UNITED STATES GOVERNMENT

Memorandum

TO : Reference Center, Ms. Joanne Paskar

DATE: August 2, 1977

Floyd L. Spears

FROM : AFR/DS, Floyd L. Spears

SUBJECT: Declassification of A.I.D. Documents

This memorandum addresses the following A.I.D. documents:

a. Measles Control and Smallpox Eradication Program dated Jan. 5, 1970

b. CAP on Trans-Cameroon Railroad (Phase II)

c. Mali -- Proposal and Recommendations on Veterinary Laboratory

d. CAP -- Liberia -- Improvements of Roberts International Airport, Phase II (Construction)

e. CAP -- Swaziland -- Agricultural Development Loan

f. CAP -- Ethiopia -- Malaria Eradication -- Phase I

g. CAP -- Somalia -- Mogadiscio Water Supply

h. CAP -- Tanzania -- Agricultural Projects Support

i. CAP -- TANZAM Highway Phase III

j. CAP -- Uganda -- Livestock Development

The above listed documents have been reviewed by appropriate staff personnel assigned to Africa Bureau to determine if these documents should be declassified. Based on this review, no justifications have been identified for the continued classification of these documents. Therefore, this memorandum hereby authorizes the declassification of all documents listed.

DEPARTMENT OF STATE
AGENCY FOR INTERNATIONAL DEVELOPMENT
Washington, D.C. 20523

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AID-DLC/P-846/2
June 16, 1970

MEMORANDUM FOR THE DEVELOPMENT LOAN COMMITTEE

SUBJECT: Africa Regional - Tan Zam Highway (formerly Great North Road) Phase III (Construction) Amendment

Attached for your review are the recommendations for an amended loan authorization increasing by $2,600,000 a loan in an amount of $7,500,000 made to the Government of the United Republic of Tanzania. This loan amendment will assist the GOT in financing the United States costs and a portion of the local costs ($1,000,000) attributable to the increased scope of the project and cost increases on the 98-mile construction from Dar to Morogoro.

Please advise us as early as possible but in no event later than close of business on Wednesday, June 24, 1970, if you have a basic policy issue arising out of this proposal.

Rachel C. Rogers
Secretary
Development Loan Committee

Attachments:
Summary and Recommendations
Project Analysis
ANNEXES I-VII

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AFRICA REGIONAL - TAN ZAM HIGHWAY

PHASE III (CONSTRUCTION) AMENDMENT

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AFRICA REGIONAL - TANZAM HIGHWAY PHASE III (CONSTRUCTION) AMENDMENT

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698-H-007

SUMMARY AND RECOMMENDATIONS

1. Borrower: Government of the United Republic of Tanzania (GOT)

2. Amendment Amount: $2,600,000

3. Loan Amendment: A. Maturity: Forty (40) years, including a ten-year grace period.
   B. Interest: 2% per annum during the grace period, 3% per annum thereafter.
   C. Repayment: Interest and principal payable in U.S. dollars.

4. Total Cost of Project:

A.I.D. loan		$ 7,500,000
Loan Amendment		2,600,000
GOT Contribution		4,500,000
	Total	$14,600,000

5. Description of Project: The overall project consists of construction of nearly 1200 miles of the Tan Zam Highway (TZH) from the Zambian copper belt to the port of Dar es Salaam in Tanzania. The loan (698-H-007) financed construction of 98 miles of the TZH between the outskirts of Morogoro and the outskirts of Dar es Salaam. The loan Amendment will add to the project (1) construction of an additional 14 miles of this section, (2) economic analysis to confirm the feasibility of a port access road connecting the eastern terminus of the TZH with the port of Dar and (3) final design of the port access road.

6. Purpose of Amendment: The original loan of $7,500,000 finances U.S. construction costs of 98 miles of the TZH between Dar and Morogoro. This loan amendment will assist the GOT in financing the U.S. costs and a portion of the local costs ($1,000,000) attributable to the increased scope of the project, and cost increases on the 98-mile construction from Dar to Morogoro.

7. Justification: The loan paper describing and justifying the original project is attached (Annex II) and continues to serve as the basic description and justification of the construction element of this project. The additional 14 miles of road is justified by a separate analysis showing an internal rate of return of 21%.

8. Background: In June, 1969, the GOT asked A.I.D. to consider financing a higher proportion of the Dar-Morogoro road costs and also the final portions of the road on both the Morogoro and Dar es Salaam ends, in addition to the initial 98 miles, when decisions were taken as to the

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location of the bypasses on each end. In September, 1969, after a decision on the Morogoro bypass location determined the precise length of the road as 112 miles, the GOT requested and A.I.D. concurred in letting bids for construction of this entire length, with the understanding that A.I.D. financing of the additional length would be subject to economic justification and the availability of funds.

9. Export-Import Bank Clearances: On May 18, 1970, the Bank expressed disinterest in financing this project.

10. Country Team Views: The Country Teams strongly endorse the project.

11. Statutory Criteria: Satisfied; see Annex I.

12. Issues: None

13. Recommendations: Authorization of a loan amendment to the Government of the United Republic of Tanzania of an amount not to exceed $2,600,000 to finance the U.S. costs and a portion of the local costs of the project, in accordance with the draft Authorization attached as Annex III.

