well as the administrative costs of operating the RDD. The additional GOT contribution is estimated at TSh. 716 million in local currency generations from the CIP. Five percent of the TSh.754 million in LC generations will be placed in a trust fund account for the use of USAID/Tanzania, in accordance with the procedures established in the original Grant Agreement. In addition, expenditures for district and regional maintenance and rehabilitation over the LOP from the GOT budget are estimated at:

(TSh Millions)

	88/89	89/90	90/91	91/92	92/93
Rehabilitation	449.5	580.0	826.5	1,044.0	1,218.0
Maintenance	754.0	855.5	1,105.0	1,363.0	1,595.0

Source: Ministry of Communications and Works.

At the current exchange rate (U.S. $ 1.0 = TSh 145.0), the total GOT contribution through 1993 is estimated at $77.4 million.

V. PROGRAM IMPLEMENTATION

A. CIP and Local Currency Components

The foreign exchange component of ATAP will continue to be implemented through a Commodity Import program (with the exception of the $2.0 million previously authorized for technical assistance). There is one major change in the implementation of the CIP.

As identified on the PAAD amendment facesheet, the commodity eligibility list for the CIP is expanded to include:

27

1. Trucks with hauling capacities of approximately 3 to 9 tons or such other size trucks as A.I.D. may approve in writing. USAID/T believes that the addition of trucks will allow for increased haulage of road construction and maintenance materials and supplies, thus facilitating the implementation of the overall program. Section IV.C. of this PAAD supplement estimates the demand for new trucks and spares over the life of the program;

2. Capital equipment for retreading tires, manufacturing brake linings, machining vehicle parts and other ancillary equipment; and

3. Brake fluids and essential lubricants.

In addition, USAID/T is considering a change in the cash coverage requirements (currently set at 100 percent when a Letter of Credit is opened). During September 1989, USAID/T and the REDSO/RCMO will review this procedure which may be modified to require less than full cash coverage up front. If such a procedure is determined desirable and feasible, a portion of the LC cash coverage would be due when a Letter of Credit is opened and the balance upon shipment of the commodity.

Rationale for Continuing the CIP Mechanism

During the preparation of the PAAD supplement, consideration was given to two alternative disbursement modes: (1) contributions to the OGL; and (2) a transportation sector grant.

Under each, conditions would have been identical to those required under the present program amendment, with the exception that an additional condition would have been required under the OGL to expand the eligibility list of that system to include capital equipment. Both of these options, after careful deliberation, were rejected by USAID/Tanzania and the PAAD amendment design team. The OGL is still untested as a means to efficiently allocate foreign exchange on a sustainable basis. To date, no GOT contributions have been made to the OGL; it is entirely a donor-supported program. There is yet no clear indication that the GOT considers the OGL a permanent feature of its economy as opposed to an IBRD program. The reason for rejecting a sector grant also applies to the OGL. USAID/T believes that in the absence of a CIP, there can be no assurance that foreign exchange will be available to private firms for the importation of transport-related equipment.

Without this assurance, there may be a reluctance on the part of private firms to bid on road rehabilitation and maintenance contracts, thereby undercutting one of the major themes of ATAP. Continuation of the CIP disbursement mechanism is viewed as critical to ensuring that capital equipment and spares relevant to the transport sector can be imported and that a fair share of this equipment can be procured by private firms.

Despite the above argument for continuing the CIP disbursement mechanism, there is concern about the slow drawdown of foreign exchange under ATAP to date. The problem is expected to be resolved by the change in the cash coverage requirement and the expansion of the commodity eligibility list. In addition, delays can be partially attributed to the time required to establish the RRD and prepare tender documents for the first 300 kms of road rehabilitation works (both of which affected the satisfaction of CPs to initial disbursement). The picture is much more positive now and USAID/T is sanguine about the prospects of improving the FX disbursement rate. In January 1990, a review will be conducted to confirm that the CIP mechanism is effectively moving FX into the economy, thereby generating the LC needed to implement the roads program. If problems still exist, alternative means of disbursement will be considered.

B. Implementation Schedule (Revised)

Authorization Amendment Approved	August 1989
Grant Agreement Amendment Signed	August 1989
Long-term Advisor to RRD Arrives	October 1989
CPs to first Disbursement Met (initial $5.21 mil)	December 1989
Review of CIP Disbursement Rate	January 1990
Disbursements begin for initial CP funds	February 1990
CPs to second disbursement met (additional $5.2 mil)	June 1990
Evidence of design standards which incorporate environmental concerns	
Maintenance Plan Developed by MCW/RRD	June 1990
Study on Overweight Vehicles Completed	June 1990
Disbursements Begin for Additional CIP funds	September 1990

Implementation Targets (GOT CORE Roads Program)

- Kilometers of district and regional roads rehabilitated:

  FY 89/90: 200
  FY 90/91: 500
  FY 91/92: 570
  FY 92/93: 600

- Kilometers of district and regional roads being maintained:

  FY 89/90: 700
  FY 90/91: 1120
  FY 91/92: 3650
  FY 92/93: 8980

C. Implementation Responsibilities

The primary implementing organization will continue to be the Ministry of Communications and Works. However, now that the Rural Roads Division has been formally established and its responsibilities have been defined, the Director, RRD will be the principal GOT liaison person for the project technical assistance and for the planning and implementation of the road rehabilitation and maintenance activities.

All other GOT and A.I.D. implementation responsibilities remain unchanged from those outlined in the original ATAP/PAAD.

D. Program Monitoring

The following is a list of program elements to be monitored and assessed periodically, including target dates and the responsible entity.

1. Cash coverage requirements
   (September 1989 - USAID/T, REDSO, GOT)

2. Review of design standards for road rehabilitation and maintenance works
   (December 1989 - USAID/T, REDSO, RRD, TA Contractor)

3. Rate of disbursement of FX via CIP mechanism
   (January 1990 - USAID/T, REDSO, GOT)

4. Review of types of commodities imported
   (USAID/T, REDSO)*

* The fourth monitoring activity will begin with the first review of applications for CIP funds and will be continued on a quarterly basis to ensure that adequate transport-related equipment is available to private construction firms to carry out rural roads rehabilitation and maintenance contracts.

VI. STATUS OF NEGOTIATIONS WITH GOT

In July 1989, Representatives from USAID/T and the GOT (Ministry of Finance, MCW, RRD) met to discuss the amendment to ATAP, focussing on the additional conditionality, changes in various terminal dates, funding levels, modification of the commodity eligibility list and expectations regarding performance targets set for the RRD. The relevant Ministries have agreed, in principal, to the terms of conditions proposed for the ATAP amendment and USAID/T does not anticipate any issues or problems in negotiating and signing the Grant Agreement Amendment.

5340D

THE UNITED REPUBLIC OF TANZANIA

MINISTRY OF FINANCE,~~ECONOMIC AFFAIRS AND PLANNING~~

Telegrams — "HAZINA" DAR ES SALAAM.
Telephone: 21271

P.O. Box 9111
DAR ES SALAAM.

(All Official correspondence should be Addressed to the Principal Secretary — Treasury)
In Reply please quote

Ref: TYC/D/550/7

31st, July, 89

Mr. Frederick Guymont,
Acting Director,
USAID Tanzania,
P.O. Box 9130,
DAR ES SALAAM.

Re: US DOLLAR 5.2 MILLION GRANT

The Government of the United Republic of Tanzania has been pleased to hear that the Government of the United States has proposed additional grant of US$ 5.2 million to the Agricultural Transport Assistant Program (ATAP) during the 1989 United States fiscal year.

Expressing my Governments appreciation for the United States Assistance to the Transport Sector starting with the ATPAP and ATAP, the additional grant will constitute an important input to the rehabilitation and maintenance of Tanzania's Agricultural Transport System (rural roads) which is the most essential sector in the economic development of the country. We would therefore request your assistance in securing approval from your Government of the proposed additional US$ 5.2 million grant at your earliest convenience.

Thanking you for your continued cooperation.

Yours Sincerely,

Mbilinyi

Prof: S.M. Mbilinyi
PRINCIPAL SECRETARY

c.c. Dr. F.M. Mujuni,
Principal Secretary,
Ministry of Communications and Works,
DAR ES SALAAM.- Your letter Ref. CW/R.30/329/58 of 22nd July, 1989 refers.

UNCLASSIFIED STATE 211 2

ANNEX 2

ACTION: AID-3 INFO: ECON POL/RLO

VZCZCNA0032
PP RUEHNR
DE RUEHC #0652 1842300
ZNR UUUUU ZZH
P R 032259Z JUL 89
FM SECSTATE WASHDC
TO RUFHDR/AMEMBASSY DAR ES SALAAM PRIORITY 0720
INFO RUEHNR/AMEMBASSY NAIROBI 7458
BT
UNCLAS STATE 210652

05-JUL-89 TOR: 23:03
CN: 36957
CHRG: AID
DIST: AID
ADD:

REDSO CHRON COPY

JUL 05 1989

AIDAC, NAIROBI FOR REDSO/ESA

E.O. 12356:N/A

FY 89 AMENDMENT TO AGRICULTURAL TRANSPORT ASSISTANCE PROGRAM (ATAP), 621-0166

REF: A. DAR 2538 B. STATE 165149 C. DAR 3140 D. DAR 3000 E. DAR 197092

1. PER USAID/T REQUESTS PARA 8 REF C, PARA 4 BELOW CONTAINS A MISSION AD HOC DOA TO AUTHORIZE SUBJECT FY 89 ATAP AMENDMENT SUBJECT TO REDSO/ESA CONCURRENCE. PARA 5 AUTHORIZES MISSION TO APPROVE IEE SUBJECT TO REDSO/ESA CLEARANCES.

2. A. BUREAU CONCERNS REMAIN, HOWEVER, REGARDING KEY COMPONENTS OF THE ATAP PROGRAM AND A.I.D.'S CONTINUING ABILITY TO MAINTAIN INFLUENCE OVER GOT REFORM PROCESS IN OUR TOP PRIORITY SECTOR GIVEN PROPOSED MISSION APPROACH. SPECIFICALLY, WILL MISSION REMAIN IN POSITION TO GAIN NEW POLICY REFORM OR REWARD SIGNIFICANT GOT PERFORMANCE WITH ONLY MINOR DISBURSEMENTS ANTICIPATED UNTIL FY 92? WE UNDERSTAND THAT ATAP-FUNDED TA HAS A ROLE TO PLAY IN SHAPING POLICY AND SHARPENING IMPLEMENTATION BUT IS TA ALONE SUFFICIENT TO GET THE JOB DONE OVER THE NEXT THREE YEARS? FOR EXAMPLE, HOW WOULD MISSION HANDLE ADDITIONAL PROBLEMS REQUIRING REFORM IF IDENTIFIED BY TA TEAM PRIOR TO FY 92?

B. EFFORTS TO ACCELERATE THE RATE OF DRAWDOWN UNDER THE AEPRP AND ATAP-FUNDED CIP SHOULD BE CLOSELY MONITORED AND CONCLUSIONS REACHED AS TO THE EFFECTIVENESS OF THE CHANGES PROPOSED REF. C PARA 2. WE WOULD EXPECT A RIGOROUS ASSESSMENT OF PROGRESS UNDER THE NEW ARRANGEMENTS BY END JANUARY 1990 AND A DECISION MADE AT THAT TIME WHETHER TO CONTINUE WITH THE CIP MECHANISM OR CONSIDER SHIFT TO OTHER MECHANISMS AS DISCUSSED REF. B.

3. BUREAU LOOKS FORWARD TO REVIEWING THESE AND OTHER ISSUES DURING JULY MISSION DIRECTOR CONSULTATIONS.

REDSO Action
DIR
D/DIR
AGR
ANA
RCMO
RCO
ENGR
FFPO
PRJ
RLA
LIBRARY
KAGAI
RFMC
EXO/PER
ADMIN
CHRON
REPLY DUE
ACTION TAKEN
DATE
INITIALS

33x

2

4. DELEGATION OF AUTHORITY TO APPROVE AMENDMENT:

THE ACTING ASSISTANT ADMINISTRATOR FOR AFRICA HEREBY DELEGATES AUTHORITY TO APPROVE AN AMENDMENT TO THE TANZANIA AGRICULTURAL TRANSPORT ASSISTANCE PROGRAM (621-0166), NOT TO EXCEED DOLS. 4.83 MILLION IN FY 89 TO THE DIRECTOR, USAID/TANZANIA OR PERSON ACTING IN THAT CAPACITY, SUBJECT TO THE CONCURRENCE OF THE DIRECTOR, REDSO/ESA OR PERSON ACTING IN THAT CAPACITY.

