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Report on Loan Request of
Tanzanian Rural Development Bank

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Introduction

Using the application submitted to USAID (copy attached) by the Tanzanian Rural Development Bank (TRDB) as a starting point, the REDSO/EA and USAID/Tanzania during April-May 1973, conducted an evaluation of the Tanzanian Rural Development Bank. The objectives of the evaluation were to explore in greater depth certain areas covered in the application, to become aware of any change in the Bank or its operations since the application was prepared, to secure answers to questions not available in the application or resulting from our review of the application and to secure a firsthand "feel" for the operations of the TRDB. The evaluation was carried out through discussions on both policy and operational procedures with Bank officials from all Bank departments, examinations of financial reports, specially prepared materials and loan files and a visit to a Regional Office where several individual borrowers were also visited. From these investigations we have arrived at the following conclusions and judgements.

General

The TRDB is keenly aware of its important development role and cognizant of its highly visible position as the primary lender to the country's major sector. In this role, the Bank expects to support government development policy but not if it means compromising economic and financial principals to achieve political or social aims. It was reiterated several times that only loans which were economically justified would be made with the social/welfare aspects receiving attention but not to the disregard of costs and benefits. Current lending operations substantiate this statement of policy.

Nevertheless, it must be recognized that the TRDB is a governmental institution and its activities are legitimate subjects of public and governmental interest. Consequently it is to be expected that TRDB activities will be scrutinized by the public and that TRDB management will be liable to governmental or political direction and criticism. From the banking standpoint, the danger is that political direction, although legitimate in itself, may cause the TRDB to make loans for projects that are not economically viable and hence uncollectible. On the othe hand, rigid adherence by TRDB to "sound" banking criteria may result in TRDB abdication of its development responsibilities in the rural sector. The solution lies in reconciling the appropriate public and political interest in TRDB operations with a lending policy that results in sound loans for economically viable projects.

At the present time, it is freely admitted that the TRDB receives, as would normally be expected, advice and direction from political/governmental channels. In our opinion this political direction and advice has not so far impeded TRDB's lending operations nor caused it to deviate from its policy of lending on economically viable projects. Barring unforseen changes in the political realities of Tanzania, it is also our judgement that the TRDB will, in the future, be able to continue this policy while retaining necessary responsiveness to GOT interests.

In operating practice more and more of THDB lending will go to cooperatives and groupings of people rather than individuals. Greater and greater use will be made of the Cooperative Unions established in each Region (Note: Consolidation and mergers are taking place so there will be only one Cooperative Union in each Region). These unions will in turn be borrowing growing amounts for the increasing numbers of Registered Cooperative Societies (Ujamaa and other groups), which will be discussed later. A smaller number of larger loans should enable the Bank to operate more efficiently over the long run after initial problems are worked out.

The personnel and management of the THDB seem competent and properly concerned with sound lending practices. While most bank operations are conducted in an appropriate manner, at times the shortage of staff in certain departments results in operational delays and cursory attention or review of matters deserving more thorough analysis. The staff problem is most acute in the Operations Department, at the Regional Offices and also in the Finance Department. (More discussion of this later). At the Head Office the work load problem is aggravated by the current shortage of office space which leads to inefficiencies, unsatisfactory working conditions and low staff morale. The THDB is scheduled to move to spacious quarters later this year which presumably will solve this problem, but the need for additional staff will continue to reduce operating efficiency.

It was reported that, to date, no loan applications had been refused for lack of funds, Nevertheless, a squeeze on bank resources appears to be coming. Much of the foreign credits are tied to specific projects or activities. The untied funds, largely from government, are in limited supply and, if plans to substantially expand lending to cooperative unions for items such as seasonal inputs, storage, transport, food crops and livestock are to be fulfilled, a larger injection of new funds will be required. If A.I.D. procurement and programming procedures can be worked out it appears the THDB would be a suitable, effective recipient for A.I.D.-financing.

The following sections discuss specific areas which were investigated and conclusions reached. They lead to a final section of issues and recommendations or conclusions.

Selected Financial Aspects of the THDB 1/

A review of the financial information presented in the THDB loan application, supplemented by more recent balance sheets, statements of profit and loss and other special financial reports, indicates that the THDB is currently in good financial condition. The current debt/equity ratio of less than 1.0 is satisfactory.2/ Operating revenues for FY 1972 and the first 9-months of 1973 have exceeded operating costs. As can be expected with a growing loan portfolio, interest revenues are growing (from Shs. 4.2 million for July-March of FY 1972 to Shs. 5.8 million for the comparable period in FY 1973). Through collections, rescheduling

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1/ Based largely on attached Hagerty report.

2/ The current debt/equity ratio is defined as the amount of medium and long term liabilities (Government and other Loans) divided by the share capital, reserves and fixed assets. As drawdowns of approved loans occur the ratio will move toward their target of 3:4 which is in line with AID/World Bank guidelines and write offs, loan arrears have been reduced from 26.5% of total loans and interest as of December 31, 1972 to 10.6% as of April 1, 1973. (Note: The majority of the loans rescheduled or written off were a legacy from TRDB's predecessor organizations). Medium and long term liabilities are down approximately 5 percent from a year previously while the mortage and loan account is up by approxi tely 1/3.

Turning to TRDB's financial operating procedures several comments can be made which indicate that improvements are possible. First, accounting practices are not always consistent with a tendency to be highly observative on the asset side and less on the liability side. For example, in the profit and loss statement, income is reflected on a cash received basis i.e. interest and other revenues actually received, while expenditures reflect accruals. A more consistent approach, using accruals for both income and expenditures, would present a more accurate picture of Bank operation. Second, financial planning is largely restricted to preparation (and revision) of a yearly operating budget and heavy reliance on historical experience or "weather vane" readings. Up-dating these budgets and developing and utilizing an up-dated cash budget would allow better planning and less reliance on "ad hoc" measures to take care of problems, particularly in cash flow, which could have been foreseen. Third, asset management could be improved through the preparation of plans for the use of liquid funds i.e. prepay costs, deposit in interest bearing accounts, purchase short term treasury bills etc., with a resultant increase in revenues and fewer "idle" funds. In this same area, a procedure needs to be developed to get repayments made at regional offices credited to TRDB accounts more quickly, again so the funds can be put back to work rapidly. A final suggestion is that TRDB should convert their depreciation schedule to conform with the GOT Tax Department schedule which would save them time in adjusting charges and again would present a more accurate picture of actual bank operations.

For the TRDB to truly become an efficient and profitable development bank the forementioned items need to be addressed. Certain of the financial problems reflect the already mentioned need for additional staff which the provision of a finance manager will help solve. Others require a change in the current conservative operating attitude which TRDB bank staff may gain with experience and as they become more confident of TRDB's financial situation. Being conservative in an enterprise dealing heavily with high risk financing is prudent. As the risk go down, the need for conservatism similarly falls.

Organizational Structure and Personnel of the TRDB 1/

The organizational structure of the TRDB is well suited to operations. Departmental responsibilities are fairly clear although some confusion seems to exist between the Operations Department and the Development Department regarding their appropriate roles in appraising loan applications.