CAPITAL ASSISTANCE COMMITTEE MEMBERS:

Capital Development Officer:	AFR/CDF, POSellar
Counsel:	GC/AFR, IMHager
Engineer:	AFR/CDF, RFedel
Desk Officer:	AFR/ESA, JCanning
USAID:	Regional Engineer, FLocher

AFR/CDF:POSellar:

$1 = 7.13 East Africa Shillings

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AID-DLC/P-846/2
June 16, 1970

CAPITAL ASSISTANCE PAPER

AFRICA REGIONAL - TAN-ZAM HIGHWAY

PHASE III (CONSTRUCTION) AMENDMENT

I. INTRODUCTION

An A.I.D. loan of $7.5 million was authorized in June, 1969, for U. S. costs of constructing 98 miles of the Tan Zam Highway (TZH) between the outskirts of Morogoro and the outskirts of Dar es Salaam, in Tanzania. At that time, the Government of Tanzania (GOT) asked A.I.D. to consider financing a higher proportion of total costs of the road than provided under the initial loan, and also to consider financing additional short sections of the road on both the Morogoro and Dar es Salaam ends when decisions were made as to the location of the bypasses on each end. In September, 1969, a decision was made on the Morogoro bypass location which determined the precise length of the road as 112 miles. The GOT subsequently requested and A.I.D. concurred in letting bids for construction of this entire length, with the understanding that A.I.D. financing of the additional length would be subject to economic justification and the availability of funds.

Construction of the various sections of the entire Tan Zam Highway described in the original loan paper is for the most part proceeding satisfactorily. Construction of the Tunduma-Iyayi section of the road in Tanzania, also being assisted by A.I.D. under Loan 698-H-005, is on or ahead of schedule in most respects. All conditions precedent to disbursement of Loan 698-H-007 for construction of the 98-mile Dar-Morogoro section have been met except for executing approved construction and construction supervision contracts, both of which are under review. A construction bid award for the entire 112 miles is expected to be made this month, and construction should begin shortly thereafter.

II. ENGINEERING ANALYSIS

A. Dar-Morogoro Road Construction

1. Description of Project

The proposed amendment provides for a 14-mile extension to the 98-mile section of the Tan Zam Highway to be constructed between Dar es Salaam and Morogoro under Loan 698-H-007. The entire 112 miles will be reconstructed, on both existing and new alignment, to the following standard of design (see Annex II, page 21 for full discussion):

SURFACE -- 22 feet of $1\frac{1}{2}$ inch asphaltic concrete;
BASE -- 4 inches of either crushed stone or asphalt stablized sand base;
Two 5-foot gravel shoulders;
Roadway structure designed for 9,000 lb. wheel load.

2. Construction and Engineering Cost Estimates

a. Construction Costs - The GOT received on June 12 and is now considering the following proposed award of the construction work:

	U.S. Cost	Local Cost	Total Cost
Dar-Morogoro Road	$7,521,000 (60%)	$5,014,000 (40%)	$12,535,000

This construction cost averages about $112,000 per mile ($120,000 per mile including a 7% contingency) which compares favorably with other Tan-Zam Highway construction costs in Tanzania, as follows:

	Per Mile Costs
Tunduma-Iyayi	$113,000 (U.S. firm)
Iyayi-Mahenge	84,000
Mahenge-Morogoro	118,000

The award under consideration by the GOT is to Nello Teer, Inc., Durham, N. C., the U.S. firm which is carrying out the Tunduma-Iyayi work for essentially the same per mile cost.

The award now being considered is the result of requesting new proposals for the work after bids received in March 1970 were rejected by the GOT as excessive in price. The new figure is about $625,000 lower than the low bid initially received in March.

The contract specifies a 36-month construction period.

b. Engineering Costs - The construction supervision will be carried out by DeLeuw, Cather International (DLC) engineering consultants under a contract now being negotiated with the GOT. The present estimated cost of the contract is $880,000, which includes a 10% contingency in case additional personnel are needed and/or the construction period stretches out. Total engineering costs (including design costs of $303,000) represent about 8.8% of the construction cost. This figure is considered reasonable, since road design and supervision costs usually fall within the 10-15% range, depending upon the extent of structural work required. Structural work on this project is at a minimum since existing structures are incorporated in the new alignment wherever possible.

3. Technical Soundness - DLC prepared construction cost estimates based on their experience in Tanzania, where the firm is supervising construction of the Tunduma-Iyayi road financed under A.I.D. Loan 698-H-005 and also IBRD financed portions of the TZH. The award being considered is within 1% of the engineers' estimate, and serves as a valid cost basis for consideration of this Loan Amendment.

With the above-noted data as a basis, it can be concluded that the project and its estimated costs for completion are sound and meet the requirements of the Foreign Assistance Act (FAA) Section 611. Other certifications in the engineering/technical area (FAA 201 (b) (2), and (e)) were met in the original capital assistance paper for Loan 698-H-007 and, to the extent necessary, have been updated herein.

4. Implementation Schedule

The following is the estimated implementation schedule for construction:

June 22, 1970	Authorize Loan Amendment
June 30, 1970	Award Construction Contract
July 15, 1970	Start of Contractor Mobilization
October 15, 1970	Start Construction
August 1973	Completion of Construction

B. Engineering Design of the Port Access Road

Engineering design of the port access road will be performed as the second stage of a two-stage contract, provided the first stage confirms the economic and technical feasibility of constructing the road along the route selected by the GOT. See Section III below for discussion of stage one of the contract and of the economic feasibility analysis performed to date.

At present, the TZH terminates at Ubungo on the outskirts of Dar es Salaam, and the heavy TZH traffic is routed through the narrow, heavily-congested local street system to reach its ultimate destination, the port of Dar es Salaam.

As part of a master development plan for Dar es Salaam prepared by a Canadian consultant (Project Planning Associates, Ltd.) in 1968, several routes for connecting the Ubungo terminus with the port were examined. The route recommended was subsequently approved by GOT municipal and national authorities. Preliminary planning indicates that the 7.5-mile route will carry traffic volumes requiring four-lane design. Design details will be confirmed during the proposed engineering design. Design standards of width, curvature, structural loading, etc., will be consistent with the standards adopted for the other sections of the TZH.

The work will also include such supplemental traffic and economic studies as are needed to develop the design and construction plans.