5. DELEGATION OF AUTHORITY TO APPROVE IEE:

THE AFRICA BUREAU ENVIRONMENTAL OFFICER HEREBY DELEGATES AUTHORITY FOR APPROVAL OF THE IEE AMENDMENT TO THE TANZANIA AGRICULTURAL TRANSPORT ASSISTANCE PROGRAM (621-0166) TO THE DIRECTOR, USAID/TANZANIA OR PERSON ACTING IN THAT CAPACITY, SUBJECT TO THE CLEARANCE OF THE REDSO/ESA REGIONAL LEGAL ADVISOR (RLA) AND REGIONAL ENVIRONMENTAL OFFICER (REO). PLEASE FORWARD A COPY OF THE SIGNED DOCUMENT (FOR RECORD PURPOSES) TO THE BEO, AFR/TR/ANR. HAS THE SCOPING STATEMENT REQUESTED IN APPROVED IEE DATED AUGUST 18, 1988 BEEN COMPLETED? IF SO, PLEASE FORWARD COPY ALONG WITH IEE AMENDMENT.

6. PER REF E, PROPOSED EXPANSION OF ELIGIBILITY LIST APPLIES TO BOTH AEPRP AND ATAP. KIMMITT

BT

#0652

NNNN

ANNEX - 3

AMENDMENT

Initial Environmental Examination

Project Country:	Tanzania
Project Title:	Agricultural Transport Sector Grant (621-0166)
Funding:	FY(s) 89 $5.2 million
Prepared by:	Edward McGowan, REDSO/ESA/REO

Threshold Decision Recommended: X Negative Determination

The negative determination is recommended for the increased FY funding not previously assessed. The need for an Environmental Assessment, identified as part of the 1988 Agreement, has been eliminated by the expansion of the list of eligible commodities beyond road maintenance and rehabilitation equipment.

Rural Roads (road maintenance equipment): Your approval is required for a Negative Declaration. Although it was determined that the results from the road maintenance equipment in the maintenance and rehabilitation of the roads could have a significant effect on the environment resulting in a Positive Determination, a Negative Declaration is now recommended for approval pursuant to Environmental Procedures, 22 CFR, Part 216, section 216.3(a)(3)(iii), in lieu of an Environmental Assessment.

With respect to expenditures of local currencies for road maintenance and rehabilitation, A.I.D. has developed design criteria for rural roads, which, if applied in concert with the attached mitigation measures during the implementation process of maintenance and rehabilitation, will avoid a significant effect on the environment.

Frederick J. Guymont
A/Director USAID/Tanzania: **Approval** Fred J Guymont **Date** Aug. 15, 1989
Disapproved ________ ________

C/Brown/RLA/REDSO (DRAFT) 8/2/89

35x

Mitigation Measures:

Prior to the Second Tranch:

1). A condition precedent be included related to the letting of road maintenance and rehabilitation contracts to contain requirements that such contracts must be based on the existence of sound technical and environmental design standards and specification, and that

2). a covenant is included whereby Ministry of Communication and Works (MCW) agrees to undertake a training program to assure that environmental considerations are taken into account during the development of design standards and specifications for as well as the monitoring of road maintenance and rehabilitation.

Scope of Work
Tanzania Rural Roads Baseline Survey

This scope of work establishes (I) the main objective of the rural roads baseline survey; (II) the terms of reference for the contractor engaged to do the survey; (III) contractor reporting requirements; (IV) contractor relationships and responsibilities; (V) professional qualifications required for those who will do the survey; and (VI) an indicative budget. Each of these topics is discussed in turn below.

I. Objective

To obtain a written report that provides baseline socio-economic information in four areas (Shinyanga, Kilimanjaro, Mbeya and Ruvuma) where USAID-supported road rehabilitation and road maintenance will soon begin. When updated by a monitoring program financed by ATAP, this information will provide a basis for assessing the socio-economic impact of A.I.D.'s rural road improvement program.

II. Terms of Reference

There are five sections to the terms of reference. Section A (Survey Questions) outlines the information to be collected for the baseline study. Section B (Research Methods) outlines the research approaches to be used in collecting the information. Section C (Schedule of Activities) provides an indicative timeframe for the survey. Section D (Personnel) suggests the types and numbers of personnel required to do the survey.

A. Survey Questions

The contractor's survey report will provide answers to the following sets of questions having to do with (1) the characteristics of the road and surrounding area; (2) transportation and marketing; (3) agriculture; (4) commerce and industry; and (5) quality of life. Each set of questions is discussed briefly below. In answering these questions, the contractor will disaggregate the survey data along important socioeconomic dimensions, including gender, socioeconomic category, ethnic identity, urban/rural location, and other dimensions that may emerge as significant as the survey progresses.

1. Characteristics of the Road and Surrounding Area

a. What is the length, type, and condition of the road? This should be done on a kilometer-by-kilometer basis, and keyed to a good map for later comparison after improvements have been made.

b. What kinds of country does the road pass through--swamps, hills, plains, deserts, forests, cropland, grazing land, business districts? This also should be done on a kilometer-by-kilometer basis, and keyed to a good map for later comparison after improvements have been made. Special attention should be given to current and potential future environmental considerations, e.g., are there areas subject to erosion, siltation, dust, flooding, deforestation, and so forth.

c. What is the geographic area served by the road? Within this area, what are the principal modes of livelihood (farming, herding, business, government service)? Approximately how many people are engaged in each?

d. When was the road first built, what major improvements have been made since, and who or what organizations are currently responsible for road maintenance? Is the design and method of construction generally suitable for local conditions and patterns of use?

e. What has been the involvement of local organizations and local people in selecting the road alignment, in building the road, and in maintaining the road?

2. Transportation and Marketing

a. What types of transportation are available and what is the volume of traffic for each type? What are operating costs for representative vehicles?

b. What types of commodities are transported and what are the freight charges? Where are the commodities from, where are they going, and who are they for?

c. What types of passengers are travelling on the road? Who are they, where are they coming from, where are they going, and why are they travelling? What fares do people pay?

d. How long does it take to get to various points served by the road?

e. How competitive is the transportation system? Is the system monopolized by a small group of transport owners/operators, or do many different people and firms provide transportation services?

f. How many and what size of markets and trading centers are located along the road?

3. Agriculture

a. What is the level of agricultural production--that is, what kinds of crops and livestock are produced, what area is under production, what kinds and amounts of crops, livestock, and other agricultural products are marketed?

b. What is the profitability of agriculture and livestock--that is, what are estimated production costs for the principal crops and animal products, what are the prices received by producers, what are the prices paid by local consumers, what are the marketing margins for local traders?

c. What types of agricultural inputs are used (seeds, fertilizers, farm equipment, veterinary medicines, acaricides)? In what quantities? What is the level of access to agricultural and veterinary advice and credit?

d. What are land values? What are land ownership and utilization patterns? What is the availability of uncleared or unutilized land? What is the availability of pasture and grazing land?

4. Commerce and Industry

a. How many and what kinds of transportation-dependent businesses are there--petrol stations, vehicle repair shops, warehouses, restaurants, hotels? What is the volume of trade?

b. How many and what kinds of businesses dependent on agriculture and animal products are there--grain mills, agro-processing industries, farm supply businesses, butchers, hide-tanning, leather industries? What is the volume of trade?

c. How many and what kinds of general retail businesses are there? What is the volume of trade?

d. How many and what kinds of financial institutions are there? What types of banking services are available, and what is the volume of activity?

e. How many post offices, police statiions, courts, and other official administrative offices are there? What is the volume of activity?

5. Quality of Life

a. What is the level of access to educational services?

b. What is the level of access to health/nutrition services (including public facilities, private facilities if any, and patent medicines available in shops)?

c. What are housing conditions for villagers and for townspeople (types, sizes, and methods of construction)?

d. How many and what types of domestic water supplies are available?

e. What are levels of migration into and out of the area? Why are people moving in or out? What kinds of people are moving in or out (business people, farmers, herders, laborers)?

B. Research Methods

Several complementary methods must be used to collect the information necessary to answer the questions that have been outlined above. These methods include review of written materials and written records, interviews with key informants, traffic surveys, vehicle operating cost surveys, business surveys, community surveys, and household surveys. Each of these methods is discussed briefly below.

1. Review of Written Materials and Official Records

The contractor will review pre-feasibility studies and other written materials relating to the road and surrounding area that may be available from A.I.D., the Ministry of Transportation and Communications, other donor agencies, and the University of Dar es Salaam. Official records that may be useful include police records, court records, business licenses, tax and tariff revenues, censuses, district development plans, and so forth. A good deal of general information about agricultural production, marketing, and access to social services may be found in such sources.

2. Interviews with Key Informants

The contractor will speak with selected individuals knowledgeable about the road and surrounding areas. This may include A.I.D. and contract staff, local government officials (administrators, agricultural officers, health officers), local community leaders, local businesspeople, prominent farmers, large herd-owners, and others who might know useful thing about the role of the road in economic and social life. These interviews will be designed to gather contextual information about the road and surrounding areas, and to identify potential questions for further detailed investigation by survey techniques. Special care should be taken to interview a diversity of people, that is, women as well as men, older people as well as younger, and informal traders as well as established business operators.

3. <u>Traffic Survey</u>

At one location along the road (well away from built-up areas) the contractor will do a traffic survey. The survey will be one week in duration and will cover the hours from 5am to 11pm. The survey will collect information on:

a. Types and numbers of vehicles (including draft animals).
b. Origin, destination, and ownership of vehicles.
c. Type, amount, value, and freight charges for cargo.
d. Passengers: number, gender, age, income, origin, destination, fares.
e. Pedestrians: number, gender, age, income, origin, destination.
f. Livestock: type, number, origin, destination.

For this element of the survey, "income" should be measured very roughly, i.e., high, medium, low. The traffic survey can be done on a 100% basis if the volume is very low, or a sample basis (e.g., every tenth or every one-hundredth vehicle) if the volume of traffic is high. The survey form should be designed so that all necessary information can be recorded on one page per vehicle.

4. <u>Vehicle Operating Cost Survey</u>

For each type of vehicle on the road (heavy truck, medium truck, light truck, passenger car, motorcycle, cart) the contractor will estimate average operating costs per kilometer, taking into account purchase price (including interest), depreciation, driver/helper wages, maintenance, spare parts, fuel, oil, tires, tariffs, licenses, fees, and number of kilometers travelled per year. This information should be collected through direct interviews with vehicle owner/operators and corroborated with interviews from workers, garages, and so forth.

5. <u>Business Survey</u>

At one location along the road the contractor will conduct a business survey to estimate numbers and types of businesses, volume of trade, the range of consumer goods available in shops, and the overall business "climate". This will entail enumeration of businesses and goods as well as interviews with business operators. In small trading centers this can be done on a 100% basis; in larger places the survey can be done on a sample basis using local administrative records as a sampling frame. This approach will work well for formal business enterprises, but a special effort must be made to include informal businesses not represented in local administration records. A total of 30-40 businesses should be surveyed. As a rough guide to length and detail, the survey form should not exceed six pages in length. This should include a minimal set of questions about the business owner: age, education, gender, and other significant socioeconomic data.

6. Community Service Survey

At the same location selected for the business survey the contractor will conduct a service survey to count numbers and types of banks, courts, police stations, government offices, schools, health centers, and other facilities available to serve people in the area. To some degree this information can be gathered from official records at district level, but these written materials must be augmented with on-the-ground observation to estimate actual levels of service availability.

7. Household Survey

At two locations along the road (one town and one rural village) the contractor will conduct sample household surveys (30-40 households in each place). The household surveys will collect information on household demographics (size, structure, education, gender of household head, etc.), use of transportation and marketing facilities, agricultural production practices, participation in commerce and industry, sources and levels of household income (agriculture, casual labor, wage employment, remittances from absentee migrants), and patterns of expenditure and consumption. The household survey will also collect information on perceived benefits--that is, with the road in its current state, how do people feel with respect to personal mobility, news from the outside, access to marketing channels, and the availability of consumer goods? It is crucial that this survey instrument be administered quickly and accurately, hence special effort should go into questionnaire design. As a rough guide to length and detail, the survey form should not exceed eight pages in length. If village level administrative records are current they will serve as a sampling frame; if not, the WHO "random walk" sampling procedure may be used. The REDSO/ESA social science advisor will be available to consult on sample selection and questionnaire design. There is a strong presumption in favor of designing the questionnaire in three modules: a general module to be administered to the household as a whole, a module to cover areas of socioeconomic life where women are preeminently involved and knowledgeable, and a module to cover areas of life where men are preeminently involved and knowledgeable.