1/ Evaluation Team contact with middle and lower level staff was minimal. Therefore, the comments on personnel relate to senior staff only.

Internal communication, cooperation and coordination between departments and individual personnel appear good. Within the Head Office "red tape" does not appear excessive. However, communications between the Head Office and the Regional Office while quite voluminous often show sizeable time gaps with resulting misunderstandings and operational problems. In part this is probably due to the large responsibilities of the Operations Department without the corresponding staff to fully handle them in the most timely manner.

It does appear that it would be advantageous to establish a separate department or sub-department to handle procurement of the goods and commodities extended by the TRDB on credit. In current practice the head of the Operations Department, among his other duties, is also handling procurement. This time-consuming but relatively mechanical task does not seem to be the best use of senior-level staff time. As the loan volume of the TRDB increases the volume and complexity of procurement will grow, making it even more important that an identified individual or group be exclusively charged with this responsibility.

In general the senior staff of the TRDB appear dedicated, knowledgeable and qualified for their positions. A number had considerable experience with the agricultural credit organizations which preceded the TRDB. A fairly large group are recent B.S. graduates, particularly in the Regional Offices, who lack experience but who can be expected to perform better and better as they gain operational experience. The TRDB does have an in-service training program which provides selected types of training. Additional training is provided appropriate staff through the Institute for Financial Management.

Through the employment of qualified individuals and the training provided, the TRDB seems to have amassed a good core staff. However, in certain departments additional staff are needed if the TRDB is to operate efficiently under a growing loan volume. The most critical need is in the Operations Department where the addition of three staff members, a procurement specialist, an agricultural loan officer and a transportation officer, is recommended. As already mentioned the appointment of a finance manager in the Finance Department would also serve to increase TRDB operating efficiency. It is also recommended that Regional Office staff be expanded by additional credit supervisors as rapidly as properly qualified individuals can be recruited. Of these proposed additions to current staff, the procurement specialist, the agricultural loan officer, the transportation officer, and the finance manager could be filled temporarily by non-Tanzanians until trained, qualified Tanzanians are available. Ultimately, nevertheless, the goal must be to have appropriate Tanzanians in each position if the longevity and continuity of TRDB operations is to be assured.

<u>Loan Making, Servicing, and Collection Procedures</u>

As the loan application submitted to A.I.D. indicates, the responsibilities for making loans are divided between the Regional Offices and the Head Office. The Regional Offices submit the applications complete with evaluation and assessment materials including an economic analysis. Ultimate approval, or disapproval, comes from the TRDB Board of Directors after Head Office staff has thoroughly reviewed the application materials for completeness, accuracy and consistency with TRDB policy and made a recommendation to the Board. This procedure can be very time consuming if the application does not initially include necessary details. For new loans, application through approval is reported to require 2-3 months at a minimum. For repeat loans (loans to a previous borrower who repaid as scheduled) the time required is somewhat less. Nevertheless, combining the approval time with the necessary 5-7 months procurement lead time for in-kind inputs requires good future planning by, often times, borrowers not accustomed to thinking that far in advance. Naturally the not infrequent result is late application, late approvals and the arrival of inputs after the optimum time (This problem is most severe for seasonal inputs).

The TRDB is aware of the need for timely approvals and is making concerted efforts to have applications submitted with ample lead time. Also a shortening of the time required for application approval should be achieved as Regional Office staff gain experience and are able to submit properly prepared, complete loan applications. In this regard, the Head Office is providing training and detailed instructions to field staff on application submission. Enlarging the staff in the Regional Offices, and selectively in the Head Office, should likewise have a positive effect as workloads per individual are reduced.

The possible alternative of delegating loan approval authority to the Regional Offices does not seem feasible at this time given the relative inexperience of many of the field staff and the growing size of the average loan. In the future, for certain types of loans, i.e. repeater loans of less than a specified amount, perhaps this should be considered.

Almost all loans are made in kind, in tranches, with disbursements made against invoices. Procurement is handled by the Head Office Operations Department. Regional Office responsibility is limited to monitoring the arrival and distribution of credit financed inputs, relaying invoices and acting as a trouble shooter or an information relay center when problems occur. Through what seems to be sporadic visits to loan sites regional staff attemp to keep abreast of loan implementation. A shortcoming is that problems do not seem to be identified until it is time for repayment i.e. if the crop has failed for whatever reason, with resulting implications for loan repayment, the TRDB Head Office is not informed until repayment is overdue. Once again the size of the regional staff and its myriad responsibilities are probably the major reason the above occurs.

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Loan collection is largely responsibility of the Regional Offices, with extensive support from the Head Office. Copies of all loan agreements are available in the Regional Offices. This is supplemented by a listing of borrowers published quarterly by the Head Office. On the basis of these documents Regional staff attempt to keep borrowers more or less on their repayment schedule. One problem is that borrowers may pay directly to the

Head Office with the Regional Office later notified by the Head Office. Consequently Regional records can easily be out of date. Also there is no fixed requirement that Regional Offices keep repayment records of any kind so collection procedures may be further hampered by a lack of information.

As mentioned, Regional efforts to collect loans are re-inforced by Head Office letters to delinquent borrowers and, as a final resort, visits by Head Office staff. It was reported that visits to recalcitrant borrowers by Head Office staff nearly always result in some repayment. While the collection procedures are not always effective and could be improved, (again more staff would facilitate improvements) the THDB, through financing of only economic projects, has attained a fairly good repayment record.

Examination of Loans made to Multi-Purpose Cooperative and Ujamaa Villages

The policy of the THDB is to give priority to group loans. Consequently, it is clear that a greater and greater proportion of the THDB's future lending will be to Cooperative Unions and the Cooperative Societies which make up those Unions. What this portends is difficult to predict. The record of the Cooperative Unions is mexed. Some have borrowed heavily for a variety of projects and repaid well while others have borrowed for only a few items and have fallen into arrears. Approximately one half of the Unions might be judged as performing very well, thirty per cent as slightly less than satisfactory and twenty per cent quite poorly. It was reported that certain unions are financially capable of repaying loans and interest due but instead have utilized available funds for expanding on-going or starting new activities. Performance seems to depend on Union management rather than type of project or even current financial condition.

Recent Union consolidation, leaving only one in each Region, should strengthen the Unions and raise the overall management level. This consolidation, combined with efforts to improve management by Government Cooperative staff and a directive from the Prime Minister's Office which calls for the Unions to repay their debts or have their senior accountable officer subjected to pay reductions, and ultimately dismissal, will undoubtedly have a positive effect on loan repayment.

The loan repayment record of Cooperative Societies, while mixed, appears to be more heavily influenced by the success of the projects which were loan financed. Loans for cash crops enterprises are generally repaid approximately on schedule if the harvest is satisfactory. Transport loans which generate income are repaid. Equipment loans for productive purposes are repaid. Normally, cases of arrears can be explained by bad weather, wide fluctuations in produce prices or other factors which have severely reduced cooperative income flow. The key to continued satisfactory performance on the part of Cooperative Societies rests with the THDB's ability to accurately determine the economic viability of proposed projects and to finance only those projects which are viable.