The cost of the final feasibility and design work is estimated as follows:

	U.S. Costs	Local Costs	Total
Feasibility Analysis	$ 25,000	$ 5,000	$ 30,000
Design (Preliminary and final)	175,000	25,000	200,000
Total	$200,000	$ 30,000	$230,000

The final feasibility analysis is expected to begin in July, 1970, and be completed in September, 1970. If, as expected, the feasibility of the selected route is confirmed, preliminary and final design is expected to begin in September, 1970 and be completed by July, 1971.

Preliminary estimated construction costs for the port access road are as follows:

	U.S. Costs	Local Costs	Total
Construction	$2,450,000	$1,050,000	$3,500,000
Engineering Supervision	200,000	50,000	250,000
	$2,650,000	$1,100,000	$3,750,000

III. ECOMOMIC ANALYSIS

A. Dar-Morogoro Construction

The original loan paper noted that financing for the additional 14 miles proposed for financing herein, as well as the initial 98-mile section, would have been proposed for financing under the original loan had the location of the westernmost terminus of the road, at the point where it will eventually be connected to a bypass road around Morogoro, been known. Such financing of the entire 112 miles would have been justified on the basis of the cost/benefit analysis presented in the original paper, which indicated a composite internal rate of return (IRR) of 21% for the entire length of road analyzed between Dar and Morogoro.

1. The Additional 14 Miles

Reference was also made, however, in the original loan paper, to a Summary Assessment of the Dar-Morogoro Highway prepared by DeLeuw, Cather in March, 1969, which indicated a lower IRR for the westernmost 27-mile portion of the entire road, within which falls the 14 miles of additional loan proposed herein for financing. DeLeuw Cather was therefore asked to update its analysis of this section of the road, using current information on traffic density, road condition and other relevant factors, to determine whether financing of this section is economically justified. This updated analysis is presented in Annex IV attached, and indicates a benefit/cost ratio of 1.21:1 at a discount rate of 15%. The IRR for the additional 14 miles is 21%. The increase over the originally-estimated IRR is due primarily to revised traffic projections, based on actual counts during 1968 and 1969, that are substantially higher than earlier projections. This in turn is partially due to these counts having been taken at locations closer to Morogoro than the original counts, which results in the new counts recording local traffic around Morogoro that was not reflected in the original counts. In addition, the original analysis addressed only heavy. commercial traffic, and did not consider road user benefits for passenger vehicles.

2. The Entire 112 miles - The economic analysis of the entire 112 miles has been recalculated because the construction costs of $120,000 per mile are higher than the $100,000 per mile estimate used in the original loan paper's benefit/cost analysis. Annex V presents the revised calculations, which illustrate the IRR is reduced only slightly from 21% to 17%. This is, of course, still a very favorable IRR. It would be still higher if the user-saving benefits had also been revised upward (as they should be) to reflect the same price inflation that has affected construction costs since the original estimates.

In summary, it appears that the economic justification is strong, solely on the basis of vehicle and maintenance savings benefit analysis, for construction both of the entire 112-mile road and the 14-mile section on the western end.

In addition, as noted in the original loan paper, there are secondary economic benefits attributable to the improved road that were quantified in the original Stanford Research Institute (SRI) feasibility study but excluded in the DLC analysis and original loan paper. These benefits are the increased production and income, primarily agricultural but multiplying through other sectors of the economy as well, resulting from improved road access from interior Tanzania to Dar es Salaam and the Port of Dar.

B. Port Access Road Feasibility Analysis and Engineering

As part of a master development plan for Dar es Salaam prepared by a Canadian consultant (Project Planning Associates Ltd.) in 1968, several routes were examined for connecting the TZR terminus at Ubungo with the port. Preliminary feasibility analysis was done, including traffic and tonnage estimations. One route was selected as being clearly preferable to the other two for the following reasons:

1. It would bypass the city, resulting in lower compensation costs for property demolition within the right of way.

2. It would serve the entire industrial area planned for development outside Dar es Salaam.

3. It would open up and serve 3,000 residential plots already chosen by the National Housing Corporation for development as industrial-worker housing.

Additional economic analysis to confirm the feasibility of this route is, however, needed to provide benefit/cost quantification and to confirm that less costly alternatives to a new route (e.g., widening the existing road through town) are not feasible or preferable.

IV. FINANCIAL ANALYSIS

A. Financial Requirements: The total financial requirements are as follows:

	U.S. Costs	Local Costs	Total Costs
1. Dar-Morogoro Construction (112 miles)			
Construction	$7,521,000	$5,014,000	$12,535,000
Contingency	526,470	350,980	877,450
Sub-Total	$8,047,470	$5,364,980	$13,412,450
Engineering Supervision	720,000	80,000	800,000
Contingency	72,000	8,000	80,000
Sub-Total	$ 792,000	$ 88,000	$ 880,000
Dar-Morogoro Construction	$8,839,470	$5,452,980	$14,292,450
2. Port Access Road			
Final Design	$ 175,000	$ 25,000	$ 200,000
Feasibility Analysis	25,000	5,000	30,000
	$ 200,000	$ 30,000	$ 230,000
Total Financial Requirements	$9,039,470	$5,482,980	$14,522,450

The total Dar-Morogoro construction costs of $14,292,450 are $3,392,400 higher than the $10,900,000 projected in the original loan. The increase consists of the additional 14 miles at $1,786,554 and the increased cost of the original 98 miles at $1,605,846 .