Listed below are statutory criteria applicable to: (A) FAA funds generally; (B)(1) Development Assistance funds only; or (B)(2) the Economic Support Fund only.

A. GENERAL CRITERIA FOR COUNTRY ELIGIBILITY

1. FY 1989 Appropriations Act Sec. 578(b). Has the President certified to the Congress that the government of the recipient country is failing to take adequate measures to prevent narcotic drugs or other controlled substances which are cultivated, produced or processed illicitly, in whole or in part, in such country or transported through such country, from being sold illegally within the jurisdiction of such country to United States Government personnel or their dependents or from entering the United States unlawfully? NO

2. FAA Sec. 481(h); FY 1989 Appropriations Act Sec. 578; 1988 Drug Act Secs. 4405-07. (These provisions apply to assistance of any kind provided by grant, sale, loan, lease, credit, guaranty, or insurance, except assistance from the Child Survival Fund or relating to international narcotics control, disaster and refugee relief, narcotics education and awareness, or the provision of food or medicine.) If the recipient is a "major illicit drug producing country" (defined as a country producing during a fiscal year at least five metric tons of opium or 500 metric tons of coca or marijuana) or a "major drug-transit country" (defined as a country that is a significant direct source of illicit drugs significantly affecting the United States, through which such drugs are transported, or through which significant sums of drug-related profits are N/A

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

3. <u>1986 Drug Act Sec. 2013; 1988 Drug Act Sec. 4404</u>. (This section applies to the same categories of assistance subject to the restrictions in FAA Sec. 481(h), above.) If recipient country is a "major illicit drug producing country" or "major drug-transit country" (as defined for the purpose of FAA Sec 481(h)), has the President submitted a report to Congress listing such country as one (a) which, as a matter of government policy, encourages or facilitates the production or distribution of illicit drugs; (b) in which any senior official of the

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

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

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

6. <u>FAA Secs. 620(a), 620(f), 620D; FY 1989 Appropriations Act Secs. 512, 550, 592</u>. Is recipient country a Communist country? If so, has the President determined that assistance to the country is vital to the security of the United States, that the recipient country is not controlled by the international Communist conspiracy, and that such assistance will further promote the independence of the recipient country from international communism? Will assistance be provided NO

either directly or indirectly to Angola, Cambodia, Cuba, Iraq, Libya, Vietnam, South Yemen, Iran or Syria? Will assistance be provided to Afghanistan without a certification, or will assistance be provided inside Afghanistan through the Soviet-controlled government of Afghanistan?

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

8. FAA Sec. 620(l). Has the country failed to enter into an investment guaranty agreement with OPIC? — NO

9. FAA Sec. 620(o); Fishermen's Protective Act of 1967 (as amended) Sec. 5. (a) Has the country seized, or imposed any penalty or sanction against, any U.S. fishing vessel because of fishing activities in international waters? (b) If so, has any deduction required by the Fishermen's Protective Act been made? — NO

10. FAA Sec. 620(q); FY 1989 Appropriations Act Sec. 518. (a) Has the government of the recipient country been in default for more than six months on interest or principal of any loan to the country under the FAA? (b) Has the country been in default for more than one year on interest or principal on any U.S. loan under a program for which the FY 1989 Appropriations Act appropriates funds? — Yes, but these restrictions have been lifted.

11. FAA Sec. 620(s). If contemplated assistance is development loan or to come from Economic Support Fund, has the Administrator taken into account the percentage of the country's budget and amount of the country's foreign exchange or other resources spent on military equipment? (Reference may be made to the annual "Taking Into Consideration" memo: "Yes, taken into account by the Administrator at time of approval of — N/A

Agency OYB." This approval by the Administrator of the Operational Year Budget can be the basis for an affirmative answer during the fiscal year unless significant changes in circumstances occur.)

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

NO

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

Tanzania is $71,0 in arrears on its U.N. obligations. This was taken into consideratio by the Administra in approving the FY 1989 OYB.

14. FAA Sec. 620A. Has the President determined that the recipient country grants sanctuary from prosecution to any individual or group which has committed an act of international terrorism or otherwise supports international terrorism?

NO

15. FY 1989 Appropriations Act Sec. 568. Has the country been placed on the list provided for in Section 6(j) of the Export Administration Act of 1979 (currently Libya, Iran, South Yemen, Syria, Cuba, or North Korea)?

NO

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

NO

17. FAA Sec. 666(b). Does the country object, on the basis of race, religion, national origin or sex, to the presence of any officer or employee of the U.S. who is present in such country to carry out economic development programs under the FAA? NO

18. FAA Secs. 669, 670. Has the country, after August 3, 1977, delivered to any other country or received nuclear enrichment or reprocessing equipment, materials, or technology, without specified arrangements or safeguards, and without special certification by the President? Has it transferred a nuclear explosive device to a non-nuclear weapon state, or if such a state, either received or detonated a nuclear explosive device? (FAA Sec. 620E permits a special waiver of Sec. 669 for Pakistan.) NO

19. FAA Sec. 670. If the country is a non-nuclear weapon state, has it, on or after August 8, 1985, exported (or attempted to export) illegally from the United States any material, equipment, or technology which would contribute significantly to the ability of a country to manufacture a nuclear explosive device? NO

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

Tanzania failed to disassociate itsel and this was taken into consideratior the Administrator approving the FY OYB.

21. FY 1989 Appropriations Act Sec. 527. Has the recipient country been determined by the President to have engaged in a consistent pattern of opposition to the foreign policy of the United States? NO

22. FY 1989 Appropriations Act Sec. 513. Has the duly elected Head of Government of the country been deposed by military coup or decree? If assistance has been terminated, has the President notified Congress that a democratically elected government has taken office prior to the resumption of assistance? NO

23. FY 1989 Appropriations Act Sec. 540. Does the recipient country fully cooperate with the international refugee assistance organizations, the United States, and other governments in facilitating lasting solutions to refugee situations, including resettlement without respect to race, sex, religion, or national origin? YES

B. FUNDING SOURCE CRITERIA FOR COUNTRY ELIGIBILITY

1. Development Assistance Country Criteria

FAA Sec. 116. Has the Department of State determined that this government has engaged in a consistent pattern of gross violations of internationally recognized human rights? If so, can it be demonstrated that contemplated assistance will directly benefit the needy? NO

FY 1989 Appropriations Act Sec. 536. Has the President certified that use of DA funds by this country would violate any of the prohibitions against use of funds to pay for the performance of abortions as a method of family planning, to motivate or coerce any person to practice abortions, to pay for the performance of involuntary sterilization as a method of family planning, to coerce or provide any financial incentive to any person to undergo sterilizations, to pay for any biomedical research which relates, in whole or in part, to methods of, or the performance of, abortions or involuntary sterilization as a means of family planning? NO

2. Economic Support Fund Country Criteria

FAA Sec. 502B. Has it been determined that the country has engaged in a consistent pattern of gross violations of internationally recognized human rights? If so, has the President found that the country made such significant improvement in its human rights record that furnishing such assistance is in the U.S. national interest? NO

FY 1989 Appropriations Act Sec. 578(d). Has this country met its drug eradication targets or otherwise taken significant steps to halt illicit drug production or trafficking? N/A

3(A)2 - NONPROJECT ASSISTANCE CHECKLIST

The criteria listed in Part A are applicable generally to FAA funds, and should be used irrespective of the program's funding source In Part B a distinction is made between the criteria applicable to Economic Support Fund assistance and the criteria applicable to Development Assistance. Selection of the criteria will depend on the funding source for the program.

CROSS REFERENCES: IS COUNTRY CHECKLIST UP TO DATE? HAS STANDARD ITEM CHECKLIST BEEN REVIEWED? — YES

A GENERAL CRITERIA FOR NONPROJECT ASSISTANCE

1. FY 1989 Appropriations Act Sec. 523; FAA Sec. 634A. Describe how authorization and appropriations committees of Senate and House have been or will be notified concerning the project.

   Program was inclu in the FY 1989 Congressional Presentation.

2. FAA Sec. 611(a)(2). If further legislative action is required within recipient country, what is basis for reasonable expectation that such action will be completed in time to permit orderly accomplishment of purpose of the assistance?

   None required.

3. FAA Sec. 209. Is assistance more efficiently and effectively provided through regional or multilateral organizations? If so, why is assistance not so provided? Information and conclusions on whether assistance will encourage developing countries to cooperate in regional development programs.

   NO

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

The program will foster increased exports, priv sector road rehabilitat contracts, and private sector agricultural production.

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

U.S. firms will provid goods under the Commod Import Program.

6. FAA Secs. 612(b), 636(h); FY 1989 Appropriations Act Secs. 507, 509. Describe steps taken to assure that, to the maximum extent possible, foreign currencies owned by the U.S. are utilized in lieu of dollars to meet the cost of contractual and other services.

N/A

7. FAA Sec. 612(d). Does the U.S. own excess foreign currency of the country and, if so, what arrangements have been made for its release?

NO

8. FAA Sec. 601(e). Will the assistance utilize competitive selection procedures for the awarding of contracts, except where applicable procurement rules allow otherwise?

YES

9. FAA Sec. 121(d). If assistance is being furnished under the Sahel Development Program, has a determination been made that the host government has an adequate system for accounting for and controlling receipt and expenditure of A.I.D. funds?

N/A

10. FY 1989 Appropriations Act. Will assistance be designed so that the percentage of women participants will be demonstrably increased?

NO

B. FUNDING CRITERIA FOR NONPROJECT ASSISTANCE

1. Nonproject Criteria for Economic Support Fund

a. FAA Sec. 531(a). Will this assistance promote economic and political stability? To the maximum extent feasible, is this assistance consistent with the policy directions, purposes, and programs of Part I of the FAA? N/A

b. FAA Sec. 531(e). Will assistance under this chapter be used for military or paramilitary activities? N/A

c. FAA Sec. 531(d). Will ESF funds made available for commodity import programs or other program assistance be used to generate local currencies? If so, will at least 50 percent of such local currencies be available to support activities consistent with the objectives of FAA sections 103 through 106? N/A

d. FAA Sec. 609. If commodities are to be granted so that sale proceeds will accrue to the recipient country, have Special Account (counterpart) arrangements been made? N/A

e. FY 1989 Appropriations Act. If assistance is in the form of a cash transfer: (a) are all such cash payments to be maintained by the country in a separate account and not to be commingled with any other funds? (b) will all local currences that may be generated with funds provided as a cash transfer to such a country also be deposited in a special account to be used in accordance with FAA Section 609 (which requires such local currencies to be made available to the U.S. governnent as the U.S. determines necessary for the requirements of the U.S. Government, and which requires the remainder to be used for programs agreed to by the U.S. Government to carry out the purposes for which new funds authorized by the FAA N/A

would themselves be available)? (c) Has Congress received prior notification providing in detail how the funds will be used, including the U.S. interests that will be served by the assistance, and, as appropriate, the economic policy reforms that will be promoted by the cash transfer assistance?

2. <u>Nonproject Criteria for Development Assistance</u>

a. <u>FAA Secs. 102(a), 111, 113, 281(a)</u>. Extent to which activity will (a) effectively involve the poor in development, by expanding access to economy at local level, increasing labor-intensive production and the use of appropriate technology, spreading investment out from cities to small towns and rural areas, and insuring wide participation of the poor in the benefits of development on a sustained basis, using the appropriate U.S. institutions; (b) help develop cooperatives, especially by technical assistance, to assist rural and urban poor to help themselves toward better life, and otherwise encourage democratic private and local governmental institutions; (c) support the self-help efforts of developing countries; (d) promote the participation of women in the national economies of developing countries and the improvement of women's status; and (e) utilize and encourage regional cooperation by developing countries?

