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PXD-ABD-904-A

FINANCE AND ENTERPRISE DEVELOPMENT (FED)

VOLUME I & II

ANNEXES A-J

PROGRAM PROJECT DESCRIPTION
AND
SUPPLEMENTARY APPROVAL DOCUMENT

USAID/TANZANIA

JUNE 1992

FINANCE AND ENTERPRISE DEVELOPMENT IN TANZANIA
(NPA: 621-0175; Project: 621-0176)

PROGRAM ASSISTANCE APPROVAL DOCUMENT

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LIST OF ACRONYMS AND ABBREVIATIONS

AIDS	Acquired Immune Deficiency Syndrome
AMREF	African Medical Research and Education Foundation
APDF	Africa Project Development Facility
ATAP	Agricultural Transport Assistance Program
BFIA	Banking and Financial Institutions Act
BOT	Bank of Tanzania
CCM	Chama Cha Mapinduzi
CDC	Commonwealth Development Corporation
CIDA	Canadian International Development Agency
CIP	Commodity Import Program
CRDB	Cooperative and Rural Development Bank
CTI	Confederation of Tanzanian Industries
DANIDA	Danish International Development Agency
DEG	Deutche Investitions und Estwicklungsgesellschaft
DFA	Development Fund for Africa
DJIT	Diamond Jubilee Investment Trust
EC	European Community
EI	Entrepreneurs International
ERP	Economic Recovery Program
ESAP	Economic and Social Action Program
ESF	Economic Support Fund
ESOP	Economic Stock Ownership Plan
FED	Finance and Enterprise Development
GDP	Gross Domestic Product
GOT	Government of Tanzania
GTZ	German Technical Assistance Corporation
HIV	Human Immuno-Deficiency Virus
ICOR	Incremental Capital Output Ratio
IEE	Initial Environmental Examination
IESC	International Executive Service Corps
IFC	International Finance Corporation
IMF	International Monetary Fund
IPC	Investment Promotion Center
JICA	Japanese International Cooperation Agency
LART	Loans and Advances Realization Trust
LC	Letters of Credit
MOF	Ministry of Finance
MOH	Ministry of Health

NACP	National AIDS Control Program
NBC	National Bank of Commerce
NIC	National Insurance Corporation
NGO	Non-governmental Organization
NPF	National Provident Fund
NPV	Net Present Value
ODA	Overseas Development Assistance
OE	Operational Expense
OGL	Open General License
PAAD	Program Assistance Approval Document
PAIP	Program Assistance Initial Proposal
PBZ	People's Bank of Zanzibar
PFP	Policy Framework Paper
POSB	Post Office Savings Bank
PSC	Personal Services Contract
REDSO	Regional Economic Development Services Office
SIDA	Swedish International Development Agency
SME	Small-Medium Enterprise
SOE	State Owned Enterprise
STD	Sexually Transmitted Deseases
TAC	Tanzania Audit Corporation
TAZARA	Tanzania-Zambia Railway Authority
TB	Tuberculosis
TCCIA	Tanzania Chamber of Commerce, Industry and Agriculture
TDFL	Tanzania Development Finance Company Ltd.
THB	Tanzania Housing Bank
TIB	Tanzania Investment Bank
TPTC	Tanzania Posts and Telecommunication Corporation
UNDP	United Nation Development Programme
USAID	U.S. Agency for International Development
USDH	U.S. Direct Hire
WHO	World Health Organization
WID	Women In Development
ZIC	Zanzibar Insurance Corporation

AID 1120-1	AGENCY FOR INTERNATIONAL DEVELOPMENT	1. PAAD No. 621-175
PAAD	PROGRAM ASSISTANCE APPROVAL DOCUMENT	2. COUNTRY TANZANIA
		3. CATEGORY Private/Financial Sector Assistance Program
		4. DATE August 28, 1992
		6. OYB CHANGE No. N/A
5 TO. Dale Pfeiffer, Director, USAID Tanzania		8. OYB INCREASE TO BE TAKEN FROM N/A
5 FROM. Thomas Driscoll, Acting PDO/USAID Tanzania		
9. APPROVAL REQUESTED FOR COMMITMENT OF: $ 10,000,000		10. APPROPRIATION – BUDGET PLAN CODE: 72-112/31014 GSS2-92-31621-KG39

11. TYPE FUNDING	12. LOCAL CURRENCY ARRANGEMENT	13. ESTIMATED DELIVERY PERIOD	14. TRANSACTION ELIGIBILITY DATE
LOAN GRANT X	INFORMAL FORMAL NONE X	10/92-9/94	Upon Fulfillment of Conditions

15 COMMODITIES FINANCED

This is a sector assistance grant. However, because dollar tracking is required, the Government of Tanzania has agreed to use the funds for commodity procurement from Code 935 countries by private individuals and commercial firms. A negative list of goods disallowed for procurement using A.I.D. grant funds will restrict procurement under the grant.

- The Mission Controller has reviewed and approves the methods of implementation and financing contained herein, including the management of local currency under the Program.

16 PERMITTED SOURCE		17. ESTIMATED SOURCE	
U.S. ONLY.		U.S.:	
LIMITED F.W.:		INDUSTRIALIZED COUNTRIES:	$ 10,000,000
FREE WORLD.	$ 10,000,000	LOCAL:	
CASH.		OTHER:	

18 SUMMARY DESCRIPTION

See Attached Text

19 Clearances	Date
PAIP: STATE 136107	APRIL 30, 1992
RLA: CBrown (Draft)	6/18/92
RLA: AVance (Revision)	8/25/92
CONT: KRomwall	8/24/92
PO: JCRose	8/24/92

August 28, 1992

Authorized Signature Date

Title. Dale Pfeiffer, Director, USAID Tanzania

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Summary Description

(PAAD Facesheet, block 18)

I. Introduction. The attached PAAD describes a non-project sector assistance cash transfer involving planned obligations and disbursements of $40,000,000 in Program funds over a three year period, based on certain policy changes in the financial sector in Tanzania, as reflected below, and a related $10,000,000 support project to be obligated over a five year period, to fund project activities until the PACD of September 30, 1997. The following description outlines the non-project assistance component of the overall Program and refers, where necessary, to elements of the project component. For a more complete description of the project activities, refer to Section IV of the PAAD and the separate Project Authorization.

II. Program Goal and Purpose. The GOAL of the FED Program is to stimulate income increases in Tanzania. The PURPOSE of the FED Program is to foster income earning opportunities for the un- and under-employed by stimulating private enterprise growth. This purpose will be accomplished (a) by helping to establish a financially sound and diverse financial sector capable of meeting the challenges posed by the move to a market economy; and (b) by helping to mobilize a private sector response to the opportunities created by the gathering pace of liberalization.

III. Program Grant Agreement. The Program Grant Agreement, which shall be executed by the officer to whom authority has been granted in accordance with A.I.D. regulations and Delegations of Authority, shall contain the following essential terms and conditions, together with such other provisions as such officer deems necessary or appropriate:

Conditions Precedent to Disbursement of Program Dollars.

First Tranche. Prior to the first tranche of the Grant, which shall be in the amount of Ten Million U.S. Dollars ($10,000,000), Grantee shall, except as the Parties may otherwise agree in writing, furnish to A.I.D., in form and substance satisfactory to A.I.D.:

(a) a statement of the name of the person holding or acting in the office of the Grantee authorized to represent Grantee for purposes of this Program, and of any additional representatives, together with a specimen signature of each person specified in such statement;

(b) Documentation that the Grantee has established a separate, non-commingled Special Local Currency Account for deposits of local currency as required by the Program Grant Agreement. The amounts of deposits required to be made by Grantee into such account and permissible utilization of said deposits are set forth below.

(c) Evidence that the Bank of Tanzania has:

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(i) completed its internal review of the Bank of Tanzania Act to ensure consistency with the Banking and Financial Institutions Act of 1991;

(ii) elevated the Bank Supervision Department to Directorate Status;

(iii) completed the Capital Adequacy and Asset Concentration regulations;

(iv) scheduled loan portfolio reviews for TIB and THB.

(v) inaugurated discount window surveillance by monitoring the amounts and quality of credit extended.

(vi) initiated (prepared Terms of Reference for) the design of a secondary market in government securities.

(vii) within the context of the amendments planned for the 1965 BOT Act, prepared a plan to (a) phase out setting of credit terms, (b) eliminate administratively allocated credit, and (c) become a "lender of last resort" for the banking system.

(viii) accepted responsibility for interbank check clearing.

(ix) prepared a regulatory and legislative agenda to define the sequence of actions required to lay the groundwork for a private insurance industry.

(x) assessed options for moving further toward a fully market based foreign exchange regime.

Second Tranche. Prior to the second tranche of the Grant, which shall be in the amount of Fifteen Million U.S. Dollars ($15,000,000), Grantee shall, except as the Parties may otherwise agree in writing, furnish to A.I.D., in form and substance satisfactory to A.I.D., evidence that the Bank of Tanzania has:

(a) completed drafting amendments to the Bank of Tanzania Act of 1965;

(b) completed and adopted the revised Manual of Inspection Policies and Procedures to reflect the new prudential regulations;

(c) initiated one full-scale external bank examination;

(d) completed portfolio reviews for at least one of the financial institutions mentioned above (TIB, THB);

(e) initiated use of changes in the discount rate to influence the amount of loans extended to the economy by the banks;

(f) completed drafting of regulations to implement the government securities market;

(g) further liberalizes interest rate policy be eliminating the maximum lending rate;

(h) assessed alternative interbank check clearing mechanisms;

(i) drafted legislation enabling a private insurance industry;

(j) continued progress toward a unified, market-determined foreign exchange allocation mechanism.

Third Tranche. Prior to the third tranche of the Grant, which shall be in the amount of Fifteen Million U.S. Dollars ($15,000,000), Grantee shall, except as the Parties may otherwise agree in writing, furnish to A.I.D., in form and substance satisfactory to A.I.D., evidence that:

(a) Grantee has adopted legislation permitting private insurance industry to operate; and that

(b) Grantee has adopted a unified, market determined exchange rate; together with evidence, in form and substance satisfactory to A.I.D., that the Bank of Tanzania has:

(c) become subject to the amended Bank of Tanzania Act (i.e., that the law has been adopted);

(d) completed its assessment of effectiveness of the bank supervision and regulation process;

(e) initiated a second full-scale external bank examination;

(f) completed portfolio reviews for the second of the two financial institutions mentioned above (TIB, THB);

(g) initiated a secondary market in government securities;

(h) ceased exercising its power to allocate credit;

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(i) implemented a discount policy consistent with its role as lender of last resort; and

(j) initiated interbank check clearing functions.

Uses of Dollars.

Special Dollar Account. The Grantee shall deposit all U.S. dollar funds disbursed to it by A.I.D. under this Program into a separate, Special Dollar Account in the name of the Cooperative and Rural Development Bank, Dar es Salaam, or such other bank as A.I.D. may agree to in writing, maintained at all times in an interest bearing account with a U.S. banking institution acceptable to A.I.D. Interest earned by such account shall be maintained therein and used only for the same purposes as the principal may be used. Except as A.I.D. may otherwise agree in writing, no funds other the U.S. dollar funds disbursed under this Program and interest earned thereon shall be deposited into or otherwise commingled with such account.

Import Financing Facility. Subject to the provisions of the Program Grant Agreement, dollars disbursed into the Special Dollar Account hereunder and interest earned on such funds will be allocated only to private, or with separate written authorization from A.I.D., public sector importers in Tanzania, in accordance with the regulations of the Bank of Tanzania as are acceptable to A.I.D., in the same manner as funds under the Agricultural Transport Assistance Program (Program No. 621-0166) are now accessed, or in such other manner as the Parties shall mutually agree, provided that the commodities which shall be eligible for financing by Grantee shall conform to the positive and negative lists of commodities set forth below. Each such list may be subject to adjustment by Program Implementation Letter in accordance with the provisions of the Program Grant Agreement. As outlined in the PAAD discussion of the project component, efforts will be made to maximize U.S. procurement whenever practicable.

Commodities Positive List

A. Hand tools for machinery maintenance and repair, and for construction.

B. Machine tools for manufacturing and industrial production.

C. Generator sets and pump sets.

D. Computers, telecommunications equipment, and other business machines.

E. Cargo handling equipment and machinery.

F. Equipment required for industrial and manufacturing plants.

G. Equipment required for commercial building construction (heating and air conditioning, elevator mechanisms, industrial windows, doors, and other fittings).

H. Equipment required for agroindustrial production and processing.

Commodities Negative List

A. Unsafe and ineffective products, such as certain pesticides, food products, and pharmaceuticals.

B. Luxury goods, such as recreational supplies and equipment, alcoholic beverages and equipment or products for their production or use, equipment or supplies for gambling facilities, jewelry, stamps, coins, furs, and the more expensive textiles.

C. Surplus or used items.

D. Items for military use.

E. Weather modification equipment.

F. Surveillance equipment of micro-miniature design for audio surveillance activities.

G. Commodities and equipment for the purpose of inducing abortions as a method of family planning.

H. Commodities for support of police or other law enforcement activities.

I. Waste and scrap products.

J. Consumer goods and items for domestic or household use, such as household furniture, cookware, footwear, clothing and processed foodstuffs.

K. Over the road passenger and cargo vehicles.

Special Local Currency Account.

The Grantee will establish and maintain a Special Local Currency Account in the Cooperative Rural Development Bank (CRDB) or such other banks which may be agreed to by the Parties. The Grantee will cause all importers, public or private, utilizing U.S. Dollar funds allocated under the Grant to deposit in the Special Local Currency Account currency of the Government of Tanzania an amount equivalent to their U.S. Dollar allocations. All currency of the Government of Tanzania generated from the allocation of Grant funds to public and private importers shall be deposited in the Special Local Currency

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Account. The amount of Tanzanian Shillings to be deposited into the Special Local Currency Account shall be the Tanzania Shilling equivalent of each U.S. Dollar allocation made to a public or private importer from the Special Dollar Account, determined by using the highest official rate of exchange of U.S. Dollars into Tanzanian Shillings prevailing in Tanzania on the date the full amount of Local Currency is deposited by or for the public or private importer.

Local Currency Use. The local currency generated under the Program will be put to two different uses: (a) the USAID/Tanzania Operating Expense and Program Trust Fund, and (b) a Social Action Trust.

OE and Program Trust Fund. Ten percent of the local currency generations will be reserved for an Operating Expense and Program Trust Fund for use in defraying the costs incurred by USAID/Tanzania in the operation of its Programs in Tanzania. The local commercial bank managing the Special Local Currency Account will arrange for ten percent of the deposits into the Account to be deposited into the A.I.D. Operating Expense and Trust Fund account on a quarterly basis. A portion of the local currency generations in the account, not to exceed one half of the total, will be available for use in meeting the local costs (chiefly training costs) incurred in implementing the Bank of Tanzania Support Package and the Business Services Center.

Social Action Trust. The remainder of the local currency generations will be disbursed from the Special Local Currency Account to capitalize a Social Action Trust (the "Trust"), to be established in accordance with Tanzanian law and practice. The objectives of the Social Action Trust will be (a) to invest in the Tanzanian private sector, working through existing financial institutions and new institutions as they arise; and (b) use earnings from interest and investments to make grants to non-governmental organizations (NGOs) to strengthen Programs to assist AIDS orphans in becoming productive members of society.

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XD-ABD-904-A
96803

AGENCY FOR INTERNATIONAL DEVELOPMENT

PROJECT DATA SHEET

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

DOCUMENT CODE: 3

COUNTRY/ENTITY: TANZANIA

3. PROJECT NUMBER: 621-0175

4. BUREAU/OFFICE: USAID/TANZANIA [06]

5. PROJECT TITLE (maximum 40 characters): FINANCE AND ENTERPRISE DEVELOPMENT

6. PROJECT ASSISTANCE COMPLETION DATE (PACD): MM 07 DD 30 YY 97

7. ESTIMATED DATE OF OBLIGATION (Under 'B.' below, enter 1, 2, 3, or 4)
A. Initial FY 92 B. Quarter 4 C. Final FY 96

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

A. FUNDING SOURCE	FIRST FY 92 B. FX	C. L/C	D. Total	LIFE OF PROJECT E. FX	F. L/C	G. Total
AID Appropriated Total						
(Grant)	(2,000)	( )	(2,000)	(10,000)	( )	(10,000)
(Loan)	( )	( )	( )	(-)	( )	( )
Other U.S. 1.						
Other U.S. 2.						
Host Country	10,000		10,000	40,000		40,000
Other Donor(s)						
TOTALS	12,000		12,000	50,000		50,000

9. SCHEDULE OF AID FUNDING ($000)

A. APPROPRIATION	B. PRIMARY PURPOSE CODE	C. PRIMARY TECH. CODE 1. Grant	2. Loan	D. OBLIGATIONS TO DATE 1. Grant	2. Loan	E. AMOUNT APPROVED THIS ACTION 1. Grant	2. Loan	F. LIFE OF PROJECT 1. Grant	2. Loan
(1) DFA	130	060		2,000		2,000		10,000	
(2)									
(3)									
(4)									
TOTALS				2,000		2,000		10,000	

10. SECONDARY TECHNICAL CODES (maximum 6 codes of 3 positions each): 150 | 110 | 810

11. SECONDARY PURPOSE CODE:

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

A. Code	BR	BL	BU	DEL	INIR	EQTY
B. Amount	2,000	2,000	2,000	2,000	2,000	10,000

13. PROJECT PURPOSE (maximum 480 characters)

The purpose of the Finance And Enterprise Development Program is to to foster income earning opportunities for the Un-and under- employed by stimulating private enterprise growth.

14. SCHEDULED EVALUATIONS
Interim MM 01 YY 95 | MM YY | Final MM 08 YY 97

15. SOURCE/ORIGIN OF GOODS AND SERVICES: [ ] 000 [ ] 941 [ ] Local [X] Other (Specify) 935

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

- N/A -

17. APPROVED BY
Signature: Dale B. Pfeiffer
Title: MISSION DIRECTOR
Date Signed: MM 08 DD 29 YY 92

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

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PROJECT AUTHORIZATION

Tanzania
Finance and Enterprise Development Program Support Project
Project No. 621-0176

1. Authorization. Pursuant to Section 496 of the Foreign Assistance Act of 1961, as amended, and Title II of the Foreign Operations, Export Financing and Related Programs Appropriations Act of 1992 (Sub-Saharan Africa, Development Assistance) as incorporated into the FY 1992 Continuing Resolution, I hereby authorize the Finance and Enterprise Development Program Support Project for Tanzania, involving planned obligations not to exceed Ten Million United States Dollars ($10,000,000) in grant funds, to be obligated over a five year period, subject to the availability of funds in accordance with the A.I.D. OYB/allotment process, to help in financing foreign exchange and local currency costs for the Project. The planned Project Activity Completion Date ("PACD") is September 30, 1998.

2. Project Purpose. This Project is a component of the Finance and Enterprise Development Program for Tanzania, the other component of which is a $40,000,000 non-project sector assistance cash transfer, involving certain policy reforms in the financial sector in Tanzania. The purpose of the overall FED Program and this support project is to foster income earning opportunities for the un- and under-employed by stimulating private enterprise growth. This purpose will be accomplished (a) by helping to establish a financially sound and diverse financial sector capable of meeting the challenges posed by the move to a market economy; and (b) by helping to mobilize a private sector response to the opportunities created by the gathering pace of liberalization.

3. Project Agreement. The Project Grant Agreement, which may be negotiated and executed by the officers to whom such authority is delegated in accordance with A.I.D. regulations and Delegations of Authority, shall be subject to the following essential terms and covenants and major conditions, together with such other terms and conditions as A.I.D. may deem appropriate:

3.1 Source and Origin of Commodities; Nationality of Suppliers of Services

Except as A.I.D. may otherwise agree in writing, disbursements under the Project will be used exclusively as follows:

(a) to finance the costs of goods and services required for the Project having, with respect to goods their source and origin, and with respect to suppliers of services their nationality, in Code 935 of the A.I.D. Geographic Code Book as in effect at the time orders are placed or contracts entered into for such goods or services ("Foreign Exchange Costs"), except for ocean shipping and air travel and transportation services to and from the U.S.

(see below) and except as provided in the Project Grant Standard Provisions Annex, Section C.1(b) with respect to marine insurance;

(b) to finance ocean shipping services in compliance with the 50/50 shipping requirements of the U.S. Cargo Preference Act; and

(c) to finance air travel and transportation services to and from the U.S. on U.S. flag carriers to the extent such service is available within the terms of the U.S. Fly America Act.

(d) Notwithstanding the foregoing, all reasonable efforts shall be made to maximize procurement of goods and services from the U.S.

3.2 Condition Precedent. Except as A.I.D. may otherwise agree in writing, prior to any disbursement under the Project, or to the issuance by A.I.D. of documentation pursuant to which such disbursement will be made, the Grantee shall furnish or have furnished to A.I.D., in form and substance satisfactory to A.I.D. a written statement setting forth the names and titles of persons holding or acting in the Office of the Grantee and of any additional representatives, and representing that the named person or persons have the authority to act as the representative or representatives of the Grantee, together with a specimen signature of each such person certified as to its authenticity.

Dale Pfeiffer
Director
USAID Tanzania

Date: August 26, 1992

II. Background

Tanzania has made solid progress in economic policy reform within the framework of the 1986 Economic Recovery Program (ERP) and subsequently the 1989 Economic and Social Action Program (ESAP). With major pieces of the reform program now in place, some important problem areas have come into clearer focus. These include consolidating financial sector reform and helping the private sector fill the vacuum created by the withdrawal of state agencies from the financial and productive sectors. A cross-cutting issue is enhancing the role that improved public-private dialogue may play in sharpening public policy debate and hastening the policy reform process.

A. Macroeconomic Overview: Solid Gains Since 1986

The objectives of Tanzania's 1986 ERP, supported by the IMF (an 18-month standby arrangement) and the World Bank (a multisectoral credit), were to achieve a positive rate of growth in per capita GDP, to lower the rate of inflation, and to restore a sustainable balance of payments position. Key policy changes included (a) flexibly-set market-based consumer and producer prices, (b) exchange rate and interest rate adjustments, and (c) reduction of the fiscal deficit and the rate of growth of domestic credit.

This basic program was continued and augmented in 1987/88, again with IMF support (a three-year structural adjustment facility) and World Bank support (agricultural and industrial sector credits), to address (a) rehabilitation of transport infrastructure, (b) improved processing and marketing of agricultural products and inputs, and (c) increased efficiency in the financial sector.

In 1991 the pace of reform increased with further IMF support (a three-year enhanced structural adjustment facility) and World Bank support (a financial sector adjustment credit). Current reform objectives include (a) increasingly flexible exchange rate management, (b) broadening the revenue base, restructuring public expenditure, and improving expenditure control, (c) transforming the institutional structure of the financial sector and liberalizing interest rates, (d) privatization of parastatals and civil service reform, and (e) continued liberalization of food crop, export crop, and agricultural input marketing. Tanzania's performance within this broad and rapidly expanding reform program has been encouraging; per capita GDP is growing in real terms for the first time in years, and inflation is down substantially. But some other areas are still troublesome.

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External Sector. The premium paid in the parallel market for foreign exchange has declined from over 800 percent in 1985 to 40-50 percent in 1990-91, and approximately 30-40 percent in mid 1992. Several mechanisms provide increasingly free access to foreign exchange: since 1984 the "own-funds" import scheme has provided import licenses freely to importers not requesting foreign exchange from the Bank of Tanzania; an Open General License (OGL) system was introduced in 1988 and significantly expanded in 1990; the 1982 export retention scheme, expanded in 1986, authorizes exporters to retain a proportion of their foreign exchange earnings; a duty drawback scheme allows exporters to recover the duty on their imported input; and private foreign exchange bureaus started business in April 1992. Exports, particularly of nontraditional goods, have responded well to exchange rate adjustments, and imports have also increased, resulting in strong competition for domestic (often parastatal) industries. But the overall balance of payments has remained weak, with the current account deficit standing at 79 percent of exports in 1989/90, a reflection of large increases in donor-financed commodity imports.

Budget. From 1985/86 to 1989/90 the budget deficit declined from 7.9 percent to 4.2 percent of GDP, and the role of the domestic banking system in financing the deficit is now minimal. During this time the tax system has been simplified. With respect to customs tariffs, the number of rates, the maximum rates, and the number of exemptions have all been reduced. The sales tax base was broadened and the number of rates reduced. User charges for government services were introduced in health and education, and a number of steps have been taken to improve collection. Expenditure control has been markedly less successful, leading to substantial unbudgeted and supplementary expenditures. A Presidential Tax Commission has completed work on a major overhaul of the tax system, and many of the recommendations have been incorporated into the June 1992 budget speech.

Monetary and Credit Policies. Domestic credit growth has consistently exceeded program targets, and broad money has grown an average of 33 percent per year as against targets averaging 14 percent. The main cause has been continued extension of credit to agricultural marketing institutions, particularly the National Milling Corporation, but also including this past year cotton cooperative unions. Other aspects of financial reform have gone well. Interest rates, substantially negative for years in real terms, have been liberalized within an overall ceiling of 31 percent, which is above the rate of inflation (20 percent), and which is subject to periodic readjustment. The loan portfolios of the commercial banks are being classified (with USAID assistance), with the aim of transferring bad loans to the newly instituted Loans and Advances Realization Trust (LART), managed by the Treasury. The LART will liquidate the assets of the defaulter. This

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will result in a substantial liquidation of defaulter's assets and the removal of many insolvent parastatals from the banking system. Private banks have been legalized; several local groups are maneuvering to arrange the necessary financing, and two well-known international banks have let it be known they intend to establish themselves in Tanzania during 1992. All government financial institutions are being appraised in preparation for drastic restructuring of finances, staffing, and operations.

Public Management. Management of the public sector remains weak in respect to strategy implementation, budgeting, financial management, and civil service performance. Nevertheless some genuine progress has been made: 16,000 ghostworkers have been removed from the public payroll; the perennially money-losing National Milling Corporation has cut its staff from over 2700 to about 1400 while closing down 85 branches, depots, and sales outlets, and has shut down all noncommercial operations; the equally wasteful Coffee Marketing Board has closed 14 of 16 field offices while reducing field and head office staff from 869 employees to just 119; several dozen parastatal corporations have been wholly or partially privatized, and more deals are in the works. But privatization is generally expected to proceed slowly to accomodate political vulnerabilities, while widespread petty corruption in the civil service (an inevitable consequence of meager salaries) is apparently on the increase. A planned World Bank credit to strengthen public management, which is expected to become effective in 1992 and specifically address parastatal and civil service reform, may support improvement in these difficult areas.

B. Issues in Financial and Enterprise Development

The reform program outlined above would be difficult to undertake in any country, but in Tanzania there are some particular hurdles to overcome. Given the rapidity of the move toward economic and political liberalization, many people in government and in the country at large are frankly bewildered at what to do next in a country where political commissars and central planners no longer call all the shots. These considerations mean that policy implementation must be accorded as much attention as policy formulation, and imply as well that a ready response to new opportunities cannot be taken for granted. The paragraphs below examine two areas where these concerns are particularly prominent: financial sector development and private enterprise development.

Financial Sector Development. Current issues in the financial sector have to do with refining government policy and regulatory adjustments, and compensating for shallow institutional infrastructure. All observers agree that successful financial sector reform is key to

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successful privatization, increased private investment, and broad and sustained economic growth. Some big steps have already been taken within the context of the 1991-1992 World Bank Financial Sector Adjustment Credit, but there are a number of constraints to further development of the financial sector that flow from flaws in the policy, regulatory and institutional environment. These include the following: outmoded legislation that inadequately defines the role of the central bank (Bank of Tanzania), inadequate supervision and regulation in the banking sector, lack of fully-implemented prudential regulations and practices, absence of competition among financial institutions, little diversity in the mechanisms of financial intermediation, and weak public and investor confidence in the financial system. Much of this cannot be resolved until the Bank of Tanzania has successfully assumed its new role as a genuine central bank, with responsibility for defining and implementing financial sector policies, encouraging the emergence of new financial institutions, supervising practices within the financial sector, and managing a market-based foreign exchange regime.

Private Enterprise Development. The Government of Tanzania has begun reforms in the financial sector, where real progress has been made and the need now is to consolidate, deepen, and above all implement the policy changes already agreed. By contrast, the policy and regulatory environment influencing specifically private enterprise development remains a serious impediment to economic growth in Tanzania, and has -- apart from the National Investment (Promotion and Protection) Act of 1990 -- so far not been the subject of major government action nor indeed of major donor interest. Apart from financial sector development, which is a key constraint, issues in private enterprise development include the following: instituting a fully market-based foreign exchange regime, reducing controls on import and export licensing and allied procedures, streamlining the process of business establishment and investment approvals, reforming land policy to support business growth, setting in place increased export incentives, and clarifying and reducing the burden of business taxation. Cross cutting issues include a weak business support infrastructure, such as chambers of commerce, professional and business associations, audit and other specialized consulting firms, or credit and collection agencies; and an official culture that often discourages entrepreneurship, trade, and profit-making.

C. Consolidating Policy Change and Filling the Private Sector Vacuum

It is clear that Tanzania is irrevocably on the path to a liberalized, competitive, and productive market economy that will generate sustained growth in employment and incomes. But progress will be faster or slower, depending on how effectively stated policy changes can be

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implemented, depending on how rapidly second-order policy and regulatory issues can be resolved, and depending on how quickly private enterprise can be mobilized to fill the vacuum left by the withdrawal of state agencies from key financial and commercial functions. These considerations define the problem set to be addressed by the FED program:

-- Consolidating financial sector reform by assisting the Bank of Tanzania to assume an effective central bank role, which means refining and implementing financial sector policies, encouraging the emergence of new financial institutions, and supervising practices within the financial sector;

-- Hastening the privatization process through a strategic selection of privatization objectives, where these can be seen to enhance financial sector development or significantly speed the entry of private enterprise to key areas of economic activity. These selected privatization objectives may be of a policy or institutional nature; and

-- Encouraging an expansion of private enterprise through policy adjustments, regulatory reform, deepening of essential institutional infrastructure, and provision of enterprise support services. Much of this can be approached indirectly, by enhancing the role of private interests in public policy debate and formulation, and by making available resources that can be put to work by Tanzanian business people in pursuit of objectives they have defined for themselves. The FED program will also work directly to make key business development services available to a full range of Tanzanian business people.

Our core concerns are thus two: establishing a stable, diverse and effectively regulated system of financial institutions to support private sector growth, and mobilizing an employment-enhancing private enterprise response through action at the policy, regulatory, institutional, and service delivery levels.

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I. Executive Summary

Finance and Enterprise Development in Tanzania (FED)

Cash Grant:	$40.0 million, to be obligated in three tranches over three years.
Project Element:	$10.0 million, to be obligated over five years.
Implementing Agency:	Bank of Tanzania.

A. Why?

USAID/Tanzania's overall program goal is to foster real economic growth and improved human welfare in Tanzania. We are contributing to economic growth (a) by supporting rehabilitation of roads and railroads (ATAP, TAZARA), and (b) by supporting development of financial sector infrastructure and private sector business support infrastructure. Throughout, our aim is to encourage a realignment of government and private spheres of activity that will lead to a more effective use of both public and private resources in support of economic growth, greater employment, and increased incomes.

In Tanzania today, the problem is two-fold: transforming the nation's dilapidated financial sector to meet the challenges posed by the gathering pace of liberalization and the move to a market economy, and mobilizing a long-stagnant private sector to take advantage of emerging opportunities for growth. The Mwinyi government has moved steadily away from a command economy toward an economy based on choice, initiative, and competition. But the legacy of the past will not disappear easily or soon, and special attention must be given to the core financial and commercial infrastructure needed for growth in employment and incomes within a market economy.

Tanzania has made solid progress in economic policy reform within the framework of the 1986 Economic Recovery Program (ERP) and subsequently the 1989 Economic and Social Action Program (ESAP). With major pieces of the reform program now in place, some important constraints to continued employment and income growth have come into clearer focus. These include consolidating financial sector reform and helping the private sector fill the vacuum created by the withdrawal of state agencies from the financial and productive sectors. A cross-cutting issue is enhancing the role that improved public-private dialogue may play in sharpening public policy debate and hastening the policy reform process.

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Successful financial sector reform is key to successful privatization, increased private investment, and the broad and sustained economic growth required to create jobs and raise incomes in Tanzania. Some big steps have already been taken, but there are a number of constraints to further development of the financial sector that flow from flaws in the policy, regulatory and institutional environment. These include the following: outmoded legislation that inadequately defines the role of the central bank (Bank of Tanzania), inadequate supervision and regulation in the banking sector, lack of fully-implemented prudential regulations and practices, absence of competition among financial institutions, little diversity in the mechanisms of financial intermediation, and weak public and investor confidence in the financial system. Much of this cannot be resolved until the Bank of Tanzania has successfully assumed its new role as a genuine central bank, with responsibility for defining and implementing financial sector policies, encouraging the emergence of new financial institutions, and supervising practices within the financial sector.

The Government of Tanzania has begun reforms in the financial sector. Real progress has been made and the need now is to consolidate, deepen, and implement the policy changes already agreed. By contrast, the policy and regulatory environment influencing specifically private enterprise development remains a serious impediment to economic growth in Tanzania. Here, although the rough outlines of the problems are known, major groundwork needs to be done to arrive at a clear understanding of issues and options so that appropriate solutions can be framed. Issues in private enterprise development include the following: instituting a fully market-based foreign exchange regime, reducing controls on import and export licensing and allied procedures, streamlining the process of business establishment and investment approvals, reforming land policy to support business growth, setting in place increased export incentives, and clarifying and reducing the burden of business taxation. Cross cutting issues include a weak business support infrastructure, such as chambers of commerce, professional and business associations, audit and other specialized consulting firms, or credit and collection agencies; and an official culture that often discourages entrepreneurship, trade, and profit-making.

B. What?

The GOAL of the FED program is to stimulate income increases in Tanzania. The PURPOSE of the FED program is to foster income earning opportunities for the un- and under-employed by stimulating private enterprise growth. This purpose will be accomplished (a) by helping to establish a financially sound and diverse financial sector capable of

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meeting the challenges posed by the move to a market economy; and (b) by helping to mobilize a private sector response to the opportunities created by the gathering pace of liberalization.

The FED program has the following main elements: (a) a **Policy Agenda**, which focuses on financial sector reforms during the next three years; (b) a private sector **Import Financing Facility**, to be made available in tranches linked to adjustments in financial sector policy; (c) a **Bank of Tanzania Support Activity**, to strengthen the BOT in its efforts to solidify its role as a central bank and to help augment Tanzania's financial sector; (d) a **Business Services Center**, to stimulate enterprise growth through provision of key support services; (e) a **Venture Capital Fund** to introduce Tanzania to an inovative dimension of capital market development; and (f) a **Social Action Trust Fund**, which will invest counterpart generations in the private sector and use the earnings to support NGOs working to assist AIDS orphans in becoming productive members of society.

Policy Agenda. The FED program will pursue one broad policy theme: consolidating the Bank of Tanzania role as a central banking institution. This area has been thought through carefully by the GOT with IMF and World Bank support, and our agenda is designed to deepen ongoing policy adjustments.

Planned policy adjustments in the financial sector include: enacting a new, revised Bank of Tanzania Act; completion, promulgation and implementation of prudential regulations needed to establish a competitive banking sector; carrying through with a routine program of bank supervision, portfolio reviews, and bank examinations; enhancing the Bank of Tanzania's instruments of monetary policy; discontinuing BOT functions that are inconsistent with the central bank role; instituting BOT-managed interbank check-clearing; setting the groundwork for a private insurance industry; and moving towards a fully market-based foreign exchange regime.

Import Financing Facility. A.I.D. will make available to the Government of Tanzania approximately $40 million to finance private sector imports. It is anticipated that the funds will be used primarily to procure equipment and supplies required to expand industrial and manufacturing output, either for domestic or export markets. A special effort, funded with project resources, will be made to procure American goods and services wherever this is feasible, consistent with the best interests of Tanzanian importers and entrepreneurs.

Bank of Tanzania Support Activity. In direct support of the Bank of Tanzania, A.I.D. will (a) assist the Bank of Tanzania as it seeks to consolidate its role as a central bank, by instituting an appropriate set of regulatory and supervisory functions and by discontinuing

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outmoded functions; and (b) assist the Bank of Tanzania in strengthening Tanzania's financial sector, by providing access to a broad array of financial sector expertise, and by helping to develop new financial mechanisms (including if feasible a venture capital fund).

Business Services Center. A.I.D. will provide assistance to strengthen the private sector's contribution to economic growth in Tanzania. This activity, undertaken with and through the Tanzanian private sector, will (a) provide direct assistance to enterprises seeking to solve specific technical, marketing, financial, or management problems; (b) provide direct assistance to membership-based business and professional organizations seeking to expand their business support activities; and (c) seek to enhance the rôle of Tanzania's private sector in public policy debate and formulation.

Venture Capital Fund A venture capital facility will be included in the project to introduce Tanzania to this dimension of capital market development used successfully elsewhere to stimulate business growth. The facility will have an initial subscribed capital base of $ 5 million to be generated from private sources and will be focused on assisting African-Tanzanian enterprises. A.I.D. will contribute dollars to pay for the management costs of the fund in its initial years. This contribution will be converted into an equity share on behalf of the Social Action Trust Fund. It is envisaged the the Venture Capital Fund will become self-sustaining within a period of five years and will stimulate other similar funds to become operational.

Social Action Trust Fund. The import financing facility will generate approximately $40 million worth of local currency, constituting proceeds from the sale of foreign exchange to the private sector. Five percent of this local currency will go to an Operating Expense Trust Fund to meet administrative costs incurred by USAID/Tanzania, and no more than five percent will go to a Program Trust Fund to meet the local currency costs of the FED program. The remaining local currency will be used to capitalize a Social Action Trust, to be established in accordance with Tanzanian law and practice. The objectives of the trust will be (a) to invest in the Tanzanian private sector, working through existing financial institutions and new institutions as they arise; and (b) with earnings and profits, to make grants to non-governmental organizations (NGOs) in support of programs to assist AIDS orphans in becoming productive members of society.

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Governance Objectives. Part of Tanzania's legacy has been the cooptation or neglect of private, membership-based associations, and a stifling of dialogue between government and non-government elements of the society. The FED program will seek to (a) strengthen the independent voices of a range of associations representing views and interests within the private sector; (b) where appropriate, undertake policy studies with and through appropriate private associations, rather than automatically assuming these should be done by government agencies; and (c) actively promote mechanisms to facilitate dialogue between government and the private sector.

C. How?

The financial sector policy agenda will be worked through primarily with the Bank of Tanzania and to some extent the Ministry of Finance. The projectized financial sector support activities will be accessed through A.I.D. buy-ins and contracts with suitable sources of technical expertise, and implemented by the Bank of Tanzania. The projectized private sector support activities will be implemented through an A.I.D. direct contract with a competitively selected U.S. firm acting in association with a suitable local firm. The venture capital fund will be set in place by a firm of financial consultants (funded through an A.I.D. buy-in), and management will emerge once the capitalization arrangements have been concluded. A.I.D. will not provide investment funds for the venture capital fund, but will provide a proportion of the management costs. The Social Action Trust will be managed by the trust department of a competitively selected investment management institution, and will be funded by a fee to be paid from trust earnings.

A project funded Private Sector Advisor will manage the overall FED program under the supervision of the USAID/Tanzania Project Development Officer, although senior mission management will also play a role, particularly at the policy level. The Private Sector Advisor will be assisted by a project funded Project Management Specialist and a project funded Secretary. Periodic evaluations and audits, an impact assessment program, and regular management reviews will allow the mission to monitor program performance closely.

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III. Program Rationale

This section provides further detail on the financial sector in Tanzania, the structure of the private sector, the overall government approach to development in these sectors, and other donor strategies. Concluding sections show why the Mission has chosen a policy-based program to approach the issues laid out here, and how the program supports the overall Mission program strategy.

A. Analytic Description of the Financial Sector

Three aspects of the financial sector are important for our purposes here: the institutional structure, principal features and performance issues, and recent reform-minded government responses. Concluding sections summarize (a) current leading issues in the sector, and (b) the detailed analytic rationale for the FED financial sector policy agenda.

Institutional Structure. There are 13 major financial institutions in Tanzania. Apart from the Bank of Tanzania, there are three commercial banks, three development banks, and six non-bank financial institutions. Some key features of these institutions are outlined in Table III.1. With the exception of the Tanzania Development Finance Company Ltd. (TDFL), all of these institutions are publicly owned with the Government of Tanzania holding majority shares ranging from 100 percent to 51 percent. The TDFL is owned by four European development banks (76 percent) and the Tanzania Investment Bank (24 percent).

In addition to these major institutions, there are some 485 formally constituted savings and credit societies, often set up under the aegis of a place of employment in cities and towns. In 1990 these savings and credit societies had mobilized approximately TSH 558 million in the form of shares and deposits. Similarly, 438 rural savings and credit schemes have been formed, with deposits valued at TSH 270 million in 1990. Both types of savings and credit societies function to provide loans for investment, loans for school fees, loans for purchases of major consumer durables, and loans for unforeseen or emergency expenditures (funerals, medical care, marriages).

Informal sources of finance in Tanzania include family, friends, neighbors, and colleagues, and indeed many small businesses start up with no other source of finance. A 1989 survey showed that about 38 percent of all small firms receiving credit had received credit from these sources. One notch up the organizational scale are the informal rotating credit societies, frequently women-run, that are found in every community, and which might be viewed as indigenous precursors to

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Table III.1 Financial Sector Institutions

Type and Name of Institution	Key Features
A. Central Bank Bank of Tanzania (BOT)	New management now instituting central bank functions.
B. Commercial Banks	
National Bank of Commerce (NBC)	8400 staff 191 branches, 295 agencies 92% of all bank deposits 14% of lending to private sector
Cooperative & Rural Development Bank (CRDB)	1100 staff 21 offices 10% of lending to private sector
People's Bank of Zanzibar (PBZ)	4 branches, 3 agencies Opening new offices in Tanga and Mwanza
C. Development Finance Institutions	
Tanzania Investment Bank (TIB)	127 staff 52% of lending to private sector
Tanzania Development Finance Co Ltd (TDFL)	75 staff 97% of lending to private sector
Tanzania Housing Bank (THB)	700 staff 21 branches
D. Non-Bank Financial Institutions	
National Insurance Corporation (NIC)	2200 staff 20 branches
Zanzibar Insurance Corporation (ZIC)	na
National Provident Fund (NPF)	1200 staff 51 branches
Post Office Savings Bank (POSB)	177 branches, 155 agencies
Diamond Jubilee Investment Trust (DJIT)	8000 Ismaili shareholders Soon to open a commercial bank operation
Karadha Company	Defunct hire-purchase firm

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the more formal savings and credit societies mentioned above. At a different level, there are informal sources of finance (money-lenders) for foreign exchange, fund transfers, and debt financing. The higher interest rates of the informal sector are, for many individuals and firms, more than compensated by the comparative efficiency and ease of access in the informal sector.

Principal Features and Performance Issues. The financial sector in Tanzania is distinguished by lack of competition, government ownership and involvement, institutional weakness, a poor regulatory and supervisory framework, and ineffective deposit mobilization and credit allocation. Each of these issues is outlined below.

Lack of competition. This is a consequence of several factors, including: sectoral specialization within the commercial banks (NBC-retail banking, CRDB-rural banking), geographic specialization (PBZ-Zanzibar), the creation of sector-specific financial institutions (e.g. housing, insurance, development finance), and past government restrictions on new entry. This centrally-planned approach has left every institution with a virtual monopoly in the sector it serves, thereby eliminating the competition necessary to maintain a healthy financial system.

Ownership. The government owns virtually every financial institution in the country, and involvement in day-to-day operations has in the past been pervasive. Government-directed lending has resulted in overdraft financing for many activities where there is little likelihood of repayment, weak incentives in the banks to assess risk and the prospect of a return, poor morale, and a general failure to adhere to sound commercial practice. It appears that all the government-owned financial institutions have a substantially negative net worth.

Institutional weakness. This derives from government involvement and the absence of competitive pressure. In all the government-owned institutions operations are antiquated, customer facilities are rudimentary, customer service is marginal at best, and internal controls are weak. Salaries and working conditions are poor, leading to moonlighting and corruption.

Regulation and supervision. The regulatory and supervisory function of the central bank (Bank of Tanzania) has been weak. This derives from inadequate legislation, a long history of direct government manipulation of the financial sector, and, until recently, little internal capacity to function in a supervisory manner.

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Deposits and lending. Deposit mobilization has been weak, primarily because unrestricted access to Bank of Tanzania refinancing facilities eliminated the need for banks to mobilize their own resources, and also because interest rates have been until quite recently highly negative. Lending has been controlled to a large extent by the government in respect to interest rates and other aspects. The rates have been negative in real terms and unrelated to any assessment of risk. Poor lending practices (often to insolvent agricultural sector institutions and insolvent parastatals), sustained for the past two decades, now mean that a large majority of borrowing is not being serviced, and likely cannot be.

Tanzania's financial sector cannot begin to meet the needs of new investors or indeed the existing business community. Tanzanian business people from all parts of the commercial spectrum universally mention access to finance and reliable banking services as the main constraint to business profitability and expansion. Private sector development in Tanzania is linked importantly to financial sector development.

Government Response. Financial sector reform has been encouraged by macroeconomic measures undertaken within the context of the 1986 ERP and the 1989 ESAP. Developments related specifically to the financial sector include:

-- A presidentially-commissioned report on financial sector restructuring, released in July 1990, which provides a frank assessment of weaknesses and lays the foundation for a thorough-going reform program.

-- The Banking and Financial Institutions Act of April 1991, which allows for the introduction of private banks (both domestic and foreign), and also outlines a greatly strengthened supervisory and regulatory role for the Bank of Tanzania.

-- The Loans and Advances Realization Trust Act of April 1991, which will operate as a recovery mechanism for overdue debts of financial institutions. The LART administrator has been appointed and related actions are underway.

-- Agreement on a Policy Framework Paper in June 1991, endorsed by the GOT, the World Bank, and the IMF, which outlines a stable macroeconomic policy framework for the period 1991-1994; one major policy change resulting was the decision to liberalize interest rates in September 1991.

-- Approval of a World Bank Financial Sector Adjustment Credit, which became effective in November 1991. This comprehensive program incorporates a full range of macroeconomic, monetary, fiscal, legislative, regulatory, and institutional reform objectives, and provides the conceptual and policy framework within which USAID/Tanzania support will be made available.

-- Managers of banks and other financial institutions now have autonomy to set deposit and lending rates in response to market forces, consistent with a temporary adjustable rate ceiling of 31 percent, and government-directed lending has largely ceased.

The major pieces of a financial sector reform program are now in place, although subsidiary issues remain and underlying issues are emerging. These are outlined below.

Current Leading Issues. Issues now emerging in the financial sector have to do with consolidating ongoing policy changes and effectively implementing them. More specifically, this means enacting a new, revised Bank of Tanzania Act; completion, promulgation and implementation of prudential regulations needed to establish a competitive banking sector; carrying through with a routine program of bank supervision, portfolio reviews, and bank examinations; enhancing the Bank of Tanzania's instruments of monetary policy; discontinuing BOT functions that are inconsistent with the central bank role; instituting BOT-managed interbank check-clearing; setting the groundwork for a private insurance industry; and moving towards a fully market-based foreign exchange regime. Much of this depends on how quickly and effectively the Bank of Tanzania can assume its new responsibilities as a genuine central bank.

Detailed Analytic Rationale for the FED Policy Agenda

Four issues underpin the FED policy agenda: strengthening financial infrastructure, improving the mobilization and allocation of financial resources, and strengthening the financial system. In addition to these three substantive issues, there is a fourth having to do with progress in implementing the objectives of the World Bank Financial Sector Adjustment Credit.

Strengthening the Financial Infrastructure. In order to strengthen the financial infrastructure, adjustment measures are being taken with regard to banking legislation, supervision, and regulation. Progress has been mixed in the field of banking legislation. Although the Banking Ordinance of 1960 was replaced by the Banking and Financial Institutions Act (BFIA) in April 1991, insufficient action has so far been taken on a revision of the Bank of Tanzania Act, the legislation

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dealing with the country's central bank. The FSAC calls for amendments to this Act that would have the effect of removing non-central-bank functions from the Bank of Tanzania and of strengthening the independence of the Bank vis a vis the Ministry of Finance.

Although some actions have been taken in the area of bank supervision, much still remains to be done and the pace of reform has been somewhat behind schedule. The Bank Supervision Department of the central bank has expanded its professional staff, but the Department has not yet been formally established as a full Directorate. With regard to improved off-site reporting forms, the central bank has formed a Bank Reports Review Committee and has drafted supplemental reports on key areas for off-site supervision, and new monthly and quarterly off-site reporting forms have been issued. Progress is being made in the examination of the commercial banks to determine loan quality through classification and the amounts needed for recapitalization that are to be included in the 1992/93 budget. However, it is not yet clear if this task will be completed by the time originally scheduled.

Important actions still have to be taken in the area of bank regulation under the FSAC. These involve the lending limits to a single borrower, bank licensing guidelines, and the establishment of capital adequacy requirements. The nature of these regulations will depend in part on the results of the current on-going review of bank portfolios. Similarly, the issue of central bank regulations relating to the loan limits for a single borrower (or a related group of borrowers) as a percentage of a bank's capital will also depend on the decisions regarding the amount of recapitalization that will be needed for the individual banks. The issue by the central bank of bank licensing regulations is currently being delayed by lack of agreement on whether new bank applications for a license need to be acted on by the authorities within a specified time limit. Before they are issued, these bank licensing regulations will also require IDA approval. The issue by the central bank of capital adequacy regulations consistent with the April 1991 Banking and Financial Institutions Act will depend heavily on the results of the ongoing review of bank loans and capital.

Mobilization and Allocation of Financial Resources. In order to improve the mobilization and allocation of financial resources, the FSAC calls for policy action in three areas: interest rates, the central bank's discount rate, and in directed credit policy. Substantial progress has been made in the first of these three areas. Prior to mid-1991, the officially determined structure of interest rates had as many as 10 bank deposit rates and 30 lending rates. In July 1991, however, the central bank issued a circular allowing financial institutions to freely set their own deposit and lending rates subject to two provisions. First, the lending rate should not

exceed 31 percent, and second, the 12-month savings deposit rate should be above the expected rate of inflation. This constituted a major step in making the country's interest rate structure more market oriented and in minimizing distortions created by subsidized credit. The Bank of Tanzania has been reviewing the interest rate policy quarterly and has agreed to eliminate the maximum lending rate by July 1, 1994.

Some steps have been taken toward introducing a properly functioning discount policy, but there still remains much room for improvement. In July 1991, the central bank established its primary discount rate at 27 percent, but this hardly constitutes a penalty rate when the banks are able to lend at 31 percent. Since there is no tradition in Tanzania against borrowing from the central bank, it is important that commercial bank borrowing from the central bank be more expensive than from other sources. The basic goal should be to put in place a discount policy that provides temporary short-term liquidity to the banking system (the lender-of-last-resort function), rather than to provide virtually unlimited funds automatically to the banking system as in the past. Incentives should be provided to the banks to seek their funds from depositors before going to the central bank.

The goal of eliminating directed credits will take some time and is currently in a transition phase. In the past, bank credits have been directed by the government, the result being that quasi-fiscal activities have been funded through the banking system. The main objective under the FSAC is to move away from directed credits, but in the transition period, allow non-bankable key economic activities to be financed in a transparent manner with appropriate risk sharing between the banks and the government. Agreement has been reached between IDA and the government on a transparent institutional review mechanism to handle interim financing in the phase-out period.

Strengthening the Banking System. The basic objectives of the FSAC in this area are to create a sound and competitive banking system through restructuring and recapitalization of the existing banks, allowing private local and foreign banks to begin operations in Tanzania, and encouraging joint banking ventures with the private sector. The legislative basis for this was laid with the passage in April 1991 of the Banking and Financial Institutions Act (BFIA).

In order to restructure the banks so as to place them on a sound financial basis, a Loans and Advances Realization Trust (LART) has been established to absorb the non-performing loans of the commercial banks. LART, which is under the supervision of the Ministry of Finance, will attempt to recover payment on the overdue debt of the banks. Both the Administrator and the Board Members for LART have been appointed, and a judge from Tanzania's High Court has been seconded to serve as Chairman

of LART's Loan Recovery Tribunal (LRT). The Tribunal has been established with a three-year life to adjudicate the contentious cases involving non-performing loans assigned to LART. The act of assignment can be quite important to the loan obligors as once a loan is declared to be in default, the obligor loses access to future bank credit.

In addition to the LART operation, classifications and reserve funds will also have to be determined for the remaining loans in the banks' portfolio on the basis of criteria established by the central bank's regulations on "Provisioning." Lastly, there is to be an initial transfer of capital to the NBC and CRDB.

With its goal of strengthening the banking system, the current FSAC concentrates on five financial institutions. All of these except the Tanzania Development Finance Co. Ltd (TDFL) are insolvent, and even TDFL will require restructuring and recapitalization. However, TDFL's outside shareholders have agreed in principle to recapitalize TDFL in order to strengthen its capabilities as a term financial institution. In the case of the People's Bank of Zanzibar(PBZ), non-performing assets will be transferred to LART, and the formulation of a recapitalization plan with adequate provisioning for the remaining loans will aid the PBZ to operate in the future as an independent, commercially-oriented bank.

The three remaining banks present even more difficult and challenging situations. The resources of the Tanzania Investment Bank (TIB) are exhausted and TIB is in need of both financial and organizational restructuring so that -- with the aid of the private sector -- it can help introduce capital, technology and modern financial practices. A condition for second tranche disbursement of the FSAC is the appointment of a restructuring advisory team for the TIB and agreement on a detailed restructuring plan with IDA. The goal of the FSAC for the Cooperative and Rural Development Bank (CRDB) is to have the Bank divest itself of its non-bankable and non-commercial developmental activities so as to convert the Bank into a smaller and purely commercial entity. Agreement has already been reached to restructure the CRDB as an independent commercial bank. Other actions yet to be implemented include the appointment of a restructuring advisory team, agreement with IDA on a detailed restructuring plan, and divestiture by the Bank of Tanzania of its CRDB shareholdings.

Undoubtedly the most difficult and challenging task of the FSAC will be the restructuring and strengthening of the National Bank of Commerce (NBC) which has the bulk of the assets of the banking system. The objective is to improve all of the basic functions of the NBC so that it can achieve competitive parity with the commercial banks in other countries. Legislation has already been passed that gives the NBC full

management autonomy. Remaining tasks to be completed include, among other things: (1) agreement with IDA on a time-specific action program to restructure NBC; (2) appointment of four external experts to advise on credit, audit, domestic operations and external operations; (3) implementation of a pilot employee compensation and incentive program; (4) agreement on a plan to close or transform unprofitable units or branches; and (5) the completion of a review of the NBC Act to determine if there is a need for separate legislation in view of recent changes in the financial environment.

Status of Required Actions for Disbursement of the Second Tranche. As indicated earlier, disbursement of the second tranche of the FSAC is conditional on the GOT completing a number of actions by the end of June 1992 -- the end of the government's 1991/92 fiscal year. As of mid-May 1992, there were seven remaining conditions that were either being met or that needed to be met.

-- In connection with the FSAC's directed credit policy, the budget allocation for interim financing for fiscal 1992/93 needs to be put in place. This took place in the June budget speech.

-- Under banking supervision, all of the required bank examinations have been completed except for the Tanzania Investment Bank (TIB). This should be done by mid 1992.

-- Under banking regulation, the central bank's draft regulations regarding "Capital Adequacy" and the "Loan Limit to a Single Borrower" will be finalized and issued in the near future.

-- As required under the provisions for the strengthening of the banking system, an Administrator for LART has been appointed and also the Chairman of the Loans Recovery Tribunal. LART will be operational by sometime in June 1992.

-- With regard to the restructuring of NBC, at least three important tasks remain outstanding: 1) the appointment of experts to audit NBC; 2) the implementation of a pilot employee compensation and incentive program; and, 3) agreement with IDA on a plan for the transformation or closure of NBC's branches and agencies. This plan should be available sometime in June 1992.

-- Agreement with IDA on a detailed restructuring plan for the Cooperative and Rural Development Bank (CRDB) still needs to be completed.

-- Action still needs to be completed on the appointment of a restructuring advisory team for the Tanzania Investment Bank (TIB). It

is likely to take until July or August to assemble the team and then several months to complete the plan.

It is clear at this time that the GOT will not be able to meet by the end of June 1992 all of IDA's second tranche conditions. It appears that all conditions may be met by October 1992, but there is the possibility that it may take longer still.

B. Analytic Description of the Private Sector

Three aspects of the private sector are important for our purposes here: size and structure, particularly in comparison to the parastatal sector, principle features and performance issues, and recent reforms influencing private enterprise development. Concluding sections summarize (a) current leading issues in the sector, and (b) the detailed analytic rationale which will guide USAID/Tanzania dialogue and analysis in supporting policy adjustments in favor of private sector development.

Table III.2 Size of the Private and Parastatal Sectors, 1990

	Number of Enterprises				Number of Employees ('000)			
Sector	Public	Private	Total	Public as %	Public	Private	Total	Public as %
Agric.	164	316	480	34	14.2	17.3	31.6	45
Mining	12	20	32	38	4.4	1.3	5.7	77
Manuf.	193	283	476	41	79.1	62.2	141.3	56
Utility	43	0	43	100	8.6	0.0	8.6	100
Constr.	3	1126	1129	*	7.4	68.4	75.7	10
Commerce	49	370000	370049	*	na	4133.0	4133.0	na
Transp.	29	897	926	3	63.8	5.0	68.8	93
Others	48	0	48	100	na	na	na	na
Total	541	372642	373148	*	177.5	4287.2	4464.8	12

Notes: "Utility" includes regional offices of TANESCO and TPTC.
* = less than one percent.
Source: Coopers & Lybrand DSM, Bureau of Statistics

Size and Structure of the Private Sector. Tanzania's socialist history has obscured the role that private enterprise has played and continues

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to play in the economy as a whole. To understand Tanzania's private sector we begin with a consideration of these questions: the size of the formal private sector in relation to the parastatal sector; size of the informal sector; the share of the private sector in GDP; and the geographic distribution of enterprises.

Number and Size of Enterprises. Table III.2 provides summary information on the numbers and sizes of enterprises within the private and parastatal sectors in Tanzania. This table says nothing about smallholder agriculture or the informal sector, which are of course private in nature. Within the economy as a whole, then, private enterprise clearly dominates, although parastatals play a large role in some key sectors.

The Informal Sector. However interesting these official data may be, they do not constitute a complete and accurate picture of Tanzanian business activity. Neither the government nor the financial industry have a rigorous profile of business activity in the nation, and official records of business registrations are muddled. Hence these figures need to be augmented by an understanding that, in the mid to late 1980's, at least 30 percent of economic activity and perhaps as much as 60 percent was not accounted for by official statistics. This is the size of the informal or unofficial economy. Not much is known about the nature of the informal economy, but it is manifestly important in agricultural marketing (especially of food crops), trade in consumer goods, and export-import activities.

Table III.3 Share of the Private Sector in Monetary GDP

Year	Share (%)
1968	74.3
1970	69.3
1974	64.5
1978	65.8
1980	63.3
1985	54.8
1986	64.5
1987	65.0

Source: Bagachwa 1991

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Contribution to GDP. The contribution of the formal private sector to GDP appears to be substantial, and has increased since the start of Tanzania's reform efforts in the mid 1980's. Table III.3 illustrates. These data probably overestimate the public share of GDP. Policy makers, managers of financial institutions and indeed donors all need to make an investment in expanding, clarifying, and substantiating important data series such as these, which will become increasingly necessary as a basis for decision-making in the years ahead.

Geographic Distribution. In common with other East Africa nations, Tanzania's formal business sector is heavily concentrated in a few commercially developed areas. Table III.4 summarizes this distribution with respect to numbers of firms, numbers of employees, and fixed capital.

Table III.4 Geographic Distribution of Formal Enterprise in Tanzania, 1990

Region	No. Firms	No. Employees	Fixed Capital (000 TSh)
Arusha	214	13125	1206219
Coast	21	2935	1154
DSM	1982	64920	6928923
Dodoma	34	531	na
Iringa	131	6162	231284
Kagera	19	1211	43804
Kigoma	13	271	2181
Kilimanjaro	135	7187	2075184
Lindi	27	1391	22163
Mara	30	877	1479
Mbeya	65	2293	250339
Morogoro	102	40085	40151
Mtwara	26	1507	116076
Mwanza	118	9868	406457
Rukwa	7	34	810
Ruvuma	29	1271	4557
Shinyanga	54	2740	2043
Singida	27	879	4921
Tabora	46	1048	5492
Tanga	165	7079	162789
Total	3245	165414	11506026

Source: Bureau of Statistics
Fixed capital figures are for industrial firms only.

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Several aspects of this table should be mentioned. Dar es Salaam dominates the nation's formal business with over half the registered firms, about 40 percent of all formal sector employees, and over half the total fixed industrial capital. Regions with good physical infrastructure and high population density (that is, large compact markets) appear to attract capital and firms. About 89 percent of the nation's industrial infrastructure is located in Dar es Salaam or the Arusha-Moshi corridor, but a surprising 25 percent of all formal sector employees are located in Morogoro, apparently reflecting the many manufacturing firms located there.

In sum, the private sector in Tanzania is large in comparison to the parastatal sector, and diverse in a sectoral sense. The very high degree of geographical concentration in commercial investment will influence the political, social, and economic impact of policies favoring private sector growth.

Principal Features and Performance Issues. In this section four questions are examined: rates of capital formation in the private sector, which may be seen as a measure of local business confidence and growth; the organization of commercial activity, with implications for business development; the business regulatory environment; and the role of business associations.

Capital Formation. From the mid 1980's, that is, since the economic reform program has been initiated, the level of investment in Tanzania has been positive, and private investment has consistently outpaced public investment. Table III.5 illustrates. These figures appear to suggest that Tanzania's economic reform program has been effective in reducing what were historically very high levels of state investment, and equally effective in encouraging substantial levels of private investment.

Table III.5 Trends in Capital Formation (TSh million) (Constant Prices)

Year	Public	Private	% Growth Public	% Growth Private
1984	4597	7376	23	84
1985	6790	10082	48	37
1986	11383	17296	68	72
1987	13158	33123	16	92
1988	15534	45220	18	37
1989	19257	75013	24	66

Source: Planning Commission

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Organization of Commercial Activity. Tanzania's formal business community is largely organized in holding companies, which are often central administrative points controlling several (semi) autonomous operating companies. In other cases there is direct cross participation among the companies. Three basic models describe these holding companies: (1) import substitution; (2) import substitution coupled with commodity exports; and (3) pure export.

The import substitution groups are built on the premise that low-cost local production of inexpensive consumer disposables will generate a revenue stream sufficient to self-fund expansion into increasingly sophisticated enterprise as the Tanzanian economy expands. Problems may arise when expansion requires capital investments and hence foreign exchange debt. When the local currency is being devalued the companies' revenue streams must expand rapidly indeed to meet debt servicing requirements. Many such operations are currently in difficult financial circumstances, due to the rapid devaluation of the past few years, and this contributes to the weak condition of the commercial banks who have lent to these enterprises.

The import substitution/commodity export groups seek to solve the foreign exchange problem by incorporating low-cost production of processing activities for the export market. Typical exports include sisal, timber, textiles, and garments. In principle, this approach can generate the foreign exchange required for local capital investment and external market development, and as an overall strategy appears less risky than the strict import substitution approach.

Export oriented groups are relatively few, and concentrate on vegetable extracts, horticultural products, gemstones, and spices. Few indigenous Tanzanian entrepreneurs have penetrated this business segment.

Regulatory Environment. A 1991 study of constraints to enterprise development in Dar es Salaam notes that business activity in the city is governed by six statutes, 12 by-laws, 15 regulations, 11 ordinances, seven notices, and one rule. These are variously administered by a number of substantive ministries, as well as authorities at the regional, district, and municipal levels, and are interpreted variously by the individual officials who implement them. Businessmen currently seeking to establish activities in Tanzania tell of delays from months to years in obtaining all the necessary clearances; indeed, it is difficult to know whether one has all clearances, and additional hurdles can appear at any time.

The list of licenses and approvals required to do business in Tanzania is long, but it is not clear that it is unnecessarily long.

Governments around the world have responsibility for the form and results of private sector activity. The problem may not be with the number of licenses and permits required per se, but rather with the cumbersome state apparatus responsible for administration. A 1991 assessment based on actual investor experiences revealed the following pattern of performance:

-- processing of applications for certain licenses and permits takes a long time due to manual recordkeeping procedures, and untrained or uninterested clerks;

-- unreasonable demands for supporting documentation or approvals are made;

-- certain delays can be reduced but only by "satisfying" the authorities concerned;

-- the requirements for different licenses are uncoordinated, with similar details being asked for by different authorities;

-- some requirements, for instance a certificate of land occupancy, require several different types of approval, each with different requirements;

-- the outcome of an application can be affected by unpredictable political interventions;

-- the statutes and rules governing a permit can be ambiguous or conflicting; and

-- when the statutory requirements are clear, the administration of approvals does not always abide by them.

This set of difficulties is exacerbated by the need to do most business in person, rather than by telephone or through the mail, and by lack of procedures for appeal of unfavorable decisions. Hence the process is costly in management effort, elapsed time, and money. Leaving aside access to finance and banking services, the bureaucratic burden imposed by the licensing and approval process is the constraint most frequently mentioned by large as well as small business people, although the burden falls most heavily on small businesses.

Business Associations. Up through the late 1960's, Tanzania had an active set of membership-based business and professional organizations that provided services for members and represented the interests of members in dialogue with the government. In the wave of nationalizations accompanying the Arusha Declaration, when the largest,

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most active businesses were taken over or left the country, these organizations lost their leadership and financial base. They were not legally dissolved by government; rather, they were ignored and left to wither. Today there are dozens of membership-based business and professional associations in Tanzania, and a steady if slow stream of new groups is reported in the local media. Only a handful of these organizations appear to be functioning strongly, but that will change.

Competition among businesses for a favored place in the economy as the environment opens up is mirrored in competition among representative organizations. For instance, we now see several types of Chambers of Commerce: the old-line municipal Chambers (Dar es Salaam, Tanga, Arusha, Mwanza), representing Asian and medium-scale African commercial interests; a separate Chamber representing exclusively Asian interests (Dar es Salaam Merchant's Chamber); a new umbrella chamber, the Tanzania Chamber of Commerce, Industry and Agriculture, that represents indigenous African small-scale commercial activity; and most recently the Confederation of Tanzanian Industry, representing large-scale commercial interests. Each type of Chamber is pursuing a substantially different agenda, but all appear interested in placing private enterprise issues before government. Their capability to do so is weak at present.

Government Response. The macroeconomic reforms undertaken in 1986 and thereafter have done much to improve the environment for enterprise development, as have some specific sectoral reforms. The most important developments include: substantial exchange rate devaluation; progressive dismantling of the administered foreign exchange allocation system; tariff reform; sales tax reforms; a simplified export retention scheme; an export duty drawback system; and domestic price decontrol and trade deconfinement for all commodities but sugar, petroleum and fertilizer. All these actions tend to create an environment that encourages efficiency, competitiveness, and investment. TDFL, the only solvent and profit-making development bank in the country, is seeing today three times the number of proposals that they were seeing a year ago.

These economic reforms have been accompanied by several more specific actions supportive of private enterprise: in 1990 legislation established the Investment Promotion Center and a national investment code; during 1991 explicit subsidies to parastatals were largely abolished, bankrupting many of them, which has removed much unfair competition from the market; the Foreign Exchange Act of 1992 makes it legal for anyone to own or sell foreign exchange; and private foreign exchange bureaus began operations in April 1992. Legislation will be tabled in 1992 to revise the investment code to deal with regulatory constraints identified in the past two years, and the June budget

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speech incorporated major adjustments in the tax code aimed at simplification, transparency, and broadening the tax base. In sum, the government has taken some major steps that will encourage private sector development.

Current Leading Issues. In contrast to the financial sector, where the major building blocks of reform are in place, the policy and regulatory environment influencing specifically private enterprise development remains an impediment to growth in Tanzania. Private enterprise development so far has not been the subject of major government action nor indeed of major donor interest. Apart from financial sector development, which is a key constraint already discussed, issues in private enterprise development include instituting a fully market-based foreign exchange regime, reducing controls on import and export licensing and allied procedures, streamlining the process of business establishment and investment approvals, reforming land policy to support business growth, setting in place increased export incentives, and continued clarification and reduction of the burden of business taxation. Cross cutting issues include a weak business support infrastructure. such as chambers of commerce, professional and business associations, audit and other specialized consulting firms, or credit and collection agencies; and an official culture that often discourages entrepreneurship, trade, and profit-making.

Detailed Analytic Rationale for Policy Dialogue in the Private Sector

This section elaborates on the current leading issues mentioned above. The FED program will not have a formal private sector policy agenda based on specific policy adjustments. This is because the clarity with which the issues are now perceived is not generally matched by any clarity of vision regarding appropriate solutions. Much of the basic background analysis required as a precursor to a private sector policy reform program has yet to be done. The FED program, working through private sector associations and enterprises, will provide substantial analytic support to begin this work. The results will be used by the Tanzanian private sector to lobby government in favor of needed policy changes, and will also be used by USAID/Tanzania and presumably other donor agencies as a basis for structuring policy dialogue on issues related to private sector development.

Exchange Rate Policy. The GOT has made substantial progress in maintaining a real effective equilibrium exchange rate, and in providing virtually automatic access to foreign exchange to meet import requirements.. The fundamental problem with the current exchange rate policy and foreign exchange regime is that it results in several effective exchange rates depending on the mechanism used to access foreign exchange. There are several "windows" of foreign exchange

currently available in Tanzania, which utilize official, parallel or market determined rates. The multiplicity of rates distorts allocation of resources, and leads to an inefficient structure of production.

The recent opening of the foreign exchange bureaus was intended to indicate the "real" value of the shilling, as a preliminary measure prior to establishing a market-determined exchange rate. The next steps to be taken towards a unified exchange rate and full convertibility on the current account are not very clear. One possible approach is to move toward the establishment of a foreign exchange auction system. Prior to the development of the foreign exchange law, BOT examined the foreign exchange auction systems of Uganda, Ghana, Egypt and Zambia. But further assistance will be required in fine-tuning this policy, and the formulation of a more flexible approach to exchange rate determination and management.

Access to Foreign Exchange. Despite the obvious liberalization in foreign exchange access for current account transactions in the form of the foreign exchange bureaus, access to foreign exchange still remains problematic, especially for profits and capital repatriation purposes. In addition to foreign exchange bureaus, local private enterprises have three primary sources of foreign exchange to meet their import requirements: (a) through the own funds scheme, importers can purchase forex unofficially at the parallel exchange rate or utilize unofficial offshore resources; (b) if their intended imports do not fall in the negative list, and they can meet the cash cover requirements of their commercial bank, they can access forex through the OGL facility at the official exchange rate; and (c) if they are also exporters, they can utilize their retained forex earnings through the export retention scheme.

Access to foreign exchange remains largely inadequate for non-exporting firms. The own funds scheme is beyond the reach of most smaller enterprises that cannot afford to pay the premium inherent in the parallel exchange rate, or do not have access to external private resources. Excessive cash cover requirements and cumbersome procedures have resulted in delays and reduced demand for the OGL facility, despite the obvious attraction of a significantly lower official exchange rate. The availability of foreign exchange for capital and profits repatriation is also reportedly time-consuming, despite the supposed automaticity of transfers out of Foreign Currency Accounts. And the private foreign exchange bureaus are hedged with a variety of restrictions that reduce their effectiveness (see Annex R).

Import Procedures and Controls. The experience with the OGL facility has been mixed. On the one hand, it has significantly streamlined the importing process and liberalized access to foreign exchange. On the

other hand, overall demand for the facility has been lower than expected. Primary barriers appear to be excessive cash cover requirements imposed by commercial banks, and the bureaucratic process of using the OGL import procedure itself. As shown in Annex R, the current import process consists of a large number of discrete steps involving the importer, various departments of the BOT, the local commercial bank, an offshore bank, and the World Bank. There would appear to be numerous areas where the overall process can be streamlined and expedited, and the documentation requirements reduced.

Export Procedures and Controls. All exports from Tanzania require an export license issued by the Export Controller of the Ministry of Trade and Industries. Exporters also have to be registered with the BOT and maintain an account with a local commercial bank. It is not entirely clear what purpose export licensing plays, other than for compliance with the export retention scheme. While the process of receiving an export license and registering with the BOT is relatively straightforward, it is an unnecessary step that can be eliminated.

Three further export-related issues should be mentioned. The experience in Tanzania has been that obtaining pre-shipment credit (even for large, established firms) has been extremely time-consuming with excessive collateral and security requirements. A larger impediment is the lack of coordination and extreme delays associated with the lengthy export documentation processing procedure, which involves the exporter, Board of External Trade (BET), the commercial bank, Tanzania Central Freight Bureau (TCFB), National Shipping Agencies Company (NSAC), Customs and finally the Tanzania Harbours Authority (THA). In addition to the deficiencies of the document processing procedure, export documents are unnecessarily complex, and do not conform to international trade standards.

Business Establishment. The process of company formation and business establishment in Tanzania is extremely complex given the large number of "one-time," annual and transaction-based licenses and permits required, and the equally large number of potential licensing authorities involved. Unlike many other countries, Tanzanian law requires a business license for all enterprises regardless of size, which places a tremendous burden on licensing authorities, and leads to unnecessary delays and other complications. Private business in Tanzania has the choice of organizing as a sole trader; partnership; limited liability company; or branch or subsidiary of a foreign company. The choice of the business form depends on the standard set of benefits available under each; most larger companies choose to incorporate. Most small enterprises prefer not to be formally licensed, given the complexity and cost associated with the process.

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One-Time Business Licenses. While there are variations according to the size or sectoral orientation of an enterprise, business enterprises can be established in Tanzania either through incorporation (the formation of a new corporate legal entity), or registration (confirming the right of an already incorporated company to operate within Tanzanian law). With few exceptions, businesses can be established in Tanzania through the acquisition of one of three "one-time" licenses: (a) Certificate of Approval issued by the IPC, and required for any (larger) investment in a new enterprise, or the expansion or rehabilitation of an existing enterprise; (b) Certificate of Incorporation of a Company, required for any investor wishing to form a limited liability company, and (c) Certificate of Registration of a Company, required by companies incorporated outside Tanzania that wish to undertake business activities within the country. Both of the latter two licenses are issued by the Registrar of Companies of the Ministry of Industries and Trade. If an enterprise is to engage in industrial and manufacturing activities, it must obtain an Industrial License (for large enterprises with ten or more employees) from the Registrar of Industries (Ministry of Industries and Trade), and the Industrial Licensing Board. For smaller companies engaged in manufacturing activities, the Registrar of Industries will issue the equivalent Certificate of Registration. There are a large number of additional "one-time" licenses that are required by various types of companies: (a) companies operating factories must get a Certificate of Registration of a Factory from the Factory Inspectorate of the Ministry of Labor; (b) an allocation of land and Title Deed is available from the Ministry of Lands and Urban Development and district, municipal and local authorities; (c) foreign investors require business visas and residence permits from immigration officers; (d) hotel development groups must procure a letter of approval from the Ministry of Natural Resources and Tourism to construct a hotel; (e) forestry operations need a license to fell timber from the Director of Forests; (f) all exporters require a Certificate of Registration of an Exporter from the BOT; and (g) exporters also need authorization to establish a Foreign Currency Account and retention account, issued by the BOT.