B. Financial Plan. The financial plan for the project is as follows:

	U.S. Costs	Local Costs	Total Costs
Original A.I.D. Loan	$7,500,000	-	$ 7,500,000
Loan Amendment	1,539,470	$1,000,000	2,539,470
Total A.I.D.	$9,039,470(100%)	$1,000,000(18%)	$10,039,470(69%)
Original GOT Contribution	-	$3,400,000	$ 3,400,000
Additional GOT Contribution	-	1,082,980	1,082,980
Total GOT	-	$4,482,980(82%)	$ 4,482,980(31%)
Total	$9,039,470(62%)	$5,482,980(38%)	$14,522,450

A.I.D. proposes to finance all U.S. costs of the project and $1,000,000 in local costs (18% of total local cost requirements). The GOT will finance the remainder of the project. Under the original loan, A.I.D. planned to finance 69% of the total project costs, which represented the U.S. cost component of the project. However, the award under consideration has a 60% U.S. cost/40% local cost breakdown rather than the split originally estimated. The GOT has requested additional A.I.D. assistance so that the burden of financing the expanded project and increased costs will be carried proportionately by A.I.D. and the GOT. A.I.D. financing of the local cost component proposed above will maintain A.I.D. financing at the 69% level of the original loan. Section IV. C. below explains the GOT's need for local cost financing.

The terms of the loan amendment would be the same as the original loan: maturity of 40 years, including a 10-year grace period; interest at 2% per annum during the grace period and 3% thereafter; repayment of interest and principal in U.S. dollars.

C. Justification for A.I.D. Contribution to Increased Costs and Local Costs

Even before the higher-than anticipated costs of the Dar-Morogoro section of the Tan-Zam Highway became known, it was rightly observed in the Second Tanzanian Five-Year Plan (1969 - 1974) that "the construction of the Tan-Zam Highway over-shadows all other developments in the /_transport/communications_/ sector, particularly during the first three years of the Plan. Spending on other communication projects will be less than would otherwise have been desirable because of the heavy spending necessary on the Tan-Zam Highway. During the First Five-Year Plan, a large emphasis was laid on Trunk Routes. It is expected that a better balance will be achieved during this plan as between Trunk Routes and Feeder Roads. Increased emphasis has been given to minor feeder roads wherever agricultural potential can be shown and identified." 1/

1/ Five-Year Plan, Vol. II, p. 80

The Tanzanian Minister of Finance, in a letter of May 1969 to the U.S. Ambassador, noted similarly that a disproportionately high contribution by the GOT to Tan Zam Highway construction costs "is bound to compel us to delay still further the construction of a number of feeder roads throughout the country. Already we have accepted a certain distortion in our total road programme to the detriment of feeder roads, and this further strain could prove extremely serious."

A.I.D endorses this recognition by the GOT of the importance of devoting resources within the transport sector, as soon as possible, toward feeder road construction, which is an indispensable pre-requisite to development of the crucial agricultural sector in Tanzania. An extensive A.I.D.-financed feasibility study and recommended program of road construction has just been completed. It concludes that every proposed feeder road studied has a rate of return of greater than 10%, and many a much higher return than this, solely on the basis of narrow user-saving benefits and without considering the even more important secondary economic benefits. The implication of this study is that the feeder-road construction program, if accompanied by the other links essential to agricultural development, will make a major contribution to Tanzania's economic development and to the improved living standards of the rural masses.

Since the TZH is an ongoing program that must be completed before new programs can commence, the best way A.I.D. can assist the GOT to accelerate progress toward the important feeder road construction program and thereby development of the agricultural sector, is to provide such assistance as will permit the GOT to complete the Tan Zam Highway as soon as possible. The resultant acceleration of the feeder road construction may indeed provide greater economic justification for contributing to completion of the Tan Zam Highway than the more narrow user-saving benefit analysis associated with the Highway itself, favorable as that is.

The importance of helping the GOT with the increased cost of the Highway to avoid reducing GOT expenditures on other road construction becomes apparent when one notes that the Second Five Year Plan projects the cost of the Tanzanian sectors of the Tan Zam Highway during the 1969-74 Plan period at 394,000,000 shillings (about $56,300,000), or 48% of total planned investment in roads and airports during 1969-74 (see Annex VI, attached). The Tan Zam Highway, then, is by far the single largest project in this sector during the entire Plan period, dwarfing all other programs; and any significant increase to the GOT in the cost of the Highway thus also represents a decrease in the funds available for other road construction programs. Since, as indicated, such programs as the feeder road program are of high priority for Tanzania's development, A.I.D. should assume at least a portion of the increased local costs of the TZH in the interest of furthering these priorities.

This is particularly true because the U.S. - local cost breakdown for the Dar-Morogoro road is approximately 60%-40%, as opposed to the original estimate of 68%-32%. This means that, if A.I.D. only finances U.S. costs, the GOT would have to finance all increased local costs stemming from the change in U.S. cost/local cost breakdown. The proposed A.I.D. local cost contribution of $1,000,000 will assist the GOT in financing these increases, although the GOT will still have to finance from its own resources an additional $1,082,980 in local costs over the original estimates.

The GOT Second Five-Year Plan allocates 50,000,000 shillings over the period for feeder roads and related equipment. The proposed A.I.D. local cost contribution (Sh 7,180,000) to the Tan Zam Highway thus represents a significant percentage of the planned feeder road program, and will permit the GOT to move ahead with elements of this program that might otherwise have to be further postponed.

D. Other Sources of Financing

It has not been considered practicable to approach other donors concerning the Iringa-Morogoro construction element of the project covered by this A.I.D. loan amendment, since A.I.D. is already financing the first 98 miles of this section and since, as discussed above, one construction contract will be awarded for the entire 112 miles now to be constructed. The Canadian Government was approached concerning financing the port access road engineering, but declined. The Export-Import Bank indicated on May 18, 1970, that it is not interested in participating in this project.