Rural farmer's will be able to market m crops and procure m inputs as condition roads improve. Productivity export and incomes will increase.

b. FAA Secs. 103, 103A, 104, 105, 106, 120-21. Is assistance being made available (include only applicable paragraph which corresponds to source of funds used; if more than one fund source is used for assistance, include relevant paragraph for each fund source):

(1) [103] for agriculture, rural development or nutrition; if so (a) extent to which activity is specifically designed to increase productivity and income of rural poor; [103A] if for agricultural research, account shall be taken of the needs of small farmers, and extensive use of field testing to adapt basic research to local conditions shall be made; (b) extent to which assistance is used in coordination with efforts carried out under Sec. 104 to help improve nutrition of the people of developing countries through encouragement of increased production of crops with greater nutritional value; improvement of planning, research, and education with respect to nutrition, particularly with reference to improvement and expanded use of indigenously produced foodstuffs; and the undertaking of pilot or demonstration programs explicitly addressing the problem of malnutrition of poor and vulnerable people; and (c) extent to which activity increases national food security by improving food policies and management and by strengthening national food reserves, with particular concern for the needs of the poor, through measures encouraging domestic production, building national food reserves, expanding available storage facilities, reducing post harvest food losses, and improving food distribution.

Yes. Goal is to increase rural inc by allowing rural folks to grow more sell more as a res of having good roa

(2) [104] for population planning under Sec. 104(b) or health under Sec. 104(c); if so, extent to which activity emphasizes low-cost, integrated delivery systems for health, nutrition and family planning for the poorest people, with particular attention to the needs of mothers and young children, using paramedical and auxiliary medical personnel, clinics and health posts, commercial distribution systems, and other modes of community outrearch. N/A

(3) [105] for education, public administration, or human resources development; if so, (a) extent to which activity strengthens nonformal education, makes formal education more relevant, especially for rural families and urban poor, and strengthens management capability of institutions enabling the poor to participate in development; and (b) extent to which assistance provides advanced education and training of people of developing countries in such disciplines as are required for planning and implementation of public and private development activities. N/A

(4) [106] for energy, private voluntary organizations, and selected development problems; if so, extent activity is: N/A

(i)(a) concerned with data collection and analysis, the training of skilled personnel, research on and development of suitable energy sources, and pilot projects to test new methods of energy production; and (b) facilitative of research on and development and use of small-scale, decentralized, renewable energy sources for rural areas, emphasizing development of energy resources which are environmentally acceptable and require minimum capital investment;

(ii) concerned with technical cooperation and development, especially with U.S. private and voluntary, or regional and international development, organizations;

(iii) research into, and evaluation of, economic development processes and techniques;

(iv) reconstruction after natural or manmade disaster and programs of disaster preparedness;

(v) for special development problems, and to enable proper utilization of infrastructure and related projects funded with earlier U.S. assistance;

(vi) for urban development, especially small, labor-intensive enterprises, marketing systems for small producers, and financial or other institutions to help urban poor participate in economic and social development.

(5) [120-21] for the Sahelian region; if so, (a) extent to which there is international coordination in planning and implementation; participation and support by African countries and organizations in determining development priorities; and a long-term, multidonor development plan which calls for equitable burden-sharing with other donors; (b) has a determination been made that the host government has an adequate system for accounting for and controlling receipt and expenditure of projects funds (dollars or local currency generated therefrom)? N/A

c. **FY 1989 Appropriations Act. Have local currencies generated by the sale of imports or foreign exchange by the government of a country in Sub-Saharan Africa from funds appropriated under Sub-Saharan Africa, DA been deposited in a special account established by that government, and are these local currencies available only for use, in accordance with an agreement with the United States, for development activities which are consistent with the policy directions of Section 102 of the FAA and for necessary administrative requirements of the U. S. Government?**

YES

d. FAA Sec. 107. Is special emphasis placed on use of appropriate technology (defined as relatively smaller, cost-saving, labor-using technologies that are generally most appropriate for the small farms, small businesses, and small incomes of the poor)?

YES

e. FAA Sec. 281(b). Describe extent to which the activity recognizes the particular needs, desires, and capacities of the people of the country; utilizes the country's intellectual resources to encourage institutional development; and supports civic education and training in skills required for effective participation in governmental and political processes essential to self-government.

The people need roads. This program will meet this need.

f. FAA Sec. 101(a). Does the activity give reasonable promise of contributing to the development of economic resources, or to the increase of productive capacities and self-sustaining economic growth?

YES

Schedule B Numbers and commodities eligible for Financing under the Agricultural Transport Assistance Program:

2710.00.3010 - 2710.00.3700	Lubricating oils and greases
2710.00.4520	Carbon Black feedstock
3811.11.1000 - 3811.19.0000	Antiknock preparations
3811.21.0000 - 3811.29.0000	Additives for lubricatring oils
3819.00.0000	Hydraulic brake fluids and other prepared liquids for hydraulic transmissions
4001.10.0000 - 4005.99.0000	Natural and synthetic rubber, reclaimed rubber, compounded rubber, and other forms
4006.10.0000 - 4007.00.0000	Other forms and articles of unvulcanized and vulcanized rubber
4011.10.0010 - 1011.99.5000	New pneumatic tires of rubber
4013.10.0010 - 4013.90.0000	Inner tubes of rubber
8201.10.0000 - 8206.06.0000	Handtools
8207.11.0000 - 8207.90.5000	Interchangeable tools for handtools and parts thereof
8208.10.0000 - 8208.90.0000	Knives and cutting blades for machines and parts thereof
8209.00.0000	Plates, sticks, tips and the like for tools
8407.21.0000 - 8407.90.9050	Spark plug reciprocating or rotary internal combustion engines for marine use, vehicles and agricultural equipment.
8408.10.0010 - 8408.90.9050	Compression-ignition internal combustion engines for marine use, vehicles and agricultural equipment.
8409.91.4000 - 8409.99.8000	Parts suitable for use solely or principally with the engines of headings 8407 or 8408.
8425.11.0000 - 8425.49.0000	Pulley tackle. hoists, winches and jacks

8426.11.0000 - 8426.99.0000	Derricks and Cranes
8427.10.0010 - 8427.90.0000	Forklift trucks
8428.10.0000 - 8428.90.0060	Other lifting, handling, loading and unloading machinery
8429.11.0010	Bulldozers and angledozers, tracklaying, new
8429.19.0010	Other bulldozers and angledozers, new
8429.20.0000 - 8429.30.0040	Graders and levelers, new
8429.40.0020 - 8429.40.0040	Tamping machines and road rollers, new
8429.51.1005 - 8429.51.1060	Front-end shovel loaders, wheel type, new
8429.51.5010 - 8429.51.5050	Other front-end shovel loaders
8429.52.1010 - 8429.52.1040	Backhoes, shovels, clamshells, and draglines, with a 360-degree revolving superstructure, new
8429.52.5010	Other machinery with a 360-degree revolving superstructure,new
8429.59.1030 - 8429.59.1060	Other backhoes, shovels, clamshels and draglines, new
8429.59.5020 - 8429.59.5060	Ditchers and trenchers, self-propelled, new
8430.10.0000 - 8430.69.0000	Other moving, grading, leveling, scraping, excavating, tamping, compacting, extracting or boring machinery and pile drivers
8431.10.0010 - 8431-49.9057	Parts suitable for use solely or principally for machinery of headings 8425 thru 8430
8457.10.0005 - 8457.30.0090	Machining centers, unit construction machines and multistation machines for working metal
8458.11.0010 - 8458.11.0090	Numerically controlled horizontal lathes for removing matal, new

8458.19.0020 - 8458.19.0090	Other horizontal lathes for removing metal, new
8458.91.1060 - 8458.91.1080	Numerically controlled vertical lathes for removing metal, new
8458.91.5050 - 8458.91.5070	Other numerically controlled lathes for removing metal, new
8458.99.1050	Vertical turret lathes for removing metal, new
8458.99.5060 - 8458.99.5090	Other lathes for removing metal, new
8459.10.0000	Way-type unit head machines
8459.21.0080	Other drilling machines, numerically controlled for metal, new
8459.29.0020 - 8459.29.0090	Other drilling machines for metal, new
8459.31.0010 - 8459.31.0040	Numerically controlled horizontal spindle boring-milling machines for metal, new
8459.31.0070	Other numerically controlled boring-milling machines for mewtal, new
8459.39.0020 - 8459.39.0050	Other boring-milling machines for metal. new
8459.40.0020 - 8459.40.0080	Other boring machines for metal, new
8459.51.0080	Milling machines, knee type, numerically controlled, for metal, new
8459.59.0020 - 8459.59.0030	Other milling machines, knee type, for metal, new
8459.61.0080	Other numderically controlled milling machines for metal, new
8459.69.0020 - 8459.69.0090	Other milling machines for metal, new
8459.7000.20	Numerically controlled threading or tapping machines
8459.70.0060 - 8459.70.0080	Other threading or taping machines. new

61x

8460.11.0080	Flat surface grinding machines, numerically controlled, for metal, new
8460.19.0010 - 8460.19.0050	Other flat-surface grinding machines for metal, new
8460.21.0080	Other grinding machines, numerically controlled, for metal, new
8460.29.0010 - 8460.29.0050	Other grinding machines for metal, new
8460.31.0080	Sharpening machines, numerically controlled, new
8460.39.0020 - 8460.39.0050	Other sharpening machines, new
8460.40.0020 - 8460.40.0080	Honing and lapping machines, new
8460.90.0020 - 8460.90.0080	other machine tools for deburring, sharpening, grinding, honing etc., new
8461.10.0040 - 8461.10.0080	Planing machines for metal, new
8461.20.0010	Shaping or slotting machines, numerically controlled, for metal
8461.20.0070 - 8461.20.0090	Other shaping or slotting machines for metal, new
8461.30.0040 - 8461.30.0080	Broaching machines, new
8461.40.1050 - 8461.40.1090	Gear cutting machines, new
8461.40.5040 - 8461-40-5060	Gear grinding or finishing machines, new
8461-50-0020 - 8461.50.0090	Sawing and cutting-off machines, new
8461.90.0020 - 8461.90.0080	Other machine tools for planing, shaping, slotting, etc, for metal, new
8462.10.0030 - 8462.10.0050	Folding or die-stamping machines and hammers, new
8462.21.0080	Bending, folding, straightening or flattening machines, numerically controlled, new
8462.29.0020 - 8462.29.0050	Other bending, folding straightening or flattening machines, new

8462.31.0080	Shearing machines, numerically controlled, new
8462.39.0020- 8462.39.0050	Other shearing machines, new
8462.41.0080	Punching or notching machines, numerically controlled, new
8462.49.0020 - 8462.49.0050	Other punching or notching machines, new
8462.91.0060 - 8462.91.0090	Hydraulic presses, new
8462.99.0020 - 8462.99.0060	Other machine tools for working metal by forging, hammering or die-stamping, new
8463.10.0060 - 8463.10.0080	Draw benches for bars, tubes, profiles, wire and the like, of metal, new
8463.20.0060 - 8463.20.0080	Thread rolling machines, new
8463.30.0060 - 8463.30.0080	Machines for working wire, new
8463.90.0060 - 8463.90.0080	Other machine tools for working metal without removing material, new
8466.10.0010 - 8466.94.0000	Parts and accessories suitable for use with machines of headings 8456 thru 8465
8467.11.1040 - 8467.99.0090	Tools for working in the hand, pneumatic or self-contained nonelectric motor, and parts
8468.10.0000 - 8468.90.5000	Machinery and apparatus for soldering, brazing or welding
8474.10.0010 - 8474.90.0090	Machinery for sorting, screening, separating, washing, crushing, etc., earth, stone, ores, or other mineral substances and parts.
8477.10.3000 - 8477.90.0090	Machinery for working rubber or plastics or manufacturing products from these materials, and parts
8483.10.1020 - 8483.90.9500	Transmission shafts and cranks and related parts

8484.10.0000 - 8484.90.0000	Gaskets and similar joints.
8501.10.3000 - 8501.64.0050	Electric motors and generators
8502.11.0000 - 8502.40.0000	Electric generating sets and rotary converters
8503.00.2000 - 8503.00.6060	Parts for electric motors, generators and generating sets
8507.10.0050 - 8507.10.0090	Lead-acid storage batteries, of a kind used for starting piston engines
8511.10.0000 - 8511.90.8000	Electrical ignition or starting equipment and parts
8514.10.0000 - 8514.90.0000	Industrial or laboratory electric furnaces and ovens
8515.11.0000 - 8515.90.4000	Electric arc soldering, brazing or welding machines, and parts.
8707.20.0020 - 8701.200.0050	Road tractors for semi-trailers
8704.10.1000 - 8704.90.0000	Motor vehicles for the transport of goods
8708.10.0010 - 8708.99.0050	Parts and accessoiries for the motor vehicles of headings 8701 thru 8705
8716.10.0030 - 8716.90.5000	Trailers and semi-trailers other vehicles not mechanically propelled; and parts thereof

TANZANIA'S PERFORMANCE UNDER THE ERP (ECONOMIC REFORM PROGRAM)

A. Background and Objectives of the ERP

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

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

(a) to increase food and export crop output:

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

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

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

Specific steps to attain these objectives were

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

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

(c) to liberalize the trade regime;

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

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

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

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

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

Within one year of the outset of the ERP, the IMF and the IBRD had collaborated with the GOT to prepare a policy framework paper (PFP), setting forth GOT plans for the mid 1987 - mid 1989 period, in a means that could be used to gain (a) access to special IMF and IBRD program resources (SAF and SAC/SAL), and (b) increased bilateral donor assistance, including debt restructuring.