Annual Licenses. In addition to the various one-time permits and authorizations detailed above, GOT authorities require certain enterprises to obtain some licenses on an annual basis. The most onerous of these is the Business License that is required for "any person carrying on a business in Tanzania," including manufacturing, trade, commerce, and craftsmanship. A Business License is provided to enterprises with more than ten employees; those with fewer employees are issued a "Trading License." Upon presentation of an application (supported by numerous documents such as the Tax Clearance Certificate and Certificate of Registration), these licenses are available from the Ministry of Industries and Trade, however, local (municipal, town,

district) and regional authorities are also involved, depending on the particular business activity, location of the enterprise and other factors. Other annual licenses required for particular types of operations include: (a) a Tourist Agent's License required for all tourism-related activities (except hotel operation, taxis and private hire firms), available through the Ministry of Natural Resources and Tourism; (b) a Fishing License required for commercial fishing operations from the Director of Fisheries; (c) Export Licenses for all nontraditional exporters issued by the Board of External Trade; (d) Import Licenses for all importers from the BOT; and (e) Tax Clearance Certificate required for all persons and companies operating in Tanzania (including those exempt from taxes) from the Income Tax Department.

The net result is that for most firms, the process of establishing and operating an enterprise in Tanzania is cumbersome, complex, and time-consuming. In addition, the size of the fees and other conditions for compliance with licensing requirements pose significant costs (especially for smaller firms) because of side payments extracted by officials, and substantial filing fees. Unravelling this web of constraints is an urgent, difficult task.

Investment Promotion Center. The establishment of the Investment Promotion Center (IPC) in 1990 was intended to centralize and streamline the investment approvals process for both foreign and local investors. However, due to gaps and ambiguities in the National Investment Act, the IPC has not fulfilled its intended role. Its "Certificate of Approval" has merely become an addition to the other permits and licenses already required by various GOT entities. Another more serious shortcoming of the Act is the fact that the benefits accorded by the IPC are not automatically provided to the qualifying investor. Instead, each benefit has to be specifically requested from the Ministry of Finance and other GOT authorities. Under existing Tanzanian law (Income Tax Act, Sales Tax Act, Customs Tariff Act), persons seeking exemption from payment of income tax, withholding tax, sales taxes and import duties must specifically petition the Minister of Finance to sign an order of authorization for publication in the government Gazette.

In response to these deficiencies, an amendment to the National Investment Act is expected to be considered by the National Assembly shortly. The draft amendment is expected to clarify a number of important deficiencies in the Investment Act. While the impact of the amendment will have the positive effect of centralizing some elements of the business establishment and investment approvals process for larger enterprises within the IPC, many deficiencies exist with the internal IPC process itself. In comparison to other countries in the

African region that have transformed the business registration and investment approvals process into an automatic and transparent procedure, the IPC process is less competitive in several respects: (a) it does not provide automatic approval for investments below a certain investment size threshold, not engaged in a negative list of prohibited activities; (b) it includes redundant evaluations by sectoral ministries that do not generally conduct actual project appraisals, and merely delay the process; and (c) it does not provide any "fast track" approval process for wholly export oriented operations. Added to a tight operating budget, and a very small staff, the deficiencies in the approvals process have meant that the IPC is simply unable to keep pace with the number of applications in the pipeline. While institutional support will certainly improve the situation, the entire investment approvals process can be greatly streamlined.

Land Policy. A major deterrent to commercial and industrial activity in Tanzania, and a leading cause of the current deterioration of urban infrastructure, is the outdated land and tenancy policies of the country. At present, glaring deficiencies in land ownership, zoning law and uncertainty of land tenure status for firms already operating inhibits the entry of new firms and the expansion of existing ones. It has also resulted in a growing informal market for land sales, and speculation in property values. The overall problem with land and tenancy in Tanzania relates to a number of issues: (a) the bureaucratic manner in which land is demarcated, sub-divided, allocated and titled; (b) the presumption that all land is owned by the public, and therefore has no value; (c) inadequate mechanisms to deliver land and buildings to private occupants, and insecurity of land tenure status; and (d) rigid controls on renting, selling and sub-letting properties, which artificially restricts the supply of properties on the market.

Export Policy and Export Incentives. Tanzania-based export producers have historically been deterred by the strong anti-export bias of trade and investment policies. While the substantial policy reforms implemented over the last five years have reduced effective protection to local industry, significant policy barriers continue to erode export competitiveness. Tanzania offers a number of schemes that were created to enhance the competitiveness of exporters: (a) an export retention scheme to facilitate access to foreign exchange for exporters of nontraditional products; (b) a duty drawback scheme, providing qualifying exporters with a rebate on duties, sales and excise taxes paid on imported and domestically sourced inputs contained in the exported product; (c) a bonded warehouse scheme, that permits export-oriented manufacturers to import and store inputs duty-free, pending use in the manufacturing process, and subsequent exportation; and (d) an export credit guarantee scheme, which provides a BOT guarantee to banks providing pre-shipment and post-shipment credit to

exporters holding irrevocable Letters of Credit and confirmed export orders. Aside from the export retention scheme, the utilization of these schemes has been extremely low. This is due in large measure to two sets of problems: the limited incentive value of the schemes (in terms of their ability to offset the anti-export bias of trade policy); and deficiencies in the way in which the various schemes are implemented. According to GOT officials, part of the failure of the export schemes has been the lack of awareness of their existence and benefits, and the fundamental lack of an export mentality overall. But the approach to export policy and promotion has been undertaken in a partial and piecemeal fashion. Wholly export oriented operations do not enjoy a comprehensive package of incentives (duty and tax relief, automatic access to foreign exchange, automatic investment approvals and import/export procedures) that their competitors enjoy worldwide. Partial exporters -- those that are mostly oriented to selling to the domestic market -- are not offered sufficient incentives to reorient to the export market. Finally, there are simply no incentives in operation for indirect exporters (those enterprises selling inputs to direct exporters, or purchasing finished products and re-exporting them overseas). Existing export incentives do not therefore facilitate a widespread export orientation, as only direct exporters can benefit.

Business Taxation. A recurring complaint of private businesses in Tanzania relates to the country's punitively high direct and indirect tax rates, and aggressive collection methods. As shown in Annex R, Tanzania imposes a large number of direct and indirect taxes. Direct taxes are imposed on various forms of income and distinguish between resident and non-residents. Indirect taxes are transaction-based, and generally paid through the purchase of local and imported goods. Although reduced substantially in the June 1992 budget speech, direct and indirect taxation remain high (corporate income tax is a flat 35-40 percent; sales tax ranges from 0-30 percent; excise taxes are 20 percent; the capital gains tax is 20-40 percent). High taxation has had several negative effects, including (a) reducing the private sector's ability to mobilize resources for expansion; (b) increasing the pressures and possibilities for corruption by poorly paid public officials; (c) deterring informal enterprises from entering the formal sector, and (d) diverting entrepreneurial efforts from productive sectors to real estate speculation, trading and other activities that are less easily taxed. While there are significant tax exemptions and deductions available under the National Investment Act (including a five year income tax holiday, import duties and sales tax exemptions, and a five year exemption of withholding tax on dividends), such benefits are only available to certain types of enterprises and only partially affect the overall tax burden. The overall result of the system is to encourage widespread tax evasion and diversion of goods to neighboring countries. The system of tax collection and assessment is

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also associated with side payments and frequent harassment of entrepreneurs, which places an unevenly high burden on small firms operating in the formal economy. The overall result is an actual contraction of the tax base and a reduction of tax revenues.

This lengthy and complex set of constraints to business development in Tanzania requires comprehensive but tightly-focussed analysis and an integrated, carefully-sequenced program of reform based on the genuine needs of the Tanzanian private sector. The FED program will, through support to relevant private sector actors, initiate the policy analysis and policy advocacy activities required to get moving on this daunting set of private sector reform objectives.

C. Other Donor Strategies

Tanzania has a large and active donor community, many of them working in areas that have a bearing on financial sector development or enterprise development. Table III.6 illustrates.

Table III.6 Donor Strategies Related to Finance and Enterprise Development

Donor Agency	Macroecon. Adjustment	Financial Infrastr.	Physical Infrastr.	Inst/Leg. Infrastr.	Indust. Sector	SME Sector	Para-Statal
CIDA		X		X	X		
DANIDA		X				X	
EC			X		X		
GTZ		X				X	X
IMF	X	X					
JICA					X		
Nether.						X	X
NORAD			X				X
ODA	X	X	X	X		X	X
SIDA		X	X		X	X	X
Swiss	X	X					
UNDP		X		X		X	
W. Bank	X	X	X	X	X		X

The 1991-1994 Policy Framework Paper provides an extremely comprehensive framework within which donors can work productively in strengthening the financial sector in Tanzania, and a number of donors are taking preliminary steps in this area. The PFP also provides a sound framework

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for supporting private enterprise development, but so far only USAID is approaching this question at the programmatic or sectoral level, as opposed to specific project activities. Individual donor activities are summarized below.

CIDA:	Commercialization of parastatal wheat farms
	Stock market feasibility study
DANIDA:	Micro enterprise lending projects
EC:	Airport/harbor/roads/telecommunications
	Commercialization of coffee production/marketing
GTZ:	Small scale industry lending projects
	Board of External Trade (trade fairs/business trips)
	Financing parastatal restructuring/divestiture (DEG)
	Industrial and agro-industrial finance (KfW)
IMF:	Macroeconomic adjustment
JICA:	Industrial and agriculture development centers (Kilimanjaro)
	TANESCO (electricity utility)/TPTC (telecoms utility)
Nether:	Small scale enterprise lending project
	Studies of parastatal sub-sector restructuring
NORAD:	Railways/power stations/harbor/telecomunications
	Investment Promotion Center
	Study to restructure chemical industry
ODA:	Roads
	Assessment of commercial bank contingent liabilities
	small business development
	Parastatal Reform Commission
	Ministry of Industry and Trade
	Study of audit/account industry
	Assessment of legal system
SIDA:	Small scale enterprise lending project
	TAZARA/telecommunications/harbor authority
	Study to restructure wood/paper industry
UNDP:	Chamber of Commerce (TCCIA)
	Investment Promotion Center
	Micro enterprise lending projects
	Studies of informal sector (Zanzibar and mainland)
	Mining industry legal issues
WBank:	Macroeconomic adjustment
	A full set of sectoral credits

A number of areas that are key to financial sector and enterprise development appear to have received less attention than might be warranted. The most prominent of these include: assisting the Bank of Tanzania to effectively assume the functions of a central bank; providing (through the private sector) business support services (as opposed to government-based services or donor-financed directed lending programs,

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which are all too common in Tanzania); adding diversity and depth to financial sector services; and tackling policies and regulations constraining business establishment and operation.

D. Rationale for A.I.D. Policy-Based Assistance

As will be discussed in Section IV, the main elements of the FED program will include a policy agenda, a tranched release of cash grant dollars against policy adjustments, an import financing facility for use of the dollars, several project support activities, and a private trust fund for the local currency. This particular approach toward the problems outlined above flows both from the nature of the problems themselves, and from certain elements of USAID/Tanzania's overarching program strategy. We are seeking a multiplier effect from our assistance that goes well beyond the dollar value of our program. We can get this multiplier effect in the first instance by focusing on key policy adjustments; the financial sector policy changes contemplated here should have a strongly beneficial effect on economic growth, employment, and incomes in the country as a whole. Further program impact comes through the commodity financing facility; by earmarking our dollars for exclusively private sector imports of productive equipment we can directly support Tanzanian private investment while meeting Buy America objectives. Additional program impact will arise as the local currency trust funds are recycled into the finance-starved Tanzanian private sector through local investment channels. Finally, we retain the flexibility within this framework to tackle specific institutional issues (Bank of Tanzania, private enterprise support services) through projectized assistance. Hence the policy-based approach allows us to tailor our program to a full range of financial and private sector issues, while simultaneously seeking and obtaining the multiplier effects that flow from policy changes, capital imports, and reinvestment of local currency.

E. Relationship to Overall Mission Strategy

USAID/Tanzania's overall program goal is to foster real economic growth and improved human welfare in Tanzania. We are contributing to economic growth (a) by supporting rehabilitation of roads and railroads (ATAP, TAZARA), and (b) by supporting development of financial sector infrastructure and private sector business support infrastructure. Throughout, our aim is to encourage a realignment of government and private spheres of activity that will lead to a more effective use of both public and private resources in support of economic growth, greater employment, and increased incomes.

There are many possible approaches to stimulating private enterprise; in Tanzania today, the needs are those identified in the FED program: (a) establishing a healthier, more diverse financial sector, and (b)

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mobilizing the private sector to respond to the new opportunities emerging as Tanzania shifts toward a liberalized market economy. Both objectives require action at the policy level, as well as more specific project interventions.

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IV. Program Description

A. Program Goal and Purpose

The GOAL of the FED program is to stimulate income increases in Tanzania. The PURPOSE of the FED program is to foster income earning opportunities for the un- and under-employed by stimulating private enterprise growth. This purpose will be accomplished (a) by helping to establish a financially sound and diverse financial sector capable of meeting the challenges posed by the move to a market economy; and (b) by helping to mobilize a private sector response to the opportunities created by the gathering pace of liberalization.

B. Governance Objectives

Part of Tanzania's legacy has been the cooptation or neglect of private, membership-based associations, and a stifling of dialogue between government and non-government elements of the society. Today that is changing. There are dozens of professional, business, legal, religious, charitable, and voluntary organizations in existence, and a steady if slow stream of newly established special-purpose associations has been reported in the local media. In addition to their internal agendas, such associations often have a policy agenda to put forward as well. But most such organizations are financially weak, and are only now beginning to develop the leadership and programmatic vision required to articulate private sector needs and place them effectively before government policy-makers. To hasten the day when dialogue between government and donors can be replaced by dialogue between government and society, the FED program will seek to (a) strengthen the independent voices of a range of associations representing views and interests within the private sector; (b) where appropriate, undertake policy studies with and through appropriate private associations, rather than automatically assuming these should be done by government agencies; and (c) actively promote mechanisms to facilitate dialogue between government and the private sector, including <u>inter alia</u> expanded private sector printing/publishing capacity, and improved commercial and business journalism.

C. Private Sector Policy Analysis, Policy Advocacy, and Dialogue

The FED program does not encompass a formal, donor-to-government policy agenda on private sector development issues. This does not mean that these issues are unimportant. Rather, this reflects a series of USAID/Tanzania conclusions on the best way to seek an improved environment for private enterprise development. First, the private sector is best equipped to identify real constraints and propose

practical, effective policy or regulatory solutions. Second, the current understanding of private sector policy issues is inadequately precise to be explicitly incorporated into a formal policy agenda. Third, as issues become clearer and membership-based private sector organizations become stronger, it will be possible for the private sector to play an increasingly effective role advocating government policy change. Accordingly, the FED program will pursue private sector policy issues forcefully, but indirectly. At this point it appears that the substantive content of the policy analysis and policy advocacy to be sponsored by the private sector will focus on the issues outlined below.

-- A complex exchange rate policy which results in multiple effective exchange rates and market distortions, depending on the foreign exchange window utilized.

-- Inadequate and partial access to foreign exchange to finance import requirements, coupled with delays in profits and capital repatriation.

-- Cumbersome export and import licensing and other controls, which significantly slow and complicate import/export activities.

-- Complex procedures and institutional deficiencies which make the process of registering or incorporating a business extremely time consuming and difficult, especially for small enterprises.

-- High indirect taxes and other charges which raise ex-factory prices and promote tax evasion (the provisions of the June 1992 Budget Speech indicate the government is committed to resolving these issues).

-- Lack of adequate and coherent export incentives to counter-balance the anti-export bias of trade policy, which erodes the competitiveness of Tanzania-based export manufacturers.

-- Complicated and time-consuming procedures to acquire land for industrial and commercial building development.

The high-quality technical analytic support required by the Tanzanian private sector to address this policy agenda will be made available through the FED-financed Business Services Center, described in Section E, Project Support Activities.

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D. Financial Sector Policy Agenda: Main Theme, Program Areas, and Conditionalities

The FED program is organized conceptually around one policy theme and five areas of program activity, and is organized sequentially into three tranches. The release of funds under each tranche is dependent upon the GOT meeting specific conditions as detailed below. Our strategy in selecting specific policy objectives is based on these principles: the policy objectives will be fully consistent with macroeconomic and sectoral policy adjustments already laid out by the GOT with IMF and World Bank support; the policy objectives will be clearly within the management interest and institutional capabilities of the Bank of Tanzania; the policy objectives will not threaten government revenue streams; and the policy objectives will be amenable to clear assessment of progress based on performance. The FED program also includes a project component in support of these policy objectives, which is designed to help the BOT implement individual reform actions. Annex P (Policy Matrix) provides a summary of the policy benchmarks in each program area and illustrates the sequence of tranches. Since the FED policy agenda follows and reinforces the objectives of an ongoing World Bank Financial Sector Adjustment Credit (FSAC), an explicit attempt has been made to align the FED policy agenda with key provisions of the World Bank program. In the discussion below, an asterix (*) indicates conditionality that is congruent with FSAC conditionality. A double asterix (**) indicates conditionality found in the FED program alone.

Main Theme: Consolidating BOT Role as a Central Bank. During the next three to five years, the heaviest burden for implementing financial sector reform policies will fall on the Bank of Tanzania. The BOT will be passing through a transition period in 1993-1996 as it becomes a stronger central banking institution with solely central bank functions. During this period, the BOT will bear the prime responsibility for (a) establishing a new, revised Bank of Tanzania Act; (b) completion, promulgation and implementation of prudential regulations needed to establish a competitive banking sector, which implies instituting a routine program of bank supervision, portfolio reviews, and bank examinations; (c) enhancing instruments of monetary policy; (d) discontinuing functions that are inconsistent with the central bank role; and (e) setting the groundwork for a more diverse financial sector. These five areas of program activity (a through e above) constitute an ambitious and daunting program of policy and institutional change that will require substantial support if it is to be carried through successfully.

Program Area A: Improved Central Bank Legislation. The objective of Program Area A is to help the Bank of Tanzania establish a sound

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legislative framework for strengthening its role as a central banking institution.

Tranche 1: BOT finalizes its internal review of the Bank of Tanzania Act of 1965 to ensure consistency with the Banking and Financial Institutions Act of 1991. (*)

Tranche 2: BOT drafts amendments to the 1965 Act. (**)

Tranche 3: Amendments to the BOT Act of 1965 become law. (**)

Action in this program area requires legislative change in the third tranche. Neither the BOT nor indeed the GOT can guarantee, absolutely, that specific legislation will be enacted. However, action in this area is already underway, the need for legislative adjustments is endorsed by the BOT, and the underlying objectives are well understood and believed to be desirable at senior levels in government. This suggests that legislative approval will be granted, and hence these are reasonable policy conditions. Short term technical assistance will be provided if required by the BOT.

Program Area B: Strengthen Supervisory and Regulatory Functions. The objective of Program Area B is to assist the Bank of Tanzania in instituting a rigorous framework of regulations and procedures required to properly supervise and regulate the banking sector in Tanzania.

Tranche 1: BOT elevates Bank Supervision Department to Directorate Status. (*)

BOT finalizes Capital Adequacy and Asset Concentration regulations. (*)

BOT schedules loan portfolio reviews for TIB and THB. (**)

Tranche 2: BOT completes the revised Manual of Inspection Policies and Procedures to reflect the new prudential regulations. (**)

BOT undertakes one full-scale external bank examination. (**)

BOT completes portfolio reviews for one of the financial institutions mentioned above (TIB, THB). (**)

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Tranche 3: BOT assesses effectiveness of the bank supervision and regulation process. (**)

BOT undertakes one additional full-scale external bank examination. (**)

BOT completes portfolio reviews for second of the two financial institutions mentioned above (TIB, THB). (**)

Action in this program area is within the management interests and capability of the BOT, with short term technical assistance and training support through the FED program and other donor assistance.

Program Area C: Enhance Instruments of Monetary Policy. The objective of Program Area C is to assist the BOT in responding to its emerging responsibilities as a fully functional central bank.

Tranche 1: BOT inaugurates discount window surveillance by monitoring the amounts and quality of credit extended. (**)

BOT initiates (prepares Terms of Reference for) the design of a secondary market in government securities. (**)

Tranche 2: BOT uses changes in the discount rate to influence the amount of loans extended to the economy by the banks. (**)

BOT finalizes regulations to implement the government securities market. (**)

Tranche 3: BOT initiates secondary market in government securities. (**)

Action in this program area is within the management interests and capability of the BOT, with short term technical assistance and training support through the FED program and other donor assistance.

Program Area D: Discontinue Non-Central-Bank Functions. The objective of Program Area D is to help the BOT shed outmoded functions that are inconsistent with the role of the nation's central bank.

Tranche 1: Within the context of the amendments planned for the 1965 BOT Act, BOT prepares a plan to (a) phase out setting of credit terms, (b) eliminate

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administratively allocated credit, and (c) become a "lender of last resort" for the banking system. (*)

Tranche 2: BOT further liberalizes interest rate policy by eliminating the maximum lending rate. (**)

Tranche 3: BOT ceases to exercise its power to allocate credit. (**)

BOT implements a discount policy consistent with the role as lender of last resort. (**)

Action in this program area is within the management interests and capability of the BOT, with short term technical assistance and training support through the FED program and other donor assistance. However, action in this area will also require close coordination and agreement with the Ministry of Finance.

Program Area E: Foster a Diverse, Competitive Financial Sector. The objective of Program Area E is to help the BOT take on responsibilities and activities necessary to support growth and improvement in the financial sector and the economy as a whole.

Tranche 1: BOT accepts responsibility for interbank check clearing. (**)

BOT prepares a regulatory and legislative agenda to define the sequence of actions required to lay the groundwork for a private insurance industry. (**)

BOT assesses options for moving further toward a fully market based foreign exchange regime. (**)

Tranche 2: BOT assesses alternative interbank check clearing mechanisms. (**)

BOT drafts legislation enabling a private insurance industry. (**)

BOT initiates move to a foreign exchange auction or other market based allocation mechanism. (*)

Tranche 3: BOT implements interbank check clearing function. (**)

Legislation for a private insurance industry becomes law. (**)

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BOT completes move to a foreign exchange auction or other market based allocation mechanism. (**)

Action in this program area requires legislative change in the third tranche. Neither the BOT nor indeed the GOT can guarantee, absolutely, that specific legislation will be enacted. However, action in this area is already underway (review of NIC), the need for legislative adjustments is endorsed by the BOT, and the underlying objectives are well understood and believed to be desirable at senior levels in government. This suggests that legislative approval will be granted, and hence these are reasonable policy conditions. Short term technical assistance will be provided if required by the BOT.

Planned Impact of Policy Changes. The benefits that are expected from the implementation of the FED policy reform program are a result of direct and indirect benefits of the individual policy reform measures and the additional combined effect of all the policy changes that create a more positive private sector business climate. Some of the direct effects of the policy reforms are expected to result in a more efficient, competitive banking system and increased mobilization of private capital for new investment in value-added activities. Other, more indirect effects are the elimination of many of the bottlenecks associated with doing business, which are expected to increase business efficiency as businesses no longer will take time-consuming actions trying to avoid the rent seeking activities that are associated with bureaucratic bottlenecks. Annex N (Economic Analysis) discusses these impacts in detail; a summary is presented below.

Foreign Exchange Impact. It is anticipated that the foreign exchange funds provided to Tanzania by A.I.D. will be used by the private sector to procure equipment and supplies required to expand industrial and manufacturing output. This augments domestic savings and investment.

Export Growth Impact. With respect to both the dollar and local currency resources of the FED program, the impact is likely to be felt most directly in strengthening value-added exports. There is a clear correlation between export expansion and economic growth.

Impact on the Business Environment. Tanzania's business community is expected to benefit from FED-sponsored policy reforms that will reduce the cost of doing business. The current number of beneficiaries are the registered 300,000 business firms and the many firms that operate in the informal sector. During the past five years an average of 2000 businesses have been registered each year. A recent survey estimates that the average number of hours needed to establish a business ranges between 300 and 600 hours. The policy reforms envisaged under the FED

program will reduce these transaction costs greatly, implying large gains to all business starters.

Impact on Employment. The FED-derived increase in value-added activities will generate jobs and improve incomes. An ILO study completed in 1991 shows that at least 300,000 persons in Tanzania enter the labor force each year. When added to the existing unemployed, the employment problem is acute. The situation is made worse by observed declining trends in formal sector employment. The number of jobs created per year dropped from 30,000 in the mid 1980s to only 9,500 in the late 1980s and early 1990s. Planned retrenchment in 1992 will affect at least ten percent of the civil service employees, equivalent to almost 49,000 persons. Thus, the role of the government sector in absorbing additions to the labor force will be marginal. This implies that the new entrants into the labor force will have to be absorbed in the rural sector, and the private sector. The ILO study projects that overall, productive employment in Tanzania in the 1990s will increase by 2.2 percent per annum, while the labor force is projected to expand by 3.3 percent. Given this bleak picture, the creation of jobs for the rapidly expanding labor force must be a central objective to the government of Tanzania.

Impact on the Financial Sector. An efficient financial system can play a major role in expansion of domestic and foreign trade, stimulation of domestic savings and appropriate channeling of available resources to productive uses -- functions essential to the increasingly market oriented Tanzanian economy. Moreover, a system of appropriate financial institutions, instruments and markets enables economic agents to pool, price and trade the risks associated with various economic activities which individual entrepreneurs may not wish to bear entirely -- a key issue which will emerge with increasing economic diversification. A well developed financial system with adequate depth and range of financial instruments can also help address the concern of Tanzania policy makers to more effectively conduct macroeconomic policy and adjust to internal and external shocks. The confidence of economic agents in the soundness of the financial system depends fundamentally on the existence of an effective regulatory and supervisory framework. Also, within the financial system, banks in particular hold a special position in the economy as creators of money, principal depositaries of financial savings, the principal allocators of credit and managers of the country's payments system. The FED program, by assisting the Bank of Tanzania to credibly play its role as an independent central bank, has large pay-offs not only in terms of facilitating efficiency in the financial sector but also in stimulating economic growth through a better use of domestic and foreign economic resources.

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E. Project Support Activities

Two main sets of project support activities are contemplated, paralleling and supporting the policy agenda outlined above. One project activity will be in support of the Bank of Tanzania, and a second will be in support of private sector development. A third modestly funded project activity will promote the establishment of a venture capital fund in Tanzania. The project support activities will be crafted to address our governance objectives as well. In refining and implementing these project activities our approach will be based on these principles: close collaboration with appropriate private and governmental organizations; all activities to be demand-driven to ensure relevance; and implementation arrangements which rely to the maximum feasible extent on Tanzanian institutional capacity and reduce the day-to-day Mission management burden.

Bank of Tanzania Support Package. In collaboration with the Bank of Tanzania, USAID/Tanzania will provide assistance to deepen and consolidate the achievements of ongoing reforms in the financial sector. Preliminary discussions indicate that this activity will accomplish two main objectives. First, we will assist the Bank of Tanzania as it seeks to institute an appropriate set of regulatory functions, particularly with respect to the banking sector. This activity will follow closely on the commercial bank loan classification exercise undertaken with USAID assistance. Second, we will assist the Bank of Tanzania in strengthening Tanzania's financial sector, by providing access to a broad array of financial sector expertise to help think through the issues arising in the move to a modern financial system. This includes arranging for the U.S. Federal Reserve to provide technical assistance in instituting the BOT's supervisory and regulatory functions, helping the BOT to take on additional key central bank functions, providing assistance in the development of specific new financial mechanisms, and providing support for establishing an effective interbank check-clearing system.

To accomplish these objectives will require short term problem-solving technical assistance relevant to senior BOT management, in-country seminars and workshops to upgrade the skills of mid-level and junior staff, and strategically selected short-term training in the U.S. A modest level of commodity support directly related to project activities is also planned. A summary dollar budget for the BOT activity is presented below. A detailed budget including local currency costs appears in Annex B.

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Table IV.1	BOT Support Package Budget ($000)					
Item	Year 1	Year 2	Year 3	Year 4	Year 5	Total
Short Term TA	260	340	250	140	130	1120
Equipment	100	80	80	31	30	321
Training Funds	210	420	420	420	420	1890
Total	520	840	750	635	579	3331

Short Term Technical Assistance. The budget provides for approximately 112 person-months of short term technical assistance. The bulk of this is planned to support the BOT's effort to strengthen the supervision and regulation of the banking sector. The funds will be used to access U.S. Federal Reserve System senior bank supervisors on a rotating basis to provide on-the-job-training and supervision for the BOT's bank supervision staff. This follows on the successful model employed by the BOT in undertaking portfolio reviews at NBC, CRDB, and PBZ. Support will also be provided to help the BOT (a) prepare new financial sector legislation, (b) enhance monetary policy capability, (c) institute new financial instruments, (d) discontinue non-central-bank functions, (d) institute an interbank check-clearing function, (e) enhance management of the foreign exchange regime, and (f) other complementary needs.

Equipment. The budget provides for a modest level of equipment procurement, chiefly computers, software, and other equipment needed to support the BOT as it takes on the new responsibilities referred to above.

Office Expenses. The budget provides for a modest level of office expenses, chiefly for advertisements and published materials related to training seminars that require the awareness and participation of the banking institutions.

Training Funds. The dollar budget provides approximately $1.4 million for a series of quarterly in-country training courses (each of approximately three weeks' duration), to be sponsored by the Bank of Tanzania. This level of funding will support both the in-country expenses as well as the costs of accessing specialized technical and training skills from overseas. The specific content of the training courses will be determined by the BOT during implementation, and is likely to address bank supervision and regulation, capital adequacy determination, loan classification and reserving, bank licensing,

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evaluation of off-site bank supervision reports, liquidity measurements, and so forth. The in-country seminars will address training needs at senior operational, mid-level and junior levels in the BOT as well as other banking institutions. The budget also provides for approximately 45 person-months of participant training, intended for senior policy and operational staff in the BOT. This will provide access to specific technical and policy training, such as that provided by the Federal Reserve, the World Bank, major U.S. commercial banks, and other sources identified by BOT management.

Business Services Center. Tanzania is in the midst of a transition from a state-dominated, inefficient command economy to an open, diversified market. Since 1986, major policy reforms have significantly improved the operating environment for private firms, but the Tanzanian business community today remains relatively small, underdeveloped and plagued by internal divisiveness. Private economic activity is largely confined to commerce and trading, with a handful of large holding companies engaged in industry and agriculture, and an emerging cross-sectoral cadre of small and medium-scale enterprises that are seeking to establish a foothold in the market. The dominance of inefficient parastatal organizations in the productive sector, coupled with the inherent disincentives that accompany state-controlled marketing systems in the agricultural sector, have historically discouraged the development of new businesses. In addition, a strong cultural bias against profit making and individual enterprise has led many of the best educated and most promising members of this generation to pursue other vocations or leave the country entirely.

In this context, the task of stimulating a private sector response to emerging opportunities is formidable. The parastatal structure is being dismantled at a quickening pace, and it is uncertain what firms and individuals will be equipped to fill the vacuum. There is considerable concern among the indigenous population that present reforms will work primarily to the advantage of the Asian community, whose enterprises now dominate the private sector, heightening tensions and further marginalizing smaller businesses. At the same time, established business institutions are weak and somewhat at odds with each other. There are few instances of cooperation between these associations, and little if any effort has been directed toward developing a consensus on how best to support business development, from either a market or policy perspective.

Within this environment, the challenge for USAID/Tanzania is to design and implement a workable technical assistance strategy that will reach a broad range of private sector beneficiaries in a cost-effective manner. Through discussions with private businesses and business associations, financial sector leaders, senior government officials,

and other donor agencies, a general consensus has emerged: there is a need for a results oriented, demand driven entity that can address the technical and policy constraints that have been identified. As outlined below, the establishment of an independent Business Services Center has been determined to be the optimal approach to meeting these objectives.

Strategic Objectives. The BSC will have four principal strategic objectives, each of which contributes to the overall purpose of the FED program of fostering private enterprise growth. Specifically, these objectives are:

-- Raising Public Awareness. The BSC will use print media, radio, and publications to publicize issues and achievements in private sector development. These efforts will draw attention to such areas as project objectives, business development opportunities, and policy constraints identified, as well as to the technical assistance provided by the BSC and its impact, once the work program is fully underway.

-- Responding to Demand. The BSC will be a demand driven service organization, reflecting the needs and concerns of the Tanzanian business community as they are voiced by firms, individuals, and industry representatives. The role of the BSC will be to propose, rather than dictate, project activities, so as to ensure that private sector views are reflected in the design and implementation of the technical assistance and training provided.

-- Strengthening and Broadening the Business Community. The BSC will be nondiscriminatory in the services that it provides, aiming to reach and assist the Tanzanian business community as a whole. Eligibility criteria for project assistance will be established that are straightforward and reflect the differing capabilities of the intended beneficiaries. Particular attention will be devoted toward phasing in of technical assistance and training outside of Dar es Salaam through linkages with institutions in other population centers (Moshi, Arusha, Mwanza, Zanzibar); to providing resources in support of small scale African entrepreneurs; and to meeting the particular needs of enterprises owned and operated by women entrepreneurs.

-- Enhancing the Policy Environment. A final objective of the BSC will be to identify and assess the key policy issues impeding Tanzanian business development, and to promote greater understanding and awareness of these issues. A key element in the BSC approach to these policy-related activities will be to develop the capacity of business associations to serve as effective advocates of private sector interests to the GOT.

outside support. In this context, the BSC team will work with regional and national technical centers, educational institutions, firms, and other sources of professional services, to identify qualified candidates to assist in program implementation.

BSC Staffing. The project staffing structure outlined below should be viewed in light of the breadth of the activities that are encompassed by the BSC, and the premium which this places on hands-on project management skills.

-- Long Term Advisors. The Chief of Party will be the in-country manager of the BSC and will serve as the principal contact point between the contractor, BSC staff, USAID, the local business community, and other entities. The COP will be charged with establishing the office and facilities of the BSC, hiring personnel, and setting up requisite data collection and information management systems. He/she will also bear responsibility for developing the project workplans, defining and maintaining communications channels, and addressing technical assistance needs as they arise. The Project Coordinator will serve as the principal liaison between the Tanzanian firms and individuals seeking, or in need of, BSC assistance and the service providers under the BSC. Additional full-time staff will also be required to fill Resident Technical Specialist positions in business and finance, training, and overseas investment/commercial linkages.

-- Short Term Advisors. These individuals may be drawn from the contractor, as well as from other local and foreign sources, as appropriate to the needs at hand. The activities of these individuals may be targeted to a general business audience; directed toward a particular product, sector, or function; or may be firm-specific, as determined by the BSC staff. Short term advisors may also be used in the area of policy analysis and the provision of tailored assistance to local business associations.

-- Support Staff. A receptionist/secretary and driver/messenger will be required to provide requisite administrative support. Other services will be accessed through the facilities of the counterpart Tanzanian firm on an as-needed basis.

BSC Links to Local Business Associations. Tanzanian business, industry and trade associations are expected to play a pivotal role in the BSC's activities and achievements. Working with the contractor, the associations will be responsible for the promotion of the project to their constituencies, the identification and preliminary evaluation of technical assistance needs, the dissemination of information made available through the project, and, in accordance with their capabilities, assisting in provision of the technical assistance.

The associations will be used as a resource in the development of the work programs prepared by the COP, and will be expected to make capable staff available to assist in the BSC's implementation. They will be an especially important element in the communications network established, by serving as a conduit between the BSC and the business community at large.

To the extent that commonalities of sectoral and functional needs are manifested through effective communication with the business associations and their memberships, significant economies can be achieved by bringing in short term technical experts that will travel to several locations and plants throughout Tanzania as a part of their assignment. Through close collaboration by the BSC staff with the associations, the most cost-effective means of delivering technical assistance will be determined and the assignment configured and scheduled accordingly.

Finally, the associations will be asked to play an active role in setting the policy agenda for the BSC. Drawing upon the input of their memberships, the associations will bring to light policy issues of key concern for which technical analysis is warranted. As with the training and technical assistance provided in business development, the policy assessment and advocacy activities undertaken or supported by the BSC will be determined by the expressed needs of the businesses which the Center endeavors to serve.

BSC Links to Established Technical Assistance Mechanisms. The myriad and varied needs associated with business development in Tanzania will require both careful management and targeting of services under the BSC, and coordination of the Center's activities with existing private sector support institutions and programs. This section presents areas of technical assistance and training where external providers of services have been identified. These efforts can be linked to those of the BSC either formally, through contractual agreements, or through coordination and cooperation in the design of their respective program activities, depending on the institutions involved. BSC integration with these programs will involve the coordination of cost sharing, and fee for services arrangements, to meet both the individual requirements of the independent programs, and to establish a transparent "pricing schedule" for potential beneficiaries of the BSC.

-- Africa Project Development Facility (APDF). The APDF was established in 1986 as a joint effort by the African Development Bank, UNDP, and the International Finance Corporation (IFC), to assist African entrepreneurs in establishing viable small and medium sized businesses. While the APDF does not provide direct financing to these

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entrepreneurs, it works with them to develop "bankable" projects in the preparation of feasibility studies, marketing analyses, and business plans, and assists in identifying and tapping sources of financing for project development. The APDF operates on a cost sharing basis, with the outlook that entrepreneurs must have their own stake in the project for it to be successful. This approach is in keeping with the strategy proposed for the BSC. Discussions with the APDF's General Manager in Washington and Regional Manager in Nairobi indicate that the organization is considering establishing a "window" in Tanzania (a one-person operation). Potentially, this window could be located within the BSC, or alternatively, close coordination maintained between the BSC staff and the Nairobi office to provide services to Tanzanian entrepreneurs.

-- Entrepreneurs International (EI). Entrepreneurs International is a USAID-sponsored private sector training program administered though A.I.D.'s Office of International Training. The program is intended to foster the growth and enhancement of business communities in developing countries by linking them to the U.S. private sector. Target beneficiaries are executives and decision makers in the developing world, who are identified for training by the USAID missions. Project participants are "matched" to U.S. counterpart companies and then travel to take part in hands-on training and business discussions in the United States. The program is entirely grant funded, there is no cost recovery element. EI has been operating successfully for some time in Tanzania, having provided training to 23 persons as of year-end 1991, eight of whom were women, and there are an additional 15 persons that have been identified by USAID for training. Clearly, the work of EI is fully complementary with that of the BSC, and there will be on-going linkages established with the Mission training officer to enhance this complementarity.

-- International Executive Service Corps. The IESC is a U.S. non-profit organization, established in 1964, that provides hands-on assistance to locally owned businesses in developing countries. The IESC has offices throughout Africa and the world, and an active network of over 12,000 volunteers who donate their time and services in response to requests for technical assistance. These experts are comprised of retired U.S. business executives, experienced practitioners with a broad spectrum of specializations, including engineering, plant management, printing and packaging, financial management, and the full range of industry and sector-specific backgrounds. In most technical interventions, assistance requests received by the IESC are channeled through a national development organization or donor agency, and an agreement is reached as to the most appropriate form of assistance to be provided. Once a contract has been signed between the IESC and the recipient, a member of the

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IESC's corps of Volunteer Executives is identified who possesses skills that match the need of the developing country firm. The volunteer then travels to the field, most often for a short-term consultancy averaging 4-10 weeks in duration, working directly with the firm. In other instances, shorter engagements are proposed, such as plant diagnostic exercises in which the volunteer visits and assesses the firm and prepares an action plan, analyzing specific problems and proposing recommendations. A.I.D. provides core funding for the IESC's operations, so the costs of firm specific technical assistance are thereby limited to travel and maintenance of the expert. A proportion of these expenses are to be borne by the individual business. As with the APDF and EI programs, it is evident that the BSC may be able to make good use of the IESC program.

BSC Links to Tanzanian Institutions/Service Providers. The BSC will also work closely with established technical and training institutions that are developing, or have in place, programs to assist in private business development. Summaries of the potential areas of cooperation between the BSC and two premier institutions are presented below.

-- Institute of Finance Management (IFM). Based in Dar es Salaam, the IFM enjoys perhaps the best reputation of the training/education organizations reviewed. Its courses range from degree programs to Executive Development short courses, and it is especially equipped to provide training in accounting and business management. IFM links to the BSC could be established for businesses seeking to improve their financial planning and management capabilities. In addition, with a large faculty of professors and lecturers, the IFM is likely to be the most appropriate Tanzanian institution for developing tailored courses to meet training needs evidenced in specific areas, e.g., productivity enhancement, quality control, and production process strategies.

-- College of Business Education. Also in Dar es Salaam, the College of Business Education has proven to be an especially responsive educational institution in that its faculty is drawn, in part, from practicing professionals, thereby exposing students to the practical application of business skills, in addition to the academic material. The CBE has also been particularly adept at tailoring its courses to suit the needs of particular clients or business categories.

To expand the geographic coverage of the BSC, courses could potentially be run through such institutions as the Arusha Technical College, the Arusha School of Accountancy, and the Moshi Cooperative College. Numerous other training and vocational centers have been established throughout the country, such as the University of Dar es Salaam and National Vocational training Centres. In particular, there are several

good computer training centers. Once the BSC is operational, effort will be directed toward identifying the current activities and capabilities of these institutions to determine potential areas of cooperation, and to broaden the reach of the BSC's services.

Principal Functions of the BSC. BSC functions include general promotion activities as well as three service modules. Each is summarized below.

-- BSC Promotional Activities. Working with business associations, trade groups, and other interested parties, the BSC staff will publicize the full range of its activities and the business development opportunities, technical assistance, and training resources that it offers. The public awareness campaign will be crucial to the provision of technical assistance to a broad and diverse spectrum of organizations, businesses and individuals. Representative activities to be conducted over the five-year period will include: (a) publication of pamphlets, newsletters, and other promotional materials; (b) a public media campaign to draw attention to such areas as project objectives, business opportunities, and key policy issues, as well as to the technical assistance provided by the BSC; and (c) promotional events, such as trade fairs featuring exhibitions of locally produced goods, national and regional business conferences, as well as informal gatherings for persons interested in learning more about the BSC and its services.

-- Module 1: Basic Business Services. Module 1 activities are those which are intended to reach the broadest spectrum of firms and individuals. Unlike the services outlined in the other modules, the technical assistance and training encompassed can be applied to all types of businesses. Basic Business Practices will have the widest audience, and is essentially an element of the public awareness campaign described above. Many of the services encompassed will be delivered by the BSC staff, e.g., establishing a library, preparing/procuring publications, providing basic business advisory services, and conducting workshops for small audiences. These types of services will be among the first to be offered by the BSC, and will introduce the Center and its staff to the public at large. The services included under Applied Business Skills are also general, but will nevertheless reach out to a more experienced audience, including small businesses that are already operational but are in need of assistance to adopt more businesslike practices or upgrade their productivity. It is anticipated that most of the technical assistance required to deliver these services can be made available either by the BSC staff, established programs (IFM, CBE), or offered by local firms. In special instances, firms or individuals may be selected for overseas training under fellowships offered by NGOs or similar programs. Cost

for these services would be nominal, to the extent that they are provided by the BSC or its affiliates. In direct support of Buy America objectives, the BSC will supply information regarding U.S. sourcing opportunities for particular items (machinery, intermediate goods, equipment) required by a client. Assistance will also be provided in making contacts with U.S. suppliers, and ensuring that the sale goes through as planned. The BSC will conduct followup work to establish deeper commercial and investment relationships where feasible. The third and final category, Specialized Management and Technical Training, has as its target audience established firms and business associations. The intention is to provide access to information and training to support innovation in, and upgrading of, established capacity. While some topics such as inventory control and productivity management may fall within the BSC staff or Tanzanian firms and institutions, others will rely on bringing in short-term consultants to conduct specialized seminars. For this reason, services provided will be coordinated closely with the activities of the business associations, to determine which areas are of most interest, and to clearly identify the probable clientele. One or more associations might also assist in organizing and convening the sessions. The minimum level of participants required to warrant holding the sessions will be determined by the BSC, and attendance would require payment of a registration fee to at least partially cover their cost. In administering this module, the particular needs of small scale and women-owned and operated enterprises will be taken into account to foster expanded participation in project activities.

-- Module 2: Specialized Business Services. In Module 2 activities, the BSC will draw more extensively on outside sources of technical assistance. With regard to the first focus area, Project Development, the BSC staff would be expected to provide guidance in the key elements of pre-investment analysis, business plan development, and identifying and assessing alternative sources of finance for local entrepreneurs. Equipped with this fundamental information, the client would be in a position to discuss with the BSC whether or not to proceed with the project, areas in need of further definition, and the potential for qualifying for outside assistance through programs such as the APDF. For projects in specialized industries or services, or for assistance in identifying potential joint venture partners, short term technical assistance would be utilized to supplement in-house expertise. As with the Module 1 services extended to emerging entrepreneurs, for basic information at most a nominal fee would be charged. Project-specific assistance and consulting services would be costed based upon the practices of the cooperating organization and/or an assessment by the BSC of the client's ability to pay. The spectrum of services and the scope of potential users covered under Business Operations are broad for two reasons: (a) they reflect the diversity of

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the clientele that the BSC will endeavor to serve; and, (b) until the BSC is actually underway it is difficult, if not impossible, to narrowly define the potential service needs of operating businesses in Tanzania. When devising the means to improve the performance of an operating firm, be it well established or newly minted, an individualized approach is required. As problems are brought to the attention of the BSC staff, either directly, or through the business and industry associations, action plans will be developed. Alternative delivery options will then be evaluated, and their relative merits discussed with the client. Where possible, foreign consultants that are brought in will be teamed with local counterparts to assess and resolve the problem. This strategy will offer the client the benefit of top-notch international expertise, promote skill transfer, and provide for local continuity and support once the foreign advisor has left Tanzania. Potential mechanisms and sources of technical assistance and training are myriad in this focus area, as well as in Business Expansion. The services provided by Entrepreneurs International, the International Executive Service Corps, the APDF, local and foreign NGOS, and other donor agency programs can all be channeled through the BSC, after an assessment has been made of the precise characteristics of the needs of the client. In such areas as market strategy, new market development, and export assistance, the BSC staff should be qualified to serve as the initial source of expertise and to recommend whether more specialized assistance is warranted. The BSC can also serve as a resource for up-to-date information on international and regional trade, including both trade policies and programs. As with Module 1, it is expected that special attention will be required to ensure that small scale and women-owned and operated enterprises benefit from Module 2 activities in a way commensurate with their needs and abilities.

-- Module 3: Policy Dialogue/Institutional Support. The activities that will be undertaken by the BSC in Module 3 are perhaps the hardest to define, but hold the potential to have an important impact on the business community as a whole. The BSC can contribute to association strengthening across the board, working with the leadership of key organizations to help them define their objectives, identify their needs, and adopt a workable strategy to address them. Subsequently, particular attention will be directed to such areas as encouraging and expanding member support, consensus building, and organizational growth, perhaps by cosponsoring association participation in short courses overseas. Under this module the BSC will also help associations and their members (a) identify and assess the key policy issues impeding the development of businesses in Tanzania, and promote greater understanding and awareness of these issues; (b) conduct or commission periodic analyses on the identified policy constraints; and (c) propose concrete approaches for the

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modification of existing policies, design new strategies to overcome the identified policy constraints, and propose methods to support their implementation. The specific analyses that will be conducted in relation to formulating a private sector policy agenda will be identified by the business community itself. However, based upon the policy analysis undertaken as part of the FED project design effort, key areas of investigation of concern to the private sector have been identified as outlined in Part III, Program Rationale.

-- Sustainability. It is not an objective of the FED program to make the Business Services Center an independent, free-standing institution. However, it is an objective of the FED program to see that the business development functions incorporated into the BSC become institutionalized within the framework of business support organizations active in Tanzania. This may happen in several ways: the BSC may in fact take shape as a continuing institution, or key BSC functions may over time be taken up by chambers of commerce or other membership-based organizations, or such functions may become part of the services provided by Tanzanian private sector consulting firms. These issues and objectives will be incorporated into annual BSC workplans, and the midterm evaluation will be used to identify a strategy for ensuring sustainability of key BSC functions.

Other Project Activities. The Bank of Tanzania Support Package and the Business Services Center constitute the main project activities to be funded through the FED program. One additional activity remains to be described. USAID/Tanzania will promote the establishment of a small venture capital fund in Tanzania, and $210,000 in project funds have been set aside for this purpose.

Size of the Venture Capital Fund. It is considered that a venture capital fund with a subscribed capital of $5 million will be adequate to meet the investment potential in Tanzania, make a sufficient impact on entrepreneurial activity, and generate sufficient revenues and capital gains to become self sustaining within a period of five years.

Composition and Shareholders. Discussions have been held with a number of potential shareholders. There is interest on the part of CDC and the European Investment Bank (EIB), which has access to the European Community's risk capital fund for small and medium sized enterprises in industry, agroindustry and mining. These funds might be made available to the venture capital fund as an equity line of credit, or they could be drawn down by one of the Interact institutions (CDC, DEG) on a matching basis with its own investment.

Contact has also been made with the International Finance Corporation (IFC) to establish whether they might wish to join the venture capital

fund. They await a detailed proposal. Similar discussions have taken place with DEG. The preliminary response is encouraging, since DEG is looking for more effective ways to assist the smaller entrepreneur.

Discussions have also been held with the Aga Khan Fund for Economic Development (AKFED) and its associate in Tanzania, Industrial Promotion Services (Tanzania) Ltd. (IPS). A further local shareholder could be TDFL. There is a clear identity of interest between their operations and the venture capital fund, which can supply equity, one of the crucial components for want of which many of its projects are held up. TDFL had been considering whether to set up its own venture capital arm, but seemed to appreciate that this would necessitate a radical change in approach. Similar considerations would apply to the Tanzania Investment Bank (TIB).

Overall, discussions to this point have been encouraging but remain inconclusive. Since key investors have yet to agree on their contributions and the extent to which they will share management costs, it is at this point simply too early to include the operation of a venture capital fund in the FED project. However, USAID/Tanzania will continue to support the creation of a venture capital fund with short term technical assistance, and will consider alternative or complementary approaches to co-financing some proportion of the management costs of a venture capital fund when plans for establishing such a fund have become sufficiently firm.

F. Dollar Use

Dollar Tracking. A.I.D. will make available to the Government of Tanzania approximately $40 million to finance exclusively private sector imports. The foreign exchange provided by the FED cash transfer will be deposited into an interest bearing, separate, non-commingled Special Dollar Account established by a local commercial bank at a U.S. commercial bank acceptable to A.I.D. Initially the local bank will be the Cooperative and Rural Development Bank (CRDB), however, this may be adjusted during program implementation in accordance with the administrative requirements of the FED program. The number of the account, along with the name of the bank, will be provided to A.I.D./W as early as possible after obligation. These funds will permit the BOT to approve Import Licenses and the CRDB to establish Letters of Credit through a correspondent U.S. commercial bank to enable approved applicants to import eligible commodities.

The CRDB will maintain books and records related to the Special Dollar Account as necessary to show deposits to and disbursements from the account. These records will contain a copy of the application for the import license, a copy of the letter from BOT which requested A.I.D.

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review of the transaction, a copy of the letter from USAID/Tanzania which indicated A.I.D.'s concurrence, a copy of Letters of Credit issued to finance the transaction, a copy of the bill of lading evidencing the shipment of the goods financed, a copy of the supplier's commercial invoice, and an acknowledgement in writing from the importer that the commodity was in fact received.

The CRDB will provide A.I.D. with a monthly report of all transactions under this account, and will also instruct any correspondent commercial banks to provide A.I.D. with a monthly report of all transactions under this account. On a quarterly basis, CRDB will provide A.I.D. a statement reflecting all account balanaces on an accrual basis of accounting and in compliance with generally accepted accounting principles. At least annually, CRDB will provide A.I.D. with an audited, accrual basis financial statement reflecting account balances. The accounts must be audited in accordance with standards acceptable to the A.I.D. Inspector General.

Use of the Dollars. Dollars, and interest earned thereon, will be used only to finance imports of commodities from the United States or other A.I.D. Geographic Code 935 countries, for use by private individuals or by firms operating privately in Tanzania. Uses of the funds will be determined in accordance with an A.I.D. negative list of prohibited commodities and an A.I.D. positive list of approved commodities (Annex J). It is anticipated that the funds will be used to procure equipment and supplies required to increase income-earning opportunities and employment, primarily by expanding value-added agricultural, industrial and manufacturing output, either for domestic or export markets.

Buy America. A.I.D. is coming under increasingly heavy pressure to support American procurement in our activities overseas, as reflected in Congressional debate and discussions with elected representatives and their staff in Washington. The challenge before USAID/Tanzania is to respond to these legitimate concerns while continuing to work effectively in support of Tanzanian development objectives. These two objectives need not conflict. Our current experience with the transport sector program shows that about 10-25 percent of the funds made available in this way can be expected to be used to procure U.S. sourced commodities. Our experience also shows there are three main constraints to increased U.S. sourced procurement: (a) a nearly complete lack of information about U.S. suppliers in Tanzania, (b) a nearly complete lack of response on the part of U.S. suppliers to requests for information from potential Tanzanian clients, and (c) delays and uncertainty resulting from communications difficulties. To address these constraints and raise the percentage of U.S. sourced procurement, USAID/Tanzania plans to provide the following services as part of the Business Services Center:

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-- The BSC will offer a one-person Commercial Investment and Procurement Support Service with a library of current U.S. equipment and supplies catalogues and a fax line. This Service will, on behalf of Tanzanian firms, identify possible U.S. suppliers for commodities required, and fax requests for price/quality/delivery information to the Procurement Liaison Service discussed below.

-- In the U.S., the BSC will establish a Commerce, Investment, and Procurement Liaison Service (a part-time employee affiliated with our institutional TA contractor). After receiving faxed requests from the BSC, this Liaison Service will contact the appropriate U.S. suppliers, and actively pursue the required information on price/quality/delivery. Once the information has been obtained, it will be faxed back to Tanzania, and made available by the BSC to the potential Tanzanian private sector client. We expect that the price/quality/delivery information will frequently meet the needs of the private sector client, and that a U.S. supplier will frequently be selected.

USAID/Tanzania will monitor this process closely to determine what proportion of the program is used for U.S. sourced commodities, and if necessary we will adjust the commodity positive list or take other steps to increase the proportion of U.S. procurement. We anticipate that the innovative approach outlined here will, after an initial startup period in which Tanzanian importers gain familiarity with U.S. sources, prove highly effective in supporting U.S. procurement and will raise the percentage of U.S. procurement substantially above past levels of 10-25 percent. More significantly, this will lead to an expansion of U.S. investment in Tanzania, and stronger commercial ties overall.

G. Local Currency Management

Generation of Local Currency. A Special Local Currency Account will be established at the CRDB. This will be an interest bearing, separate, non-commingled account. The Government of Tanzania will cause all importers, public or private, using U.S. dollar funds allocated under the grant, to deposit in the Special Local Currency Account an amount equivalent to their U.S. dollar allocations from the Special Dollar Account, calculated at the highest official exchange rate prevailing in Tanzania on the date the deposit is made by or for the public or private importer.

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Local Currency Use. The arrangement specified above will generate approximately $40 million worth of local currency. The local currency will be put to three different uses: (a) certain local administrative costs incurred by USAID/Tanzania in the operation of its programs in Tanzania, (b) certain local costs of the FED project activities, and (c) a Social Action Trust. Each of these uses is reviewed briefly below.

Operating Expense and Program Trust Fund. Ten percent of the local currency generations shall be made available to the USAID Operating Expense and Program Trust Fund. The local commercial bank (CRDB) managing the Special Local Currency Account will arrange for ten percent of the deposits into the Account to be deposited into the USAID Operating Expense and Program Trust Fund account on a quarterly basis.

Project Costs. A portion of the local currency generations deposited in the Operating Expense and Program Trust Fund, not to exceed one-half of the total, will be reserved for use in meeting the local costs (chiefly training costs) incurred in implementing the Bank of Tanzania Support Package and the Business Services Center. An indicative local currency budget for these costs is presented in Annex I.

Social Action Trust. The remainder of the local currency generations will be used to capitalize a Social Action Trust, to be established in accordance with Tanzanian law and practice. The objectives of the Social Action Trust will be (a) to invest in the Tanzanian private sector, working through existing financial institutions and new institutions as they arise; and (b) using earnings from interest and investments, to make grants to non-governmental organizations (NGOs) to strengthen programs working to assist AIDS orphans in becoming productive members of society. Annex S provides an up-to-date picture of the current and foreseeable AIDS situation in Tanzania, and Annex T is a draft Trust Deed that provides a preliminary picture of the procedure for establishing the Social Action trust, for selecting and replacing members of the Board of Trustees, for designating beneficiaries, and other operating procedures of the Social Action Trust. The Trust Deed will be finalized during the initial months of FED program implementation, and will receive further review and explicit approval of A.I.D. legal counsel prior to being made effective. The trust funds themselves will be managed on a fee-for-service basis by an investment management institution, to be selected on a competitive basis. The management fee for this service will be drawn from the earnings from trust investments.

The Social Action Trust is a preferred approach to the objectives outlined above for two reasons. First, most direct government programs

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in support of private sector development in Tanzania are not viewed as particularly effective, even by senior government officials. One government entity which appears to be effective (Investment Promotion Center) is currently receiving resources adequate to its needs. Hence the option of providing FED assistance with and through an official agency does not appear feasible, nor would it necessarily be a preferred approach. Second, we are seeking a long-term solution to building the private sector, a solution not dependent on constrained and uncertain government budget levels. A long-term endowment provides a mechanism for dealing with these concerns. Finally, the Social Action Trust is consistent with our overall sector objectives, in that the local currency generations will be made available as a source of investment funds to support private sector growth. Moreover, as Annex S (AIDS in Tanzania) makes clear, assisting AIDS orphans in becoming productive members of society is a long-term undertaking that will have a direct and positive impact on the quality of the labor force in Tanzania for years to come. In setting up the Social Action Trust, we will ensure that A.I.D.'s role remains an appropriately narrow one, consistent with the need to ensure the Trust takes shape as an effective mechanism for addressing our objectives in this area.

H. Program Implementation

This section has two components: (a) the overall implementation plan, and (b) the procurement plan.

Implementation Plan. This plan addresses (a) implementation management, and (b) the implementation schedule.

Implementation Management. Three sets of responsibilities are discussed here: (a) joint GOT/USAID responsibilities, (b) GOT responsibilities, and (c) USAID responsibilities.

-- Joint GOT/USAID Responsibilities. Overall program implementation will take place with the advice and guidance of two Committees. At the principal secretary or policy level, the <u>FED Steering Committee</u> will include the Permanent Secretary of the Ministry of Finance, the Governor of the BOT, the Economic Advisor to the President, and the USAID/Tanzania Mission Director. This committee will monitor progress of FED implementation, including progress toward achievement of conditionality. It is expected that this committee will meet twice annually. At the senior operational level, the <u>FED Implementation Committee</u> will include the Deputy Permanent Secretary for External Finance in the Ministry of Finance, the Director of Economic Research and Policy of the BOT, and the USAID/Tanzania Project Development Officer. This committee will monitor program implementation on a more regular basis, and will deal with

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implementation matters which require broader discussion and resolution. It is expected that this committee will meet four to six times annually. Both Committees serve an advisory and coordination function. They are not decision-making entities.

-- GOT Responsibilities. The GOT, through the Ministry of Finance, will have overall responsibility for implementing the FED program. The Bank of Tanzania will be the implementing agency for the FED financial sector policy reform program and related project support activities. This includes undertaking the necessary reform actions and providing direction for the project activities in support of the BOT reform program. Based on actions taken, the BOT will be responsible for submitting to USAID/Tanzania evidence that the conditionalities have been met. The GOT, through the Ministry of Finance and the BOT, will ensure that covenants included in the program agreement are met. The FED private sector support activities will be implemented with and through the Tanzanian private sector, hence there will be no separate or substantive GOT implementing agency. The Ministry of Finance will perform that function when required.

-- USAID Responsibilities. USAID/Tanzania will have responsibility for (a) maintaining a substantive dialogue with BOT and relevant agencies regarding progress in implementing the FED policy agenda, (b) arranging the contracts and/or grants required to implement the BOT support package in accordance with BOT technical direction, and (c) arranging the contracts and/or grants required to implement the Business Services Center and other related project activities in accordance with the policy and operational guidance of the FED Steering Committee and the FED Implementation Committee.

Implementation Schedule. The timing, actions required, and responsible agents for major implementation activities are summarized below.

Time	Action	Agent
1992		
June	PAAD authorized	USAID
August	Proag signed, initial obligation of funds	GOT/USAID
September	FED Project Manager position advertised	USAID
October	RFP for institutional contractor prepared	GOT/USAID
	Initial buy-in for BOT short-term TA negotiated	GOT/USAID
	FED Implementation Committee reviews status of conditions for Tranche 1 release	GOT/USAID
November	Tranche 1 conditionality met, funds released	GOT/USAID
	Buy-in for M&E program negotiated	USAID
December	FED Project Manager selected	USAID

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1993

January	FED Project Manager arrives in Tanzania	USAID
February	FED management support staff selected	USAID
	Institutional contractor selected	GOT/USAID
March	First quarterly in-country seminar (BOT)	BOT
	FED Implementation Committee endorses BOT first annual TA/Training workplan	BOT/USAID
April	Social Action Trust established	GOT/USAID
June	Institutional contractor arrives	USAID
	BSC first annual workplan prepared	USAID
July	First annual M&E activity initiated	USAID
	First PAAD amendment signed, first annual proag amendment signed, second obligation	GOT/USAID
October	FED Implementation Committee reviews status of conditions for Tranche 2 release	GOT/USAID
November	Tranche 2 conditionality met, funds released	GOT/USAID

1994

March	FED Implementation Committee endorses BOT second annual TA/Training workplan	BOT/USAID
June	BSC second annual workplan prepared	USAID
July	Second annual M&E activity initiated	USAID
	Second PAAD amendment signed, second annual proag amendment signed, third obligation	GOT/USAID
October	FED Implementation Committee reviews status of conditions for Tranche 3 release	GOT/USAID
November	Tranche 3 conditionality met, funds released	GOT/USAID

1995

January	FED midterm evaluation	GOT/USAID
March	FED Implementation Committee endorses BOT third annual TA/Training workplan	BOT/USAID
June	BSC third annual workplan prepared	USAID
July	Third annual M&E activity initiated	USAID

1996

March	FED Implementation Committee endorses BOT fourth annual TA/Training workplan	BOT/USAID
June	BSC fourth annual workplan prepared	USAID
July	Fourth annual M&E activity initiated	USAID

1997

March	FED Implementation Committee endorses BOT fifth annual TA/Training workplan	BOT/USAID
June	BSC fifth annual workplan prepared including phaseout plan	USAID
July	Fifth annual M&E activity initiated	USAID
August	FED final evaluation	GOT/USAID
September	Chief of Party departs	USAID

Procurement Plan. This procurement plan has five elements: (a) responsible agencies and procedures, (b) equipment list, (c) services procurement, (d) DFA certification, and (e) Gray Amendment certification.

Responsible Agencies and Procedures. Procurement of commodities will be the responsibilitiy of USAID and contractors funded under the program. Within USAID, the Project Development Officer will have overall responsibility for procurement actions which are the Mission's responsibility. Electronics such as computers and software will be procured using procurement service agents under contract with A.I.D. Vehicles (one planned) will be procured by the Executive Officer. Some commodity procurement will be included in the institutional contract.

Commodities purchased by the project will be appropriately marked with the A.I.D. logo. The PSA will be charged with ensuring that all goods it purchases are marked at source, and USAID will see that other goods are marked appropriately. A procurement schedule will be developed in conjunction with the institutions providing technical assistance for the relevant activities.

Equipment List. The table below indicates which items will be procured, how many, an indicative cost, probable source/origin, and responsible agent.

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Gray Amendment Certification. Gray Amendment contractors were deeply involved in the PAIP preparation and the PAAD design for the FED program. The procurement plan, including procurement of goods and services, for the FED program was developed with full consideration of maximally involving minority and women-owned firms, or Gray Amendment organizations, in the provision of required goods and services. Where this is likely to take place is in (a) use of procurement service agents, and (b) selection of firms for evaluation activities. The nature of the program, however, will not permit major set-aside for minority or Gray Amendment contracting. Such contractors, however, will be able to bid on the planned contracts under the program.

I. Beneficiaries

The FED program will achieve the following: an improved policy framework encouraging financial sector and private sector development; improved performance from key institutions including the Bank of Tanzania and a number of private sector support organizations (firms and associations); a stronger, more diversified financial sector; improved performance among a large number of private sector businesses receiving business advisory services, access to foreign exchange, and local investment funds; and ultimately a strong program in support of AIDS mitigation in Tanzania.

Categories of program beneficiaries will include (in order from more to less inclusive): the thousands of Tanzanians who will receive employment and increased incomes as a result of program activities; the thousands of enterprises whose establishment and operations will be eased by FED-sponsored policy and institutional changes; several hundred firms receiving access to A.I.D.-financed commodity imports; several hundred firms receiving specialized business advisory services; two dozen or so membership-based business and professional organizations; and lastly, staff and clients of the Bank of Tanzania and other financial institutions in Tanzania. There is no way to estimate the numbers of people whose lives may be eased as a result of the AIDS programs to be supported through local currency grants.

J. Monitoring and Evaluation Plan

The FED monitoring and evaluation plan will be embedded within the overall USAID/Tanzania monitoring and evaluation program, it will contribute directly to the Mission's annual Assessment of Program Impact, and it will encompass four levels of program activity: inputs, outputs, purpose-level accomplishments, and goal-level accomplishments. Input monitoring (that is, monitoring the disposition of policy-linked dollar resources, technical advisors, training funds, and the like) will take place as part of the routine process of program/project

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implementation. Output monitoring (primarily tracking progress in implementing policy reform conditionalities, and secondarily tracking progress in implementing the financial sector support activities and the private sector support activities) will be documented in semi-annual program/project implementation reviews. Both input and output monitoring can thus be accomplished as elements of routine program/project management activities, and will be the responsibility of the PSC program/project manager, supervised by a USDH project officer.

Determining the effectiveness and impact of the FED program constitute purpose and goal level monitoring. This level of monitoring cannot be done within the context of routine program/project management and will require special resources. Purpose and goal level monitoring will be achieved by (a) background analysis in support of the release of funds contained in the second and third FED tranches, (b) in-depth midterm and end-of-program evaluations, (c) the policy studies to be carried out by local interest groups with FED support, and (d) a planned extension of the Cornell/University of Dar es Salaam household-based and firm-based policy research activity that will provide for annual updates and a continuous assessment of relevant changes in employment and incomes. Baseline data are available through the Bureau of Statistics (formal sector enterprise), the UNDP (informal sector in Zanzibar and the mainland), the Cornell trader/informal sector studies (mainland), and the Cornell 2000-household income-expenditure survey (mainland).

A meaningful monitoring and impact assessment program of the kind contemplated here implies substantial costs. However, a well-conceived and rigorously professional M&E program has benefits beyond those that accrue to A.I.D. management. In assessing the impact of the FED program, Tanzanian policy makers will learn much about the specific effects of their liberalization strategies, Tanzanian counterpart institutions and researchers will be strengthened substantially, and policy-based dialogue among private sector interests and government decision makers will be enhanced.

The FED program is closely linked to the Mission's overall objective of real economic growth and improved human welfare. The goal of the FED program constitutes the Mission's second strategic objective: increased incomes. The monitoring and evaluation of the FED program will therefore be an essential element of assessing the success of the Mission's development strategy.

Program impact at the macro-economic level will be very difficult to measure in that many factors other than FED policy support influence performance. To isolate FED policy impact would entail a lengthy and

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complicated exercise beyond the scope of this plan. Having stated this, the FED program will use macro economic data to indicate, as opposed to measure, performance. Impact on those institutions, enterprises and individuals directly affected by the FED program interventions is a fairly straight forward and reasonably simple exercise. This will be accomplished by annual household and business surveys carried out by local consultants who will receive guidance from a U.S. institution under contract. Data, to the extent possible, will be desegregated by locale, income, gender, business size, and possibly ethnic groupings (indigenous, Asian, foreign).

The Monitoring and Evaluation Matrix (Annex Q) illustrates the plan for monitoring and evaluating the FED program. It will be noted that this does not follow exactly the logical framework, although all elements of the logframe are contained in the M&E Matrix. An indicative budget for impact assessment, evaluation, and audits appears in Annex B.

Goal. The goal of the FED program is to stimulate income increases. The achievement of this goal will contribute substantially to the Mission's overall objective of real growth and increased human welfare. At the macro-economic level, indicators would be increases in overall employment and incomes. National Accounts data, published annually by the Tanzania Bureau of Statistics, will furnish information on employment and incomes at the national level. However, to more accurately determine program impact, the Mission will monitor those businesses and individuals directly affected by the FED program. It is expected that, within this narrower context:

-- employment levels will rise 4-5 percent annually, and
-- real incomes will increase 2-3 percent annually.

Baseline data for measuring increases are provided by the Cornell/UDSM household and business research activity to be published in October 1992, plus information collected by the Bureau of Statistics on formal sector enterprises and employment, UNDP on the informal sector (Zanzibar and the mainland), and Cornell studies of the informal sector and household income-expenditure on the mainland. USAID will extend its contract with Cornell to provide annual updates and assessments of relevant changes in employment and incomes.

Purpose. The purpose of the FED program is to foster income earning opportunities for the un- and under-employed by stimulating private enterprise growth. As is the case with the program goal, impact at the macro-economic level can only be indicated through national accounts data. However by using the more narrow sample of businesses and individuals that have direct contact with FED-assisted activities, a more accurate assessment of impact is possible. It is expected that:

-- the number of enterprises will increase by five percent, and
-- the value of output will increase not less than ten percent.

Baseline data used in measuring change at the goal level can be applied at the purpose level also. The annual updates carried out by Cornell/UDSM will contain information to gauge increases in business registrations and the volume/value of product output.

Outputs. FED program outputs are divided into three themes with a total of 15 indicators.

-- Program Theme 1: Financial Sector Reform. The FED will assist the GOT to establish a sound and diverse financial sector through implementing policy adjustments. Monitoring these policy adjustments will be necessary to release program funds in three tranches. Nine key indicators have been selected to measure performance. All indicative data are readily available through national accounts, management reviews and regular implementation reports. In addition the FED program includes background analyses and periodic evaluations. Specific policy adjustments and performance indicators are as follows:

Policy Adjustment 1: Legislation is enacted giving the Bank of Tanzania (BOT) authority to act as a strong central bank. This will occur, quite simply, when a revised BOT Act becomes law.

Policy Adjustment 2: The BOT strengthens its supervisory and regulatory functions. Performance will be measured by off-site bank supervision reports reviewed, full-scale bank examinations conducted, and loan portfolio reviews carried out for the Tanzania Investment Bank, the Tanzania Housing Bank, and the National Insurance Corporation.

Policy Adjustment 3: The BOT enhances its instruments of monetary policy. The BOT will began to use its discount rate to influence credit flows to curb inflation currently running at over 20 percent annually. It is expected that by 1997 the inflation rate can be brought down below 5 percent. In addition the BOT will initiate a secondary market in government securities. By 1997 volume traded will reach Tshs. 20 billion.

Policy Adjustment 4: The BOT will discontinue functions inconsistent with its role as a central bank and become "lender of last resort." This will be indicated by setting the discount rate to control credit flows in order to reduce inflation as noted above.

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Policy Adjustment 5: The BOT fosters a diverse, competitive and efficient financial sector. Performance will be indicated with a reduction in the time it takes to clear checks, currently up to six months, to an average of seven days; the establishment of new financial institutions; and unification of the foreign exchange market rate.

-- Program Theme 2: Private Sector Development. The second theme of the FED program is to stimulate private sector responses to new opportunities created by liberalization. Three program elements will be monitored to indicate performance and impact.

Program Element 1: The FED program will establish a Business Services Center which will provide both basic and specialized services to the business community. Performance will be measured by the number of businesses assisted. Special attention will be given to assessing impact on small scale and women-owned and operated enterprises.

Program Element 2: The second program element will be support for business associations which will also be implemented through the Business Services Center. An indicator of strong, effective organizations will be increased membership, or increased participation in organizations' activities such as annual general meetings.

Program Element 3: The third program element will be a venture capital fund to assist enterprise growth. The fund will purchase equity in business with high growth potential and provide management support to ensure that potential is realized. This element will be measured by the number of businesses assisted and the average increase in capital gains.

-- Program Theme 3: Governance. The third theme of the FED program is to encourage meaningful dialogue between the private sector and government and other public institutions. Indicators of performance will be policy studies completed and private-public sector seminars held. In addition the FED program will support independent voices through expanded private printing and publishing capacity. An indicator will be establishment and operation of one or more privately-owned printing facilities.

Inputs. The program is supported by a $40 million cash transfer to establish an import financing facility. This facility will be used by the private sector to import intermediate and capital goods in order to establish or expand productive capacity. It is estimated that the FED program will increase private sector imports not less than 5-6 percent

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annually. The import facility will generate $36 million in Tanzania shillings which will be deposited into a social action trust. The trustees, with advice from an investment counsellor, will decide on how to invest these funds, but it is expected that much of the money will go to banks for on-lending to private sector business. Currently only around 20 percent of all commercial credit goes to the private sector. It is estimated that the FED program will increase access of credit to the private sector by 8-10 percent annually. The returns on the social action trust investment will provide for the education of AIDS orphans, in the form of school fees, books, uniforms, etc. It is estimated that 2,500-3,000 scholarships will be made available to AIDS orphans.

K. Financial Plan: Budget, Disbursement and Vulnerability Assessment

Budget and Disbursement. USAID financing for FED totals $40 million of nonproject assistance and $10 million of project assistance. The NPA will be provided in tranches as specific conditions are satisfied, and will be provided on a cash disbursement basis. A justification for this approach appears in Part III.D, Rationale for A.I.D. Policy-Based Assistance. As conditions are satisfied, a Financing Request is first signed by the designated representative of the GOT, and then approved by the A.I.D. Mission Director. The required information is then sent to A.I.D./W, which is responsible for authorizing the actual cash disbursement.

Table IV.3 presents an overall budget for the FED program, including the government contribution. Table IV.4 presents a planned schedule of obligations. Five percent of the local currency will be allocated to the USAID/Tanzania Operating Expense Trust Fund, a maximum of an additional five percent of the local currency will be allocated to the USAID/Tanzania Program Trust Fund to support local costs of FED project activities, and the remainder will be allocated to the Social Action Trust Fund. Table IV.5 presents methods of implementation and financing.

Table IV.3 Overall Budget ($000)

Source	Amount	Disbursement
DFA	$40,000	Released based on policy performance, dollars used to finance commodity imports with Buy America preference.
DFA	$9,075	Technical assistance, training, project-related commodities (A.I.D. direct contracts and grants).
DFA	$925	Monitoring and evaluation and audit
GOT Contribution	$36,000	L/C equiv. to Social Action Trust
GOT Contribution	$2,000	L/C equiv. to OE trust fund.
GOT Contribution	$2,000	L/C equiv. to Program trust fund.
Total	$90,000	

A detailed budget is presented in Annex B.

Table IV.4 Summary of Inputs by Fiscal Year ($000)

Source	FY92	FY93	FY94	FY95	FY96	Total
DFA Cash Grant	10,000	15,000	15,000	--	--	40,000
DFA Project	2,000	2,000	2,000	2,000	2,000	10,000
GOT/S. A. Trust	--	9,000	13,500	13,500	--	36,000
GOT/OE Trust	--	500	750	750	--	2,000
GOT/Prog. Trust	--	500	750	750	--	2,000
Total	12,000	27,000	32,000	17,000	2,000	90,000

In addition to the local currencies generated under the FED program and contributed by the GOT to support program activities, there will be

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control over any project funds. Therefore no specific assessment is necessary.

The Bank of Tanzania. The BOT, which is responsible for the sector policy reform agenda, will not have direct control over any project funds. Therefore no specific assessment is necessary.

The Social Action Trust and the Venture Capital Fund. These entities are yet to be formed. The project will provide technical assistance and supervision and monitoring by the Project Management Specialist to ensure that appropriate financial management capabilities and systems are established.