E. Prospects for Repayment

With 1968 per capita income of about $65, Tanzania is one of the poorer East African countries. However, from 1963-1968 she achieved an average annual growth in gross domestic product (GDP) of 6.4%, and is targeting a GDP growth rate of 6.5% per year during the Second Five-Year Plan Period (1969-1973). Total investment to achieve this rate of growth is projected in the Plan at $1,115 million. A recent IBRD report, "The Economic Development and Prospects of Tanzania," (March 17, 1970) estimates that the GOT will be able to achieve about 95% of this planned investment or $1,062 million, of which the central government would provide $483 million. Of this amount, the IBRD estimates that $268 million will be raised internally and $215 externally, almost all of the latter as loans. The IBRD report finds the projected level of investment to be consistent with the targeted growth rate.

The IBRD report also projects Tanzania's debt-servicing capacity from 1970-1985 on the basis of various assumptions of the blend of capital lending terms and the growth of exports (see Annex VII). According to these projections, "the debt service ratio would remain under 10 per cent until 1980 under all assumptions, but would rise to 13.3 per cent thereafter. As the blend becomes harder, debt service ratios in excess of 10 per cent would appear even by 1980, but only when the assumed rates of growth of exports are at the bottom range. By 1985, however, only the most favorable rate of growth of exports would keep the debt service ratio lower than 10 per cent; in all other cases, the ratio would range from about 10 per cent to 15.8 per cent."

The IBRD concludes from this analysis that export earnings are expected to grow at a rate which "should ensure that no problems are encountered in meeting debt service payments." However, "in view of the substantial improvement in the short-term prospects for...exports and a slower growth rate thereafter," and since the "debt service ratio is sensitive both to the rate of growth of exports and to the terms of lending,...the situation is likely to deteriorate rapidly after 1980, if the terms become harder before then. Hence, if Tanzania's debt burden is to be kept within tolerable limits, it is desirable that new commitments in the 1970's should be on relatively soft terms...." The report then adds "that Tanzania should exercise caution in the matter of incurring new debt with short maturities and carrying high interest rates. This is particularly important since, with a rather large concentration of agricultural exports, Tanzania's exports might suffer unexpected declines on account of extraneous factors such as weather and fluctuating commodity prices."

A.I.D. concurs in this analysis and in its conclusions, and therefore concludes that there are reasonable prospects for repayment of this loan, but that Tanzania's projected balance of payments argues for extending the loan on the proposed concessional terms.

V. ECONOMIC EFFECTS OF LOAN

A. Impact on U.S. Economy. The amendment will finance approximately $1,600,000 additional in U.S. construction and engineering services.

B. Impact on U.S. Balance of Payments. The amendment should have no significantly adverse impact on the U.S. balance of payments, since (1) $1.6 million is tied to U.S. - source procurement and (2) the $1,000,000 in local cost financing (18% of total local costs of the project) will be implemented through a Special Letter of Credit, thereby ensuring that all A.I.D. dollars appropriated for the project are spent in the U.S.

C. Effect on Private Enterprise. The loan amendment will finance a GOT contract with private U.S. construction and engineering firms. In addition, the loan amendment finances construction of a road which, when completed, will assist private enterprise in both Tanzania and Zambia.

CHECKLIST OF STATUTORY CRITERIA
DEVELOPMENT LOAN FUND

Many of the questions require only yes or no answers. Others, however, must be answered more fully. In those cases, a specific reference to explicit discussion of the matter in the loan paper will suffice. But where the loan paper does not deal explicitly with a matter that clearly requires more than a yes or no response, sufficient response must be made to indicate that the matter has been appropriately considered.

The following abbreviations are used in the checklist:

FAA - Foreign Assistance Act of 1961, as amended, incorporating amendments effected by the Foreign Assistance Act of 1968.

App. - Foreign Assistance and Related Agencies Appropriations Act, 1969.

Space for answers is provided in the margin to the right of each question. This form must be made a part of the Capital Assistance Paper.

I. COUNTRY PERFORMANCE

A. Progress Towards Country Goals

1. FAA §§201(b)(5), 201(b)(7), 201(b)(8), 208. Discuss the extent to which the country is:

(a) Making appropriate efforts to increase food production and improve means for food storage and distribution.	Satisfied. Tanzania has given appropriate emphasis to increasing food production, rating the agricultural sector as its first developmental priority.
(b) Creating a favorable climate for foreign and domestic private enterprise and investment.	Satisfied. The GOT has signed an Investment Guaranty Agreement. Domestically, investors are encouraged to engage in all but those ventures which are deemed to be too crucial to be left in private hands.
(c) Increasing the people's role in the developmental process.	Satisfied. The Arusha Declaration placed prime emphasis on development as a responsibility of "rural peoples."

(d) Allocating expenditures to development rather than to unnecessary military purposes or intervention in other free countries' affairs.

Satisfied. Major budget allocations are to development and major non-defense budgets. See Item D. 2 below.

(e) Willing to contribute funds to the project or program.

Satisfied. The GOT is financing more than one-fifth of the TZH, and one-half of the cost of that part of the TZH which lies in Tanzania.

(f) Making economic, social, and political reforms such as tax collection improvements and changes in land tenure arrangement; and making progress toward respect for the rule of law, freedom of expression and of the press, and recognizing the importance of individual freedom, initiative, and private enterprise.

Satisfied. Within the limits of the segment of the population in the money economy, a tax system has been established. New lands are developed outside of the traditional tribal holdings. Land tenure is not a major problem in Tanzania. Tanzania, although it has a party-controlled newspaper, allows freedom of expression and of the press. It recognizes the importance of individual freedom and initiative to a greater extent than do most other African countries, and encourages private enterprises within the constraints imposed by its Social Democratic philosophy.

(g) Responding to the vital economic, political, and social concerns of its people, and demonstrating a clear determination to take effective self-help measures.

Satisifed. The Arusha Declaration and the Doctrine of Self Reliance satisfy this requirement.