In June 1988, two years after the inception of the ERP, the GOT issued a report discussing performance under the program. This report also set goals for the ensuing three-year period, implicitly extending the period of coverage of the ERP through 1990/91. At the same time, the GOT prepared (with IMF and IBRD assistance) a second PFP covering the same period. These documents provide a retrospective on the first two years of the ERP and a perspective on plans over the coming period.

B. The ERP After Two-Plus Years

In assessing performance under any adjustment program, it is vital to recognize that although policy changes are critical, their effect on economic performance will in some cases occur only with lags. At the same time, some quantitative targets will react nearly instantaneously, and can be used to assess the effectiveness of policy changes. Even more important, when enacted policy changes do not result in expected performance improvements, it is often a sign that there are other constraints operating in the economy that require analysis, shifts in the program, and reassessment of performance targets.

1. ERP Performance: Targets

During the initial ERP period (1986/87 -- 1988/89), it was anticipated that the economy would grow by 4.6 percent per year, permitting per capita GDP growth to be on the order of one percent per year. In addition, the GOT targeted a reduction in the rate of price inflation from over 30 percent in 1986 to 20 percent in 1987/88, and then a further reduction to 10 percent in 1988/89. The GOT also committed itself to regularly monitor exchange rate performance in real effective terms, and to continuously devalue with the result that by the end of the period the price of foreign exchange would be market-clearing. As to the price of capital, the GOT committed itself to attempt to bring about a structure of interest rates that was positive in real terms by the end of the three-year ERP period. Furthermore, the fiscal deficit would be gradually reduced over the period, to permit the growth of credit and the growth of the money supply to be reduced to a more reasonable 15-20 percent per year over the period. Finally, the GOT's analysis of import requirements set the minimum at $1,200 million in the first year of the period, with subsequent annual increases of just over 5 percent.

67+

These targets were modified in mid-1987 when the GOT produced its first PFP, partly because in some areas the first year of the ERP did not go precisely according to plan. The GDP growth target remained essentially the same, but the inflation-reduction target was allowed to slip by one year, so that inflation would be brought down to below 10 percent by 1989/90. A target was established for the current account deficit on the balance of payments, such that the deficit would be brought down from 176 percent of merchandise exports in 1986/87 to 122 percent in 1989/90. In addition, the GOT committed itself to carry out the steps set out in a policy reform matrix, detailing policy steps, in much more specific terms than in the original ERP documentation.

2. ERP Performance: Actual

Viewed two-plus years after its inception, the ERP must be judged a qualified success to date. In terms of meeting the bulk of the performance criteria upon which the GOT agreed with the IMF and IBRD, there has generally been little slippage. Economic growth has been positive in per capita terms. The centerpiece of the reform effort, exchange rate devaluation, has proceeded approximately on schedule. Price controls have been gradually reduced or fixed at more market-sensitive levels. The GOT has been largely successful in reducing its budget deficit and consequently reducing its credit requirements. Agricultural output has reacted impressively to the incentives provided, including internal and external trade liberalization. The major problem in implementation of the ERP has been the inability of the country to adhere to the credit ceilings agreed to with the multilaterals, and consequently inflation has continued at a pace well in excess of the planned levels. The following paragraphs provide some details.

Production and Growth. Gross domestic product (GDP), which declined over the previous decade, grew at 3, 4, and 4.6 percent in 1986, 1987, and 1988, respectively, indicating a solid recovery trend, though a bit below the ERP targets. The largest gains were achieved in agriculture. Maize output expanded from 1.6 million tons in the 1982/83 crop year, to 2.4 million tons in 1986/87, and on to a record high of 2.8 million tons in 1987/88. Tanzania turned from a net grain importer to a grain-surplus economy. Cotton output doubled since 1982/83, to 465,000 bales in 1987/88. All other crops showed over 20-percent output growth between 1986 and 1988. Although industrial output did not grow as much as anticipated, there was some improvement in use of capacity over the very low 20 percent utilization rate in the pre-ERP period. It is unlikely that the ERP targets for industry's reaching a 60-70 percent capacity utilization rate during the ERP period will be realized.

A combination of favourable policies, including increases in producer prices (though not as high as targeted in the ERP), policy measures to enhance flexibility in marketing structures, and active GOT encouragement of the role of private traders and cooperatives in domestic trade, plus of course the very good weather, were responsible for the great surge in agricultural production. Full output recovery, especially in terms of not only domestic but also external marketing of agricultural produce, continues to be constrained despite the improved policy framework. The most important constraints that have emerged are the seriously deteriorated transport network, inadequate agricultural processing capacity, unacceptably high official marketing costs, and insufficient (imported) capital and recurrent inputs to permit industrial growth.

The External Sector. The performance of the external sector remains weak despite significant movement on the centerpiece of the reform program, exchange rate management. The real effective depreciation of the Tanzanian shilling in the mid-1986 -- end-1988 period was on the order of 70 percent, and this was accompanied by a drastic reduction in the ratio between the official and parallel rates in the same period. In nominal terms, the shilling has fallen from Tsh17 per dollar (Tsh 120 per dollar on the parallel market) in June 1986 to Tsh120 per dollar (Tsh 240 per dollar on the parallel market) in November 1988. The major purpose of the devaluation was, of course, to bring prices of tradeable goods (imports and exports) more in line with their scarcity value in Tanzania's economy. The expected effects of the devaluation were to (a) make production for export more attractive to Tanzanian producers, thereby increasing export earnings, and (b) make imports more expensive to Tanzanian producers and consumers, thereby forcing users of imports to economize on their use.

Tanzania's merchandise export earnings consist of traditional exports (coffee and other agricultural products) and nontraditional exports (minerals and manufactured goods). Total exports in 1987 were essentially the same in US dollar terms as they were in 1986. Although exports of nontraditionals (which consisted of about one-quarter of total exports in 1986) grew by nearly 70 percent in value terms, the drop of the value of coffee exports in 1987 wiped out this improvement on the nontraditional side. The bottom dropped out of coffee prices, which declined by nearly 40 percent, a very significant shock to Tanzania, because over one-half of its 1986 export earnings were from coffee exports. (Parenthetically, it should be understood that because of

Tanzania's participation in the international coffee agreement, exchange devaluation will not generally result in increased foreign exchange earnings from coffee exports.) 1988 merchandise exports were only five percent over 1987, compared with the 20-plus percent increase anticipated by the GOT, and earnings from services were significantly below projections, adding to the lacklustre performance.

Import performance was at approximately the targeted level, although GOT complaints that there is insufficient foreign exchange for required inputs to industry and transport suggest that the composition of imports may not have been as desired. There are no data available to confirm this, but the own-funds component of imports amounts to about one-fourth of the import bill, and may have been too greatly skewed in favor of consumer goods compared with the GOT's expectations.

In line with the ERP, the GOT has begun to move from a system of strict administrative allocation of foreign exchange to an "open general license" (OGL) system, established in February 1988, so that certain categories of imports are free from quantitative trade restrictions. The OGL has been implemented to date to the IMF's satisfaction and current plans are to expand the system further in 1989. By the end of 1989, according to the GOT's agreement with the IMF and IBRD, the OGL will wipe out quantitative restrictions on virtually all categories of goods (with some minor exceptions).

At the outset of the ERP, the GOT also legalized the restriction-free import of goods by individuals who had access to non-official foreign exchange, in a move to assist the unification of the parallel and official foreign exchange market prices. In addition, as an added incentive to exporters, they were permitted to have access to a significant portion of their foreign exchange earnings for importing necessary inputs to production processes. These policy changes have had salutary effects on the balance of payments, in conjunction with the other policy moves mentioned above.

However, in spite of these policy changes, much more needs to be done before Tanzania's external imbalances are eased. First, Tanzania's industry must be restructured so that production is efficient and consonant with world prices. This restructuring (as noted earlier) is the focus of an upcoming IBRD program in Tanzania, and is a priority of Government. Second, Tanzania must improve the country's capability to process agricultural output, especially for export markets. Third, the marketing and distribution institutions must be further streamlined. Fourth, and perhaps most important, the transport sector needs upgrading. Fifth, Tanzania must come to terms with its external debt burden (of which more below).

Public Finances. The Government's fiscal performance over the past two and a half years of the ERP has been largely successful. The Government's overall budget deficit (on a cheques-issued basis) was equivalent to 6.9 percent of GDP for 1987/88, compared with the anticipated 9.4 percent level. Government bank borrowing was contained at Tsh1.7 billion in 1986/87, compared to Tsh5.6 billion the year before, and the 1987/88 level is expected to be as low as Tsh600 million. Recurrent expenditures were kept down by: (a) a continuing reduction in the real value of public sector salaries (the average nominal wage increase was kept below 20 percent, compared with a 30-percent average inflation rate); (b) a freeze on civil service employment (including the elimination of 7,600 positions from central government payrolls and 20,400 positions from local government payrolls); (c) a denial of subsidies to commercial parastatals; and (d) squeezing the provision of public services and maintenance of infrastructure to an extent that may seriously affect longer term economic recovery efforts.

On the revenue side, efforts were made to improve the elasticity of the tax system, reduce the disincentive effects of the extremely high marginal income tax rates, and streamline the tariff structure. These reforms enabled an increase in revenue from local sales taxes by 58 percent over the 1986/87 period. Other tax changes included an increase in customs duty rates from 20 percent to 25 percent, and a reduction in the personal income tax brackets from 25-59 percent to 20-75 percent. The 1988/89 budget contains further changes in a positive direction.

A structural flaw in this apparently stellar performance is that not only the capital development budget, but also the recurrent budget, receives donor funding. The source of this funding for the recurrent budget is the local currency generations of the donor-funded commodity import programs. The GOT must redouble its efforts on the public finance side in order to turn public savings from negative to positive so that the Government can finance at least a portion of its development budget.

Money and Credit. Despite good fiscal performance in 1987/88, the most serious shortfall in meeting performance targets in 1987/88 occurred in credit expansion. Total credit expansion in the economy significantly exceeded the planned level, due to to more-than-anticipated crop finance requirements of over Tsh4.1 billion. This sharp increase in credit requirements has been attributed to the large production increases, particularly cotton and maize, transportation and processing bottlenecks, and delays in purchasing and payments by marketing boards. This led to an unanticipated build-up of large stocks of both export and domestic crops. The higher expansion in total domestic credit was accompanied by an unprogrammed increase in net monetary assets of about Tsh2 billion. As a result, net domestic assets of the banking system increased by 24.4 percent, compared with the 15.8 percent envisaged in the program. The corresponding increase in broad money was on the order of 35 percent of the beginning-period money supply, compared with a target of 10.2 percent.

The GOT has significantly raised interest rates during the ERP. Had the rate of inflation dropped to the programmed level in 1987/88, interest rates would have been positive in real terms.

Domestic Prices. The GOT has moved rapidly on prices during the ERP. The number of controlled prices dropped from over 400 in the early 1980s to 22 categories in 1987, and was further reduced to 12 categories of essential consumer goods in mid-1988. As to those remaining controlled goods, the GOT has committed itself to adjust prices to reflect costs and scarcities. The few items which still remain under price control will be subject to pricing that avoids subsidies, reflects market conditions, and fully covers import costs through user charges to encourage efficient provision of those commodities to the economy. This should have a positive effect on the public finances. In an important complementary move, the Government has also removed restrictions on private sector marketing of all commodities, except for some of those still under price controls. The GOT has also raised producer prices for agricultural commodities considerably and, had price inflation been according to target in 1987/88, real producer prices would have increased rather than dropping slightly.