To date there is only limited experience with loans to Ujamaa villages which are registered as cooperative societies. Most have been in existence for only a short time and borrowers even shorter. The available results indicate that repayments are a problem. A sizeable proportion of the loans falling due have not been repaid on schedule. Causes appear to be crop failures and over optimistic projections of income to be generated by the production. THDB staff maintains that the currently overdue loans will ultimately be repaid and that with growing experience, and because careful economic evaluations are made, future loans to Ujamaa Cooperative Societies will be less likely to fall into arrears.

Examination of Field Operations

A four day visit was made to the THDB's Regional Office in Iringa in order to acquire first hand knowledge of actual field operations and to examine the relationship between the Bank and its borrowers.1/ Acting as the extended arm of the THDB, the Regional Office has the responsibilities of identifying possible projects for the region, preparing loan applications including economic analysis and performance appraisals of applicants, conducting periodic checks on borrowers to determine progress being made with the use of loan inputs, collecting loan repayments, determining reasons for non repayment on schedule and, at times, filling the role of extension agent. Personnel consists of one regional representative, one credit supervisors, two secretaries, one messenger and one driver.

It was found that the Regional Office, in relation to its responsibilities, is understaffed. The amount of field and paperwork necessary to discharge operational requirements and to maintain a complete and accurate record of the Bank's activities in the region is more than can be effectively handled. The problem manifests/ through very sporadic visits to borrowers, incomplete reporting, hasty preparation of certain forms and the feeling that the Head Office is harassing them.

/itself

A second problem is poor communications between the Regional Office and the Head Office, the Tanzanian National Bank of Commerce (TNBC) and the Cooperative Unions. The time lags in communications between the Head and Regional Offices has already been mentioned. On the local level communications can also be a problem. For example, loan repayments made by borrowers to the TNBC are reported/ to the Cooperative Union (if they were sub-borrowers) and the Head Office but not to the Regional Office. Thus up dating of regional records is dependent upon quarterly reports issued by the Head Office and the efforts of regional personnel to obtain data from one or more of the above sources. Under this

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1/ Within the available time it was decided to visit only one Regional Office in some depth rather than make quick cursory visits to a number of offices. Iringa was selected because of its active loan portfolio and because loans for a number of different crops to a number of borrowers had been made.

procedure the Regional Office can be several weeks behind the actual situation with resultant opportunities for unnecessary collection efforts or other inefficient uses of scarce time. A ready solution cannot be suggested although both Head and Regional Office staff are aware of the need to solve the problem and we would expect an improvement as the THDB begins to focus on this type of problem.

The relationship between THDB regional staff and local borrowers appeared to be satisfactory. The manager of the Iringa Cooperative Union said the THDB was doing a good job in meeting credit needs of the Unions although sometimes there were unnecessary delays. The Southern Highlands Tobacco Growers Association seemed pleased with the performance of the THDB in supplying production credit. Several Ujamaa villages were obviously heavily dependant on THDB credit and very willing to discuss their current credit-financed operations and plans for the future.

It might be noted here that, although the Bank is effective in issuing needed agricultural loans, a certain lack of flexibility in applying its policies to local situations proves to be a disadvantage in specific instances. Some policies can clearly be applied to all borrowers. But the diversity of borrowers makes other policies unsuited to particular situations. For example, one Ujamaa Cooperative Society was in need of a loan to help cover cash living expenses of its members during the growing season. Within the framework of existing policies THDB cannot grant such loans. As a result, labor that could have been utilized productively in the village was out of necessity drawn elsewhere to obtain revenue for subsistence. Such incidents might be prevented if more flexibility were incorporated into the policy framework.

Because Ujamaa Cooperative Societies are a growing recipient of THDB loans special attention was given to their operations and performance.[1] It was evident from the examination that they are a means by which the THDB can serve the

1/ Ujamaa cooperative societies pass through three stages of development. Recognition of the need and advantageous of uniting and action taken toward that end marks the beginning of the first stage. The group begins to grow some crops cooperatively with the assistance, both capital and technical, of government. Some basic infrastructure may be provided.

In the second stage there is a greater amount of cooperative effort and an expansion of infrastructure: schools, dispensaries, storage facilities etc. Greater areas may be cultivated cooperatively and a degree of economic viability is achieved. The group is not yet registered so credit is only available through the Cooperative Union.

To enter the third stage the group must have a sound development program, must have demonstrated an ability to work together and must be registered as an Ujamaa Multi-Purpose Cooperative Society. Registration is by the Registrar of Cooperatives on the basis that the group is a viable economic unit. The ideal is that houses are relocated in a central area, that infrastructure is well developed and that most work is done cooperatively although individual plots for food crops may be retained. However, based on the villages we visited which were all registered societies, there seems to be some flexibility. Only one was in the process of relocating houses, all retained individual plots in addition to cooperatively farmed land, and infrastructure development varied considerably. Nevertheless all were registered societies and eligible to apply directly to the THDB for input loans interests of small farmers. The Ujamaa concept, whereby small farmers scattered over an area come together to form larger economic units, makes the application for and the distribution of inputs necessary for increased agricultural production more efficient. Of the villages visited all were producing crops for sale on a cooperative basis. Accounts given of crop yields and returns for previous years proved to be quite favorable for village members. It was quite evident that the revenue received by each village member as a result of the Ujamaa arrangement surpassed that possible of receipt through individual endeavors. However, even though the four societies visited had utilized loan funds in profitable endeavors one of the societies was in arrears. This will probably be a continuing problem but not an insurmountable one. TRDB staff are confident the problem can be kept under control and as Ujamaa Cooperative Societies achieve greater degrees of economic viability that the problem will grow smaller.

Issues and Recommendations or Conclusions

1. Issue: Is the TRDB a suitable institution for U.S. support?

Discussion:
The objectives of the TRDB as specified in the Tanzanian Rural Development Bank Act of 1971 are:

(1) To make available long and medium term finance for rural development.

NOTE: According to the TRDB, medium term includes all loans following due for repayment within five years of disbursement; long term is defined as within 15 years of disbursement.

(2) To provide technical assistance and advice for the purpose of promoting rural development.

(3) Subject to the provisions of this Act, to administer such special funds as may from time to time be placed at the disposition of the Bank.

(4) To finance the purchase of agricultural input by:-
   (a) Making or guaranteeing loans whether falling within the definition of long and medium term finance or otherwise; or
   (b) The purchase and resale of agricultural input on credit terms.

(5) To undertake such other activity as may be necessary or advantageous for the purpose of furthering the foregoing objects.

The Act further specifies that the operations of the Bank shall be conducted in accordance with the following principles (only the most relevant principles listed):-

(1) The Bank shall be guided by sound banking principles in its operations and shall finance only economically productive and technically feasible projects;

(2) In selecting projects, the Bank shall always be guided by the need to pursue the stated objectives.