Applicability of Specific Implementation Plan. The specific implementation plan related to the Dollar Cash Transfer and the management of the dollars and generated local currency has proved to be workable in the implementation of previous and current programs. Subject to the provision of the level of technical assistance proposed and the inclusion of a staff Project Management Specialist with financial analyst training for Mission oversight the implementation plan is appropriate to provide adequate accountability of A.I.D. financed assistance.

L. Mission Management Plan

Within USAID/Tanzania, the FED program will be managed by the Project Development Office. Overall supervision of program implementation will be the responsibility of the Project Development Officer (PDO). That officer will be assisted by the Deputy PDO and other professional and technical office staff. On a day-to-day basis, the FED program will be managed by a project funded Private Sector Advisor, either on a PSC or institutional contract, who will be supervised by the PDO. The Private Sector Advisor will supervise a project funded Project Management Specialist (FSN-10/11) who will assist in day-to-day program implementation. The Project Management Specialist will have a financial analysis background and will have two main sets of duties: (a) monitor implementation of the financial sector aspects of the FED program, and (b) monitor compliance with the procedures and issues identified in the Vulnerability Assessment. The Private Sector Advisor will also supervise a project funded Secretary (FSN-05). A project committee, chaired by the Deputy Director and including the Controller's office as well as other appropriate offices, will undertake semi-annual progress reviews, and will also be convened to assess progress in advance of tranche releases. Periodic evaluations and audits, an impact assessment program, and regular management reviews will allow the mission to monitor program performance closely.

M. Audit Plan

There is a medium to high vulnerability associated with the Cash Disbursement method of financing for the non-project assistance funds (Dollar Special Account). The project implementation plan takes this into consideration in the provision of technical assistance and project funded monitoring staff. It is unlikely that audit coverage will be provided by the Inspector General or that adequate audit coverage will be provided by the Government of Tanzania. At the present time, there are no RIG approved audit firms in Tanzania, although this may change in the future. Adequate, approved audit coverage is available from accounting/auditing firms in Kenya and funding needs are based on this alternative. The program cannot rely on adequate coverage or the quality of regular audits of the Cooperative and Rural Development Bank. Therefore project funds have been provided for an annual audit of the CRDB relative to program activities and funds.

The Bank of Tanzania (BOT) Package will be implemented by A.I.D. and no funds will be under the direct control our use of the BOT. Therefore there will not be a requirement to audit any of the BOT Package activities.

The Venture Capital Fund inputs will be for A.I.D. contracted and funded technical assistance. If local or non-U.S. contractors are used, funds will be provided in the contract, as necessary, to conduct audits required by the Recipient Audit Program.

The Business Services Center will be a U.S. institutional contractor. Under the Agency Audit Management and Resolution Program the Office of Procurement (FA/OP) is responsible for managing the audits of U.S. contractors and the contract will make specific provision for required audits. Audit management of local sub-contractors will be the management responsibility of the U.S. prime contractor under the Recipient Audit Program guidelines.

Management, evaluations and audits will be contracted for and funded directly by USAID/Tanzania. Sufficient funds have been provided in the FED program budget to fund necessary audits throughout the life of the project.

As the host government agency responsible for the overall management of the FED program, the capability of the Ministry of Finance to perform or arrange for performance of financial assessments and audits of the recipient Social Action Trust has not been established by means of a specific assessment. It is unlikely, however, that the MOF has the capacity to conduct or cause to have conducted, a financial audit under the terms of the A.I.D. Inspector General requirements. Because of

this, the Mission will be responsible for ensuring and managing the audit requirements of the Social Action Trust until such time as USAID/Tanzania can be confident that the MOF or some other GOT agency can assume this function. Vulnerability with regard to the Trust will be high. Mission program management will provide regular monitoring by the staff Project Management Specialist with financial analyst training and technical assistance will be provided to establish accounting systems and internal control procedures. To the extent possible, local currency trust funds will be used to finance required audits.

The Mission Project Officer will be responsible for assuring that all contracts and grants and all auditable entities which are the Mission's responsibility are included in the Mission's Audit Management Inventory. The Project Officer, in conjunction with the Controller's Office, will provide for or arrange audit coverage as requested or as deemed necessary, review the financial audit reports to assure quality and assess compliance with generally accepted auditing standards and standards acceptable to the IG. The Project Officer will work with the audited entity and independent auditor to effect appropriate corrective action for inadequate or substandard financial management practices.

The Mission Audit Management Officer will coordinate with RIG, the Mission Project Officer and other Mission officials to include the FED program audit requirements in the annual Mission Audit Management Plan. The Mission Audit Management Officer will liaise with the RIG, Mission management and A.I.D./W audit officials to ensure that all audit recommendations which may arise are closed in a timely manner.

N. Status of Negotiations with the GOT

The FED policy agenda has been developed and finalized in close collaboration with the responsible institution, the Bank of Tanzania. The BOT project support activities have also been developed and finalized in direct consultation with responsible officers at the Bank of Tanzania. These major elements of the FED program have been negotiated and agreed in detail, although minor adjustments may need to be made in finalizing the program and project agreements. The import support component of the FED program is similar to the existing ATAP program and no complications are anticipated in finalizing this aspect of the FED program. Other aspects of the FED program, including the Business Services Center and the Social Action Trust, will be implemented in the private sector rather than with specific government agencies. The Ministry of Finance will have a general oversight responsibility for these activityies. The MOF has yet to provide a staff-level review of these proposed activities, however, they are consistent with the expressed intentions of government at the highest

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levels and no fundamental issues are anticipated in reaching a final agreement on these aspects of the FED program.

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V. Summaries of Technical Analyses

This section summarizes the results of PAAD background analyses that addressed institutional feasibility issues, political risk considerations, social impact, and economic impact.

A. Institutional Feasibility Considerations

Introduction. The institutional analysis addresses the following aspects of the FED program: (a) considerations underlying the Business Services Center concept, (b) considerations underlying the choice of in-country training venues, and (c) the organizational structure, training and technical assistance requirements of the Bank of Tanzania. A summary is presented below.

Business Services Center. This section addresses the following institutional issues: the capacity of local business associations, the needs of entrpreneurs, the needs of small and medium enterprises, the needs of established firms, characteristics of the general public/labor force, and institutional options considered in designing the Business Services Center.

Capacity of Business Associations. There is no shortage of business and industry organizations in Tanzania today. In Dar es Salaam alone, there are dozens of separate business associations, chambers of commerce, professional and trade organizations. However, there is no single institution that clearly predominates, or which, by virtue of the size and breadth of its membership, and/or its demonstrated leadership capabilities, has the authority to represent the Tanzanian private sector as a whole. The end result is complicated and conflictive inter-relations which have weakened the service delivery of some organizations, led to the frustration of their memberships, and resulted in the formation of entirely new groups.

Needs of Entrepreneurs/New Business Development. One of the activities of the BSC will be to assist in new business development. The capabilities of Tanzanian entrepreneurs who are seeking to establish a new business venture vary greatly. For individuals with extensive business experience, the steps involved may appear relatively straightforward -- conduct a feasibility assessment, develop a business plan, identify sources of financing, etc. For newcomers, or firms that are currently operating in the informal sector, the task at hand will be much more formidable. It is clear from the investigations that substantial amounts of technical assistance and training could be demanded of the BSC in the area of entrepreneurial development alone.

Small and Medium Enterprises. Depending on the age and experience base of the firm, the needs of SMEs may be similar to those of start-up efforts outlined above. However, investigations revealed particular weaknesses in the Tanzanian SME sector in the areas of accounting and financial management; strategic planning; market development; and facilities management and maintenance. Personnel management and worker training are also given inadequate attention by many small businesses. In addition, to a much greater extent than their larger counterparts, smaller firms in Tanzania suffer from a lack of understanding of, and difficulties in complying with, government licensing and reporting requirements and other regulatory procedures.

Established Firms. Large firms in Tanzania are principally traders -- importers, retailers, and exporters of goods -- generally taking the form of holding companies with numerous subsidiaries. This commercial sector is dominated by the Asian business community. The prominent indigenous firms that have been established are, for the most part, less diversified in their activities. Within this context, investigations revealed the need for the BSC to assist these established firms to take a more active role in the productive sector, by establishing or expanding their operations in light manufacturing, resource-based processing, and other value-added activities. The further development of larger private firms in Tanzania will be a key element in the country's economic growth. The performance of these firms will be particularly important within the context of the privatization of the parastatal sector, and the resulting vacuum that must be addressed. Expansion and diversification will also open up new employment opportunities for Tanzanian workers in the agricultural, industrial, and services sectors, that are sorely needed. Finally, technical assistance to established enterprises in such areas as quality control can serve as a catalyst for the entry of Tanzania into the export market in non-traditional goods. While the country has made recent advances in this area, especially in non-traditional agriculture exports, there is substantial room for growth.

General Public/Labor Force. One final element that was identified as a potential area of attention for the BSC was the need for broad-based information dissemination and "consciousness raising" for the general public in Tanzania. The legacy of socialism includes a prevailing mistrust or disdain for the private sector among the population as a whole, and there is a need for general publications, workshops, and other mechanisms to increase awareness of the positive contributions of private enterprise, especially within the context of the ongoing policy reforms. As noted above, there is also demand for information on basic business practices that can be distributed to individuals interested in the opportunities presented by the new business environment.

Institutional Options. The principal institutional options considered are described below, as a context for evaluating the rationale of the organizational structure proposed.

Business Associations. No one institution can truly claim to include and represent the interests of the Tanzanian private sector as a whole. Moreover, several of the institutions contacted lack the administrative capacity to add on such an ambitious portfolio; several were not interested in hosting the project; and others were plagued by inter- and intra-organizational dissension which would make the channeling of FED activities through them (i.e., establishing a BSC "unit") problematic at best. Other factors argue against placing the BSC within an established association: by singling out one group over another, USAID/Tanzania might contribute to, rather than reduce, the tensions that already exist. From another perspective, establishing the BSC within one association runs the risk of alienating the membership of other groups, and therefore reaching only a segment of the private sector community. For all of these reasons, it was determined that the BSC should not be developed as a operating arm or division of an established business association.

Investment Promotion Centre. Several shortcomings to this approach were identified: (a) the, as yet, unproven track record of the IPC's ability to perform the critical services with which it is already charged; (b) the IPC's need for additional time to absorb the technical resources and guidance that it is already receiving, and to develop and train its staff; and (c) a perception among many members of the private sector that a government entity is not the place to locate a project which is dedicated to responding to private sector needs, a viewpoint that is shared by the IPC's director. Given these considerations, placement of the BSC within the IPC is also not recommended.

Selection of a Local Firm. Finally, the alternative of establishing the BSC as an independent project unit within an existing firm was also examined. Interviews were conducted with various local consulting and business services groups, including the parastatal TISCO (Tanzania Industrial Studies and Consulting Organization). Project investigations indicate that there at least four or five such businesses with the professional and administrative capabilities to support the activities of the BSC. While perhaps justifiable from a pragmatic perspective, this option would place USAID/Tanzania in the essentially untenable position of pre-selecting a private firm to administer the BSC, to the detriment of its competitors, and was therefore also discarded as an alternative.

Rationale for Organizational Structure Proposed. After careful evaluation of each of these alternatives, it has been determined that

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the optimal approach is for USAID/Tanzania to enter into an institutional contract with a firm or consortium that will bear full responsibility for establishing the BSC. This institutional contractor must include both a U.S. firm and a Tanzanian counterpart organization. The U.S. firm will form a subcontract agreement with a local firm or institution to undertake the project. While the FED project will provide financing for project-specific activities and expenses associated with the BSC, it will be the responsibility of the institutional contractor to establish the office and administrative capability to operate the project, working through the Tanzanian counterpart organization.

FED Training Strategy. This section addresses the following institutional issues: in-country financial sector training, private sector training, and management of the training program.

Financial Sector Training. The Institute of Finance Management (IFM) in Dar es Salaam, established in 1972 to serve the human resource development needs of the banking and insurance industries, is clearly the best positioned local institution to provide the necessary training for and on behalf of the BOT. During the past three years, new leadership has put in place an internal incentive system that has attracted and retained some of the best finance educators in the country. Although IFM will require some support initially, it is the only national institution in Tanzania with the credibility and capability of providing the kind of training needed to help the BOT and other financial institutions.

Private Sector Training. The private sector in Tanzania is rapidly becoming more heterogenous with economic liberalization, particularly in the open proliferation of small formal firms and informal enterprises. The size of enterprise influences the kind of training required. Individual entrepreneurs, who have found a product or service that the market currently demands, often need help in establishing simple book-keeping practices, in conducting more systematic feasibility studies and preparing business plans, in securing bank loans, and in executing various marketing and management functions. Small to medium-sized enterprises often need help in establishing more elaborate accounting controls, in conducting feasibility studies and preparing business plans that are somewhat more complicated, in accessing a range of financial services, practicing better financial and personnel management, and addressing domestic and sometimes export marketing issues. Owners and managers of medium to larger-sized businesses often require in-plant managerial and technical consulting and training of staff and/or themselves in computer operations, in export marketing, and in production, materials, financial and general management (e.g., delegation).

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Unlike the financial sector where the BOT clearly is the key organization for stimulating change in that sector and IFM the obvious local training provider, selecting target groups and providers of training to the private sector is much more difficult. Given the diversity of entities in the private sector and the consequent range of training programs required to meet those needs, combined with the fact that the business associations are all making claims on being representatives of the private sector, the FED program will have to employ multiple strategies. On the private sector side, one strategy will be to deal directly with promising enterprises without regard to industrial affiliation. This is best illustrated by USAID/Tanzania's participation in the Entrepreneurs International (EI) program. The second strategy will be to concentrate technical assistance and training on firms within promising, emerging industries. For example there appears to be some basis for focusing on small agroprocessing firms in non-traditional crops, especially those in the horticultural and oils seeds processing industries. A third strategy will be to work on the supply side of the training equation by strengthening local capacity. It is not likely that local institutions will soon be capable of meeting many of the training needs of the private sector. In contrast to the financial training component, it is anticipated that U.S. training expertise will have to be accessed for a longer period of time for private sector training. This is not only due to the fact that local training capacity is not as prepared to deliver practical, private sector oriented training, but it is due as well to the fact that the training needs of the highly heterogenous sector are much more diverse than in the financial sector.

Location of Training Management. Usually the training management structure and contractor support for a program like FED is placed in a business association that clearly is a representative body of the private sector or a segment of the private sector which is the primary target group of the program. As noted above, that option is a risky one in the Tanzanian situation because there are competing claims being made by various business associations and because many segments of the private sector are emerging quite rapidly and represent important economic and political constituencies. Placing the management of training among training providers wrongly puts the control of the program on the supply side of the equation. This usually is particularly unacceptable in circumstances where there is doubt about the capability of local training providers; the business community in Tanzania has expressed dissatisfaction with the frequent academic approach to their training needs. Even in the case of IFM, it will not be advisable to install the management of the financial training program there for this potentially could lead to off-the-shelf, supply driven training. For this reason the FED program will use an

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institutional contractor or contractors from the U.S. with proven experience in implementing training programs for the financial sector and the private financial sector.

Bank of Tanzania. This section addresses the historical, underlying circumstances that have created weakened the BOT as an institution in the past, and the current changing circumstances that are strengthening the BOT as a central bank institution.

Background. The BOT has not been operating as a proper central bank for more than twenty years. It has suffered from a lack of autonomy from the Government of Tanzania ("GOT") which often used it as a permanent source of liquidity for Tanzania's commercial banks. Specifically, the BOT has been used by the GOT to channel enormous amounts of funds to Tanzanian financial institutions in the form of overdraft lines and discounted promissory notes (commercial paper). The BOT was not given much authority or ability to properly manage the country's money supply. Improper use of key monetary policy tools (BOT had a discount rate but it was not used as a penalty rate) and the absence of a mandate from GOT to assume proper monetary policy management responsibilities placed BOT in a very minor role concerning monetary policy. The limited authority granted to BOT in the area of bank supervision and regulation was a reflection of the low priority given to this area for many years. Commercial banks were allowed to operate as fiscal agents of the Ministry of Finance (being "directed" to lend to industrial and agricultural parastatals with little regard for their level of creditworthiness) and the BOT had little authority to regulate or monitor their financial health and banking practices.

Current Circumstances. The Bank of Tanzania has been undergoing a rather dramatic transformation since the passage of the Banking and Financial Institutions Act in 1991. It is steadily moving (with various forms of World Bank, IMF and bilateral assistance) in the direction of assuming the proper role for a central bank. An IMF-funded monetary policy advisor (to the Governor of the BOT) from the German Bundesbank is now in place; his presence is an important indicator of the GOT's strong commitment to strengthen the monetary policy management capabilities of the BOT. Bank supervision and regulation has been made a high priority by the GOT which has increased the amount of bank examiners in the Bank Supervision Department from less than five to more than twenty. While there is still a shortage of experienced bank supervision staff, the GOT has allowed the BOT to take the necessary steps to provide the training and tools required for the bank examiners to monitor the health of financial institutions as well as the implementation of recent regulatory policy reforms. As a reflection of the recently recognized importance of proper bank supervision in a healthy economy, the Bank Supervision Department is

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expected to be raised to Directorate status. During the last two years, an IMF-funded senior bank supervisor from the Central Bank of the Philippines has been acting as an advisor to the current manager of the BOT Bank Supervision Department (on bank supervision matters) and other senior BOT officials (on other central banking matters).

The technical assistance program discussed in this report will focus on the TA and training needs of the BOT's Bank Supervision Department and the financial institutions which they are responsible for regulating. However, in light of the importance of enabling the BOT to ensure the implementation of recent financial sector liberalizations, it is recommended that other parts of BOT, in addition to the Bank Supervision Department, receive training or other forms of technical assistance specifically related to the responsibilities (foreign exchange, securities, rural finance, legal, interbank check-clearing, and others) of certain departments or directorates.

B. Political Considerations

There are several sets of potential political risks attached to the FED program. These have to do with the priority the Government of Tanzania attaches to policy implementation, the opposition that might emerge from interest groups threatened by FED policy changes, the risks inherent in financial sector liberalization, and the risk that the program will become bogged down in mid-level bureaucratic resistance. In addition, there is the question of how to pursue the FED governance agenda most effectively. A near-term governance strategy is offered in a concluding section. Influencing all these calculations is the fact that Tanzania is poised to legalize multiple political parties, and will begin the run-up to elections before the end of the year.

GOT and Policy Implementation. All financially-constrained African states have an interest in seeking what amounts to balance-of-payments support from donors, but generally have a weaker interest in implementing agreed-upon conditions. Tanzania is performing reasonably well in the implementation of reform at the macroeconomic level, but this is inherently simpler than sectoral level reforms. Progress on the FED policy agenda will test GOT political will and ability to press forward on implementation, however, the FED financial sector policy reform agenda supports actions desired by the BOT and other important groups in the GOT and this augurs well for implementation.

Interest Group Opposition. A number of groups might reasonably be expected to oppose the kind of changes implicit in the FED program, and this opposition will have strong political implications as we move into the multi-party era in Tanzania. Such groups include senior politicians and civil servants who benefit from their ability to

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approve or disapprove investment projects; well-entrenched business interests that may regard any change in the status quo as a threat; and hard-line socialist elements that might force compromises as the price of political accomodation. A cross-cutting issue emerges in the diversity of Tanzanian private enterprise; it is by no means clear that various elements of the Tanzanian private sector share substantially overlapping interests, and competition among these interests may impede the evolution of government policy.

Financial Sector Liberalization. Inherent in the introduction of new and diverse financial institutions is the possibility of financial failure and public scandal. Many elements of the Tanzanian polity have an interest in playing down the scandalous condition of the government-owned banking sector, and many will have an equal interest in highlighting any failures associated with the reform program.

Bureaucratic Bog-Down. The policy reform issues suggested here can easily get stuck in the Tanzanian bureaucracy, either as a result of deliberate sabotage or normal bureaucratic confusion and uncertainty. Given the fact that the FED financial agenda is directly supportive of BOT objectives, this is unlikely to be a major source of difficulty. However, untangling the bureaucratic web surrounding private sector policy reforms will be a significant challenge as the indirect policy advocacy activities under the FED program move forward.

Near-Term Governance Strategy. In the near term (24-36 months) it is recommended that USAID/Tanzania adopt the following approach to promoting governance in Tanzania: (a) focus efforts and activities on supporting the development of institutional capability in the private sector as a key to the revitalization of Tanzanian civil society; (b) retain maximum flexibility in the definition of the private sector, and in the selection of targets of opportunity to support institutional growth in the private sector; and (c) concentrate on developing organizational, policy analytic and representational skills of private sector actors, and on opportunities to enhance the enabling environment (macro-economic policy, legal, organizational, cultural and communication) for private sector development as opportunities arise.

The focus on AID's governance activities should be in the non-state sector, supporting and encouraging the promotion of an enabling environment for private sector development in the society. This approach complements perfectly the policy approach of the FED project which will attempt to alter and assure the maintenance of state policies in specific areas such as finance. This approach is recommended because there remain serious issues in the current organization of the Tanzanian state which limit the prospects for successful support to public sector reforms directly. Given the

virtual merger of the party with the bureaucracy, and in particular with the judiciary, the pattern of over-centralization and of rent-seeking behavior is likely to persist. It should be noted that CCM officials have decreed that senior civil servants including magistrates may no longer be "active" in the CCM, and that military officers may not be members of any political party. The CCM has also given "mass organizations" the right to choose whether they will continue being affiliated with the party. This process of separating the party from the state is still being unilaterally managed by the CCM and has no firm legal basis thus far. It can not at present be taken as assurance of change in the basic functioning of state institutions. Until either a firm and enforceable legal framework is in place to assure the professionalization of the public service, or a competitive political process complemented with an open, critical media emerges to hold the dominant party much more accountable to the public, direct assistance to public service management reform or judicial reform is not likely to be a high yield method of improving the enabling environment. Similarly, until a system is in place whereby the government is more responsive to organized interest groups through representative institutions, and/or formal consultation (such as through an Economic and Social Council), working on the state side to improve private sector representation will be limited.

C. Social Impact Considerations

To the extent that the FED program is successful in creating jobs and incomes for Tanzanians, the social impact will be broadly positive. But there are a number of intermediating factors that complicate the picture. These have to do with the role of the informal sector, the results of financial sector reforms, the effect of regulatory improvements, the efficacy of business support institutions, and the role of women. A final section summarizes implications for beneficiaries.

The Informal Sector. The informal sector provides goods and services, regular employment, part-time employment, an increase in income for marginal producers through employment, and generates linkages which are the basis for dynamic growth. In Tanzania linkages between the informal sector and formal sector are underdeveloped with small firms selling or providing services directly to individual clients. Linkages between small and large firms remain exceptional i.e. subcontracting within the construction industry. In Zanzibar only five percent of enterprises goods and services were consumed by other firms. Increased prices for agricultural products will strengthen consumption linkages with small firms and the informal sector. Peasant farmers will be central to the process of securing extensive indigenous participation in economic growth and establishing a strong income base in rural

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areas. Finally, it is anticipated that both supply and demand for intermediate inputs for new or existing activities will increase as equipment and technical ability improves within the private sector.

The positive response of the Tanzanian entrepreneur to a market oriented policy environment, in spite of the serious remaining constraints, inadequate financial services and infrastructure, and continuing regulatory constraints, is indicative of the private sector's dynamism and the enormous potential for future expansion. There appears to exist an abundant supply of indigenous entrepreneurs with the initiative and commitment to sustain a development strategy which gives a central role to efficient private enterprises. The entrepreneurs are diverse in education and prior employment experience and a substantial fraction are committed to increasing the size of their enterprises, most clearly in the furniture and horticulture sectors. Small sector industrial and service sector activities, including informal sector participants who are located throughout the country, will continue to contribute significantly to growth and employment generation for the un- and under-employed. However, investments in education, health and nutrition will continue to underpin the achievement of sustained and equitable growth in the long term. Large industrialists have begun to diversify. They are a minority of primarily Asian origin. Prospects of their contributing to the project purpose of creating income generating opportunities for the un and underemployed are limited. In fact small scale enterprises are estimated to be five times as effective as their large scale counterparts in terms of output measured per unit of investment. In addition, the incremental capital-labor ratio is lower in rural small scale enterprise than in urban large scale ones.

Financial Sector Reforms. Financial sector reforms will increase the efficiency of banks and thereby reduce both the time and the paperwork required to process a loan. Banking reform will also increase competition and hopefully enable small enterprises to compete on more equitable terms. However, unless banking officials are encouraged and trained to meet the needs of small scale entrepreneurs, especially women, they are unlikely to do so. Currently the formal financial system is ineffectual in meeting needs for the majority of private sector participants. There is a danger that the more modern and sophisticated small firms and factories will continue to miss out on credit. They are too large and successful to be of interest to NGOs and other welfare oriented actors and too small to qualify for assistance from the commercial banking system. They face similar problems in terms of access to foreign exchange, needed for equipment and supplies. A loan guarantee program might be one solution over time. Additionally, small scale entrepreneur's lack of collateral could be addressed through schemes whereby people's credit history

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could be used in lieu of fixed property or whereby lease arrangements could be entered into for capital equipment.

Regulations and Policy. Regulatory reform supported by USAID/Tanzania, including the development of clearly defined policies, will benefit the entire private sector. They will reduce the time and effort required to meet formalities and increase transparency which will help entrepreneurs plan for their future. In addition to defining how the Government regards both formal and informal activities, it will be necessary to reorient public officials who, for the past 25 years have been told to control business and have regarded private entrepreneurs as some form of criminal. While some may wish to embrace a new role and both promote and help business, they don't know how. Although one study indicates that about three-quarters of the population favor liberalization, others will resent their loss of power and sources of unofficial income as regulations are eased.

Business Support Structures. The key component in economic development will be the commercially justified small enterprise sector including micro-enterprises. Currently many of these enterprises are without the requisite support, technical assistance and training. While business associations are forming, newer associations, particularly those for smaller scale businesses, have limited access to resources. All stand to benefit from USAID project activities as organizations and as individuals, especially from the Business Services Center. Given limited resources USAID may wish to assist those associations which have outreach programs to address the needs of small enterprise, the agricultural sector and women. Such an approach would assist in broadening the base of the private sector, giving small enterprise a lobbying capability, and would to some extent redress the prevalent urban bias of most programs. Business associations should also be encouraged to assist members in conducting feasibility studies, preparing loan applications and possibly collectively guaranteeing loans. Whatever the final design of FED and its component parts, it should be widely advertized by radio and in the swahili press as well as through presentations in all regions. Similarly the enterprise resource center and procurement support service should either have a mobile office or should open branches throughout the country to meet the needs of entrepreneurs outside the capital.

Women. Although women form the majority of producers, especially in rural areas, they do not normally operate in the market outside of their local environment or in the commercial sphere where the exchanges of their products take place. Men determine the use of land allocated to their household. Despite the fact that women till the land, assist in planting, weed and harvest, cash crops are controlled by men. For many years, cash crops could only be sold only through official

institutions and were registered in the senior male household member's name. Cooperatives are also dominated by men and men have frequently taken over women's projects and utilized resources targeted to women. Middlemen, invariably male, dominate the commercial world. Women for the most part lack required technical knowledge, management and entrepreneurial skills, contacts and social clout, and are unable to avail themselves of credit facilities. Women clearly have extra economic, socio-cultural and educational constraints to entering into business. They have less access to finance, and tradition and religion frequently prohibit them from involving themselves in business, having their own money, traveling or participating in any kind of public activities. Consequently few women are in business, own property or are highly educated. Women are also under represented in positions of power where decisions are made. A recent study has shown that women currently have only about ten percent of the seats in parliament and less than ten percent of the seats in regional and branch offices of the CCM. If FED does not specifically address the issue of women's access to private sector opportunities they will continue to operate outside of Tanzania's economic mainstream.

Winners and Losers. Categories of program beneficiaries will include: Tanzanians who will receive employment and increased incomes as a result of program activities; enterprises whose establishment and operations will be eased by FED sponsored policy and institutional changes; firms receiving access to business advisory services; membership based business and professional associations participating in project activities; staff and clients of the Bank of Tanzania and other financial institutions in Tanzania; and people assisted as a result of the AIDS programs to be supported through local currency grants. The number of people and firms who make up each of these groups of beneficiaries and the impact FED has on private sector income and employment growth will depend on how successful FED strategies are at addressing existing imbalances. Every effort should also be made to target resources where impact will be greatest, that is, towards medium and small scale enterprise. In addition FED must be conscious of the fact that there are entrepreneurs outside of Dar es Salaam and target resources towards them. Finally women should be sought who can sit on boards of trustees, become part of advisory groups and take an active role in policy dialogue. Unless women are part and parcel of every aspect of FED their needs are unlikely to be met or their voices heard.

D. Economic Analysis

Overview. The benefits that are expected from the implementation of the FED policy reform program are a result of direct and indirect benefits of the individual policy reform measures and the additional combined effect of all the policy changes that create a more positive

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private sector business climate. Some of the direct effects of the policy reforms are expected to result in a more efficient, competitive banking system and increased mobilization of private capital for new investment in value-added activities. Other, more indirect effects are the elimination of many of the bottlenecks associated with doing business, which are expected to increase business efficiency as businesses no longer will take time-consuming actions trying to avoid the rent seeking activities that are associated with bureaucratic bottlenecks. Annex N (Economic Analysis) discusses these impacts in detail; a summary is presented below.

Foreign Exchange Impact. It is anticipated that the foreign exchange funds provided to Tanzania by A.I.D. will be used by the private sector to procure equipment and supplies required to expand industrial and manufacturing output. This augments domestic savings and investment.

Export Growth Impact. With respect to both the dollar and local currency resources of the FED program, the impact is likely to be felt most directly in strengthening value-added exports. There is a clear correlation between export expansion and economic growth.

Impact on the Business Environment. Tanzania's business community is expected to benefit from FED-sponsored policy reforms that will reduce the cost of doing business. The current number of beneficiaries are the registered 300,000 business firms and the many firms that operate in the informal sector. During the past five years an average of 2000 businesses have been registered each year. A recent survey estimates that the average number of hours needed to establish a business ranges between 300 and 600 hours. The policy reforms envisaged under the FED program will reduce these transaction costs greatly, implying large gains to all business starters.

Impact on Employment. The FED-derived increase in value-added activities will generate jobs and improve incomes. An ILO study completed in 1991 shows that at least 300,000 persons in Tanzania enter the labor force each year. When added to the existing unemployed, the employment problem is acute. The situation is made worse by observed declining trends in formal sector employment. The number of jobs created per year dropped from 30,000 in the mid 1980s to only 9,500 in the late 1980s and early 1990s. Planned retrenchment in 1992 will affect at least 10 percent of the civil service employees, equivalent to almost 49,000 persons. Thus, the role of the government sector in absorbing additions to the labor force will be marginal. This implies that the new entrants into the labor force will have to be absorbed in the rural sector, and the private sector. The ILO study projects that overall, productive employment in Tanzania in the 1990s will increase by 2.2 percent per annum, while the labor force is projected to expand

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by 3.3 percent. Given this bleak picture, the creation of jobs for the rapidly expanding labor force must be a central objective to the government of Tanzania.

Impact on the Financial Sector. An efficient financial system can play a major role in expansion of domestic and foreign trade, stimulation of domestic savings and appropriate channeling of available resources to productive uses -- functions essential to the increasingly market oriented Tanzanian economy. Moreover, a system of appropriate financial institutions, instruments and markets enables economic agents to pool, price and trade the risks associated with various economic activities which individual entrepreneurs may not wish to bear entirely -- a key issue which will emerge with increasing economic diversification. A well developed financial system with adequate depth and range of financial instruments can also help address the concern of Tanzania policy makers to more effectively conduct macroeconomic policy and adjust to internal and external shocks. The confidence of economic agents in the soundness of the financial system depends fundamentally on the existence of an effective regulatory and supervisory framework. Also, within the financial system, banks in particular hold a special position in the economy as creators of money, principal depositaries of financial savings, the principal allocators of credit and managers of the country's payments system. The FED program, by assisting the Bank of Tanzania to credibly play its role as an independent central bank, has large pay-offs not only in terms of facilitating efficiency in the financial sector but also in stimulating economic growth through a better use of domestic and foreign economic resources.

FINANCE AND ENTERPRISE DEVELOPMENT (FED)

VOLUME II

ANNEXES A-J

SUPPLEMENTAL APPROVAL DOCUMENTATION

USAID/TANZANIA

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FINANCE AND ENTERPRISE DEVELOPMENT (FED) PROGRAM

Annex A Logical Framework

Annex B BSC Project Description and Illustrative Budgets.

Annex C PAIP Approval Cable

Annex D Initial Environmental Examination

Annex E Statutory Checklists

Annex F Congressional Notification Release Cable

Annex G Request for Assistance

Annex H OPS Cash Transfer Action Memorandum

Annex I Program Trust Fund Indicative Budget

Annex J Commodity Negative List and Positive List

ANNEX A

LOGICAL FRAMEWORK

ANNEX A: FED LOGICAL FRAMEWORK

NARRATIVE SUMMARY	OBJECTIVELY VERIFIABLE INDICATORS	MEANS OF VERIFICATION	ASSUMPTIONS
Program or Sector Goal: To stimulate income increases in Tanzania.	**Measures of Goal Achievement:** 1. Employment levels rise 4-5% 2. Per capita income increases 2-3%	1. National statistics 2. Cornell household sample survey updates 3. Firm-level survey updates	**Assumptions for achieving goal:** 1. Pace of liberalization maintained. 2. Private sector growth leads to employment and income growth.
Program Purpose: To foster income earning opportunities for the un-and under-employed by stimulating private enterprise growth.	**End of Project Status:** 1. Number of enterprises increase 5% 2. Value of output of enterprises increases 10%	1. National statistics 2. Periodic evaluations 3. Household sample survey updates 4. Firm-level survey updates	**Assumptions for achieving purpose:** 1. Policy changes are appropriately identified and soundly implemented. 2. Institutional constraints have been effectively compensated for by project support activities.
Outputs: 1. A sounder and more diverse financial sector. 2. Strengthen private sector contribution to economic growth. 3. Enhanced role of private sector in public policy debate.	**Magnitude of outputs:** 1a.BOT Act become Law. b.BOT receives & reviews off-site bank supervision quarterly reports from NBC, CRDB, PBZ & TIB. c.BOT completes 5 full-scale bank examinations. d.BOT carries out loan portfolio reviews of TIB, THB & NIC. e.Inflation rate reduced to 5% by 1997. f.Tshs. 20 billion of government securites traded on market by 1997. g.Check clearing reduced to 7 days by 1994. h.10 new financial institutions established by 1997. i.Unification of FX market completed by 1995. 2a.At least 200 businesses receive specialized services. b.Selected business associations expand membership by 20%. c.Venture Capital Fund buys equity in minimum of 12 firms which average gains of 20%. 3a.Five private sector policy studies undertaken. b.Five public-private seminars take place. c.1-2 privately-owed printing facilities in operation.	1. National statistics 2. Periodic evaluations 3. Management reviews	**Assumptions for achieving outputs:** 1. TA and training are effectively focused on key problems. 2. Policy dialogue is effective and focused on key problems.
Inputs: 1. Cash grant 2. Project grant 3. Local currency counterpart 4. In-kind contributions	**Implementation Target:** 1. $40 million 2. $10 million 3. $36 million 4. $ 1.2 million	1. Implementation letters 2. Periodic evaluations 3. Audits	**Assumptions for providing inputs:** 1. USAID program stays at current levels.

ANNEX B

BSC PROJECT DESCRIPTION AND ILLUSTRATIVE BUDGETS

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I. INTRODUCTION

A. PROGRAM SCOPE

The Finance and Economic Development (FED) program, is a US$50 million USAID/Tanzania initiative intended to provide financial, technical, and training support to stimulate increased private enterprise development in Tanzania. As proposed, the five-year program has four principal components:

(i) A US$40 million cash grant establishing an Import Financing Facility to meet private sector foreign exchange needs for procurement of imported equipment, machinery, and supplies;

(ii) an estimated US$4 million to support technical assistance and training for the Bank of Tanzania, and project-related reform efforts in the financial sector;

(iii) programming of US$6 million in private sector support to provide technical assistance and training to the Tanzanian private sector and support policy reform effort; and,

(iv) a Social Action Trust Fund, established from the local currency proceeds of the import financing facility, to invest in the Tanzanian private sector and support selected activities of non-governmental organizations (NGOs).

These four components are complementary and inter-related in that they are intended to support the overall program objective of stimulating employment and income growth in Tanzania.

B. OVERVIEW OF THE BUSINESS SERVICES CENTER (BSC)

This document presents the rationale, structure, and functions of the proposed delivery mechanism to provide the private sector support encompassed by the FED program, the Business Services Center. Discussion of the other FED Program components is limited to those elements and issues that are related specifically to the BSC. The design of the Center builds upon and reflects the work undertaken in the preparation of the Program Assistance Initial Proposal (PAIP), but is based primarily on the investigations and analyses that have been conducted in this later stage of project design.[1]

Recognizing the pressing demand for multi-faceted technical interventions in the rapidly changing Tanzanian economic context, the BSC will offer a broad array of services to support private enterprise development. Specifically, it will:

- provide general and targeted technical assistance and training to the Tanzanian private sector;
- strengthen the capabilities of local business organizations; and,
- facilitate private sector dialogue, consensus building, and public/private cooperation in supporting reform initiatives in key policy areas.

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[1] This report has been prepared by Kishore Rao and Cecilia Sager of The Services Group (TSG).

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Key design elements of the BSC can be summarized as follows:

- The Center has been designed as an independent entity, to be managed by a U.S. institutional contractor in collaboration with a private Tanzanian counterpart.

- The BSC is a service mechanism, and as such will have a finite life span, terminating at the end of the FED Project; this is not an "institution building" effort.

- The Center will not be formally affiliated with any one business association or organization in Tanzania, but will work with all interested parties. The BSC will possess the autonomy and objectivity that is critical to its effectiveness.

- The BSC will provide at least four long-term advisors (foreign and local), short-term technical assistance and training, and will also draw upon established international and Tanzanian service providers and programs in related areas.

- BSC activities will be demand-driven, based upon the expressed requirements and needs of the business community. To the greatest extent possible, the staff of the BSC will design individual technical assistance efforts so as to contribute to the upgrading of the local capacity to provide such services in the future.

- The activities of the BSC will be overseen by a Steering Committee comprised of representatives from key business associations, trade groups, and technical assistance/training institutions, as well as, USAID and the resident advisors. The Steering Committee will identify and focus services to be provided by the Center and serve as a forum for determination and discussion of key issues affecting its members.

As presented in this document, there exists a unique opportunity for USAID/Tanzania to have a powerful impact on the development of the private sector through the FED program in general, and the BSC in particular. The rationale for the establishment and proposed configuration of the BSC are presented in detail below.

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II. IDENTIFICATION OF PRIVATE SECTOR NEEDS[2]

A. OVERVIEW

Tanzania is in the midst of a transition from a state-dominated, inefficient command economy to an open, diversified market. While since 1986, major policy reforms undertaken by the Government of Tanzania (GOT) have significantly improved the operating environment for private firms, the Tanzanian business community today is relatively small, underdeveloped and plagued by internal divisiveness. Private economic activity is largely confined to commerce and trading, with a handful of large holding companies engaged in industry and agriculture, and an emerging cross-sectoral cadre of small and medium-scale enterprises (SMEs) that are seeking to establish a foothold in the market. The dominance of inefficient parastatal organizations in the productive sector, coupled with the inherent disincentives that accompany state-controlled marketing systems in the agricultural sector, have discouraged the development of new businesses. In addition, a strong cultural bias against profit making and individual enterprise has led many of the best educated and most promising members of this generation to pursue other vocations or leave the country entirely.

In this context, the task that is before USAID/Tanzania in launching the FED program is formidable. The parastatal structure is being dismantled at a quickening pace, and it is uncertain what firms and individuals will be equipped to fill the vacuum. There is considerable concern among the indigenous population that present reforms will work primarily to the advantage of the Asian community, whose enterprises now dominate the private sector, heightening tensions and further marginalizing smaller businesses. At the same time, established business institutions are plagued by persistent infighting, heavy politicking, and are generally in disarray. There are few instances of cooperation between these associations, and little if any effort has been directed toward developing a consensus on how best to support business development, from either a market or policy perspective.

In order to obtain an up-to-date understanding of the needs of the Tanzanian business community, numerous interviews have been conducted with local business leaders, private sector representatives. These discussions have revealed that there are, in fact, areas of agreement on problems and needs that cross racial and sectoral boundaries, and that are uninfluenced by the size of the firm or the particular focus of the business association.

While marked differences remain in individual perceptions of the optimal and just means to capitalize on the current changes in the market environment, there is broad awareness of the need to cooperate and collaborate in developing the business community as a whole, if the national economy is to truly benefit. Key findings of the investigations and analyses are presented below.

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2 The findings in this section are focused upon the technical and training needs of the Tanzanian business community, as revealed through Project investigations and analyses. To a lesser extent, policy constraints that currently inhibit private sector activity are also noted and discussed. However, these areas are fully examined in the associated report, Assessment of the Tanzanian Private Sector Policy Framework, that has been prepared by the TSG team.

B. BUSINESS ASSOCIATIONS

There is no shortage of business and industry organizations in Tanzania today. In Dar es Salaam alone, there are dozens of separate business associations, chambers of commerce, professional and trade organizations.[3] However, there is no single institution that clearly predominates, or which, by virtue of the size and breadth of its membership, and/or its demonstrated leadership capabilities, has the authority to represent the Tanzanian private sector as a whole. The end result is complicated and conflictive inter-relations which have weakened the service delivery of some organizations, led to the frustration of their memberships, and resulted in the formation of entirely new groups.

Nevertheless, if such obstacles can be overcome, there is a significant amount of talent and energy to be tapped by the BSC through linkages to these associations. Current changes in the business climate are renewing interest on the part of members and donor agencies in supporting cooperative action to promote business development. The data presented below are drawn primarily from interviews with executives of the principal organizations contacted.

1. Dar es Salaam Chamber of Commerce (DCC)

The Dar es Salaam Chamber of Commerce was established in Tanzania in 1919, and is considered by its leadership to be the "flagship" business organization. It has over 300 members, is cross-sectoral, and includes public, Asian, and indigenous firms among its membership, most of which is based in Dar es Salaam or its immediate environs. Up until 1986, the DCC had functioned only on the most rudimentary level, inhibited by the policy climate as well as financial constraints.

Today the DCC is trying to rebuild, but operates with limited facilities, and ill-equipped support staff. Its income is derived from minimal annual dues (Tsh 6,000/member), charges to members for preparation of documentation for Certificates of Origin, and occasional rental of its conference room. According to the Executive Director, the DCC also assists its members in sales and sourcing, serves as an intermediary in business licensing procedures, and handles routine enquiries -- all at no charge. Although it has approached various donors for funding, it is not presently receiving any external support. Key areas where improvements are desired include funding for higher staff salaries and training, computerization/office equipment, and preparation of promotional literature, among others. The DCC has already approached USAID/Tanzania for sponsorship of a quite detailed program to assist the Chamber and ts Members, many aspects of which will instead be addressed through the BSC directly, once it is operational.

Apart from this broad, institutional development assistance which the DCC has been seeking, the needs of the DCC membership were summarized as follows:

- training in basic business skills;
- business advisory services;
- retraining of former public enterprise employees;
- promotion of joint ventures with foreign enterprises; and,
- external promotion/trade fairs.

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3 In addition, municipal chambers of commerce and trade organizations have been established in Tanga, Moshi, Arusha, and other regional population centers, and industry associations are active throughout the country. However, time constraints precluded personal investigations in these locations, and the information on their activities and concerns presented here is therefore largely anecdotal.

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The DCC is supportive of the concept of the BSC and sees the need for both the technical and policy elements it entails. Nevertheless, the Executive Director expressed skepticism over the willingness of the various business associations to interact in a cooperative manner without substantial encouragement.

2. Tanzania Chamber of Commerce, Industry, and Agriculture (TCCIA)

The TCCIA was established with the objective of serving as a national umbrella organization for all private sector firms and municipal chambers of commerce throughout Tanzania. In its formative stages, it enjoyed substantial government support and was intended to facilitate public/private sector dialogue, as well as, general business development.

Established in 1988, the TCCIA has 700 members today and is one of the largest business associations in the country. However, many of its members are inactive, many leading businesses are not represented, and the institution itself is in a state of rebuilding. The emphasis the institution has publicly placed on support to the indigenous private sector has undermined its credibility with some Asian-owned businesses, and belies its avowed interest in serving as a voice for the business community as a whole. Political clashes with the DCC and within its own leadership have plagued the organization since its establishment, and reached crisis proportions over the last year.

Notwithstanding these difficulties,the TCCIA has recently become the recipient of a United Nations Development Programme (UNDP) grant (US$760,000) that is intended to support institution building and enhance its service capabilities. A UNDP resident advisor has been placed in the office, with an 18-month term that will expire in June 1993. UNDP funding will also cover the addition of three professional staff members: the National Coordinator; Research and Information Officer; and, a Computer Programmer. In addition to the formidable task of institution building, the principal technical objective of the UNDP over the next year is to develop the TCCIA as a business information center, which will provide members access to published and electronic market and trade information, data bases, inventories of local businesses and their capabilities, etc. Eight regional branches of the library will also be set up under the project.

The UNDP Advisor raised the possibility that using the TCCIA information center as a resource branch of the BSC might be a particularly appropriate means of linkage and cooperation. Other representative areas where technical support to members were identified as follows:

- basic business training/business advisory services;
- assistance in the preparation of market and feasibility studies;
- assistance in promotion/trade fairs and displays;
- information on exporting;
- policy advocacy; and,
- workshops on business regulations and procedures.

The realization of the relatively ambitious plans of the TCCIA will rest both upon the abilities of its advisor and the new professional staff, and the successful resolution of internal and external conflicts that confront its leadership. While it is receiving substantial financial support, its implementation capabilities within this context remain in doubt.

3. Confederation of Tanzanian Industries (CTI)

The formation of the CTI is the newest development among Tanzanian business associations. Established only 10 months ago, CTI's membership is small but

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highly influential, formed as a splinter group from the TCCIA due to intractable disagreements with its leadership. Despite its brief history, the CTI is already perceived as a powerful institution, and has established itself as a vocal and public presence among the private sector and the GOT. Its membership is less than 100 persons, principally based in Dar es Salaam, and includes parastatal executives as well as private businesses.

The CTI is in the process of obtaining offices and an Administrative Manager, its first full-time staff member, has just been hired. Plans are to have an Executive Director and an administrative structure in place within three months, and the organization fully operational by year-end.

The principal objective of the CTI, according to its chairman, is to work to create a favorable environment for business in Tanzania. Emphasis will be placed on policy analysis, policy dialogue, and the development of consensus positions from which to address the GOT on key issues. The CTI would welcome the opportunity to work with the BSC in the identification and analysis of policy issues that presently constrain business development in Tanzania, and views this as a critical service to be provided by the Center.

4. Association of Tanzanian Employers (ATE)

The ATE is a cross-sectoral business association with an estimated 700 members. Any employer is eligible to join, including parastatals. Formed in 1960 as a means to advocate business interests before the GOT and the labor union, the organization grew rapidly at first, fueled by widespread participation from the Asian business community. Following the Arusha declaration and the closing or nationalization of many private businesses, its influence declined. Since 1975, however, both the membership base and capabilities of the ATE have been substantially strengthened, and it has taken a more active role in worker/management negotiations and facilitating improvements in labor relations.

Financing for ATE's operations is drawn from members dues -- on a sliding scale ranging from Tsh 10,000 for firms with 1-50 employees, to Tsh 45,000 for firms with over 1,000 workers -- and external funding. An estimated 40 percent of its operating expenses are covered by a grant from the Friedrich Naumann Foundation, which also collaborates with the ATE in the sponsorship of workshops and conferences.

The ATE has three professional staff members and, like other business groups, currently views policy advocacy as a key concern that it is seeking to address. The BSC's involvement in this area would be particularly welcome, especially to the extent that it would provide the opportunity for local analysts to collaborate with foreign technical experts. Another principal area of concentration for the BSC from the perspective of the ATE should be training in professional services, as Tanzania suffers from a shortage of engineers, financial analysts, and business managers.

In terms of the SME sector, the ATE sees the need for the BSC to engage in efforts to make family-owned enterprises aware of the opportunities presented by new business practices and the introduction of outside expertise, a viewpoint that was echoed by the Investment Promotion Centre (IPC). A resistance among these smaller firms, both Asian and indigenous, to professionalize their operations is a primary obstacle to their success and growth. In this light, the ATE emphasized the importance of undertaking efforts toward general consciousness raising early in the implementation of the BSC's activities, if the broadest spectrum of firms are to avail themselves of the program.

5. Other Associations and Organizations

In addition to the four organizations described above, there are many other business associations that should be considered as potential beneficiaries of the BSC's services. The Dar es Salaam Merchants Chamber, for example, is one of the most active and cohesive local associations. Its membership is comprised of Asian businesses, and although it is small, it includes some of the country's most influential businesses. Likewise, the Tanganyika Farmers Association (TFA), established in 1935, has a broad membership (over 4,000), and is based in Arusha with branches in Dar es Salaam, Dodoma, Iringa, Mbeya, Moshi, and Njombe. In recent years, the TFA has been particularly ambitious, with activities ranging from bulk purchasing and marketing services, to agricultural extension, to publications and seminars. At present, the TFA is perceived as an organization targeted to larger firms, but is providing services that would be equally, if not more beneficial to SMEs, and is actively endeavoring to extend its membership to include smaller scale farming operations.

There are two organizations, the Association of Tanzanian Consultants (ATC) and the Tanzanian Professional Association (TPA), that have been established with donor funding to support and enhance the capabilities of the Tanzanian service sector. Formed two years ago, the ATC has been a vocal proponent of upgrading the local skill base to address technical needs that are now being met by foreign experts. In 1992 it received funding from the GTZ, the German development assistance agency, and is in the process of establishing an administrative base. The ATC appears to hold the potential to serve as a clearinghouse for identifying local sources of short-term technical assistance to the BSC. The TPA is itself a grouping of 22 professional organizations, which has received UNDP assistance toward establishing a Tanzanian Professional Center.

The Tanzanian Business and Professional Women's Association (TBPWA) is another relatively new organization, formed in 1989, with a membership of some 60 women at that time, it has grown to include some 455 members and five branches. The objective of the Association is to identify and overcome constraints on women in business, and it has among its members a broad cross-section of entrepreneurs in terms of the size and sectors represented. Women's involvement in business development has been largely confined to the informal sector. Given the particularly formidable obstacles that face businesswomen with regard to establishing credibility and gaining access to financing, the Association would appear to also be a likely target for the BSC's services.

C. ENTREPRENEURS/NEW BUSINESS DEVELOPMENT

One of the activities of the BSC will be to assist in new business development. The capabilities of Tanzanian entrepreneurs who are seeking to establish a new business venture vary greatly. For individuals with extensive business experience, the steps involved may appear relatively straightforward -- conduct a feasibility assessment, develop a business plan, identify sources of financing, etc. For newcomers, or firms that are currently operating in the informal sector, the task at hand will be much more formidable.

Specific entrepreneurial needs that have been identified include:[4]

- understanding the realities of establishing and running a business;
- preparation of feasibility studies and business plans;
- identifying and evaluating potential sources of finance;
- guidance in interacting with financial institutions;

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[4] It should be noted that there is a degree of overlap between the technical assistance and training needs of entrepreneurs, new businesses, and SMEs.

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- guidelines to business registration and regulation procedures;
- site selection/facilities development; and,
- apprenticeship programs.

It is clear from the investigations that substantial amounts of technical assistance and training could be demanded of the BSC in the area of entrepreneurial development alone. However, the objective of the Center is to serve a broad range of clients, through the provision of a spectrum of services to the business community at large. Moreover, many of the individuals who have entrepreneurial aspirations, may be more appropriately provided information and training in basic business principles before they actually embark on establishing a new business. An informational campaign has therefore been included in the BSC project design which will fill this need.

D. OPERATING BUSINESSES

The discussions with Tanzanian business associations (summarized in Section B) elicited considerable information regarding the needs of their respective constituencies that could be addressed by the BSC. In addition, the following topics were highlighted as areas of particular interest in the interviews with local firms, service providers, and members of the donor community.

1. Small and Medium Enterprises

Depending on the age and experience base of the firm, the needs of SMEs may be similar to those of start-up efforts outlined above. However, investigations revealed particular weaknesses in the Tanzanian SME sector in the areas of accounting and financial management; strategic planning; market development; and facilities management and maintenance. Personnel management and worker training are also given inadequate attention by many small businesses. (Several individuals noted that in times of economic cutbacks, worker training was the first line item to be cut from the operating budget.) In addition, to a much greater extent than their larger counterparts, smaller firms in Tanzania suffer from a lack of understanding of, and difficulties in complying with, government licensing and reporting requirements and other regulatory procedures.

In general, a large degree of commonality was indicated vis a vis the needs of small and medium enterprises operating in Tanzania today. It is clear that there is a shortage of information and resulting lack of familiarity with basic business practices, as well as, a need for assistance in financial and strategic planning that is cross-sectoral and applies to both indigenous and Asian enterprises. The principal dividing line is rather that which separates the "legitimate" SMEs from their informal sector counterparts, who will need targeted assistance if they are to meet the regulatory requirements associated with business formation and lawful operations.

2. Established Firms

As has been discussed extensively in recent economic analyses of Tanzania, despite the restrictive regulatory and policy climate that has constrained business development in general, there are a number of established businesses that have been able to maintain and, to a varying extent, diversify and expand their operations. Large firms in Tanzania are principally traders -- importers, retailers, and exporters of goods -- generally taking the form of holding companies with numerous subsidiaries. This commercial sector is dominated by the Asian business community. The prominent indigenous firms that have been established are, for the most part, less diversified in their activities.

Within this context, investigations revealed the need for the BSC to assist these established firms to take a more active role in the productive sector, by establishing or expanding their operations in light manufacturing, resource-based processing, and other value-added activities. Constraints to such growth expressed by businesses interviewed focused on three areas:

(i) difficulties in obtaining professional personnel, particularly in financial and strategic planning, and the need for technical training and skill development;

(ii) the need for technical assistance in plant outfitting, production techniques, and equipment maintenance; and,

(iii) limited access to market/demand information, particularly with regard to international quality standards; product enhancement and diversification; and guidelines for tapping the export market.

The further development of larger private firms in Tanzania will be a key element in the country's economic growth. The performance of these firms will be particularly important within the context of the privatization of the parastatal sector, and the resulting vacuum that must be addressed. Expansion and diversification will also open up new employment opportunities for Tanzanian workers in the agricultural, industrial, and services sectors, that are sorely needed. Finally, technical assistance to established enterprises in such areas as quality control can serve as a catalyst for the entry of Tanzania into the export market in non-traditional goods. While the country has made recent advances in this area, especially in non-traditional agriculture exports, there is substantial room for growth.

E. GENERAL PUBLIC/LABOR FORCE

One final element that was identified as a potential area of attention for the BSC was the need for broad-based information dissemination and "consciousness raising" for the general public in Tanzania. The legacy of socialism includes a prevailing mistrust or disdain for the private sector among the population as a whole, and there is a need for general publications, workshops, and other mechanisms to increase awareness of the positive contributions of private enterprise, especially within the context of the ongoing policy reforms. As noted above, there is also demand for information on basic business practices that can be distributed to individuals interested in the opportunities presented by the new business environment.

On a different level, there exists a need for targeted worker training that will be addressed in large part through the assistance provided to operating businesses. For unemployed individuals, or persons just entering the work force, vocational training through established institutions can potentially be linked to the BSC. In the case of former managers of public enterprises, the task may be quite different, to re-orient and re-package existing skills so that they can be successfully channeled into profit making, market-responsive business operations.

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III. OPERATING FRAMEWORK OF THE BSC

As described in the preceding chapter, the capabilities and constraints of the Tanzanian private sector and its representative organizations have been preliminarily defined by the investigations conducted as part of this analysis. When considered in light of the policy analysis that has also been conducted as part of Project design, an overall profile of the spectrum of issues now confronting the business community has been developed.

Within this environment,the challenge for USAID/Tanzania is to design and implement a workable technical assistance strategy that will reach a broad range of private sector beneficiaries in a cost-effective manner. Through discussions with USAID, private businesses, GOT leaders, and other donor and assistance agencies, a general consensus has emerged: There is a need for a results-oriented, demand-driven entity that can address the technical and policy constraints that have been identified. As outlined below, the establishment of an independent Business Services Center has been determined to be the optimal approach to meeting these objectives.

A. STRATEGIC OBJECTIVES

The BSC will have four principal strategic objectives, each of which contributes to the overall purpose of the FED Project of fostering private enterprise growth. Specifically, these objectives are:

- **Raising Public Awareness.** Using print media, radio, and publications (newsletters, studies, etc.), publicize the BSC project and its achievements. These efforts will draw attention to such areas as project objectives, business development opportunities, and policy constraints identified, as well as to the technical assistance provided by the BSC and its impact, once the work program is fully underway.

- **Responding to Demand.** The BSC will be a demand-driven service organization, reflecting the needs and concerns of the Tanzanian business community as they are voiced by firms, individuals, and industry representatives. The role of the BSC will be to propose, rather than dictate, project activities, so as to ensure that private sector views are reflected in the design and implementation of the technical assistance and training provided.

- **Strengthening and Broadening the Business Community.** The BSC will be non-discriminatory in the services that it provides, aiming to reach and assist the Tanzanian business community as a whole. Eligibility criteria for Project assistance will be established that are straightforward and reflect the differing capabilities of the intended beneficiaries. Particular attention will be devoted toward phasing in of technical assistance and training outside of Dar es Salaam through linkages with institutions in other population centers (e.g., Moshi, Arusha, Mwanza, Zanzibar).

- **Enhancing the Policy Environment.** A final objective of the BSC will be to identify and assess the key policy issues impeding Tanzanian business development, and to promote the greater understanding and awareness of these issues. A key element in the BSC approach to these policy-related activities will be to develop the capacity of the business associations to serve as effective advocates of private sector interests to the GOT.

Together, these core objectives comprise the strategic framework within which the BSC will be established, and its activities defined. The organizational structure that has been determined to best suited toward achieving these objectives is outlined below.

B. OVERVIEW OF THE ORGANIZATIONAL STRUCTURE

Based upon the findings of previous FED project design efforts, the investigations conducted at this stage focused on three primary areas:

- defining the precise needs of the private sector in Tanzania;
- determining the capabilities of existing institutions/programs to meet those needs; and,
- within this context, developing a workable framework for delivery of technical assistance under the FED Project.

The BSC design has been developed based upon an analysis of the findings of these investigations, consideration of the overall objectives of USAID/Tanzania vis a vis the private sector, and reflecting the experiences of similar projects undertaken in other developing countries. The principal institutional options considered are described below, as a context for evaluating the rationale of the organizational structure proposed.

1. Institutional Options Considered

a. Business Associations

With regard to the capabilities of leading business associations, it is clear from the above analysis that no one institution can truly claim to include and represent the interests of the Tanzanian private sector as a whole. Moreover, several of the institutions contacted lack the administrative capacity to add on such an ambitious portfolio; several were not interested in hosting the project; and others were plagued by inter- and intra-organizational dissension which would make the channeling of FED activities through them (i.e., establishing a BSC "unit") problematic at best.

Other factors argue against placing the BSC within an established association: by singling out one group over another, USAID/Tanzania might contribute to, rather than reduce, the tensions that already exist. From another perspective, establishing the BSC within one association runs the risk of alienating the membership of other groups, and therefore reaching only a segment of the private sector community. For all of these reasons, it was determined that the BSC should not be developed as a operating arm or division of an established business association.

b. Investment Promotion Centre

The design team also evaluated the prospect of using the IPC as the operational base for the BSC. However, as with the business associations, several shortcomings to this approach were also identified:

- the, as yet, unproven track record of the IPC's ability to perform the critical services with which it is already charged;

- the IPC's need for additional time to absorb the technical resources and guidance that it is already receiving, and to develop and train its staff;

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- a perception among many members of the private sector that a government entity is not the place to locate a Project which is dedicated to responding to private sector needs, a viewpoint that is shared by the IPC's director.

Given these considerations, placement of the BSC within the IPC is also not recommended.

c. Selection of a local Firm

Finally, the alternative of establishing the BSC as an independent, project unit within an existing firm was also examined. Interviews were conducted with various local consulting and business services groups, including the parastatal TISCO (Tanzania Industrial Studies and Consulting Organization). Project investigations indicate that there at least four or five such businesses with the professional and administrative capabilities to support the activities of the BSC. While perhaps justifiable from a pragmatic perspective, this option would place USAID/Tanzania in the essentially untenable position of pre-selecting a private firm to administer the BSC, to the detriment of its competitors, and was therefore also discarded as an alternative.[5]

2. Rationale for Organizational Structure Proposed

After careful evaluation of each of these alternatives, it has been determined that the optimal approach is for USAID/Tanzania to enter into an institutional contract with a firm or consortium that will bear full responsibility for establishing the BSC. This institutional contractor must include both a U.S. firm and a Tanzanian counterpart organization.

The U.S. firm will either form a joint venture or subcontract agreement with a local firm or institution to undertake the project. While the FED project will provide financing for project-specific activities and expenses associated with the BSC, it will be the responsibility of the institutional contractor to establish the office and administrative capability to operate the project, working through the Tanzanian counterpart organization.

This approach has several advantages:

- It avoids the pitfalls associated with pre-selection by USAID/Tanzania of an institutional base, which might lead to perceptions of partisanship or the marginalization of other interested groups.

- It frees the business associations, consulting groups, or other service providers, to form alliances with U.S. bidders, should they choose to do so, while nevertheless ensuring that each will be able and encouraged to supply or receive services offered by the BSC, once it is operational.

- It avoids the creation of an entirely new entity. This is not an "institution building" initiative, which is both a difficult and costly task. Instead, the BSC is a service mechanism, and as such will have a finite life span, terminating at the end of the FED Project.

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5 It is also unclear to the consultants as to whether this approach would be in compliance with USAID bidding and procurement regulations.

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- As designed, the Center will not be formally affiliated with any one business association or organization in Tanzania, but will work with all interested parties.

For institutional, technical, and political reasons, running the Center directly through a private contractor, will best achieve the FED program objectives. The BSC will possess the autonomy and objectivity that is critical to its effectiveness in providing services to the Tanzanian private sector. At the same time, by uniting U.S. and Tanzanian firms/organizations, the BSC will contribute to the development of local technical assistance capabilities as well as project management experience, and provide opportunities for the increased involvement of local professionals in business development efforts. As outlined in Section C below, this objective will also be supported by encouraging the provision of short-term technical assistance by other Tanzanian firms, based upon their capabilities to meet the needs of the Project, as it develops.

C. ROLE OF THE INSTITUTIONAL CONTRACTOR

1. Overview

A competitively selected U.S. contractor, in collaboration with a Tanzanian counterpart, will bear primary responsibility for design, implementation, and management of the BSC. The Contractor will provide both long- and short-term technical assistance in support of project activities, and will identify and coordinate Project support that is available from other sources.

Given the complexity of the activities to be conducted by the BSC, as well as the need for coordination of its efforts with related Project/Program activities, it is recommended that four to six full-time staff members will be required to serve as Long-Term Advisors (LTAs) to meet the Project's objectives. Key personnel will include a Chief of Party (COP) and the Project Coordinator (PC), both of whom will be resident in Tanzania throughout the life of project (LOP). They will be supported by up to four full-time Resident Technical Specialists (RTS), in such areas as training, business management/ finance, agribusiness, and light manufacturing. In addition, it is proposed that a staff market specialist be included who would be charged with encouraging U.S. sourcing of merchandise under the Import Financing Facility, which is to be established under the FED Project. The technicians can be phased in, over time. Optimally, the successful U.S./Tanzanian consortium will have identified highly qualified individuals either from within their own staffs or affiliates, to join the BSC staff.

The BSC will be based in the contractor's offices in Dar es Salaam. The central location; availability of infrastructure, business, and support services; size of the businesses community; as well as, proximity to the GOT and USAID/Tanzania offices, make the capital city the logical location for the Center. Throughout the execution of the work program, the LTAs will travel across the country, providing technical assistance and working with business associations and support organizations identified in regional population centers. In this manner, ongoing communication and frequent personal contact will be maintained with the associations, who will not only collaborate in the determination of the work program, but will serve as clearinghouses for potential beneficiaries and suppliers of BSC services.

The contractor will make use of the services of four types of technical assistance providers in the implementation of the BSC: (i) the Chief of Party and Project Coordinator, who will define the program activities and provide ongoing technical guidance and support; (ii) In-Country Technical Specialists, who will provided targeted support for project activities; (iii) Short-Term Technical Advisors (STTAs), both drawn from the core contracting team, as well as, other foreign and local sources, as needed; and (iv) complementary

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organizational and institutional resources and programs, planned or already in place in the country or in the region.

Whenever possible, local expertise -- trainers/educators, technicians, policy analysts -- will be utilized by the BSC. One of the principal objectives of the FED Project is to develop and enhance national capabilities to carry out technical assistance independent of outside support. In this context, the BSC team will work with regional and national technical centers, educational institutions, consultancies, and other sources of professional services, to identify qualified candidates to assist in Project implementation.

2. Contractor Responsibilities

The Institutional Contractor will bear primary responsibility for the design and implementation of the specific activities undertaken by the BSC. As designed, the Project provides a solid basis for the establishment of an effective project management framework to ensure the timely and responsive delivery of technical assistance. Specific responsibilities assumed by the Contractor include, but are not limited to:

- signing the core contract and providing the services it sets forth, as well as ad hoc delivery of technical assistance in response to specific requests from beneficiaries, to the extent that they are consistent with the Project's objectives and technical and managerial capabilities of the Contractor;

- preparing specific scopes of work required for the provision of short-term technical assistance;

- identifying, deploying, managing, and supervising all technical assistance provided under the Contract, and ensuring as to its quality and appropriateness to the need being addressed;

- timely and cost-effective procurement, and appropriate maintenance, of all vehicles, computer hardware and software, office equipment/furniture, and other commodities using Project funds;

- establishment of a financial administration system to ensure that the Project is implemented in the most cost-effective manner and that will provide the basis for accurate and timely reporting on its financial status throughout its execution; and,

- supporting and cooperating with audit and evaluation teams assigned to the Project.

Finally, perhaps the most important task that must be performed by the Contractor is establishing the basis for effective communication amongst the key institutions involved. As has been determined by USAID/Tanzania, the FED project will fund a Personal Services Contractor (PSC) Private Sector Advisor who will bear direct management responsibility for the program as a whole. The PSC will be under the supervision of a U.S. Direct Hire (USDH), as well as senior Mission management, as appropriate.

As part of its basic activities, the Contractor will work to develop and sustain ongoing contact and coordination with the USAID Project Officer, who must be kept informed of all significant Project developments throughout the LOP. In addition, as described below, Tanzanian organizations whose participation and support is critical to the success of the BSC, will be kept fully apprised of its activities.

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3. BSC Project Oversight

In addition to USAID project supervision outlined above., a Steering Committee will be formed to provide strategic direction to the BSC, comprised of the principal organizations involved in the definition and delivery of services. The Steering Committee will meet once a month to review progress on Project activities. The Committee meetings will be a productive way to not only focus the activities of the Center, but to disseminate information on its activities. It will also provide a forum for the discussion of policy issues which may be addressed by the BSC (see Chapter 4, Module 3 below). While the precise composition of the membership cannot be specified at this time, it should include the following:

- the COP and PC of the Center
- the USAID PSC/or cognizant project officer
- representatives of key business associations, such as, TCCIA, CTI, DCC, ATE, TFA, TBWPA, and trade/industry organizations
- an IPC representative
- a representative from the Tanzanian education/training community

On an ad hoc basis, other individuals could be also asked to participate in Steering Committee meetings, such as intermittent service providers under the BSC (IESC, APDF, EI), representatives of donor agencies active in business development, and GOT officials. The Steering Committee will serve as a consultative body to give overall direction to the center, and is a critical element in the project design.

4. Project Staffing

The project staffing structure outlined below is intended to meet the needs of the private sector support component of the FED project, as identified through the investigations and analyses conducted. The staffing program should be viewed in light of the breadth of the activities that are encompassed by the BSC, and the premium which this places on hands-on project management skills.

a. Long-Term Advisors

Clearly the tasks involved in developing the Tanzanian business community will require a multi-disciplinary team of technical and training experts, and it will be up to the Institutional Contractor to determine the optimal management structure for their particular team. But it is in the staffing of the long-term positions where the qualifications and experience of the individuals deployed are most critical to the project's success.

Although every effort should be made by the Contractor to identify qualified Tanzanians to fill the long-term positions, it is recommended that the COP be a highly qualified expatriate, and that no AID geographic code restriction be placed on the nationality of the BSC team, so as to provide for the highest quality of service delivery.

Chief of Party. The COP will be the in-country manager of the BSC and will serve as the principal contact point between the Contractor, BSC staff, USAID, the local business community, and the STTAs. The COP will be charged with establishing the office and facilities of the BSC, hiring personnel, and setting up requisite data collection and information management systems. He/she will also bear responsibility for developing the project workplans, defining and maintaining communications channels, identifying, and addressing technical assistance needs as they arise. The COP, along with the PC, will represent the BSC on the BSC Steering Committee, as described later in this report.

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The individual serving as the COP should have a strong track record in effective project management, optimally with a business background/training, and/or experience in having led similar private sector development initiatives. An understanding of, and prior field experience in, Tanzania or the Eastern and Southern Africa (ESA) region is also strongly recommended.

Project Coordinator. The Project Coordinator will serve as the principal liaison between the Tanzanian firms and individuals seeking, or in need of, BSC assistance and the service providers under the Project. The PC will work closely with the COP in the establishment of the BSC, defining its services, and identifying and prioritizing implementation measures.

It is recommended that this position be filled by a professional training specialist, resident in Tanzania, who will bring to the BSC a thorough understanding of the operating environment -- the policy environment, economic/market setting, key institutions, associations, GOT bodies, etc. Training, education, and/or work experience in such areas as business development, investment and finance, would also be desirable, as would any sector-specific talents, or experience in designing and implementing technical assistance programs.

Resident Technical Specialists. Additional full-time staff will also be required to fill the RTS positions. The categories of expertise mentioned above -- training, business/finance, marketing, agribusiness, and light manufacturing -- are indicative of the types of service and sectoral needs that have been identified through these investigations. They are not set in stone. For example, a public relations/communications specialist might prove to be in more demand than a sectoral expert, which could instead be supplied through STTAs. In fact, it is recommended that consideration be given to initiating the BSC project with only the business/finance and marketing posts, with the additional positions to be defined, and applicants solicited, once the needs of the business community have been further clarified.

The Business Specialist's role would be to define and implement the BSC's strategy for its internal business services, and to identify and evaluate the business needs of the client base. The efforts of the marketing specialist would be directed toward facilitating both import and export activity, especially the Buy America program, which is described further below.

As with the Project Coordinator, it is desirable to have Tanzanian nationals also fill the technical posts. However, given the shortages in management and technical expertise that have been noted by the business community, an alternative to be considered is to fill the positions initially with expatriates who are teamed with Tanzanian professionals. The expatriate technical posts would then gradually be phased out, once their counterparts are able to assume the full realm of responsibilities independently.

b. Short-Term Technical Advisors

The LTAs will also employ task-specific STTAs to address particular needs that are evidenced in the course of the project. These individuals may be drawn from the Institutional Contractor, as well as from other local and foreign sources, as appropriate to the needs at hand. The activities of these individuals may be targeted to a general business audience; directed toward a particular product, sector, or function; or may be firm-specific, as determined

by the LTAs. STTA may also be used in the area of policy analysis and the provision of tailored assistance to local business associations.[6]

Each of the LTAS will have the technical capability to conduct an initial screening of the potential BSC beneficiaries. Working with the relevant business association, the COP or PC will visit these companies for first-hand assessments. The RA will conduct a preliminary evaluation of such factors as the adequacy of facilities, equipment, systems, raw materials, quality control procedures, labor skills, logistical problems, and managerial capacity. From this evaluation, a determination will be made as to whether BSC assistance is warranted and, if so, the type of expertise required.

It is difficult to pinpoint precisely the individual areas of experience and particular qualifications that will be required over this five-year effort. It should be noted, however, that it is in this category of technical assistance where the greatest flexibility is demanded in terms of staffing, if the project is to be demand-driven and respond to the needs evidenced in the local business community.

In this context, the following types of expertise are viewed to be potentially in demand over the course of the BSC work program:

- Sectoral/Product Specialists in agricultural and light manufacturing sectors such as, leather goods, textiles/apparel, agroprocessing, horticulture, furniture, handicrafts, etc.;

- Operations Specialists in plant design and layout, transport and cargo, and computer-based accounting and inventory, and quality control; and,

- Specialized Trainers with extensive experience in designing nd implementing sector- and industry-specific training in business development and operations and strategic planning;

- Policy analysts with training and experience in foreign exchange regulation; business formation; investment and export promotion; competitiveness assessments; etc.

The Contractor will develop a roster of experts in these areas, and others, which will be screened by the LTAS. In addition, for targeted assistance, the resumes of these individuals will be sent to the firm or organization that is the intended recipient of the technical assistance, prior to contracting. In this manner, the beneficiary will be given the opportunity to ensure that the experience and qualifications of the STTA meet the needs of the problems/task being addressed. Given the highly targeted nature of the assistance to be provided in some cases, it is critical that the individuals identified be fully qualified to avoid a waste of time and resources.

c. Support Staff

By virtue of establishing a U.S./Tanzanian collaboration as the Institutional Contractor, identifying and accessing support staff for the BSC will be facilitated. It is projected that, at a minimum, a receptionist, secretary, and driver/messenger will be required to provide requisite administrative support. The services of an accountant/bookkeeper might also be

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6 The deployment of short-term technical assistance in business production/management areas will take into account the availability of services via the International Executive Service Corps (IESC) and its relationship to the BSC.

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utilized, depending on the technical specialization of the Institutional Contractor.

5. Links to the "Buy America" Program

As discussed above, the FED Program will establish an import finance facility to assist Tanzanian firms in obtaining access to the foreign exchange needed to meet their import requirements. In conjunction with this component of FED, the BSC will include a full-time marketing specialist on staff who will direct specific attention toward optimizing the use of the IFF by Tanzanian firms, and provide information on U.S. and other sourcing opportunities.

The Marketing RTS would be a key source of information for Tanzanian businesses on alternative overseas supplier sources for their production needs. Special emphasis will be placed on the "Buy America" program, to raise awareness of the price, quality, and competitiveness of U.S.-sourced goods. Efforts would include establishing a data base and souring catalogue for distribution to Tanzanian businesses, as well as, hands-on assistance in making transactions, as discussed in additional detail in Chapter 4.

D. RELATIONSHIP TO LOCAL BUSINESS ASSOCIATIONS

Tanzanian business, industry and trade associations are anticipated to play a pivotal role in the BSC's activities and achievements. Working with the Contractor, the associations will be responsible for the promotion of the project to their constituencies, the identification and preliminary evaluation of technical assistance needs, the dissemination of information made available through the project, and, in accordance with their capabilities, assisting in provision of the technical assistance.

The associations will be used as a as a resource in the development of the work programs prepared by the COP, and will be expected to make capable staff available to assist in the BSC's implementation. They will be an especially important element in the communications network established, by serving as a conduit between the BSC and the business community at large.

To the extent that commonalities of sectoral and functional needs are manifested through effective communication with the business associations and their memberships, significant economies can be achieved by bringing in short-term technical experts that will travel to several locations and plants throughout Tanzania as a part of their assignment. Through close collaboration by the LTAs with the associations, the most cost-effective means of delivering technical assistance will be determined and the assignment configured and scheduled accordingly.

Finally, the associations will be asked to play an active role in setting the policy agenda for the BSC. Drawing upon the input of their memberships, the associations will bring to light policy issues of key concern for which technical analysis is warranted. As with the training and technical assistance provided in business development, the policy assessment and advocacy activities undertaken or supported by the BSC will be determined by the expressed needs of the businesses which the Center endeavors to serve. Along with other key organizations and institutions, they will be represented on the FED Steering Committee.