The result of the economy's inability to hold the line on credit expansion in 1987/88 (mentioned above) meant that the economy saw a 30 percent increase in the consumer price index, compared with the planned 20 percent. Consequently, the targeted "below ten percent" has had to be pushed into the future, although successive reductions are planned in the coming two years.

72

IRTAC - TANZANIA
KEY MACROECONOMIC INDICATORS

	Actual					Projected						
	1981	1983	1985	1986	1987	1988	1989	1990	1991	1993	1995	1997
GDP Growth rate	-0.5	-2.4	2.6	3.6	3.9	4.0	4.5	4.5	4.5	4.5	4.5	4.5
GDY Growth rate 1/	-2.2	-1.7	2.6	4.5	2.4	4.3	4.3	4.6	4.5	4.3	4.5	4.5
GDY/Capita growth rate	-4.9	-4.7	-0.7	1.2	-0.9	1.2	1.2	1.5	1.4	1.3	1.5	1.5
Consumption/capita growth rate	-6.0	-0.9	1.3	2.1	0.2	0.3	0.3	0.4	0.5	0.6	0.8	1.0
Debt service (in US $m) 2/	77	57	60	69	83	397	374	371	380	668	698	588
Debt service/XGS 2/	10.3	11.8	15.5	16.0	16.7	76.8	64.7	55.2	49.4	67.9	56.2	37.3
Debt service/GDP 2/	1.3	0.9	0.9	1.4	2.4	14.3	13.0	12.2	11.5	17.2	15.5	11.2
Gross investment/GDP	20.6	13.7	15.7	15.9	15.8	15.8	15.8	15.7	15.9	16.2	16.2	16.3
Domestic saving/GDP 3/	12.1	7.4	5.8	2.5	-4.4	-12.7	-15.1	-15.4	-10.1	-5.9	-2.9	0.1
National savings/GDP 3/	12.1	7.2	8.9	6.2	-1.3	-12.6	-13.2	-10.8	-8.5	-4.9	-2.2	0.7
Public investment/GDP	10.1	6.5	4.9	[illegible]	7.0	6.9	6.8	6.7	6.7	6.8	6.8	6.8
Private investment/GDP	10.5	7.2	10.8	[illegible]	8.8	8.9	9.0	9.0	9.2	9.4	9.4	9.5
Ratio of pub/pvt investment	96.6	90.2	45.0	69.5	76.3	76.7	76.3	75.7	75.2	74.8	74.5	74.5
Govt.revenues/GDP	18.5	19.8	18.8	15.1	16.2	19.8	22.0	22.8	23.2	23.3	23.4	23.5
Govt.expenditures/GDP	32.7	28.2	25.4	23.0	24.3	28.5	31.9	31.8	31.1	30.3	29.4	28.9
Deficit(-) or surplus(+)/GDP	-14.2	-8.4	-6.6	-7.9	-8.0	-8.7	-9.0	-9.0	-7.9	-7.0	-6.0	-5.4
Exports growth rate 4/	19.7	-12.0	-13.5	.6	16.7	6.2	8.9	11.5	10.5	8.0	7.6	7.0
Exports/GDP 3/	12.6	7.7	5.7	8.8	12.6	10.4	20.0	21.5	22.7	24.7	26.8	29.3
Import growth rate 4/	-2.1	[illegible]	16.7	6.1	0.7	0.9	1.6	2.1	2.5	2.9	3.6	4.0
Imports/GDP 3/	21.2	14.0	15.6	23.3	35.6	48.0	49.3	47.9	46.9	45.0	43.7	42.7
Current account (in US$ m.) 5/	-506	-426	-491	-479	-598	-789	-832	-816	-812	-871	-925	-970
Current account/GDP 3/	-8.5	-6.5	-6.8	-9.7	-17.1	-28.8	-29.0	-26.5	-24.4	-21.1	-18.5	-15.7
Memo items:												
GDP (current US$ m)	5927	6276	6902	4929	3503	2761	2835	3043	3301	3879	4519	5264
Exchange Rate 6/	8.3	11.1	17.5	[illegible]	64.3	102.2	137.8	155.5	169.5	183.2	197.6	214.2
Domestic Inflation Rate	25.7	27.3	33.3	[illegible]	30.0	25.4	19.8	14.9	10.4	10.1	10.0	10.0

Notes:

1/ GDY=GDP adjusted for changes in terms of trade.

2/ 1981-1987 figures are actual debt service payments, while from 1988 onwards scheduled payments before debt relief are shown. The debt service ratio shows debt payments in relation to exports of goods and services, excluding private transfers.

3/ Ratios are calculated in current terms. The large swings in the ratios of exports, imports, current account deficit and national savings GDP in the period 1986 - 1989 are primarily related to the adjustment in the exchange rate.In earlier years the overvaluation of the Tanzanian shilling caused external flows to be undervalued in local currency terms. Similarly, the US dollar value of GDP has been overvalued in the past, when converted at the official exchange rate.

4/ Export and Import growth rates are in volume terms, and relate to goods and services.

5/ Until 1988, current account deficit is based on actual interest payments made, while projections are based on scheduled payments before debt relief.

6/ Yearly average. From 1989 onwards, assumed projection based on differential inflation, assuming constant real effective exchange rate.

Notes: Growth rates are expressed in constant terms, ratios to GDP in current terms.

Source: Central Bank of Tanzania and mission estimates.

November 15, 1988.

IRTAC - TANZANIA
BALANCE OF PAYMENTS
(In Millions of U.S. dollars)

	Actual				Projection							
	1984	1985	1986	1987	1988	1989	1990	1991	1993	1995	1997	1999
A. Trade account	-486	-713	-702	-803	-827	-854	-830	-818	-849	-863	-886	-954
Exports,fob	388	286	348	347	402	445	520	607	784	957	1174	1460
Imports,cif	-874	-999	-1050	-1150	-1229	-1299	-1350	-1425	-1633	-1820	-2060	-2414
B. Services (net)	-73	-84	-85	-169	-172	-168	-166	-164	-173	-197	-210	-191
Receipts	106	106	110	102	116	127	140	151	177	206	242	288
Payments	-179	-190	-195	-271	-287	-295	-306	-315	-349	-403	-451	-478
Interest 1/	-89	-97	-113	-174	-187	-192	-199	-205	-233	-278	-319	-337
Other	-90	-93	-82	-97	-100	-103	-108	-110	-117	-125	-133	-141
C. Priv Transf (net)	63	233	250	230	210	190	180	170	150	135	125	120
D. CURRENT ACCOUNT	-496	-564	-538	-742	-789	-832	-816	-812	-871	-925	-971	-1025
E. Govt Grants 2/	146	193	363	477	508	521	544	563	603	646	692	742
F. MLT loans,net 3/	-35	-38	17	-56	84	67	116	119	-157	-119	88	211
Inflows 4/	222	180	203	136	271	269	268	271	256	278	304	334
Outflows 1/	-257	-219	-186	-192	-186	-202	-152	-152	-413	-397	-216	-123
G. Supp Cred (net)2/	110	-32	-55	-5	-4	-5	-2	-1	4	5	6	9
H. IMF (net)	-26	-14	13	39	44	15	-26	-27	-6	-19	-19	-4
I. E and O, and oth cap. nie 5/	117	47	-84	-39	-9	0	0	0	0	0	0	0
J. CAPITAL ACCOUNT	310	156	253	416	624	598	632	654	445	514	768	957
K. Reserves(inc -)	3	10	-16	17	-64	-50	-50	-70	-35	-25	-25	-40
L. Arrears(inc +)	183	399	-409	161	-598	-10	0	0	0	0	0	0
M. Debt Rescheduled 6/			709	148								
N. OVERALL BALANCE	-0	0	-0	-0	-825	-294	-234	-229	-462	-436	-228	-108
GAP FINANCING:												
O. MAXIMUM DEBT RELIEF					849	283	228	222	463	436	260	169
P. POSSIBLE IDA REFLOW						12						

1/ Interest and amortization payments are scheduled for both historical and projected data.
Unpaid interest and amortization during 1984-87 reflected as arrears increase. Scheduled interest payments include interest on debt relief.
2/ From 1988 onwards grants include aid funds pledged under SPA Initiative. Assumption is that levels of grant aid attained during 1988 will be maintained in real terms in future years.
3/ For detailed breakdown, see page 3.
4/ MLT inflows in 1989 include virtually all IRTAC proceeds of US$135 m., but excludes US$12 m. of possible IDA reflows
5/ Prior to 1986 it includes a portion of official grants.
6/ Actual debt rescheduled in 1986/87, comprising arrears of US$521 m. and current maturity of US$336 m.

Source: BOT, IMF and Bank Staff estimates.

November 15, 1988.

Annex 1
Page 3

IRTAC - TANZANIA
FOREIGN EXCHANGE REQUIREMENTS AND DEBT SERVICE ASSUMPTIONS, 1985-1993
(In millions of U.S. dollars)

	1985-87	1988-90	1991-93
Gross Disbursements [1]			
Multilateral	295.5	712.6	653.9
WB [2]	236.4	623.6	560.3
Other Mult.	59.1	88.8	93.6
Bilateral	189.8	113.4	117.1
Private	9.0	0.0	0.0
IMF [3]	84.0	63.8	0.0
TOTAL	578.3	889.8	771.0
Net Disbursements			
Multilateral	162.4	545.9	501.3
WB	149.63	519.8	448.5
Other Mult.	12.75	26.1	52.8
Bilateral	86.5	-182.5	-531.3
Private	-30.3	-77.7	-48.5
IMF	38.0	33.2	-32.2
TOTAL	256.6	318.9	-110.7
Principal Repayments [4]			
Multilateral	133.1	166.7	152.6
WB	86.8	104.0	111.8
Other Mult.	46.3	62.7	40.8
Bilateral	103.3	295.9	648.4
Private	39.4	77.7	48.5
IMF	46.0	30.6	32.2
TOTAL	321.7	570.9	881.7
Interest Payments [4]			
Multilateral	80.6	96.8	79.1
WB	69.1	78.9	64.1
Other Mult.	11.5	17.9	15.0
Bilateral	107.2	393.8	522.5
Private	18.9	32.9	12.8
IMF	0.0	19.1	7.0
TOTAL	206.7	542.7	621.3
Debt Service [4]			
Multilateral	213.7	263.5	231.7
WB	155.85	182.94	175.9
Other Mult.	57.86	80.56	55.79
Bilateral	210.5	689.7	1170.9
Private	58.3	110.6	61.3
IMF	46.0	49.7	39.2
TOTAL	528.5	1113.6	1503.0

[1] Includes disbursements from existing and expected commitments. Excludes grants.
[2] World Bank figure for 1988-90 includes US$135 m. of IRTAC operation and US$11.9 m. of possible IDA reflows.
[3] Include proposed SAF arrangement for 1988-90.
[4] Calculated before debt relief. 1985-87 figures reflect actual payments only.

November 15, 1988.

75x

Annex 1
Page 4

IRTAC - TANZANIA
EXTERNAL FINANCING REQUIREMENTS 1989-1993
(In millions of U.S. dollars)

	1989	1990	1991	1992	1993
FINANCING REQUIREMENTS					
A. Imports of Goods & Services	1402	1456	1535	1647	1750
B. Interest Payments	192	199	205	215	232
of which: IDA	(6)	(7)	(6)	(8)	(9)
Of which: IBRD	(21)	(17)	(15)	(13)	(11)
C. Amortization	202	152	152	285	413
of which: IDA	(5)	(6)	(7)	(8)	(9)
of which: IBRD	(30)	(29)	(30)	(28)	(30)
D. Suppliers Credit (net)	5	2	1	-4	-4
E. Increase in Reserves	60	50	70	45	35
F. Total Requirements	1861	1859	1963	2188	2426
FINANCING SOURCES					
A. Exports of Goods & Services	572	660	756	861	961
B. Private Transfers	190	180	170	160	150
C. Grants 1/	521	544	563	583	603
of which: Program Aid	(252)	(272)	(286)	(282)	(280)
D. Loans 2/	269	268	271	244	256
of which IDA Project Lns.	(97)	(101)	(100)	(86)	(102)
of which IDA Adjust. Lns.	(105)	(101)	(106)	(88)	(86)
E. IMF (net)	15	-26	-27	-5	-6
F. Total Resources	1567	1626	1733	1843	1964
OVERALL BALANCE	-295	-233	-230	-345	-462
Gap Financing:					
Maximum Debt Relief	283	228	222	344	463
Possible IDA Reflows	12				

1/ Program aid during 1989 and 1990 is virtually equivalent with SPA cofinancing projections. Grants for 1989 based on disbursement assumptions for identified commitments, while 1990 to 1993 figures reflect disbursements based largely on projected commitments.