B. Relations with the United States

1. *FAA §620(c). 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, including arbitration, or (b) the debt is not denied or contested by the government, or (c) the indebtedness arises under such government's, or a predecessor's unconditional guarantee?*	Satisfied. No such indebtedness exists.
2. *FAA §620(d). If the loan is intended for construction or operation of any productive enterprise that will compete with U.S. enterprise, has the country agreed that it will establish appropriate procedures to prevent export to the U.S. of more than 20% of its enterprise's annual production during the life of the loan?*	Satisfied. Not applicable.

3. *FAA §620(e)(1). Has the country's government, or any agency or subdivision thereof, (a) nationalized or expropriated property owned by U.S. citizens or by any business entity not less than 50% beneficially owned by U.S. citizens, (b) taken steps to repudiate or nullify existing contracts or agreements with such citizens or entity, or (c) imposes or enforced discriminatory taxes or other exactions, or restrictive maintenance or operation conditions? If so, and more than six months has elapsed since such occurrence, identify the document indicating that the government, or appropriate agency or subdivision thereof, has taken appropriate steps to discharge its obligations under international law toward such citizen or entity? If less than six months has elapsed, what steps if any has it taken to discharge its obligations?*

Satisfied. On only one occasion has the GOT nationalized property owned by U.S. citizens. In 1966 a plantation belonging to Mr. and Mrs. William Kneib was expropriated. Appropriate steps were taken by the GOT to discharge its obligations and settlement of the claim was reached in 1968. Ref: State 187268.

4. *FAA §620(j). Has the country permitted, or failed to take adequate measures to prevent, the damage or destruction by mob action of U.S. property, and failed to take appropriate measures to prevent a recurrence and to provide adequate compensation for such damage or destruction?*

Satisfied. There has been no such action against U.S. property in Tanzania.

5. *FAA §620(l). Has the government instituted an investment guaranty program under FAA §221(b)(1) for the specific risks of inconvertibility and expropriation or confiscation?*	Satisfied. Tanzania has instituted the Investment Guaranty Program.
6. *FAA §620(o): Fisherman's Protective Act of 1954, as amended, Section 5. Has the country seized, or imposed any penalty or sanction against, any U.S. fishing vessel on account of its fishing activities in international waters? If, as a result of a seizure, the U.S.G. has made reimbursement under the provisions of the Fisherman's Protective Act and such amount has not been paid in full by the seizing country, identify the documentation which describes how the withholding of assistance under the FAA has been or will be accomplished.*	Satisfied. No such incident.
7. *FAA §620(q). Has the country been in default, during a period in excess of six months, in payment to the U.S. on any FAA loan?*	Satisfied. The GOT. is not in default on any loan.
8. *FAA §620(t). Have diplomatic relations between the country and the U.S. been severed? If so, have they been renewed?*	Satisfied. No break in diplomatic relations.
9. *App. §106. Describe any attempt made by the country to create distinction because of race or religion in granting personal or commercial access or other rights otherwise available to U.S. citizens generally.*	Satisfied. No such distinction is made.

C. Relations with Other Nations and the U.N.

1. *FAA §620(i).* *Has the country been officially represented at any international conference when that representation included planning activities involving insurrection or subversion directed against the U.S. or countries receiving U.S. assistance?*	Satisfied. The GOT has attended no such conference.
2. *FAA §§620(a), 620(n); App. §§107(a), 107(b), 116.* *Has the country sold, furnished, or permitted ships or aircraft under its registry to carry to Cuba or North Viet-Nam items of economic, military, or other assistance?*	Satisfied. No such trafficking has taken place.
3. *FAA §620(u); App. §114.* *What is the status of the country's U.N. dues, assessments, or other obligations? Does the loan agreement bar any use of funds to pay U.N. assessments, dues, or arrearages?*	Satisfied. The GOT is not in default on its international obligations. Loan Agreement will forbid use of loan funds for any purpose unrelated to the project.

D. Military Situation

1. *FAA §620(i).* *Has the country engaged in or prepared for aggressive military efforts directed against the U.S. or countries receiving U.S. assistance?*	Satisfied. It has not engaged in any such activity.

2. *<u>FAA §620(s)</u>. What is (a) the percentage of the country's budget devoted to military purposes, and (b) the amount of the country's foreign exchange resources used to acquire military equipment? Is the country diverting U.S. development assistance or P.L. 480 sales to military expenditures? Is the country diverting its own resources to unnecessary military expenditures? (Findings on these questions are to be made for each country at least once each fiscal year and, in addition, as often as may be required by a material change in relevant circumstances.)*

Tanzania has devoted 6.8% of its budget to military purposes and has used 0.55% of its foreign exchange resources to acquire military equipment. Tanzania is not diverting any U.S. assistance to military expenditures, nor is it diverting its own resources to unnecessary military expenditures. The Symington InterAgency Committee has placed Tanzania on the "green light" list.

3. *<u>FAA §620(v); App. §119</u>. Has the country spent money for sophisticated weapons systems purchased since the statutory limitation became effective? If so, identify either (a) the documentation which describes how the withholding of an equivalent amount of A.I.D. assistance has been or will be accomplished, or (b) the Presidential determination that such purchase is important to the national security of the U.S. so that no withholding is necessary.*

Answer to first question is no. Last item not applicable.

II. CONDITION OF THE LOAN

A. General Soundness

-- *Interest and Repayment*

1. FAA §§201(d), 201(b)(2). Is the rate of interest excessive or unreasonable for the borrower? Are there reasonable prospects for repayment? What is the grace period interest rate; the following period interest rate? Is the rate of interest higher than the country's applicable legal rate of interest?	Satisfied. The rate of interest is not considered excessive or unreasonable for the borrower. See Section V.C. for prospects for repayment. See "Summary and Recommendations" for interest terms. The rate of interest is not higher than Tanzania's applicable legal rate of interest.