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E. LINKS TO ESTABLISHED TECHNICAL ASSISTANCE MECHANISMS

1. Overview

The myriad and varied needs associated with business development in Tanzania that have been identified, will require both careful management and targeting of services under the BSC, and coordination of the Center's activities with existing private sector support institutions and programs. This section presents areas of technical assistance and training where external providers of services have been identified. These efforts can be linked to those of the BSC either formally, through contractual agreements, or through coordination and cooperation in the design of their respective program activities, depending on the institutions involved.

BSC integration with these programs will involve the coordination of cost sharing, and fee for services arrangements, to meet both the individual requirements of the independent programs, and to establish a transparent "pricing schedule" for potential beneficiaries of the BSC.

It has also become especially clear that there is a need for enhanced communication and coordination of multilateral and bilateral donor programs, non-governmental organizations, and other ongoing efforts to encourage private sector development. A brief review of such activities identified in the course of these investigations is presented below. It is only indicative, and by no means an exhaustive listing.

2. Utilizing International Business Development Programs

a. Africa Project Development Facility (APDF)

The APDF was established in 1986 as a joint effort by the African Development Bank, UNDP, and the International Finance Corporation (IFC), to assist African entrepreneurs in establishing viable small/medium sized businesses. While the APDF does not provide direct financing to these entrepreneurs, it works with them to develop "bankable" projects in the preparation of feasibility studies, marketing analyses, and business plans, and assists in identifying and tapping sources of financing for project development. In practice, the APDF serves as an intermediary between an entrepreneur with an idea and potential financing sources.

The APDF assists project developers to tap the resources of both formal financial institutions and potential investment partners, both foreign and domestic, and provides guidance in negotiation of the terms of finance and/or cooperation. In recent years, it has expanded its operations to include start-up assistance to its projects, e.g., identifying and supervising contractors, organizational structuring, and managerial assistance.

Based in Washington, the APDF is a "bare bones" operation with minimal staffing. In Africa, there are presently three regional offices (Harare, Abidjan, Nairobi) with additional branches planned for Douala and Lagos in the near term. (Nairobi is the APDF office charged with handling projects in Tanzania.) The regional offices are led by an IFC officer, with a staff of three to seven professionals; their work is also coordinated with the activities of the UNDP and World Bank representatives in the host country and the region.

The regional staff are responsible for project identification and screening, conduct regular country visits outside their base offices, and network with other donor and financial agencies to broaden their outreach. While the staff of these offices are trained in development finance, banking, and experience in the requirements and policies of the donor community, they also have relevant private sector experience and can assist the individual

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entrepreneurs in focusing and fine-tuning their project ideas. The APDF also draws on external technical assistance (an estimated 30-40 percent of which is drawn from the country in which each project is based) to conduct the pre-investment analyses.

According to the General Manager, of 500 project proposals submitted, an estimated 10 percent receive APDF support, and half of these projects are actually implemented. The average capital investment in projects assisted by APDF has been US$500,000 to US$1 million, although some have been much larger. In Tanzania,the APDF had assisted in seven projects, principally in Arusha and Zanzibar, in the agricultural/food processing and tourism sectors. The cost of the Tanzanian projects receiving APDF technical support ranged from US$400,000 to US$3.8 million. Projects in other ESA countries have dominated the APDF's portfolio to date, such as Kenya, Zimbabwe, and Botswana.

The APDF operates on a cost sharing basis, with the outlook that entrepreneurs must have their own stake in the project for it to be successful. This approach is in keeping with the strategy proposed for the BSC. The APDF requires:

- an "earnest fee" payment of US$3-5,000 (payable in local currency);
- a project document delivery payment of at least 0.5% of project costs; and,
- a final payment equivalent to 1% of project costs.

These levels of cost sharing are used as guidelines, and the APDF exercises flexibility in applying the policy. Likewise, institutional efforts are underway to provide assistance to smaller projects, for which an alternative cost sharing schemes may be developed.

There is a considerable degree of complementarity between the APDF program and the activities proposed for the BSC and a linkage with the organization would be recommended. Discussions with the APDF's General Manager in Washington indicate that the organization is considering establishing a "window" in Tanzania (essentially a one-person operation), through which project proposals would be channeled to the regional office in Nairobi. Potentially, this window could be located within the BSC, or alternatively, close coordination maintained between the BSC staff and the Nairobi office to provide services to Tanzanian entrepreneurs.

b. Entrepreneurs International (EI)

Entrepreneurs International is a USAID-sponsored private sector training program administered though AID's Office of International Training. The program is intended to foster the growth and enhancement of the business communities in developing countries by linking them to the U.S. private sector. Target beneficiaries are executives and decisionmakers in the developing world, who are identified for training by the USAID missions. Project participants are "matched" to U.S. counterpart companies and then travel to take part in hands-on training and business discussions in the United States. The program is entirely grant funded, there is no cost recovery element.

The EI program is cross sectoral and also includes targeted workshops and seminars for the project participants, operated in conjunction with the "in-plant" training. Its scope is cross-sectoral, ranging from agribusiness, to finance, to tourism. Senior personnel, both technical and managerial, are specifically sought as candidates for the program. According to the EI's Washington-based Director, a surprising number of EI participants have returned to their countries to start businesses of their own, thus expanding the national economic base.

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EI has been operating successfully for some time in Tanzania, having provided training to 23 persons as of year-end 1991, eight of whom were women, and there are an additional 15 persons that have been identified by USAID for training. Reportedly, the participation of USAID/Tanzania has been a "management intensive" effort, and has focused on smaller enterprises, and its outreach is intended to be expanded under FED to include larger firms.[7]

Clearly, the work of EI is fully complementary with that of the BSC, and there should be linkages established between the Mission training officer to support this, and other efforts as well. The question of allocation of responsibility for program management could perhaps be addressed through cooperation between the FED PSC and the Mission training officer, thereby sharing the management burden. Further information on the funding requirements for EI services must also be sorted out. It is uncertain in the FED Training report (see footnote) as to whether they will be covered by existing contractual mechanisms (e.g., the Human Resources Development Assistance Project -- HRDA) or will be expected to be drawn from FED project funds.

c. International Executive Service Corps

The IESC is a U.S. non-profit organization, established in 1964, that provides hands-on assistance to locally owned businesses in developing countries. The IESC has offices throughout Africa and the world, and an active network of over 12,000 volunteers who donate their time and services in response to request for technical assistance. These experts are comprised of retired U.S. business executives, experienced practitioners with a broad spectrum of specializations, including engineering, plant management, printing and packaging, financial management, and the full range of industry and sector-specific backgrounds.

In most technical interventions, assistance requests received by the IESC are channeled through a national development organization or donor agency, and an agreement is reached as to the most appropriate form of assistance to be provided. Once a contract has been signed between the IESC and the recipient, a member of the IESC's corps of Volunteer Executives (VEs) is identified who possesses skills that match the need of the developing country firm. The VE then travels to the field, most often for a short-term consultancy averaging 4-10 weeks in duration, working directly with the firm. In other instances, shorter engagements are proposed, such as plant diagnostic exercises in which the VE visits and assesses the firm and prepares an action plan, analyzing specific problems and proposing recommendations. Variations of this basic framework are also available including the grouping of smaller enterprises with similar needs for shared training, general topic seminars, and linkages between VEs and local educational institutions to administer specialized courses.

AID provides core funding for the IESC's operations, the costs of firm-specific technical assistance are thereby limited to travel and maintenance of the expert. In most countries, these expenses are borne by the individual business.

As with the APDF and EI programs, it is evident that the BSC may be able to make good use of the IESC program. The caliber of service provided by IESC volunteers has been highly regarded in such countries as Mauritius, Kenya, and Guatemala. However, the terms of the BSC's arrangement should be carefully defined, as the IESC's track record outside of its core activities (e.g., its activities such as the Trade and Investment Services and American Business Linkage Enterprise) has been spotty. Moreover, it is strongly suggested that

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7 See "Financial and Enterprise Development Program (FED) Training," prepared by H. Gene Peuse and Howard L. Steele, for USAID/Tanzania, May 1992, for more information.

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individual firms seeking IESC assistance be given the opportunity to approve the resume of the VE, prior to finalization of the contract. Communication gaps have sometimes resulted in the inappropriate deployment of personnel through the IESC program, to the detriment of all parties concerned.

3. Working with Tanzanian Institutions/Service Providers

The BSC will also work closely with established technical and training institutions that are developing, or have in place, programs to assist in private business development.[8] The capabilities and constraints of these organizations have been examined in detail in other studies, and will not be restated here.[9] Instead, drawing upon these analyses and discussions with the USAID/Tanzania Training Officer, summaries of the potential areas of cooperation between the BSC and selected institutions are presented below.[10]

- **Institute of Finance Management (IFM).** Based in Dar es Salaam, the IFM enjoys perhaps the best reputation of the training/education organizations reviewed. Its course range from degree programs, to Executive Development short courses, and it is especially equipped to provide training in accounting and business management. IFM links to the BSC could be established for established businesses seeking to improve their financial planning and management capabilities. In addition, with a large faculty of professors and lecturers, the IFM is likely to be the most appropriate Tanzanian institution for developing tailored courses to meet training needs evidenced in specific areas, e.g., productivity enhancement, quality control, production process strategies, etc.

- **College of Business Education (CBE)** has proven to be an especially responsive educational institution in that its faculty is drawn, in part, from practicing professionals, thereby exposing students to the practical application of business skills, in addition to the academic material. The CBE has also been particularly adept at tailoring its courses to suit the needs of the community

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8 Many of the institutions listed in this section have received, or are now receiving, donor support for curricula development, staffing, and/or basic facilities and operations.

9 See, for example, Small Enterprise Development in Tanzania, prepared for the Government of Tanzania and the Overseas Development Administration, J. Dawson, Dr. M.S.D. Gagachwa, and D. de Leyser, August 1991; Private Sector Training Needs Assessment, HRDA, prepared for USAID/Tanzania, Labat-Anderson Inc., August 1989; Assessment of a Request for Funding by the EC of Agro-Related Small Enterprises in the Southern Highlands, Klaus Molenaar, 1990; and, the FED Training Report by Gene Peuse, referenced above. Much of the information presented here is drawn from these reports.

10 It should be noted that all of the institutions listed appear to suffer from the same problem, to varying degrees, high turnover of top-notch professors. Given the lower salary scales of the academic institutions, the best instructors have tended to move to the private sector as accountants, financial analysts, managers, once their reputation has been established. For this reason, it is difficult to make certain statements as to the quality of the education that is currently available at an institution, at any given time.

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- Tengeriu is a village college located approximately six kilometers outside of Arusha and, according to USAID, is an appropriate institution through which to channel/coordinate agriculture-related training and technical assistance. For the most part, outside instructors would have to be brought in to conduct the classes, on an as-needed basis.

- **Small Industries Development Organization (SIDO)** is a parastatal entity established by the GOT in 1973 to coordinate and support policies and programs for SME development. Although it has been the recipient of substantial donor assistance, SIDO appears to be spread too thin to fully discharge its wide-ranging responsibilities. Possible linkages with the BSC include coordination with SIDO in the provision of technical assistance to the occupants of its industrial estates (numbering 14 in 1990) as a means for the program to reach out to groups of businesses outside Dar es Salaam simultaneously. For rural businesses cooperation with SIDO's training and extension services in the design and delivery of courses, e.g., site selection, appropriate technology, marketing, etc., is also a possibility

- **Small Industries Consultancy and Training Assistance (SICATA).** Formed as a consultancy unit within SIDO, SICATA is heavily dependent on donor funding, but has established a positive reputation for its ILO-funded basic business courses, which are being managed by ATE. This type of inter-organizational cooperation might be complemented by support from the BSC, again with an emphasis on general seminars/workshops for SMEs to disseminate basic business information.

- **Investment Promotion Centre.** Drawing upon the funding and support that it is now receiving from the UNDP, the IPC has plans to initiate a national outreach program to identify promising entrepreneurs on a district by district basis, working with the business colleges and the Ministry of Education. The IPC would then develop a data base for identification of market or joint venture opportunities. Such an effort to catalogue potential entrepreneurs is fully complementary to the activities of the BSC and through mutual cooperation, the impact of the survey could be extended. The BSC should also remain abreast of the IPC's efforts to promote investment and business development in general, to ensure that their efforts are coordinated.

It should also be noted that, in an effort to expand the geographic coverage of the BSC, courses could potentially be run through such institutions as the Arusha Technical College, the Arusha School of Accountancy, and the Moshi Cooperative College. The calibre/orientation of the curricula and faculty of these institutions is, in some cases, uncertain or, in others, falls short. Nevertheless, at a minimum, arrangements could be made to use their facilities as part of the BSC's outreach efforts. Numerous other training and vocational centers have been established throughout the country, such as the University of Dar es Salaam and National Vocational training Centres, among others.[11] In

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11 Two other institutions, the Eastern and Southern African Management Institute (ESAMI) and the Institute of Continuing Education (ICE) were also considered as potential conduits for BSC training. However, ESAMI has recently been criticized for mismanagement of its funding by the donor community, and has therefore been dismissed as a possibility. The ICE, while enjoying a reputation as the leading source of technical assistance and training in the agricultural sector in Tanzania, appears to be stretched quite thin in

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particular, there are several good computer training centers. Once the BSC is operational, effort should be directed toward identifying the current activities and capabilities of these institutions to determine potential areas of cooperation, and to broaden the reach of the BSC's services.

4. Coordinating International Assistance Programs

In nearly every interview conducted during Project investigations, and throughout many of the recent studies reviewed, the need for enhanced coordination of donor assistance efforts in Tanzania has been raised as an issue. It is clear that there is a pervasive communications gap that has resulted in duplication, misinformation, confusion, and even conflict, among donor efforts.

The BSC will place an emphasis on establishing and maintaining open channels of communication with the myriad international (and local) institutions that are involved in private sector development initiatives in Tanzania. This will not only avoid the problems outlined above, but will allow the BSC to identify potential linkages and complementarities among its own activities and those of the donor community and its implementing agents. A brief synopsis of current efforts by these institutions that should be considered in project implementation is presented below.

a. Other USAID Projects

There are several AID initiatives that are complementary to the BSC's own activities. The HRDA project, for example, which is global in scope, has already been employed by USAID/Tanzania. HRDA can be used as a source of direct training assistance, as well as in diagnostic surveys of the private sector, based upon the size or sectoral orientation of the enterprises. Efforts should therefore be directed toward ensuring that the FED-based training activities are fully coordinated with the HRDA efforts, through the USAID/Tanzania Training Officer.

Likewise, a pre-feasibility report by the AID Africa Venture Capital Project has already been prepared on establishing a venture capital fund (VCF) in Tanzania, an effort that is intended to be coordinated with the FED Project. The focus of VCF activities, once it is established, will be on investing in the expansion and upgrading of SMEs. The total fund will be US$5 million, and project designers indicated that investments by the VCF would range from as low as US$50,000 to US$500,000, as the maximum amount. An average investment would be approximately US$150,000, representing 35 percent of the total equity in the business. The scale and orientation of the VCF makes it an excellent financial counterpart to the technical assistance that will be provided by the BSC to SMEs, and the projects should be developed in close cooperation.

The BSC should also stay abreast of regional and centrally funded projects that complement and enhance its objectives. For example, the REDSO/ESA office recently approved the Project Identification Document for a Regional Agribusiness Support Project (RASP). If implemented, it will serve as a regional source of technical assistance and market/investment promotion between African and U.S. SMEs in the agricultural sector, which could be linked to BSC-targeted beneficiaries. Other such efforts that are ongoing or planned for implementation should be coordinated by the FED PSC and the BSC team.

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maintaining its established programs. This does not necessarily preclude its participation in the BSC's work program in later stages of Project implementation.

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b. World Bank

The World Bank has had plans for the establishment of a "Private Enterprise Development Credit" project that would appear to have areas of complementarity (if not direct overlap) with the efforts planned for the BSC. According to the Bank, the project is expected to be authorized in Washington in June, although the study mission on which it is based was conducted over a year ago and there seems to be a degree of internal confusion as to whether it will move forward. As designed, among its elements will be an assessment of barriers to industry entry and exit; business formation procedures; and land acquisition issues. The Bank is also planning to undertake a "Financial and Legal Reform" project. This effort appears to be targeted almost exclusively to providing the GOT assistance in drafting new legislation (e.g., industries act, establishment of an industrial court; formal guidelines for dispute resolution, etc.) and should also be coordinated with the policy work undertaken through the BSC.

c. United Nations Development Programme

In recent years, the UNDP has been an important provider of technical and financial support toward the development of private sector associations in Tanzania. As noted earlier, it is now providing assistance to the TCCIA in the form of a Resident Advisor, as well as funding for three professional positions. Other recipients of UNDP support include the ATC, TPA, and ESAMI. The IPC is also receiving UNDP support in the form of three professional advisors -- a Chief Technical Advisor in investment services, and Agricultural Export Advisor, and an MIS specialist. Their periods of consultancy range from two months to one year. The UNDP also has a long-standing program to promote micro-enterprises and provide access to credit to the informal sector. For both operating and planned projects, total funding by the UNDP to Tanzania has been estimated to reach US$90 million over the next five years.

Discussions with the UNDP indicate that it is also considering providing near-term assistance in support of SME development. A preliminary mission was conducted in February 1992 to examine the possibility of initiating a entrepreneurial development program similar to the areas encompassed by FED. As designed, the four-year program would be run by the United Nations Centre for Transnational Cooperation, and would therefore include an effort to link local entrepreneurs to foreign partners. A second mission by the UNDP's private sector division is planned for late June, at which time they would like to meet with USAID/Tanzania to discussion areas of coordination.[12] Total funding requirements have initially been estimated at US$1.28 million, of which the UNDP would contribute US$980,000, and the remainder be derived from counterpart funding and income generated by the program itself.

d. Commonwealth Secretariat

The Technical Assistant Group of the Commonwealth Fund for Technical Cooperation (CFTC) has conducted a considerable amount of research and provided related technical assistance to IPC. It is also working with Zanzibar in the reform of its investment promotion body, and in the promotion of the tourism sector. Most recently, it has been involved in drafting new, "harmonized," investment legislation with the GOT. In the identification of key policy areas for analysis by the BSC, such efforts of the CFTC should be taken into consideration.

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12 It was made clear in the interview that the UNDP wishes to tailor its efforts to complement those of USAID/Tanzania under the FED, should the UNDP's project move forward, rather than vice versa.

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e. Other donors

SIDA, the Swedish development organization, is one of the most active bilateral donors in Tanzania, working almost exclusively through SIDO, to which it has long been providing funding. Over the past ten years, SIDA estimates it has placed more than US$50 million in SIDO programs. It continues to provide operating financing to SIDO, including support for its lease-purchase program for SME equipment needs, and assistance to women entrepreneurs, providing loans to woman-owned businesses at concessional terms. In the parastatal sector, SIDA has also sponsored overseas training for Tanzanian managers, who are matched with Swedish counterpart companies for short-term training, and has assisted TISCO in start-up financing and advisory services.

Among other donors, the GTZ of Germany has also provided support to SIDO, but like most other bilaterals, has concentrated its funding on the GOT and parastatals. Likewise, NORAD of Norway, has provided scholarships for overseas technical training, support to the Tanzanian Institute of Development Management, and basic skills training for women. Total NORAD bilateral assistance amounts to some US$50 million/year. The Japanese development agency, JICA, has provided ongoing support to industrial and agricultural technology centers in Kilimanjaro. Britain's Commonwealth Development Corporation (CDC) has also been active in Tanzania, investing principally in larger projects (a "small" investment to the CDC is US$1 million), with a total investment portfolio of some 28.7 million pounds sterling, and a pipeline of over 68 million. Sectoral areas of concentration have been agroprocessing and tourism. Although linkages with the BSC would be welcomed by the CDC, for the most part, the average size of CDC investments would make it a potential source of funding for only the more established Tanzanian firms.

Finland's development arm, FINNIDA, has historically concentrated its project assistance to parastatals and cooperatives. However, a recent study conducted by the agency recommended reorientation of its support to include private sector development in such areas as: entrepreneurship training and small enterprise development. The report also recommended collaboration with USAID efforts in this area, through the provision of both technical assistance and direct financing, and the BSC team should therefore pursue the possibilities further, once the Center is operational.

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IV. PRINCIPAL FUNCTIONS OF THE BSC

A. INTRODUCTION

The preceding chapters have outlined the technical assistance and training needs identified within the Tanzanian business community, and proposed a delivery mechanism to address them. Through the establishment of the BSC, USAID/Tanzania will put in place a managerial and operating framework that can rapidly respond to the changing business environment.

As configured, the BSC will play a key important role in facilitating business development in Tanzania by serving as a conduit for a broad spectrum of support activities for the private sector. The experience and expertise of the BSC staff will be critical to its success. However, it is also important to note that one of the Center's critical functions is to serve as a clearinghouse through which Tanzanian firms can have access to local and international programs and organizations, as well as individual experts, which comprise a comprehensive network of talent and resources.

The BSC is intended to respond to expressed demand for technical assistance in the private sector. In that context, decisions as to its precise activities will be made by soliciting the advice and counsel of the intended beneficiaries. As outlined below, an informational campaign to promote the services that the BSC can make available to the business community will be a top priority throughout the implementation of the Project. The response generated through this and other mechanisms (e.g., Steering Committee guidance, meetings with business associations, field visits by BSC staff, etc.) will form the basis for determining its portfolio.

As the context for economic activity changes in Tanzania, and the resulting needs of the business evolve, the BSC will make different types of technical assistance available. Within this context, therefore, it is premature to define the precise services that will be offered by the BSC over the five-year LOP: responsiveness and flexibility in service delivery will be emphasized. However, drawing upon the understanding developed of the critical issues presently facing the private sector in Tanzania, a framework has been developed to address the needs that have already been identified.

The BSC's services have been divided into three general components or "modules." The proposed functions, services, and delivery mechanisms of the BSC are summarized in the tables on the following pages. Likewise, the anticipated users of the BSC, as well as potential service providers, are depicted. In conceptual terms, the requirements (financial and otherwise) for firms or individuals to avail themselves of the BSC are also addressed.[13] Finally, a preliminary implementation plan is presented, along with a projection of anticipated BSC beneficiaries.

B. BSC PROMOTION

Among the many responsibilities to be assumed by the BSC Contractor, the promotion of the Project is one of the areas which will rely most heavily on the core staff to carry out. The national scope of the BSC's efforts will require a coordinated strategy to foster awareness of the Project through the collection

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13 Some of the BSC's basic services will be provided free of charge while other, targeted assistance will be operated on a cost recovery basis. Much will depend upon the attributes and resources of the user and the requirements of the assistance provider. (Refer to Chapter 3 for information on programs such as the IESC, APDF, etc.)

and dissemination of information among Tanzania's businesses. In the initial stages of Project implementation, the BSC staff will formulate a promotional strategy that will be phased to reflect the anticipated growth in the outreach of the BSC over the five-year period in which it is executed.

Working with business associations, trade groups, USAID, and other interested parties, the BSC staff will publicize the full range of its activities and the business development opportunities, technical assistance, and training resources that it offers. The public awareness campaign will be crucial to the provision of technical assistance to a broad and diverse spectrum of organizations, businesses and individuals.

Design of the campaign will be undertaken upon FED project activation, and concurrent with the definition of the BSC's services and delivery mechanisms. Representative activities to be conducted over the five-year period will include:

Publication of pamphlets, newsletters, and other promotional materials. One of the first tasks undertaken by the BSC staff will be to prepare a pamphlet describing the BSC, how it operates, the types of technical assistance available, and who to contact for more information. An additional pamphlet will be developed that deals specifically with the "Buy America" program operates, and how the Import Financing Facility can be used to the advantage of your business. These publications will be supplemented by bi-monthly newsletters that are distributed to national business and professional associations, trade groups, educational institutions, relevant GOT offices (e.g., IPC, Ministry of Industries and Trade, Board of External Trade), and donor agencies. The newsletter will describe ongoing and planned activities under the project, including a calendar of events for the upcoming months. Making such information available on a regular basis, will not only keep interested parties apprised of Project developments, but will help to foster popular support for the BSC.[14]

Public media campaign. Using radio and print media as vehicles, the BSC staff will draft press releases, scripts, and other announcements to publicize the BSC project and its achievements. These efforts will draw attention to such areas as project objectives, business opportunities, and key policy issues, as well as to the technical assistance provided by the BSC and its impact, once the work program is fully underway.

Promotional events. Finally, the BSC promotion campaign will encompass the organization of various promotional and informational events as part of its outreach efforts to the Tanzanian population. Such events might include trade fairs featuring exhibitions of locally produced goods, national and regional business conferences, as well as, simple, informal gatherings for persons interested in learning more about the BSC and its services.

The timing and nature of these activities will be developed working with USAID and the business associations, to ensure that they will reflect the interests and needs of their memberships, and are publicized throughout the business community.

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[14] If possible, the BSC staff will use personal computers for "desk-top publishing" to internally produce camera-ready copy, and thereby reduce publication costs. A standardized "look" or format for publicly distributed BSC documents will be designed by the staff, working with the Steering Committee and USAID.

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C. SCOPE OF BSC SERVICES

As noted above, the scope of the BSC's activities has been defined to include three, broad functional areas, as follows:

- Module 1: Basic Business Services, which will provide training and technical assistance to a broad audience.

- Module 2: Specialized Business Service, which will address sector-, industry-, and sector-specific needs.

- Module 3: Policy Dialogue/Institutional Development, intended to enhance the capabilities of national business associations to meet the needs of their members and influence the policy environment.

The discussion of BSC activities centers on the table that has been prepared for each module. In viewing the tables, the following should be borne in mind:

- Focus. Each Module has three general areas of focus. Within each module, these distinctions are, to an extent, discretionary and should be seen simply as guidelines for targeting the user, and thereby defining the services anticipated to be needed.

- Users. Any individual or firm that wishes to access the BSC's services will be given the opportunity to do so. The BSC staff will work on a case-by-case basis in developing a profile of the user and assisting him or her to identify the most appropriate type of assistance or training among the spectrum of services offered.

- Service Areas. Again, there are definite overlaps in the service area categories, as depicted, and several appear in more than one module. The listing is indicative of the types of technical assistance and training that might be offered by the BSC which, as a demand-driven entity, will ultimately respond to the requests of the Tanzanian business community.

- Delivery Options. There are many different ways to approach the task of business training, for example, and the delivery option that is ultimately selected for a firm or individual will be influenced by a variety of factors, e.g.: How widespread is the interest? Are there courses on the topic already established? What is the capacity of the individual to pay? The linkage of the service area and the delivery option selected to provide the service is a decision that will be made by the BSC staff, as appropriate.

- Sources. This is the element of the BSC design that is most difficult to define in advance. The source of the technical assistance and training will be determined, to a significant degree, by the composition and capabilities of the Contractor. In addition, just as the services provided will be determined by the market, the services needed will drive the identification of the optimal source. Again, the sources listed are preliminary and indicative and will be fine-tuned as the Project develops.

With these general guidelines in mind, the activities and sequencing under each of the three BSC modules are presented below.

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Module 1: Basic Business Services

Module 1 activities are those which are intended to reach the broadest spectrum of firms and individuals. Unlike the services outlined in the other modules, the technical assistance and training encompassed can be applied to all types of businesses. Basic Business Practices will have the widest audience, and is essentially an element of the public awareness campaign described in Section B above. Many of the services encompassed will be delivered by the BSC staff, e.g., establishing the library, preparing/procuring publications, providing basic business advisory services, and conducting workshops for small audiences. As described in the Implementation Plan in Section D, these types of services will be among the first to be offered by the BSC, and will introduce the Center and its staff to the public at large.

In other instances, the BSC will draw upon the faculty or courses of local institutions, for example, to deliver classes in basic business management; or, employ local consultants to offer seminars on GOT regulations, local business practices, etc. Business associations may also play a role in that they have expressed interest in offering similar services to their members which can be coordinated with those of the BSC. For the most part, these services would be free, or available for a nominal charge.

The services included under Applied Business Skills are also general, but will nevertheless reach out to a more experienced audience, including SMEs that are already operational but are in need of assistance to adopt more businesslike practices or upgrade their productivity. It is anticipated that most of the technical assistance required to deliver these services can be made available either by the BSC staff, established programs (IFM, CBE), or offered by local firms. In special instances, firms or individuals may be selected for overseas training under fellowships offered by NGOs or similar programs. Again, cost for these services would be nominal, to the extent that they are provided by the BSC or its affiliates.

In direct support of the Buy America Program, the Marketing RTS would supply information on U.S. products and inputs in the form of data base printouts for particular items (machinery, intermediate goods, equipment) required by a Tanzanian client. Assistance would also be provided in making contacts with U.S. suppliers, and ensuring that the sale goes through as planned. The RTS would conduct followup work to make sure that the goods delivered met the client's requirements and to gauge interest in future purchases.

The third and final category, Specialized Management and Technical Training, has as its target audience established firms and business associations. The intention is to provide access to information and training to support innovation in, and upgrading of, established capacity. While some topics such as, inventory control and productivity management, may fall within the BSC staff or Tanzanian firms and institutions, others will rely on bringing in short-term consultants to conduct specialized seminars. For this reason, services provided will be coordinated closely with the activities of the business associations, to determine which areas are of most interest, and to clearly identify the probable clientele. An association(s) might also assist in organizing and convening the sessions. The minimum level of participants required to warrant holding the sessions would be determined by the BSC, and attendance would require payment of a registration fee to at least partially cover their cost.

TABLE 1

BSC MODULE 1: BASIC BUSINESS SERVICES

Objective: Provide technical assistance and training to the business community at large, i.e., cross-sectoral, new and established firms, export and non-export, etc.

Target Group: Public at large and all types of businesses.

Focus	Users	Service Areas	Delivery Options	Sources/1
1. Basic Business Practices	emerging entrepreneurs, general public former PE employees	pros/cons of starting your own business requisite business skills management training meeting gov't. requirements retraining for the market structuring your business/4	in-country courses, short-term seminars, info. publications, business library, general media	IFM, SICATA, Tengeriu, CBE, accountants, STTA/2 business assns./3
2. Applied Business Skills	emerging entrepreneurs, SMEs	business & financial plans sourcing strategies/procurement small business acctg. negotiating investments	in-country courses, overseas studies, specialized seminars sourcing database	acctg./consult. firms, CBE, for-profit training orgs., NGOs, IFM, STTA
3. Specialized Mgmt./Tech.	estbld. firms associations/ prof. orgs.	total quality management just-in-time production inventory control/mgmt. productivity improvement	specialized seminars, in-country courses	specialized consulting firms, IFM, mgmt. consultants, Tengeriu

/1 The institutional contractor for FED will play the principal role in the design and implementation of all aspects of the project. It is assumed that the long-term advisors will bear primary responsibility for coordinating and managing project activities, supported by short-term technical advisors ("STTA"), as noted. Other "Sources" listings are indicative of potential service providers.

/2 STTA connotes the technical specialists of the institutional contractor, as well as local consultants.

/3 Several business associations have plans (or active projects) to provide these types of services which will be integrated in, and supported by, the BSC's own workplans to the greatest extent possible.

/4 Investigations revealed a need from both new and established businesses to learn how to move beyond the traditional, family-owned/operated business, and introduce new technology and professionalism.

Module 2: Specialized Business Services

In Module 2 activities, the BSC will draw more extensively on outside sources of technical assistance, again, depending on the capabilities of the Contractor. With regard to the first focus area, Project Development, the BSC staff would be expected to provide guidance in the key elements of pre-investment analysis, business plan development, and identifying and assessing alternative sources of finance for local entrepreneurs. Equipped with this fundamental information, the client would be in a position to discuss with the BSC whether or not to proceed with the project, areas in need of further definition, and the potential for qualifying for outside assistance through programs such as the APDF or RASP. For projects in specialized industries or services, or for assistance in identifying potential joint venture partners, for example, STTA would be utilized to supplement in-house expertise.

As with the Module 1 services extended to emerging entrepreneurs, for basic information at most a nominal fee would be charged. Project-specific assistance and consulting services would be costed based upon the practices of the cooperating organization and/or an assessment by the BSC of the client's ability to pay.[15]

The spectrum of services and the scope of potential users covered under Business Operations are broad for two reasons: (i) they reflect the diversity of the clientele that the BSC will endeavor to serve; and, (ii) until the BSC is actually underway it is difficult, if not impossible, to narrowly define the potential service needs of operating businesses in Tanzania.

To be demand-driven and market responsive is one of the BSC's strategic objectives. And, when devising the means to improve the performance of an operating firm, be it well established or newly minted, an individualized, hands-on approach is required. Textbook strategies are of little use to a farmer who is struggling to remain profitable while saddled with outdated or ill-maintained equipment. Nor will general courses in personnel management necessarily solve the problems of a consumer products manufacturer who is suffering with 30 percent turnover rates, soaring training costs for new personnel, and failing to meet production deadlines. As problems such as these are brought to the attention of the BSC staff, either directly, or through the business and industry associations, action plans will be developed. Alternative delivery options will then be evaluated, and their relative merits discussed with the client.

One of the pro-active elements of the Business Operations services will be the support it provides for the Buy America Program, especially for those firms that are in need of modern equipment, machinery, and/or supplies. The Marketing RTS will maintain ongoing contact with U.S. suppliers, and will be able to respond rapidly to specific requests for products with alternative sources, prices, quality and other product information.

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15 As outlined in the implementation plan below, one of the initial tasks to be undertaken by the BSC staff will be to prepare basic information sheets that will be completed by each individual receiving services and form the basis for Project Profiles that will be maintained by the Center.

TABLE 2

BSC MODULE 2: SPECIALIZED BUSINESS SERVICES

Objective: Provide technical assistance and training on a sector-, industry-, and firm-specific basis.

Target Group: Emerging entrepreneurs, new firms, SMEs, established firms, industry/trade groups.

Focus	Users	Service Areas	Delivery Options	Sources
1. Project Development	emerging entrepreneurs	pre-investment studies market analysis business plan development joint venture assistance business regulatory compliance finance/dealing with financial insts.	firm-specific TA workshops/1 apprenticeship programs	STTA, APDF, RASP/2, other donor programs
2. Business Operations	new firms, estbld. firms, industry/trade groups	strategic planning financial mgmt./acctg. payroll/benefits adm. personnel mgmt./training prod. process strategies plant/equip. maintenance technical/skill upgrading quality control marketing/competitiveness sourcing strategies productivity analysis regulatory compliance	sectoral seminars, in-plant diagnostics, in-plant advisors, local short courses, U.S. in-plant training, sector-specific U.S. & local coursework, regional/int'l trade fairs/ seminars, public conferences long-term links to local insts. U.S./Tanzania sourcing links sourcing database/library	EI, APDF, IESC, STTA, CBE, Tengeru, NGOs, IFM, other donor programs
3. Business Expansion	estbld. firms	identifying financing options new market development product diversification product enhancement export basics/export expansion organizational restructuring/3	one-on-one TA, in-country training, regional/int'l trade fairs and seminars, U.S. in-plant training	STTA, IESC, VCF, EI, IFM, other donor programs

/1 In particular, workshops on: (i) obtaining financing/dealing with banks; and, (ii) complying with GOT business regulations and procedural requirements appear to be in high demand.

/2 The AID Regional Agribusiness Support Project, should it be implemented.

/3 See footnote 4 in Table 1.

Where possible, foreign consultants that are brought in will be teamed with local counterparts to assess and resolve the problem. This strategy will offer the client the benefit of top-notch international expertise, promote skill transfer, and provide for local continuity and support once the foreign advisor has left Tanzania. Potential mechanisms and sources of technical assistance and training are myriad in this focus area, as well as in Business Expansion. The services provided by Entrepreneurs International, the International Executive Service Corps, the APDF, local and foreign NGOS, and other donor agency programs, as outlined in Chapter 3, can all be channeled through the BSC, after an assessment has been made of the precise characteristics of the needs of the client.

In such areas as market strategy, new market development, and export assistance, the BSC staff should be qualified to serve as the initial source of expertise and to recommend whether more specialized assistance is warranted. The BSC can also serve as a resource for up-to-date information on international and regional trade, including both trade policies and programs (e.g., GSP, MFA, PTA[16]), industry shows, and international trade fairs. Again, depending on the resources of the clients, the BSC could potentially cosponsor attendance at such events, perhaps in conjunction with one of the business associations or other donor programs.

In terms of financing, AID's Venture Capital Fund will also prove to be a valuable asset to these firms, addressing the "missing middle" by providing financing to firms that are too large to access small- or micro-enterprise programs, but too small to be considered by organizations such as the CDC. Likewise, the FED Project's Import Financing Facility will provide much needed access to foreign exchange for firms whose growth has been constrained by the lack of hard currency to purchase imported supplies or to upgrade equipment.

Module 3: Policy Dialogue/Institutional Support

The activities that will be undertaken by the BSC in Module 3 are perhaps the hardest to define, but hold the potential to have an important impact on the business community as a whole. It is also encompasses those service areas which will rely most heavily on the capabilities of the BSC staff and local institutions and personnel to achieve its objectives. As was emphasized in the discussion of the needs of the business community in Chapter 2, a great deal of tension characterizes relations within the private sector, and there is also considerable uncertainty over the substance and sequencing of GOT policy reforms, as they relate to the business climate. In order for the private sector in Tanzania to expand and prosper, a supportive, rather than conflictive, approach must be adopted, and areas of confluence must be emphasized. Before the numerous business and trade associations in Tanzania can be expected to cooperate, they must first consolidate their own bases.

As designed, the BSC has the advantage of being outside the fray. It is not formally affiliated with any one business association, trade or industry group. In this light, the BSC is well-positioned to contribute to Association Strengthening across the board, working with the leadership of key organizations to help them define their objectives, identify their needs, and adopt a workable strategy to address them. Subsequently, particular attention will directed to such areas as encouraging and expanding member support, consensus building, and organizational growth, perhaps by cosponsoring association participation in short courses overseas. Once the associations (especially those that are now less

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16 The General Agreement on Tariffs and Trade, Generalized System of Preferences, Multi-Fibre Arrangement, and Preferential Trade Area, respectively.

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prominent or active) have reached the point where they are confident of their own sustainability, they should be able to productively interact with their counterparts to achieve mutually agreed goals.

The BSC staff will develop and maintain interactive working relationships with these organizations through the design and implementation of other project activities. Building upon this foundation, the Center should be able to assist them to identify areas of commonality where Inter-Organizational Cooperation would be optimal. It is suggested that a Business Advisory Council be formed, comprised of leading representatives of Tanzanian business, sector, and trade organizations, which could work with the BSC staff and Steering Committee in targeting and implementing steps toward cooperation.

While it is clear that are deep divisions that separate key business institutions in Tanzania, it is also true that the need for cooperative action is critical. The policy reforms that are now underway will enhance the business environment in many respects, but they are taking place largely in the absence of formal private sector input. One of the primary objectives in having the BSC encourage inter-organizational cooperation is to work toward determining areas where the private sector can speak with a unified voice. Is hoped that the Business Advisory Council can foster consensus building on key issues that have a direct bearing on business operations.

By working as a team to identify constraints, the business associations can formulate a coordinated strategy to address them. Under the guidance of the Business Advisory Council, through informal working sessions, concept papers, seminars and workshops, the members of the business community can come to agree upon basic economic impediments that affect each of their operations, e.g., shortfalls in key technical and managerial skills among the labor force; transport and distribution constraints; unfamiliarity with the opportunities and demands of the export market; etc., analyze alternative approaches to their amelioration or resolution; and cooperatively agree upon recommendations to address them.

At this stage, the elements will be in place to initiate the final element of the module, Public/Private Policy Dialogue, which can serve to advance and improve relations between the business community and the Government. In this focus area, the business associations and their members will work toward the achievement of the following objectives:

- to identify and assess the key policy issues impeding the development of businesses in Tanzania, and to promote the greater understanding and awareness of these issues;

- to conduct or commission periodic analyses on the identified policy constraints; and,

- to propose concrete approaches for the modification of existing policies, design new strategies to overcome the identified policy constraints, and propose methods to support their implementation.

The specific analyses that will be conducted in relation to formulating a private sector policy agenda will be identified by the business community itself. However, based upon the policy analysis undertaken as part of the FED project design effort, key areas of investigation of concern to the private sector have been determined to include the following:

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TABLE 3

BSC MODULE 3: POLICY DIALOGUE/INSTITUTIONAL SUPPORT

Objective: Provide technical assistance and training to develop Tanzanian private sector organizations, facilitate cooperation, and enhance the business policy environment.

Target Group: Business associations, individual firms, and GOT policymakers.

Focus	Users	Service Areas	Delivery Options	Sources
1. Association Strengthening	trade groups, business assns., chambers of commerce/ industry/ agriculture	strategic planning consensus building effective advocacy member services organizational growth financial sustainability linking small and large businesses apprenticeship programs	industry/sector TA to org. leadership, U.S. short courses, one-on-one TA, computer/MIS assistance	STTA, specialized training insts., management consultants
2. Inter-Organizational Cooperation	-same as above-	formation of Business Advsiory Council identify common objectives consensus building export awareness/expansion constraints identification and technical analyses (e.g., transport, infrastructure, labor skills, marketing, etc.)	inter-org. fora/ seminars, one-on-one working sessions, info. dissemination, int'l trade seminars	STTA business assns/ organizations
3. Public/ Private Policy Dialogue	same as above and, individ. firms, GOT officials	policy assessments (e.g., business formation/regulation import/export procedures, investment incentives schemes, tax policies, etc.) draft position papers and develop policy recommendations consciousness raising formal and informal public/private dialogue	pub./priv. workshops, publications, joint exposure tours, public conferences, overseas short courses	Business Advisory Council, GOT, STTA, specialized training insts.

- a thorough review of the legislative and regulatory environment within which businesses are licensed and have to operate. This would encompass issues such as registering, incorporating and licensing, as well as importing and exporting. While previous studies have examined aspects of this, this analysis has to be undertaken as a package to identify remaining gaps, areas of inconsistencies where further rationalization could be achieved.

- a review of the IPC investment approvals policy and procedures, with the objective of significantly enhancing automaticity and transparency, and reducing approvals time.

- the development of specific types of schemes to facilitate private (foreign and local) ownership and provision of infrastructure, public utilities and services.

- a thorough review of legislation and regulations regarding the process of exporting including customs administration, as it relates to export shipping procedures.

- a comprehensive study of export incentives, the development of a coherent export policy approach, and the formulation of an implementable export promotion strategy.

Analyses such as these and their recommendations will then be discussed and refined through meetings with the Business Advisory Council, the BSC Steering Committee, USAID, and other interested parties, as appropriate, for presentation to the GOT. Such presentations may take the form or briefing papers, which outline alternative investment and business development policies and their potential impact on the national economy, that are discussed informally with the GOT, or which are presented in high-level briefings with the Government.

D. IMPLEMENTATION PLAN

The successful realization of the ambitious plan of activities outlined above will require a great deal of effort from both the Institutional Contractor and the Tanzanian business community. It will also need to be fully supported by USAID/Tanzania, and would greatly benefit from the tacit, if not direct, endorsement of the GOT. It is difficult at this time to determine the sequencing of Project implementation in any but the broadest terms, however, guidelines for its establishment, as presently envisaged, are presented below.[17]

1. Establish Administrative Structure

The successful execution of the ambitious work program outlined above will place a premium on the organizational and managerial skills of the BSC team. The organizational structure proposed by to facilitate effective communications and deployment of resources under the Project is described in Chapter 3. Equally important, the scope and length of the BSC work program requires the establishment of an effective operational and administrative framework for the project, encompassing both the Tanzanian and the U.S. home offices of the Institutional Contractor.

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17 No effort has been made to attempt to determine the actual dates when these events should occur. Much will depend on the time required to comply with AID procedures regarding project approval, execute grant agreements with the GOT, conduct the bidding and selection of the Institutional Contractor, prior to the mobilization of the BSC itself.

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In this light, the following administrative and operational tasks will be conducted by the BSC team at the onset of the Project, and prior to the implementation of the technical work. The efficient performance of these tasks is fundamental to the successful establishment of the BSC. In order for the substantial inflow of resources and personnel that is envisaged under the Project to be effectively coordinated, the capabilities of the BSC team must be concurrently deployed in the establishment of an effective administrative framework for project execution. Specific tasks are as follows:

- Obtain and Equip Office Facilities. As planned, the start-up time and difficulties associated with fielding the BSC staff will be minimized by the guidance and assistance provided by the Tanzanian partner in the consortium. Potentially, the BSC will establish its base within the existing offices of the Tanzanian partner. Alternatively, the Contractor will work to identify suitable office space in a central location, convenient to the business community.

  In addition, the Contractor will establish the informational and approval channels with the BSC staff to provide for the timely and cost-effective procurement of all vehicles, computer hardware and software, office furniture, and other commodities using project funds, in full compliance with USAID and Tanzanian regulations.

- Hire Support Staff. The BSC staff will bear full responsibility for hiring and training the cadre of long-term support staff that will be included in the personnel assigned to the BSC for the period of the contract. This is likely to include:

  - executive secretary
  - receptionist/secretary
  - administrative assistant
  - bookkeeper
  - driver/messenger

  All support personnel will be Tanzanian nationals, fully bilingual in English and Swahili. They will be hired by the COP, working with the PC, and will be trained by the most appropriate BSC staff member, given their respective activities. As needed, the BSC will draw upon outside specialist to provide ongoing assistance in training the support staff in the use and maintenance of the computer hardware and software that they will utilize in the execution of their job duties.

- Establish Communications Network. A top priority in the development of the administrative framework for the BSC will be to establish and formalize the channels of communication both within the BSC staff, and among the business associations, service providers, and USAID. Chapter 3 outlines details the overall structure and lines of authority that will be established and maintained by the BSC staff. In this light, a top priority will be the formation of the BSC Steering Committee, which will serve as the principal oversight body for the Project.

- Establish Financial Management Framework. The BSC staff will bear full responsibility for the establishment of a financial administration system that will ensure that the BSC is designed and implemented in the most cost-effective manner and that will provide the basis for accurate and timely reporting on the project's financial status throughout its execution. The overall responsibility for the project's financial management will rest with the Contractor's Project Manager, who will oversee the establishment of an accounting system that is responsive to the needs of the BSC

staff, and is in keeping with USAID and client requirements. The COP will be charged with the day-to-day supervision of the project's financial status. In this capacity, the COP will develop an accounting system that will provide the full spectrum of financial information required for effective decisionmaking and conduct of the project in compliance with established USAID reporting requirements. As discussed below, the COP will also hire the support staff required to ensure that accurate and current financial records are maintained throughout project execution.

Taken together, the administrative activities described above will ensure the effective establishment of the administrative and operational capabilities required for the successful execution of the technical assistance and training activities encompassed under the BSC.

2. Establish Inter-Organizational Linkages

At this stage, the operational base for the BSC will be established, key staff, both professional and administrative, will be in place, and a communications network with the business community will be in the formative stages. In order to begin to define the core services to be offered, the BSC staff should then work closely with the Steering Committee to develop concrete ideas as to the optimal role of the Tanzanian business associations in the implementation of the BSC.

This will entail meeting with the leadership of associations and trade groups to elicit their support and to request assistance in areas such as:

- providing membership listings/directories;
- promoting the BSC to their members;
- canvassing their membership as to the services they would like to see offered by the BSC;
- maintaining regular contact with the BSC staff, and providing updates on the activities of their respective organizations.

At the same time, the BSC staff will begin to identify potential sources of technical assistance and training that are interested in working with the Center. To a certain extent, it can be expected that many of the principal technical resources, both foreign and domestic, will have been identified by the Contractor as part of the bidding process. At this time, detailed discussions will be held with the potential sources already described in this document, such as:

- educational and vocational institutions;
- business advisory services;
- management consultants;
- technical/sectoral specialists;
- accountancy firms;
- national and international assistance programs; and,
- donor agencies.

Just as with the business associations, the initial emphasis will be to develop a working information network regarding the expertise and complementary activities that are already in place, and which can be channeled through the BSC in some fashion. This is a big task that will require considerable and sustained effort throughout the LOP, and must be initiated early on. Promotional literature, costing information, descriptive and analytic data, curricula outlines, description of capabilities, resumes and qualifications, etc.. must all be gathered and organized. Primary contacts within each organization must be

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identified, and encouraged to keep the BSC apprised of their activities and needs.

3. Define Core Services of the BSC

Drawing upon the input of the Steering Committee, business associations, and service providers, the BSC staff will be in a position to define its core activities, so as to be able to initiate public promotion of the project. The needs identified by the associations will be the driving force of the determination of core services. They will be quantified and organized to the extent possible, and then matched to the internal capabilities of the BSC staff, as well as those services available through the external sources outlined above. Needs will be prioritized, and a core agenda for the BSC developed. This agenda will be organic, revised and enhanced to reflect the changing needs of the business community, as well as the organizational evolution of the BSC.

As discussed above, it is anticipated that basic services to be provided by the BSC will include:

- establishment of a business library;
- development of a business directory/data base;
- provision of basic business advisory services;
- general technical assistance on project development;
- comprehensive information on sources of technical support and training, and serving as a conduit for access;
- market and trade information; and,
- workshops on such areas as: basic business practices, understanding and complying with GOT regulations, and obtaining finance.

On a broader level, the BSC will also play a pivotal role in working with the business associations in their institution building efforts and in supporting inter-organizational cooperation. The BSC will also follow the direction of the Steering Committee and the associations in the identification of operational constraints, definition of key policy issues, and the execution or commissioning of studies and action plans to address issues of national scope.

Clearly, these areas will be refined as part of Project implementation, but are nonetheless indicative. Administratively, two further areas will require immediate attention:

- establishing forms, applications, and other data collection materials to develop project profiles of BSC clients, and monitor their progress; and,

- developing internal cost sharing/fee for service schedules that are tailored to address the objectives of the FED program, and the particular attributes of the individuals and firms that will seek to obtain BSC services.

4. Initiate Public Awareness Campaign

As discussed above, early in Project implementation, work will begin by the BSC staff to formulate a phased promotional strategy that will extend the services of the BSC to reach a broad spectrum of firms, individuals, and organizations.

Initial publicity will be undertaken by working with business associations, trade groups, USAID, to informally disseminate information.

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The elements of the promotional campaign proposed are described in detail in Section B, and will not be repeated here. Key elements to consider in phasing promotion include:

- the need to reach the general public through cost-effective means;
- the importance of having some type of written material available to coincide with the publicity events; and,
- the need for periodic publication of a newsletter or flyer which summarizes project activities and "success stories," and provides information on upcoming events.

Initially, the BSC staff's promotional efforts will be designed to reach the broadest possible audience. In later stages of project implementation, more targeted activities will be undertaken, and geographic outreach efforts will be emphasized. The BSC staff should phase in promotion and services to other population centers, as their inter-organizational linkages are established and formalized.

5. Expand BSC Services

At this time, the BSC will have benefit of the full range of external input needed to develop a detail workplan for expanding Project activities. In addition to operationalizing the core services already described, the BSC staff will develop an implementation plan that reflects the inputs derived from the Steering Committee, business and trade associations, and industry and professional groups. These needs will be categorized and matched with the service delivery options, and a plan for sequencing and structuring ancillary activities developed.

As a demand-driven mechanism, it is impossible to say how the BSC will ultimately shape and define its activities. However, throughout the Project, the emphasis will be placed on responding to the intended beneficiaries, and toward endeavoring to expand the impact of the services it offers. It is anticipated that Year 1 activities will be concentrated almost entirely in Dar es Salaam. Other areas would be covered by BSC services over time, e.g., perhaps with Arusha and Moshi outreach efforts initiated in Year 2, Tanga and Zanzibar in Year 3. Optimally, the Project will eventually be truly national in its scope, however, if the publicity campaign is carefully formulated, and the program itself is successful, the value of its "demonstration effect" should not be underestimated.

E. ANTICIPATED RESULTS

It is daunting to attempt to predict the results that will be generated by an initiative with the scope and objectives of the FED project, and no attempt to quantify them will be made here. Nevertheless, some general statements can be as to who will benefit from the BSC's establishment and operations. The direct beneficiaries of the BSC will include:

- Tanzanian entrepreneurs who are assisted through the BSC in planning, structuring, and founding a business, who would not otherwise have had such an opportunity.

- Established Tanzanian businesses that receive BSC technical assistance and training that contributes to increased sales and profitability arising from improvements to their production capabilities and/or expanded markets for their products.

- Business associations and trade groups throughout Tanzania, which receive BSC assistance in enhancing their service capabilities,

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profitability arising from improvements to their production capabilities and/or expanded markets for their products.

- Business associations and trade groups throughout Tanzania, which receive BSC assistance in enhancing their service capabilities, expanding their membership bases, and assuming an active role in effecting positive changes in public policy.

- The working population in Tanzania who will benefit from both new jobs created and the retention of jobs in those firms that might otherwise have been forced out of business had they not received the technical assistance provided.

From a demographic perspective, the beneficiaries of the BSC component are difficult to predict at this time. The objective of catalyzing new business development among the indigenous population will rely not only on the technical assistance provided, but also the leadership exhibited by established indigenous firms and the effectiveness of the business associations in their own outreach efforts. At the same time, the economic dominance of the Asian business community in Tanzania has deep roots, and many of these firms have the capability to engage in partnership or apprenticeship efforts of their own, which can stimulate business formation and which the BSC will endeavor to encourage. Seen from another angle, most entrepreneurs which enter the formal sector in Tanzania (as in other countries) tend to be male and urban, and it will be a formidable task to broaden the project's reach to extend to the female and rural populace.

For both new and established businesses, the sectoral composition of the firms assisted will also directly affect the beneficiaries. To the extent that the project is successful in stimulating the development of processing of agricultural goods, for example, new employment opportunities for both men and women will be created in the rural areas of Tanzania, with processing plants generally locating close to the source of materials. In contrast, light manufacturing operations tend to be established near population centers where a readily available supply of labor, transport, infrastructure, and business support services is in place. Female employees tend to predominate in light industry, and would be the most likely job recipients in this broad sector.

To summarize, there exists the potential for the FED Project to have a significant and sustained impact on the Tanzanian population as a whole. If successful, it can make an invaluable contribution toward raising living standards by equipping the private sector with the skills needed to create new opportunities for the citizenry as a whole.

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ANNEX C

PAIP APPROVAL CABLE

WORKING FILE

PROJ: 621-0175 (PID)
PROJ: 621-0176 (PID)

:ON: USAID-3 INFO: AMB DCM//5

ZCDR0650BA0581
RUFHDR
RUEHC #6107/01 1210542
UUUUU ZZH
300540Z APR 92
SECSTATE WASHDC
RUFHDR/AMEMBASSY DAR ES SALAAM PRIORITY 1286
O RUEHNR/AMEMBASSY NAIROBI 7375

30-APR-92 TOR: 05:43
CN: 33007
CHRG: AID
DIST: AID
ADD:

A. I. D. TANZANIA
RECEIVED
30 APR 1992
TIME

:LAS SECTION 01 OF 03 STATE 136107

)AC, NAIROBI FOR REDSO/ESA

). 12356: N/A
GS:
BJECT: ECPR GUIDANCE FOR THE COMBINED FINANCE AND
TERPRISE DEVELOPMENT (FED) PAIP NO. 621-0175 AND PID NO.
1-0176

SUMMARY: ECPR FOR THE COMBINED PAIP/PID OF THE
NANCE AND ENTERPRISE DEVELOPMENT (FED) PROGRAM/PROJECT
.S HELD ON FRIDAY APRIL 17, 1992, CHAIRED BY DAA/AFR
.CHARD COBB AND ATTENDED BY REPRESENTATIVES OF AFR/EA,
'R/DP, GC/AFR, AND AFR/ARTS. USAID/TANZANIA WAS
:PRESENTED BY PDO PATRICK FLEURET. THE ECPR APPROVED THE
)MBINED PAIP/PID FOR THE SUBJECT NPA/PA AT A LEVEL OF
IFTY MILLION DOLLARS ($50 MILLION). DAA/AFR WISHES TO
)MMEND THE MISSION ON THE QUOTE EXCELLENT UNQUOTE JOB
)NE BY THE MISSION IN PREPARING THE FED PROGRAM AND THE
AIP DOCUMENT. THE FOLLOWING GUIDANCE IS PROVIDED FOR
ISSION ACTION DURING THE DEVELOPMENT OF THE PAAD. IN
DDITION TO THE SPECIFIC ISSUES DISCUSSED AND DECISIONS
ADE, WHICH ARE SUMMARIZED BELOW, THE MISSION SHALL TAKE
NTO CONSIDERATION DURING PAAD DESIGN THE SUGGESTIONS AND
OMMENTS CONTAINED IN THE PAIP ISSUES PAPER, WHICH WILL BE
ADE AVAILABLE TO THE MISSION.

USAID/TANZANIA

OFF.	ACT.	INFO
DIR		X
DDIR		
PDO	X	
ENG. TAZARA		
ENG. ROADS		
PPS		
PO		X
ECON		
WID		
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1. THE PURPOSE OF THE FED: IN RESPONSE TO THE ISSUE OF
WHETHER TO MOVE THE EMPLOYMENT/INCOME GENERATION OBJECTIVE
FROM THE GOAL TO THE PURPOSE LEVEL TO ENSURE COMPLIANCE
WITH THE DFA STATUTE'S CRITICAL SECTORAL PRIORITIES FOR
NPA, THE COMMITTEE RECOMMENDED THAT THE PURPOSE OF THE FED
PROGRAM SHOULD BE REVISED IN THE PAAD TO REFLECT A FOCUS
ON "DEVELOPING INCOME-GENERATING OPPORTUNITIES FOR THE UN-
AND UNDER-EMPLOYED", I.E. EMPLOYMENT, WHILE RETAINING
INCOME GENERATION AS A GOAL-LEVEL OBJECTIVE. THESE
CHANGES SHOULD BE REFLECTED IN THE FED PROGRAM LOGFRAME
AND MONITORING PLAN, AND SHOULD BE CONSISTENT WITH THE
MISSION COUNTRY STRATEGY AS ARTICULATED IN THE FORTHCOMING
CPSP.

3. CONDITIONALITY: (A) THE COMMITTEE DISCUSSED WHETHER
THE CONDITIONALITY SPECIFIED IN THE PAIP IS ADEQUATELY
SPECIFIC, AND IF IT REPRESENTS AN ADEQUATE VISION OF THE
"END POINTS" OF THE PROGRAM PROCESS. THE PAAD SHOULD
CLEARLY DESCRIBE THE END POINTS OF THE REFORM PROCESS,

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ACLUDING BENCHMARKS FOR THE STEPS TO BE TAKEN EACH YEAR, S WELL AS INTERMEDIATE INDICATORS THAT WILL ALLOW THE ISSION TO TRACK PROGRAM ACCOMPLISHMENTS AND IMPACT AND AKE APPROPRIATE MANAGEMENT ADJUSTMENTS AS NECESSARY. THE ND POINTS AND BENCHMARKS NEED TO BE CONCRETE ENOUGH SO HAT THE PAAD CAN DEMONSTRATE THAT ACHIEVING THEM IS EASIBLE. TO COUNT TOWARD ACHIEVING IMPACT, LAWS AND EGULATIONS NEED TO BE ACTUALLY ENACTED, NOT JUST REVIEWED R DRAFTED. (B) TO THE EXTENT THAT OFFICIAL BEHAVIOR, AS CONTRASTED WITH A SPECIFIC LAW OR REGULATION, IS A CONSTRAINT, THE ECPR DISCUSSED WHETHER NPA WILL PROVIDE AN DEQUATE INCENTIVE FOR CHANGE. FOR INSTANCE, WILL LOCAL FFICIALS RAPIDLY RENEW BUSINESS LICENSES WHERE NPA ISBURSEMENTS ARE MADE TO THE MOF? THE PAAD SHOULD LEARLY EXPLAIN HOW THIS CONSTRAINT WILL BE DEALT WITH, UCH THAT THE PROGRAM WILL BE SUCCESSFUL. TO ASSIST WITH EALING WITH THIS CONSTRAINT, THE PAAD SHOULD ALSO INCLUDE INTERIM INDICATORS OF INSTITUTIONAL PERFORMANCE TO MEASURE THE DEGREE TO WHICH REFORM POLICIES ARE BEING EFFECTIVELY IMPLEMENTED.

4. CASH DISBURSEMENT VERSUS CIP: THE PAIF PROPOSES A CASH DISBURSEMENT MECHANISM MODIFIED TO MEET BUY AMERICA OBJECTIVES. HAVING GONE THIS FAR, SOME COMMITTEE MEMBERS ASKED, SHOULD THE MISSION SIMPLY USE A CIP INSTEAD OF A CASH TRANSFER MODE? AFTER EXAMINATION OF THE PROS AND CONS OF THE TWO ALTERNATIVES, AND GIVEN MISSION'S POSITIVE EXPERIENCE WITH THE CASH TRANSFER MECHANISM, THE ECPR CONCLUDED THAT USE OF CASH DISBURSEMENT, RATHER THAN A CIP, WAS APPROPRIATE BECAUSE CASH WOULD PROVIDE A GREATER

FOCUS ON POLICY REFORMS AND WOULD ENABLE USE OF A MECHANISM ALREADY IN PLACE. THESE REASONS SHOULD BE REFLECTED IN THE PAAD. DAA/AFR APPROVED THE CASH DISBURSEMENT MECHANISM WITH BUY AMERICA OBJECTIVES AS OUTLINED IN THE PAIP. HOWEVER, THE COMMITTEE FELT THAT THE PAAD SHOULD CLEARLY SHOW HOW BUY AMERICA OBJECTIVES WILL BE MET. THE PAAD SHOULD EXAMINE THE COMPARATIVE ALVANTAGE OF THE CASH DISBURSEMENT MODE OVER A CIP MODE, FROM THE POINT OF VIEW OF BOTH THE TANZANIAN AND U.S. PRIVATE SECTORS. THE PAAD SHOULD MAKE IT CLEAR THAT: (A) THE BUY AMERICA SERVICE WILL BE A CONTRACTOR ACTIVITY, KEEPING MISSION INVOLVEMENT TO MINIMUM, AND (B) PARTICIPATION IN THE CONTRACTOR SERVICE WILL BE VOLUNTARY ON THE PART OF TANZANIA IMPORTERS. THE PAAD SHOULD PROVIDE AN ESTIMATE OF THE AMOUNT OF AMERICAN PROCUREMENT TO BE FINANCED BY FED DOLLARS. FINALLY, IT WAS EMPHASIZED THAT THE CASH DISBURSEMENT PROPOSAL WILL HAVE TO BE APPROVED BY AA/OPS BEFORE AUTHORIZATION OF THE PAAD.

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MANAGEMENT PLAN: THE COMMITTEE EXPRESSED SOME CONCERN VER THE ADEQUACY OF THE PROPOSED MANAGEMENT PLAN, GIVEN HE SIZE AND COMPLEXITY OF THE PROGRAM, AND CURRENT ISSION STAFFING PATTERN AND MANAGEMENT STRUCTURE. LTHOUGH THE MANAGEMENT PLAN OUTLINED IN THE PAIP WAS CCEPTED, THE COMMITTEE FELT THAT THE MISSION SHOULD ERIOUSLY EXPLORE OPTIONS, INCLUDING POSSIBLE REDUCTION IN HE SCOPE OF THE PROGRAM, TO RESPOND TO POTENTIAL ANAGEMENT PROBLEMS. GIVEN CONTINUED DOWNWARD PRESSURE ON TE, OE, AND OYB LEVELS, THE COMMITTEE FELT THAT IT WILL E HIGHLY ADVISABLE THAT THE MISSION SHOULD IN THE PAAD: A) REFINE THE CURRENT IMPLEMENTATION SEQUENCING PLAN, AND B) SET PRIORITIES ON PROGRAM COMPONENTS GIVEN THE OVERALL ANAGEMENT BURDEN OF THE PROGRAM IN POLICY REFORM, PROJECT CTIVITIES, LOCAL CURRENCY MANAGEMENT, AND IMPACT SSESSMENT, AND PROVIDE AN INDICATION OF HOW THE PROGRAM AN BE SCALED DOWN IF THIS PROVES NECESSARY DURING MPLEMENTATION.

5. LOCAL CURRENCY USE: (A) THE COMMITTEE APPROVED THE PROPOSAL TO PROGRAM LOCAL CURRENCY INTO A TRUST, HOWEVER, THE ECPR AND MISSION REPRESENTATIVE AGREED THAT INCOME FROM THE LOCAL CURRENCY ENDOWMENT WOULD BE USED ONLY FOR AIDS ACTIVITIES THROUGH NGOS, NOT FOR OTHER SOCIAL PROGRAMS. (B) THE ECPR DISCUSSED WHETHER THE PROPOSED ENDOWMENT WAS WORKABLE, WHETHER THE LOCAL CURRENCY WAS SUPPORTIVE OF SECTOR PROGRAM OBJECTIVES, AND WHETHER IT WAS TOO MANAGEMENT-INTENSIVE. IT CONCLUDED THAT THE PAAD FIRST NEEDS TO EXPLAIN WHY A TRUST IS NECESSARY (FOR INSTANCE, THAT THE GOT IS UNWILLING OR UNABLE TO DISBURSE

FUNDS FOR THE PRIVATE SECTOR). SECONDLY, THE PAAD NEEDS TO CLEARLY EXPLAIN THE NECESSITY FOR AN ENDOWMENT, WHICH RETAINS FUNDS FOR A LONG (POSSIBLY INDEFINITE) PERIOD OF TIME, WITH POSSIBLY LONGER-TERM OVERSIGHT RESPONSIBILITIES. THIRDLY, THE PAAD NEEDS TO EXPLAIN HOW THE LOCAL CURRENCY USE IS SUPPORTIVE OF SECTOR PROGRAM OBJECTIVES, OR ALTERNATIVELY REQUEST AA/AFR APPROVAL FOR AN EXCEPTION. TO DO THIS, THE PAAD NEEDS TO FIRST MAKE CLEAR WHETHER THE FIRST OBJECTIVE (PRIMARY PURPOSE) OF THE ENDOWMENT IS PRIVATE SECTOR DEVELOPMENT, OR INSTEAD IS SUPPORT OF AIDS ACTIVITIES. THIS SHOULD ALSO BE REFLECTED IN THE TRUST AGREEMENT. THIS DECISION WILL BE NECESSARY IN CASE A CONFLICT ARISES BETWEEN THE TWO OBJECTIVES DURING THE OPERATION OF THE TRUST, AS WELL AS FOR AID'S PROGRAM NEEDS. (FOR INSTANCE, WILL ASSURANCE OF ADEQUATE INCOME/SAFETY FOR AIDS GRANTS REQUIRE SOME INVESTMENT IN GOVERNMENT BONDS, OR WILL PRIVATE SECTOR DEVELOPMENT REQUIRE INVESTMENT IN SOME ACTIVITIES THAT ARE RISKY OR THAT WILL DELAY THE PROVISION OF INCOME?). IF THE PRIMARY OBJECTIVE IS PRIVATE SECTOR SUPPORT, IT WOULD BE CLEAR THAT LOCAL CURRENCY WAS BEING USED IN SUPPORT OF SECTOR PROGRAM OBJECTIVES, AS REQUIRED BY DFA NPA GUIDANCE UNLESS EXTRAORDINARY CIRCUMSTANCES EXIST. IF THE PRIMARY OBJECTIVE, HOWEVER, IS SUPPORT FOR THE AIDS ACTIVITIES, THE PAAD WILL EITHER NEED TO DEMONSTRATE HOW THIS IS SUPPORTIVE OF THE SECTOR PROGRAM OBJECTIVES OR REQUEST AN EXCEPTION FROM AA/AFR TO THIS REQUIREMENT. THE PAAD

SHOULD ALSO ATTEMPT TO SET UP THE TRUST SO AS TO DEFINE AID'S OVERSIGHT RESPONSIBILITIES AS NARROWLY AS POSSIBLE.

7. ENVIRONMENTAL IMPACT: THE MISSION NEEDS TO SUBMIT AN IEE AS SOON AS POSSIBLE, WHICH DISCUSSES THE POTENTIAL IMPACT OF THE POLICY REFORMS ON LONG-TERM ENVIRONMENTAL INTERESTS. THE DFA STATUTE REQUIRES THAT DFA/NPA PROGRAMS INCLUDE MEASURES TO PROTECT SUCH INTERESTS FROM POSSIBLE NEGATIVE CONSEQUENCES OF THE REFORMS.

8. ECONOMIC ANALYSIS: IT IS SUGGESTED THAT THE PAAD DESIGN TEAM SHOULD PAY PARTICULAR ATTENTION TO THE CONDITIONALITY RELATED TO THE PROPOSED INNOVATIVE FINANCIAL INSTITUTIONS, AND SHOULD PROVIDE ADEQUATE ECONOMIC AND FINANCIAL ANALYSIS AS OUTLINED IN THE ECONOMISTS' CONCERNS SECTION OF THE ISSUES PAPER.

9. OTHER CONCERNS: IN ADDITION TO THE CONCERNS LISTED IN THE ISSUES PAPER, THE FOLLOWING CONCERNS SHOULD BE CONSIDERED DURING THE PREPARATION OF THE PAAD: (A) THE PAAD NEEDS TO IDENTIFY WHETHER THERE ARE ANY VULNERABLE GROUPS THAT WILL BE NEGATIVELY IMPACTED BY THE REFORMS

AND, IF THERE ARE ANY, INCLUDE MEASURES TO PROTECT THEM, (B) THE PAAD NEEDS TO IDENTIFY THE INSTITUTIONS THAT WILL BE RESPONSIBLE FOR IMPLEMENTING THE PRIVATE SECTOR REFORMS, AND EXPLAIN THE BASIS FOR CONCLUDING THAT THEY HAVE THE CAPABILITY TO DO SO, AND (C) THE ECPR ASSUMES THAT THE RLA WILL BE INVOLVED IN PAAD DESIGN AT AN EARLY POINT.

10. OMB LIMITATIONS ON LOCAL CURRENCY USE FOR OE: THE PAIP STATES THAT THE PROPOSED IMPORT FINANCING FACILITY

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WILL GENERATE $40 MILLION WORTH OF LOCAL CURRENCY, AND PROPOSES THAT TEN PERCENT OF THE LOCAL CURRENCY GENERATIONS, OR $4 MILLION EQUIVALENT SPREAD OVER AN UNDETERMINED PERIOD OF TIME, BE RESERVED FOR AN OE TRUST FUND. AGENCY POLICY IS TO REDUCE RELIANCE ON TRUST FUNDS WITH A GOAL OF REACHING A 1996 LEVEL OF NOT MORE THAN TEN PERCENT OF TOTAL OPERATING COST BY MISSION, EXCLUDING TRUST FUNDS USED FOR THE PURCHASE OR CONSTRUCTION OF REAL PROPERTY. USAID/TANZANIA SHOULD FOLLOW CURRENT AND FUTURE FA/B/SB GUIDANCE ON OMB'S LIMITATION ON TRUST FUND USE, AND SHOULD ENSURE THAT TOTAL MISSION'S ANNUAL OBLIGATION OF TRUST FUNDS FROM FED AND OTHER NPA SOURCES, AS A PERCENTAGE OF MISSION'S TOTAL OE BUDGET, IS WITHIN EXISTING OMB LIMITATION. FINALLY, THE MISSION SHOULD REFER TO A FORTHCOMING AFR/MPR/RC CABLE ON OE TRUST FUNDS.

11. DELEGATION OF AUTHORITY: THE COMMITTEE SUPPORTED MISSION'S REQUEST FOR DELEGATION OF AUTHORITY TO AUTHORIZE THE FED PAAD. BY WAY OF THIS CABLE, ACTING AA/AFR HEREBY DELEGATES AUTHORITY TO THE MISSION DIRECTOR, USAID/TANZANIA, TO AUTHORIZE SUBJECT COMBINED PROGRAM/PROJECT AT A LIFE OF PROGRAM/PROJECT FUNDING LEVEL NOT TO EXCEED FIFTY MILLION DOLLARS ($50 MILLION). THIS INCLUDES THE AUTHORITY TO AUTHORIZE INCREMENTAL FUNDING AMENDMENTS UP TO $50 MILLION. THIS AD HOC DOA SHALL BE EXERCISED IN ACCORDANCE WITH ALL THE TERMS AND CONDITIONS OF DOA 551, EXCEPT FOR THE DOLLAR AMOUNT LIMITATION. IT SHOULD BE NOTED THAT ECPR HAS RECOMMENDED THAT THE MISSION DIRECTOR REVIEW THE APPROACH TAKEN TO MANAGE THE FED WITHIN THE CONTEXT OF CPSP PROGRAM REVIEW WEEK DISCUSSIONS DURING JULY, 1992. THE MISSION SHALL PROCEED WITH OBTAINING OPS APPROVAL OF CASH TRANSFER AND PREPARATION AND SUBMISSION OF THE CN. BAKER
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ANNEX D

INITIAL ENVIRONMENTAL EXAMINATION

INITIAL ENVIRONMENTAL EXAMINATION
or
CATEGORICAL EXCLUSION

PROGRAM LOCATION: Tanzania

PROGRAM TITLE: Finance and Enterprise Development (FED)

FUNDING: US $50,000,000
Initial Year FY 1992
5-Year LOP

IEE PREPARED BY: Patrick Fleuret, PDO

ENVIRONMENTAL ACTION RECOMMENDED:

Positive Determination	
Negative Determination	X
Categorical Exclusion	X
Deferral	

SUMMARY PF FINDINGS:

Program Goal and Purpose. The goal of the FED program is to increase income in Tanzania. The purpose of the FED program is to foster expanded employment for the under- and unemployed through private sector enterprise growth.

Program Outputs. To achieve the program purpose, the FED program seeks to : (a) support a range of government policy reforms influencing financial sector and private enterprise development; (b) strengthen the financial sector by supporting existing institutions (the bank of Tanzania(and fostering the development of new institutions; (c) provide a variety of management, financial, marketing, and technical services in support of private sector development; and (d) expand access to foreign exchange by the private sector for procurement of capital equipment and related commodities.

Program Inputs. To accomplish these ends, the program provides the following inputs: (a) policy-based cash transfer totalling approximately US $40 million, and (b) technical assistance, training and related commodities required for institutional support, totalling approximately US $10 million.

Discussion of Possible Environmental Impacts. The project elements of the FED program provide technical assistance, training, and limited commodity support for Tanzanian institutions in the financial sector and in the private sector. There are no foreseeable environmental impacts associated with this activity, and although A.I.D. may provide support to intermediate financial institutions, A.I.D. will not be involved in the review and approval of specific loans. The policy element (financial sector reform, private sector reform) could conceivably have an indirect environmental impact on a medium- to long-term basis, as a result of the overall expansion of private sector activity envisioned under the program. Our program addresses broad constraints to the private sector and attempts to improve the overall enabling environment, and does not have a specific focus on a particular sector, subsector, industry, or enterprise. This makes it very difficult to predict or assess the probability of any particular environmental impacts. Our program will also earmark the cash Transfer dollars for private sector commodity imports. A.I.D. will have limited involvement during implementation for purposes of (a) financial management, and (b) to ensure that the commodities financed are in conformity with a standard negative list and a short positive list identifying capital equipment and related commodities as eligible commodities for purposes of the program. As with the policy element of our program, it is difficult to estimate what, if any, environmental impacts may be associated with the capital equipment to be financed through the FED program.

PROPOSED MONITORING, EVALUATION, AND MITIGATION PROGRAM:

Our program can be seen to have some potential for environmental impacts, although no specific environmental threat is anticipated or foreseeable. Accordingly, we are proposing a two-stage approach to environmental monitoring aimed at (a) identifying the legal and procedural framework in place to manage the environmental dimensions of development in Tanzania, and (b) monitoring and evaluating the program regularly, to include possible environmental impacts. To implement this plan, we will support and appropriate private, non-governmental organization wishing to undertake a general assessment of the environmental regulatory environment in Tanzania as part of the FED program, and we will ensure that environmental considerations are embedded in the monitoring and evaluation activities outlined in the FED Monitoring and Evaluation Plan. Since no specific environmental impacts are foreseeable, no specific mitigation plan can be proposed, although we will obviously take appropriate action if some particular environmental problem emerges during implementation.