(3) The operations of the Bank shall provide for:-
   (a) The financing directly of specific projects;
   (b) The financing of group projects where the funds made available to the borrowers may be dispersed in subsidiary loans on terms and conditions agreed between the Bank and the borrowers.

(4) The Bank shall seek to maintain a reasonable diversification in its investments;

(5) Before a loan is granted or guaranteed or an investment made, the applicant shall have submitted an adequate proposal to the Bank.

The regulations constituting the Bank's investment policy specify the following regarding borrowers. "The Bank shall seek to encourage project promotion in the Public Sector (Public Sector in this case includes Cooperative Societies/ Unions, District Development Corporations and Ujamaa Villages).

The following shall be eligible borrowers:-
   (1) Cooperative Unions
   (2) Cooperative Societies
   (3) District Development Corporations
   (4) Ujamaa Villages and registered Associations
   (5) Persons as individuals or corporate engaged in actions associated with rural development
   (6) Any other borrower falling within the scope of any agreement under which the Bank has borrowed funds will be on-lent for the purpose of financing a particular project or projects.

A project or program to qualify for the Bank's assistance should be technically, economically and financially sound; have sound management and its projected operations should be consistent with the national economic development priorities."

Based on the above cited portions of the Act establishing the Bank, the Investment Policy governing Bank Operations and the Evaluation Group Assessment of Bank intent to comply with the foregoing we conclude that the Bank is a suitable institution for U.S. support. The Bank is clearly charged with a major role in the development of the rural sector, is governed by regulations which require the involvement to be based primarily on economic considerations, is directed toward assisting large number of people through emphasis on lending to groups and is committed to support activities consistent with national development policies. These factors argue strongly for the appropriateness of the Bank as an institution which, if supported, can be important in Tanzanian rural development.

Recommendation:

That the TRDB be judged a suitable institution for U.S. support.

2. <u>Issue</u>: In the Tanzanian setting is a completely government-owned development bank appropriate and suitable for U.S. support?

<u>Discussion</u>:
The Government of Tanzania does not agree with the concept of a relatively uncontrolled money market. There are no independent non-government banks nor any form of organized private capital market in Tanzania. Consequently a completely government-owned development bank is very consistent with internal Tanzanian policies and appears the only acceptable form of organization.

While a more broadly based institution would perhaps have certain advantages, in terms of developing a capital market or mobilizing savings, there are no inherent reasons why a development bank with equity capital supplied by government cannot be effective in discharging its developmental responsibilities. Admittedly a government-owned bank will undoubtedly be subject to more intensive government scrutiny and direction but as pointed out earlier this is not necessarily a disadvantage. The TRDB record to date as a government-owned bank is good.

Similarly, in a controlled economy such as Tanzania which already contains other suitable depositories for savings (The Post Office and The Tanzanian National Bank of Commerce), there seems to be little reason to expect the TRDB to embark on a major effort aimed at increasing private deposits. It would be more consistent with GOT policy and more feasible for the government to mobilize funds for transfer to the bank as needed.

There seems to be no alternative under Tanzanian conditions to a development bank with equity solely from government. Further, there is little likelihood that mobilizing funds from domestic sources or acting as part of a capital market will become important responsibilities of the TRDB. Nevertheless this does not mean the TRDB cannot do an efficient job of providing loan funds necessary to stimulate and facilitate development of the rural sector.

<u>Conclusion</u>:

Complete government ownership is the only acceptable form of organization for a development bank in the Tanzanian setting. As such the TRDB is meeting its responsibilities and is suitable and appropriate for U.S. support.

3. <u>Issue</u>: Could U.S. support be utilized effectively given the TRDB's current organization, staffing situation and operating procedures?

<u>Discussion</u>
As indicated in our assessment, the current organization appears well-suited to existing and anticipated TRDB activities. There should be no difficulties in utilizing any U.S. support due to the organizational structure of the TRDB.

<u>The staffing situation is less favorable</u>. While the quality of existing staff is adequate the quantity in a number of departments and offices is not. The resulting problems will become of even greater magnitude as the size and

complexity of the THDB loan portfolio grows. Clearly the addition of qualifie staff for specific positions in certain departments should be a condition or a part of any U.S. assistance. The expansion of THDB staff in other offices should be highly recommended although not a condition or a part of U.S. assistance.

While minor problems in THDB operating procedures have been identified, in our judgement, they do not seriously affect Bank operations. As the THDB gains experience we expect an even smoother discharge of responsibilities.

Conclusion: That the current organization and operating procedures are adequate to allow effective utilization of U.S. support. We recommend that the addition of Finance Manager and an Agricultural Loan Officer to Head Office be made a condition of any U.S. financial assistance. In addition, we recommend that USAID offer to provide 2-3 years of financing for non-Tanzanian staff to fill the position of Procurement Specialist and/or Transportation Economist. Finally, we recommend that the expansion of Regional Office be undertaken by the THDB as qualified personnel become available.

4. Issue: Are THDB interest rates to borrowers reasonable?

Discussion: The current $7\frac{1}{2}$ percent per annum (over 1 year) and $8\frac{1}{2}$ percent per annum (less than 1 year) interest rates do not appear to reflect either the cost of capital to the Bank nor the market rate. Rather the rates are historical figures used since pre-independence times and apparently now enshrined in Tanzanian financial lore. The Bank estimates that the cost of its money average out to somewhat more than 2.5 percent per annum and while "curb" rates cannot be estimated they are likely to be somewhat higher than THDB rates.

However, the Tanzanian environment still makes the THDB rates rational. The producers operate in a controlled economy where the government determines prices and marketing of major crops by law must be done through government channels. Thus, unless prices were raised, an increase in interest rates would reduce what the economic analyses demonstrate is not an excessive margin.

Conclusion: THDB interest rates are reasonable.

5. Issue: Should any U.S. funds provided be restricted to certain categories of borrowers?

Discussion: The loan application submitted by the THDB proposes three categories of borrowers for USAID funds - Ujamaa Cooperative Societies, Regional Cooperative Unions and District Development Corporations. All three groupings seem appropriate as potential borrowers. Ujamaa Cooperative Societies and Regional Cooperative Unions are private organizations directly controlled by the members (the majority are small producers) and operated for their benefit. The District Development Corporation are local government entities, responsible to local people, concerned with development at the District level.

Each of the groupings fills a definite need in Tanzanian rural development and each is concerned with the small, low income rural citizen (as is AID). As long as TRDB lends in the rural sector and insists on an economic analysis for all project, within the Tanzanian evironment of concern for income distribution and rural development, it seems reasonable not to exclude any of the three groupings mentioned, or other general categories which might be proposed, or potential loan applicants.

Recommendation: That no restriction be placed on categories of borrowers.

6. Issue: Should any USAID provided funds be restricted to specific geographic areas?

Discussion: There are several possible reasons that restricting loans to identified geographic areas might be desirable. First, the U.S. might have a specific interest in a particular region based on the presence of other U.S. supported projects. Second, it might be felt that under current practices a certain area is not receiving its fair share of development loans. Third, restricting the geographic area might allow limited funds to have a longer impact. Fourth, certain crops or activities could be emphasized in this manner.