2/ From 1991 onwards, projections about amounts and nature of IDA lending are preliminary.

November 15, 1988.

How the OGL Operates

Tanzania's OGL (open general license) system for the allocation of foreign exchange was initiated in February 1988, nearly nine months after the foreign exchange auction experiment in Zambia was halted by the GRZ. The OGL was at that time apparently seen by the World Bank and the IMF as a mechanism that might be more fruitful than the auction approach.

Unlike the Zambian auction system, which involved a bidding for the domestic currency price of foreign exchange (and therefore directly affecting the exchange rate), the OGL represents a promise by the GOT to provide to all eligible comers foreign exchange for a specific list of imports at the official exchange rate. The system operates as follows:

> The current source of foreign exchange for the OGL is donor contributions, with the World Bank as the major donor. No Tanzania-generated foreign exchange has yet entered the OGL system. It is the intention of the GOT (according to the World Bank) to in future expand these sources to include Tanzania-generated foreign exchange.
>
> The process for using the OGL involves (a) submitting an application for an import license from the BOT (Tanzania's central bank), (b) within the period of validity of that I/L making a payment of local currency to the NBC (the GOT-owned National Bank of Commerce), (c) the issuance of a letter of credit by the NBC, and (d) placing the order for the goods abroad. Although it was not the practice in the early days of the OGL, the BOT is apparently now scrutinizing applications to ensure that the quoted prices for the imports are reasonable. In addition, import licenses issued under the OGL were originally valid for two months, but in February 1989 that validity was lengthened to four months, with relatively automatic renewal if the applicant was actively pursuing other parts of the process. The I/L application process was previously bunched, so that BOT would wait for a group of applications to come in before acting on them; currently, applications are processed as they come in.
>
> The eligibility list for the OGL is limited generally to spare parts and intermediate inputs, and is exclusive of capital equipment. The list was expanded in February 1989

Limits to use of the OGL have been established, with a ceiling on total use of the OGL for any individual firm and a minimum size per application. Originally, each importer was limited to $200,000 in applications, but that ceiling was raised to $500,000 in February 1989. At that time, the minimum size of application was raised to $5,000.

Importer eligibility was originally defined such that a firm could only import items that corresponded to their established line of business. In February 1989 this was modified so that any individual with a GOT business license could import any good on the eligibility list regardless of his line of business.

Cash cover, the amount of Tanzanian shillings to be deposited against the letter of credit, was originally set at 100 percent of the TSh value of the L/C prior to the issuance of the L/C. In February 1989, the BOT instructed the NBC that it was permissible for importers to deposit 20 percent at the time of L/C issuance and the balance prior to shipment of the goods. The NBC, however, was to be responsible for ensuring that the importer made good on that balance.

Comments on the OGL System

As is evident from the foregoing, the OGL has been evolving in the year and more of its operation. The major changes in February 1989 stemmed from the recommendations of a study of the OGL carried out by three respected Tanzanian economists from the University of Dar-Es-Salaam in October 1988. These recommendations were adopted wholesale by the GOT, with the agreement of the World Bank, who are the major funders of the OGL.

According to information from the BOT, there has not been any apparent excess demand for OGL resources since its inception. This implies that the movements in the official exchange rate over the period since early 1988 have not been inconsistent with equilibrium in the OGL's foreign exchange market. This said, however, it must be rather heavily qualified, because the OGL is not, strictly speaking, a totally free market even for the goods included in the OGL.

First, as noted above, there have been ceilings on the amount that individual importers could import in total under the system. That ceiling was raised, in February 1989, from $200,000 to $500,000, but for some commodities eligible for import under the OGL there would be some importers who would be immediately willing to go higher. (A BOT-cited case in point is Tanzania Breweries, who can find no external suppliers for malt who are willing to take an order for less than $1 million.) Although the BOT may be willing to raise this ceiling, the World Bank has cautioned against this until a better demand survey is carried out and until there are additional resources available to finance the OGL.

Second, problems in the Tanzania's financial sector act as a constraint on demand for imports. As a result of the survey of the OGL carried out last October, the BOT instructed the NBC to permit any importers with whom they were comfortable to deposit only 20 percent of their cash cover prior to the issuance of the L/C, with the balance due upon arrival of the goods in Tanzania. Prior to this arrangement, when 100 percent cash cover was required, prior to L/C issuance, the NBC would loan its funds to importers known to it to cover this period between L/C and goods arrival. Now, these same importers can avoid paying the interest they had to under the earlier system. According to BOT, this change in arrangements does not appear to have significantly increased demand for resources under the OGL. Furthermore, because this change in the arrangements did not do anything to improve credit availability for unknown customers (who are reportedly the bulk), tight and administratively allocated credit within Tanzania is still a problem from the perspective of the OGL.

Given this situation, effective demand for OGL resources is lagging behind demand in the absence of these two constraints. The former constraint could be altered with the stroke of a pen, but the latter is a long-term constraint. The GOT has formed a Presidential Commission to analyze the financial sector (as part of its adjustment measures under the Policy Framework Paper (PFP) agreed to with the World Bank and the Fund, but the financial sector is unlikely to be reformed in the near future. It is not inconceivable that if these two demand constraints were removed, there would be excess demand for OGL resources at the current exchange rate, suggesting the need for further devaluation.

According to the University of Dar report, of the US$38.5 million made available by the World Bank under the first of two tranches of their IRTAC program (a program that also contains resources from other donors), L/Cs had been opened as of end-September 1988 for a total of only $7.1 million, as against I/Ls approved in the total amount of $33.4 million and applications totalling $43.6 million. In the other period for which we have information, February-March-April 1989, I/Ls issued were $15 million, $18 million, and $9 million, respectively, and L/Cs opened were $12-13 million, $10-12 million, and $12-13 million, respectively. Clearly, the use rate of the OGL has expanded dramatically since the February 1989 changes in OGL rules. We simply have no information on why this is the case, although one would suppose that raising the ceiling and expanding the eligibility list were important factors.

Although current sources of funding are totally external, and although the World Bank and GOT have agreed in principle to in future begin to include some of Tanzania's own foreign exchange generations, this must be seen in the context of Tanzania's overall demand and supply of foreign exchange. In the three periods 1987/88 (estimated), 1988/89 (estimated), and 1989/90 (planned), Tanzania's commodity exports (on an FOB basis) covered 30 percent, 34 percent, and 36 percent of commodity imports (also on an FOB basis), respectively (see balance of payments table attached). This share, though laudable in that it is increasing, is not not likely to increase at a rapid enough rate to cover a significant portion of the import bill for many years to come. The balance of the commodity import bill in the same three time periods above was paid for by (a) net official transfers (both loans and grants): 41 percent, 35 percent, and 41 percent, respectively, and (b) other sources (including importers own funds): 29 percent, 31 percent, and 23 percent, respectively.

When Tanzania's external debt burden (rescheduled though it has been in recent years) is added to the foreign exchange requirement for commodity imports, Tanzania is clearly faced with serious foreign exchange problems for the foreseeable future. The OGL in recent months appears to be running at an annual rate of about $150 million to $200 million, or perhaps as much as 15 percent of the import bill. Even if that share were to double or triple over the next two years, it is clear that external resources, probably on an official level, would be required to cover the OGL. True, the GOT could put a portion of its own foreign exchange into the OGL but, given normal fungibility considerations, donor resources would still be required to make up a vast difference between demand and supply of foreign exchange. Therefore, it is not clear that it is necessary for the GOT to actually put its own generated resources into the OGL for some time to come.

The question arises whether it might not make more sense for the GOT to convert all existing bilateral commodity import programs into funds available to the OGL. We understand that although the BOT (who are operating the OGL) are more than willing to do this, the Ministry of Finance (and some of the line ministries) are less willing to do so. The MOF is currently the GOT party handling these other bilateral CIPs and believes that there is merit in their continuing to be focused rather than put into a general pool of resources. In addition, it is likely that some of the donor agencies would be unable, due to their own legal constraints, to support a system such as the OGL that does not limit resources to specific source and origin considerations.

AID and the OGL

In the particular case of USG resources, AID would presumably have less difficulty than other donors (given current DFA funding sources) disbursing our foreign exchange resources into the OGL. In order to justify putting our resources into the OGL, however, we need to believe that the system is working sufficiently well to merit our support. We do not have sufficient information at this stage to recommend USG support for the OGL.

However, given the fact that the OGL is likely to continue to be the centerpiece of the Tanzanian adjustment program, it is important that USAID/T become more familiar with the program. REDSO/ESA recommends that an economist and the private sector advisor spend two weeks in Tanzania in the last quarter of FY89 or the first quarter of FY90 carrying out an in-depth assessment of the OGL. The results of that analysis should be reported to AID/W and would form the basis of an informed decision by AID on whether or not the USG should provide financial support for the OGL in FY90 and beyond.

Tanzania's Balance of Payments

(US$ mn)

	1987/88 stimate	1988/89 Estimate	1989/90 Plan
CURRENT ACCOUNT	(768)	(791)	(772)
Trade (FOB basis)	(834)	(833)	(829)
Exports	362	437	471
Imports	(1,196)	(1,270)	(1,300)
Other	66	42	57
Services	(154)	(158)	(143)
Interest	(181)	(192)	(197)
Other	27	34	54
Private Transfers	220	200	200
OFFICIAL TRANSFERS	489	450	530
NON-CAPITAL BALANCE	(279)	(341)	(242)
CAPITAL ACCOUNT	(40)	12	116
Loan Balance	0	16	120
Inflows	190	196	300
Repayments	(190)	(180)	(180)
OVERALL BALANCE	(319)	(329)	(126)
FINANCING	319	329	126
Arrears Accumulation	258	(484)	0
Reserve Change	(23)	40	(20)
Rescheduled Debt	51	736	0
Other (IMF net)	33	38	14
Unfinanced	0	(1)	132
MEMO ITEMS (percent)			
Official Transfers/Imports	41	35	41
Exports/Imports	30	34	36
Foreign Loans/Imports	16	15	23
Debt Payments/Exports	102	85	80