-- *Financing*

1. FAA §201(b)(1). To what extent can financing on reasonable terms be obtained from other free-world sources, including private sources within the U.S.?	Satisfied. See Section V.C. of the A.I.D.-DLC/P-846 paper1/ The Export-Import Bank has restated (May 1970) that it is not interested in financing this project.

-- *Economic and Technical Soundness*

1. FAA §§201(b)(2), 201(e). The activity's economic and technical soundness to undertake loan; does the loan application, together with information and assurances, indicate that funds will be used in an economically and technically sound manner?	Satisfied. See Sections I, II, III and IV of the AID-DLC/P-846 paper, and see Sections II and III of this paper.

1/ This and all subsequent references in this statutory checklist section to the AID-DLC/P-846 paper refer to Annex II, which consists of that paper.

2. *FAA §611(a)(1). Have engineering, financial, and other plans necessary to carry out assistance, and a reasonably firm estimate of the cost of assistance to the U.S., been completed?*	Satisfied. See Section IV of the AID-DLC/P-846 paper and Sections II and IV of this paper.
3. *FAA §611(b); App. §101. If the loan or grant is for a water or related land-resource construction project or program, do plans include a cost-benefit computation? Does the project or program meet the relevant U.S. construction standards and criteria used in determining feasibility?*	Satisfied. See Section III of the AID-DLC/P-846 paper and Section IV of this paper.
4. *FAA §611(e). If this is a Capital Assistance Project with U.S. financing in excess of $1 million, has the principal A.I.D. officer in the country certified as to the country's capability effectively to maintain and utilize the project?*	Satisfied. See Annex II (i) of the AID-DLC/P-846 paper. The USAID Director has confirmed by cable of May 15, 1970, that the certification is still valid.

B. *Relation to Achievement of Country and Regional Goals*

-- *Country Goals*

1. *FAA §§207, 281(a). Describe this loan's relation to:* a. *Institutions needed for a demoractic society and to assure maximum participation on the part of the people in the task of economic development.*	Satisfied. Although this loan has no direct relation to this stated goal, opening up of Tanzania's interior is certainly a prerequisite to any serious effort at democratizing its society and increasing the involvement of its people in the task of development.

b. Enabling the country to meet its food needs, both from its own resources and through development, with U.S. help, of infrastructure to support increased agricultural productivity.	Satisfied. One benefit to be derived from this project is the increased facility of transport of agricultural produce, primarily from the interior to the coast.
c. Meeting increasing need for trained manpower.	Satisfied. No direct relevance. Indirectly, maintenance of this facility will involve the training of numerous personnel.
d. Developing programs to meet public health needs.	Satisfied. Not applicable.
e. Assisting other important economic, political, and social development activities, including industrial development; growth of free labor unions; cooperatives and voluntary agencies; improvement of transportation and communication systems; capabilities for planning and public administration; urban development; and modernization of existing laws.	Satisfied. This project will have a direct positive influence on the development of industry along its length, the improvement of transportation and communication systems, and, somewhat less directly, the growth of urban areas.
2. <u>FAA §201(b)(4)</u>. Describe the activity's consistency with and relationship to other development activities, and its contribution to realizable long-range objectives.	Satisfied. See Section III-F of the AID-DLC/P-846 paper.

3. <u>FAA §201(b)(9)</u>. *How will the activity to be financed contribute to the achievement of self-sustaining growth?*	Satisfied. See Sections I and III of the AID-DLC/P-846 paper.
4. <u>FAA §201(f)</u>. *If this is a project loan, describe how such project will promote the country's economic development, taking into account the country's human and material resource requirements and the relationship between ultimate objectives of the project and overall economic development*	Satisfied. See Section III of the AID-DLC/P-846 paper.
5. <u>FAA §201(b)(3)</u>. *In what ways does the activity give reasonable promise of contributing to development of economic resources, or to increase of productive capacities?*	Satisfied. See Section III of the AID-DLC/P-846 paper.
6. <u>FAA §281(b)</u>. *How does the program under which assistance is provided recognize the particular needs, desires, and capacities of the country's people; utilize the country's intellectual resources to encourage institutional development; and support civic education and training in skills required for effective participation in political processes.*	Satisfied. The A.I.D. program in Tanzania has been developed and pursued with all of these criteria in mind.

7. *FAA §601(a). How will this loan encourage the country's efforts 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?*	Satisfied as to (a), (b), (c), (d), and (e). See Sections III and VI of the AID-DLC/P-846 paper. There is no information as to (f).
8. *FAA §202(a). Indicate the amount of money under the loan which is: going directly to private enterprise; going to intermediate credit institutions or other borrowers for use by private enterprise; being used to finance imports from private sources; or otherwise being used to finance procurements from private sources.*	Satisfied. The entire loan amount will finance goods and services from private sources.
9. *FAA §611(a)(2). What legislative action is required within the recipient country? What is the basis for a reasonable anticipation that such action will be completed in time to permit orderly accomplishment of purposes of loan?*	Satisfied. No legislative action is required.

-- *Regional Goals*

1. *__FAA §619.__ If this loan is assisting a newly independent country, to what extent do the circumstances permit such assistance to be furnished through multilateral organizations or plans?*

Satisfied. The GOT is using five foreign sources of finance for the entire road.

2. *__FAA §209.__ If this loan is directed at a problem or an opportunity that is regional in nature, how does assistance under this loan encourage a regional development program? What multilateral assistance is presently being furnished to the country?*

Satisfied. See Sections I and V. C of the AID-DLC/P-846 paper.

C. *__Relation to U.S. Economy__*

-- *Employment, Balance of Payments, Private Enterprise*

1. *__FAA §§201(b)(6); 102, Fifth.__ What are the possible effects of this loan on U.S. economy, with special reference to areas of substantial labor surplus? Describe the extent to which assistance is constituted of U.S. commodities and services, furnished in a manner consistent with improving the U.S. balance of payments position.*

Satisfied. See Section VI, A & C of the AID-DLC/P-846 paper. Regarding the second question, $1.6 million of the loan is for U.S. costs only; $1,000,000 is for local costs. This, however, will be provided through a Special Letter of Credit arrangement, assuring that all dollars disbursed will be used for purchases of U.S. goods and services.