Examining the Tanzanian situation it appears none of the above reasons for restriction are valid. Other U.S. projects are fairly well scattered. The TRDB is making a conscious effort to extend loans in all geographic regions. The funds proposed for USAID provision are sufficient in quantity to allow an impact in several areas. Emphasizing certain crops or activities could be done more effectively through other types of restrictions. There is also the danger that geographic restrictions coupled with a loan drawdown periods could lead to loans for/return projects or even projects not economically viable. /low A final conclusion is that as already discussed, the TRDB is an institution subject to government interest and direction. An on-going aim of the GOT is the equitable development of the rual areas. For the TRDB this translates into governmental concern over the geographic allocation of TRDB loan resources i.e. the democratic internal policies of the GOT will require the TRDB to maintain some geographic balance in the dispersion of loan funds. This type of balanced concern seems highly desirable and in our judgement adding a geographic requirement would be an undue restriction burdening what is now an effective loan disbursement process.

Recommendation: That no geographic restrictions be placed on any USAID provided funds.

7. Issue: Should AID limit the use of any loan/grant to specific sub-sectors of the rural sector?

Discussion: The principal purpose of the proposed U.S. assistance to the THDB is to strengthen the Bank as an institution i.e. help develop its capabilities to provide needed credit for economically viable rural sector projects in an efficient manner. A key element to be strengthened is the Bank's ability to evaluate sub-sector requirements, set priorities within and among sub-sectors and implement loans to achieve or support a given objective.

In achieving institutional competence it appears there is an inverse relationship between the number of limitations and requirements placed on any funds available and the institutional competence developed: more restrictions - less need and opportunity to develop THDB ability. For example, during our evaluation it became clear that the THDB is simply a conduit for a quantity of IDA funds aimed at specific crops - tea, tobacco. Decisions on who gets the funds for what purpose are made largely outside the THDB. Consequently these credits are contributing very little to THDB institutional capability and future viability even though they may be dramatically influencing short and medium term crop production.

While the foregoing argues for no sub-sector restrictions on funds provided there is some logical argument for AID assistance to THDB to relate to other on-going USAID interests in Tanzania. Several mutually supporting or collaborative projects increase the probability that each will be successful. In our judgement an effective compromise to achieve some link-up while maintaining the institutional development objective and making a distinction between loan and grant funds would be to place no sub-sector restrictions on the use of loan funds in the rural sector while limiting the use of grant funds to general areas in Tanzania of greatest USAID interest - the livestock and food crops sub-sectors.

This division has several advantages. Because the THDB would receive a substantial amount of relatively unrestricted funds the institutional development objective would have a greater chance of being met. At the same time the procedure would ensure that the sub-sectors of major USAID interest would receive additional support, without unduly restricting or limiting THDB lending decisions. The potential funding bottleneck in several areas which the THDB appears to be facing in the not too distant future would be at least temporarily alleviated, permitting a continued balanced development of the bank. A final advantage is the "equalization" effect from the THDB point of view of funds provided, i.e. grant funds with some lending restrictions compared to loan funds with no lending restrictions, which would reduce a possible tendency to perhaps first use only the grant funds.

Recommendation: That no rural sub-sector restrictions be placed on the use of loan funds while grant funds be restricted to use only in the livestock and food crops sub-sectors.

8. Issue: Should AID prior approval be required for THDB sub-loans exceeding a certain size?

Discussion: In general THDB loans are limited in size. The largest outstanding loans as of March 31, 1973 was Shs. 7,039,613 (approximately $1.0 million) to the Tabora Regional Cooperative Union for tobacco production. Only four other loans (all to Cooperative Unions) for transport, tea and tobacco, exceed Shs. 5,000,000 (approximately $715,000). A review of outstanding loan applications (March 31, 1973) reveals that most are under Shs. 1,000,000 (87 percent in number) with only three (for tobacco, cotton and a cattle ranch) exceeding Shs. 3,500,000 ($500,000). We do expect the average size of THDB loans to increase as the credit needs of growing borrower organizations expand. However, THDB's capability and experience should also grow enabling the continued effective handling of undoubtedly more complex loans.

Nevertheless there is, perhaps, some justification in placing a limit on the size of the sub-loans which can be made without AID-approval. This will help prevent excessively large loans for a limited number of projects. It will also serve to reinforce the THDB policy of making loans to viable projects throughout Tanzania. At the same time the limit must not be so low that it reduces the THDB to a simple conduit with no decision making responsibility, and consequently no opportunity to grow institutionally, nor so high that it does not include any anticipated loans. A reasonable amount in our judgement is Shs. 3,500,000 ($500,000). This is large enough to allow the THDB operating flexibility but less than the maximum size loans the THDB is making. It will allow the Bank to finance rather large, complex projects without consulting AID i.e. develop their institutional ability to handle large loans, while ensuring that AID funds are not tied up in a very small number of projects.

Recommendation: That a condition of the loan should require the THDB to obtain prior AID written approval for any sub-loans exceeding $500,000.

9. Issue: Should local currency financing be included in any AID financing provided?

Discussion: The THDB loan application identifies two general areas requiring local currency for which funds are requested. The first area is seasonal inputs which include improved seed produced in Tanzania through an AID assisted seed multiplication project. Storage construction utilizing local materials is the second. Both of the proposed uses of local currency financing are of high priority in Tanzania with the added advantage of potential excellent return on investment.

The amounts required for these purposes cannot be precisely determined. The application estimates that 10 percent of the proposed $3 million would go for storage. In addition improved seeds make up nearly one-half of the value of inputs utilized under the maize production example given in Appendix 6A of the loan application. Consequently if 50 percent of the USAID provided funds go for seasonal inputs approximately one-half of that would be used for improved seeds. Combining storage and improved seed we arrive at an estimated 35 percent of any AID funds proposed for local cost financing. In our judgement this is highly reasonable and to allow a margin of flexibility we recommend that 50 percent of any USAID financing provided be authorized for use in financing local currency costs.

Recommendation: That local currency financing be included in any loan/grant provided up to 50 percent of the total amount.

10. Issue: If provided, could and would U.S. funded technical assistance be effectively utilized by the TRDB?

Discussion: The TRDB recognizes that a lack of staff in certain positions is a problem which affects overall bank efficiency. Bank staff also report that locating Tanzanians with suitable qualifications and/or experience is highly unlikely in the immediate future. An immediate solution to the above problems is the provision of foreign technical experts with specific skills for an interim period while qualified Tanzanians can be employed and trained. The U.S. is a suitable source of the expertise required and from discussions, and the Loan Application itself, it appears that TRDB management are highly receptive to U.S. funded technical assistance and eager to have a number of operational experts provided. It should be pointed out that any personnel provided to the TRDB would be operational rather than advisory with the additional responsibility of supplying on-the-job training to one or more Tanzanian staff members. Clearly U.S. funded technical experts could be effectively utilized by the TRDB.