RECOMMENDED ENVIRONMENTAL DETERMINATION:

Based upon 22 CFR 216.2 (c) (2) (i), (iii) and (ix), a Categorical Exclusion is recommended for the technical assistance, training, and related commodities provided for institutional support through the FED program. A Negative Determination is recommended for the policy-based assistance, based on the proposed monitoring, evaluation, and mitigation plan.

CONCURRENCE:

Bureau Environmental Officer
John J. Gaudet, AFR/ARTS

APPROVED: ✓
DISAPPROVED: _____
DATE: 5/18/92

CLEARANCE:

GC/AFR: Mary Alice Kleinjan
(Mary Alice Kleinjan)

DATE: 5/20/92

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ANNEX E

STATUTORY CHECKLISTS

Tanzania FY 1992

5C(1) - COUNTRY CHECKLIST

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

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

1. **Narcotics**

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

b. **Positive certification** (FAA Sec. 481(h)). (This provision applies to assistance of any kind provided by grant, sale, loan, lease, credit, guaranty, or insurance, except assistance from the Child Survival Fund or relating to international narcotics control, disaster and refugee relief, narcotics education and awareness, or the provision of food or medicine.) If the recipient is a "major illicit drug producing country" (defined as a country producing during a fiscal year at least five metric tons of opium or

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"major drug-transit country" (defined as a country that is a significant direct source of illicit drugs significantly affecting the United States, through which such drugs are transported, or through which significant sums of drug-related profits are laundered with the knowledge or complicity of the government): **Tanzania has not been defined as a "major illicit drug producing country" or a "major drug transit country."**

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

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

c. **Government Policy** (1986 Anti-Drug Abuse Act of 1986 Sec. 2013(b)). (This section applies to the same categories of assistance subject to the restrictions in FAA Sec. 481(h), above.)

If recipient country is a "major illicit drug producing country" or "major drug-transit country" (as defined for the purpose of FAA Sec 481(h)), has the President submitted a report to Congress listing such country as one: (a) which, as a matter of government policy, encourages or facilitates the production or distribution of illicit drugs; (b) in which any senior official of the government engages in, encourages, or facilitates the production or distribution of illegal drugs; (c) in which any member of a U.S. Government agency has suffered or been threatened with violence inflicted by or with the complicity of any government officer; or (d) which fails to provide reasonable cooperation to lawful activities of U.S. drug enforcement agents, unless the President has provided the required certification to Congress pertaining to U.S. national interests and the drug control and criminal prosecution efforts of that country? N/A

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

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

4. **Communist countries** (FAA Secs. 620(a), 620(f), 620D; FY 1991 Appropriations Act Secs. 512, 545): Is

recipient country a Communist country? If so, has the President: (a) determined that assistance to the country is vital to the security of the United States, that the recipient country is not controlled by the international Communist conspiracy, and that such assistance will further promote the independence of the recipient country from international communism, or (b) removed a country from applicable restrictions on assistance to communist countries upon a determination and report to Congress that such action is important to the national interest of the United States? Will assistance be provided either directly or indirectly to Angola, Cambodia, Cuba, Iraq, Libya, Vietnam, Iran or Syria? Will assistance be provided to Afghanistan without a certification, or will assistance be provided inside Afghanistan through the Soviet-controlled government of Afghanistan? **No**

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

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

7. **Seizure of U.S. Fishing Vessels** (FAA Sec. 620(o); Fishermen's Protective Act of 1967 (as amended) Sec. 5): (a) Has the country seized, or imposed any penalty or sanction against, any U.S. fishing vessel because of fishing activities in international waters? (b) If so, has any deduction required by the Fishermen's Protective Act been made? **a. No, and b. N/A.**

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

country been in default for more than one year on interest or principal on any U.S. loan under a program for which the FY 1990 Appropriations Act appropriates funds? **a. No, and b. No.**

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

10. **Diplomatic Relations with U.S.** (FAA Sec. 620(t)): Has the country severed diplomatic relations with the United States? If so, have relations been resumed and have new bilateral assistance agreements been negotiated and entered into since such resumption? **No**

11. **U.N. Obligations** (FAA Sec. 620(u)): What is the payment status of the country's U.N. obligations? If the country is in arrears, were such arrearages taken into account by the A.I.D. Administrator in determining the current A.I.D. Operational Year Budget? (Reference may be made to the "Taking into Consideration" memo.) **As of 1991 Tanzania was not in arreas.**

12. **International Terrorism**

a. **Sanctuary and support** (FY 1991 Appropriations Act Sec. 556; FAA Sec. 620A): Has the country been determined by the President to: (a) grant sanctuary from prosecution to any individual or group which has committed an act of international terrorism, or (b) otherwise

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support international terrorism, unless the President has waived this restriction on grounds of national security or for humanitarian reasons? NO

b. **Airport Security** (ISDCA of 1985 Sec. 552(b). Has the Secretary of State determined that the country is a high terrorist threat country after the Secretary of Transportation has determined, pursuant to section 1115(e)(2) of the Federal Aviation Act of 1958, that an airport in the country does not maintain and administer effective security measures? NO

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

14. **Nuclear Technology** (FAA Secs. 669, 670): Has the country, after August 3, 1977, delivered to any other country or received nuclear enrichment or reprocessing equipment, materials, or technology, without specified arrangements or safeguards, and without special certification by the President? Has it transferred a nuclear explosive device to a non-nuclear weapon state, or if such a state, either received or detonated a nuclear explosive device? If the country is a non-nuclear weapon state, has it, on or after August 8, 1985, exported (or attempted to export) illegally from the United States any material, equipment, or technology which would contribute significantly to the ability of a country to manufacture a nuclear explosive device? (FAA Sec. 620E permits a special waiver of Sec. 669 for Pakistan.) NO

15. **Algiers Meeting** (ISDCA of 1981, Sec. 720): Was the country represented at the Meeting of Ministers of Foreign Affairs and Heads of Delegations of the Non-Aligned Countries to the 36th General Assembly of the U.N. on Sept. 25 and 28,

1981, and did it fail to disassociate itself from the communique issued? If so, has the President taken it into account? (Reference may be made to the "Taking into Consideration" memo.) **While Tanzania was represented and failed to disassociate itself, this was taken into consideration by the Administrator.**

16. **Military Coup** (FY 1991 Appropriations Act Sec. 513): Has the duly elected Head of Government of the country been deposed by military coup or decree? If assistance has been terminated, has the President notified Congress that a democratically elected government has taken office prior to the resumption of assistance? **NO, and N/A**

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

18. **Exploitation of Children** (FY 1991 Appropriations Act Sec. 599D, amending FAA Sec. 116): Does the recipient government fail to take appropriate and adequate measures, within its means, to protect children from exploitation, abuse or forced conscription into military or paramilitary services? **NO**

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

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

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2. **Abortions** (FY 1991 Appropriations Act Sec. 535): Has the President certified that use of DA funds by this country would violate any of the prohibitions against use of funds to pay for the performance of abortions as a method of family planning, to motivate or coerce any person to practice abortions, to pay for the performance of involuntary sterilization as a method of family planning, to coerce or provide any financial incentive to any person to undergo sterilizations, to pay for any biomedical research which relates, in whole or in part, to methods of, or the performance of, abortions or involuntary sterilization as a means of family planning? NO

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

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

Clearances:

AFR/EA:MSarhan	MSD	6/17/92
State/AF/E:LBerg	LBerg	6/18/92
GC/AFR:MAKleinjan	MAK	6/19/92

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5C(2) - ASSISTANCE CHECKLIST

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

CROSS REFERENCE: IS COUNTRY CHECKLIST UP TO DATE?

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

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

(a), (b), (c) & (e) will be indirectly assisted by the conditionality pertaining to the financial sector. (d) is an express goal of financial sector reform. (f) is not a goal of this program.

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

The Business Service Center will be specifically tasked with increasing U.S. procurement. See pp of PA

3. **Congressional Notification**

a. **General requirement** (FY 1991 Appropriations Act Secs. 523 and 591; FAA Sec. 634A): If money is to be obligated for an activity not previously justified to Congress, or for an amount in excess of amount previously justified to Congress, has Congress been properly notified (unless the notification requirement has been waived because of substantial risk to human health or welfare)?	CN received State 136107
b. **Notice of new account obligation** (FY 1991 Appropriations Act Sec. 514): If funds are being obligated under an appropriation account to which they were not appropriated, has the President consulted with and provided a written justification to the House and Senate Appropriations Committees and has such obligation been subject to regular notification procedures?	N/A
c. **Cash transfers and nonproject sector assistance** (FY 1991 Appropriations Act Sec. 575(b)(3)): If funds are to be made available in the form of cash transfer or nonproject sector assistance, has the Congressional notice included a detailed description of how the funds will be used, with a discussion of U.S. interests to be served and a description of any economic poolicy reforms to be promoted?	Yes
4. **Engineering and Financial Plans** (FAA Sec. 611(a)): Prior to an obligation in excess of $500,000, will there be: (a) engineering, financial or other plans necessary to carry out the assistance; and (b) a reasonably firm estimate of the cost to the U.S. of the assistance?	Yes
5. **Legislative Action** (FAA Sec. 611(a)(2)): If legislative action is required within recipient country with respect to an obligation in excess of $500,000, what is the basis for a reasonable expectation that such action	See PP 40-45 of PAAD

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

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

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

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

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

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

See A.2 above

11. **Local Currencies**

a. **Recipient Contributions** (FAA Secs. 612(b), 636(h)): Describe steps taken to assure that, to the maximum extent possible, the country is contributing local currencies to meet the cost of contractual and other services, and foreign currencies owned by the U.S. are utilized in lieu of dollars.

5% of program generations will be deposited in Mission OE trust account.

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

No

c. **Separate Account** (FY 1991 Appropriations Act Sec. 575). If assistance is furnished to a foreign government under arrangements which result in the generation of local currencies:

(1) Has A.I.D. (a) required that local currencies be deposited in a separate account established by the recipient government, (b) entered into an agreement with that government providing the amount of local currencies to be generated and the terms and conditions under which the currencies so deposited may be utilized, and (c) established by agreement the responsibilities of A.I.D. and that government to monitor and account for deposits into and disbursements from the separate account?

(a) Yes

(b) Yes

(c) Yes

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

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

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

12. **Trade Restrictions**

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

b. **Textiles (Lautenberg Amendment)** (FY 1991 Appropriations Act Sec. 521(c)): Will the assistance (except for programs in Caribbean Basin Initiative countries under U.S. Tariff Schedule "Section 807," which allows reduced tariffs on articles assembled abroad from U.S.-made components) be used directly to procure feasibility studies, prefeasibility studies, or project profiles of potential investment in, or to assist the establishment of facilities specifically designed for, the manufacture for export to the United States or to third country markets in direct competition with U.S. exports, of No

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

13. **Tropical Forests** (FY 1991 Appropriations Act Sec. 533(c)(3)): Will funds be used for any program, project or activity which would (a) result in any significant loss of tropical forests, or (b) involve industrial timber extraction in primary tropical forest areas? — No

14. **PVO Assistance**

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

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

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

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

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19. **Abortions** (FY 1991 Appropriations Act, Title II, under heading "Population, DA," and Sec. 525):	
a. **Will assistance be made** available to any organization or program which, as determined by the President, supports or participates in the management of a program of coercive abortion or involuntary sterilization?	N-
b. **Will any funds be used to** lobby for abortion?	No
20. **Cooperatives** (FAA Sec. 111): Will assistance help develop cooperatives, especially by technical assistance, to assist rural and urban poor to help themselves toward a better life?	No
21. **U.S.-Owned Foreign Currencies**	
a. **Use of currencies** (FAA Secs. 612(b), 636(h); FY 1991 Appropriations Act Secs. 507, 509): Describe steps taken to assure that, to the maximum extent possible, foreign currencies owned by the U.S. are utilized in lieu of dollars to meet the cost of contractual and other services.	None
b. **Release of currencies** (FAA Sec. 612(d)): Does the U.S. own excess foreign currency of the country and, if so, what arrangements have been made for its release?	No
22. **Procurement**	
a. **Small business** (FAA Sec. 602(a)): Are there arrangements to permit U.S. small business to participate equitably in the furnishing of commodities and services financed?	Yes, small business can compete equitably.
b. **U.S. procurement** (FAA Sec. 604(a)): Will all procurement be from the U.S. except as otherwise determined by the President or determined under delegation from him?	The source origin of goods and services to be procured under the program is Code 935 in accordance with DFA legislation.

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c. **Marine insurance** (FAA Sec. 604(d)): If the cooperating country discriminates against marine insurance companies authorized to do business in the U.S., will commodities be insured in the United States against marine risk with such a company?	The country does not discriminate against foreign insurance companies doing business outside.
d. **Non-U.S. agricultural procurement** (FAA Sec. 604(e)): If non-U.S. procurement of agricultural commodity or product thereof is to be financed, is there provision against such procurement when the domestic price of such commodity is less than parity? (Exception where commodity financed could not reasonably be procured in U.S.)	N/A
e. **Construction or engineering services** (FAA Sec. 604(g)): Will construction or engineering services be procured from firms of advanced developing countries which are otherwise eligible under Code 941 and which have attained a competitive capability in international markets in one of these areas? (Exception for those countries which receive direct economic assistance under the FAA and permit United States firms to compete for construction or engineering services financed from assistance programs of these countries.)	No
f. **Cargo preference shipping** (FAA Sec. 603)): Is the shipping excluded from compliance with the requirement in section 901(b) of the Merchant Marine Act of 1936, as amended, that at least 50 percent of the gross tonnage of commodities (computed separately for dry bulk carriers, dry cargo liners, and tankers) financed shall be transported on privately owned U.S. flag commercial vessels to the extent such vessels are available at fair and reasonable rates?	No
g. **Technical assistance** (FAA Sec. 621(a)): If technical assistance is financed, will such assistance be furnished by private enterprise on a contract basis to the fullest extent practicable? Will the	Yes

facilities and resources of other Federal agencies be utilized, when they are particularly suitable, not competitive with private enterprise, and made available without undue interference with domestic programs?	Yes
h. U.S. air carriers (International Air Transportation Fair Competitive Practices Act, 1974): If air transportation of persons or property is financed on grant basis, will U.S. carriers be used to the extent such service is available?	Yes
i. Termination for convenience of U.S. Government (FY 1991 Appropriations Act Sec. 504): If the U.S. Government is a party to a contract for procurement, does the contract contain a provision authorizing termination of such contract for the convenience of the United States?	Yes
j. Consulting services (FY 1991 Appropriations Act Sec. 524): If assistance is for consulting service through procurement contract pursuant to 5 U.S.C. 3109, are contract expenditures a matter of public record and available for public inspection (unless otherwise provided by law or Executive order)?	Yes
k. Metric conversion (Omnibus Trade and Competitiveness Act of 1988, as interpreted by conference report, amending Metric Conversion Act of 1975 Sec. 2, and as implemented through A.I.D. policy): Does the assistance program use the metric system of measurement in its procurements, grants, and other business-related activities, except to the extent that such use is impractical or is likely to cause significant inefficiencies or loss of markets to United States firms? Are bulk purchases usually to be made in metric, and are components, subassemblies, and semi-fabricated materials to be specified in metric units when economically available and technically adequate? Will A.I.D. specifications use metric units of measure from the earliest programmatic stages, and from the earliest	See A.16 above

documentation of the assistance processes (for example, project papers) involving quantifiable measurements (length, area, volume, capacity, mass and weight), through the implementation stage?

1. Competitive Selection Procedures (FAA Sec. 601(e)): Will the assistance utilize competitive selection procedures for the awarding of contracts, except where applicable procurement rules allow otherwise? — Yes

23. **Construction**

a. **Capital project (FAA Sec. 601(d)):** If capital (e.g., construction) project, will U.S. engineering and professional services be used? — N/A

b. **Construction contract (FAA Sec. 611(c)):** If contracts for construction are to be financed, will they be let on a competitive basis to maximum extent practicable? — N/A

c. **Large projects, Congressional approval (FAA Sec. 620(k)):** If for construction of productive enterprise, will aggregate value of assistance to be furnished by the U.S. not exceed $100 million (except for productive enterprises in Egypt that were described in the Congressional Presentation), or does assistance have the express approval of Congress? — N/A

24. **U.S. Audit Rights (FAA Sec. 301(d)):** If fund is established solely by U.S. contributions and administered by an international organization, does Comptroller General have audit rights? — N/A

25. **Communist Assistance (FAA Sec. 620(h).** Do arrangements exist to insure that United States foreign aid is not used in a manner which, contrary to the best interests of the United States, promotes or assists the foreign aid projects or activities of the Communist-bloc countries? — Yes

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26. **Narcotics**

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

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

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

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

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

30. **Motor Vehicles** (FAA Sec. 636(i)): Will assistance preclude use of financing for purchase, sale, long-term lease, exchange or guaranty of the sale of motor vehicles manufactured outside U.S., unless a waiver is obtained? N/A, under the DFA code 935 countries are eligible.

31. **Military Personnel** (FY 1991 Appropriations Act Sec. 503): Will assistance preclude use of financing to pay pensions, annuities, retirement pay, or adjusted service compensation for prior or current military personnel?	Yes
32. **Payment of U.N. Assessments** (FY 1991 Appropriations Act Sec. 505): Will assistance preclude use of financing to pay U.N. assessments, arrearages or dues?	Yes
33. **Multilateral Organization Lending** (FY 1991 Appropriations Act Sec. 506): Will assistance preclude use of financing to carry out provisions of FAA section 209(d) (transfer of FAA funds to multilateral organizations for lending)?	Yes
34. **Export of Nuclear Resources** (FY 1991 Appropriations Act Sec. 510): Will assistance preclude use of financing to finance the export of nuclear equipment, fuel, or technology?	Yes
35. **Repression of Population** (FY 1991 Appropriations Act Sec. 511): Will assistance preclude use of financing for the purpose of aiding the efforts of the government of such country to repress the legitimate rights of the population of such country contrary to the Universal Declaration of Human Rights?	Yes
36. **Publicity or Propoganda** (FY 1991 Appropriations Act Sec. 516): Will assistance be used for publicity or propaganda purposes designed to support or defeat legislation pending before Congress, to influence in any way the outcome of a political election in the United States, or for any publicity or propaganda purposes not authorized by Congress?	No

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

38. **Exchange for Prohibited Act** (FY 1991 Appropriations Act Sec. 569): Will any assistance be provided to any foreign government (including any instrumentality or agency thereof), foreign person, or United States person in exchange for that foreign government or person undertaking any action which is, if carried out by the United States Government, a United States official or employee, expressly prohibited by a provision of United States law? No

B. CRITERIA APPLICABLE TO DEVELOPMENT ASSISTANCE ONLY

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

APPENDIX 5C - A.I.D. PROJECT STATUTORY CHECKLIST

Introduction

The statutory checklist is divided into two parts: 5C(1) - Country Checklist; and 5C(2) - Assistance Checklist.

The Country Checklist, composed of items affecting the eligibility for foreign assistance of a country as a whole, is to be reviewed and completed by AID/W at the beginning of each fiscal year. In most cases responsibility for preparation of responses to the Country Checklist is assigned to the desk officers, who would work with the Assistant General Counsel for their region. The responsible officer should ensure that this part of the Checklist is updated periodically. The Checklist should be attached to the first PP of the fiscal year and then referenced in subsequent PPs.

The Assistance Checklist focuses on statutory items that directly concern assistance resources. The Assistance Checklist for FY 1991 includes items previously included under separate "project assistance," "nonproject assistance," and "standard item" checklists. The Assistance Checklist should be reviewed and completed in the field, but information should be requested from Washington whenever necessary. A completed Assistance Checklist should be included with each PP; however, the list should also be reviewed at the time a PID is prepared so that legal issues that bear on project design are identified early.

The Country and Assistance Checklists are organized according to categories of items relating to Development Assistance, the Economic Support Fund, or both.

These Checklists include the applicable statutory criteria from the Foreign Assistance Act of 1961 ("FAA"); various foreign assistance, foreign relations, anti-narcotics and international trade authorization enactments; and the FY 1991 Foreign Assistance Appropriations Act ("FY 1991 Appropriations Act").

These Checklists do not list every statutory provision that might be relevant. For example, they do not include country-specific limitations enacted, usually for a single year, in a foreign assistance appropriations act. Instead, the Checklists are intended to provide a convenient reference for provisions of relatively great importance and general applicability.

Prior to an actual obligation of funds, Missions are encouraged to review any Checklist completed at an earlier phase in a project or program cycle to determine whether more recently enacted provisions of law included on the most recent Checklist may now apply. Because of the reorganization and consolidation of checklists reflected here, such review may be particularly important this year. Space has been provided at the right of the Checklist questions for responses and notes.

2. **Tied Aid Credits** (FY 1991 Appropriations Act, Title II, under heading "Economic Support Fund"): Will DA funds be used for tied aid credits?	No
3. **Appropriate Technology** (FAA Sec. 107): Is special emphasis placed on use of appropriate technology (defined as relatively smaller, cost-saving, labor-using technologies that are generally most appropriate for the small farms, small businesses, and small incomes of the poor)?	No
4. **Indigenous Needs and Resources** (FAA Sec. 281(b)): Describe extent to which the activity recognizes the particular needs, desires, and capacities of the people of the country; utilizes the country's intellectual resources to encourage institutional development; and supports civic education and training in skills required for effective participation in governmental and political processes essential to self-government.	The Business Service Center will do all these things.
5. **Economic Development** (FAA Sec. 101(a)): Does the activity give reasonable promise of contributing to the development of economic resources, or to the increase of productive capacities and self-sustaining economic growth?	Yes, the program directly supports the economic recovery program the country is following
6. **Special Development Emphases** (FAA Secs. 102(b), 113, 281(a)): Describe extent to which activity will: (a) effectively involve the poor in development by extending access to economy at local level, increasing labor-intensive production and the use of appropriate technology, dispersing investment from cities to small towns and rural areas, and insuring wide participation of the poor in the benefits of development on a sustained basis, using appropriate U.S. institutions; (b) encourage democratic private and local governmental institutions; (c) support the self-help efforts of developing countries; (d) promote the participation of women in the national economies of developing countries	The program focuses on Finance and Enterprise Development which is to foster real economic growth and improved human welfare by supporting development of financial sector infrastructure and private sector support infrastructure. The aim is to encourage a realignment of government and private spheres of activity tha will lead to a move effective use of both public and private resources in support of economi growth, greater employment, and increased incomes.

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and the improvement of women's status; and (e) utilize and encourage regional cooperation by developing countries.

7. **Recipient Country Contribution** (FAA Secs. 110, 124(d)): Will the recipient country provide at least 25 percent of the costs of the program, project, or activity with respect to which the assistance is to be furnished (or is the latter cost-sharing requirement being waived for a "relatively least developed" country)? — Yes - ($40,000,000 in local currencies

8. **Benefit to Poor Majority** (FAA Sec. 128(b)): If the activity attempts to increase the institutional capabilities of private organizations or the government of the country, or if it attempts to stimulate scientific and technological research, has it been designed and will it be monitored to ensure that the ultimate beneficiaries are the poor majority? — Yes

9. **Abortions** (FAA Sec. 104(f); FY 1991 Appropriations Act, Title II, under heading "Population, DA," and Sec. 535):

a. Are any of the funds to be used for the performance of abortions as a method of family planning or to motivate or coerce any person to practice abortions? — No

b. Are any of the funds to be used to pay for the performance of involuntary sterilization as a method of family planning or to coerce or provide any financial incentive to any person to undergo sterilizations? — No

c. Are any of the funds to be made available to any organization or program which, as determined by the President, supports or participates in the management of a program of coercive abortion or involuntary sterilization? — No

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d. Will funds be made available only to voluntary family planning projects which offer, either directly or through referral to, or information about access to, a broad range of family planning methods and services?	N/A
e. In awarding grants for natural family planning, will any applicant be discriminated against because of such applicant's religious or conscientious commitment to offer only natural family planning?	N/A
f. Are any of the funds to be used to pay for any biomedical research which relates, in whole or in part, to methods of, or the performance of, abortions or involuntary sterilization as a means of family planning?	No
g. Are any of the funds to be made available to any organization if the President certifies that the use of these funds by such organization would violate any of the above provisions related to abortions and involuntary sterilization?	No
10. **Contract Awards** (FAA Sec. 601(e)): Will the project utilize competitive selection procedures for the awarding of contracts, except where applicable procurement rules allow otherwise?	Yes
11. **Disadvantaged Enterprises** (FY 1991 Appropriations Act Sec. 567): What portion of the funds will be available only for activities of economically and socially disadvantaged enterprises, historically black colleges and universities, colleges and universities having a student body in which more than 40 percent of the students are Hispanic Americans, and private and voluntary organizations which are controlled by individuals who are black Americans, Hispanic Americans, or Native Americans, or who are economically or socially disadvantaged (including women)?	Such organizations will be eligible to compete. At least 10% of the institutional contract must be subcontracted to such organizations.

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

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

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

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

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

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

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

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

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

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

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

private sector development, promote individual initiatives, and help to reduce the role of central governments in areas more appropriate for the private sector; (c) to be provided in a manner that takes into account, during the planning process, the local-level perspectives of the rural and urban poor, including women, through close consultation with African, United States and other PVOs that have demonstrated effectiveness in the promotion of local grassroots activities on behalf of long-term development in Sub-Saharan Africa; (d) to be implemented in a manner that requires local people, including women, to be closely consulted and involved, if the assistance has a local focus; (e) being used primarily to promote reform of critical sectoral economic policies, or to support the critical sector priorities of agricultural production and natural resources, health, voluntary family planning services, education, and income generating opportunities; and (f) to be provided in a manner that, if policy reforms are to be effected, contains provisions to protect vulnerable groups and the environment from possible negative consequences of the reforms?	Yes Yes Yes Yes
16. **Debt-for-Nature Exchange** (FAA Sec. 463): If project will finance a debt-for-nature exchange, describe how the exchange will support protection of: (a) the world's oceans and atmosphere, (b) animal and plant species, and (c) parks and reserves; or describe how the exchange will promote: (d) natural resource management, (e) local conservation programs, (f) conservation training programs, (g) public commitment to conservation, (h) land and ecosystem management, and (i) regenerative approaches in farming, forestry, fishing, and watershed management.	N/A

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17. **Deobligation/Reobligation** (FY 1991 Appropriations Act Sec. 515): If deob/reob authority is sought to be exercised in the provision of DA assistance, are the funds being obligated for the same general purpose, and for countries within the same region as originally obligated, and have the House and Senate Appropriations Committees been properly notified?	N/A
18. **Loans**	
a. **Repayment capacity** (FAA Sec. 122(b)): Information and conclusion on capacity of the country to repay the loan at a reasonable rate of interest.	N/A The program is a Grant Assistance
b. **Long-range plans** (FAA Sec. 122(b)): Does the activity give reasonable promise of assisting long-range plans and programs designed to develop economic resources and increase productive capacities?	N/A
c. **Interest rate** (FAA Sec. 122(b)): If development loan is repayable in dollars, is interest rate at least 2 percent per annum during a grace period which is not to exceed ten years, and at least 3 percent per annum thereafter?	N/A
d. **Exports to United States** (FAA Sec. 620(d)): If assistance is for any productive enterprise which will compete with U.S. enterprises, is there an agreement by the recipient country to prevent export to the U.S. of more than 20 percent of the enterprise's annual production during the life of the loan, or has the requirement to enter into such an agreement been waived by the President because of a national security interest?	N/A
19. **Development Objectives** (FAA Secs. 102(a), 111, 113, 281(a)): Extent to which activity will: (1) effectively involve the poor in development, by expanding access to economy at local level, increasing labor-intensive production and the use of appropriate technology, spreading investment out from	(1) - (3) are all expected impacts of this program. (4) - (5) are not intended to be addressed by this program.

cities to small towns and rural areas, and insuring wide participation of the poor in the benefits of development on a sustained basis, using the appropriate U.S. institutions; (2) help develop cooperatives, especially by technical assistance, to assist rural and urban poor to help themselves toward better life, and otherwise encourage democratic private and local governmental institutions; (3) support the self-help efforts of developing countries; (4) promote the participation of women in the national economies of developing countries and the improvement of women's status; and (5) utilize and encourage regional cooperation by developing countries?

20. **Agriculture, Rural Development and Nutrition, and Agricultural Research** (FAA Secs. 103 and 103A):

a. **Rural poor and small farmers:** If assistance is being made available for agriculture, rural development or nutrition, describe extent to which activity is specifically designed to increase productivity and income of rural poor; or if assistance is being made available for agricultural research, has account been taken of the needs of small farmers, and extensive use of field testing to adapt basic research to local conditions shall be made. N/A

b. **Nutrition:** Describe extent to which assistance is used in coordination with efforts carried out under FAA Section 104 (Population and Health) to help improve nutrition of the people of developing countries through encouragement of increased production of crops with greater nutritional value; improvement of planning, research, and education with respect to nutrition, particularly with reference to improvement and expanded use of indigenously produced foodstuffs; and the undertaking of pilot or demonstration programs explicitly addressing the problem of malnutrition of poor and vulnerable people. N/A

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c. **Food security:** Describe extent to which activity increases national food security by improving food policies and management and by strengthening national food reserves, with particular concern for the needs of the poor, through measures encouraging domestic production, building national food reserves, expanding available storage facilities, reducing post harvest food losses, and improving food distribution.

N/A

21. **Population and Health** (FAA Secs. 104(b) and (c)): If assistance is being made available for population or health activities, describe extent to which activity emphasizes low-cost, integrated delivery systems for health, nutrition and family planning for the poorest people, with particular attention to the needs of mothers and young children, using paramedical and auxiliary medical personnel, clinics and health posts, commercial distribution systems, and other modes of community outreach.

N/A

22. **Education and Human Resources Development** (FAA Sec. 105): If assistance is being made available for education, public administration, or human resource development, describe (a) extent to which activity strengthens nonformal education, makes formal education more relevant, especially for rural families and urban poor, and strengthens management capability of institutions enabling the poor to participate in development; and (b) extent to which assistance provides advanced education and training of people of developing countries in such disciplines as are required for planning and implementation of public and private development activities.

Training activities will take place in both the public and private sectors. See PAAD.

23. **Energy, Private Voluntary Organizations, and Selected Development Activities** (FAA Sec. 106): If assistance is being made available for energy, private voluntary organizations, and selected development problems, describe extent to which activity is:

N/A

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a. concerned with data collection and analysis, the training of skilled personnel, research on and development of suitable energy sources, and pilot projects to test new methods of energy production; and facilitative of research on and development and use of small-scale, decentralized, renewable energy sources for rural areas, emphasizing development of energy resources which are environmentally acceptable and require minimum capital investment;	N/A
b. concerned with technical cooperation and development, especially with U.S. private and voluntary, or regional and international development, organizations;	N/A
c. research into, and evaluation of, economic development processes and techniques;	N/A
d. reconstruction after natural or manmade disaster and programs of disaster preparedness;	N/A
e. for special development problems, and to enable proper utilization of infrastructure and related projects funded with earlier U.S. assistance;	N/A
f. for urban development, especially small, labor-intensive enterprises, marketing systems for small producers, and financial or other institutions to help urban poor participate in economic and social development.	N/A

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C. CRITERIA APPLICABLE TO ECONOMIC SUPPORT FUNDS ONLY

1. **Economic and Political Stability** (FAA Sec. 531(a)): Will this assistance promote economic and political stability? To the maximum extent feasible, is this assistance consistent with the policy directions, purposes, and programs of Part I of the FAA?	N/A
2. **Military Purposes** (FAA Sec. 531(e)): Will this assistance be used for military or paramilitary purposes?	N/A
3. **Commodity Grants/Separate Accounts** (FAA Sec. 609): If commodities are to be granted so that sale proceeds will accrue to the recipient country, have Special Account (counterpart) arrangements been made? (For FY 1991, this provision is superseded by the separate account requirements of FY 1991 Appropriations Act Sec. 575(a), see Sec. 575(a)(5).)	N/A
4. **Generation and Use of Local Currencies** (FAA Sec. 531(d)): Will ESF funds made available for commodity import programs or other program assistance be used to generate local currencies? If so, will at least 50 percent of such local currencies be available to support activities consistent with the objectives of FAA sections 103 through 106? (For FY 1991, this provision is superseded by the separate account requirements of FY 1991 Appropriations Act Sec. 575(a), see Sec. 575(a)(5).)	N/A
5. **Cash Transfer Requirements** (FY 1991 Appropriations Act, Title II, under heading "Economic Support Fund," and Sec. 575(b)). If assistance is in the form of a cash transfer:	N/A
a. **Separate account:** Are all such cash payments to be maintained by the country in a separate account and not to be commingled with any other funds?	N/A

b. **Local currencies:** Will all local currencies that may be generated with funds provided as a cash transfer to such a country also be deposited in a special account, and has A.I.D. entered into an agreement with that government setting forth the amount of the local currencies to be generated, the terms and conditions under which they are to be used, and the responsibilities of A.I.D. and that government to monitor and account for deposits and disbursements? N/A

c. **U.S. Government use of local currencies:** Will all such local currencies also be used in accordance with FAA Section 609, which requires such local currencies to be made available to the U.S. government as the U.S. determines necessary for the requirements of the U.S. Government, and which requires the remainder to be used for programs agreed to by the U.S. Government to carry out the purposes for which new funds authorized by the FAA would themselves be available? N/A

d. **Congressional notice:** Has Congress received prior notification providing in detail how the funds will be used, including the U.S. interests that will be served by the assistance, and, as appropriate, the economic policy reforms that will be promoted by the cash transfer assistance? N/A

DRAFTER:GC/LP:EHonnold:5/17/91:2169J

198

ANNEX F

CONGRESSIONAL NOTIFICATION RELEASE CABLE

UNCLASSIFIED STATE 263774

INFO COPY

CTION: USAID-3 INFO: AMB DCM/S

ZCZCDR0499BA0373
O RUFHDR
E RUEHC #3774 2272313
NR UUUUU ZZH
142312Z AUG 92
M SECSTATE WASHDC
O AMEMBASSY DAR ES SALAAM IMMEDIATE 2361
T
NCLAS STATE 263774

17-AUG-92 TOR: 04:16
CN: 45764
CHRG: AID
DIST: AID
ADD:

A. I. D. TANZANIA
RECEIVED
17 AUG 1992
TIME

IDAC

.O. 12356: N/A
AGS:
UBJECT: CONGRESSIONAL NOTIFICATIONS FOR FED AND ATAP

EF: (A) STATE 224487 (B) STATE 226981

ONGRESSIONAL NOTIFICATIONS FOR SUBJECT PROJECTS EXPIRED
N JULY 16 WITHOUT OBJECTION. OBLIGATION MAY NOW BE
NCURRED. KANTER
T
3774

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UNCLASSIFIED STATE 263774

REPLIED BY
NO ACTION

200

UNCLASSIFIED STATE 268676

INFO COPY

ACTION: USAID-3 INFO: AMB DCM//5

VZCZCDRO177BA0648 21-AUG-92 TOR: 04:39
PP RUFHDR CN: 46441
DE RUEHC #8676 2322203 CHRG: AID
ZNR UUUUU ZZH DIST: AID
P 182204Z AUG 92 ZDK CTG RUFHDR 0008 2330735 ADD:
FM: SECSTATE WASHDC
TO: AMEMBASSY DAR ES SAAAM PRIORITY 2401
BT
UNCLAS STATE 268676

RECEIVED
21 AUG 1992
TIME

AIDAC NAIROBI FOR REDS /EA

E.O. 12356: N/A
TAGS:
SUBJECT: FY 1992 SS2 A LOWAN E FOR TANZANIA - FIN NCE AND ENTERPRISE DEVELOPMENT (PA)

1. AFPROPRIATION 72-112/31014, BUDGET P AN CODE GSS2 92-

21621-KG13 (ALLOWANCE 281-50-621-00-69-21) INC EASED BY DOLLARS 2,000,000 FOR FROJECT 621-0176, FINAN E AND ENTERPRISE DEVELOPMENT (PA . CN NOTIFICAION EXPIRED ON JULY 14,1992.

2. TOTA A LLOWED TO DATE UNDER THIS BPC S DO LARS 5,076,000.

3. MISSION IS REQUESTED TO NOTIFIED AR/DP/PAR BY CAB E WHEN SUBJECT FUNDS HAVE BEEN OBLIGATED.

4. ADVICE OF ALOWANCE FOLOW EAGLEBURGER
BT
#8676

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DIR	
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REPLIED BY	
NO ACTION	

UNCLASSIFIED STATE 268676

201

ACTION: USAID-3 INFO: AMB DCM 7/5

PROJ. 621-0175 (Attorney)

VZCZCDR0365BA0358
PP RUFHDR
DE RUEHC #2332 2270142
ZNR UUUUU ZZH
P 140142Z AUG 92
FM SECSTATE WASHDC
TO AMEMBASSY DAR ES SALAAM PRIORITY 2342
BT
UNCLAS STATE 262332

14-AUG-92 TOR: 04:49
CN: 45630
CHRG: AID
DIST: AID
ADD:

A. I. D. TANZANIA
RECEIVED
14 AUG 1992
TIME

AIDAC NAIROBI FOR REDSO/EA

E.O. 12356: N/A
TAGS:
SUBJECT: FY 1992 SS2 ALLOWANCES FOR TANZANIA AG. TRANSPORT ASST. PROGRAM AND FINANCE AND ENTERPRISE DEV.

USAID/TANZANIA

	ACT.	INFO
OFF.		
DIR		X
DDIR		
PDO	X	
ENG. TAZARA		
ENG. ROADS		X
PPS		
PO		X
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TRG		
CON		X
EXO		
GSO		
REPLIED BY		
NO. ACTION		

REF: DAR ES SALAAM 03662

1. APPROPRIATION 72-112/31014, BUDGET PLAN CODE GSS2-92-31621-KG39 (ALLOWANCE 281-61-621-00,53-21) ESTABLISHED FOR DOLLARS 8,650,000 FOR PROJECT 621-0166/PAAD NUMBER 621-T-603B, AG TRANSPORT ASSISTANCE PROGRAM. NOTE CN FOR THIS ACTIVITY EXPIRED ON JULY 14,1992.

2. APPROPRIATION 72-112/31014, BUDGET PLAN CODE GSS2-92-31621-KG39 (ALLOWANCE 281-61-621-00,53-21) ESTABLISHED FOR DOLLARS 10,000,000 FOR PROJECT 621-0175/PAAD NUMBER 621-T-604, FINANCE AND ENTERPRISE DEVELOPMENT. NOTE CN FOR THIS ACTIVITY EXPIRED ON JULY 14,1992.

3. FM/A/PNP HEREBY RESERVES DOLLARS 8,650,000 FOR PROJECT 621-0166/PAAD 621-T-603B AND DOLLARS 10,000,000 FOR PROJECT 621-0175/PAAD NUMBER 621-T-604.

4. FUNDS FOR PROJECT 621-0166 CANNOT BE OBLIGATED UNTIL PAAD AMENDMENT IS APPROVED. FUNDS FOR PROJECT 621-0175/PAAD 621-T-604 CANNOT BE OBLIGATED UNTIL PAAD IS APPROVED.

5. MISSION IS REQUIRED TO NOTIFY FM/A/PNP, AND AFR/DP BY IMMEDIATE CABLE WHEN THESE FUNDS ARE OBLIGATED. INCLUDE IN THE CABLE WHO SIGNED THE AGREEMENT FOR THE HOST COUNTRY AND USG, THE DATE FUNDS WERE OBLIGATED AND THE AMOUNT BY PAAD NUMBER OBLIGATED. PLEASE FORWARD SIGNED COPIES OF PAAD OBLIGATING DOCUMENT TO AFR/EA AND FM/A/PNP, FRANK LINDSEY AS SOON AS POSSIBLE. FAILURE TO NOTIFY AID/W COULD RESULT IN FUNDS NOT BEING OFFICIALLY RECORDED AS AN OBLIGATION IN FY 1992.

6. ADVICE OFNALLOWANCE FOLLOWS. EAGLEBURGER
BT
#2332

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UNCLASSIFIED STATE 262332

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ANNEX G

REQUEST FOR ASSISTANCE

THE UNITED REPUBLIC OF TANZANIA

MINISTRY OF FINANCE

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

P.O Box 9111,
DAR ES SALAAM.

In reply please quote:

Ref. No. TYC/E/550/7

30th July, 1992

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

Dear Mr. Pfeiffer,

RE: FINANCE AND ENTERPRISES DEVELOPMENT PROGRAMME IN TANZANIA

I would like to refer to our discussions we had in my office on July 28, 1992 regarding the proposal on Finance and Enterprise Development (FED) programme in Tanzania.

The Government of Tanzania recognizes the need to strengthen private sector initiatives within the ongoing reforms in the various sectors of the economy.

I want therefore, to reconfirm that the design of the proposed programme is in principle acceptable to the Government of Tanzania. We not only view the proposed project as making available additional resources supportive of the on-going economic reforms, but the programmes also addresses pertinent institutional issues in the reform process. The programme is thus, of crucial importance in our economic development.

I look forward to meeting to sign programme and project agreements in the near future to facilitate early implementation of the programme.

Yours sincerely,

P.J.V. Ngumbullu
PRINCIPAL SECRETARY

cc: Principal Secretary,
Planning Commission

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ANNEX H

OPS CASH TRANSFER ACTION MEMORANDUM

USAID

S. AGENCY FOR
INTERNATIONAL
DEVELOPMENT

ACTION MEMORANDUM FOR THE ASSOCIATE ADMINISTRATOR FOR OPERATIONS

THROUGH: AFR/EA, David Lundberg, Director

FROM: Dale Pfeiffer, Director, USAID/Tanzania

SUBJECT: Finance and Enterprise Development (FED) in Tanzania (Program: 621- 0175, Project: 621-0176) Proposed Non-Project Assistance Cash Disbursement

Problem: Your approval is requested for the use of the Cash Disbursement method for dollar resources to be provided as part of the proposed Finance and Enterprise Development in Tanzania (FED) Program (621-0175).

Discussion: The FED Program ($50 million LOP FY92-FY96) is comprised of two elements: a $40 million Cash Transfer NPA (621-0175) and a $10 million project activity (621-0176). Both elements support financial sector reform and private sector development.

The following information is provided in accordance with the provisions of 92 State 037533, which specifies the procedures to be followed in seeking OPS approval prior to authorization of programs incorporating a Cash Disbursement.

A. **INDIVIDUAL RESPONSIBLE FOR THE DECISION TO USE CASH**: Mission Director, USAID/Tanzania.

B. **AMOUNT**:

	Initial fiscal year:	$10 million NPA $ 2 million PA
	Life-of-program:	$40 million NPA $10 million PA

C. **DETERMINATION OF AMOUNT**: The Mission's assessment is that a $40 million NPA activity, in conjunction with a complementary $10 million project support activity, is necessary to permit achievement of the program's objectives. These amounts are needed to (a) encourage the Government of Tanzania to undertake a politically difficult three-year financial sector reform program, (b) provide the technical assistance, training and minor office equipment required to support implementation of the reform program, and (c) help offset the costs of the financial sector reform program, the recapitalization component alone of which is estimated at $200-$300 million.

D. USE OF DOLLARS (how the dollars will be spent): The dollars will be used to finance private sector imports of goods and equipment needed to expand this sector, continuing an approach USAID/Tanzania has been using in our Agricultural Transport Assistance Program (ATAP) and predecessor AEPRP program since 1987. While not primarily intended to finance vehicle procurement, any over-the-road cargo vehicles procured under this program will be of U.S. origin. Under its cash disbursement procedure, USAID/Tanzania earmarks the dollars for private sector imports with a presumption in favor of U.S. goods. In FY1991, over 25 percent of our Cash Disbursement dollars went to U.S. goods, not easy in view of the strong competitive advantage of Asian and European suppliers in the East African transportation sector. This indicates that Cash Disbursements are not inconsistent with Buy America objectives. Under the FED program, one project component is specifically aimed at improving this ratio of U.S. procurement, by promoting commercial and investment relationships between U.S. companies and Tanzania companies. This will result in expanded activity and economic growth on both sides.

E. ACCOUNTABILITY (what controls will operate to account for the funds): In order to track the use of dollars, we administer our Agricultural Transport Assistance Program through the international banking system, and the FED program will be done the same way. First, USAID/Tanzania approves qualifying import license applications in coordination with the Bank of Tanzania. Second, importers deposit local currency (100% cash cover) into an account in a Tanzanian bank. Third, USAID/Tanzania reviews the documentation and approves the issuance of a Letter of Credit through a correspondent bank in the U.S. (currently Citibank, New York). The commercial transaction then proceeds. USAID/Tanzania receives monthly statements of account activity from both the Tanzanian banks and the U.S. bank, which allow us to monitor dollar usage. A 1990 assessment of this system by Deloitte Haskins & Sells concluded that the system was "operating soundly with tight controls." We have just completed an audit, undertaken by Peat Marwick, to identify weak points in this system that have emerged since 1990.

F. PURPOSE OF PROGRAM (what the dollars will buy): The purpose of the FED program is to foster expanded employment for the under- and unemployed through private sector enterprise growth. To achieve the program purpose, the FED program will: (a) support a range of government policy reforms influencing the financial sector and private sector enterprise development; (b) strengthen the financial sector by supporting existing institutions and fostering the development of new institutions; (c) provide a variety of management, financial, marketing, and technical services in support of private sector development; and (d) expand access to foreign exchange by the private sector for procurement of capital equipment and related commodities. The policy

conditionality under the FED program will focus on the financial side, while the business regulatory agenda will be pursued through the empowerment of business and professional associations. The focus of the FED financial sector reform program, aimed at establishing transparency, competitiveness, and efficiency in the financial sector as a prerequisite to private sector growth and increased foreign investment, is designed to complement and consolidate reforms sponsored by the IMF, the World Bank and other major donors. The employment impact alone is estimated to be in the range of 50,000 to 100,000 jobs. The FED project component will provide technical assistance and training resources to support implementation of the policy reforms and to help stimulate a private sector response.

G. HOW SUCCESS WILL BE MEASURED: We will measure our success with the FED program in five ways. First, we expect to see private sector commercial banks come back to Tanzania and establish a business-oriented, profitable banking sector after 25 years of government-owned financial institutions pursuing disastrous socialist policies. Second, we expect the FED program to generate by 1996 a minimum of 5,800 jobs (assuming business re-invest 30 percent of their earnings), and a maximum of 130,000 jobs (assuming the re-investment rate is 60 percent), compared to the current empirical re-investment rates of 55-60 percent. Third, we anticipate a resurgence of private enterprises, building on the newly-reinvigorated financial sector to increase investment, output, and employment. Fourth, we expect that our funds will finance importation of a large quantity of industrial and manufacturing equipment, and will be used by Tanzanian entrepreneurs to expand their business operations. And fifth, we will see many individual businesses prosper through increased access to improved business services and local financing. To this end, we are arranging for the local currency funds generated by sale of the A.I.D.-provided foreign exchange to be recycled back into the private sector through a local currency endowment fund that will invest in the Tanzanian private sector. This is a radical shift of existing arrangements in that the Government is foregoing the use of this local currency for its own uses in favor of the private sector.

H. CONSIDERATION OF ALTERNATIVE MEANS (e.g., CIP, capital projects, technical advice): Our decision to use a Cash Disbursement mechanism in the FED program emerges from considerations related to our country program objectives, the fit of the program with other donor and government development efforts, the needs of the private sector in Tanzania, and Mission management considerations.

USAID/Tanzania is engaged, indeed is a leader, in a closely coordinated multi-donor program to assist the Government of Tanzania to carry out a major restructuring of its economic policies. This effort involves the implementation of a complex

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policy reform agenda which radically alters the roles of the public and private sectors in achieving economic growth. The IMF and the World Bank have worked together with the Government to set this process in motion, and USAID and other donors have given their commitment to cooperate in supporting this radical shift. A central undertaking is the evolution of the foreign exchange allocation system to one based on market determined rather than government determined allocation. To support this, donors have been shifting increasingly away from tied import programs to pooling program assistance through the Open General License (OGL) system. USAID, which has been consistently a strong advocate of coordination of donor programs to enhance policy reform and maximize resource efficiency, accommodated this shift in 1991 when it converted its CIP under the Agricultural Transport Assistance Program to a Cash Disbursement mechanism to more effectively support the Government's reform efforts. Use of a CIP for the FED program would run contrary to this commitment and trend at a time when things are working well in both implementation of the reform and donor coordination. It would constitute a highly negative signal at a crucial point in the reform effort.

A Cash Disbursement represents a more management efficient mechanism for the Mission. It is also less costly for the Tanzanian private sector. And it makes U.S. products more competitive with those of other countries. If the Mission were to try to implement a CIP, it would have to obtain the services of a full-time Commodity Management Officer (CMO). However, our operating expense budget and our FTE ceiling would mitigate against being able to do this. We are aware of the recent audit of our neighbor USAID Mission in Kenya which tried to implement a CIP without a CMO. The audit was adamant that no Mission should attempt a complex administrative mechanism like a CIP without such a person on board.

The FED program also contains an excellent mechanism for promoting a market for U.S. goods (or services) in Tanzania. While our assistance program is directed toward assisting Tanzania's development, we also see the FED program as a means for providing linkage between Tanzanian businesses and the U.S. in terms of finding goods and expertise (including new technologies) to upgrade their production capabilities and possible investment partners and markets. It is for that reason the FED program includes in its technical assistance component a proactive effort to acquaint local businesses with U.S. products and establish contact with U.S. suppliers, and to facilitate the emergence of long-term business relationships. Also, given the paucity of U.S. contacts with Tanzania in recent years, and lack of familiarity with its business community, there is little effort by U.S. firms to interact with the Tanzanian market. Thus, businesses on both sides are in effect isolated from each other.

There are three additional considerations influencing our decision to use a Cash Disbursement mechanism. First, it would be inappropriate to spend additional dollars on technical assistance. We have identified a core set of technical assistance and training needs that we will meet with our $10 million project activity. This is all the technical assistance that is required in light of what other donor programs are already doing and in light of limited Tanzanian absorptive capacity. Second, it would be inappropriate to spend dollars on capital development. We are already active in capital development in two areas (railroad and road rehabilitation) where capital development is relevant to private sector development in Tanzania, and where we have significant U.S. procurement ($21 million for GE diesel-electric locomotives). Lastly, we have used the Cash Disbursement approach successfully for several years. It is well-understood in the Tanzanian financial and commercial communities and it works well.

I. STATUS OF MISSION NEGOTIATIONS WITH THE HOST COUNTRY: The Mission has reviewed the FED program with the Economic Advisor in the Office of the President, and with the Bank of Tanzania and the Ministry of Finance. The Mission has received an endorsement from the President's Economic Advisor. At the Bank of Tanzania, the mission has reviewed the program in detail with the senior technical staff responsible for identifying policy and operation issues, and an agreement was reached at the technical level of the program. Furthermore, the Mission has received an overall endorsement at the policy level from the Governor of the Bank of Tanzania, but this will be subject to final review of the policy reform benchmarks. At the Ministry of Finance, the Mission has received overall endorsement at the Permanent Secretary level, but has yet to receive technical commentary and a letter Request for Assistance, which is being discussed with GOT officials at this time.

J. HOW THE PROGRAM FITS WITH THE MISSION PROGRAM STRATEGY: The FED directly supports USAID/Tanzania's overall program strategy, the program goal of which is to foster real economic growth and improved human welfare in Tanzania. The FED program through its support of the development of the financial sector infrastructure and private business support will lead to a more effective use of both public and private resources in support of A.I.D.'s objectives in Tanzania.

In sum, the Cash Disbursement approach is well-suited to our program objectives, to the liberalizing Tanzania foreign exchange market, to the Tanzanian business and financial environment, and to Mission management considerations.

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<u>Recommendation</u>: That you approve the proposed USAID/Tanzania FED Program including the US $40 million Cash Disbursement mode for the Non-project Assistance component subject to the following:

> No disbursement of NPA funds, other than for purchase of U.S. source and origin goods, will be made until A.I.D. regulations/guidance are developed to conform to legislative and Agency "Buy America" concerns. Use of NPA must conform to the regulations and guidance to be developed.

Approve: SMS

Disapprove: _____

Date: 8/11/92

Drafted:PFleuret, PDO, USAID/Tanzania: 5/29/92

Clearances

GC/AFR: MAKleinjan	(in draft)	Date 6/17/92
AFR/DP/PPD: JGovan	(in draft)	Date 6/18/92
DAA/AFR:RCobb		Date 6/19/92
A-AA/AFR, JFHicks		Date 6/19/92

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ACTION: USAID-3 INFO WORK FILE

VZCZCDR0508EHU013 17-AUG-92 TOR: 04:19
PP RUFHDR CN: 45773
DE RUEHC #3097 2271405 CHRG: AID
ZNR UUUUU ZZH DIST: AID
P R 141406Z AUG 92 ADD:
FM SECSTATE WASHDC
TO RUFHDR/AMEMBASSY DAR ES SALAAM PRIORITY 2354
INFO RUEHNR/AMEMBASSY NAIROBI 1218
BT
UNCLAS STATE 263097

A.I.D. TANZANIA RECEIVED 17 AUG 1992 TIME

AIDAC REDSO/EAS FOR RLA

E.O. 12356: N/A
TAGS:
SUBJECT: TANZANIA - FINANCE AND ENTERPRISE DEVELOPMENT (FED) PROGRAM NO. 621-0175 - CASH DISBURSEMENT AID/W/OFS ACTION MEMORANDUM

USAID/TANZANIA

OFF.	ACT.	INFO
DIR		Y
DDIR		
PDO	X	
ENG.		
FD		Y
CON		X
REPLIED BY		
NO ACTION		

1. ON AUGUST 11, 1992, AA/OPS SCOTT SPANGLER APPROVED YOUR REQUEST FOR THE USE OF THE CASH DISBURSEMENT METHOD FOR DOLLAR RESOURCES TO BE PROVIDED AS PART OF THE PROPOSED FINANCE AND ENTERPRISE DEVELOPMENT (FED) PROGRAM IN TANZANIA (PROGRAM NO. 621-0175).

2. THE OPS APPROVAL IS SUBJECT TO THE FOLLOWING: QUOTE NO DISBURSEMENT OF NPA FUNDS, OTHER THAN FOR PURCHASE OF U.S. SOURCE AND ORIGIN GOODS, WILL BE MADE UNTIL A.I.D. REGULATIONS/GUIDANCE ARE DEVELOPED TO CONFORM TO LEGISLATIVE AND AGENCY "BUY AMERICA" CONCERNS. USE OF NPA MUST CONFORM TO THE REGULATIONS AND GUIDANCE TO BE DEVELOPED, UNQUOTE.

3. THE SIGNED ACTION MEMORANDUM WILL BE FAXED IN ITS ENTIRETY TO THE MISSION IN TANZANIA AND TO REDSO/EAS/RA. PHOTOCOPIES OF THE APPROVED MEMORANDUM WILL BE POUCHED TO BOTH LOCATIONS.

4. USAID/TANZANIA IS ADVISED TO RELY ONLY ON THE FULL TEXT OF THE APPROVED ACTION MEMORANDUM ON ANY DECISION RELATED TO THE USE OF CASH DISBURSEMENT FOR FED NPA DOLLAR RESOURCES. EAGLEBURGER
BT
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ANNEX J

COMMODITY NEGATIVE LIST AND POSITIVE LIST

FED Program
Commodities Positive List (Indicative)

The FED commodity finance facility is designed to support overall program objectives of private enterprise growth, expanded output, and increased employment. There is also a strong presumption in favor of U.S. procurement where this is consistent with the best interests of the Tanzanian private sector. This positive list therefore identifies an initial set of commodity categories, selected to meet these objectives. The list will be subject to modification during program implementation should this be necessary. The positive list is not intended to be exclusive; rather, it identifies preferred categories of imports. Any private sector import is eligible under the FED program provided it is in compliance with the negative list.

A. Hand tools for machinery maintenance and repair, and for construction.

B. Machine tools for manufacturing and industrial production.

C. Generator sets and pump sets.

D. Computers, telecommunications equipment, and other business machines.

E. Cargo handling equipment and machinery.

F. Equipment required for industrial and manufacturing plants.

G. Equipment required for commercial building construction (heating and air conditioning, elevator mechanisms, industrial windows, doors, and other fittings).

H. Equipment required for agroindustrial production and processing.

FED Program
Commodities Negative List

This negative list has two objectives: (a) to ensure that the resources which A.I.D. for commodity support make a positive contribution to development, and (b) to ensure that the A.I.D. program is carried out in full accord with the FAA, other pertinent laws, and U.S. policies. To that end the following are identified as being not eligible for A.I.D. financing:

A. Unsafe and ineffective products, such as certain pesticides, food products, and pharmaceuticals.

B. Luxury goods, such as recreational supplies and equipment, alcoholic beverages and equipment or products for their production or use, equipment or supplies for gambling facilities, jewelry, stamps, coins, furs, and the more expensive textiles.

C. Surplus or used items.

D. Items for military use.

E. Weather modification equipment.

F. Surveillance equipment of micro-miniature design for audio surveillance activities.

G. Commodities and equipment for the purpose of inducing abortions as a method of family planning.

H. Commodities for support of police or other law enforcement activities.

I. Waste and scrap products.

J. Consumer goods and items for domestic or household use, such as household furniture, cookware, footware, clothing and processed foodstuffs.

K. Over the road passenger and cargo vehicles.

PD-ABD 904

FINANCE AND ENTERPRISE DEVELOPMENT (FED)

VOLUME III

ANNEXES K-T

BACKGROUND AND ANALYTICAL STUDIES

USAID/TANZANIA

JUNE 1992

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FINANCE AND ENTERPRISE DEVELOPMENT (FED) PROGRAM

VOLUME III: ANNEXES - Background and Analytical Studies

Annex K Bibliography of Reports Contributing to FED Design

Annex L Social Soundness Analysis

Annex M Gender Analysis

Annex N Economic Analysis

Annex O Institutional Analysis

Annex P Policy Matrix

Annex Q Evaluation Matrix

Annex R Private Sector Regulations and Procedures

Annex S AIDS in Tanzania

Annex T Draft Trust Deed - Social Action Trust

ANNEX K

BIBLIOGRAPHY OF REPORTS CONTRIBUTING TO FED DESIGN

ANNEX K

BIBLIOGRAPHY OF REPORTS CONTRIBUTING TO FED DESIGN

Bananuka-Hassan, George
06/92 Social Action Trust

Buckley, Ruth (REDSO/ESA)
04/92 Social Soundness Analysis - Tanzania Finance and Enterprise Development Program (FED)

Charlick, Robert (ONI/DG, AID/W)
05/92 Analysis of Democracy/Governance Situation in The Republic of Tanzania

Emery, Robert F. (Development Alternatives, Inc.)
05/92 Looking Ahead (1995-97): Financial Sector Reform In Tanzania

Hartland-Peel, Christopher W. (REDSO/ESA)
06/92 FED Loans & Asset Realization Trust (LART)

Haslach, Robert (Coopers & Lybrand)
03/92 Tanzania Private Sector Assessment

Leavens, Douglas, and John Leech (Harvey & Company, Inc.)
05/92 Implementation Study for the Tanzania Venture Capital Fund

Muhato, Wanjiku (REDSO/ESA)
05/92 Gender Analysis - Tanzania Private Sector

Ngowi, Daniel (USAID/Tanzania)
06/92 Economic Analysis

Peuse, Gene, and Steele, Howard (HRDA, AID/W)
05/92 Financial and Enterprise Development Program (FED) Training

Rao, Kishore (The Services Group)
06/92 Assessment of the Tanzanian Private Sector Policy Framework

Sager, Cecilia (The Services Group)
05/92 FED Private Sector Support: Establishing the Business Services Center

Smyth, Dennis M. (Coopers & Lybrand)
05/92 Options for Strengthening the Supervisory and Regulatory Capabilities of the Bank of Tanzania and Restoring its Role as Facilitator of Financial Sector Development

Strauss, Joel (USAID/Tanzania)
06/92 Impact Monitoring Program

ANNEX L

SOCIAL SOUNDNESS ANALYSIS

ANNEX L

SOCIAL SOUNDNESS ANALYSIS - TANZANIA FINANCE AND ENTERPRISE DEVELOPMENT PROGRAM (FED)

INTRODUCTION

The goal of FED is to stimulate employment and income growth in Tanzania. Its purpose is to develop/create income-generating opportunities for the un and under-employed. This purpose will be accomplished (a) by helping to establish a financially sound and diverse financial sector capable of meeting the challenges posed by the move to a market economy; and (b) by helping to mobilize a private sector response to the opportunities created by the gathering pace of liberalization.

The policy agenda to be pursued centers on two themes: consolidating financial sector reforms, and easing regulatory constraints to enterprise development. Project activities will complement the policy agenda by (a) providing assistance to the bank of Tanzania (BOT) to consolidate and deepen financial sector reforms; (b) assisting enterprises seeking to solve specific technical, marketing, financial or management problems; (c) assisting membership-based business and processional associations seeking to expand their business support activities; and (d) enhancing the role of Tanzania's private sector in public policy debate and formulation.

To the extent that the FED program is successful in creating jobs and incomes for Tanzanians, the social impact will be broadly positive. However, there are several distributional questions that need to be considered. These concern geographic, ethnic, socio-economic and gender imbalances. In order to address these issues, it is first necessary to understand the structure of employment, income and the private sector, and then to look at constraints faced by different groups of entrepreneurs.

EMPLOYMENT

With a population of 23,170,000, Tanzania has an economically active population of 12 million of whom 52 percent are women (ILO 91). The active population is growing at a rate of 3 percent per year with the labor force in urban areas growing at 6.7 percent per year[1]. 85 percent of the labor force is concentrated in rural areas where only 6 percent are engaged in wage employment, mostly in the informal sector (World Bank 91).

The modern sector provides only 16.7 percent of the economically active population with wage employment, 20-25 percent of which is

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[1] Population growth rates on the mainland have declined from 3 to 2.8% whilst they have risen in Zanzibar to 3%.

in the form of casual labor, and 80 percent is in the public sector. 50 percent of formal sector employment is in services, 26.5 percent in industry and 18 percent in agriculture. 20 percent of modern sector paid employees are women[2] (ILO 91).

The formal sector provides 9,500 new jobs per year. Employment in this sector grew at a rate of 0.5 percent in 1988 and 1.1 percent in 1989 (ILO 91)[3]. At this rate of growth and the likelihood of a retrenchment exercise in the public sector[4], the role of the formal sector in absorbing the 300,000 new entrants into the labor force each year will remain marginal. It is therefore estimated that 95 percent of the new entrants into the labor force go into the agricultural and informal sectors (ILO 91).

The rural sector has significant unrealized employment potential but is constrained by low levels of infrastructure, technology, credit and training, and unsupportive policies. The youth of Tanzania believe that urban areas offer better education, training and employment opportunities which fuels rural/urban migration.

The 1986/87 agricultural sample survey reported that 44 percent of rural household members work full time on farm holdings and 10 percent work full time off farm. Of those who work full time on the farm, 54 percent are women. Of those who work full time off farm, 37 percent are women (cited in ILO 91). Overall 97 percent of women in the rural sector work in agriculture with 70 percent of rural women also earning cash from non farm activities (UNICEF 90). Division of labor and distribution of resources within households is unequal. A work force labor survey conducted in Bukoba in 1964/65 showed that women in rural areas worked on average 10.4 hours a day and earned $5 while men worked on average 7.8 hours a day and earned $75 (cited in ILO 91).

Estimated informal sector growth in employment is 3.5 percent per

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[2] Women are employed in the modern sector in services rather than trade. They do not tend to hold positions in management, administration, technical fields or professions. 21% of high and middle level staff are women; 27% of teachers are women; 31% of clerical workers are women; 69% of nurses and midwives are women; and 8% of doctors including dentists and vets are women (ILO 91).

[3] In Zanzibar formal sector employment declined 13% between 1985 and 1989 and can not provide either employment or basic goods and services to the growing population (Government of Tanzania 90).

[4] The structural adjustment program has called for 30% retrenchment of the civil service.

year[5] making it a major source of employment and income, especially for disadvantaged groups[6], women and youth[7]. Within urban areas, the informal sector absorbs an estimated 61 percent of the labor force (World Bank 91). 55 percent of the informal sector labor force are owners, 20 percent are paid employees, 21 percent are unpaid family members and 4 percent are apprentices (ILO 91).

Women are engaging in informal sector activities to secure their families survival. They are most actively engaged in petty trading, services like small hotels and restaurants, rural businesses especially tailoring, milling and brick making, and small scale manufacturing (FINNIDA 92). Other occupations which tend to be associated with women include pottery, brewing, food preparation and oil extraction, whereas, metal work, furniture production, leather work and transport tend to be associated with men. Larger women's enterprises, hotels, shops, grain mills, oil extraction tend to be run by groups, especially in rural areas. This is partly due to political mobilization and partly due to the fact that, when in groups, women state their husbands can not interfere in the business. However, women's groups are frequently called upon to make contributions to community schemes which severely undercuts their profit margins (SNV 89).

Women have been forced into the informal sector not only out of economic necessity but because of the limited opportunities offered to them by the formal sector where they occupy low status jobs and

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[5] The actual size of the informal sector is hard to determine and growth rates may well be higher than those estimated to date. The Zanzibar informal sector study found that 39% of the islands population was engaged in informal sector activities (56% of the labor force in rural areas and 44% of the labor force in urban areas) with 53% of them working full time and 30% working less than half time (Bagachwa 90). Another study undertaken in 1983 in 8 regions of mainland Tanzania found that 42% of households were engaged in some form of supplementary income generating activity (cited in Dawson 91). Another rural based study showed that 92% of the women surveyed, virtually all low and many middle-income rural women were engaged in some cash earning activity, 56% brewed beer and 41% cooked and sold food (cited in Dawson 91). More information concerning informal sector employment will be available when the UNDP informal sector survey is completed later this year.

[6] Only 30% of the disabled population is employed of whom 26.1% work in agriculture (ILO 91).

[7] The ILO 1991 JASPA study reports that only 5% of the youth entering the labor force obtain the jobs they aspire to.

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earn 18.2-41.3 percent of what men earn[8]. Within the informal sector, women concentrate in areas with the poorest returns and least potential for growth as a result of gender stereotyping, women's limited access to capital, technology and business training[9]. Overall women own one third of the informal sector enterprises[10], however 75 percent of the food vending enterprises and restaurants, 32 percent of the tailoring enterprises and 5 percent of the carpentry enterprises are owned by women[11] (ILO 91).

INCOME

In rural areas, 48 percent of total income, on average, is non monetary and 68 percent of cash income is derived from agriculture, 17 percent from trade and enterprise[12] and 8 percent from wages. Overall, 87 percent of rural households have income from trade, enterprise or professions and cash income from agriculture is never more than 45 percent of the total cash income (Sarris 91).

In urban areas, 7 percent of total income, on average, is non monetary and 9 percent of cash income is derived from agriculture, 24 percent from trade and enterprise[13] and 50 percent from wages (Sarris 91). Overall, 80 percent of household income is from informal sector activities by family members (FINNIDA 92). In almost all urban families it is the women with small scale projects who bring in a large share of the households income.

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[8] The differential between women's and men's income increases with the status of the job.

[9] While primary education statistics show minimal difference between the numbers of boys and girls enrolled in school, only 19% of university students, 20% of diploma and vocational training students and 5% of technical college students are women (UNICEF 90).

[10] In Zanzibar 51% of the enterprises are owned by women (Bagachwa 90).

[11] In Zanzibar women are 72% of the owners of manufacturing enterprises and 57% of the employees; 46.5% of the owners of trade enterprises and restaurants and 38% of the employees; 14% of those employed in personal services and repair; 14% of those employed in quarrying and less than 10% of those employed in other sectors (Bagachwa 90).

[12] This figure is almost certainly an underestimation.

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Income structure is changing with the share of total income derived from agriculture and informal sector activities increasing in both rural and urban areas as opportunities and income from the formal sector decline. In addition, as women provide more cash income to the household they are becoming more active in decision making causing change in the distribution of households resources (UNICEF 90).

In so far as monetary income increases in terms of its share of total income, there is likely to be increased differentiation in the well being of households. An emphasis on the development of non-traditional agricultural exports which can be grown by small holders could broaden access to increased incomes in rural areas especially given the fact that the returns to labor from off farm activities are higher for the non poor than the poor. The poor have to date been engaged in the least capital intensive and most marginal activities.

In rural areas ownership of livestock and education are the primary reasons for income differentiation. In urban areas education and occupation are the major reasons for income differentiation with commerce and finance being the most rewarding sectors. However, in all sectors and areas, households are able to maintain some savings (Sarris 91).

Currently the lowest income quintile of the population (5 percent) has access to 2 percent of the total income in Tanzania, the second lowest income quintile (33 percent of the population) has access to 19 percent of the income, the middle quintile (50 percent of the population) has access to 47 percent of the income, the second highest quintile (16 percent of the population) has access to 33 percent of the income and the top quintile (2 percent of the population) has access to 5 percent of the income. In per capita income terms Dar es Salaam, Kigoma, Kilimanjaro, Mara, Morogoro, Rukwa, Tabora and West Lake exhibit per capita incomes above the average for Tanzania as a whole (Sarris 91)

Since 1985 when the Economic Recovery Program (ERP) was introduced and 1989 when the Economic and Social Action Program (ESAP) began, agricultural production has increased 5 percent per annum. The rise in agricultural production is attributed to increased availability of consumer goods stimulating production. As a result, per capita food production and consumption of consumer goods has risen. However, prices for agricultural output have not risen in real firms since reform began therefore cash income and consequently ability to save in the rural sector has not improved but the standard of living has (World Bank 91).

In urban areas inhabitants have benefited from the large increase in food production, in addition, employment and incomes have improved in the informal and small enterprise sectors resulting in

an increase in real cash incomes[14]. In addition, others, with preferential access to banking sector and those involved in extra-income activities have done well. However, the young, the unskilled, the underemployed and public sector employees without access to non-salary income have benefited less. Indeed Government incomes have declined and are now 60 percent less for unskilled workers than those offered in private and public sectors[15] (World Bank 91).

The second economy, a term coined by Maliyamkono for all unofficial income generating activities, both legal and illegal, is considered responsible for the maintenance of real welfare in Tanzania and is estimated to produce 30-60 percent of GDP[16]. The only groups that suffered a real income decline during the reform period are the rural middle and richer households and the urban rich (Sarris 91)[17].

PRIVATE SECTOR

Private sector growth, led by the construction, import/export trade and informal sectors, has followed from trade liberalization, easing of parastatal protection creating economic space, the 1986 act to protect private investment and the 1991 relaxation of the CCM leadership code[18]. Official statistics indicate there are some 372,642 private enterprises (excluding small holder agriculture and the informal sector) amounting to 99 percent of all registered enterprises and accounting for 96 percent of employment in formal enterprise (USAID 92).

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[14] The Zanzibar informal sector survey reports that average monthly payments made to full time employees were Tshs 4,229, to part time workers Tshs 3,319, and to apprentices Tshs 2,750, all of which compare favorably with the then minimum monthly wage of Tshs 2,000 (Bagachwa 90).

[15] Amongst university graduates, private sector renumeration is four times that of the Government.

[16] The World Bank estimates the informal sector creates an amount equivalent to 32 percent of the official GDP. Maliyamkono estimates 30 percent but with the inclusion of gold smuggling 60 percent (conversation).

[17] Urban middle income households suffered before reforms began during the economic crisis of the early 80's.

[18] Prior to relaxation of the code entrepreneurial activities were officially discouraged and party members were forbidden to engage in secondary occupations, moonlighting in the formal sector or establishing informal enterprises.

Industrial production has risen 5 percent a year since 1985 with efficient, primarily private, enterprises increasing production as much as 20 percent while inefficient, primarily public, enterprise have declined. Industrial expansion has been particularly prevalent amongst medium sized firms employing 10 - 100 people (World Bank 91). Amongst small scale enterprises[19] which are 50 percent of all industrial enterprises and provide 66 percent of industrial employment, there has been a three fold increase in production (Dawson 91). In addition the informal sector in Dar es Salaam has doubled its level of employment (World Bank 91)[20].

The historical development of Tanzanian industry has been highly skewed following the path of cash crop development. Consequently wealth has been concentrated in Dar es Salaam, Arusha, Tanga, Kilimanjaro, Mwanza and the coast (Ndulu 82). Despite efforts introduced to reduce regional inequality following the Arusha Declaration and beginning with the second five year plan (1969-74), the instruments used in equalization efforts, (establishment of several regional growth poles, uniform pricing, and public finance), sacrificed efficiency for equality and the Government was unable to finance the infrastructural development necessary to alter the imbalance. Today Dar es Salaam dominates the nation's formal business with over half the registered firms, about 40 percent of all formal sector employees, and over half the total fixed industrial capital. Approximately 89 percent of the nation's industrial infrastructure is located in Dar es Salaam or the Arusha-Moshi corridor, but a surprising 25 percent of all formal sector employees are located in Morogoro, apparently reflecting the many manufacturing firms located there (USAID 92).

In addition to regional inequality there is and ethnic imbalance in the private sector. Tanzania is still relying to a large extent on entrepreneurs of Asian origin. 90% of private industry and trade outside the informal sector is owned and managed by Asians (FINNIDA 92). Indigenous Tanzanians possess both initiative and commitment to sustained business development but are constrained from entry by lack of finance.

Within the construction industry, which included 1,076 registered contracting companies, those in classes 1-3 are foreign or asian owned, those in class 4 are a mix of asian and indigenous entrepreneurs while those in classes 5-8, a total of 862 companies

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[19] Small scale enterprises are defined here as being those enterprises which employ less than 10 people.

[20] While there has been considerable growth in small and informal enterprise since liberalization, the flood of imports has also displaced some enterprises from areas where they were active, changing the structure of these sectors.

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are owned by indigenous Tanzanians[21] (World Bank 1991b). Indigenous entrepreneurs have also formed hundreds of unregistered enterprises, which due to the fact that they require no fixed premises are able to evade the otherwise comprehensive regulatory net. They operate as subcontractors to their registered counterparts with small numbers of permanent employees often renting equipment. The prevalence of short-term labor, equipment leasing and subcontracting signal that building contractors are embedded in a quite well-developed network of market relations.

The smaller the enterprise the more likely that it will be located outside of the nations capital and the more likely that it will be owned by an indigenous entrepreneur. 37 percent of all medium sized enterprises are in Dar es Salaam, 12 percent are in Tanga, 10 percent are in Arusha, 7 percent are in Kilimanjaro, 6 percent are in Morogoro and 6 percent are in Mwanza. Small scale enterprises are more evenly distributed with 19 percent being in Dar es Salaam[22], 10 percent in Mbeya, 8 percent in Kilimanjaro, 7 percent in Dodoma, 6 percent in Tanga, 6 percent in Mwanza and 4-5 percent in each of Arusha, Tabora, Morogoro and Iringa (FINNIDA 92).

SMALL SCALE ENTERPRISE

Small scale enterprise provides opportunity for income generation, employment and training through apprenticeship. It is linked with larger scale enterprise with 72 percent obtaining 60 percent of their raw materials and intermediate inputs from the formal sector (Dawson 91). Profits generated, rather than being invested in expansion, tend to be invested in the creation of other small units in order to avoid growing to the point where they become conspicuous.

75 percent of the registered small enterprises were established entirely with the owners savings and a further 16 percent received help or borrowed from family members (World Bank 1991). The majority have poor access to the resources required to exploit the economic opportunities which are opening up today. A survey of small enterprises in Ruvuma found that 80 percent identified finance as their main constraint. 50 percent also identified regulations and competition, 25 percent identified inadequate machinery and 14 percent identified transport, as other significant constraints. When asked what services were most desired 60 percent wanted access to machinery, 30 percent wanted loans, 25 percent wanted raw materials and 10 percent training (SNV 89). While the

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[21] Classes 5-8 have been growing by over 100 new companies per year since the late 70s (World Bank 1991b).