5340D

82

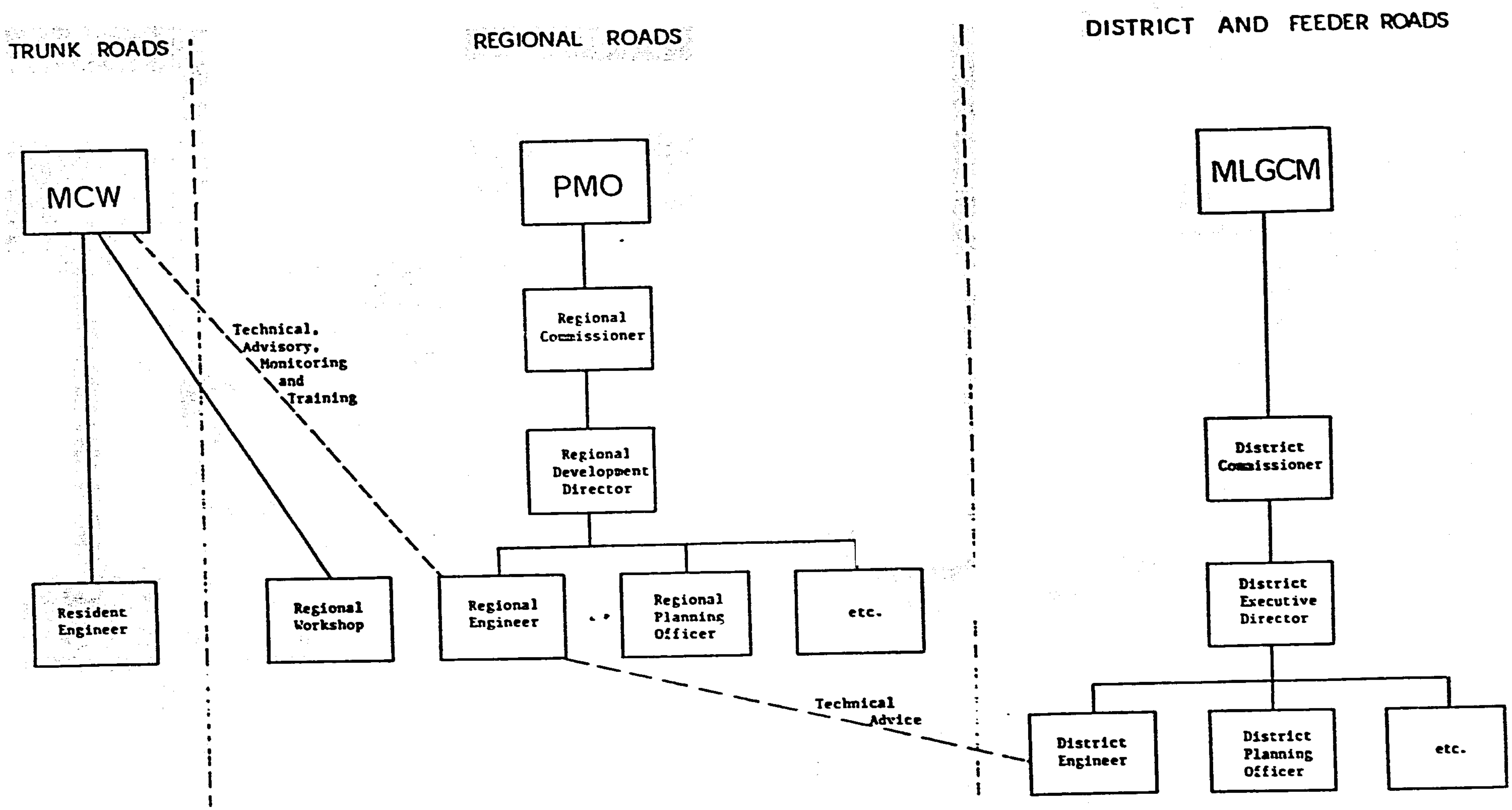

FIGURE 1

RENSPONSIBILITIES FOR ROAD CONSTRUCTION AND MAINTENANCE
(PRIOR TO THE ESTABLISHMENT OF THE RRD)

ANNEX 10

83

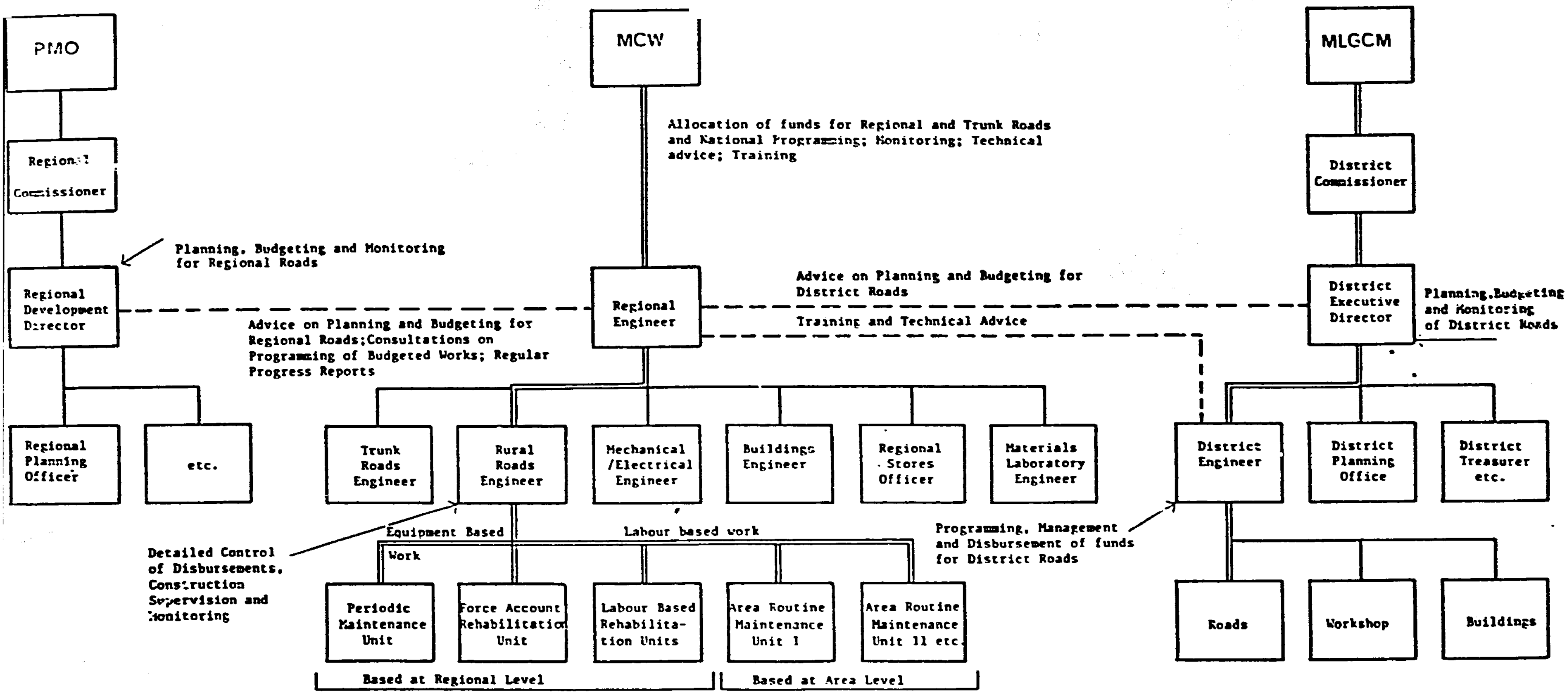

FIGURE 2

CURRENT INSTITUTIONAL ARRANGEMENTS FOR RURAL ROADS

═══	Disbursement of Central Government funds and reporting structure
– – – –	Compulsory advice and reporting system to agencies outside MCW
MCW :	Responsibility for Trunk and Regional Roads
MLGCM & DISTRICTS :	Responsibility for District and Unclassified roads

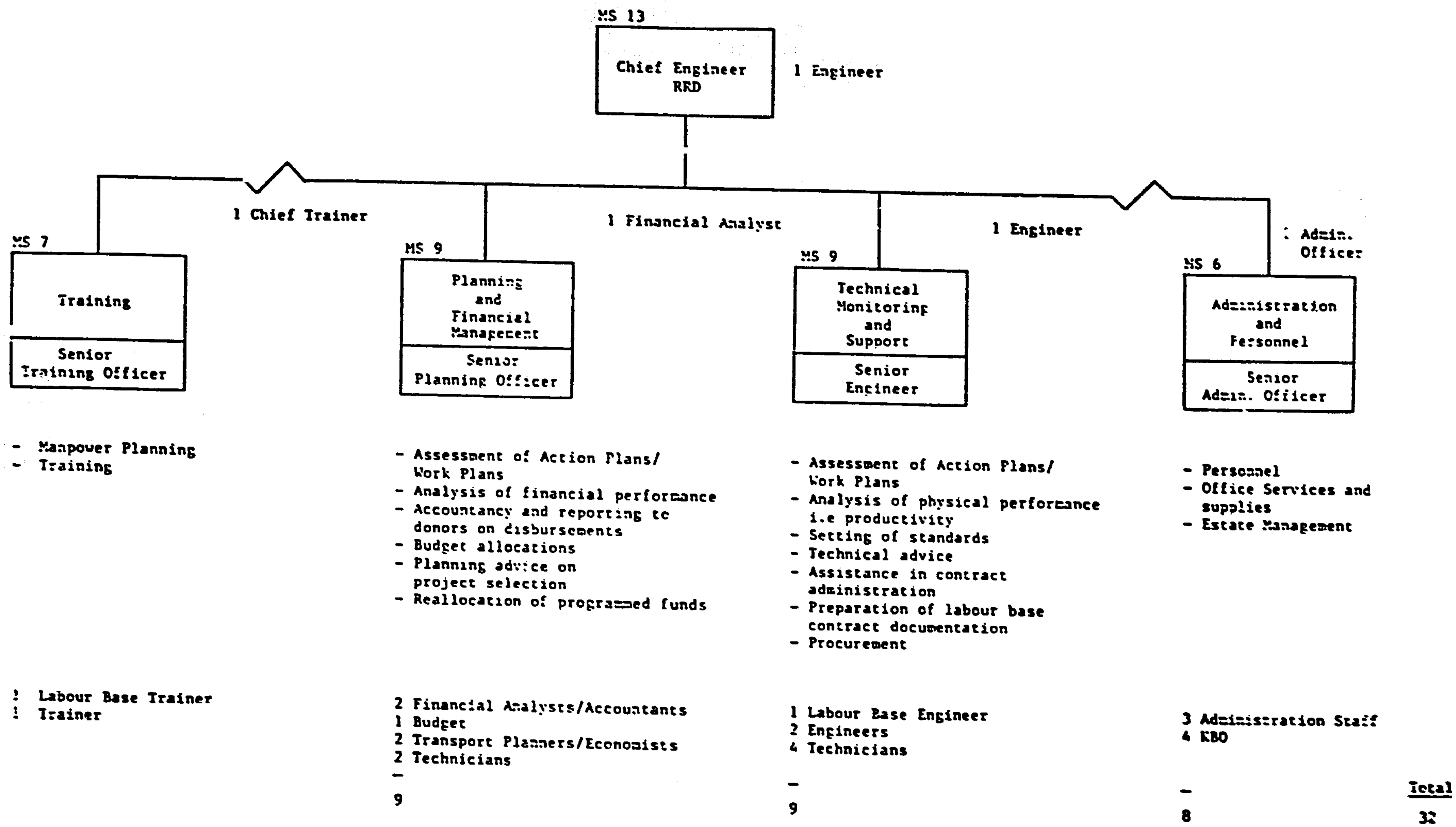

FIGURE 3.

STRUCTURE AND STAFFING OF THE RURAL ROADS DIVISION (AT MCW HEADQUARTERS)

TABLE 4

Table 4 Staff Requirements, RRD and REO.

HEADQUARTERS

Staff category	No.	Grade (MS)	Salary (monthly)	Total costs T.Shs (annual)
RRD - MCW				
Chief Engineer	1	13	7,670	92,040
Senior Planning Officer	1	9	7,360	88,320
Senior Engineer	1	9	7,360	88,320
Senior Training Officer	1	7	7,160	85,920
Personnel Officer	1	6	6,775	81,300
Engineers	3	5	6,020	216,720
Economists	2	5	6,020	144,480
Transport Planners	2	5	6,020	144,480
Accountants	2	5	6,020	144,480
Budget Officers	1	3	3,715	44,580
Technicians	6	4	4,690	337,680
Training Officers	2	5	6,020	144,480
Administrative Staff	3	3	3,715	133,740
Secretaries/Typists	4	2	2,860	137,280
Total, RRD-MCW	30			1,883,820
REO				
Regional Engineer	1	11	7,450	89,400
Regional Works Account.	1	9	7,360	88,320
Internal Auditor	1	5	6,020	72,240
Personnel Officer	1	4	4,690	56,280
Senior Econom./Eng.	1	7	7,160	85,920
Senior Training Officer	1	5	6,020	72,240
Budget Officers	2	3	3,715	89,160
Pay Officers	3	3	3,715	133,740
Cash Officers	3	3	3,715	133,740
Secretaries/Typists	10	2	2,860	343,200
Telex/Telephone/Radio Op.	2	2	2,860	68,640
Administrative Officer	1	3	3,715	44,580
Security Officer	1	3	3,715	44,580
Engineers	1	5	6,020	72,240
Econom./Transp. Planner	1	5	6,020	72,240
Technicians	2	4	4.690	112.560
Instructors	2	3	3.715	89.160
Total	34			1,668,240
RURAL ROADS SECTION				
Rural Roads Engineer	1	8	7,260	87,120
Assistant Engineer	1	6	6,775	81,300
Senior Technician	1	5	6,020	72,240
Total	3			240,660
Grand Total, region	37			1,908,900
Grand Total, 7 regions	259			13,362,300

REGIONS (vertical label beside REO and Rural Roads Section rows)