There is also substantial evidence that any technical assistance provided would be effectively utilized. The IDA has supplied experts in certain fields along with its credits. A number of expatriates with special skills including one American have been or are employed by the Bank. Our discussions indicated that the TRDB is utilizing these people and taking advantage of their skills. There is no reason to believe the same would not be true of USAID-financed personnel.

Conclusion: That the TRDB could and would make effective use of U.S. funded technical assistance and that AID should finance such assistance under TC/DG funding.

11. Issue: What amount of loan funds or capital grants can the bank effectively utilize?

Discussion: This is a complex question, the answer to which depends in part on the conditions attached to the funds. In general terms, as we have indicated earlier, the TRDB is planning a substantial expansion of credit extended, in a number of areas, for which source of funds have not been identified. In view of the developmental situation in Tanzania, GOT plans and TRDB performance to date, we feel the projections of future lending are reasonable and can be achieved while maintaining TRDB's principle of lending only for sound, economically viable projects. The loan application (Table 13, page 40) indicates a total net cash requirement (projected cash outflow minus projected cash inflow) for FY 1974-76 of Shs. 201,369,000, or about US$ 29.0 million. Of this deficit, perhaps Shs. 20.0-25-0 million, or US$ 2.9-US$ 3.5 may be obtained from other bilateral donors leaving an unmet balance of US$ 25.5 - US$ 26.1 m. The proposed USAID loan/grant of US$ 3.0 million would still leave an unmet net cash requirement in the neighborhood of US$ 22.5 - US$ 23.1 million.

Recommendation: That USAID make an initial loan/grant in the amount of US$ 3.0 million, as applied for, and make subsequent loans/grants as satisfactory handling of the initial loan/grant is demonstrated.

12. Issue: What procurement restrictions should be placed on the AID loan/grant to TRDB?

Before discussing what and how much the TRDB might procure under an A.I.D. loan, a review of the Bank's present practices is appropriate. All seasonal crop inputs procurement, such as insecticides, fertilizers, and improved seeds, is conducted on a competitive basis by the TRDB itself. Estimates of the coming annual requirement are made on the basis of loan applications in-hand or anticipated and realistic appraisal of regional and crop production targets. Capital inputs under medium and long-term loans such as trucks, tractors, and agricultural implements are not normally tendered as such. Prime consideration is given to manufacturer servicing capability in a specific geographic area, and secondarily to the brand name preferences of borrowers. TRDB "negotiates" price and terms with suppliers, presumably using its leverage as a government organization, and then places the order and pays the supplier directly.

TRDB competitive tendering, principally for seasonal crop inputs, follows closely A.I.D. procedures with local and foreign (via embassy) advertisement, 45-day tender period, sealed bids, and quotations on C.I.F. basis. The IDA requires for procurement under its credits that local suppliers be given a ten percent bid price advantage. TRDB representatives assured the A.I.D. team that this was not a TRDB or TanGov requirement and that the Bank would have no objection to the standard A.I.D. procedure of accepting lowest price, qualified bids. Insofar as potential for A.I.D. financing of seasonal crop inputs are concerned, the results are mixed. Improved seeds are produced locally (principally through an A.I.D.- supported program) and should present no procurement/financing problem assuming A.I.D. agrees to cover some local costs. The U.S. and certain other Code 941 countries are competitive in insecticides. However, while the U.S. and a number of Code 941 countries can compete well on an

FAS price basis, recent experience has shown that A.I.D. IFB fertilizer (DAP, TSP, etc.) prices quoted C.I.F. and with applicability of the 50/50 shipping rule are substantially higher than through regular commercial channels. Presumably some mechanism would have to be found to relive the borrower of at least some of the cost of U.S. flag vessel-transported fertilizer if meaningful use of the loan for this purpose to be anticipated.

THDB has a substantial need for foreign exchange with which to purchase trucks, farm tractors, and farm machinery but the opportunities for U.S. procurement of these items in compliance with Code 941 and the provisions of FAA Section 636(i) appear only modest.
A major area of THDB lending is tranport loans, chiefly to regional cooperative unions, for the purchase of trucks. The THDB has standardized procurement on a limited number of truck and bus makes with established service and spare parts capability in Tanzania. At present there are no dealers in Tanzania regularly handling American manufactured trucks, very limited stocks of spare parts and no service facilities with established capability in the repair of American trucks. Accordingly, the THDB (and REDSO/USAID) do not at this time forsee use of AID grant/loan proceeds for this category of procurement. The most popular tractors according to the THDB are Massey-Ferguson and Ford of non-U.S. manufacture prohibited from U.S. financing under FAA Section 636(i). John Deere and International Harvester (I.H) are also active in the Tanzanian market selling non-U.S. manaufactured models. A small number of U.S. manufactured tractors have been brought into the country through USAID financing (a few more will be arriving shortly and 26 will be procured under the second Agricultural Project Support Loan) with the agreement that the local representative (s) will stock spares and handle necessary servicing. The I.H. representative in Tanzania, State Trading Corporation, has a program to establish service facilities for U.S. manufactured models in Tanzania. While none exist now, IH expects to complete an Arusha facility (spare parts plus servicing) by the end of 1973 and to establish a facility in the Dar es Salaam. John Deere representatives have expressed a similar willingness to handle U.S.-manufactured models and to import and stock spare parts for them. John _/ manufactured models exist in Dar es Salaam and Arusha. Consequently it appears that in the Dar es Salaam area and the Arusha and Kilimanjaro Regions (one, perhaps two), U.S. manufacturers will be represented by a dealer who will be willing at some time in the future to stock spares and will have the capacity to service U.S. manufactured tractors.

The risk does exist, however, that service and spare parts will not prove to be adequate. For THDB-financed U.S. tractors, the situation is difficult because the tractors will not be grouped in a few project locations having facilities and personnel for repairs but rather will be scattered one tractor per village. A condition of AID agreement to provide funds for tractor inputs would be that adequate service and spares backstopping exist in the above specified areas of Tanzania at the time of procurement.

_/ Deere service facilities and spare parts for European

Even under optimum conditions, the prospects for large scale THDB financing of U.S. manufactured tractors and associated equipment appear limited. As of March 31, 1973, there were applications from the Dar es Salaam area and the Arusha and Kilimanjaro Regions for THDB financing of eleven tractors (approximately $100,000 total value). There may be as well a limited market for some non-motorized farm machinery of U.S. manufacture.

Finally, THDB is increasingly making loans for storage and distribution facilities, principally standard-design warehouses for food and cash crops. It is estimated that over 75% of the costs of construction would be local costs. Assuming A.I.D. agreement to permit a portion of its financing for local costs, this should present no serious procurement problems. The Bank's March 31, 1973 applications outstanding for storage and distribution categories amounted to over $350,000 equivalent.