[22] While only 19 % of the enterprises are in Dar es Salaam the ILO estimates that 55% of the small scale enterprise employment is in the nations capital.

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supply of equipment and raw materials has improved as wholesalers and traders have gained access to foreign exchange through the open general licencing system (OGL), the poor flow of information between producers and traders continues to hamper their availability.

NBC was given a mandate in 1982 to provide financing for small and medium scale enterprises and the Small Industries Development Organization (SIDO) was established in 1974. However, only one third of indigenous firms interviewed by the World Bank obtained finance from formal financial institutions and these were primarily medium sized enterprises. Within their sample of construction companies only 3 had ever borrowed from a bank. In addition, less than 10 percent ever received support from SIDO (World Bank 91). Clearly the formal banking sector has not developed methods to meet the needs of small enterprise and informal credit markets are insufficiently developed to meet the demands of small firms.

INFORMAL SECTOR

Much of what has been said about small scale enterprise also applies to the informal sector which is defined here to include enterprises employing 5 or less people.

ILO reports that 51.8 percent of the informal sector is concerned with trade and commerce[23], 31.8 percent with manufacturing and maintenance and 11.3 percent with catering. The average age of all informal enterprises is five years with 60 percent having been established within the past five years (ILO 91). In Zanzibar, 77 percent of the owner/operators gained their experience on the job[24]. 43 percent of the owners were uneducated[25] and 60% operate from home despite laws forbidding them to do so (Bagachwa 90).

60 percent of the enterprises started with only Tshs 1,000 capital ($2.60 at todays exchange rate) and less than 7 percent started with more than Tshs 20,000 capital ($51). However, slightly fewer enterprises were started with the owners capital than in the small

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[23] While it is difficult to compare these figures with the Zanzibar informal sector study because different categories were used, in Zanzibar 43% of informal sector establishments and employment was reported in trade and restaurants, followed by manufacturing which included 41% of the establishments and provided 38% of the employment (Government of Tanzania 90).

[24] Dawson 91 reports that 60-90% of the artisanal entrepreneurs received training as apprentices to small firms.

[25] 56% of the uneducated owners were women. Only 25% of the employees were uneducated of whom only 16% were women.

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scale sector (46 percent versus 75 percent, with a further 45 percent being assisted by or borrowing from relatives). No enterprise received formal credit. Of the estimated 95,030 informal enterprises in Zanzibar, 98.7 percent made a profit with 57 percent making over Tshs 2,000 profit per month (the then minimum wage) and 17.5 percent making monthly profits over Tshs 10,000 (Bagachwa 90). 90 percent of the enterprises sold their end products directly to individuals rather than developing links to small firms or larger enterprises.

ILO reports that within the informal sector 57 percent of enterprise owners report lack of capital to be their major constraint, 16 percent report a shortage of inputs, 4 percent report official regulations, 2 percent lack of skills and 11 percent have other constraints (ILO 90). In Zanzibar, 40 percent of the owners reported lack of capital to be a constraint, 26 percent reported lack of markets indicating that some sectors are already becoming saturated, 15 percent reported a shortage of inputs and 14 percent reported difficulties in finding premises (Bagachwa 90).

CONSTRAINTS TO GROWTH

In addition to the studies cited above much analysis has been undertaken in recent years by both the Government of Tanzania and donors concerning constraints to private sector development. Despite minor differences between sectors, the key constraint appears to be finance, followed by policy[26] and regulatory constraints, and weak business support structures. These will be discussed in turn below.

FINANCE

In 1987 the private sectors total share of bank credits was 6.6 percent (FINNIDA 92). This record is inspite of the fact that individual repayment rates to Banks has been at least twice that of cooperatives and villages, to say nothing of the public sector record, and continues to be 98 percent with NBC and 92 percent with CRDB (SNV 1989). The reasons are partly due to preference being given to the public sector, partly due to the requirements which have to be fulfilled prior to obtaining a loan[27], partly due to the length of time taken to process a loan and partly due to lack of interest on the part of bank employees to entertain anything other than large requests. As a result loans tend to have been granted only to large scale entrepreneurs with established track

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[26] Lack of policy is of particular concern to small scale enterprise and the informal sector.

[27] Requirements include possessing equity capital and fixed property to be used as collateral, undertaking feasibility studies, submitting financial statements and having developed a site.

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records, who, because of historical development and political orientation deterring the indigenous population from entering into private enterprise, are predominantly Asian[28]. The World Bank's FIS survey confirms this opinion stating that very few of the firms interviewed enjoyed good relationships with formal financial institutions (World Bank 1991).

The majority of Tanzanians do not own fixed property, especially in rural areas, to use as collateral[29]. Neither do they have access to equity capital having been discouraged from accumulating wealth[30]. Tanzanians also have difficulty finding equity partners from outside, or obtaining suppliers credits or buyers advances, which indicates that confidence in Tanzania as a country for profitable business has not been very high. Furthermore indigenous Tanzanians have little access to informal mechanisms of financial intermediation[31] or short term financing, except in the agricultural sector.

The incentives for formal financial institutions to target funding towards indigenous entrepreneurs, medium and small scale enterprises are limited given the costs of processing large numbers of small loans, the limited track record of borrowers and the high probability of failure even of well-conceived new ventures. Inspite of NBCs mandate to provide credit to small enterprises, only 0.59 percent of its portfolio goes to them[32]. Tanzanian banks do not

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[28] The Managing Director of the NBC stated that he knew of only a handful of indigenous entrepreneurs who had been granted loans other than through special subsidized schemes.

[29] 85% of land holdings are issued by villages or families under customary law which transfers only usufructuary rights not land title. In addition, banks can not accept leasehold land title which is the only form of land title permitted in Tanzania (World Bank 1991 b). The issue of land title is somewhat confusing and is being studied by a Presidential Commission at the present time. Many established business women interviewed during the course of the FED PAAD development reported that they had tittle to both land and property which was acceptable to the banks.

[30] While wealth was certainly accumulated during the past 25 years, this was done "under the table" and its extent is not known.

[31] This is not the case for Asians who have well developed informal markets in finance (World Bank 1991).

[32] Other banks and financial institutions which lend to small enterprises include CRDB, TIB and SIDO which provides equipment and spare parts through a hire-purchase scheme. TDFL is also currently considering assisting small and medium enterprises though until banking reform measures and completed and enacted it is hard to

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view their lending to indigenous small and medium scale enterprises in developmental terms. They do not have as a goal identifying and supporting enterprises which have real potential to succeed commercially or developing a mutual interest on the part of both the bank and the enterprise in the venture's success. Rather, as indigenous entrepreneurs see it, the banks perceive them to be unwelcome supplicants, to be dealt with only so long as stringent conditions are met and, even then, only so long as the enterprise respects without question the omniscient authority of the lending agency.

Similarly, commercial and development banks have not assisted the informal sector to secure credit funds, thereby limiting their scope for expansion and diversification as well as limiting the type and quality of capital equipment to be procured. Banks have however administered schemes for donors and NGOs targeted at the informal sector. Given the non-commercial interest rates applied to date, even with transaction costs being born by the implementing agency, these have been a drain on banks resources[33].

The banking commission has called for the Bank of Tanzania to formulate and implement a credit guarantee scheme for loans to small enterprises which could be expanded to include the informal sector where this is commercially viable. The Bank of Tanzania is also considering the development of rural community banks, however, initial capital provision is likely to be a problem. In addition, various organizations such as TCCIA and the Tanzania Women's Business Association are discussing the possibilities of establishing their own banks to meet the needs of their members[34]. While the proliferation of banks in rural areas would give more people access to formal financial institution, NBC currently being the only bank with a widespread network of some 441 branches, unless measures are taken to specifically target the needs of small scale entrepreneurs their access to finance is unlikely to improve.

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predict what impact any of these banks will have on the sector.

[33] Banks and financial institutions lack confidence in NGOs which are not recognized as good intermediaries to channel funds to small scale enterprises or the informal sector (ILO 1991). However, NGOs can be effective agents helping to define the needs of target groups, screening borrowers, monitoring loan repayments and disseminating credit information. The Presidential Trust Fund operating on the same principle as the Grameen bank has met with some success in its pilot scheme targeted at women and youth who have maintained a 97% repayment rate. It is planning to expand its program this year.

[34] Information obtained from interviews with representatives of these associations.

While a few determined urban women with fixed assets in their own names, contacts, access to information and the benefit of exposure to enterprise development in other countries, have established viable and growing small and medium scale enterprises, the majority of Tanzanian women are particularly disadvantaged in terms of their access to finance[35]. Despite the formal ideology and national legal system which recognizes women as equal to men, customary law and tradition, the unequal division of labor and unequal distribution of resources within a household make them subordinate to men in practice. Women do not necessarily inherit and customarily are not given title to land as individuals, they lack security and income because men acquire first rights on assets and household resources. Consequently women are caught in a cycle of low capital, low levels of technology and low levels of inputs with limited ability to employ additional labor which yield low income and cause low productivity. Furthermore womens' first priority is to meet the needs of their children and households, therefore, whatever little income they are able to generate is not normally reinvested in their productive activities. Clearly there is a need to support Tanzanian efforts to mainstream women and to increase the gender sensitivity of financial institutions, extension agents and service providers in order to enable women to take advantage of the economic opportunities currently opening up.

REGULATIONS AND POLICY

Regulations concerning enterprise establishment have been described in the body of the FED PAIP. The combination of unrealistic obligations concerning both licencing and taxation and the expectation that these will be renegotiated implies that even entrepreneurs who might otherwise prefer to adhere to what is legally required have no alternative but to lubricate the system if they are to survive in a highly competitive environment. Lubrication reduces the impact to firms of egregiously unrealistic and arbitrary policies but gives advantage to those more successful in cultivating co-operative relations with public officials. Lubrication also requires substantial amounts of time taking small entrepreneurs away from wealth generation. Larger entrepreneurs[36] tend to employ managers to deal with the bureaucracy and are

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[35] Special credit facilities for women have been offered through the banks, largely directed towards micro enterprise. These are subsidized by donors and utilize NGOs as intermediaries. NBC established its own scheme to meet the needs of women not covered through these schemes but due to new regulations regarding collateral has disbanded the program.

[36] Women also have to send someone else to deal with the bureaucracy when side payments are required in order to proceed. Female entrepreneurs informed us that it would be socially and culturally unacceptable for them to offer money.

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protected from harassment due to their economic stature. In addition they are more able to cover side payments without reducing their working capital. One unintended consequence of lubrication has been to strengthen the competitive position of large predominantly Asian enterprises in relation to indigenous small and medium scale enterprises. The net effect of regulatory and tax requirements is to impose entry and expansion-deterring costs on all enterprises with the relative burden falling as the size of the enterprise increases.

Clearly the systems need to be simplified and become transparent, however, before that can happen there is a need for the Government to formulate policy particularly with respect to ending discrimination against small scale enterprise development and the informal sector[37].

Recent structural adjustment reforms have reversed some of the macro policy biases against small scale enterprise and the informal sector, however, the Government's immediate concern is with the potential of the informal sector to generate employment to cope with retrenchment and unemployment. The role of small scale entrepreneurs as serious economic actors is generally overlooked. Large firms continue to be regarded as the motor of the economy with small firms being providers of employment and suppliers of cheap and primitive goods to the poor. This bipolar attitude is not conducive to the adoption of sound policies to target resources or other assistance towards the small enterprise sector and leads to unwarranted harassment (Dawson 91). Consequently, small scale enterprises and the informal sector continue to have generally poor access to the resources and services which they require in order to exploit the opportunities currently arising. One example of this is the fact that almost no foreign exchange has been received by these sectors due to the fact that the minimum sum that can be applied for through OGL is $5,000.

Policies need to be devised to promote the positive attributes of small enterprise, provide necessary services, infrastructure and training, and reserve a proportion of resources of every kind for the informal sector, without necessarily formalizing it. Of particular concern after simplifying regulatory procedures, will be reforming the ambiguous land tenure system to reduce uncertainly among entrepreneurs, provide sites for small scale activity and encourage investment in permanent operating structures.

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[37] UNDP is currently working with the Ministry of Labor to develop an informal sector policy, a draft of which should be available in June.

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BUSINESS SUPPORT STRUCTURES

Business support and training services have been dominated by Government institutions and parastatals in recent years. None the less some large and medium scale entrepreneurs have been able to take advantage of various programs[38]. Small scale entrepreneurs without access to information, without contacts with overseas business associations and promotion programs, and with no economic or political lobbying capacity, find themselves unaware of the limited assistance currently available or in the position where they are required to pay more than they can afford for necessary service.

While training has not been identified as a major constraint by entrepreneurs, it is likely that the problem of skills and management development will become more crucial as entrepreneurs endeavor to expand and enter more demanding markets. Success will depend upon a variety of public and private technical and marketing support services. Within the public sector, vocational training, folk colleges[39] and extension officers mandates should be altered to include the perceived needs of small scale enterprise and the informal sector. Within the private sector business associations should be encouraged to assess the training needs of their members, undertake or organize new product and market research, and develop contacts with local consultants[40], NGOs[41] or donor groups to help meet their needs. Wherever possible the provision of services

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[38] One entrepreneur interviewed explained that she had been able to obtain 80% of the finance necessary for a feasibility study for a new venture from TIB. Another informed us of a program at the University's institute for product innovation to which she has sent her staff for training on four separate occasions at no cost to herself.

[39] There is at least one vocational center in each region currently geared towards meeting the needs of large-scale industry. In addition there are 52 currently under financed, folk development colleges offering courses in artisanal skills.

[40] SIDO has created a training arm, the Small Industries Consultancy and Training Assistance (SICATA) which has provided consultancies to the private sector. TISCO also provides consulting services though mostly for parastatals and Agribusiness, Coopers and Lybrand amongst others have established consultancy offices in Dar es Salaam. In addition, some 50 firms and 200 individuals expressed interest in the initial meeting of the Association of Tanzanian Consultants (Molenaar 90).

[41] Many NGOs may however have reached their capacity and are unable to expand to meet new needs or absorb more funds for the time being (conversation with UNDP).

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should be arranged on a cost shared basis[42]. In addition, schedules for meetings and seminars should be adjusted to fit women's time constraints.

Since economic reform began, there has been a resurgence of membership based business and professional associations which, though vibrant through the 60s, lost their leadership and financial base with nationalization. In addition, a constant steam of new associations are developing to serve the interests of particular private sector groups, including the recently formed TCCIA and TCI which have added to the existing regional chambers of commerce. It is unlikely than any one of these groups will emerge as a genuine umbrella organization, nor would that necessarily be advisable given the need for interest groups to organize around their own agendas for the foreseeable future[43]. All associations are interested in placing their particular private enterprise agendas before the Government and TCCIA has commissioned papers on specific issues expressly for this purpose[44] as have most other associations. Of particular interest is the Tanzania Business Women's Association which is gaining prominence and has been invited by the Ministry of Finance and CCm to formally submit their concerns.

CONCLUSION

The informal sector provides goods and services, regular employment, part-time employment, an increase in income for marginal producers through employment, and generates linkages which are the basis for dynamic growth. In Tanzania linkages between the informal sector and formal sector are underdeveloped with small firms selling or providing services directly to individual clients. Linkages between small and large firms remain exceptional i.e. subcontracting within the construction industry. In Zanzibar only 5 percent of enterprises goods and services were consumed by other firms (Dawson 91). Increased prices for agricultural products will strengthen consumption linkages with small firms and the informal sector. In addition the demand for agricultural products by

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[42] To date we have little information on the cost of these services or the potential of small scale enterprise to meet these costs even on a shared basis. One medium scale entrepreneur reported that TISCO charges a percentage of the initial start up capital required, which would have been prohibitive had she been unable to meet 80% of these costs.

[43] CCM party structure left little room for civil society to develop, as a result people need to gain experience at a level where they feel competent to address the issues and believe their organizations genuinely represent their interests.

[44] Funding for these papers has come from UNDP.

enterprises themselves will increase as parastatals loose their food processing monopoly. Peasant farmers will be central to the process of securing extensive indigenous participation in economic growth and establishing a strong income base in rural areas. Finally, it is anticipated that both supply and demand for intermediate inputs for new or existing activities will increase as equipment and technical ability improves within the private sector.

The positive response of the Tanzanian entrepreneur a market oriented policy environment, in spite of the serious remaining constraints, inadequate financial services and infrastructure, and continuing regulatory constraints, is indicative of the private sectors dynamism and the enormous potential for future expansion. There appears to exist an abundant supply of indigenous entrepreneurs with the initiative and commitment to sustain a development strategy which gives a central role to efficient private enterprises. The entrepreneurs are diverse in education and prior employment experience and a substantial fraction are committed to increasing the size of their enterprises, most clearly in the furniture and horticulture sectors (World Bank 1991)[45].

Small sector industrial and service sector activities, including informal sector participants who are located throughout the country, will continue to contribute significantly to growth and employment generation for the un and underemployed. However, investments in education, health and nutrition will continue to underpin the achievement of sustained and equitable growth in the long term.

Large industrialists have begun to diversify. They are a minority of primarily Asian origin. Prospects of their contributing to the project purpose of creating income generating opportunities for the un and underemployed are limited. In fact small scale enterprises are estimated to be five times as effective as their large scale counterparts in terms of output measured per unit of investment. In addition, the incremental capital-labor ratio is lower in rural

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[45] 68 entrepreneurs have started the Tanzania horticultural producers and exporters association, however, they place a disproportionate emphasis on their own production as a response to conforming to requisite size and quality standards, and the weakness of appropriate public extension support for small farmers (World Bank 1991b). However, when they obtain large orders they have supplied seed and advise to contract growers (conversation with entrepreneurs). If contract growing can be encouraged the likely exclusion of smallholders from participation in horticultural exports and the opportunity to move along a relatively egalitarian path of private sector development will not be foregone.

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small scale enterprise than in urban large scale ones (USAID/CPSP 1992).

FINANCE

Financial sector reforms will increase the efficiency of banks and thereby reduce both the time and the paperwork required to process a loan. Banking reform will also increase competition and hopefully enable small enterprises to compete on more equitable terms. However, unless banking officials are encouraged and trained to meet the needs of small scale entrepreneurs especially women, they are unlikely to do so.

Currently the formal financial system is ineffectual in meeting needs for the majority of private sector participants. There is a danger that the more modern and sophisticated small firms and factories will continue to miss out on credit. They are too large and successful to be of interest to NGOs and other welfare oriented actors and too small to qualify for assistance from the commercial banking system. They face similar problems in terms of access to foreign exchange, needed for equipment and supplies.

USAIDs local currency trust should investigate the possibilities of providing loan guarantees, possibly reserving a percentage of its resources, respectively, for medium scale, small scale and micro enterprises. Alternatively, small scale entrepreneurs lack of collateral could be addressed through schemes whereby peoples credit history could be used in lieu of fixed property or whereby lease arrangements could be entered into for capital equipment.

In addition measures to reserve a proportion of the foreign exchange made available through FED for small scale entrepreneurs should be considered. These could include encouraging groups to bid collectively for their individual members needs, promoting subcontracting with larger bidders or establishing procedures for them to bid form small quantities on their own behalf.

Finally, through USAID project activities, bankers should also be trained to both meet and respect the needs of small enterprises and to actively engage the rural sector.

REGULATIONS AND POLICY

Regulatory reform supported by USAID, including the development of clearly defined policies will benefit the entire private sector. They will reduce the time and effort required to meet formalities and increase transparency which will help entrepreneurs plan for their future. In addition to defining how the Government regards both formal and informal activities, it will be necessary to reorient public officials who, for the past 25 years have been told to control business and have regarded private entrepreneurs as some

form of criminal. While some may wish to embrace a new role and both promote and help business, they don't know how. Maliyamkono (90) indicates that 72.5 percent of the population favors liberalization, others will resent their loss of power and sources of unofficial income as regulations are eased.

BUSINESS SUPPORT STRUCTURES

The key component in economic development will be the commercially justified small enterprise sector including micro-enterprises. Currently many of these enterprises are without the requisite support, technical assistance and training. While business associations are forming, newer associations particularly those for smaller scale businesses have limited access to resources, all stand to benefit from USAID project activities as organizations and as individuals, especially from the enterprise resource center. Given limited resources USAID may wish to assist those associations which have outreach programs to address the needs of small enterprise[46], the agricultural sector and women. Such an approach would assist in broadening the base of the private sectors, giving small enterprise a lobbying capability, and would to some extent redress the prevalent urban bias of most programs. Business associations should also be encouraged to assist members in conducting feasibility studies, preparing loan applications and possibly collectively guaranteeing loans.

Whatever the final design of FED and its component parts, it should be widely advertized by radio and in the swahili press as well as through presentations in all regions. Similarly the enterprise resource center and procurement support service should either have a mobile office or should open branches throughout the country to meet the needs of entrepreneurs outside the capital.

WOMEN

Although women form the majority of producers, especially in rural areas, they do not normally operate in the market outside of their local environment or in the commercial sphere where the exchanges of their products take place. Men determine the use of land allocated to their household. Despite the fact that women till the land, assist in planting, weed and harvest, cash crops are controlled by men. For many years, cash crops could only be sold only through official institutions and were registered in the senior male household members name. Cooperatives are also dominated

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[46] GTZ has recently started a project, helping micro-enterprises to form associations with the express purpose of providing services to their members and presenting their agendas to Government. In addition some associations, for example the Arusha chamber of commerce are active in upgrading small industry and working with informal sector entrepreneurs (Strauss 1992).

by men and men have frequently taken over women's projects and utilized resources targeted to women (Molenaar 90). Middlemen invariably male, dominate the commercial world. Women for the most part lack required technical knowledge, management and entrepreneurial skills, contacts and social clout, and are unable to avail themselves of credit facilities.

Women clearly have extra economic, socio-cultural and educational constraints to entering into business. They have less access to finance and tradition and religion frequently prohibit them from involving themselves in business, having their own money, traveling or participating in any kind of public activities. Consequently few women are in business, own property or are highly educated. Women are also under represented in positions of power where decisions are made. Women currently have only 10.2 percent of the seats in parliament and less than 10 percent of the seats in regional and branch offices of CCM (ILO 91).

If FED does not specifically address the issue of women's access to private sector opportunities they will continue to operate outside of Tanzania's economic mainstream.

WINNERS AND LOSERS

Categories of program beneficiaries will include: Tanzanians who will receive employment and increased incomes as a result of program activities; enterprises whose establishment and operations will be eased by FED sponsored policy and institutional changes; firms receiving access to business advisory services; membership based business and professional associations participating in project activities; staff and clients of the Bank of Tanzania and other financial institutions in Tanzania; and people assisted as a result of the AIDS programs to be supported through local currency grants. The number of people and firms who make up each of these groups of beneficiaries and the impact FED has on private sector income and employment growth will depend on how successful FED strategies are at addressing existing imbalances. The design of specific components of the program and associated project activities must address ways to ensure Asians do not get a disproportionate share of the resources. Every effort should also be made to target resources where impact will be greatest i.e towards medium and small scale enterprise. In addition FED must be conscious of the fact that there are entrepreneurs outside of Dar es Salaam and target resources towards them. Finally women should be sought who can sit on boards of trustees, become part of advisory groups and take an active role in policy dialogue. Unless women are part and parcel of every aspect of FED their needs are unlikely to be met or their voices heard.

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ANNEX M

GENDER ANALYSIS

ANNEX M

GENDER ANALYSIS: TANZANIA PRIVATE SECTOR

OVERVIEW OF FINANCE AND ENTERPRISE DEVELOPMENT (FED) PROGRAM

a) FED is a five year, $50.0m program whose goal is to stimulate employment and income growth in Tanzania. The purpose of the FED is to foster private enterprise growth through (a) helping to establish a financially sound and diverse financial sector capable of meeting the challenges posed by the move to a market economy; and (b) by helping to mobilize a private sector response to the opportunities created by the gathering pace of liberalization. The anticipated impact of the policy changes envisaged by FED indicate a Net Present Value of $211m at a 10% annual discount rate and the generation of a minimum 5,800 jobs by 1996 (PAIP:25).

b) Key Elements include:
(i) a policy agenda seeking to consolidate financial sector reforms and ease regulatory constraints affecting enterprise development; (ii) a private sector import financing facility to which AID will make $40m available to the Government of Tanzania (GOT) to expand industrial and manufacturing output; (iii) a financial sector support activity in collaboration with the Bank of Tanzania of $4m for streamlining its regulatory functions and for support of the Loans and Advances Realization Trust (LART);
(iv) a $6m private sector support activity in collaboration with the chambers of Commerce and other membership organizations to encourage dialogue between government and non-government elements of the society; and (v) a local currency trust fund worth $40m to be generated by the import financing facility, the proceeds of which will capitalize a Social Action Trust to support private sector AIDS programs through non-governmental organizations (NGOs). The FED program also intends to develop a governance initiative to foster and promote dialogue between government and the private sector through the support of appropriate associations.

In view of the above: (a) is the consideration of gender critical to the achievement of the goal and the purpose? (b) Women may not be an homogeneous group, but socialism made this an almost homogeneous society. The question to ask then is, will women and men at the different levels in society experience different impacts from the recommended reforms? Will these be positive or negative? and (c) Are the gender issues raised to be considered on the basis of economic considerations or social equity? How does enhancing women's income-earning activities for the purposes of creating employment and raising incomes enhance the individual or collective economic status of women?

In consideration of the likely impacts on women[47], it is necessary to take into account the different ways in which men and women allocate labor, receive income, and utilize resources and services. These include:

i) Women and men are both engaged in productive paid work and income earning activities, women however are exclusively responsible for unpaid household production, nurturing and social production;
ii) Women's income earning function is also constrained by cultural restrictions[48] in limiting their ability to accumulate assets, access to productive resources such as credit and land, and access to more highly paid jobs (UNICEF 1990; ILO 1991; Sarris 1991);
iii) Women's earned incomes are generally lower than men's because of differential access (ILO 1991; UNICEF 1990);
iv) Women are managing the consumption requirements of the household;
v) There is a growing number of female-headed households where women must provide all the household needs (SARRIS 1991; UNICEF 1990).

2. WOMEN WITHIN THE SOCIOCULTURAL AND ECONOMIC ENVIRONMENT IN TANZANIA

a) There is a great diversity of traditional social arrangements in Tanzania making the contemporary situation that the women find themselves shaped by contradictory historical forces, particularly customary, colonialism, and in Tanzania, socialism as well (Bujra 1990;Mbilinyi 1985; Mbilinyi and Mascarenhas 1983). In most

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[47] Susan Joekes et al. (1988) have summarized the gender aspects and potential impact of structural adjustment programs on women arguing that "..the issue is critical since, given what is known about the difficulty of ensuring the effective participation of women in development even in the absence of the debt crisis and recession, there is reason to suppose that women will play a key role in the effectiveness of structural adjustment programs and may bear a disproportionate share of the burdens they, at least in the short term, impose".

[48] Since Tanzania adopted the policy of socialism based on the fundamental rights of the individual woman and man, studies undertaken (most of these are contained in Mbilinyi & Mascarenhas 1983) show that the law has not kept pace with the political and social changes that were taking place. Contradictions have arisen over land tenure practices, ownership of land that is still vested in the heads of households, usually the male, division of proceeds from joint labor, the rights of widows and divorcees, etc.

African societies it has been argued that women's power and status were always in some ways less than that of the men (O'Barr 1984) but that they still enjoyed control over the products of their labor and wielded substantial political power. The lower status that women hold is a reflection of the patriarchal[49] patterns of ownership of land and assets.

The gender division of labor that prevails in most of rural Tanzania allocates men with the cash crops with female participation as unpaid labor while the income is controlled by the men (ILO 1991; UNICEF 1990). Women control the food crops and the income from surplus production. Women in the rural areas are unable to pledge collateral to obtain credit as they have little or no access to capital in the form of land, property and income.

b) Women, Employment and Income

The agrarian economy relies heavily on women where over 97% of the women work in agriculture in smallholdings of less than 10 hectares. Women constitute 52% of the workforce (9.5m men or 48%). Women are the rural household economy producers of goods and services for the household and the rural community and also work in cash crops. They work 10.4 hours a day and earn US$5 while men work 7.8 hours a day for an income of US$75 (ILO 1991).

i) Women In The Formal Sector: Formal sector employment is characterized by the low status of women that excludes them from positions of power and/or decision-making. This is determined largely by the fact that Tanzania is still largely an agricultural country.The distribution of female employees by grade and occupation is not the same as men. In the urban areas women work as: 13% craft/machine operators, 12% sales and clerical, 18% professional/technician/teachers and 3% as managers and administrators. 69% of nurses and midwives are women, and they are only 8% of the doctors, dentists and veterinarians. (ILO 1991:217).

The ILO report notes a striking wage differential based on gender. The male-female gap in average monthly wages in Dar es Salaam ranges from 18% - 41.3% of the male average (ibid:217). Women's

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[49] Some of the Southern region of Tanzania have matrilineal societies (the annotated bibliography by Mbilinyi and Mascarenhas 1983 identifies several papers on matrilineal societies in Tanzania). Although women do not inherit land or property in their own right, the systems appear to have enabled women to undertake a more public role in politics and decision-making. It has been suggested that the women leaders within the UWT are predominantly from these matrilineal societies (this theme occurred frequently in our discussion with women on the position of women in a multi-party Tanzania).

wages are lower in every occupational category and the gap increases at the higher levels of the job hierarchy.

ii) Women In The Informal Sector: This sector is the greatest source of employment and has great significance for women. 86.7% of all households in the rural areas, and 52.2% in the urban areas have some cash income from trade, enterprise, or profession (Sarris 1991:153). In the just completed Zanzibar informal sector survey (ZRG 1990) women accounted for 50.7% of the total informal sector entrepreneurs[50].

Urban: ILO estimates indicate that there will be 300,000 new entrants to the labor market annually while formal employment is less than 20,000 per annum (1991:18). 95% of these new entrants are absorbed into the agriculture and informal sectors. It is difficult to determine the actual size of the informal sector or its growth rate but it is estimated to be 3.5% per annum, with 60% of the urban labor force (53% in Zanzibar) within the informal sector, making it the fastest growing source of employment and income. The increasing strain on the urban and rural households caused by the recent economic crisis and decline in real wages pushed women to seek survival strategies in the urban informal sector. (ILO 1991:217). Entry requires no qualifications, time and place of work are not specified. Women have little capital, low level skills and little time and are in the least potential activities for growth: petty trading, fast food, beer brewing, selling charcoal and personal services. The urban middle and upper income brackets are also involved in the informal sector to compensate for the eroding purchasing power. They are able to secure capital and start ventures such as small-scale farming, raising chickens, pigs, operating bars, shops, and tailoring.

Rural: 52% of the population in the rural areas is female of which 17% of the households are headed by females (UNICEF 1990:55). Almost all rural households grow food crops which form 41% of the rural households income, 31% coming from non-agricultural income. Female-headed households have smaller holdings from which non-agricultural income is the main source of income. 70% adult women in the rural areas undertake "income-generating" activities, 30% in agricultural ventures; 39% brewing beer (UNICEF 1990: 55-56)[51].

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[50] (The mainland survey is expected to be completed by June 1992. If the Zanzibar ratios of participation are reflected on the mainland, policies on the informal sector have to take cognizance of the fact that this is occurring in spite of an extremely hostile environment to women entrepreneurs).

[51] Sarris places the total rural non monetary at 48%; 68% cash income from agriculture, 17% from trade; 8% wages. 87% of rural households have an income from some form of trade.

As greater reliance is placed on cash income from agriculture and trade, women are playing a more prominent role in the decision-making within the family as they are providing more to the household (UNICEF 1990).

iii) There is evidence to suggest that women engage in the informal sector because they offer the flexible employment women need in order to balance income earning and household production responsibilities (ZRG 1990; ILO 1991; Maliyamkono 1990). Women's participation in the informal sector may be partially due to the low capital outlay necessary for the type of business they engage in and also to the limited opportunities available in the formal sector. 2 main features generally characterize women's participation: (i) women are distinctively within the trading and small business operations, and low participation within the manufacturing and industrial spheres, thus earning lower incomes partly due to the scale factor and partly to the reproductive nature of their employment[52]; and (ii) female heads of households are more likely to be in the informal sector.

iv) The anticipated deregulation may increase women's access to credit but as small operators they face constraints on their effective use of credit, eg. their capacity to import is likely to be very weak unless they are operating within marketing cooperatives and secondly, their limited access to production information and weak ability to upgrade their technology will undermine their ability to compete. Certain groups of women have succeeded in the informal sector, possibly due to their class and social position, and they may stand to gain in terms of improved incomes and may also participate in the creation of employment.

c) Women's Employment

i) Education: Female labor is characterized by low levels of education and skill producing low income. Illiteracy rates in 1978 were 61.4% for females and 31.5% for males, women constituted only 7.8% at the University of Dar es Salaam and only 14% of the science students (ILO 1990:227). Education is associated with higher incomes within the households in both rural and urban areas as well as in individual sectors, where those with higher secondary school education had the highest incomes although their numbers were small (ibid.).Secondary school education is geared towards entry into the formal sector. 90% of all primary school leavers do not proceed into secondary school. Women's participation is low and is now more significant in private secondary schools due to "..a general awareness in favor of educating daughters " (ibid.).

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[52] The Zanzibar informal sector survey (1990) noted that 75% of the women were in food vending and restaurants, 32% in tailoring and 5% in carpentry.

ii) Skills: Women's productive and effective utilization of their labor are conditioned by the levels of the skills. Female students constitute only 38% within the vocational training programs, where 95% of the females chose Home Economics out of a curricula that includes agriculture, commerce and technical subjects. There are 52 Folk Development Colleges established for adult education in the rural areas to provide technical education. 40% of the students in 1986 were unmarried girls, 85% of them were in Home Economics, cookery, tailoring, housekeeping first aid and knitting while the male students chose agriculture, animal husbandry, crop production, technical trade training, carpentry, masonry or metalwork (ILO:227).

iii) Availability of labor time: An ILO time-use study in Iringa indicated that every household spends 7 hours a day purely on transport representing five and a half hours for women (1991:220). In contrasting the hours spent on agricultural labor by men and women there is great disparity between them. Women work 10-12 hours a day in the fields and also manage their homes and care for the children (Bujra 1990:55).

d) Women's Participation in the Private Sector

i) Control of economic resources: 58% of those firms interviewed (ZRG 1990:1-36) identified access to credit as the most severe problem, followed by lack of raw materials and permanent sites, in that order. Women's access to capital, labor and material inputs is limited because of the sociocultural and economic factors governing decision-making about the allocation of these resources. Legally, women enjoy equal rights with men. However, the legislation also recognizes customary law and practice based on patrilineal ownership and inheritance of property. Customary law is mainly practiced in the rural areas where clan land, cattle, and property are owned by men and women have usufruct rights and land allocations are made to male heads of households (ILO 1991:219)

ii) Women' Enterprises: Women owned businesses tend to be amongst the small and micro enterprises necessitating smaller amounts of loans. Meyer and Graham (1991) note that there are many female-headed households with sole responsibility for managing production and financial decisions and also many instances in which women are completely responsible for operating their own farm plots, or other businesses, even when they are not the head of the family. Women have lower levels of formal education and thus face greater difficulties in fulfilling the regulatory requirements and they are less like likely to own "fixed property" due to customary constraints of land allocation and are thus less able to meet collateral requirements based on ownership.

iii) Women's Income: An increasing number of rural and urban households are headed by women which depend solely on the income

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female labor will provide, and women are over represented among the poorest sectors of the society. The self-selection process of women begins early as they recognize that they do not meet any of the requirements for eligibility of credit. For these reasons, the issue of women's access to credit and other financial services is a more important issue in Africa than elsewhere (Meyer and Graham, 1991:25).

iv) Women and formal credit: The banking system in Tanzania requires the collaterization of loans. Most small and micro entrepreneurs do not have the necessary collateral due to the its definition as "fixed property". The situation in Tanzania is further complicated by the fact that land is not always accepted as collateral due to the government ownership of all land. In this instance, women are less likely than men to own property due to the cultural constraints placed upon allocation of land through the male head of household. Transaction costs for credit and extension are higher to smaller entrepreneurs they are also commonly viewed as less cost effective.

v) Women's Access to Land: Land law is a most important dimension of the growing inequality among African households. The concept of individual ownership just beginning to emerge in Tanzania. Women's traditional and legal rights to own land have not featured prominently in efforts to re-allocate land, whereas land reform is almost always directed at male heads of households:The land tenure system places constraints on long-term investment which is vital to increased agricultural productivity (USAID 1992 Tanzania Private Sector Assessment). It places particular constraints on women who are additionally hampered by the customary laws in which control over the use of land is determined by men, with usufruct rights for women. (UNICEF 1990:107). Land allocated by village governments tends to be allocated to household heads which customarily means the senior male adult in the household (ibid). Women may be allocated land in their own names but this is rare unless they are considered heads of households. There are however many examples of groups of women being allocated land to generate additional income.

vi) Policies and Procedures: Existing policies and procedures for loan facilities are difficult for women due to the fact that they are based on the assumption that applicants are already within the formal sector, have the necessary educational qualifications and finances that are required as a prerequisite (Molenaar 1990).

vii) Markets: Although women form the majority in the rural areas they do not normally operate at the market or commercial spheres. Middlemen, usually male, dominate in this area and women, because they lack the technical knowledge, management and entrepreneurial skill and the contacts find it difficult to perform effectively in marketing their goods (Molenaar 1990).

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e) Strategies for Employment and Credit to Women:

i) Small Scale Enterprises (SSEs): These have become an important source of employment and income to women. There however some major constraints which include: inappropriate policy; inadequate infrastructure; inappropriate technology; lack of markets; lack of export promotion services for their products; cumbersome taxation and other government procedures (ILO:X). Lack of credit has been identified as the most important constraint facing SSEs which are short of finance to improve and expand their activities. Two banks, the National Bank of Commerce and the Cooperative Rural Development Bank are engaged in financing SSEs, while the TIB, provides term finance for the larger small-medium scale industries. SIDO provides hire/purchase facilities.

ii) Cooperatives and Self-help Groups[53]: In East Africa, cooperatives begun with a more grass-roots approach and have been more successful than most in Africa. The main criticism is that they have been accused of lending to high farmer and cooperative loan arrears by making access to credit too easy (Meyer and Graham 1991:22). Credit Unions on the other hand have a strong commitment to savings and have had a relatively more successful performance.

iii) ROSCAs, self-help groups, savings clubs, and other financial arrangements are organized by women and have only female members and participants. These informal financial arrangements have evolved because of the special needs and opportunities of women. Many financial institutions have failed to recognize the constraints that women face some of whom are blocked from formal finance because of legal and land tenure issues (ibid.:26)

iv) Loan Guarantee Programs Usually implemented in an effort to reduce lender risk and encourage greater lending. Some NGOs and PVOs use second term guarantee programs to expand loans available to self-help groups. Women's World Banking also operates in this way to expand lending to women. There is now doubt about the extent to which guarantee programs in developing countries actually contribute additionally to loan programs (Meyer and Graham,1991:15).

v) Special credit programs like the Presidential National Trust Fund appear to have reached women by not equating collateral to immovable property[54], and some donors (inter alia, UNIFEM, DANIDA, SIDA) are attempting to address women's special needs.

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[53] There are many examples of women's group efforts being taken over by village leaders, other men, or women themselves. Women are thus reportedly withdrawing from large group efforts.

[54] Molenaar argues that the fund is too small both in capital and in loan giving capacity.

f) WOMEN'S ASSOCIATIONS AND CIVIL SOCIETY

The context within which women's issues have been addressed include: (i) The Constitution and the legal system in which the socialist policy of self-reliance places emphasis on equality and freedom of the entire population; (ii) The Union of Tanzania Women (UWT) with a membership of 1 million whose purpose is to unite all women and integrate them into the social, economic, cultural and political activities. UWT has established as economic wing, SUWATA to generate resources; (iii) Ministry of Community Development and Women's Affairs charged with addressing women's development issues in rural and urban areas; and Party commitment through various statements discussing issues of women's independence. The Arusha Declaration influenced national thinking on gender equality, particularly amongst the women themselves (Bujra 1990), but the development of subsequent policies and legislation remained gender neutral (ILO 1991:223).

ii) Women's traditional organizations that operated through lineages, kinship, age-sets, and clans have lost their previous social role. The village base groups, organized by voluntary membership generally provided women with the power that they used to counterbalance the power the of men (Stamp 1989:70-3). As the locus of power has shifted from the village and the lineage to the centralized nation-state, politics have become removed from the arenas in which women have influence.

iii) Women's national organizations operate at ambivalent levels and are often set up by the state to extend control to the rural areas. There is the common phenomenon in many African countries of having nationally sponsored women's organizations as safe show cases of the governments commitments to women's interests, which allows it to co-opt national women's efforts and ideology. In most cases these organizations are deeply divided between the elite and the alienated local women whose interests are not served[55] (Stamp 1989). In the early 1980s, rural women in Tanzania were encouraged to form groups by community workers, through which they would participate in community decisions. The Union of Women Of Tanzania (UWT)[56] notes in a recent paper[57] (1992) that there has been no

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[55] The cases of the Maendeleo Ya Wanawake in Kenya, and the Malawi National Women's Organization are typical of the state attempts to control women's organizations.

[56] Women's representation in Parliament currently stands at 10%; there is 6% representation in village committees; 10% district and regional representation; 15% in the National Executive Committee (UWT 1992; ILO 1991).

[57] A proposal submitted to donors to support a Women's Forum to discuss women and the transition to multi-partyism.

evidence to support these grassroots groups actually increased women's participation at village level. Women's influence and effectiveness have remained marginal while women leaders have gained contact with national institutions and patronage while the majority of women continue as they are (ILO 1991:223).

g) **Tanzania Business and Professional Women's Association:** Established in 1989 by a group of women including private entrepreneurs and senior professionals in the civil service with the main objective of addressing the problems of women entrepreneurs. The group so far receives no assistance from the government. Is started with a membership of 60 women and now has 5 Branches and 445 members covering the whole spectrum of activities in the informal sector.

h) SUMMARY OF WOMEN'S POSITION AND CONSTRAINT IN PRIVATE ENTERPRISE

Women form a majority of the productive capacity of Tanzania, they also, however, also form the majority of the vulnerable groups most likely to be negatively impacted by a reduced social services (UNICEF 1990; ILO 1991). It has been argued that "optimal employment of the productive capacity of the population, vulnerable or not, is actually a necessary condition for the success of the economic recovery program itself" (Grosz 1988:5).

Women in Tanzania are constrained in participating in economic activities effectively and in sharing the benefits due to their limited access to resources such as capital, labor and materials. Their access to capital is constrained by customary laws that limit their ownership of land and property and thus lack of collateral; their low education levels determines their entry into low paying employment and thus to low incomes; the most available labor that women have is their own; their lack of skills limit their use of their own labor; the continuing sexual division of labor demands that they take responsibilities of the productive and reproductive roles and thus increases their workload.

3. JUSTIFICATION FOR GENDER CONSIDERATIONS IN FED

The efficiency approach to development that is being advocated by donors has significant implications for women in Tanzania. It contains within it assumptions that economic growth supersedes other developmental considerations (Wilde et al 1991). Major withdrawals of state support of the majority of the poor has negative effects on the welfare, health and in particular for women who have to undertake additional responsibilities due to their reproductive roles. As a dominant theory for those working within a WID framework, the approach is perceived to rely heavily on the elasticity of women's labor both in their productive and community managing roles, leading to longer working hours and increased unpaid work (Moser 1989:1814).

It has been argued that -

> "..if one addresses women's issues, one can relatively be assured that issues of the poor majority -- low -- resource people -- are also being addressed. Gender was chosen as an example for disaggregation of policy impacts, 'not only because it has been identified as one of the main organizing principles for rural society, but, more importantly, because we believe that gender can be used as a proxy for examining impacts on low-resource farmers, both male and female.."(Grosz 1988:11).[58]

There is potential that the FED program will have a differential impact by region, ethnic, class and gender. As women constitute the majority of farmers and entrepreneurs in Tanzania and are among the majority of the low-resource groups, if the above argument holds true, then:

- vulnerable groups must be considered in the design, implementation and evaluation policies of FED in order to protect them as well as utilize/expand their existing productive capacity;

- the informal sector is the highest growth sector in the Tanzanian economy (ILO 1991) in which women constitute 52% of the productive capacity; 97% of the rural labor force (UNICEF 1990);

- informal sector operators sometimes fail to benefit from macro-policies on credit and tax because they lack the economic and lobby power, the necessary documents and most often don't realize that these opportunities exist (ZRG 1990: 1-32).

4. RECOMMENDATIONS:

1. USAID/T should therefore consider affirmative action to ensure that women are enabled to access the FED program through:

a) - the use of the Social Action Trust or the local currency fund to include WID activities;

b) - the establishment of Business Advisory Centers that will provide services on identification of financing (from financial institutions, donors, informal sources, etc) to suit

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[58] Quoted from 'The Policy Inventory, A Manual for Rapid Appraisal of Policies Affecting the Agricultural Sector with Disaggregation of Impacts by Gender: A Summary, in Participant Workbook, Gender Resources in African Agricultural Systems AID Workshop held September 24-26, 1987 in Nairobi, Kenya.

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the needs of the small entrepreneur; proposal writing; identify the regulations and processes that the different entrepreneurs have to know about; etc.

c) - In policy dialogue, emphasize women's critical role to the economic development through a policy framework that takes into account, promotes and supports women's activities;

d) - Skills development program that is designed to meet women entrepreneurs special needs.

2. **Strengthening Business Associations:**

- The Professional and Business Women's Association should be targeted to provide institutional support to their lobbying activities for women.

3. **Studies:**

- Undertake research on gender issues in financial markets for a clearer understanding of issues and procedures that affect women.

4. **USAID/T should also support:**

- the ESAURP on "Women in the Informal Sector in Tanzania" research proposal in order to establish adequate baseline data to support the information on women in relation to access to resources, information, etc;

- the establishment of a Gender Information Clearing House, possibly within the Women's Research and Documentation Center (WRDC) at the University of Dar es Salaam. (Grosz [1988:23] recommended a clearing within the Ministry of Community Development and Women's Affairs, however, the WRDC already has small center that could be built upon).

5. **WID activities that USAId/T needs to keep track of:**

a) - The **Rural Banks** concept of the Bank of Tanzania (to be designed, planned, implemented within the context of the FED).

b) - Progress of the work of the **Land Commission.** It is unlikely that the Commission would recommend the repeal of the legislation on Customary Laws and Practices which are the primary obstacles to women's ownership of land, however, it is possible that other approaches may be considered.

c) - The compilation of a list of local consultants who may be commissioned to develop **WID strategies** for Tanzania.

d) - The status of the UWT: Is it to remain within the Party or acquire independent and autonomous status?

e) - The UNIFEM credit fund for SSE through the National Bank of Commerce might have possibilities for expansion;

f) - the SUWATA request to support a "Women's Forum" in lines with those that were used to hold the "National Convention of Women in Kenya may yield interesting results if women feel free to state their case.

5. CONCLUSION

Few people in Tanzania have access to the formal sector economy. The majority of Tanzanians earn their income from the informal sector. Women's access to resources, both formal and informal, is disproportionately less than men's. There is a likelihood that women will end up competing with men for the scarce resources available and lose out because of their lack of organizations and their low status in the community.

There is absolutely no relationship between reaching the FED program targets - increasing income and job creation - and also integrate women as beneficiaries unless: (a) they have access to credit and (b) they are also targeted as a specific percentage of the program beneficiaries.

There is need to recognize that women have special concerns, special needs, and special difficulties which limit their participation at any meaningful level of development. That is not to say that women should be placed at a special level, only that there is need of interim policies that will help them up urgently to a level where they may fully participate and share equally in the development process.

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ANNEX N

ECONOMIC ANALYSIS

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THE MICROECONOMICS OF TANZANIA'S FINANCIAL SECTOR

Introduction

During the past decade, Tanzania's financial sector has been characterized by inadequacies in almost all areas of performance, including:

- Poor customer services;
- Low resource mobilization;
- Low profitability of commercial banks due to:
  - Overstaffing;
  - high delinquency rates;
  - government directed sector lending and
  - low capitalization ratios.
- Reduced autonomy of banks to undertake discretionary lending;
- Increased administrative requirements for loan processing;
- Reduced people for financial institutions to allocate credit on the basis of economic criteria;
- Reduced autonomy of top management to function as a profit - making firm; and
- Weak management and supervision.

These problems have resulted in a loss of public confidence in the financial sector as manifested in: use of cash rather than cheques in payments transactions, increased use of the informal financial sector for saving and lending purposes and increased use of the unofficial foreign exchange market. To reverse this trend, the government enacted the Banking and Financial Institutions Act in 1991 which aimed at restructuring the entire financial sector and usher in private competitive banking.

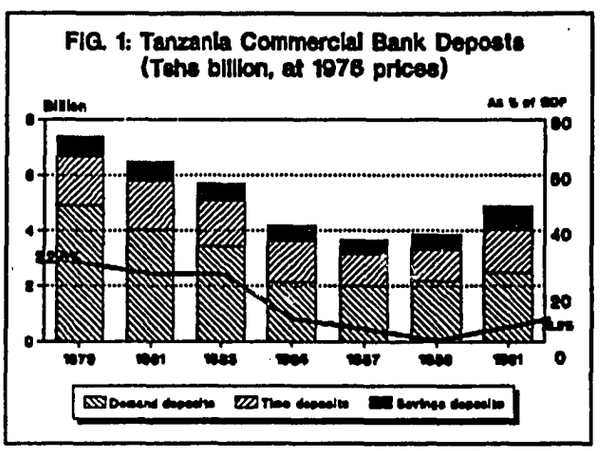
Financial Institution Management

Poor management pervades almost all sectors in Tanzania. In the financial sector, low civil service pay scales, political interference in management decisions of the largely government owned financial institutions and the regulatory systems that discourage innovation by permitting only prescribed activities rather than anything not prescribed all contribute to weak management. The government's acceptance to allow entry of domestic

and foreign private banks, allow autonomously determined wage rates, and moves towards political pluralism should provide a venue for improving management expertise.

Mobilization of Financial Savings

The growth of Tanzanian commercial bank deposits has declined since 1979 (see Fig. 1). For example, total commercial bank deposits declined from Tshs. 7,447 million (at 1976 prices) or 32.6% of GDP in 1979 to Tshs. 3611 million or 14.4% of GDP in 1986. Government economic restructuring policies (ERP) implemented since 1986 particularly through progressive liberalization of interest rates has arrested the declining trend in real deposits.



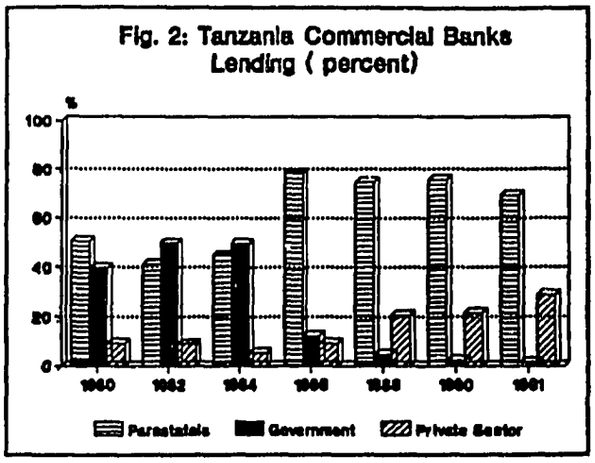
The major source of Tanzania's commercial bank deposits has been the private sector with shares of 74.9% and 60% in 1980 and 1986, respectively. The share of parastatal deposits has stood at 20.2% and 35.3% in 1980 and 1986, respectively. Thus, while the public sector has increased its contribution to total deposits, particularly in recent years, the private sector still remains the dominant contributor to total deposits of commercial banks. Envisaged further liberalization of interest rates, particularly the recently approved policy which allows banks to set own interest rates would improve resource mobilization in the economy.

Lending Operations

Tanzanian commercial bank lending has during the past two decades been characterized by the dominance of the public sector in credit flows and the paucity of credit flowing to the private sector. Up to 1987, the public sector routinely received over 90% of total lending from the commercial banks (see Fig.2) Similarly, before the ERP in 1985, the government was the principal recipient of commercial bank credit, followed by the parastatal enterprises. After 1986, parastatals have continued to be the principal beneficiaries of commercial bank credit. Thus, commercial bank lending operations have been characterized by the crowding-out of the non-government and non-parastatal sectors from access to credit.

The problem with public enterprise lending is that banking standards have not been observed with the result that most credit

involved is not fully covered by relevant financial inventories. It is estimated that 50-70% of the total commercial lending is of a problem nature with large non-performing loans which may not be recoverable, in part because the cost of recovery may exceed the benefits. The government has established a Loans and Advances Realization Trust Act of April 1991, which will operate as a recovery mechanism (through collection or liquidation) for overdue debts of financial institutions.



Financial sector reforms now being put in place, including removal of directed credit lending by the government, more stringent adherence to banking principles with respect to denial of credit to uncreditworthy customers and removal of the current maximum lending rate of 31% should improve lending operations.

The Structure of Interest Rates

The basic structure of interest rates in Tanzania are shown in Table 1.

TABLE 1: STRUCTURE OF INTEREST RATES IN TANZANIA 1970-1988

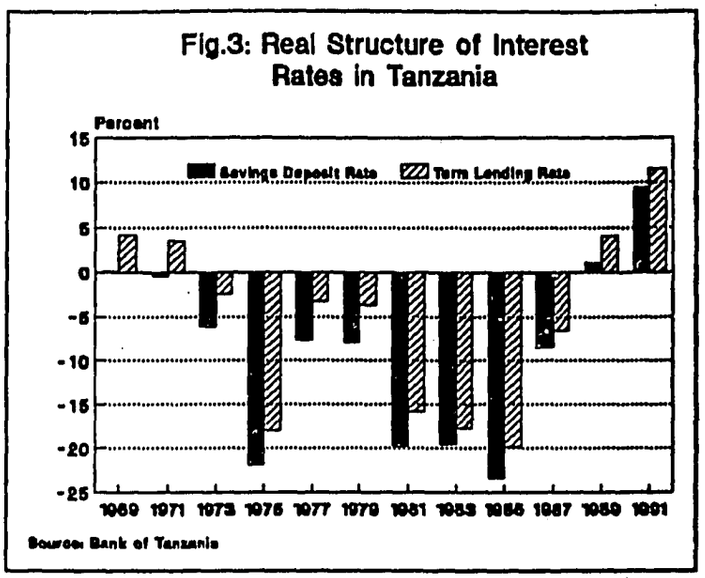
YEAR	Saving Deposit Rate	Time Deposit Rate	Short-term Lending Rate	Direct Advances Rate	Treasury Bill Rate	Saving Deposit Rate (Real)	Short Lending Rate (Real)
1970	3.50	4.50	7.50	4.77	4.27	0.1	4.1
1971	3.50	4.50	7.50	4.77	4.27	-0.5	3.5
1972	3.50	4.50	7.50	4.77	4.27	-5.1	-1.1
1973	4.00	4.50	7.50	4.77	4.27	-6.2	2.3
1974	4.00	4.50	7.50	4.77	4.27	-15.7	-12.2
1975	4.00	4.50	8.00	4.77	4.27	-21.9	-17.9
1976	4.00	4.50	6.13	4.77	4.27	-2.9	-0.8
1977	4.00	4.50	8.30	4.77	4.27	-7.6	-3.3
1978	5.00	4.50	9.50	4.77	4.27	-1.6	-2.9
1979	5.00	4.50	9.25	4.77	4.27	-7.9	-3.7
1980	5.00	4.50	9.75	4.77	4.27	-25.3	-20.6
1981	6.00	5.00	10.00	4.77	4.27	-19.7	-15.7
1982	7.50	5.00	10.25	4.77	4.27	-21.5	-18.7
1983	7.50	5.00	9.50	4.00	4.95	-19.6	-17.6
1984	7.50	5.00	9.50	4.00	4.95	-28.6	-26.6
1985	10.00	6.00	13.50	5.00	5.66	-23.3	-19.8
1986	12.50	10.00	13.50	5.00	5.66	-19.5	-18.9
1987	21.50	18.00	23.50	11.25	11.63	-8.5	-6.5
1988	21.50	21.25	23.50	11.25	11.63	-9.7	-7.7
1989	24.00	23.50	25.00	13.00	13.50	1.0	4.0
1990	26.00	24.00	27.00	13.00	13.50	2.0	3.0
1991	29.00	27.00	31.00	14.00	14.00	9.5	11.5

Source: Bank of Tanzania

Given the high inflation rate prevailing in Tanzania during most of 1970's and 1980's, the real interest rates were negative for most of the period. From the theoretical point of view, and based in part on Keynesian theory, savings are supposed to vary directly with the rate of interest (paid to savers). Thus, one of the main objectives of Tanzania's reform program was to bring about positive real interest rates so as to stimulate savings and hence investment.

Tanzania's ERP began in 1986 sought to achieve positive real interest rates through the reduction of inflation while progressively liberalizing interest rates. Thus, between 1986 and 1991, inflation was brought down from over 32% per annum to about

20%[59] while interest rates were adjusted to 29% for the deposit rates and 31% for the lending rates, bringing the structure of interest rates positive in real terms (see Fig. 3). In addition, since 1991, financial institutions have been given autonomy to set their own interest rates subject to a periodically reviewed maximum lending rate of 31 percent.



In microeconomic terms, whether the appropriate real interest rate on long term deposits is negative, positive or zero, depends on the volume of real money demand to be generated. In a growing economy such as Tanzania, the basic objective of accelerating economic growth would necessitate positive real long-term deposit rates in order to maximize the real supply of domestic credit, the main asset backing the deposit liabilities of the financial intermediaries. To this end, the government has made efforts to reduce inflation through greater monetary and fiscal discipline, while allowing banks to set own interest rate structure subject to a maximum lending rate of 31%. Planned reforms in the financial sector include the elimination of this maximum lending rate in favor of flexibly determined rates.

Depth of the Tanzania Financial System:

One of the basic indices used to gauge financial sector development in a country is financial depth. Empirical evidence suggests a strong correlation between financial depth, efficiency of investment, and economic growth. Investment productivity, as measured by the ratio of the change in GDP to investment, is significantly higher in countries which have deeper financial systems. Financial deepening, through higher financial savings, should figure as a top priority for the Tanzanian authorities as the experience of fast developing countries suggests a strong link between financial development and growth. However, the depth of Tanzania's financial system has not been significantly different since its early post-independence history. The M2/GDP ratio, one of the leading indicators of financial depth, has hardly changed over a thirteen-year period (1975-1988), remaining below 25% of

[59]Bank of Tanzania, Economic and Operations Report

GDP. Table 2 compares Tanzania's financial depth with that of a number of industrial and developing countries.

Table 2: FINANCIAL DEPTH AND FINANCIAL PRICE INDICATORS (1985-88 Average)

	M2/GDP Ratio	GDP Deflator (%)	Per Capita Income (US$)
Industrial Countries			
- United States	69	3	18,190
- France	73	3	12,813
- Japan	175	1	15,245
- United Kingdom	67	5.2	10,245
Developing Countries			
- India	46	7.1	308
- Mauritius	54	6.8	1,410
- Nigeria	29	16	575
- Ethiopia	43	1	120
- Malawi	26	13.4	158
- Tanzania	24.2	25.9	130

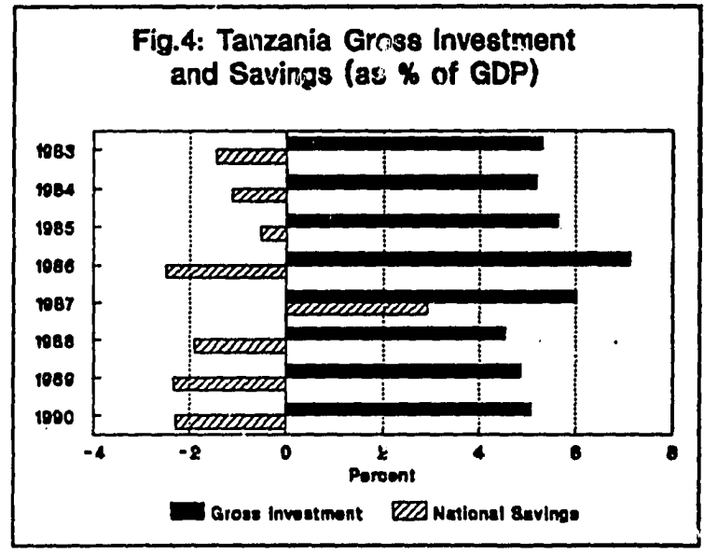
Source: **World Bank Data**

Several factors may explain the low M2/GDP ratio for Tanzania as compared to other developing countries like Mauritius and India. First, Tanzania's GNP per capita stands among the lowest in Sub-Saharan Africa and has been on the decline since 1982 when it reached its peak of $320. Second, high inflation, particularly double-digit inflation throughout the 1980s, has been a major disincentive which has adversely affected people's willingness to hold financial assets. The experience of other countries shows that positive real interest rates favor financial saving over other forms of saving and therefore promote financial deepening. Reducing inflation and maintaining a stable price level is an essential precondition for increasing the size of a country's financial system and thus promote the economic efficiencies associated with bank financial intermediation. Third, Tanzania's financial network is mainly concentrated in the urban areas particularly in Dar es Salaam, Mwanza, Moshi and Arusha, thereby failing to capture the surplus resources of the rural areas. Financial deepening will require a decentralization of financial activities from the urban areas to the rural areas.

The New Role of the Financial Sector:

The financial system, particularly financial institutions within the formal legal and regulatory framework, is generally not directly involved in the major part of private savings and investment. In economies dominated by rural households such as Tanzania, these rely significantly on self-finance, using their own savings to finance their investment. However, the investment opportunities of a household or a firm may not be matched by its resources and may be inefficiently limited by them. Therefore, in order for an economy to develop and diversify, the role of the financial system can be expected to grow relative to those of self-finance, relatives, friends and moneylenders. At any given point in time, surplus resources are generated by certain economic units that can be most efficiently used by other economic units. The role of the financial system is to ensure that savings from surplus economic units are efficiently mobilized and shifted to high-yielding investments in deficit economic units with an appropriate balance of risk and return.

Smoothly functioning financial systems lower the cost of transferring resources from savers to borrowers, which raises the rates paid to savers and lowers the cost to borrowers. The adequacy of financial institutions, instruments and markets can affect the volume of financial savings mobilized and the efficiency with which they are allocated to productive uses. In the medium term and long-term, the financial system should develop confidence among savers and investors alike. The gap between domestic savings and investment (see Fig.4) should be increasingly financed by private inflows. In recent years, Tanzania's bulk of the current account deficit has been financed by loans and grants from foreign bilateral and multilateral donors with non-concessional private inflows (loans and direct investment) playing a relatively minor role. Although concessional public inflows are likely to remain important in the foreseeable future, the base for substantial inflows of private resources should begin to be established. This would require adequate legal protection for providers of foreign capital, whether in the form of debt or equity. Growth in Tanzania could be enhanced and sustained if there are also appropriate



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policies to deepen and develop the financial sector in order to service the growing needs of the increasingly diversified real economy.

Shifting State Involvement in the Financial Sector:

Although the role of the state in ownership of financial institutions generally makes a dubious contribution to financial sector development, the move to allow private banking is a commendable one. But appropriate state roles in macroeconomic management and regulatory policies are essential to financial sector development. Government has an important role to pay in the financial sector in providing a sound macroeconomic framework which maintains positive real interest rates, does not unduly pre-empt investible resources for public expenditure and ensures that the borrowers of financial institutions operate in an undistorted economic environment. Government also needs to provide a regulatory framework which balances efficiency in the financial system, which requires freedom of financial managers to act, with prudent management of financial institutions and safety of depositor and investor funds, which in turn requires some degree of government regulation. The emerging shift away from government ownership in institutions must now be matched by a strengthened government role in appropriate macroeconomic management, financial sector regulation and prudential supervision, within a strengthened central bank of Tanzania.

ECONOMIC BENEFITS OF THE FED PROGRAM

The benefits that are expected from the implementation of the FED policy reform program are a result of direct and indirect benefits of the individual policy reform measures and the additional combined effect of all the policy changes that create a more positive private sector business climate. Some of the direct effects of the policy reforms are expected to result in a more efficient, competitive banking system and increased mobilization of private capital for new investment in value-added activities. Other, more indirect effects are the elimination of many of the bottlenecks associated with doing business, which are expected to increase business efficiency as businesses no longer will take time-consuming actions trying to avoid the rent seeking activities that are associated with bureaucratic bottlenecks.

The quantification of benefits of the FED policy reforms is difficult and complex in part because of the large number of micro and macro economic agents involved in the program. As such, the economic analysis discussed below provides a qualitative assessment of the benefits of the policy and institutional changes associated with the FED program. The conventional analysis included at the end of this section merely establishes an expected lower bound of the impact of the FED program and does not claim to be exhaustive in any way. The overall benefit of the FED program, however, is to assist Tanzania in building an enabling environment conducive to private sector growth, increased opportunities for more jobs, higher per capita incomes and faster economic growth.

1. Program Foreign Exchange Benefits

It is anticipated that the foreign exchange funds provided to Tanzania by A.I.D. will be used by the private sector to procure equipment and supplies required to expand industrial and manufacturing output. What would be the value of those additional goods and services? In the absence of tariffs, import licensing, or foreign exchange administrative allocation and an external account which was in balance, it would be reasonable to assume that a dollar's worth of additional imports would be worth a dollar. This implies each dollar of FED disbursed will be worth at least a dollar to Tanzania, yielding a "benefit-cost ratio" at least equal to one, even prior to a deeper development impact analysis.

TABLE 1: SAVINGS, INVESTMENT AND ECONOMIC GROWTH, 1982,88			
Country group	**Savings share** (% of GDP)	**Investment share** (% of GDP)	**GDP growth rate** (% p.a)
Developing countries	23.5	23.6	4.2
Latin America	21.7	18.7	1.3
South Asia	19.2	22.8	5.6
East Asia	31.0	30.6	8.8
Industrial countries	20.0	20.0	3.0
SSA	11.4	14.5	0.9
Tanzania	7.7	18.7	2.6
Source: World Bank			

The link between investment, savings and economic growth is illustrated in Table 1. The FED program, by assisting Tanzania with foreign exchange, augments domestic savings and its investment level. As indicated in Table 1, countries which invest more in their economy are expected to have a faster rate of economic growth (example, the Asian sub-continent). It is expected that the FED program will improve the investment climate backed by increased USAID assistance resources, thus stepping up Tanzania's rate of economic growth.

2. <u>Export Growth Impact</u>

On both the dollar and local currency FED program assistance, the emphasis is on the improvement of value-added exports. This export expansion is essential if Tanzania is to accelerate its economic development. The World Bank and other studies have shown that there is a clear correlation between export expansion and economic growth (see Table 2). For example, between 1965 and 1981, Sub-Saharan African countries (SSA) exports grew at 3.8% annually, imports at nearly 7% a year and economic growth ran ahead of population expansion. During the latter period (1982-88), exports fell and import capacity declined by almost 8% a year. As a result, economic growth was less than 1% per year--well behind the annual 3.2% rate of population increase. The fact that Tanzania's GDP declined less than the average for SSA during this period despite large falls in both exports and imports is attributed to the large increase in donor support. The experiences of South and East Asia

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and the Latin American countries does show that increased exports do translate into higher rates of economic growth if sustained. The FED program, by assisting Tanzania to put in place an enabling environment for enhanced export growth, should foster economic growth.

TABLE 2: **EXPORTS AND ECONOMIC GROWTH** (% p.a)

Region	1965-1981			1982-1988		
	GDP	Exports	Imports	GDP	Exports	Imports
Developing countries	5.6	6.6	8.1	4.2	8.2	3.6
Latin America	5.9	18.6	8.9	1.3	4.8	-2.1
South Asia	3.7	4.6	3.2	5.6	4.4	5.0
East Asia	6.9	8.2	10.9	8.8	15.7	12.5
SSA	3.6	3.8	6.8	0.9	-0.4	-7.7
Tanzania	3.9	-4.2	1.7	2.6	-8.2	-2.9

Source: World Bank

3. Impact on the Business Environment

Tanzania's business community is expected to benefit from the several FED policy reforms that will reduce the cost of doing business. The current number of beneficiaries are the registered 300,000 business firms and the many firms that operate in the informal sector. Key proposed FED policy reforms include: reducing the excessive role of ministries in approving business establishments; facilitating access to business finance; import facilitation; allocation of property; the establishment of a legal code governing business operations and improving the performance of the Investment Promotion Center (IPC).

During the past 5 years an average of 2000 businesses have been registered each year. The time needed to deal with unnecessary bureaucracy varies greatly from firm to firm. However, the average number of hours needed to establish a business ranges between 300 and 600 hours (Semboja, 1990).[60] The policy reforms envisaged under the FED program are expected to reduce these transaction costs by half within the first two years of operation, implying

[60]Joseph Semboja, The Role of the Private Sector in Tanzania, May 1990.

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large gains to all business starters. Further, by making renewal of business licenses automatic the existing more than 300,000 business firms would save as much as 50 to 75 hours of unnecessary bureaucratic delays.

4. Impact on Employment

Through the FED local currency programming, it is expected that supported value-added activities will generate jobs and improve incomes of those beneficiaries. An ILO study [61]completed in 1991 shows that at least 300,000 persons in Tanzania enter the labor force each year. When added to the existing unemployed, the employment problem is acute. The situation is made worse by observed declining trends in formal sector employment. The number of jobs created per year dropped from 30,000 in the mid 1980s to only 9,500 in the late 1980s and early 1990s. Planned retrenchment in 1992 will affect at least 10% of the civil service employees, equivalent to almost 49,000 persons. Thus, the role of the government sector in absorbing additions to the labor force will be marginal. This implies that the new entrants into the labor force will have to be absorbed in the rural sector, and the private sector.

The ILO study projects that overall, productive employment in Tanzania in the 1990s will increase by 2.2% per annum, while the labor force is projected to expand by 3.3%, providing a worsening of the employment situation.

Given the forementioned blink scenario, the creation of jobs for the rapidly expanding labor force must be a central objective to the government of Tanzania. The FED program is a timely assistance, not only in terms of facilitating an enabling environment for businesses to create more jobs through its policy-based reforms, but also in actual job creation by those benefiting from the local currency use.

5. Impact on the Financial Sector

An appropriate financial system is essential to Tanzania for several reasons. First, an efficient financial system can play a major role in expansion of domestic and foreign trade, stimulation of domestic savings and appropriate channeling of available resources to productive uses - functions essential to the increasingly market-oriented Tanzanian economy. Second, a system of appropriate financial institutions, instruments and markets enables economic agents to pool, price and trade the risks associated with various economic activities which individual entrepreneurs may not wish to bear entirely - a key issue which

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[61]ILO, Tanzania: Meeting the Employment Challenge, March 1991.

will emerge with increasing economic diversification. Third, a well-developed financial system with adequate depth and range of financial instruments can over time help address the concern of Tanzania policy makers to more effectively conduct macroeconomic policy and adjust to internal and external shocks.

In addition, the confidence of economic agents in the soundness of the financial system depends fundamentally on the existence of an effective regulatory and supervisory framework. Also, within the financial system, banks in particular hold a special position in the economy as creators of money, principal depositaries of financial savings, the principal allocators of credit and managers of the country's payments system. For this reason, the central bank (The Bank of Tanzania) plays an important role in ensuring effective regulation and supervision of the financial system, particularly banking institutions. The FED program, by assisting the Bank of Tanzania to credibly play its role as an independent central bank, has large pay-offs not only in terms of facilitating efficiency in the financial sector but also in stimulating economic growth through a better use of domestic and foreign economic resources.

6. <u>Second Round Economy-wide Benefits</u>

If the FED program is implemented as planned, all economic agents in Tanzania could eventually be able to make sound investment decisions in response to undistorted market signals. This has important implications in terms of increased productivity and sustaining Tanzania's growth prospects. Empirical studies show that less than half the growth in output can be attributed to increases in labor and capital; higher productivity explain much of the rest. Equally important, is the fostering of private sector capabilities. As the FED program gets underway, there should be a release of private sector energies and encouragement of initiative at every level. At the grassroots level this means village and ward associations; at the intermediate level, various local non-government organizations and at the national level, chambers of commerce and industry, trade associations, NGO's, professional associations, and the like. Eventually, the awareness created through the FED program should translate into greater self-reliance in terms of more prudent economic policy analysis and economic restructuring reform implementation.

Another important second round impact is the possibility of curbing corruption through the facilitation of a more open, market driven economy. If the FED program is implemented as planned, corruption may be countered by the elimination of unnecessary controls, which reduces the scope for "rent-seeking", transparent procurement procedures, scrupulous and prompt accounting. This is particularly important in the FED banking support because experience shows that bank failures often results not from incompetent management, but from fraud. Consequently, appropriate supervisory measures being

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established through the FED program should be vital in protecting saver's money from serving the immediate interest of managers or of loan officers.

7. The Relative Magnitudes of the Impact of the FED Program

The quantification of the benefits of the FED policy reforms is difficult and complex in part because of the large number of micro and macro economic agents involved in the program and more so because many of the policy impacts are not easily quantifiable. However, the inclusion of the economic benefits below is intended to provide an expected lower bound of the impact of the FED program. The assumptions of the analysis: Constant ICOR value, constant labor productivity, marginal imports worth slightly less than their market value, provide a lower bound scenario. If the FED program can be shown to have a positive impact under those assumptions, then the objective of the FED policy - based assistance to improve Tanzania's income and employment prospects should have even a greater impact when increasing values of productivity and removal of the over-valuation of the shilling are made to obtain a value of marginal imports at least equal to the market price. The assumptions are explained briefly below.

A. Program Foreign Exchange Benefits

It is anticipated that the foreign exchange funds provided to Tanzania by A.I.D. will be used by the private sector to procure equipment and supplies required to expand industrial and manufacturing output. What would be the value of those additional goods and services? In the absence of tariffs, import licensing, or foreign exchange administrative allocation and an external account which was in balance, it would be reasonable to assume that a dollar's worth of additional imports would be worth close to a dollar. But given the constraints in Tanzania, marginal imports may be worth more (because of tariffs and non-tariff barriers such as corruption) or less (because of the overvalued exchange rate) than their market price. Overall, it is assumed in this analysis that marginal imports financed by the additional FED dollars are worth close to their nominal market price. Ranges of 85 to 95% have been used in this analysis.

B. Banking Sector Cost Savings

As stated in section IV, the major building blocks in the financial sector are already in place but a wide range of policy, regulatory or institutional environment need urgent reform. The FED policy reforms would put in place prudential regulations and practices in the banking sector, facilitate licensing of private banks; speed up access to foreign exchange retention accounts; provide the ground work for establishing a stock market and assist the central bank in the establishment of an interbank check-clearing mechanism.

Assuming that the financial institutions will save 1% of their portfolio from loss that stem from flaws addressed by the FED reforms, these savings could range from $ 2 million to $ 3.5 million per year.

C. Business Cost Savings

Benefits under this category summarizes all the gains that will accrue to the estimated more than 300,000 business entities in Tanzania as a result of the several policy reforms that will reduce the cost of doing business. Key reforms include: reducing the excessive role of ministries in approving business establishments; facilitating access to business finance; import facilitation; allocation of property; the establishment of a legal code governing business operations and improving the performance of the Investment Promotion Center (IPC).

During the past 5 years an average of 2000 businesses have been registered each year. The time needed to deal with unnecessary bureaucracy varies greatly from firm to firm. However, the average number of hours needed to establish a business ranges between 300 and 600 hours. If we assume 2000 business entities will continued to be established each year and the opportunity cost of the entrepreneur (or his/her facilitators) is $ 1.00 per hour, this entails a potential cost savings of $ 300 to $ 600 per firm or $ 0.6 to 1.2 million per year. Further, by making renewal of business licenses automatic the existing more than 300,000 business firms would save as much as 50 to 75 hours of unnecessary bureaucratic delays. With an opportunity cost of $1.00 per hour, this should translate into $15 to $20 million of cost savings per year.