2. *FAA §§612(b), 636(h). What steps have been taken to assure that, to the maximum extent possible, foreign currencies owned by the U.S. and local currencies contributed by the country are utilized to meet the cost of contractual and other services, and that U.S. foreign-owned currencies are utilized in lieu of dollars?*

Satisfied. The GOT contribution is the maximum contribution permissible given the country's financial situation. The U.S has no Tanzanian currency that could be used in lieu of dollars for its local cost contribution.

3. *FAA §601(d); App. §115. If this loan is for a capital project, to what extent has the Agency encouraged utilization of engineering and professional services of U.S. firms and their affiliates? If the loan is to be used to finance direct costs for construction, will any of the contractors be persons other than qualified nationals of the country or qualified citizens of the U.S.? If so, has the required waiver been obtained?*

Satisfied. Only U.S. engineerin professional services will be used. Regulation 7 will be a part of the construction contrac Last item was not applicable.

4. *FAA §608(a). Provide information on measures to be taken to utilize U.S. Government excess personal property in lieu of the procurement of new items.*

Satisfied. To the extent practicable, excess property will be utilized.

5. *FAA §602. What efforts have been made to assist U.S. small business to participate equitably in the furnishing of commodities and services financed by this loan?*

Satisfied. USG competitive bid procedures will be followed.

6. <u>FAA §621</u>. *If the loan provides technical assistance, how is private enterprise on a contract basis utilized? If the facilities of other Federal agencies will be utilized, in what ways are they particularly suitable; are they competitive with private enterprise (if so, explain); and how can they be made available without undue interference with domestic programs?*	Satisfied. The loan will not provide technical assistance.
7. <u>FAA §611(c)</u>. *If this loan involves a contract for construction that obligates in excess of $100,000, will it be on a competitive basis? If not, are there factors which make it impracticable?*	Satisfied. Contract will be awarded on a competitive basis.
-- <u>*Procurement*</u> 1. <u>FAA §602(a)</u>. *Will commodity procurement be restricted to U.S. except as otherwise determined by the President?*	Satisfied. All local cost financing will be done through a Special Letter of Credit arrangement, assuring that all dollars disbursed will be used for purchases of U.S. goods and service Loan proceeds will finance goods and services of United States an East African source and origin.
2. <u>FAA §604(b)</u>. *Will any part of this loan be used for bulk commodity procurement at adjusted prices higher than the market price prevailing in the U.S. at time of purchase?*	Satisfied. Not applicable.

3. *FAA §604(e). Will any part of this loan be used for procurement of any agricultural commodity or product thereof outside the U.S. when the domestic price of such commodity is less than parity?*	Satisfied. Not applicable.

D. *Other Requirements*

1. *FAA §201(b). Is the country among the 20 countries in which development loan funds may be used to make loans in this fiscal year?*	Satisfied. This project is classified as an Africa Regional Project and therefore does not fall under the restriction.
2. *App. §112. Does the loan agreement provide, with respect to capital projects, for U.S. approval of contract terms and firms?*	Satisfied. Loan Agreement will provide for U.S. approval of contract terms and firms.
3. *FAA §620(k). If the loan is for construction of a productive enterprise, with respect to which the aggregate value of assistance to be furnished will exceed $100 million, what preparation has been made to obtain the express approval of the Congress?*	Satisfied. Not applicable.

4. <u>FAA §§620(b), 620(f); App. §109(b)</u>. *Has the President determined that the country is not dominated or controlled by the international Communist movement? If the country is a Communist country (including, but not limited to, the countries listed in FAA §620(f)) and the loan is intended for economic assistance, have the findings required by FAA §620(f) and App. §109(b) been made and reported to the Congress?*	Satisfied. Such determination has been made.
5. <u>App. §109(a)</u>. *Will any military assistance, or items of military or strategic significance, be furnished to a Communist nation?*	Satisfied. No.
6. <u>FAA §620(h)</u>. *What steps have been taken to insure that the loan will not be used in a manner which, contrary to the best interest of the United States, promotes or assists the foreign aid projects of the Communist-bloc countries?*	Satisfied. All procurement under the loan will be from the U.S. and East Africa. Procurement of goods and services for the project will be limited to Code 935. Loan Agreement will restrict use of funds to A.I.D. project purposes.
7. <u>App. §118</u>. *Will any funds be used to finance procurement of iron and steel products for use in Viet-Nam other than as contemplated by §118?*	Satisfied. No funds will be used for such procurement.
8. <u>FAA §636(i)</u>. *Will any part of this loan be used in financing non-U.S.-manufactured automobiles? If so, has the required waiver been obtained?*	Satisfied. No loan funds will be used to procure non-U.S.-manufactured automobiles.

9. *FAA §§620(a)(1) and (2), 620(p); App. §117. Will any assistance be furnished or funds made available to the government of Cuba or the United Arab Republic?*	Satisfied. No.
10. *FAA §620(g). Will any part of this loan be used to compensate owners for expropriated or nationalized property? If any assistance has been used for such purpose in the past, has appropriate reimbursement been made to the U.S. for sums diverted?*	Satisfied. No.
11. *FAA §201(f). If this is a project loan, what provisions have been made for appropriate participation by the recipient country's private enterprise?*	Satisfied. See Section VI of the AID-DLC/P-846 paper.
12. *App. §104. Does the loan agreement bar any use of funds to pay pensions, etc., for persons who are serving or who have served in the recipient country's armed forces?*	Satisfied. Loan Agreement wil limit the use of loan funds tc project costs.