Summarizing, under Code 941 there are some opportunities for A.I.D. financed procurement. Improved seeds, insecticides and storage facilities represent a real need and realistic opportunity. Less likely but still a possibility is AID-financed fertilizer purchases. We would consider AID-financing of the procurement of U.S. manufactured trucks unsound and do not recommend it. With restrictions there are possibilities for procurement of farm machinery of U.S. manufacture. Over a three-year span we might anticipate that A.I.D. financing of $3.0 million could be utilized as follows:

(a)	Insecticides	$ 200,000
(b)	Improved seeds	1,000,000
(c)	Farm equipment	350,000
(d)	Storage facilities	750,000
(e)	Fertilizer	400,000
(f)	Unspecified	300,000
(g)	Trucks	-
		$3,000,000

The above provisional allocation does not represent optimum distribution from the standpoint of agricultural development. Procurement per above would be of substantial help to the THDB, but greater effectiveness and efficiency would result if the provisions of Code 941 and FAA Section 636 (i) were not controlling.

An alternative procedure, which in the evaluation group's opinion has several advantages, is what might be called an "offset purchase" arrangement. Briefly, the concept is to make a loan/grant to the GOT for purchase of U.S. or Code 941 commodities of any sort. In turn the GOT would agree to make available to the THDB convertible Tanzanian shillings which could be used to procure needed commodities from anywhere in the world and partially for identified local costs in Tanzania. A variation would be to grant or loan the local cost portion of any financial assistance to the THDB and make the remaining amount a loan/grant to the GOT under the above agreement.

A senior advisor to the GOT Treasury tentatively estimated that under an "offset arrangement" U.S. financed Code 941 commodity imports might fall into the following categories and amounts: 1/

Category	Amount
Wheat	$1.0-2.0
Phosphate Rock (Jordan)	0.5-1.0
Caterpillar Tractor and Spares	0.5
Road Rollers, Graders, etc.	0.2
Construction Equipment	1.0-1.5
Total	$3.2-5.2

The major advantage of this "offset" approach is that the effect on U.S. balance of payments would be the same as under conventional loan/grant procedureswhile the TRDB would gain great flexibility in being able to procure exactly what was needed from the cheapest source, and would be able to utilize its loan funds with maximum efficiency. In essence the TRDB would receive greater resources from the same dollar input while the net effect to the U.S. would be the same.

An additional advantage is that the procedure would facilitate more rapid drawdown of loan/grant funds provided, but restricted to purchase of Code 941 source and origin goods, because the range of possibilities would be widely expanded.

Recommendation: That serious and first consideration be given to utilizing the "offset purchase" approach in implementing a loan/grant of at least $3.0 million, perhaps through the CIP procedure. However, if the "offset" approach is not considerable workable then a loan/grant on standard terms should be made.

1/ The advisor emphasized that thorough market analysis would probably reveal other product areas where U.S. goods would be competitive and suitable.

13. Issue: What should be the terms of an A.I.D. loan?

Discussion: As already noted, the Bank estimates that the cost of its money averages to somewhat more than 2.5 percent per annum. Quite modest, no doubt due in substantial part to continuing GOT capital infusions and grant-like foreign donor inputs. The "inputs" rates then, yield a spread of at least 5 percent based upon standard TRDB lending rates. The IDA Credit 8OTA to the TRDB has at the maximum a spread of 2 percent, but this is due in large part to the unusually low relending rate of 5½ percent.

There are two general reasons to believe that the standard TRDB spread of around 5 percent is appropriate. First, the bank is operating in a high risk area - the rural sector - where weather and other factors can cause substantial default rates or higher than perhaps "normal" collection costs (we believe the provision for reserves against anticipated losses of one percent of all approved loans, which is cited in the application, is extremely low). Second, the TRDB as we have argued will soon need additional capital. A method of securing part of these funds is through a spread higher than costs. An additional factor is the Bank's future lending plans, as reflected in the application's Table 13, indicate growing importance of short-term lending for which the risks are the highest.

It would appear that AID's most concessional loan terms would be appropriate for the loan portion of any AID financing. The two-step (AID to GOT to TRDB) approach suggests itself.

Conclusion: The loan should be on a two-step basis on the most concessional AID terms.

UNITED STATES GOVERNMENT

Memorandum

TO : Dr. John L. Withers, REDSO/EA

DATE: April 12, 1973

FROM : Leonard D. Hagerty

SUBJECT: Observations and Comments on Selected Financial Aspects of TRDB

The following observations and analysis of certain financial aspects of the Financial Department of the Tanzanian Rural Development Bank (TRDB) were made during a visit to the Bank on April 4-6, 1973.

In all businesses, management's basic functions are to determine the present position of the firm and plan its future needs. Financial analysis, by calculating strategic relationships, indicates the strength and weaknesses of the firm. From the present situation plans can be determined for the future.

Financial statements are one means providing the analyst with the data and figures for interpreting the present and future situation. However, most businesses tend to be individualistic in the manner of presenting their facts and data that are made available for public consumption and scrutiny. There are many reasons for this ranging from outright deception on one end of the spectrum to over-zealous honesty on the other end. Most businesses, however, do not fall at either end of the spectrum but tend to be grouped toward the center. Style of presenting financial data will reflect in many cases type of operations, experience or corporate policy. A long established family firm will tend to take a more modest position on unusual profits or loss for a given reporting period knowing that it will level out in the succeeding months, whereas a newly established growth company will go to great lengths to capitalize on high earnings or rationalize lower than expected earnings.

It is with this background then that the analysis of the TRDB's financial statements was undertaken. TRDB does practice individualistic styles of presenting (or not presenting) certain data and figures. Comments about these practices should be construed only as informative interpretations and not accusations. However, specific suggestions will be made when it is considered adviseable for TRDB to be encouraged to adopt new practices.

It is also recognized that TRDB is and will continually be faced with constraints of available money and talent. Comments and suggestions regarding the financial planning and asset management practices of TRDB will be challenged using the above limitations as justification. To a certain extent this argument is valid. Nevertheless the analysis and comments are made from the optimum level.

I. FINANCIAL ANALYSIS OF THE TRDB (SELECTED AREAS)

A. Financial Statements:

The financial statements under consideration were the Balance Sheet at December 31, 1972; Profit and Loss Account for the six-month period ended December 31, 1972; Comparison of Actual Income and Expenditure with estimates - Half year ended December 31, 1972; and the trial balances for October, November, December 1972 and January, February 1973.

The Profit and Loss Account for the six-month period ending December 31, 1972 reflected total income of Shs 2,317,789, expenses of Shs 3,294,1[illegible] and a resultant loss of Shs 976,407. However, a detailed examination revealed that two different accounting procedures were used in the preparation of the statement which distorts the picture of the true operations of the Bank. Income is reflected on a cash received basis, whereas expenditures reflect accruals. While consistent use of one or the other is acceptable in financial circles, overwhelming use of the accrual method seems to be more commonly used and accepted today. TRDB should also be encouraged to adopt the accrual method for reporting both income and expenses. In this case, the use of the accrued interest earned would reflect a turnaround situation from a loss of Shs 976,407 to a profit of Shs 2,043,077.