D. Benefits from increased efficiency of investment

In addition to business cost savings that are expected as a result of the various FED policy changes, there is the expectation that output per dollar of new investment will rise. This should be expected if the funds made available through the venture capital window or the trust fund meet their intended goal. Supporting this expectation is the assumption that the FED policy reform program would eliminate the biases against small and medium enterprises (SMEs) and thereby ease entry from the informal to the formal sector. If the policy reforms have their intended effect and FED funds are channelled to value-added activities, it is expected that SMEs would grow at a faster rate than larger businesses, particularly parastatals; and investment funds should be more efficiently utilized over time, creating a larger output and jobs. SMEs typically are more labor intensive and efficient than larger firms, especially parastatals. (See Table 3)

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TABLE 3: **TANZANIA INDICATORS OF PERFORMANCE PUBLIC AND PRIVATE INDUSTRIAL FIRMS, 1975 - 79**		
	Public	Private
Manhours per Employee	2,160.2	3,009.0
Labor Cost per Employee	13,490.0	8,355.8
Labor Cost per Manhours	5.7	2.9
Output-Labor Ratio	41,944.4	90,467.0
Output-Manhour Ratio	19.0	31.2
Labor Cost/Total Cost (%)	32.8	15.9
Capital-Labor Ratio	2.8	23.8
Output-Capital Ratio	1.4	1.6
Capital per Unit (at 1000 per unit)	25,782.0	16,248.1
Source: **World Bank, "Parastatals in Tanzania, Towards a Reform Program, July 1988, p.19.**		

As the FED policy changes take effect, a shift in the way Tanzania conducts business would be expected to occur and investment would be made in more efficient economic activities which should lead to a fall in the incremental capital output ratio (ICOR) (See more details below). Assuming only a 5% fall in the ICOR, this could translate into an increase in GDP of about a quarter of a percentage point or $7.5 million per year.

E. <u>The Incremental Capital Output Ratio (ICOR)</u>

Define ICOR as the increase in a country's capital stock, over a period of years, divided by the increase in the country's productive capacity, expressed as output per year during the same period. Expressed in symbols:

(i) $ICOR = \frac{dK}{dO}$, where d stands for "change"
K stands for capital
O stands for output

For example if during a 10 year period there is $ 5 billion of investment in a country and the increase in annual output, as measured by the Gross Domestic Output (GDP), is $ 1 billion, the ICOR is 5.

The ICOR does not incorporate economic or technical changes that

may be occurring in an economy. But empirically it is a very useful measure or tool for estimating, among other things, the amount of capital needed over time to achieve a given increase in productive capacity, or the change in productive capacity as a result of a change in investment. Both approaches are used in this analysis in order to estimate the impact, or achievements, that can be expected as a result of the FED policy reform program.

Equation (i) above is normally expressed in terms of GDP because the ratios are generally available and doing so does not change the value of the equation. Let I be substituted for dK in equation (i) above. Expressing (i) in terms of GDP, we have:

$$\text{(ii)} \quad ICOR = \frac{I/GDP}{dGDP/GDP}$$

If the effect upon GDP is lagged one year, equation (ii) can be made more operational by using values in the base or "t" period for I and GDP and letting dGDP equal the difference and GDP in period "t". Equation (ii) would then take the form:

$$\text{(iii)} \quad ICOR_{t+1} = \frac{It/GDPt}{(GDP_{t+1} - GDP_t)/GDPt}$$

and rearranging (iii) above yields:

$$\text{(iv)} \quad GDP_{t+1} = \frac{It}{ICOR_{t+1}} + GDP_t$$

where it is composed of the base case investment figure plus one of the two program investment figures shown in Table 5. All the program GDP values shown in Table 5 were calculated using the above equation. For example, the GDP value for 1994 under case 1b of the program is calculated as follows:

$$GDP_{t+1} = \frac{81.9+.45}{3.1} + 508.9$$
$$= 535.5$$

Program Impact Estimates

The FED program impact estimates are shown in Table 5. Base data for GDP were estimates made by the Bureau of Statistics. There are no studies which give ICOR but a 1987 World Bank study on industrial sector reform show an average of 4.5 to be typical during the mid 1970s and early 1980s. These World Bank estimates were supplemented with Bureau of Statistics estimates to arrive at the base ICOR. With the adoption and implementation of economic restructuring policies (ERP) since 1986, the business environment has improved somewhat, so that the ICOR should be expected to fall. The amount of decrease is not known, but it is not expected to be

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large. For purposes of this study, ERP policies implemented to-date are assumed to have improved investment efficiency resulting in a decrease of ICOR from 4.5 to 3.5, at which level it remains until the year 2005. It is expected that improvements in the private sector business environment due to the FED program would result in a decrease of the ICOR by about 11%. The FED program is evaluated at 2 different ICOR levels: 3.5, in order to measure the effect of the increased FED investment and to obtain a minimum program change case and an ICOR of 3.1 which is assumed to be the most likely outcome of the FED policy changes. The behavior of the beneficiaries receiving trust fund or venture capital assistance was assumed favorable with respect to investment. The SMEs were expected to consume a portion of their business savings but as the environment for business improved would consume less and invest more. A range of 30 to 60 percent was selected as the overall business investment levels from business savings accruing from the FED program.

The effect of FED's economy-wide increase in efficiency of investment coupled with government's continued commitment to speedy implementation of the on-going structural reforms should raise output (GDP) from its level of $1.8 billion (Tshs. 486.4 bn) in 1992 to over $3.3 billion (Tshs. 904 bn) by year 2005 or by more than 80% over the 14-year period (Case A, Table 5). When all spin off effects are considered for the entire period between 1992-2005 with the move of ICOR from 3.5 to 3.1, output as measured by GDP is even larger, to about $3.5 billion (Tshs. 955 bn) by year 2005 (Case B, Table 5). The results are not sensitive to small changes in the ICOR. Thus, the FED policy program has a real potential for improving the overall economic performance of Tanzania and complement the on-going structural reforms.

Employment Growth as a Result of the FED program

In addition to having a large output impact on the economy, the FED policy-based program is expected to create jobs which should translate into better living standards by the majority of Tanzanians. To estimate the impact of the FED policy reform program on employment, the relationship between GDP growth and employment is established (Table 6).

Between 1978 and 1988 the average annual increase in employment was 202,000 with a GDP compound growth rate of 2.1 percent. This means for every 1 percentage point GDP annual growth, employment increased on the average by about 96,190 a year. The analysis which follows assumes that this relationship will hold throughout the FED policy reform program. It is assumed that employment under the FED program would grow faster in part because of the more rapid GDP growth due to the increased investment in value-added activities and the greater investment productivity or efficiency resulting from the policy reform that improves both the business environment and the banking sector.

The method used to calculate employment changes depicted in Table 7 is as follows. Take for example Program Case 1b. To obtain the change in employment in 1996 multiply the base employment per 1% GDP growth of 96,190 by the GDP growth rate for 1992-95 of 4.63. This should yield 445,350. This figure is then multiplied by the 3 year period to arrive at the 1,333,190 figure. Total employment for 1996 is simply the base employment of 10,730,000 plus the change of 445,350 which gives 12,063,190. The same calculations are made for all FED program cases shown in Table 4. The change in employment due to the FED program is the difference between employment levels under the program and the base. For example, under Program Case 2C, total employment under the FED policy reforms in year 2005 is 15,422,140. If we subtract the base employment in year 2005 of 15,015,200, we arrive at the additional employment created by the FED program of 406,940 persons.

Thus, from Table 7, the FED policy based program is expected to improve the employment situation in Tanzania by a minimum of 8720 to an upper bound of 406,940 by the year 2005.

ECONOMIC BENEFITS OF THE FED PROGRAM

USAID\Tanzania's overall program goal is to foster real economic growth and improved human welfare in Tanzania. The FED program would contribute to this goal by supporting the development of the financial sector infratructure which is seriously dilapidated and private sector business infrastructure.
The benefits that are expected from the implementation of the FED policy reform program are a result of direct and indirect benefits of the individual policy reform measures and the additional combined effect of all the policy changes that create a more positive private sector business climate. Some of the direct effects of the policy reforms are expected to result in a more efficient, competitive banking system and increased mobilization of private capital for new investment in value-added activities. Other, more indirect effects are the elimination of many of the bottlenecks associated with doing business, which are expected to increase business efficiency as businesses no longer will take time-consuming actions trying to avoid the rent seeking activities that are associated with bureaucratic bottlenecks.

The quantification of benefits of the FED policy reforms is difficult and complex in part because of the large number of micro and macro ecoromic agents involved in the program. As such, the economic analysis discussed below provides a qualitative assessment of the benefits of the policy and institutional changes associated with the FED program. The conventional analysis included at the end of this section merely establishes an expected lower bound of the impact of the FED program and does not claim to be exhaustive in any way. The overall benefit of the FED program, however, is to assist Tanzania in building an enabling environment conducive to private sector growth, increased opportunities for more jobs, higher per capita incomes and faster economic growth.

1. Program Foreign Exchange Benefits

It is anticipated that the foreign exchange funds provided to Tanzania by A.I.D. will be used by the private sector to procure equipment and supplies required to expand industrial and manufacturing output. What would be the value of those additional goods and services? In the absence of tariffs, import licensing, or foreign exchange administrative allocation and an external account which was in balance, it would be reasonable to assume that a dollar's worth of additional imports would be worth a dollar. This implies each dollar of FED disbursed will be worth at least a dollar to Tanzania, yielding a "benefit-cost ratio" at least equal to one, even prior to a deeper development impact analysis. The FED program, by assisting the Bank of Tanzania (BOT) to successfully assume its new role as a genuine central bank, and facilitate BOT's goal of unifying and managing a market-based foreign exchange regime should improve economy-wide resource allocation and use.

TABLE 1: SAVINGS, INVESTMENT AND ECONOMIC GROWTH, 1982,88			
Country group	**Savings share** (% of GDP)	**Investment share** (% of GDP)	**GDP growth rate** (% p.a)
Developing countries	23.5	23.6	4.2
Latin America	21.7	18.7	1.3
South Asia	19.2	22.8	5.6
East Asia	31.0	30.6	8.8
Industrial countries	20.0	20.0	3.0
SSA	11.4	14.5	0.9
Tanzania	7.7	18.7	2.6
Source: World Bank			

The link between investment, savings and economic growth is illustrated in Table 1. The FED program, by assisting Tanzania with foreign exchange, and its proper use through a unified system of no-administrative allocation, should augment domestic savings and its investment level. As indicated in Table 1, countries which invest more in their economy are expected to have a faster rate of economic growth (example, the Asian sub-continent). It is expected that the FED program will improve the investment climate backed by improved BOT capacity to manage the financial sector and increased USAID assistance resources, thus stepping up Tanzania's rate of economic growth.

2. <u>Export Growth Impact</u>

On both the dollar and local currency FED program assistance, the emphasis is on the improvement of value-added exports. This export expansion is essential if Tanzania is to accelerate its economic development. The FED program, by encouraging an expansion of private enterprises, regulatory reform, deepening of essential institutional infrastructure, and provision of enterprise support servises, should contribute to this objective. World Bank and other studies have shown that there is a clear correlation between export expansion and economic growth (see Table 2). For example, between 1965 and 1981, Sub-Saharan African countries (SSA) exports grew at 3.8% annually, imports at nearly 7% a year and economic growth ran ahead of population expansion. During the latter period (1982-88), exports fell and import capacity declined by almost 8% a year. As a result, economic growth was less than 1% per year--well behind the annual 3.2% rate of population increase. The fact that Tanzania's GDP declined less than the average for SSA during this period despite large falls in both exports and imports is

attributed to the large increase in donor support. The experiences of South and East Asia and the Latin American countries does show that increased exports do translate into higher rates of economic growth if sustained. The FED program, by assisting Tanzania to put in place an enabling environment for enhanced export growth, should foster economic growth.

TABLE 2: EXPORTS AND ECONOMIC GROWTH
(% p.a)

Region	1965-1981			1982-1988		
	GDP	Exports	Imports	GDP	Exports	Imports
Developing countries	5.6	6.6	8.1	4.2	8.2	3.6
Latin America	5.9	18.6	8.9	1.3	4.8	-2.1
South Asia	3.7	4.6	3.2	5.6	4.4	5.0
East Asia	6.9	8.2	10.9	8.8	15.7	12.5
SSA	3.6	3.8	6.8	0.9	-0.4	-7.7
Tanzania	3.9	-4.2	1.7	2.6	-8.2	-2.9

Source: World Bank

3. Impact on the Business Environment

Tanzania's business community is expected to benefit from the FED Business Services Center and the Social Action Trust Fund. The FED by providing direct assistance to enterprises seeking to solve specific technical, marketing, financial, or managerial problems should facilitate an improvement in the enabling environment under which business takes place in Tanzania. The current number of beneficiaries are the registered 300,000 business firms and the many firms that operate in the informal sector. Key reforms that need addressing include: reducing the excessive role of ministries in approving business establishments; facilitating access to business finance; import facilitation; allocation of property; the establishment of a legal code governing business operations and improving the performance of the Investment Promotion Center (IPC).

During the past 5 years an average of 2000 businesses have been registered each year. The time needed to deal with unnecessary bureaucracy varies greatly from firm to firm. However, the average number of hours needed to establish a business ranges between 300 and 600 hours (Semboja, 1990).[1] The indirect policy reforms

[1]Joseph Semboja, The Role of the Private Sector in Tanzania, May 1990.

envisaged under the FED program through enhanced capacity of business associations, NGOs and the Investment Promotion Center to carry out meaningful dialogue with the government are expected to reduce transaction costs by improving the business environment, implying large gains to all business starters. Further, by making renewal of business licenses automatic the existing more than 300,000 business firms would save many hours of unnecessary bureaucratic delays.

4. Impact on Employment

Through the FED local currency programming, it is expected that supported value-added activities will generate jobs and improve incomes of those beneficiaries. An ILO study [2]completed in 1991 shows that at least 300,000 persons in Tanzania enter the labor force each year. When added to the existing unemployed, the employment problem is acute. The situation is made worse by observed declining trends in formal sector employment. The number of jobs created per year dropped from 30,000 in the mid 1980s to only 9,500 in the late 1980s and early 1990s. Planned retrenchment in 1992 will affect at least 10% of the civil service employees, equivalent to almost 49,000 persons. Thus, the role of the government sector in absorbing additions to the labor force will be marginal. This implies that the new entrants into the labor force will have to be absorbed in the rural sector, and the private sector.

The ILO study projects that overall, productive employment in Tanzania in the 1990s will increase by 2.2% per annum, while the labor force is projected to expand by 3.3%, providing a worsening of the employment situation.

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[2]ILO, Tanzania: Meeting the Employment Challenge, March 1991.

established through the FED program should be vital in protecting saver's money from serving the immediate interest of managers or of loan officers.

7. The Relative Magnitudes of the Impact of the FED Program

The quantification of the benefits of the FED policy reforms is difficult and complex in part because of the large number of micro and macro economic agents involved in the program and more so because many of the policy impacts are not easily quantifiable. However, the inclusion of the economic benefits below is intended to provide an expected lower bound of the impact of the FED program. The assumptions of the analysis: Constant ICOR value, constant labor productivity, marginal imports worth slightly less than their market value, provide a lower bound scenario. If the FED program can be shown to have a positive impact under those assumptions, then the objective of the FED policy - based assistance to improve Tanzania's income and employment prospects should have even a greater impact when increasing values of productivity and removal of the over-valuation of the shilling are made to obtain a value of marginal imports at least equal to the market price. The assumptions are explained briefly below.

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reforms, these savings could range from $ 2 million to $ 3.5 million per year.

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During the past 5 years an average of 2000 businesses have been registered each year. The time needed to deal with unnecessary bureaucracy varies greatly from firm to firm. However, the average number of hours needed to establish a business ranges between 300 and 600 hours. If we assume 2000 business entities will continued to be established each year and the opportunity cost of the entrepreneur (or his/her facilitators) is $ 1.00 per hour, this entails a potential cost savings of $ 300 to $ 600 per firm or $ 0.6 to 1.2 million per year. Further, by making renewal of business licenses automatic the existing more than 300,000 business firms would save as much as 50 to 75 hours of unnecessary bureaucratic delays. With an opportunity cost of $1.00 per hour, this should translate into $15 to $20 million of cost savings per year.

D. Benefits from increased efficiency of investment

In addition to business cost savings that are expected as a result of the various FED policy changes, there is the expectation that output per dollar of new investment will rise. This should be expected if the funds made available through the venture capital window or the trust fund meet their intended goal. Supporting this expectation is the assumption that the FED policy reform program would eliminate the biases against small and medium enterprises (SMEs) and thereby ease entry from the informal to the formal sector. If the policy reforms have their intended effect and FED funds are channelled to value-added activities, it is expected that SMEs would grow at a faster rate than larger businesses, particularly parastatals; and investment funds should be more efficiently utilized over time, creating a larger output and jobs. SMEs typically are more labor intensive and efficient than larger firms, especially parastatals. (See Table 3)

associated with various economic activities which individual entrepreneurs may not wish to bear entirely - a key issue which will emerge with increasing economic diversification. Third, a well-developed financial system with adequate depth and range of financial instruments can over time help address the concern of Tanzania policy makers to more effectively conduct macroeconomic policy and adjust to internal and external shocks.

In addition, the confidence of economic agents in the soundness of the financial system depends fundamentally on the existence of an effective regulatory and supervisory framework. Also, within the financial system, banks in particular hold a special position in the economy as creators of money, principal depositaries of financial savings, the principal allocators of credit and managers of the country's payments system. For this reason, the central bank (The Bank of Tanzania) plays an important role in ensuring effective regulation and supervision of the financial system, particularly banking institutions. The FED program, by assisting the Bank of Tanzania to credibly play its role as an independent central bank, has large pay-offs not only in terms of facilitating efficiency in the financial sector but also in stimulating economic growth through a better use of domestic and foreign economic resources.

6. <u>Second Round Economy-wide Benefits</u>

If the FED program is implemented as planned, all economic agents in Tanzania could eventually be able to make sound investment decisions in response to undistorted market signals. This has important implications in terms of increased productivity and sustaining Tanzania's growth prospects. Empirical studies show that less than half the growth in output can be attributed to increases in labor and capital; higher productivity explain much of the rest. Equally important, is the fostering of private sector capabilities. As the FED program gets underway, there should be a release of private sector energies and encouragement of initiative at every level. At the grassroots level this means village and ward associations; at the intermediate level, various local non-government organizations and at the national level, chambers of commerce and industry, trade associations, NGO's, professional associations, and the like. Eventually, the awareness created through the FED program should translate into greater self-reliance in terms of more prudent economic policy analysis and economic restructuring reform implementation.

Another important second round impact is the possibility of curbing corruption through the facilitation of a more open, market driven economy. If the FED program is implemented as planned, corruption may be countered by the elimination of unnecessary controls, which reduces the scope for "rent-seeking", transparent procurement procedures, scrupulous and prompt accounting. This is particularly important in the FED banking support because experience shows that bank failures often results not from incompetent management, but from fraud. Consequently, appropriate supervisory measures being

TABLE 3: TANZANIA INDICATORS OF PERFORMANCE PUBLIC AND PRIVATE INDUSTRIAL FIRMS, 1975 - 79		
	Public	Private
Manhours per Employee	2,160.2	3,009.0
Labor Cost per Employee	13,490.0	8,355.8
Labor Cost per Manhours	5.7	2.9
Output-Labor Ratio	41,944.4	90,467.0
Output-Manhour Ratio	19.0	31.2
Labor Cost/Total Cost (%)	32.8	15.9
Capital-Labor Ratio	2.8	23.8
Output-Capital Ratio	1.4	1.6
Capital per Unit (at 1000 per unit)	25,782.0	16,248.1
Source: World Bank, "Parastatals in Tanzania, Towards a Reform Program, July 1988, p.19.		

As the FED policy changes take effect, a shift in the way Tanzania conducts business would be expected to occur and investment would be made in more efficient economic activities which should lead to a fall in the incremental capital output ratio (ICOR) (See more details below). Assuming only a 5% fall in the ICOR, this could translate into an increase in GDP of about a quarter of a percentage point or $7.5 million per year.

E. <u>The Incremental Capital Output Ratio (ICOR)</u>

Define ICOR as the increase in a country's capital stock, over a period of years, divided by the increase in the country's productive capacity, expressed as output per year during the same period. Expressed in symbols:

(i) $ICOR = \frac{dK}{dO}$, where d stands for "change"
K stands for capital
O stands for output

For example if during a 10 year period there is $ 5 billion of investment in a country and the increase in annual output, as measured by the Gross Domestic Output (GDP), is $ 1 billion, the ICOR is 5.

The ICOR does not incorporate economic or technical changes that may be occurring in an economy. But empirically it is a very useful measure or tool for estimating, among other things, the amount of capital needed over time to achieve a given increase in productive capacity, or the change in productive capacity as a

result of a change in investment. Both approaches are used in this analysis in order to estimate the impact, or achievements, that can be expected as a result of the FED policy reform program.

Equation (i) above is normally expressed in terms of GDP because the ratios are generally available and doing so does not change the value of the equation. Let I be substituted for dK in equation (i) above. Expressing (i) in terms of GDP, we have:

$$\text{(ii)} \quad ICOR = \frac{I/GDP}{dGDP/GDP}$$

If the effect upon GDP is lagged one year, equation (ii) can be made more operational by using values in the base or "t" period for I and GDP and letting dGDP equal the difference and GDP in period "t". Equation (ii) would then take the form:

$$\text{(iii)} \quad ICOR_{t+1} = \frac{It/GDPt}{(GDP_{t+1} - GDP_t)/GDPt}$$

and rearranging (iii) above yields:

$$\text{(iv)} \quad GDP_{t+1} = \frac{It}{ICOR_{t+1}} + GDP_t$$

where it is composed of the base case investment figure plus one of the two program investment figures shown in Table 5. All the program GDP values shown in Table 5 were calculated using the above equation. For example, the GDP value for 1994 under case 1b of the program is calculated as follows:

$$GDP_{t+1} = \frac{81.9+.45}{3.1} + 508.9$$
$$= 535.5$$

Program Impact Estimates

The FED program impact estimates are shown in Table 5. Base data for GDP were estimates made by the Bureau of Statistics. There are no studies which give ICOR but a 1987 World Bank study on industrial sector reform show an average of 4.5 to be typical during the mid 1970s and early 1980s. These World Bank estimates were supplemented with Bureau of Statistics estimates to arrive at the base ICOR. With the adoption and implementation of economic restructuring policies (ERP) since 1986, the business environment has improved somewhat, so that the ICOR should be expected to fall. The amount of decrease is not known, but it is not expected to be large. For purposes of this study, ERP policies implemented to-date are assumed to have improved investment efficiency resulting in a decrease of ICOR from 4.5 to 3.5, at which level it remains until the year 2005. It is expected that improvements in the private sector business environment due to the FED program would result in a decrease of the ICOR by about 11%. The FED program is

evaluated at 2 different ICOR levels: 3.5, in order to measure the effect of the increased FED investment and to obtain a minimum program change case and an ICOR of 3.1 which is assumed to be the most likely outcome of the FED policy changes. The behavior of the beneficiaries receiving trust fund or venture capital assistance was assumed favorable with respect to investment. The SMEs were expected to consume a portion of their business savings but as the environment for business improved would consume less and invest more. A range of 30 to 60 percent was selected as the overall business investment levels from business savings accruing from the FED program.

The effect of FED's economy-wide increase in efficiency of investment coupled with government's continued commitment to speedy implementation of the on-going structural reforms should raise output (GDP) from its level of $1.8 billion (Tshs. 486.4 bn) in 1992 to over $3.3 billion (Tshs. 904 bn) by year 2005 or by more than 80% over the 14-year period (Case A, Table 5). When all spin off effects are considered for the entire period between 1992-2005 with the move of ICOR from 3.5 to 3.1, output as measured by GDP is even larger, to about $3.5 billion (Tshs. 955 bn) by year 2005 (Case B, Table 5). The results are not sensitive to small changes in the ICOR. Thus, the FED policy program has a real potential for improving the overall economic performance of Tanzania and complement the on-going structural reforms.

Employment Growth as a Result of the FED program

In addition to having a large output impact on the economy, the FED policy-based program is expected to create jobs which should translate into better living standards by the majority of Tanzanians. To estimate the impact of the FED policy reform program on employment, the relationship between GDP growth and employment is established (Table 6).

Between 1978 and 1988 the average annual increase in employment was 202,000 with a GDP compound growth rate of 2.1 percent. This means for every 1 percentage point GDP annual growth, employment increased on the average by about 96,190 a year. The analysis which follows assumes that this relationship will hold throughout the FED policy reform program. It is assumed that employment under the FED program would grow faster in part because of the more rapid GDP growth due to the increased investment in value-added activities and the greater investment productivity or efficiency resulting from the policy reform that improves both the business environment and the banking sector.

The method used to calculate employment changes depicted in Table 7 is as follows. Take for example Program Case 1b. To obtain the change in employment in 1996 multiply the base employment per 1% GDP growth of 96,190 by the GDP growth rate for 1992-95 of 4.63. This should yield 445,350. This figure is then multiplied by the 3 year period to arrive at the 1,333,190 figure. Total employment for 1996 is simply the base employment of 10,730,000 plus the

change of 445,350 which gives 12,063,190. The same calculations are made for all FED program cases shown in Table 4. The change in employment due to the FED program is the difference between employment levels under the program and the base. For example, under Program Case 2C, total employment under the FED policy reforms in year 2005 is 15,422,140. If we subtract the base employment in year 2005 of 15,015,200, we arrive at the additional employment created by the FED program of 406,940 persons.

Thus, from Table 7, the FED policy based program is expected to improve the employment situation in Tanzania by a minimum of 8720 to an upper bound of 406,940 by the year 2005.

Table 4: Present Value Analysis of FED

	U.S. Dollars, Million						
Year	Program Costs	Banking Sector Savings	Business Cost Savings	Investment Efficiency Benefits	Program Foreign Exchange Benefits	Total Cost	Net Benefits
1992	12.0				11.4	12.0	−0.6
1993	17.0	0.8			16.2	17.0	−2.3
1994	17.0	1.0	4.0	2.5	14.4	17.0	3.7
1995	2.0	1.3	4.2	2.9	1.7	2.0	8.1
1996	2.0	1.6	4.6	3.6	1.7	2.0	9.5
1997		2.2	5.2	4.9			12.3
1998		3.0	5.9	7.2			16.1
1999		4.6	7.1	11.5			23.2
2000		6.8	8.8	19.4			35.0
2001		11.4	11.1	35.0			57.5
2002		19.4	12.5	45.6			77.5
2003		21.3	16.7	61.1			99.1
2004		23.9	23.1	81.8			128.8
2005		27.2	32.3	94.1			153.6
Net Present value,10%		51.4	61.6	149.5	36.7	40.3	211.3
Net Present value,15%		34.9	44.3	100.1	33.4	36.6	130.5
Net Present Value,20%		21.1	33.1	69.1	30.6	33.4	83.4
Net Present Value,25%		14.8	25.6	49.2	28.1	30.7	55.0

Table 5:

Program Impact Estimates and Base Case GDP Growth

Base Case Assumptions and Results

(Billions of Tshs.)

			1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
GDP at Factor Costs	(%)		4.3	4.5	4.6	4.6	4.7	4.8	4.8	4.9	4.9	5.0	5.0	5.0	5.0	5.0	5.0
Investment	(%)		9.1	7.2	4.5	6.8	7.2	4.4	7.1	4.9	6.7	5.3	5.6	3.4	5.6	5.1	3.1
In constant 1990 prices																	
GDP at Factor Costs			465.5	486.4	508.8	532.2	557.2	584.0	612.0	642.0	673.5	707.1	742.5	779.9	818.6	859.5	902.5
ICOR			3.5	3.5	3.5	3.5	3.5	3.5	3.5	3.5	3.5	3.5	3.5	3.5	3.5	3.5	3.5
Investment			73.1	78.4	81.9	87.5	93.8	98.0	105.0	110.2	117.6	123.9	130.9	135.4	143.1	150.5	155.2
Program Impact Estimates																	
CASE A: ICOR				3.5	3.5	3.5	3.5	3.5	3.5	3.5	3.5	3.5	3.5	3.5	3.5	3.5	3.5
: a. Prog. Investment	0.30	GDP1a		486.4	508.9	532.4	557.5	584.4	612.5	642.6	674.2	707.9	743.4	780.9	819.7	860.7	903.8
: b. Prog. Investment	0.45	GDP1b		486.4	508.9	532.4	557.5	584.5	612.6	642.8	674.4	708.1	743.7	781.2	820.0	861.0	904.1
: c. Prog. Investment	0.60	GDP1c		486.4	509.0	532.6	557.6	584.6	613.0	643.2	674.9	708.7	744.3	781.9	820.8	861.9	905.1
CASE B: ICOR				3.5	3.5	3.1	3.1	3.1	3.1	3.1	3.1	3.1	3.1	3.1	3.1	3.1	3.1
: a. Prog. Investment	0.30	GDP2a		486.4	508.9	535.4	563.7	594.1	625.8	659.8	695.5	733.6	773.7	816.0	859.8	906.1	954.7
: b. Prog. Investment	0.45	GDP2b		486.4	508.9	535.5	563.9	594.3	626.1	660.1	695.8	733.9	774.0	816.4	860.2	906.5	955.2
: c. Prog. Investment	0.60	GDP2c		486.4	509.0	535.6	564.0	594.5	626.3	660.4	696.2	734.3	774.5	816.9	860.8	907.2	955.9

:Exchange Rate TShs/US$ 270

Source: Bureau of Statistics for base data: GDP and ICOR

Table 6: GDP and Employment Growth (In Millions of Tshs. Constant 1976 prices)

	1978	1988	% change	Growth Rate
GDP at factor cost (fc)	22,873	28,118	22.9	2.1
of which:				
Agriculture	9,101	12,049	32.4	2.5
Mining	209	155	(25.8)	(7.3)
Manufacturing	2,886	2,312	(19.8)	(2.4)
Elec. & Water	286	537	(87.7)	7.5
Construction	894	1,033	15.5	4.9
Trade/hotels/rest	2,889	3,438	19.0	4.2
Transport/communication	1,699	1,652	(2.8)	(0.3)
Finace, etc	2,244	4,225	88.2	6.9
Public Administration	3,150	3,637	15.5	5.3
Total Employment (millions)	7.79	9.81	25.9	2.3
of which:				
Formal wage employment	0.54	0.70	29.6	2.6
Informal Sector Employment	7.25	9.11	25.6	3.0

Average yearly change in employment per one percent change in GDP (1978–88) = 96,190

Source: World Bank, Report No. 9352–TA

Table 7: Employment Created by the FED Program

	Employment 1992	GDP Growth Rate 1992–95	GDP Growth Rate 96–2005	Employment per 1% GDP growth	Change in Employment 1996	Change in Employment 2005	Total Employment 1996	Total Employment 2005	Employment change due to FED Program 1996	Employment change due to FED Program 2005
					(Employment in thousands)					
1. Base Case	10730	4.60	4.95	96.19	1,327.42	4,285.20	12,057.42	15,015.20		
2. Program Case	10730			96.19						
ICOR Reinvestment (%)										
1a 3.5 30		4.62	4.96		1,333.19	4,293.92	12,063.19	15,023.92	5.77	8.72
1b 3.5 45		4.63	4.97		1,336.08	4,293.92	12,066.08	15,032.58	8.66	17.38
1c 3.5 60		4.67	4.98		1,347.62	4,311.23	12,077.62	15,041.23	20.20	26.03
2a 3.1 30		5.00	5.20		1,442.85	4,501.69	12,172.85	15,231.69	115.43	216.49
2b 3.1 45		5.00	5.30		1,442.85	4,588.26	12,172.85	15,318.26	115.43	303.06
2c 3.1 60		5.05	5.42		1,457.28	4,692.14	12,187.28	15,422.14	129.86	406.94

ANNEX O

INSTITUTIONAL ANALYSIS

Institutional Analysis

I. Introduction

This institutional analysis addresses the following aspects of the FED program: (a) considerations underlying the Business Services Center concept, (b) considerations underlying the choice of in-country training venues, and (c) the organizational structure, training and technical assistance requirements of the Bank of Tanzania.

II. Business Services Center

A. Overview

Tanzania is in the midst of a transition from a state-dominated, inefficient command economy to an open, diversified market. While since 1986, major policy reforms undertaken by the Government of Tanzania (GOT) have significantly improved the operating environment for private firms, the Tanzanian business community today is relatively small, underdeveloped and plagued by internal divisiveness. Private economic activity is largely confined to commerce and trading, with a handful of large holding companies engaged in industry and agriculture, and an emerging cross-sectoral cadre of small and medium-scale enterprises (SMEs) that are seeking to establish a foothold in the market. The dominance of inefficient parastatal organizations in the productive sector, coupled with the inherent disincentives that accompany state-controlled marketing systems in the agricultural sector, have discouraged the development of new businesses. In addition, a strong cultural bias against profit making and individual enterprise has led many of the best educated and most promising members of this generation to pursue other vocations or leave the country entirely.

In this context, the task that is before USAID/Tanzania in launching the FED program is formidable. The parastatal structure is being dismantled at a quickening pace, and it is uncertain what firms and individuals will be equipped to fill the vacuum. There is considerable concern among the indigenous population that present reforms will work primarily to the advantage of the Asian community, whose enterprises now dominate the private sector, heightening tensions and further marginalizing smaller businesses. At the same time, established business institutions are plagued by persistent infighting, heavy politicking, and are generally in disarray. There are few instances of

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cooperation between these associations, and little if any effort has been directed toward developing a consensus on how best to support business development, from either a market or policy perspective.

In order to obtain an up-to-date understanding of the needs of the Tanzanian business community, numerous interviews have been conducted with local business leaders, private sector representatives. These discussions have revealed that there are, in fact, areas of agreement on problems and needs that cross racial and sectoral boundaries, and that are uninfluenced by the size of the firm or the particular focus of the business association.

While marked differences remain in individual perceptions of the optimal and just means to capitalize on the current changes in the market environment, there is broad awareness of the need to cooperate and collaborate in developing the business community as a whole, if the national economy is to truly benefit. Key findings of the investigations and analyses are presented below.

B. Business Associations

There is no shortage of business and industry organizations in Tanzania today. In Dar es Salaam alone, there are dozens of separate business associations, chambers of commerce, professional and trade organizations. However, there is no single institution that clearly predominates, or which, by virtue of the size and breadth of its membership, and/or its demonstrated leadership capabilities, has the authority to represent the Tanzanian private sector as a whole. The end result is complicated and conflictive inter-relations which have weakened the service delivery of some organizations, led to the frustration of their memberships, and resulted in the formation of entirely new groups.

Nevertheless, if such obstacles can be overcome, there is a significant amount of talent and energy to be tapped by the BSC through linkages to these associations. Current changes in the business climate are renewing interest on the part of members and donor agencies in supporting cooperative action to promote business development. The data presented below are drawn primarily from interviews with executives of the principal organizations contacted.

1. Dar es Salaam Chamber of Commerce (DCC)

The Dar es Salaam Chamber of Commerce was established in Tanzania in 1919, and is considered by its leadership to be the "flagship" business organization. It has over 300 members, is cross-sectoral, and includes public, Asian, and indigenous firms among its membership, most of which

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is based in Dar es Salaam or its immediate environs. Up until 1986, the DCC had functioned only on the most rudimentary level, inhibited by the policy climate as well as financial constraints.

Today the DCC is trying to rebuild, but operates with limited facilities, and ill-equipped support staff. Its income is derived from minimal annual dues (Tsh 6,000/member), charges to members for preparation of documentation for Certificates of Origin, and occasional rental of its conference room. According to the Executive Director, the DCC also assists its members in sales and sourcing, serves as an intermediary in business licensing procedures, and handles routine enquiries -- all at no charge. Although it has approached various donors for funding, it is not presently receiving any external support. Key areas where improvements are desired include funding for higher staff salaries and training, computerization/office equipment, and preparation of promotional literature, among others. The DCC has already approached USAID/Tanzania for sponsorship of a quite detailed program to assist the Chamber and ts Members, many aspects of which will instead be addressed through the BSC directly, once it is operational.

Apart from this broad, institutional development assistance which the DCC has been seeking, the needs of the DCC membership were summarized as follows:

- training in basic business skills;
- business advisory services;
- retraining of former public enterprise employees;
- promotion of joint ventures with foreign enterprises; and,
- external promotion/trade fairs.

The DCC is supportive of the concept of the BSC and sees the need for both the technical and policy elements it entails. Nevertheless, the Executive Director expressed skepticism over the willingness of the various business associations to interact in a cooperative manner without substantial encouragement.

2. Tanzania Chamber of Commerce, Industry, and Agriculture (TCCIA)

The TCCIA was established with the objective of serving as a national umbrella organization for all private sector firms and municipal chambers of commerce throughout Tanzania. In its formative stages, it enjoyed substantial government support and was intended to facilitate public/private sector dialogue, as well as, general business development.

Established in 1988, the TCCIA has 700 members today and is one of the largest business associations in the country. However, many of its members are inactive, many leading businesses are not represented, and the institution itself is in a state of rebuilding. The emphasis the institution has publicly placed on support to the indigenous private sector has undermined its credibility with some Asian-owned businesses, and belies its avowed interest in serving as a voice for the business community as a whole. Political clashes with the DCC and within its own leadership have plagued the organization since its establishment, and reached crisis proportions over the last year.

Notwithstanding these difficulties,the TCCIA has recently become the recipient of a United Nations Development Programme (UNDP) grant (US$760,000) that is intended to support institution building and enhance its service capabilities. A UNDP resident advisor has been placed in the office, with an 18- month term that will expire in June 1993. UNDP funding will also cover the addition of three professional staff members: the National Coordinator; Research and Information Officer; and, a Computer Programmer. In addition to the formidable task of institution building, the principal technical objective of the UNDP over the next year is to develop the TCCIA as a business information center, which will provide members access to published and electronic market and trade information, data bases, inventories of local businesses and their capabilities, etc. Eight regional branches of the library will also be set up under the project.

The UNDP Advisor raised the possibility that using the TCCIA information center as a resource branch of the BSC might be a particularly appropriate means of linkage and cooperation. Other representative areas where technical support to members were identified as follows:

- basic business training/business advisory services;
- assistance in the preparation of market and feasibility studies;
- assistance in promotion/trade fairs and displays;
- information on exporting;
- policy advocacy; and,
- workshops on business regulations and procedures.

The realization of the relatively ambitious plans of the TCCIA will rest both upon the abilities of its advisor and the new professional staff, and the successful resolution of internal and external conflicts that confront its leadership. While it is receiving substantial financial support, its implementation capabilities within this context remain in doubt.

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3. Confederation of Tanzanian Industries (CTI)

The formation of the CTI is the newest development among Tanzanian business associations. Established only 10 months ago, CTI's membership is small but highly influential, formed as a splinter group from the TCCIA due to intractable disagreements with its leadership. Despite its brief history, the CTI is already perceived as a powerful institution, and has established itself as a vocal and public presence among the private sector and the GOT. Its membership is less than 100 persons, principally based in Dar es Salaam, and includes parastatal executives as well as private businesses.

The CTI is in the process of obtaining offices and an Administrative Manager, its first full-time staff member, has just been hired. Plans are to have an Executive Director and an administrative structure in place within three months, and the organization fully operational by year-end.

The principal objective of the CTI, according to its chairman, is to work to create a favorable environment for business in Tanzania. Emphasis will be placed on policy analysis, policy dialogue, and the development of consensus positions from which to address the GOT on key issues. The CTI would welcome the opportunity to work with the BSC in the identification and analysis of policy issues that presently constrain business development in Tanzania, and views this as a critical service to be provided by the Center.

4. Association of Tanzanian Employers (ATE)

The ATE is a cross-sectoral business association with an estimated 700 members. Any employer is eligible to join, including parastatals. Formed in 1960 as a means to advocate business interests before the GOT and the labor union, the organization grew rapidly at first, fueled by widespread participation from the Asian business community. Following the Arusha declaration and the closing or nationalization of many private businesses, its influence declined. Since 1975, however, both the membership base and capabilities of the ATE have been substantially strengthened, and it has taken a more active role in worker/management negotiations and facilitating improvements in labor relations.

Financing for ATE's operations is drawn from members dues -- on a sliding scale ranging from Tsh 10,000 for firms with 1-50 employees, to Tsh 45,000 for firms with over 1,000 workers -- and external funding. An estimated 40 percent of its operating expenses are covered by a grant from the Friedrich Naumann Foundation, which also collaborates with the ATE in the sponsorship of workshops and conferences.

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The ATE has three professional staff members and, like other business groups, currently views policy advocacy as a key concern that it is seeking to address. The BSC's involvement in this area would be particularly welcome, especially to the extent that it would provide the opportunity for local analysts to collaborate with foreign technical experts. Another principal area of concentration for the BSC from the perspective of the ATE should be training in professional services, as Tanzania suffers from a shortage of engineers, financial analysts, and business managers.

In terms of the SME sector, the ATE sees the need for the BSC to engage in efforts to make family-owned enterprises aware of the opportunities presented by new business practices and the introduction of outside expertise, a viewpoint that was echoed by the Investment Promotion Centre (IPC). A resistance among these smaller firms, both Asian and indigenous, to professionalize their operations is a primary obstacle to their success and growth. In this light, the ATE emphasized the importance of undertaking efforts toward general consciousness raising early in the implementation of the BSC's activities, if the broadest spectrum of firms are to avail themselves of the program.

5. Other Associations and Organizations

In addition to the four organizations described above, there are many other business associations that should be considered as potential beneficiaries of the BSC's services. The Dar es Salaam Merchants Chamber, for example, is one of the most active and cohesive local associations. Its membership is comprised of Asian businesses, and although it is small, it includes some of the country's most influential businesses. Likewise, the Tanganyika Farmers Association (TFA), established in 1935, has a broad membership (over 4,000), and is based in Arusha with branches in Dar es Salaam, Dodoma, Iringa, Mbeya, Moshi, and Njombe. In recent years, the TFA has been particularly ambitious, with activities ranging from bulk purchasing and marketing services, to agricultural extension, to publications and seminars. At present, the TFA is perceived as an organization targeted to larger firms, but is providing services that would be equally, if not more beneficial to SMEs, and is actively endeavoring to extend its membership to include smaller scale farming operations.

There are two organizations, the Association of Tanzanian Consultants (ATC) and the Tanzanian Professional Association (TPA), that have been established with donor funding to support and enhance the capabilities of the Tanzanian service sector. Formed two years ago, the ATC has been a vocal proponent of upgrading the local skill base to address technical needs that are now being met by foreign experts. In 1992 it received funding from the GTZ, the German development assistance

agency, and is in the process of establishing an administrative base. The ATC appears to hold the potential to serve as a clearinghouse for identifying local sources of short-term technical assistance to the BSC. The TPA is itself a grouping of 22 professional organizations, which has received UNDP assistance toward establishing a Tanzanian Professional Center.

The Tanzanian Business and Professional Women's Association (TBPWA) is another relatively new organization, formed in 1989, with a membership of some 60 women at that time, it has grown to include some 455 members and five branches. The objective of the Association is to identify and overcome constraints on women in business, and it has among its members a broad cross- section of entrepreneurs in terms of the size and sectors represented. Women's involvement in business development has been largely confined to the informal sector. Given the particularly formidable obstacles that face businesswomen with regard to establishing credibility and gaining access to financing, the Association would appear to also be a likely target for the BSC's services.

C. Entrepreneurs/New Business Development

One of the activities of the BSC will be to assist in new business development. The capabilities of Tanzanian entrepreneurs who are seeking to establish a new business venture vary greatly. For individuals with extensive business experience, the steps involved may appear relatively straightforward -- conduct a feasibility assessment, develop a business plan, identify sources of financing, etc. For newcomers, or firms that are currently operating in the informal sector, the task at hand will be much more formidable.

Specific entrepreneurial needs that have been identified include:

- understanding the realities of establishing and running a business;
- preparation of feasibility studies and business plans;
- identifying and evaluating potential sources of finance;
- guidance in interacting with financial institutions;
- guidelines to business registration and regulation procedures;
- site selection/facilities development; and,
- apprenticeship programs.

It is clear from the investigations that substantial amounts of technical assistance and training could be demanded of the BSC in the area of entrepreneurial development alone. However, the objective of the Center is to serve a broad range of clients, through the provision

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of a spectrum of services to the business community at large. Moreover, many of the individuals who have entrepreneurial aspirations, may be more appropriately provided information and training in basic business principles before they actually embark on establishing a new business. An informational campaign has therefore been included in the BSC project design which will fill this need.

D. Operating Businesses

The discussions with Tanzanian business associations (summarized in Section B) elicited considerable information regarding the needs of their respective constituencies that could be addressed by the BSC. In addition, the following topics were highlighted as areas of particular interest in the interviews with local firms, service providers, and members of the donor community.

1. Small and Medium Enterprises

Depending on the age and experience base of the firm, the needs of SMEs may be similar to those of start-up efforts outlined above. However, investigations revealed particular weaknesses in the Tanzanian SME sector in the areas of accounting and financial management; strategic planning; market development; and facilities management and maintenance. Personnel management and worker training are also given inadequate attention by many small businesses. (Several individuals noted that in times of economic cutbacks, worker training was the first line item to be cut from the operating budget.) In addition, to a much greater extent than their larger counterparts, smaller firms in Tanzania suffer from a lack of understanding of, and difficulties in complying with, government licensing and reporting requirements and other regulatory procedures.

In general, a large degree of commonality was indicated vis a vis the needs of small and medium enterprises operating in Tanzania today. It is clear that there is a shortage of information and resulting lack of familiarity with basic business practices, as well as, a need for assistance in financial and strategic planning that is cross-sectoral and applies to both indigenous and Asian enterprises. The principal dividing line is rather that which separates the "legitimate" SMEs from their informal sector counterparts, who will need targeted assistance if they are to meet the regulatory requirements associated with business formation and lawful operations.

2. Established Firms

As has been discussed extensively in recent economic analyses of Tanzania, despite the restrictive regulatory and policy climate that

has constrained business development in general, there are a number of established businesses that have been able to maintain and, to a varying extent, diversify and expand their operations. Large firms in Tanzania are principally traders -- importers, retailers, and exporters of goods -- generally taking the form of holding companies with numerous subsidiaries. This commercial sector is dominated by the Asian business community. The prominent indigenous firms that have been established are, for the most part, less diversified in their activities.

Within this context, investigations revealed the need for the BSC to assist these established firms to take a more active role in the productive sector, by establishing or expanding their operations in light manufacturing, resource-based processing, and other value-added activities. Constraints to such growth expressed by businesses interviewed focused on three areas:

(i) difficulties in obtaining professional personnel, particularly in financial and strategic planning, and the need for technical training and skill development;

(ii) the need for technical assistance in plant outfitting, production techniques, and equipment maintenance; and,

(iii) limited access to market/demand information, particularly with regard to international quality standards; product enhancement and diversification; and guidelines for tapping the export market.

The further development of larger private firms in Tanzania will be a key element in the country's economic growth. The performance of these firms will be particularly important within the context of the privatization of the parastatal sector, and the resulting vacuum that must be addressed. Expansion and diversification will also open up new employment opportunities for Tanzanian workers in the agricultural, industrial, and services sectors, that are sorely needed. Finally, technical assistance to established enterprises in such areas as quality control can serve as a catalyst for the entry of Tanzania into the export market in non-traditional goods. While the country has made recent advances in this area, especially in non-traditional agriculture exports, there is substantial room for growth.

E. General Public/Labor Force

One final element that was identified as a potential area of attention for the BSC was the need for broad-based information dissemination and "consciousness raising" for the general public in Tanzania. The legacy

of socialism includes a prevailing mistrust or disdain for the private sector among the population as a whole, and there is a need for general publications, workshops, and other mechanisms to increase awareness of the positive contributions of private enterprise, especially within the context of the ongoing policy reforms. As noted above, there is also demand for information on basic business practices that can be distributed to individuals interested in the opportunities presented by the new business environment.

On a different level, there exists a need for targeted worker training that will be addressed in large part through the assistance provided to operating businesses. For unemployed individuals, or persons just entering the work force, vocational training through established institutions can potentially be linked to the BSC. In the case of former managers of public enterprises, the task may be quite different, to re-orient and re-package existing skills so that they can be successfully channeled into profit making, market-responsive business operations.

F. Institutional Options

The principal institutional options considered are described below, as a context for evaluating the rationale of the organizational structure proposed.

1. Business Associations

With regard to the capabilities of leading business associations, it is clear from the above analysis that no one institution can truly claim to include and represent the interests of the Tanzanian private sector as a whole. Moreover, several of the institutions contacted lack the administrative capacity to add on such an ambitious portfolio; several were not interested in hosting the project; and others were plagued by inter- and intra-organizational dissension which would make the channeling of FED activities through them (i.e., establishing a BSC "unit") problematic at best.

Other factors argue against placing the BSC within an established association: by singling out one group over another, USAID/Tanzania might contribute to, rather than reduce, the tensions that already exist. From another perspective, establishing the BSC within one association runs the risk of alienating the membership of other groups, and therefore reaching only a segment of the private sector community. For all of these reasons, it was determined that the BSC should not be developed as a operating arm or division of an established business association.

2. Investment Promotion Centre

The design team also evaluated the prospect of using the IPC as the operational base for the BSC. However, as with the business associations, several shortcomings to this approach were also identified:

- the, as yet, unproven track record of the IPC's ability to perform the critical services with which it is already charged;

- the IPC's need for additional time to absorb the technical resources and guidance that it is already receiving, and to develop and train its staff;

- a perception among many members of the private sector that a government entity is not the place to locate a Project which is dedicated to responding to private sector needs, a viewpoint that is shared by the IPC's director.

Given these considerations, placement of the BSC within the IPC is also not recommended.

3. Selection of a Local Firm

Finally, the alternative of establishing the BSC as an independent, project unit within an existing firm was also examined. Interviews were conducted with various local consulting and business services groups, including the parastatal TISCO (Tanzania Industrial Studies and Consulting Organization). Project investigations indicate that there at least four or five such businesses with the professional and administrative capabilities to support the activities of the BSC. While perhaps justifiable from a pragmatic perspective, this option would place USAID/Tanzania in the essentially untenable position of pre-selecting a private firm to administer the BSC, to the detriment of its competitors, and was therefore also discarded as an alternative.

4. Rationale for Organizational Structure Proposed

After careful evaluation of each of these alternatives, it has been determined that the optimal approach is for USAID/Tanzania to enter into an institutional contract with a firm or consortium that will bear full responsibility for establishing the BSC. This institutional contractor must include both a U.S. firm and a Tanzanian counterpart organization.

The U.S. firm will either form a joint venture or subcontract agreement with a local firm or institution to undertake the project. While the FED project will provide financing for project-specific activities and expenses associated with the BSC, it will be the responsibility of the institutional contractor to establish the office and administrative capability to operate the project, working through the Tanzanian counterpart organization.

This approach has several advantages:

- It avoids the pitfalls associated with pre-selection byUSAID/Tanzania of an institutional base, which might lead to perceptions of partisanship or the marginalization of other interested groups.

- It frees the business associations, consulting groups, or other service providers, to form alliances with U.S. bidders, should they choose to do so, while nevertheless ensuring that each will be able and encouraged to supply or receive services offered by the BSC, once it is operational.

- It avoids the creation of an entirely new entity. This is not an "institution building" initiative, which is both a difficult and costly task. Instead, the BSC is a service mechanism, and as such will have a finite life span, terminating at the end of the FED Project.

- As designed, the Center will not be formally affiliated with any one business association or organization in Tanzania, but will work with all interested parties.

For institutional, technical, and political reasons, running the Center directly through a private contractor, will best achieve the FED program objectives. The BSC will possess the autonomy and objectivity that is critical to its effectiveness in providing services to the Tanzanian private sector. At the same time, by uniting U.S. and Tanzanian firms/organizations, the BSC will contribute to the development of local technical assistance capabilities as well as project management experience, and provide opportunities for the increased involvement of local professionals in business development efforts. As outlined in Section C below, this objective will also be supported by encouraging the provision of short-term technical assistance by other Tanzanian firms, based upon their capabilities to meet the needs of the Project, as it develops.

G. Role of the Institutional Contractor

1. Overview

A competitively selected U.S. contractor, in collaboration with a Tanzanian counterpart, will bear primary responsibility for design, implementation, and management of the BSC. The Contractor will provide both long- and short-term technical assistance in support of project activities, and will identify and coordinate Project support that is available from other sources.

Given the complexity of the activities to be conducted by the BSC, as well as the need for coordination of its efforts with related Project/Program activities, it is recommended that four to six full-time staff members will be required to serve as Long-Term Advisors (LTAs) to meet the Project's objectives. Key personnel will include a Chief of Party (COP) and the Project Coordinator (PC), both of whom will be resident in Tanzania throughout the life of project (LOP). They will be supported by up to four full-time Resident Technical Specialists (RTS), in such areas as training, business management/ finance, agribusiness, and light manufacturing. In addition, it is proposed that a staff market specialist be included who would be charged with encouraging U.S. sourcing of merchandise under the Import Financing Facility, which is to be established under the FED Project. The technicians can be phased in, over time. Optimally, the successful U.S./Tanzanian consortium will have identified highly qualified individuals either from within their own staffs or affiliates, to join the BSC staff.

The BSC will be based in the contractor's offices in Dar es Salaam. The central location; availability of infrastructure, business, and support services; size of the businesses community; as well as, proximity to the GOT and USAID/Tanzania offices, make the capital city the logical location for the Center. Throughout the execution of the work program, the LTAs will travel across the country, providing technical assistance and working with business associations and support organizations identified in regional population centers. In this manner, ongoing communication and frequent personal contact will be maintained with the associations, who will not only collaborate in the determination of the work program, but will serve as clearinghouses for potential beneficiaries and suppliers of BSC services.

The contractor will make use of the services of four types of technical assistance providers in the implementation of the BSC: (i) the Chief of Party and Project Coordinator, who will define the program activities and provide ongoing technical guidance and support; (ii) In-Country Technical Specialists, who will provided targeted support for project activities; (iii) Short-Term Technical Advisors (STTAs),

both drawn from the core contracting team, as well as, other foreign and local sources, as needed; and (iv) complementary organizational and institutional resources and programs, planned or already in place in the country or in the region.

Whenever possible, local expertise -- trainers/educators, technicians, policy analysts -- will be utilized by the BSC. One of the principal objectives of the FED Project is to develop and enhance national capabilities to carry out technical assistance independent of outside support. In this context, the BSC team will work with regional and national technical centers, educational institutions, consultancies, and other sources of professional services, to identify qualified candidates to assist in Project implementation.

2. Contractor Responsibilities

The Institutional Contractor will bear primary responsibility for the design and implementation of the specific activities undertaken by the BSC. As designed, the Project provides a solid basis for the establishment of an effective project management framework to ensure the timely and responsive delivery of technical assistance. Specific responsibilities assumed by the Contractor include, but are not limited to:

- signing the core contract and providing the services it sets forth, as well as ad hoc delivery of technical assistance in response to specific requests from beneficiaries, to the extent that they are consistent with the Project's objectives and technical and managerial capabilities of the Contractor;

- preparing specific scopes of work required for the provision of short-term technical assistance;

- identifying, deploying, managing, and supervising all technical assistance provided under the Contract, and ensuring as to its quality and appropriateness to the need being addressed;

- timely and cost-effective procurement, and appropriate maintenance, of all vehicles, computer hardware and software, office equipment/furniture, and other commodities using Project funds;

- establishment of a financial administration system to ensure that the Project is implemented in the most cost-effective manner and that will provide the basis for

accurate and timely reporting on its financial status throughout its execution; and,

- supporting and cooperating with audit and evaluation teams assigned to the Project.

Finally, perhaps the most important task that must be performed by the Contractor is establishing the basis for effective communication amongst the key institutions involved. As has been determined by USAID/Tanzania, the FED project will fund a Personal Services Contractor (PSC) Private Sector Advisor who will bear direct management responsibility for the program as a whole. The PSC will be under the supervision of a U.S. Direct Hire (USDH), as well as senior Mission management, as appropriate.

As part of its basic activities, the Contractor will work to develop and sustain ongoing contact and coordination with the USAID Project Officer, who must be kept informed of all significant Project developments throughout the LOP. In addition, as described below, Tanzanian organizations whose participation and support is critical to the success of the BSC, will be kept fully apprised of its activities.

3. BSC Project Oversight

In addition to USAID project supervision outlined above., a Steering Committee will be formed to provide strategic direction to the BSC, comprised of the principal organizations involved in the definition and delivery of services. The Steering Committee will meet once a month to review progress on Project activities. The Committee meetings will be a productive way to not only focus the activities of the Center, but to disseminate information on its activities. It will also provide a forum for the discussion of policy issues which may be addressed by the BSC (see Chapter 4, Module 3 below). While the precise composition of the membership cannot be specified at this time, it should include the following:

- the COP and PC of the Center
- the USAID PSC/or cognizant project officer
- representatives of key business associations, such as, TCCIA, CTI, DCC, ATE, TFA, TBWPA, and trade/industry organizations
- an IPC representative
- a representative from the Tanzanian education/training community

On an ad hoc basis, other individuals could be also asked to participate in Steering Committee meetings, such as intermittent

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service providers under the BSC (IESC, APDF, EI), representatives of donor agencies active in business development, and GOT officials. The Steering Committee will serve as a consultative body to give overall direction to the center, and is a critical element in the project design.

III. Institutional Aspects of the FED Training Strategy

Training under the FED program will include conferences, symposia, workshops, short courses, internships, observational study programs, and academic training. Training will be conducted in the U.S., in third countries and in-country. It will be used to create awareness, increase knowledge and build skills of persons employed in the financial and private sectors.

Training will follow the phased implementation schedule of the program by initially focusing on the financial sector (although not exclusively) and then by increasingly concentrating attention on the training needs of specific private enterprises, business support organizations, and training providers. Training will help managers, professionals and working units within financial institutions and private firms address performance problems that derive in part from a lack of individual and group skills.

A. Financial Sector Training

The primary target organization in the financial sector is the Bank of Tanzania. Training, combined with specialized technical assistance, will help the BOT redefine its role in the economy and strengthen its capacity to execute supervisory and regulatory functions, to introduce and manage new financial mechanisms, and to induce more effective interbank relationships.

The Institute of Finance Management (IFM) in Dar es Salaam, established in 1972 to serve the human resource development needs of the banking and insurance industries, is clearly the best positioned local institution to provide the necessary training to the BOT. During the past three years, new leadership has put in place an internal incentive system that has attracted and retained some of the best finance educators in the country. Although IFM will require some support initially, it is the only national institution in Tanzania with the credibility and capability of providing the kind of training needed to help the BOT and other financial institutions.

The BOT has acquired facilities for developing its own training center and has identified staff from the Bank and from local institutions. But the center is far from operational at this juncture. As this center comes on line, staff will be recipients of U.S. training and co-facilitator on in-country programs. The National Bank of Commerce operates a training center at Iringa which is primarily used for its staff, although BOT has used the center for its staff development as well. However, the center aims at developing support staff and lower level professional staff. Trainers from the NBC training center might be integrated into the FED program as well, particularly for strengthening their capacity in the area of customer services and public relations.

The training program is sequenced as follows: Initially, financial sector training will comprise of U.S. based short-courses and internships to first and second tier BOT managers, to a few first and second tier MoF managers, and to a core group of IFM trainers. Although somewhat costly, the U.S. venue will provide formal and practical training in an environment which will help senior managers and IFM trainers develop a first-hand understanding of effective institutional relationships and performance in the American financial sector.

Then these and other U.S. short-courses will be brought into Tanzania so that greater numbers of employees can be exposed to the same material. In-country workshops will be used to not only build the skills of individuals but more importantly will be designed to build group problem-solving, planning and teamwork skills within BOT and when appropriate between the BOT and other financial institutions in the country. This means that the selection of participants for these workshops will purposely aim at building more effective intact working group performance and vertical relationships within BOT and at strengthening horizontal relationships to other institutions. To the extent possible, all in-country workshops will be conducted outside of Dar es Salaam so as to reduce job interference during training.

B. Private Sector Training

The private sector in Tanzania is rapidly becoming more heterogenous with economic liberalization, particularly in the open proliferation of small formal firms and informal enterprises. There is a rush on the part of enterprising individuals to sell ideas, services and products--based on sometimes sound instinct and incomplete information about an increasingly dynamic marketplace.

The size of enterprise influences the kind of training required. Individual entrepreneurs, who have found a product or service that the

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market currently demands, often need help in establishing simple book-keeping practices, in conducting more systematic feasibility studies and preparing business plans, in securing bank loans, and in executing various marketing and management functions.

Small to medium-sized enterprises often need help in establishing more elaborate accounting controls, in conducting feasibility studies and preparing business plans that are somewhat more complicated, in accessing a range of financial services, practicing better financial and personnel management, and addressing domestic and sometimes export marketing issues.

Owners and managers of medium to larger-sized businesses often require in-plant managerial and technical consulting and training of staff and/or themselves in computer operations, in export marketing, and in production, materials, financial and general management (e.g., delegation).

Representative business organizations often play a useful role in helping to identify target enterprises for training and providing feedback on the value of that training. Unfortunately, there are a number of business associations in Tanzania that are making claims as being the true representatives of the private sector. Nearly all of the major business organizations, some of which have been formed recently, purport to represent individual entrepreneurs, small and medium-sized enterprises, and large scale industries. The Tanzanian Chamber of Commerce, Industry and Agriculture (TCCIA), formerly registered in 1989 to become the most encompassing representative business organization, is the exception and has become a vocal advocate of the small, indigenous entrepreneur and an opponent to development resources going to established, often Asian owned firms and to new business arrangements that build on old cleavages between these firms and retiring senior parastatal managers and government officials. But it is unclear whether the TCCIA, which is administratively weak, has captured the attention or support of the constituency it wishes to serve.

The Confederation of Tanzanian Industries (CTI), formed more recently in June 1991, has 87 paying members from Dar es Salaam, one half of whom are senior parastatal managers. The other major associations--the Association of Tanzanian Employers (ATE), the Dar es Salaam Merchant's Chamber, and the municipal chambers in Dar and major secondary cities--are more stable and have been trying to attract more African owned enterprises and small and medium-sized businesses. In short, the formal business community mirrors the dynamic forces at work in economic and political life.

The business associations almost universally assert that formal training institutions in Tanzania are too academic, too distant from practical business matters, and unable to anticipate the needs of the business community to meet the demands of the future. The Faculty of Commerce and Management, University of Dar es Salaam, recognizes these deficiencies and is planning to build local staff capacity in entrepreneurship by encouraging more MBA and BoCom. students to take their field studies in private firms and by permitting faculty to undertake first-hand observation and research of local entrepreneurial activity.

Likewise the College of Business Education (CBE), which offers diploma and certificate courses in standard business courses for lower to mid-level business personnel and clerical staff, suffers from the same overly academic orientation. For example, it is promoting an international trade short course which will entail lectures on the roles of local organizations and shipping methods-- not exactly the kind of presentation method or subject matter than would attract larger businesses, which are in the best position to export. In an attempt to reach for the potential market of individual small entrepreneurs, CBE has placed one of its faculty members in SICATA for one year to better understand their needs.

SICATA (Small Industries Consultancy and Training Assistance) was established in 1984 as a training and technical assistance arm of the Small Industries Development Organization (SIDO). It enjoys a better reputation than the above institutions, especially in the delivery of the ILO "Improve Your Business" courses, which provide rudimentary business skills and orientation. SICATA is stretched in meeting the needs of SIDO, but it is a resource that will be approached for individual entrepreneurs on the threshold between the informal and formal sector. Its head office is in Moshi, with a branch office in Dar immediately adjacent to the College of Business Education, whose own facilities often are unoccupied in the late afternoons and early evenings and might serve as one of FED's training sites.

The Institute of Continuing Education (ICE), Sokoine University, also has experience in developing tailor-made, short courses that have been delivered in Dar, Zanzibar and elsewhere around the country. The Institute's Director has a fair amount of freedom to recruit specialized training expertise to supplement a core staff of ten. ICE was developed with USAID funds, but with the rapid withdrawal of A.I.D. presence in the mid-1980s, the institute has quickly developed its financial and programming base around the requests of other development agencies such as FAO, NORAD, DANIDA, UNICEF and the Commonwealth Secretariat.

The use of local consultants for technical assistance and in-company training is not common, owing in part to the fact that such support often is viewed as an unaffordable luxury given cashflow and credit constraints. The Association of Tanzanian Consultants grew out of efforts by the IBRD, resulting in the development of a professional code and a paying registration of 40 firms and independent consultants. Nonetheless, it has not coalesced as a coherent organization yet, although with the sudden upturn in demand for analytical work individual members are seeing the benefits of working more cooperatively together and with external consultant groups. (One of the first acts of the Association when it was formed was to request the government to require the foreign donor community to enforce more local contracting. It did not succeed.)

By virtue of the need for local, grounded knowledge of the dynamic environment, external consulting firms and donors have increasingly turned to residential firms. Coopers & Lybrand has attracted some of the best local consultants and produces quality work, and Price-Waterhouse is considering establishing an office in Dar as well. The Eastern and Southern African Universities Research Programme (ESAURP), a locally founded research group that draws upon outside consultants and is registered an as international body in Tanzania, has specialized in education, training and laborforce research since the late 1960s, has published a series of provocative books, the most recent being a 1990 publication on the relationship of the informal and formal sectors in Tanzania. Its offices are located on the premises of the University of Dar es Salaam and has built good working relationships with universities throughout the region. Because of their commissioned work in the country, these firms represent a valuable resource for helping determine the most profitable foci for training. Although not characterized as training providers, they may have individual consultants who might be able to become successful trainers or at least be able to access local and external training expertise.

The Eastern and Southern African Management Institute (ESAMI) based in Arusha is also a regionally chartered organization established to provide management, training and consulting services. It has, however, suffered from leadership problems and retains some good tutors because of its ability to pay good salaries in foreign currency and to provide incentives based on diplomatic status and somewhat reluctant support from the World Bank and the Commonwealth Secretariat. The Institute of Development Management (IDM), based in Mzumbe near Morogoro, once was a dynamic institution, but leadership problems there cause a hemorrhage of professionals, several of whom gravitated to ESAMI and IFM.

Unlike the financial sector were the BOT clearly is the key organization for stimulating change in that sector and IFM the obvious

local training provider, selecting target groups and providers of training to the private sector is much more difficult. Given the diversity of entities in the private sector and the consequent range of training programs required to meet those needs, combined with the fact that the business associations are all making claims on being representatives of the private sector, the FED program will have to employ multiple strategies.

On the private sector side, one strategy will be to deal directly with promising enterprises without regard to industrial affiliation. This is best illustrated by USAID/Tanzania's participation in the Entrepreneurs International (EI) program. Through advertisements the Mission solicits and screens applications, eliminating applicants who are not major decision makers in firms, have less than five years of experience in operating or working in an enterprise, and are not from firms that are already well endowed financially. Then a short list of applicants are visited at their place of business to ascertain in more detail the nature of the business problem that the proposed training in meant to address. This has resulted in the selection of 15 EI participants from Dar, 11 from Arusha, 7 from Moshi, 3 from Mbeya, and 1 each from Morogoro and Zanzibar. This, however, has been a management intensive program, and U.S. EI internships have not been easy to arrange.

The second strategy will be to concentrate technical assistance and training on firms within promising, emerging industries. For example there appears to be some basis for focusing on small agroprocessing firms in non-traditional crops, especially those in the horticultural and oils seeds processing industries. This has the distinct advantage of directing resources on firms that have a chance of succeeding because the economic forces within the industry are promising. It also provides a basis for working with the range of small to larger businesses which may able develop their own niche in the domestic and international marketplace.

A third strategy will be to work on the supply side of the training equation by strengthening local capacity. It is not likely that local institutions will soon be capable of meeting many of the training needs of the private sector. U.S. based training providers will likely have to be accessed for a longer period than under the financial sector training component. Also, because there is no apparent institutional base for delivering the kinds of training required, the training coordinator will have to work very closely with individuals from various sources. Fortunately, economic liberalization is also beginning to effect the way that training institutions structure their incentive systems to the advantage of both the institution and the individual.

However, there already is a solid core of excellent experiential trainers in Tanzania (defined as professional trainers who are practiced in the use of case studies, role plays, gaming and demonstration techniques, and task exercises--techniques that work very well with beginning entrepreneurs and seasoned business persons, as well as with professionals) who can be accessed by the FED program to conduct in-country training-of-trainers workshops. This cadre was developed by USAID in the 1980s, many of whom are still applying these techniques in the Training for Rural Development centers in Iringa, Mbeya, Songea, Sumbawanga and Monduli. Also, several of these trainers, formerly associated with IDM which served as the hub for training regional and district level officials, are now self-employed consultants, business persons, parastatal employees and faculty and staff at IFM, ESAMI, and other training institutes.

In contrast to the financial training component, it is anticipated that U.S. training expertise will have to be accessed for a longer period of time for private sector training. This is not only due to the fact that local training capacity is not as prepared to deliver practical, private sector oriented training, but it is due as well to the fact that the training needs of the highly heterogenous sector are much more diverse than in the financial sector.

C. Location of Training Management

Usually the training management structure and contractor support for a program like FED is placed in a business association that clearly is a representative body of the private sector or a segment of the private sector which is the primary target group of the program. As noted above, that option is a risky one in the Tanzanian situation because there are competing claims being made by various business associations and because many segments of the private sector are emerging quite rapidly and represent important economic and political constituencies.

Placing the management of training among training providers wrongly puts the control of the program on the supply side of the equation. This usually is particularly unacceptable in circumstances where there is doubt about the capability of local training providers; the business community in Tanzania has expressed dissatisfaction with the frequent academic approach to their training needs. Even in the case of IFM, it will not be advisable to install the management of the financial training program there for this potentially could lead to off-the-shelf, supply driven training.

For this reason the FED program will use an institutional contractor or

contractors from the U.S. with proven experience in implementing training programs for the financial sector and the financial sector.

IV. Bank of Tanzania

A. Appropriate Objectives and Functions of a Central Bank

The proper role of a central bank includes: the supervision and regulation of financial institutions; the management of monetary policy; and the facilitation of financial sector development. The supervision and regulation of financial institutions is the main focus of this report because of its importance to the maintenance of a healthy, transparent banking system with a high level of depositor confidence.

B. Current Operational Weaknesses of BOT as a Central Bank

The BOT has not been operating as a proper central bank for more than twenty years. It has suffered from a lack of autonomy from the Government of Tanzania ("GOT") which often used it as a permanent source of liquidity for Tanzania's commercial banks. Specifically, the BOT has been used by the GOT to channel enormous amounts of funds to Tanzanian financial institutions in the form of overdraft lines and discounted promissory notes (commercial paper).

The steady flow of funds to the commercial banks (dominated by National Bank of Commerce, which controls about 94% of banking assets) has impaired their ability to develop the capacity to mobilize savings and establish sound lending policies. These and other policies reduced the financial system to a very weak state. A majority of NBC's loans are non-performing because the BOT was not allowed or able to impose sufficient financial discipline on its activities. Although BOT's rediscounting of NBC paper has stopped, NBC's overdrafts from the BOT appear to have continued.

The BOT was not given much authority or ability to properly manage the country's money supply. Improper use of key monetary policy tools (BOT had a discount rate but, unfortunately, it was not used as a penalty rate) and the absence of a mandate from GOT to assume proper monetary policy management responsibilities placed BOT in a very minor role concerning monetary policy.

The limited authority granted to BOT in the area of bank supervision and regulation was a reflection of the low priority given to this area for many years. Commercial banks were allowed to operate as fiscal

agents of the Ministry of Finance (being "directed" to lend to industrial and agricultural parastatals with little regard for their level of creditworthiness) and the BOT had little authority to regulate or monitor their financial health and banking practices.

C. Bank of Tanzania Technical Assistance and Training

The Bank of Tanzania ("BOT") has been undergoing a rather dramatic transformation since the passage of the Banking and Financial Institutions Act in 1991. It is steadily moving (with various forms of World Bank, IMF and bilateral assistance) in the direction of assuming the proper role (described above) for a central bank. An IMF-funded monetary policy advisor (to the Governor of the BOT) from the German Bundesbank was brought in three weeks ago on a one year contract. His presence is an important indicator of the GOT's strong commitment to strengthen the monetary policy management capabilities of the BOT.

Bank supervision and regulation has been made a high priority by the GOT which has increased the amount of bank examiners in the Bank Supervision Department from less than five to more than twenty. While there is still a shortage of experienced bank supervision staff, the GOT has allowed the BOT to take the necessary steps to provide the training and tools required for the bank examiners to monitor the health of financial institutions as well as the implementation of recent regulatory policy reforms.

As a reflection of the recently recognized importance of proper bank supervision in a healthy economy, the Bank Supervision Department is expected to be raised to Directorate status. During the last two years, an IMF-funded senior bank supervisor from the Central Bank of the Philippines (who was seconded from his position as a Director of the Supervision and Examination Sector) has been acting as an advisor to the current manager of the BOT Bank Supervision Department (on bank supervision matters) and other senior BOT officials (on other central banking matters). The Governor of the BOT has asked the advisor to stay for an additional year (his contract expires in January 1993) but the Central Bank of the Philippines has indicated that he may be needed in the Philippines sometime next year.

The technical assistance program discussed in this report will focus on the training needs of the BOT's Bank Supervision Department and the financial institutions which they are responsible for regulating. However, in light of the importance of enabling the BOT to ensure the implementation of recent financial sector liberalizations, it is recommended that other parts of BOT, in addition to the Bank Supervision Department, receive training or other forms of technical assistance specifically related to the responsibilities (foreign

exchange, securities, rural finance, legal and others) of certain departments or directorates. To avoid duplication or unnecessary forms of assistance, senior BOT officials should be consulted prior to the proposal of any technical assistance since some parts of BOT are already receiving assistance from other donors.

1. Long-term Technical Advisor in Bank Supervision

This form of technical assistance was discussed at length with BOT senior staff as it is a vital part of the technical assistance program being proposed. The manager of the Bank Supervision Department has received valuable assistance from his IMF-funded advisor (seconded from the Central Bank of the Philippines) in the area of bank regulatory policy. In addition to providing guidance for the new staff of bank examiners, a large amount of the IMF-funded advisor's responsibility since the enactment of the Banking and Financial Institutions Act has included the drafting of major banking regulations, the development of off-site surveillance capabilities and assistance in the management of the bank examiners.

The enormous amount of time required for these and other activities (advising BOT senior officials on the disposition of problem loans and assisting in the evaluation of contractor proposals to review the loan portfolios and other assets of Tanzanian financial institutions) has left little time for the IMF- funded advisor to offer on-the-job training in on-site bank supervision to the staff of examiners. Since the licensing of new financial institutions (and the review and restructuring of existing financial institutions) will require the IMF-funded advisor's involvement on policy and practical levels, it is necessary for the BOT Bank Supervision Department to have the assistance of a long-term technical advisor focusing specifically on the training of the bank supervision staff.

This long-term advisor would train the staff mainly by accompanying them on bank examinations and developing the skills and tools necessary to discover or prevent financial deterioration of financial institutions as well as unsafe banking practices. He or she must be someone with several years of senior bank supervisory experience (including training experience related to M.I.S. audits, international transactions and accounting) in bank examinations and considerable knowledge (academic and practical) of banking systems in developing countries.

The advisor would also become directly involved in the on- going improvement of off-site bank examination procedures. The senior staff will also need assistance in the development of BOT on-site and off-site bank supervision manuals which reflect the new Tanzanian

banking law and related regulations. The assistance provided in this area will be an important part of ensuring the implementation of banking policy reforms.