It was also learned that TRDB earns income from at least one other source, but this was not reflected in the Profit and Loss Account, nor was it made known through the use of a footnote or other explanation. TRDB has an invoice payment arrangement with the Lint & Seed Marketing Board for which TRDB receives a commission. For the six-month period October 1972-March 1973, it is estimated that TRDB will receive about Shs 200,000, half of which was probably earned by December 31, 1972. If this had been included in the Profit and Loss Account, profits at December 31, 1972 would then total Shs 2,143,077. TRDB should reflect all sources of possible income for analytical purposes and financial planning.

The status of the General Reserve Account on the December 31, 1972 Balance Sheet was stated as Shs 697,478. This, however, is a net figure. The practice of TRDB is to charge off the balance of the "Tractor Reserve" account and the operating Profit or Loss to the General Reserve Account. In general practice, operating profit or loss is usually reflected in a Retained Earnings Account which shows the balance of the account and the cumulative activity for the reporting period. The "Tractor Reserve" account was picked up from the defunct National Development Credit Agency and represents potential accounts receivable for TRDB. Without questioning the relative merits of whether TRDB should or should not charge "Tractor Reserve" and "Profit or Loss" to the General Reserve Account, it would appear that the status of the General Reserve Account would be more easily interpreted if presented in the following manner on the Balance Sheet:

General Reserve Accumulations	Shs 5,049,949	
Less: Tractor Reserve Account	(3,378,397)	
Add (Deduct) Profit (Loss)	(97[illegible])	
Net General Reserve		697,478

It also appears that the Balance Sheet and Profit and Loss Account are not being prepared entirely from the accounts and balances as reflected on the Trial Balance Statement. Examples are:

1) Profit and Loss Account reflects depreciation expense, Shs 118,500. No depreciation expense account listed in trial balance statement.

2) Accumulated depreciation as shown on the Balance Sheet does not agree with the figures on the trial balance.

3) Balance Sheet shows a liability for the provision of Shs [illegible], but there is no corresponding debit entry for the expenses in the Profit and Loss Account, nor can it be readily discernible elsewhere in the balance sheet.

4) Balance Sheet reflects "Issued Share Capital" as Shs 47,000,000 whereas the Trial Balance Statement for the same account is Shs 47,[illegible].

F. Financial Planning:

Management must make effective use of the capital at its command and the essence of capital management is good forecasting and planning. Planning is setting the objectives of the company and the means of achieving them. Planning forces all levels of management to think ahead and provides standards with which to measure subsequent performance. Plans also provide a more accurate measure than an indiscriminate reliance on historical performance for they also consider the future and those external factors which affect business operations. Overall business planning is translated into financial planning through the use of budgets, and projected financial statements.

Budgets are nothing more than the plans of the company expressed in dollars. They provide management with a measure of the expected results of the various proposed operating plans. They also serve as operating guides to lower level management and department heads, and they measure performance.

The analysis of TVCB indicates that the Financial Department is considerably weak in financial planning. Financial planning seems to be restricted to preparation (and revision) of a yearly annual operating budget and heavy reliance on historical experience or "weather vane" readings. [illegible] formal budgets or schedules appear to be prepared solely to satisfy external requests (in some cases these are not even prepared by the Finance Department) and once submitted are not used or up-dated on a continuing basis.

Projected Balance Sheet, Profit and Loss Account and Cash Flow Schedule for the years 1973-1976 [illegible] in the TVCB loan application submission to [illegible], but these reports were not prepared by the Finance Department and are not used by them as financial management tools.

The TVCB Finance Department must prepare, use, and continually up-date a cash budget. The budget provides valuable information on the timing of cash receipts and disbursements and tells when, how much and how long they will be over or short in the cash account. The cash budget is also essential for preparing cash flow schedules. As it stands now, TVCB is unable to determine the optimum months when or when not to draw down available credits. This is especially important due to the fact that TVCB has limited alternatives for use of excess cash if the situation arises. Based on information drawn from the cash budgets TVCB should [illegible] from their continuing financial operations the preparation and up-dating of project Balance Sheet and Profit and Loss Statements.

The above requirements are essential in order for the Finance Department to properly manage the funds entrusted to them, and to present realistic schedules to [illegible] for the timing and size of drawdowns of the proposed loan.

C. Asset Management:

Asset Management is really a follow-on to Financial Planning and encompasses all assets, current and fixed. Observations made at TVCB, however, will be restricted to the cash account and fixed assets.

1. Asset Management - Cash: The management of the cash account entails consideration of the need for a cash balance, the risk and cost aspects of inadequate or excessive cash positions and [illegible] techniques of conserving and investing cash resources. Inasmuch as TVCB is not involved in formal management of their cash account they are unable at any time to make prudent forecasts or decisions regarding their cash position or lack of it. They do not prepare a schedule of alternative uses of excess funds, and consequently they are unaware of the size or

magnitude of the opportunity costs they may be incurring. Conversely the lack of a schedule of payment priorities restricts prudent decisions in times of cash shortages.

Although TRDB has arranged for telegraphic transmission of the tobacco loan repayments, they do not seem to have spent much time in developing quicker means in transmitting figures on other loan repayments or income generations. Cash requirements seem to be based on the balance in the cash account rather than including an estimate for the "float" factor of cash in transit.

It is recommended that TRDB be strongly encouraged to devote considerable more staff time in the management of the cash account position of the bank.

B. Fixed Assets: TRDB has limited fixed assets and not much staff time need be devoted in the management of these assets. There is one little peculiarity, however, that should be discussed further to see if the practice should be continued or changed.

TRDB depreciates their fixed assets on a straight line basis applying [illegible] for buildings, 20% office equipment, 10% hard furnishings, and 20% vehicles. At present TRDB is required to pay 40% corporation tax on profits. I am told, however, that before taxes are levied the tax department has a different set of depreciation rates which are applied to compute adjusted depreciation. If this is a true picture and if the tax department's depreciation rates are going to be applied for the computation of tax it would seem that TRDB should automatically convert to the new depreciation rates.

D. Summary:

The foregoing analysis appears to give the impression that the Financial Department is an incompetent and unproductive department of the TRDB. This is not true. As stated earlier, the analysis and comments are not to be construed as condemnations but are presented from the optimum level of how a highly efficient and profitable banking institution should operate.

Generally the Finance Department is performing in an adequate manner, given the limitations of time and talent.

The accounting department has been constructed with a sound double entry bookkeeping system which has been mechanized using an NCR machine. The system runs smoothly enough to enable the Finance Department to turn out accounting reports in a timely and accurate manner after the end of the reporting period.

However, the Finance Department does need strengthening. It needs strengthening in the financial planning, control, and reporting areas.

At present the position of Finance Manager is vacant and efforts are underway to recruit an expatriate manager. This is good in the short term, but one must not forget that expatriate personnel are of a limited time duration. Efforts must also be made to qualify indigenous personnel to take over these responsible positions for the long term.

The answer to THDB's long term objectives of becoming an efficient and profitable development bank do not rest with the recruitment of one finance manager. In this respect USAID should give consideration to supplying financial expertise concurrently with or prior to approving a development loan.