The deteriorating financial condition of NIC, the parastatal insurance company, has caused the Cabinet to decide that the regulation of NIC and private insurance companies (when they come into existence), as well as pension and provident funds, will be placed under the authority of the BOT. The advisor may be expected to provide some guidance to an insurance specialist (short-term technical assistance discussed later in this report) who would work with the BOT to develop a legal framework for contractual savings activities (insurance companies, pension funds and provident funds).

The long-term advisor must remain in Tanzania long enough to become sufficiently familiar with the problems and recent liberalizations to be able to properly transfer sound and practical bank examination skills (tailored to this rapidly evolving financial sector) to the BOT bank supervision staff. BOT officials have indicated they would prefer to avoid a situation where an advisor is sent to Tanzania for a three or four month stay, only to become fully effective shortly before they are about to leave. They said the significant problems of the financial institutions and the proposed remedies planned for the revitalization of the Tanzanian financial sector will serve to lengthen the learning curve normally faced by a technical advisor to a developing country's central bank. They would prefer to arrange for a long- term advisor to remain in Tanzania for as much as a two-year period.

The argument can be made that a three or six month stay would broaden the available pool of central bank technical advisors able to be seconded from their U.S.-based positions. This is somewhat reinforced by the difficulty of asking someone from, for example, the Federal Reserve to interrupt his or her career for a two-year assignment in Tanzania. A reasonable compromise would be to offer a one year contract with an option to renew (decided by the advisor and the Governor of BOT) for an additional three or six months. This would be a sufficient amount of time for the advisor to survey the financial sector, assess the bank examination skills and needs of the staff and develop a thorough method of on-site training which will be firmly in place before the advisor leaves Tanzania.

One interesting variation on this theme would be to have this "long-term" advisor structure the year so that each three month period would be followed by a month back in the United States. By structuring it this way, the advisor would be spending nine months of the year in Tanzania (sufficient time to guide and train the bank examiners) and

three months in the U.S. (thereby able to avoid putting his or her career on hold for an entire year). This structure would also allow the advisor to remain in touch with bank supervisory developments in the U.S.

The advisor must be aware of the need to teach and guide the bank supervision staff in order to ensure the transfer of proper bank examination skills and methods to the Tanzanians. This will avoid a case where all of the skills brought by the advisor leave with the advisor upon completion of the contract. Part of the advisor's responsibility of making sure the bank supervision staff acquires the appropriate skills will include assessing the various short-term training options described below (and others) in order to properly advise the manager on the merits of each training option. The advisor will be expected to involve USAID/Tanzania in these assessments (in order to help them determine the allocation of short-term technical assistance funds for training) and evaluate the effectiveness of the training options chosen.

2. Short-term Technical Assistance in Bank Supervision

While the long-term technical advisor would guide the bank supervision staff through the proper methods of on-site and off- site bank examination, the individual examiners will need specialized forms of short-term training, structured in several phases over the next two years. A critical element of whatever forms of short-term technical assistance are used will be the applicability to the Tanzanian financial system and the speed with which the relevant skills and expertise of the outside technical advisors can be transferred to Tanzanians.

One form of short-term technical assistance will involve bringing to Tanzania experts in the examination of banks (commercial and specialized forms including rural savings, housing, investment and merchant), insurance companies, pension funds and provident funds, as well as the individuals who can work with local business/banking educational institutions to develop training in such important areas, among others, as: money markets (and related instruments): capital markets (and related instruments); bank lending procedures and related documentation; credit analysis; computer applications for bank analysis; foreign exchange markets and regulations (especially in light of the recent openings of the Bureaux de Change); and business management.

Another form of technical assistance for bank supervision staff will include USAID sponsoring for selected short-term bank examination training programs in other countries. Options include courses held in

the U.S., India and the Philippines. These would sometimes be linked to short-term assignments, with foreign bank regulatory agencies, in the form of internships and participation in the on-site examinations of banks in developing countries.

3. Training in Bank Supervision

This section will focus mainly on the training needs of the BOT bank supervision staff while the next section will focus on an equally important need: the development and expansion of training in general banking practices and financial instruments. Both of these training needs must be addressed so that a competitive private sector banking system can develop to a point where it can efficiently mobilize savings and allocate credit in a growing market economy.

The senior staff and the IMF bank supervision advisor focused on the need to offer a broadly based as well as comprehensive training program encompassing both academic and practical training aspects of bank examination. They also stressed that this program be supplemented by training in general accounting, auditing, computer operation, report writing, bank lending, oral presentations, business law and financial institution accounting procedures.

The BOT supervision staff emphasized, however, that once the specific components of this training program have been selected the next important decision is the sequencing of the components. They stressed the importance of starting the staff training at a very basic level since the BOT examiners have very little bank examination experience (mainly because the BOT's bank supervisory role was kept to a minimum until 1991) and will need training in general banking practices and financial instruments to help them develop their bank examination skills. In light of their comments and an assessment of the training needs of the department, it is recommended that short-term training assistance be offered in phases, focussing initially on basic needs and gradually moving toward more advanced levels of training.

A "basic bank supervision course" was offered within the BOT between October 8th and 24th of 1991. It was organized for the BOT bank supervision staff (and some BOT internal auditors) and the instructors were senior BOT officials from various BOT departments. The two-week course covered: the BOT's objectives, responsibilities and functions; role of financial institutions in the financial system; descriptions of various BOT departments; commercial banking operations; and bank supervision. It is from this base that BOT would like to gradually expand the scope and sophistication of the training offered to its bank supervision staff.

The increase (during 1991) in the staff of the Bank Supervision Department, from less than five individuals to more than twenty, was a major step in the development of the BOT's supervisory capabilities. In light of the recent financial sector liberalizations in Tanzania and the competitive banking environment they are expected to foster, the BOT must act quickly to respond to this new, and soon to be competitive, banking environment. These bank examiners lack experience in modern bank examination practices and are faced with the formidable task of enforcing new regulations which are just now in the process of being written and/or implemented. This training must begin at a fairly basic level and should include mainly in-country training which could be offered in cooperation with the Institute of Finance Management ("IFM") and the recently-formed BOT Training Institute.

4. Training in General Banking Practices & Financial Instruments

Until this point, the report has focused mainly on training and other assistance for the BOT bank supervision staff in the policies, methods and practices of bank examination. In addition to the technical bank supervision training they will receive, bank examiners must also become thoroughly familiar with the operations of financial institutions and their various types of borrowers. Training in these additional areas is important because bank examiners will not be able to be effective in their supervisory role if they are not able to "stand in a banker's shoes" and understand the operation of banks and other components of the Tanzanian financial system. Considering the evolving nature of banking in Tanzania, this area of training is vital to the effectiveness of BOT's Bank Supervision Department.

5. Training for Bankers and Bank Examiners

Bank examiners will need to receive in-country and (when deemed necessary) outside training in the instruments, operations and business environment of financial institutions. Although some areas they will study do not currently exist in Tanzania (i.e., capital markets, money markets, mutual funds, private insurance companies, etc.) the examiners and bankers must, in light of the coming introduction of private banking and insurance, be able to understand all of these areas. For this reason, the bank supervision staff should participate in courses and seminars for bankers and other business people.

Including bank examiners (and employees from other BOT departments) in training programs for bankers will enable them to become familiar with general banking practices and financial instruments as well as the equally important areas of, among others, of: money markets; capital markets; bank lending procedures and documentation; credit analysis;

computer applications for bank analysis; foreign exchange markets and regulations; and business management. This should be supplemented by training in: banking and business law; insurance; rural banking; lease financing; mutual funds; investment banking; securities underwriting; venture capital; merchant banking; and other relevant areas.

A relatively large portion of the training can be offered by existing Tanzanian institutions. In cases where there is insufficient local capability to offer the necessary training, outside technical assistance should be used to provide such training and assist local institutions in developing training capabilities in these areas.

Specialized courses and seminars covering particular subjects will need to be arranged for bankers and bank examiners. The timing of these seminars and courses will depend on the pace at which certain areas (such as insurance, leasing and others) develop in Tanzania.

Bank employees will also need customer service training as soon as it can be arranged. Many bank employees have not received any form of customer service training or guidance because there has been little competition between financial institutions for years. This lack of competition occurred because the Tanzanian financial sector has consisted of specialized banks with monopolies in their region (Zanzibar, Dar es Salaam) or area of focus (agriculture, commerce, housing, insurance, etc.).

An important type of training which needs to be developed is management training for rural banks. There are over 400 rural and 200 urban savings and credit societies in Tanzania. In light of the relatively efficient operations of these groups, the BOT is in the process of studying (with the assistance of an expert from Ghana) the feasibility of establishing rural banks in Arusha and Kilimanjaro which would have either a cooperative or commercial form of ownership. These institutions will need assistance in various forms of training from local and outside technical advisors.

Bankers will also need special training in how to comply with the new off-site bank supervision forms developed by the BOT Bank Supervision Department. This may take the form of bank employees coming to the BOT for training sessions and the development of instruction sheets for distribution by BOT to financial institutions. Eventually the BOT supervision staff will develop an off-site supervision manual as a guide for the bank examiners in the interpretation of the data reported on these forms.

6. Assistance in Developing In-house Bank Training Capabilities and Credit Analysis Departments

For many years in Tanzania, financial institutions have often extended credit based on criteria other than a borrower's ability to pay or use of the proceeds. In most cases, the maturity or degree of risk involved in the loan was not reflected in the interest rate, which was often fixed at an artificial rate.

In light of the financial sector liberalizations and the coming of truly competitive banking, financial institutions in Tanzania will need to develop the capability of assessing the creditworthiness of prospective borrowers. Existing credit departments of commercial banks and other financial institutions will need to be strengthened through training and the representation (and corresponding authority) of senior credit officers on senior management committees. Improved methods of monitoring the creditworthiness of borrowers during the life of a loan must be developed. Some financial institutions are already in contact with donors to provide computer hardware but they will also need training in computer operation and programming.

7. Check Clearing

As identified in the PAIP, the banks in Tanzania currently process all checks through a system which is operated manually. This has had a strongly negative impact on the general public's perception of banks mainly due to the weeks and months it generally takes for a check to clear. The design and implementation of an electronic check clearing system (through, for example, the establishment of regional check clearing centers) would greatly reduce the time involved in the check clearing process. In addition, it would improve the efficiency and accuracy of the movement of funds within the country, thereby allowing businesses faster access to funds which they have received as payment from customers.

The length of time required to implement an electronic check clearing process (one BOT official cited the experience of the Philippines, where it took approximately one year) could turn this into a long term objective. In the opinion of senior BOT officials, the immediate need for a more efficient system than is currently in place warrants a transition to a clearing system patterned after the experiences of Zimbabwe, Ghana or Kenya.

Whatever interim or permanent system is chosen, it is certain that an efficient check clearing system controlled by the BOT would greatly reduce the likelihood that the types of check fraud which existed in the past (and lowered the general public's confidence in the banks) would be repeated.

For suppliers, an improved check clearing system would shorten the time they would have to wait for payment from businesses, thus allowing them to make their necessary purchases sooner than they have been able previously. The net result will be an improved public perception of the banks and related financial institutions, as well as a financial sector which will be recognized by prospective local and foreign bankers as one in which they will be willing to operate and be able to offer efficient banking services (including proper check clearing) to their customers.

Several senior BOT officials have indicated that the development of an efficient check clearing system within Tanzania is a high priority. The immediate problem with the current system, according to these officials, is not that it is manual. Rather, the problem is the clearing system itself. There is currently a lack of a central clearing house with an established set of procedures. The BOT has stressed that whatever type of technical assistance is offered in this area should be from a source (central bank, major commercial bank, etc.) which has a proven record of providing such assistance in developing countries.

Until 1967, BOT acted as a clearing house for checks of all banks, including NBC, Standard Chartered and Barclays. In 1967, the nationalization of banks brought the check clearing process under the responsibility of NBC. NBC currently has its own way of gathering checks from its branches and delivering all of them to its headquarters in Dar es Salaam. Only government checks (a very small percentage of all checks) are then brought to BOT for crediting. All other checks are cleared within NBC's headquarters before beginning the long trip back through the process to the branches on which they were drawn.

This system (especially the lack of a central clearing house for all checks) has proved to be inefficient and extremely time consuming. The director of Domestic Banking said that the BOT was planning to study the check clearing systems of other African countries, including Kenya and Zimbabwe. He is sending two of his assistant managers to Zimbabwe to observe and report on its check clearing system, which is said to operate quite efficiently. The report will be submitted to the BOT's Director of Economic Research & Policy. The director of Domestic Banking said he welcomed any assistance in the study of an improved check clearing system for Tanzania that USAID would be able to provide.

BOT officials feel that a properly designed check clearing system will not only improve the efficiency of the payments for existing businesses and consumers, but also reduce the incidence of fraud and make the Tanzanian banking system more appealing to private banks and companies considering locating in Tanzania.

One source of advice and assistance in the design and implementation of a check clearance and payment system would be the Federal Reserve System of the United States. The Federal Reserve System has 12 regional Federal Reserve banks across the U.S. which are under the direction of the Board of Governors of the Federal Reserve System based in Washington, D.C.

Another option for assistance in this area would also involve the Federal Reserve but with a slight variation from the option discussed above. This option would be modeled on a recent collaboration between the New York Federal Reserve Bank, World Bank and Financial Services Volunteer Corps, which advised the National Bank of Hungary on check clearance and payment procedures. The Financial Services Volunteer Corps ("FSVC") is a private, not-for- profit organization (founded in 1990) which provides volunteers from the U.S. financial community to improve the functioning of the commercial banking industry and securities market operations. FSVC is supported by gifts and grants from the U.S. government, corporations, individuals and private foundations. It offers technical assistance contributions of expertise from executives from commercial and investment banking, insurance, accounting, legal and other related financial sector firms and has sponsored both in-country and U.S.-based training programs.

D. Recommendations and Sequencing

The proposed assistance (and related changes expected) will be grouped into three phases corresponding closely with the estimated release of FED funds. If FED funds are not available in time for some of the training or other technical assistance proposed for 1992, the BOT may be able to obtain UNDP funding.

The UNDP has committed a pool of funds for assisting, among other areas, the area of bank supervision and regulation. To date, they have moved forward with the funding of technical advisors to LART (Loans and Assets Realization Trust). One possible option for BOT, if they would like to choose some of the courses offered in 1992, would be to discuss the related funding requirements with the IMF (executing agent for UNDP for central bank related funding) and USAID/Tanzania. The IMF and USAID/Tanzania would then indicate to UNDP the technical assistance which may require UNDP funding.

1. Phase One

* Accelerate elevation of BOT Bank Supervision Department to Directorate status. A senior BOT official has indicated

that this decision has already made by the Governor and should be announced within a month.

* The Bank Supervision Department is currently located in two different buildings in different sections of Dar es Salaam, with the manager and advisor in one building and the bank supervision staff in the other. They are waiting for a new office building to be completed but delays in its construction may force them to take alternative measures to locate these people under the same roof.

* Begin the first phase of bank examiner training. This includes: in-country bank supervision course offered by Mr. Robert Porter; IBRD/World Bank Senior Central Bank Supervisor Course in Washington to be attended by two senior bank examiners; and MAS bank lending seminar. F.E.D. Program funds will not be available in time for the bank supervision courses offered this summer by The Economics Institute in Colorado, but funding may be arranged in 1992 through USAID's HRDA Program or from UNDP.

* Arrange for long-term (one year) advisor to assist in training of bank examiners and in transferring bank supervision management skills to senior staff. This person will also evaluate the effectiveness of short-term training courses and make recommendations to the Manager as to who should attend which courses.

* Accelerate arrangements to complete loan portfolio reviews of TIB and other financial institutions.

* Review options relating to improving check clearing system, in light of BOT study of systems used in Zimbabwe and other countries and accelerate whatever technical assistance is necessary.

* Begin study and design of some form of secondary market in government securities.

2. Phase 2

* Complete the implementation of any Phase One training recommendations which were not started or completed on schedule due to delays in funding or other reasons.

* Begin second phase of bank examiner training, including: development of BOT Training Institute for in-house bank

examiner training; additional bank examiner training (classroom and practical) in other countries, with nominations decided by management and a high score on internal exams or performance appraisals; and inclusion of bank examiners in general banking and related courses at the Institute of Finance Management and other local institutions, with outside assistance if necessary.

* Begin programs for the training of bankers. This will include specialized training in such areas as rural banking and regulatory reporting as well as the development of in-house capabilities to assess creditworthiness of prospective borrowers.

* Update and Revise BOT Manual of Inspection Policies and Procedures to reflect the new banking law and related regulations, including: portions relating to on-site and off-site supervision; training manuals; and other operating manuals related to the new regulations.

* Arrange for short-term advisor to assist BOT in the design and development of a legal framework for contractual savings institutions.

* BOT to conduct full-scale bank examination of key financial institutions.

* Begin efforts to form a bankers' association.

* Continue BOT discussions with Zanzibar government officials on the role of PBZ.

3. Phase Three

* Most training of bank examiners and bankers should now be able to be offered by local institutions with local instructors. Outside training and instructors should at this point only be used when necessary.

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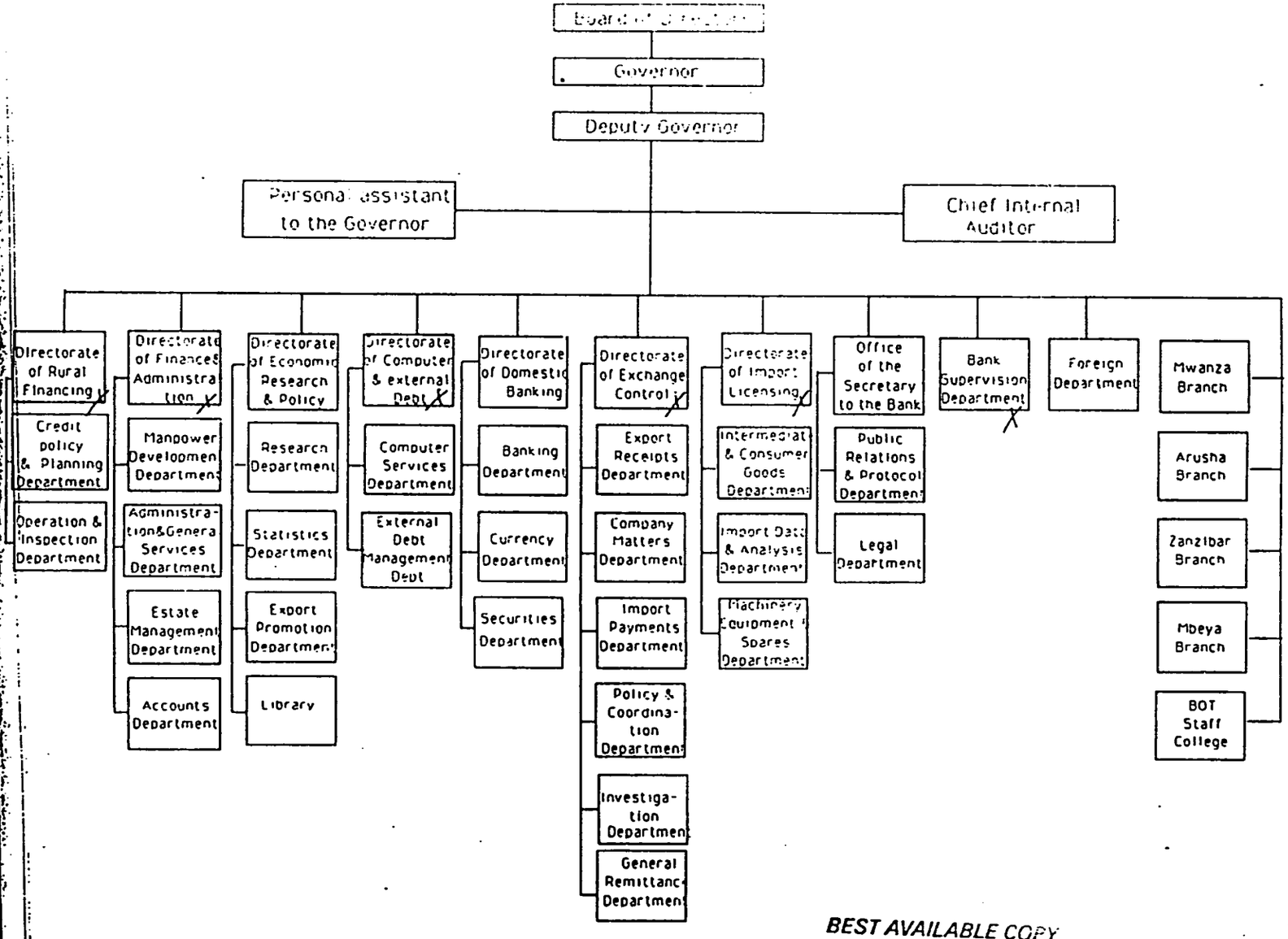
BANK OF TANZANIA ORGANIZATION CHART



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6. Introduction of export credit guarantee scheme. (1990)
7. Increase in retention to 50% for non-traditional and 10% for traditional exports. (April 1992)

TABLE 2
CONDITIONS GOVERNING FOREIGN EXCHANGE BUREAU TRANSACTIONS

Operator Eligibility. Minimum conditions to qualify for a foreign exchange bureau operator's license are: (i) applicant is either a registered business enterprise or an individual holding a valid Business License (in accordance with the Business Licensing Act, 1972); (ii) applicant must maintain an identifiable place of business which is accessible to the public; (iii) application must be accompanied by a fee of Tsh 25,000 or foreign currency equivalent. If the bureau is a subsidiary of a commercial bank, then the total investment in the bureau shall not exceed Tsh 250 million drawn from the bank's domestic assets.

The BOT will approve or deny the application within 21 days of receipt of the application. If approved, a one year bureau de change license will be issued upon: (i) a registration fee of US$500; (ii) US$5,000 security deposit in a non-interest bearing Blocked Account in the BOT; (iii) opening of a Foreign Currency Account

Operating Regulations. The following regulations must be observed by the foreign exchange bureau operator: (i) the foreign currency account shall be used solely for day-to-day operations, and shall not have a minimum balance; (ii) forex can be traded only on a spot transaction basis, any excess foreign exchange above the maximum net open position on the foreign currency account shall be surrendered to the BOT; (iii) forex buying and selling rates may be set freely; however, once set in the morning, rates can be adjusted only once in the day (in the afternoon); (iv) dealing is limited to buying and selling cash and travellers checks in specified foreign currencies; bureaux operating in border areas may also engage in trading of currencies of the respective contiguous countries; (v) inter-trading of excess foreign exchange among bureaus is allowed; (vi) weekly returns of all transactions must be submitted to the BOT.

Eligible Transactions. The following types of purchases of foreign currency are permitted: (i) any Tanzanian resident holding a confirmed travel ticket to an overseas location may buy up to US$3,000 per trip; (ii) payment for overseas medical services, cleared by the Ministry of Health; (iii) transfer of up to US$20,000 per person per year for overseas educational expenses, subject to specific clearance from Ministry in charge of education; (iv) payments for imports to be made through commercial banks which are authorized dealers and subject to existing import procedures; (v) purchase of up to US$2,000 per Tanzanian resident per year to cover costs of subscriptions, advertisements, trade mark royalties for books, or legal fees. The following types of sales of foreign currency are permitted: (i) any overseas resident may bring unlimited amounts of forex into the country, and purchase T shillings through the bureaus; (ii) local beneficiaries of overseas remittances may convert over the counter the forex into T shillings; (iii) international organizations and diplomatic missions are not allowed to transfer funds to/from Tanzania through the bureaus, but their employees may do so with their personal incomes.

TABLE 3
CONDITIONS GOVERNING OGL IMPORT TRANSACTIONS

1. Goods included in the OGL negative list are not eligible for importation under the OGL facility.
2. Each transaction should have the value of US$5,000 or above;
3. While there is no upper ceiling on OGL imports, all transactions above US$1 million must be procured through an international competitive bidding process.
4. Applications must be supported by quotations from at least 3 different potential suppliers, except for (i) proprietary spare parts for equipment already in Tanzania; (ii) goods of registered franchise holders/sole distributors; (iii) goods procured under ICB terms; (iv) procurement made directly from manufacturers.
5. Sourcing only from World Bank member countries is permitted.
6. An OGL import license is issued automatically by the BOT Directorate of Import Licensing if the above conditions are met.
7. An OGL import license has a validity of six months, within which importers are expected to establish L/Cs.
8. L/Cs will be established by local commercial banks, upon issuance of the OGL import license, and upon the importer meeting the local currency cash cover requirements of the banks.
9. OGL imports are subject to importation procedures contained in the Import Control Ordinance, Import Control Laws (Zanzibar), and Exchange Control Regulations -- including compulsory pre-shipment inspection.

TABLE 4
CURRENT OGL IMPORT PROCEDURES

Import Licensing/Arranging for Cash Cover

1. Importer applies for import license from BOT Imports Directorate, by supporting application with copy of pro-forma invoice.
2. BOT verifies that the application is complete, meets the OGL conditions, and refers to its accounts position on committed/used funds. If satisfied, an import license is issued.
3. Importer goes to commercial bank to arrange for cash cover in T Shillings (if no prior arrangements have been made). Commercial bank approves or denies the cash cover request.

Pre-Shipment Inspection Application/Foreign Exchange Permit

1. Importer applies for pre-shipment inspection using form EXCI, supported by import license, pro-forma invoice, cash cover documentation. If approved, the application for pre-shipment inspection is numbered and sent to the importer's bank, and a copy to the SGS/SSI as a directive to inspect. Importer pays inspection fee of 1% of FOB value of goods.
2. Application is sent from the BOT Import Payment Department to the BOT Import Licensing Department to receive a foreign exchange allocation.
3. If approved, the importer proceeds to establish an L/C with his bank.

L/C Establishment

1. Importer applies to open an L/C under OGL at his bank, supported by copies of foreign import license, EXCI, pro-forma invoice, and other documentation.
2. The bank contacts the BOT Import Licensing Department that all general and OGL conditions have been met, and approaches the BOT Foreign Exchange Department to commit funds in its accounts.
3. The local bank sends telex to the offshore bank requesting that an L/C be opened, and consults further with the BOT import licensing authorities.
4. A list of requested L/Cs is sent to the BOT Foreign Exchange Department.
5. If satisfied, the offshore bank will confirm and open the L/C in the importer's name.
6. The local bank informs the importer that the L/C has been opened.

Inspection, Documentation and Withdrawal

1. Inspection agent issues Clean Report of Findings. Overseas supplier sends shipment details and documentation to importer.
2. Importer's bank receives same documents from offshore bank; same documents are sent to the BOT Foreign Department who also receive account statements from the offshore bank.
3. Once the L/C matures, importer's account is debited of cost of goods plus an L/C fee of 1.5-6% and T Shillings transferred to the BOT Foreign Department as a refund for the forex used.
4. BOT Foreign Department debits accounts of importer's bank, and submits withdrawal application for replenishment of OGL forex from the World Bank, and a copy sent to the Treasury.

TABLE 5
DIRECT AND INDIRECT TAX RATES IN TANZANIA

Direct Taxes	Resident	Non-Resident
Corporate Income	45%	50%
Withholding Taxes		
Management/Prof. Fees	--	30%
Royalties	--	30%
Rents	--	40%
Dividends	10%	20%
Interest	12.5%	20%
Pension	--	15%
Capital Gains		
Less than Tsh 100,000	--	--
Tsh 100,000-500,000	20% of amount above Tsh 100,000	
Tsh 500,000-1 million	Tsh 80,000 + 25% of amt. above Tsh 500,000	
Over Tsh 1 million	Tsh 205,000 + 30% of amt above Tsh 1 mill.	
Personal Income	Progressive rates ranging from 7.5-40% on income of both residents and non-residents	
Other Miscellaneous		
Social Security	10% of salaries of all employees	
Training Levy	10% of salaries of expatriate employees	
Payroll Levy	4% of salaries of all employees	
Transport Levy	2% of hire charges for road transportation provided that the charges are at least Tsh 10,000	
Motor Vehicle Tax	Tsh 80,000/year/car provided by employer	
Residence Tax	Tsh 40,000/foreign employee on securing work permit	
Housing Fund	20% of company after tax profits to be set aside to finance housing construction for employees	

Indirect Taxes	
Import Duties	Imposed on almost all imported goods ranging between 20-60% of c.i.f. value
Excise Tax	Ad valorem and specific taxes levied on local and imported luxury goods
Sales Tax	Levied on certain imports and local goods, ranging between 20-40% of value. Tax is a transaction-based, applied at each point of sale

ANNEX P

POLICY MATRIX

Overall Program Objective: To generate employment and income-earning opportunities by stimulating private sector development through the establishment of a sound and diverse financial system.

Management Benchmarks	Prior to Authorization	Tranche 1	Tranche 2	Tranche 3	Project Support Elements
To be reviewed and approved by the FED Program Steering Committee	Bank of Tanzania and Ministry of Finance approve this Policy Matrix as a statement of intent under the FED program	Bank of Tanzania prepares Workplan for first-year policy adjustments, short-term technical assistance, and training	Bank of Tanzania prepares Progress Report on first-year activities Bank of Tanzania prepares Workplan for second-year policy adjustments, short-term technical assistance, and training	Bank of Tanzania prepares Progress Report on second-year activities Bank of Tanzania prepares Workplan for third-year policy adjustments, short-term technical assistance, and training	Short-term technical assistance

Theme: Consolidate Bank of Tanzania role as a central banking institution

Disbursement Conditionality		Tranche 1	Tranche 2	Tranche 3	Project Support Elements
Program Area A: Set in place legislation for a strong central bank		BOT finalizes review of the BOT Act of 1965 to ensure consistency with 1991 legislative reforms	BOT finalizes revised BOT Act	Revised BOT Act becomes law	Short-term technical assistance
Program Area B: Strengthen supervisory and regulatory functions of the Bank of Tanzania		BOT elevates Supervision Department to Directorate BOT finalizes Capital Adequacy and Asset Concentration regulations BOT schedules loan portfolio review for TIB and THC	BOT completes revisions of Manual of Inspection Policies and Procedures to reflect new regulations BOT undertakes one full-scale external bank examination BOT completes one or two portfolio reviews	BOT assesses effectiveness of bank supervision and regulation process BOT undertakes an additional full-scale external bank examination BOT completes remaining portfolio reviews	Short-term technical assistance and training

Theme: Consolidate Bank of Tanzania role as a central banking institution

Disbursement Conditionality		Tranche 1	Tranche 2	Tranche 3	Project Support Elements
Program Area C: Enhance Bank of Tanzania's instruments of monetary policy		BOT inaugurates discount window surveillance by monitoring the amounts and quality of credit extended BOT initiates design of secondary market in government securities	BOT begins using changes in the discount rate to influence the amount of loans extended to the economy by the banks BOT finalizes draft regulations/legislation to implement securities market	BOT initiates government securities market	Short-term technical assistance and training
Program Area D: Discontinue those functions of the BOT inconsistent with the role of a central bank		BOT prepares plan to (a) phase out setting of credit terms, (b) eliminate administratively allocated credit, (c) become a "lender of last resort"	BOT further liberalizes interest rate policy by eliminating maximum lending rates	BOT implements a discount policy consistent with a role as lender of last resort BOT stops administrative allocation of credit	Short-term technical assistance
Program Area E: Foster a diverse, competitive, and efficient financial sector		BOT takes on responsibility for interbank check-clearing BOT assesses options for moving away from the OGL to a fully market based foreign exchange regime	BOT assesses alternative interbank check-clearing approaches BOT drafts legislation enabling a private insurance industry BOT initiates move to auction or other market based FX allocation mechanism	BOT implements the interbank check-clearing function Legislation enabling a private insurance industry becomes law BOT completes move to auction or other market based FX allocation mechanism	Short-term technical assistance and training

ANNEX Q

EVALUATION MATRIX

FED MONITORING AND EVALUATION MATRIX

OVERALL OBJECTIVE	POLICY ADJUSTMENTS	PROGRAM ELEMENTS	PROGRAM SUPPORT	INDICATORS	MONITORING MECHANISMS
Increase employment and income growth			Import financing facility – US Dollar Account – Local Currency Trust – Social Action Trust	Employment levels rise 4–5% Per capita income increases 2–3% Pvt sector imp s increase 5–6% Pvt sector credit increases 8–10% 2500–3000 scholarships available for for AIDS orphans	National Accounts Data Household & firm level surveys Evaluations Audits
PROGRAM THEME 1 Financial Sector Reform Establish a sound and diverse financial system	1. Legislative authority for a strong central bank. 2. Strengthen supervisory & regulatory functions of the BOT. 3. Enhance BOT's instruments of monetary policy. 4. Discontinue functions inconsistent with central bank role. 5. Foster a diverse, competitive & efficient financial sector.	BOT revises 1965 BOT Act. BOT establishes off–site bank supervision, full–scale external bank examinations and loan portfolio reviews. BOT controls amount of credit extended by banks and establishes a market in government securities. BOT becomes lender of last resort. BOT assumes interbank check–clearing function. Legislation enacted to establish private insurance industry. BOT initiates auction or other market–based FX allocation mechanism.	US short–term TA 68 per/mo US/Incountry Trng 94 per/mo Commodity procurement	BOT Act becomes law. BOT reviews off–site bank supervision reports quarterly. BOT completes 5 full–scale bank examinations. BOT carries out loan portfolio reviews of TIB, THB & NIC. Inflation rate reduced to 5% by 1997. Tshs. 20 billion of government securites offered on market by 1997. Check clearing reduced to 7 days by 1994. 10 new financial insitutions established by 1997. Unification of FX market completed by 1995.	Nat. Accts Data Mgmt reviews Implementation reports Background analyses Evaluations
PROGRAM THEME 2 Private Sector Development Stimulate private sector responses to new opportunities created by liberalization		Establish Business Advisory Services Center. Support Business Associations. Establish Venture Capital Fund.	Long–term US business advisor 60 p/m TZ long term TA 360 p/m US short–term TA 34 p/m TZ short–term TA 80 p/m US/TZ/3rd country Trng 65 p/m Commodity procrement	Number of enterprises increase 5%. Value of output increses 10%. At least 200 businesses receive special services. Selected business associations expand membership by 20%. Venture Capital Fund buys equity in a minimum of 12 firms which average gains of 20%.	Nat. Acct Data HH & Firm Surveys Implementation reports Evaluation
PROGRAM THEME 3 Governance Encourage meaningful dialogue between public and private sectors		Promote exchange between Government & Non government organizations & individuals Strengthen independent voices	US/TZ short–term TA 5 p/m	5 policy studies completed. 5 pvt–public sector seminars held 1–2 new pvt–owned printing facilities in operation	Mgmt reviews Implementation reports Evaluations

ANNEX R

PRIVATE SECTOR REGULATIONS AND PROCEDURES

TABLE 1
MAJOR ECONOMIC POLICY REFORMS (1986-92)

Exchange Rate/Foreign Exchange Policy

1. Introduction of the "own funds" scheme, which largely eliminated QRs, and significantly reduced average effective protection levels. (1984)
2. As part of ERP, T Shilling devalued from Tsh 16.5 to Tsh 51.7 per U.S. dollar in 1986. T shilling depreciated by over 80% between 1986-90, in continuous adjustments to the exchange rate.
3. Introduction of OGL scheme providing foreign exchange automatically for a defined list of imports. (1988)
4. Removal of OGL ceiling of US$1 million per importer per annum; orders over US$1 million subject to international competitive bid. (1990)
5. T Shilling devalued by 14.5% to Tsh 230 = US$1. (June 1991)
6. T Shilling devalued to Tsh 290 = US$1. (May 1992)
7. Elimination of system of foreign exchange allocation, and adoption of the OGL mechanism. (July 1991)
8. Foreign Exchange Act and introduction of foreign exchange bureaus. (April 1992)

Trade Policy

1. Introduction of OGL scheme which reduced use of import licensing for forex allocation. (1988)
2. Simplification of the tariff structure, resulting in six positive rates, reduction of the maximum tariff rate to 100%, and lowered average tariff rates. (June 1988)
3. Reduction in the number of tariff rates to four ad valorem rates. (June 1990)
4. Replacement of "positive list" of eligible OGL imports, with small "negative list" of goods not eligible for importation under OGL. (January 1991)

Investment/Business Establishment Policy

1. Passage of the National Investment Promotion and Protection Act, creating the IPC. (1990)
2. Introduction of debt/equity conversion scheme. (April 1992)
3. Amendment to the National Investment Act, to streamline business establishment procedures, and enhance IPC's functioning as a "one stop" investment approval/business licensing center. (Underway)

Internal Trade/Tax Policy

1. Reduction in number of goods subject to price control from over 400 to ten categories of goods. (1989)
2. Decontrol of real prices of agricultural commodities; liberalization of agricultural marketing framework.
3. Liberalization of cashew nut and cotton marketing; private cotton ginning.
4. Simplification and consolidation of sales and excise tax rates. (1990)

Export Promotion Policy

1. Introduction of foreign exchange retention schemes for various traditional and non-traditional exporters.
2. Discontinuation of export rebate scheme, introduced in 1981. (1986)
3. Consolidation of various export retention schemes to 50% retention of forex earnings of non-traditional exporters, and 30% for traditional exporters. (1987)
4. Introduction of export duty drawback scheme. (1988)
5. Reduction in export retention share for non-traditional exporters to 35%; effective elimination of export retention for traditional exports. (1989)

ANNEX S

AIDS IN TANZANIA

EXECUTIVE SUMMARY

OVERVIEW AND INTRODUCTION

The rapid spread of AIDS will have far-reaching implications in Tanzania over the next several decades. This study assesses the current status, likely future development, and prospective demographic, economic, and other impacts of the AIDS epidemic, and examines the options available for doing something about it.

The findings suggest that the epidemic will be severe and have major consequences. As will be described further below:

- The number infected will reach 5.8 to 17.4 percent of the population by the year 2010, up from 1.4 to 5.3 percent currently. (These HIV-infected individuals will suffer debilitating illness, usually within one to ten years of infection, followed by certain death a year or two later, often in the prime of life or before.) In addition, a much larger number will be indirectly affected: as relatives, many of whom will incur significant costs on account of AIDS victims; as survivors, many of whom will be left in greater poverty; as earners, employers, or self-employers who will experience productivity losses; or as sufferers of other diseases in AIDS-induced resurgence (e.g., tuberculosis).

- Demographic changes will alter the composition of the population and work force. Earners will have more dependents to provide for, as the ranks of working-age adults are thinned by rising mortality, while the young and the infirm become more numerous. The work force will become younger (average age 29 instead of 31 in 2010) and less experienced, and will have less education and training. Critical talents and rare skills -- such as entrepreneurs, managers, and various professionals -- will become even scarcer.

- The economy will be adversely affected, mainly in the medium and long run. GDP will grow more slowly; by 2010, it could be 14 to 24 percent lower than it would have been if there had been no AIDS epidemic. Per capita GDP also will be impacted, but more moderately, as the slower aggregate GDP growth is partially offset by slower population growth.

- Some sectors, industries, regions, and subgroups will feel the effects much more than others. Kagera region, the worst hit area so far, will experience massive increases in mortality rates and unattached dependents (orphans, widows, etc.). It is already feeling the labor pinch, with crop production reportedly being adversely affected. Other regions may be similarly effected. Health services and budgets will come under increasingly intense pressure, as AIDS victims and other patients compete for the limited resources available.

- Population growth, though slowed considerably by higher mortality, will remain above 2.0 percent through 2010 or longer, and the dependency ratio will worsen slightly; population policies and programs, including family planning, will continue to be an urgent priority.

The findings also indicate that effective action to slow the spread of the disease and improved coping measures can make a difference in mitigating the course and consequences of the epidemic. The most promising options are strengthening efforts to:

- curb other sexually transmitted diseases (STDs) better, since their presence significantly increases the likelihood of AIDS transmission. Not only would a comprehensive STD/HIV prevention and control program decrease the risk of HIV infection for those with treatable STDs, it presents a unique opportunity for reaching those individuals at greatest risk of acquiring and spreading HIV with effective AIDS counselling;

- increase condom usage, by actively promoting them for disease prevention as well as family planning purposes and by ensuring their ready availability;

- design a variety of IEC messages specifically targetted to different audiences and utilizing a wide variety of media in order to create the synergistic effect necessary to change behavior;

- reduce the need for blood transfusions (e.g., by improving prevention and treatment of other diseases -- such as malaria -- so that fewer patients reach the point of needing transfusions);

- treat AIDS patients at primary facilities and at home rather than at hospitals, and thus realize significant cost savings.

In addition, the adverse economic impacts can be moderated through actions to:

- intensify public expenditure review and control, with a view to raising allocations to the health sector through reductions elsewhere, while also diminishing inefficiencies within the health system;

- pursue vigorously the economic reform, so that the full growth potential of the economy can be realized; and

- seek increased external funds, through donors and commercial investors, to compensate for the reduced domestic savings caused by AIDS.

AIDS has come to Tanzania at a difficult time. Economic conditions and living standards (including health status) are still at very low levels, recovering from the setbacks of the early 1980s that reversed progress in the 1960s following independence. GNP per capita is about $100, and public spending on health per capita is under $4. Morbidity and mortality levels are unacceptably high. One out of every ten children born does not survive to its first birthday. More than three of every 1000 mothers-to-be die as a result of their pregnancy. The child mortality rate (prior to AIDS) was 147/1000 and the adult mortality rate, 7/1000, with an average life expectancy of about 48 years.

EXTENT AND SEVERITY OF THE EPIDEMIC

Current Situation

The National AIDS Control Program (NACP) estimates that about 800,000 people, or about 3.2 percent of the population, are currently infected with the disease (i.e., are HIV sero-positive). Of these, approximately 160,000 have already developed AIDS (i.e., have crossed the threshold from being infected to being ill). The remainder will develop AIDS sometime between less than one and up to twenty years from the date of infection (the median time for adults between infection and becoming ill appears to be eight to ten years in developed countries and may be less in developing countries). Death follows within a year or two of the onset of major symptoms, and often much sooner. Annual deaths from AIDS are presently estimated at between 20,000 and 30,000 which is 5-7 percent of total deaths. AIDS is believed to have recently surpassed malaria as the leading killer among diseases in adults, and is likely to do so for children in the very near future.

Some parts of the country are much more affected than others. For example, in Kagera region, where the epidemic first manifested itself in Tanzania, reported AIDS deaths are about 16 percent of all deaths -- and the actual figure may be higher due to underreporting. An estimated 17 percent of Kagera's urban population and 5 percent of its rural population are HIV infected; the proportions of productive adults infected is even higher. In contrast, in at least half of mainland Tanzania's 20 regions, only about 2.5 percent of the urban population and less than 1 percent of the rural population are thought to be infected. Whether these differences suggest different epidemics or different points in the same epidemic (i.e., whether all regions are likely to follow the Kagera pattern) is not yet known. This will depend on whether there are differences among regions with regard to the extent of sexual activity outside marriage and the prevalence of STDs in the populations, but information on these factors remains sketchy.

There are also large disparities across different subgroups of the population. HIV infection levels are highest in people between the ages of 15 and 45, and in new-born infants. HIV infection rates are increasing especially rapidly among adolescents. Women and men are about equally infected. Women appear to become infected at a younger

age than men on average. These facts are consistent with what is known now about how the disease is transmitted in Tanzania. By far the most important transmission route is heterosexual contact, which is estimated to account directly for close to 80 percent of all infections in the country. Blood transfusion and perinatal transmission have each been responsible for about 10 percent of infections; contaminated needles or other health care equipment is responsible for only 1-2 percent of infections; and transmission by other routes is negligible. This implies that those most at risk of acquiring AIDS are people with multiple sexual partners, their spouses and their unborn children.

Future Prospects

The likely future course of the epidemic will depend crucially on a number of vital and difficult-to-predict variables. By far the most important issue is what will happen to sexual behavioral patterns, and in particular, to the proportion of the adult population with multiple sexual partners. If, for example, 45 percent of the adult population are "sexually monogamous" (have only one partner), it has been estimated that, by the year 2000, about 1.2 million people will be carrying the virus and another 450,000 will have died of AIDS, with these numbers growing to about 2.3 million and 1.7 million respectively by the year 2010. If, on the other hand, only 15 percent of the adult population are monogamous, as many as 3.6 million could be infected by 2000 and AIDS deaths could be as high as 1.6 million, growing to 6.1 million infected and 5.6 million deaths by 2010. These figures imply that 3.9 to 12.4 percent of the population will be infected by 2000 and 5.8 to 17.4 percent by 2010.

Even if massive efforts to reduce the spread of infection were successful in slowing transmission, the number of AIDS cases and deaths would still increase for the next several years as those already infected reach the stage of actually falling ill with the disease. In the extreme (and unlikely) case that transmission stopped completely as of today, the number of AIDS cases would still continue to grow to over 300,000 by 2000, and to more than 500,000 by 2010. Thus, no matter what happens, AIDS is going to have a major presence in Tanzania for many years to come, and the Government must plan now how to deal with that reality.

IMPACTS OF THE EPIDEMIC

The increases in both mortality (deaths caused by AIDS and by AIDS-induced growth in the prevalence of other diseases) and morbidity (illness -- i.e., decline in healthiness -- among those afflicted) will have a wide range of impacts, affecting in particular (1) demographic factors (population growth, age structure, dependency ratios, etc.), (2) the economy, (3) the health care system, and (4) other sectors.

Impacts on Demographic Factors

AIDS is expected to increase the adult mortality rate to about 25/1000 by 1994, from about 7/1000 in the late 1980s. The child mortality rate, which has been decreasing steadily for the past twenty years, is likely to begin increasing again within the next few years. Overall, the crude death rate could increase to as much as 24/1000 (from 20/1000 currently) and average life expectancy could drop to about 40 years (from 48).

Population growth will remain positive, but the rate of growth could decline from the current 2.8 - 3.0 percent annually to 2.0 - 2.6 percent by the year 2010. Thus, population growth pressures will still be a major problem, and concerted efforts to improve and expand population policies and programs, especially family planning, will continue to be an urgent and high priority. Most of the epidemic's effect on population growth will be from increased mortality; the impact on fertility is anticipated to be minimal.

The age structure of the population will change in several ways. The 15-to-64 age group, i.e., working age adults, will become younger overall: their average age will decline to 29, instead of 31.5 in the absence of AIDS. The under-15 age group will be somewhat smaller than it would have been otherwise, due mainly to deaths of AIDS infants; but will have the same age composition. Because the losses in the under-15 group will be relatively fewer than the losses in the 15-64 group, the under-15 group will account for a larger proportion of the 0-64 population in the with-AIDS case than in the without-AIDS case. Thus the youth dependency rate will rise. The over-64 group will initially be unaffected; later, as the losses in the 15-64 group work their way up the age pyramid, the over-64's will be significantly reduced in number, compared to the no-AIDS case. These trends, together with the reduced size of the 15-64 group, will cause the elderly dependency ratio to be initially higher than it would have been, and then to be much lower. The overall dependency ratio, taking into account all these factors, will be slightly higher than in the absence of AIDS. In sum, the epidemic will lead to a younger (and therefore presumably less experienced) work force with a larger number of dependents to provide for.

Significant increases will occur in the numbers of "unattached dependents" -- orphans, widows, and families without able-bodied, working-age adults. In Kagera, there are a number of households consisting exclusively of dependents -- young children and their grandparents. This development will impose extra burdens on others, including non-AIDS households, communities, and public authorities, as some victims move in with relatives and others become homeless scavengers.

Impacts on the Economy

The effects of the epidemic on mortality, morbidity, and demographic factors will affect the macroeconomy through multiple channels, starting with impacts on:

- the labor force (the number of workers and potential workers, the age structure, the level of experience, the extent of training, etc.) and the dependent population (their number, needs, etc.)

- the productivity of workers, as those who are ill, or caring for others who are ill, become less productive than if they were well

- the human capital embodied in the work force, as well-trained, educated, experienced, and/or specially talented workers become less productive and die sooner than they would have otherwise.

- expenditures occasioned by AIDS, including both public and private spending, at the individual household level and in aggregate.[1/]

Flowing from these various effects will be others concerning the savings behavior of households and their non-AIDS-related spending. As victims, relatives, friends and others spend more on AIDS-related expenses, and as some of them also earn less because they work less, they will have fewer resources left for other purposes. This will undoubtedly result in a reduction in saving (or, equivalently, an increase in dissaving among those already spending more than their income). There may also be some reduction in expenditure for items unconnected with caring for victims, and possibly shifts in the composition of expenditure and saving. In addition, expenditure and saving behavior may be affected for other reasons too. For example, there may be an impact on the precautionary demand for savings by households who experience greater income variability in the presence of AIDS.

The effects on savings are especially important because economic growth prospects will be modified to the extent that savings -- and investments -- are altered. In the likely event that the dominant effect on saving is the impact of increased spending to care for AIDS victims, the outcome will be a decline in saving. Other effects on saving might mitigate or exacerbate this decline, but the net result seems more probably to be a reduction.

1/ Expenditures on health services, though perhaps the main item here, will not be the only one. Households may incur many kinds of other "costs of caring" as well. In the end, too, there will be funeral expenses, which in Africa can often be extremely large relative to income.

The effects on expenditure unrelated to AIDS may involve numerous adjustments across different markets. Some of these adjustments may be quite ordinary, in the sense of being little different, in their economic consequences, from the usual market shifts associated with changes in weather, tastes, external factors, etc. But a few may be of a more special nature. One might be a reduction in spending on education. If, as a consequence of spending more on health care and other things, people spend less on their children's schooling (and thus enrollments fall, dropouts rise, and learning achievement declines), the resulting setbacks in investment in human capital could constrain long term future growth.

Taking all these effects together, and some further ramifications they may have, the study examined a number of basic questions about the possible economic implications of AIDS, including the following. Will the implications amount to much, or will they be minor? If more than minor, how will the time path of key macroeconomic variables, (GDP, GDP per capita, saving, investment, real wages) in the AIDS-stricken economy differ over the next twenty or so years from what would have happened in the absence of the AIDS epidemic? To what extent can policy interventions alter the "with AIDS" outcomes?

To analyze these issues, a simple conceptional framework was developed, and then extended to motivate a more involved simulation model that links conjectures about the demographic impacts of AIDS to the macroeconomy. Using two extensions of a well-known approach (the Solow growth model) and simulations that trace out the time paths of a "no AIDS" scenario and alternative "with AIDS" scenarios reflecting different policy options, the analysis considered how the various effects would interact with one another. Of particular interest were the conflicting influences of declining labor force growth, labor productivity, and national saving. Taken together, these and the other effects of AIDS might result in either increases or decreases in GDP per capita, the capital/labor ratio, wages, and other variables. The simulations suggest answers to these questions and indicate the likely magnitude and direction of key changes over time.

The main results of this analysis suggest that if no new actions are taken (e.g., if no new Government measures or donor support are forthcoming), then:

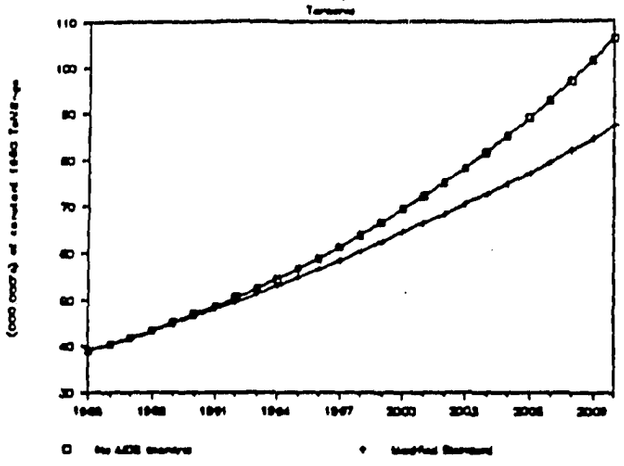
- GDP would grow more slowly than it would have in the absence of AIDS. The average real GDP growth rate through the year 2010 would be 2.9 - 3.4 percent, instead of 4.0 percent if there were no AIDS. By the end of that period, the level of real GDP would be 14 to 24 percent lower than it would have been otherwise.

- Per capita GDP would also be affected but more moderately, as the impact of slower GDP growth is offset somewhat by slower population growth. The average real per capita GDP growth rate through 2010 would be 0.3 - 0.7 percent, instead of 0.7 percent in the absence of AIDS. Under some scenarios, it is possible that per capita GDP might remain unchanged, especially if the reduction in savings were small or nil.

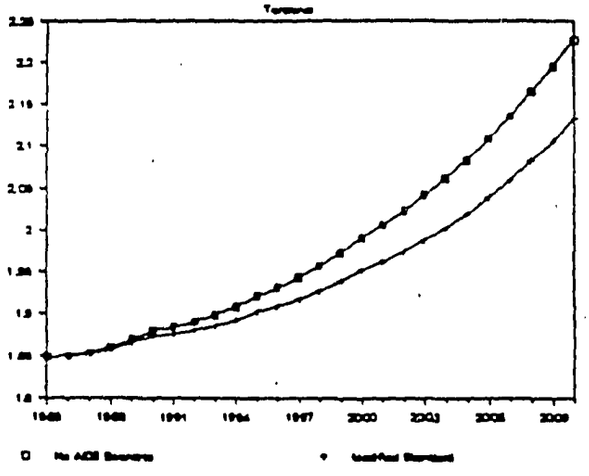
- Capital/labor ratios would be affected slightly -- possibly rising marginally more than it would have otherwise, as employers use non-labor inputs more so as to compensate for the losses in the numbers and productivity of workers.

The time paths of these impacts are traced in the following figures for one of the simulation scenarios found to be among the most plausible, among the large number analyzed. Not surprisingly, the impacts start out as quite modest, but then build up over time as the prevalence, mortality, and morbidity from AIDS worsens.

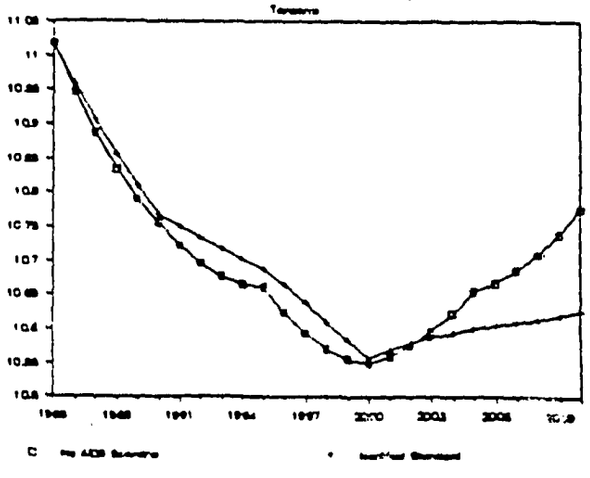
GDP Projection



Per Capita GDP Projection



Capital to Labor Ratio Projection



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The effects within particular industries, sectors, regions, and subgroups of the population could of course be much more drastic. The loss of better trained, educated, or experienced personnel, or specially talented individuals could have major implications in some cases, especially where the activity is crucial to the overall development of the economy and/or there are pre-existing skill gaps and capacity scarcities. For example, losses of current or potential entrepreneurs, or among those farmers most predisposed to adopt new ideas, would be singularly damaging. Although nothing can be said with certainty about any of this, there is a substantial risk that as the epidemic spreads further, some vital elements of the economy could be severely affected, which would then make the aggregate impact even more pronounced.

For individual households, too, the impact of illness and death of one or more family members is likely to be quite severe. In addition to the permanent loss of income or labor of the deceased - who may have been the primary source of support - household savings and/or equity may have been depleted caring for the patient. In a country as poor as Tanzania, it is likely that many families which had been managing, but just, will be pushed into real poverty as a result of AIDS.

In short, the ramifications of AIDS for the economy are likely to be by no means trivial. If no new actions are taken by Government and/or donors to counteract the consequences of the spread of the disease, GDP will grow much more slowly than previously projected, making the future development prospects of the country considerably more uncertain than otherwise. Per capita income levels will also rise more slowly, and although the per capita effects will be smaller than the aggregate effects, the reason for that outcome offers little solace: namely, AIDS deaths will reduce the number of people who otherwise would have been alive. Thus, the need to explore what can be done to contain the epidemic and to counterbalance its impacts is all the more urgent.

Impacts on the Health Care System

The consequences of the epidemic for health care provision and costs, both public and private, will be major, requiring difficult choices among competing demands for resources, not only between AIDS and other health issues (maternal and child health care, malaria, etc.) but also within AIDS care. Before dying, a typical adult AIDS patient will suffer two or more episodes of chronic diarrheal disease, ten episodes of oral thrush, and about three skin infections. In addition, approximately 50 percent of adult AIDS patients will fall ill from pneumonia and/or septicaemia, and 15-25 percent will suffer from tuberculosis, severe headache, and/or neurological diseases, bringing the average number of episodes of illness per adult AIDS patient to 17 over the one to two years prior to death. All this sick time, if fully provided for, would require over 280 days of care, including home care. For infant AIDS patients, about six episodes of illness are expected, including a combination of chronic diarrhea, oral thrush, pneumonia and skin diseases, as well as recurrent fever and TB in some cases. The care burden for child cases would total about 200 days of care on average per patient over the year or less prior to death. It has been

estimated that each adult AIDS case treated in the health care system absorbs about TSh 58,000 ($290) in nursing and drug costs, while the cost per pediatric case is about TSh 39,000 ($195).

If all AIDS patients were being treated in health facilities, and sufficient drugs were available for this purpose, AIDS care would absorb about TSh 5.46 billion ($27.3 million) from both public and private sources in FY 1991, which is equivalent to about half of the entire public health recurrent budget for that year. However, it is difficult to know how many AIDS cases are actually seeking care from the public or private health care system. On the one hand, only a fraction (10-15%) of the estimated number of AIDS cases have been recognized at health facilities as having AIDS, implying that many illness episodes are being treated by traditional healers or at home. On the other hand, many opportunistic diseases could be, and probably are, treated without being recognized as HIV-related. If only half of all AIDS cases were seeking treatment from public health facilities, AIDS expenditures would currently absorb about one-quarter of the Government's recurrent health budget.

Given the projections of new AIDS cases in the future, the demand for care is going to place extreme pressure on the health budget. It is unlikely that financing from the public sector for AIDS treatment will be sufficient, especially in view of the numerous other health needs of the population. Various projections of economic growth done as part of the recent economic report for Tanzania indicate that Government allocations for health will rise only marginally in the coming years unless the economic reform program is pursued more vigorously than at present. Only with a combination of vigorous economic reform and an effective AIDS control program to slow the epidemic is Tanzania likely to be in a position to provide reasonable care for all its AIDS victims while also meeting the health needs of the other 80-90+ percent of the population. Certainly, since the main threat of illness and death for the vast majority of Tanzanians will come from causes other than AIDS, most of them preventable, the treatment of AIDS cases must not be allowed to divert resources from primary health care programs, including those recommended in this report for preventing the spread of AIDS.

Impacts on Other Sectors

The impacts on other sectors besides health will be more complex. On the one hand, losses of personnel, especially trained, experienced workers and scarce talent, will create additional difficulties and costs. So will the extra expenditures that employers have to bear for sick workers. On the other hand, the slower growth rate of the population will mean that some services will not need to expand as rapidly as they would otherwise.

Regarding the losses of personnel, much will depend on how easily those people can be replaced. For example, HIV infection is spreading very rapidly among truck drivers on the major transport routes, suggesting that this segment of the work force will lose a disproportionately large number of people. Replacements, in this case,

should not prove too difficult. On the other hand, other sectors - such as energy and health, for example - already employ the relatively few highly-skilled and experienced people in the country with the specialized skills on which the sectors depend. The loss of only some of these people could affect the efficiency and productivity of these sectors; replacing them could take many years, suggesting that an even greater effort will be needed in building Tanzania's human resource capacity.

Regarding the impact of a slower population growth rate, many sectors are already falling so far short of meeting the needs of the existing population that a slightly slower growth rate will not have much practical effect. Needs for extension and improvement of services will still be vast, stretching providers -- and Government as a whole -- to the limit of the resources available.

Considering these and other possible sources of impacts, one of the most significantly affected sectors will be the education system. The slower-population-growth effect will be evident in the numbers of children to be educated. This will not mean, however, that expenditure on education can be reduced, since there is currently substantial under-funding relative to the need. Only 68 percent and 5 percent, of the relevant age groups attend primary and secondary school, respectively; books and other teaching materials are in very short supply; and teachers are underpaid. A sharp increase in per student expenditures on education will be required if quality is to be raised to the required level.

There will also be a large losses of personnel as substantial numbers of teachers succumb to the epidemic. The loss of more experienced teachers is likely to result in diminished internal efficiency of the education system, raising the cost per graduate.

In addition, the considerable investment already made in the education of those who die from AIDS will be lost, lowering the returns to education realized, on average, by graduates, their families, employers and communities. This could reduce the demand for education in the future, unless the loss of the highly educated drives up their wages enough to offset uncertainties about survival. Finally, the increased mortality rate among skilled people in all sectors implies that the rate of investment in human capital formation will have to be increased.

RECOMMENDATIONS FOR ACTION

AIDS will be a prominent and pervasive issue for a long time in Tanzania as elsewhere, but there are actions that Government, communities, individuals, and the international community can take to mitigate the severity and consequences of the epidemic. Much can be done through both prevention measures to slow the further spread of the disease as much as possible and coping measures to deal with the consequences that cannot be prevented.

The prevention measures that are being or could be applied are diverse. An analysis of the various possibilities and their costs and effectiveness in the Tanzanian context was done for this study, the results of which are discussed in following sections under headings on:

- STD prevention and control programs (i.e., strengthening of efforts to control the major, treatable sexually transmitted diseases, since having another STD vastly increases the chances of being infected by AIDS);
- condom programs (enhancement of supply and distribution systems, and expansion of demand through active promotion);
- IEC programs (improvement of information, education, and communication activities directed at changing behaviors at high risk of facilitating AIDS transmission);
- blood screening (to lessen the possibility of infection through donated blood);
- reducing the need for blood transfusions (e.g., by improving prevention and treatment of other diseases -- such as malaria -- to lower the risk of becoming sick enough to require a transfusion).

Immunization with an effective and affordable vaccine is, unfortunately, not an option now and cannot be expected to become one for a number of years, if at all. Recent information from the worldwide vaccine development effort is not encouraging: even when a vaccine is eventually discovered, fully tested, and evolved to the point of being ready for mass distribution (all of which could take a very long time), the cost may be prohibitively high and/or the difficulties of mounting a successful immunization campaign may be overwhelming (e.g., there could be special technical requirements in the handling of the vaccine, as in the case of the cold chain needed for the measles vaccine, and the logistics of delivering it could be as difficult as for the childhood vaccines, which still have not been successful in eradicating those diseases). Thus, strategies for responding to the AIDS problem, in Tanzania as elsewhere, should at this point not be counting on new breakthroughs in vaccines, and instead should be moving ahead vigorously with appropriate other actions. To pin hopes on some coming vaccine "miracle" that never happens would only retard progress on other more promising options. Even with a vaccine, behavior change will be necessary to stem the epidemic.

The coping measures also are diverse. The results of the analysis done for this study on the alternatives and their pros and cons are discussed below in sections on:

- Treatment protocols (i.e., revamping the procedures used in the handling of patients, depending on their problem, so as to allocate resources more effectively; both for AIDS and non-AIDS cases)
- Survivor assistance (to deal with the large increases expected in the numbers of orphans, widows, workerless households, etc., and with the adjustments that households and communities must make to higher mortality and morbidity rates)
- Actions to address the economic impacts.

In both the prevention and the coping measures, the findings of the analysis suggest that current efforts could be improved upon significantly and the limited resources available could be utilized much more efficiently. Also, the cost-effectiveness of specific interventions varies substantially from one locality to another, depending upon a number of factors, the most important being the HIV prevalence in the population which is the target of the intervention and the number of trained personnel who can be spared for a specific activity, given other demands on their time. Thus, planning for prevention and coping measures needs to take place at the local level.

In the selection of some measures, particularly for prevention, the fact that almost 90 percent of new infections occur as a result of heterosexual transmission (given that most women who transmit it perinatally were themselves infected through sexual transmission) is a key factor in determining which options emerge as the most cost-effective. The best options, as described below, all relate to changing sexual behavior or reducing the risk of infection through sexual transmission. The success of efforts to slow the spread and impacts of AIDS will depend critically on how resistant the high risk groups are to altering practices and mores that have long been customary and widespread (e.g., as regards having more than one sexual partner and not using condoms).

Prevention Measures

STD Prevention and Control Programs. The presence of certain STDs other than HIV/AIDS in either partner has been estimated to increase the likelihood of transmitting the virus by 3 to 10 times, depending upon the STD in question.

Since research has shown that the risk of heterosexual transmission is quite low in the developed world, the high prevalence of STDs may help to explain why the spread of AIDS heterosexually has been so rapid in Africa. The presence of certain STDs not only improves the biological environment for HIV transmission, it is also indicative of high-risk behavior. This means that an effective STD prevention and control program also presents an opportunity for one-on-one counselling in STD/HIV prevention to those most at risk of becoming infected, an extremely cost-effective approach to such counselling.

The cost-effectiveness of treating different STDs as a means of averting HIV infection in Tanzania is presented below. As can be seen, with an HIV prevalence of 5 percent, the cost of treating various STDs (among people with multiple sexual partners) per case of HIV averted is only TSh 400 ($2.00) to TSh 3,000 ($15). This is a significant finding, especially when one realizes that the prevention and control of STDs has significant health and fertility benefits quite apart from HIV prevention.

Table: STD Treatment Cost per HIV Infection Averted
(US$)

	HIV Sero-Prevalence Level in Population Considered			
	1%	5%	10%	25%
A. Core group				
Chancroid	39	8	4	2
Chlamydia (f)	74	15	8	3
(m)	24	5	2.86	1.40
Gonorrhea (f)	35	7	3.50	1.40
(m)	15	3.35	1.35	0.90
Syphilis	11	2	1.20	0.40
B. General population				
Chancroid	545	110	55	25
Chlamydia (f)	887	177	90	37
(m)	293	60	33	17
Gonorrhea (f)	380	75	37	15
(m)	165	35	20	10
Syphilis	123	25	13	5

Source: Over 1991.

Although, theoretically, STD prevention and control is included in the preventive health services offered by the Ministry of Health, and is specifically mentioned among the activities to be pursued by the NACP, the program has been largely dormant for many years. Since little reporting occurs and no formal STD program exists, one must assume that existing STD services are poor. The regular screening of pregnant women for syphilis was discontinued in 1985 and no education campaign to inform people about STD symptoms has been carried out in recent years. There are plans to establish five STD clinics, and to improve STD services in more than 100 health facilities, through a phased approach involving training and drug supply to be financed by EEC. This effort will need to be complemented by a comprehensive STD prevention and control program involving education and counselling, patient risk assessment, partner referral, monitoring and evaluation and operational research. It is recommended that NACP make implementation of a national STD/HIV prevention and control program the main thrust of its future activities, with first attention being given to those public and private facilities serving urban, young adult populations.

Condoms Programs. Condoms, if of good quality and properly used, have been found to be very effective in preventing the transmission of HIV, and of other STDs. How cost-effective they are in slowing the AIDS epidemic depends upon the probability of one of the partners being HIV sero-positive, the quality of the condoms supplied, and whether they are used regularly and correctly.

While condoms can be procured in bulk from manufacturers for as little as TSh 4-10 ($0.02-0.05), to this must be added the cost of distributing them. The cost per condom in a program in Tanzania has been estimated at TSh 76 ($0.38). At this cost, if one had sex once each with 100 different partners among whom the HIV sero-prevalence was 5 percent, the cost-effectiveness of using condoms would be TSh 1,520 ($7.60) per HIV infection averted.

Because condom use is not very prevalent in Africa, cost-effectiveness analysis usually assumes that they will be made available through a social marketing program, the costs of which need to be added

to the analysis. The costs of a social marketing program in Tanzania directed at the general public, if no charge is made for the condoms, is estimated to be quite high and is not by itself a cost-effective approach to averting HIV infection. However, condom promotion as part of an STD control program, and social marketing programs targetted to very high risk groups can be very cost-effective and should be pursued. For the general population, much more effective promotion of condoms for both family planning and disease prevention is required, and policies should be followed to bring the cost of condoms down to affordable levels for users by, for example, removing current taxes and import duties, and negotiating bulk purchases at low cost from suppliers.

Information, Education, and Communication Programs. A wide range of options are possible here, involving media campaigns (radio, newspaper, etc.), distribution of materials (posters, calendars), changes in school curricula (in primary and post-primary education), community awareness efforts, family counselling, and more. In principle, IEC options ought to be highly cost-effective, given that (1) they focus on informing people and changing behavior which are crucial for slowing the spread of a disease like AIDS, where behavior is the key to transmission, and (2) they are low cost compared to most other options, especially those requiring labor and resource-intensive delivery of services. In practice, however, it is extremely difficult to design IEC messages which will be successful in actually changing behavior. STD/HIV is particularly prone to this problem, since sexual practices are among the most resistant to change of all areas of behavior.

Experience to date with AIDS IEC programs have consequently been disappointing, world-wide and in Tanzania. Nevertheless, IEC options should continue to be kept high on the list of priorities for prevention interventions and every effort should be made to acquire the special expertise required to design effective IEC programs. Considering how critical the behavior change element is to containing AIDS, even partial success in the IEC domain can have considerable importance, and a breakthrough to greater success would be enormously beneficial. Furthermore, where IEC has worked well, they have been capable of bringing about major improvements that would not have been possible otherwise. Continued searching for new and better ways to make IEC more effective - and overcome the resistance of old behaviors to modification - needs to be pursued vigorously.

Tanzania's current situation on these issues has recently been underscored by a knowledge, attitudes, beliefs and practices (KABP) survey carried out by researchers at the University of Dar-es-Salaam on a representative sample of Tanzanian households. The survey found that 97 percent of respondents were aware of AIDS and over 80 percent knew the major routes of transmission. The vast majority of those who had heard of AIDS learned about it from the radio.

Despite this high degree of awareness, high-risk sexual behavior remains common. A recent study on "partner relations" concluded that 20 percent of sexually active men and 15 percent of sexually active women had sexual partners other than their spouses, and an even greater

proportion engaged in commercial sex, defined broadly as sex in exchange for money, gifts or other favors. Condom use was negligible both in and outside of marriage, and even by those who had STDs. In this study, 80 percent of people engaged in high-risk behavior did not perceive themselves to be at risk of acquiring AIDS. A smaller study of truck drivers, casual laborers and secondary school graduates in Dar es Salaam found consistent results. A high proportion of respondents engaged in extramarital sex (75%, 43% and 35%, respectively), and sex with barmaids or prostitutes was not uncommon (44%, 16% and 10%, respectively). Although knowledge of condoms was fairly high, they were rarely used.

Tanzania has several IEC programs underway currently. Although data on them are limited, a program relying on radio spots was considered to be the most cost-effective in a recent review involving a committee of experts under the auspice of the NACP. The committee also concluded that posters/calendars, cartoons, newspaper "newspaper flashes", and family counseling were, respectively, 20, 18, 15 and 3 percent, as cost-effective as radio spots. This analysis used a mathematical model to assess the relative costs and effectiveness of interventions.

The absolute cost-effectiveness of these programs is difficult to determine from the evidence available. Thus far, they have mostly been directed at the population at large, rather than at specific risk groups or target groups, and have been largely limited to informing people about the disease rather than changing behavior. IEC directed at changing behavior is known to be most effective when it is specifically designed for population sub-groups with different characteristics. A distinction should be made between IEC directed at encouraging more responsible sexual behavior (which can probably be achieved only over time), and that developed for saving lives immediately, with means found for delivering these messages to appropriate risk groups. An important target group will be adolescents, among whom HIV prevalence is growing dramatically and who have been found to be less well informed than adults on matters concerning AIDS.

Another crucial target group will be people with multiple sexual partners. Studies carried out for this report have shown that effective IEC campaigns directed at people with multiple sexual partners, who are therefore at extremely high risk of contracting and spreading AIDS, have a much bigger payoff (6-8 times) in slowing the spread of AIDS than do similar campaigns directed at the population at large. One such target group is prostitutes and their partners. A pilot project supported by AIDSTECH and AMREF to promote condom use by truck drivers and prostitutes along a major truck route in Tanzania is underway, but results are not yet available. A similar program in Kenya, however, was found to be very cost-effective, costing only TSh 1,200 ($6) per case of HIV infection averted.

In addition to better targeting of IEC messages tailored for specific sub-groups, improvements are required in the content and delivery of IEC activities. Additional communication channels must be tapped, and more imaginative use made of different media. As a start, the Ministry of Health (MOH) should examine each aspect of its

operations for opportunities to deliver carefully constructed IEC messages on AIDS in the context of health care delivery; STD services are one obvious delivery point; fertility and family planning counselling for men and women is another. But all arms of the Government, the Party, NGOs and society in general should be utilized for reaching specific population groups.

For example, AIDS education appropriate for different school-age children should be integrated into the family-life education curriculum now being developed and tested. The entertainment industry should be co-opted for reaching adolescents, both in and out of school, with messages that young people are likely to respond to. The cooperation and active participation of labor and industrial groups should be solicited to develop AIDS prevention programs for workers. The assistance of religious leaders should be sought, not just to exhort their followers to lead "moral" lives, but to develop a strategy for changing the sexual mores of society.

The NACP's stated intention to decentralize IEC is sound, and this should be done in such a way that AIDS IEC can be fully integrated with other health education efforts once the planned reorganization of the MOH's health education unit has been realized. As a first step, it is recommended that the regional and district AIDS control coordinators be relieved of whatever clinical responsibility they now carry and be made primarily "communicators," with responsibility for working with other groups at the local level in developing IEC campaigns appropriate for that specific population. The NACP should probably limit its IEC activities to providing support to these local efforts, developing IEC messages and campaigns to be directed at specific high-risk groups, and mobilizing society at large through workshops with policy makers and opinion leaders. The support aspect of NACP's family counseling activities is probably more appropriately carried out by the Social Welfare Department in the Ministry of Labour and Youth Development, a shift which would free the few staff in NACP with communications expertise to concentrate on developing programs for high risk groups and advising other sectors/bodies in the design of IEC for their constituencies.

Finally, the success of the AIDS IEC prevention campaign will depend critically on the visibility of the support it receives from the highest level of Government. Hopefully, policy makers are beginning to be aware of the devastation which the disease is reaping on segments of the population, and the threat that its continued spread implies for the country as a whole. The epidemic needs to be treated as a crisis. The population must be made aware that it is not limited to a few unlucky people but that, the more the infection spreads, the higher the probability of any single person acquiring the disease, even those who are themselves sexually monogamous.

Blood Screening. Although contaminated blood has been a relatively unimportant mode of HIV transmission in Tanzania, accounting for only 10-12 percent of infections to date, considerable resources and effort have been expended to reduce transmission via this route. One hundred sixty-eight blood transfusion centers have been equipped with

simple rapid kits for testing HIV-1 antibody, and an estimated 80 percent of donated blood are now being screened prior to transfusion. The cost-effectiveness of blood screening for averting HIV-infection is very sensitive to the prevalence of HIV in the population. If the HIV sero-prevalence level is only 3 percent, as it is estimated to be in the Tanzanian population at large, screening blood prior to transfusion costs about TSh 100,000 ($500) for every case of HIV infection averted, because one is likely to test many blood samples before an infected sample is encountered. If HIV sero-prevalence is as high as 25 percent, however, the cost-effectiveness of blood screening drops to TSh 13,400 ($67). In contrast, decreasing the need for blood transfusions by using replacement solutions where this is possible, or by preventing anemia in the first place, can be very cost-effective.

Reducing Blood Transfusions. It has been estimated that about 100,000 blood transfusions are given annually in Tanzania. Women, and children under five, are more likely to require blood transfusions than men, and therefore to acquire HIV via this route, because of the high prevalence of anemia among them, due to inadequate nutrition and to the severity of malaria attacks. Between 40-60 percent of transfusions are due to severe anemia in children, while 10-40 percent are due to severe anemia in pregnant women, before or after birth. Blood transfusion always carries risks, both because of the diseases which can be transmitted via this route (HIV, malaria, syphilis, hepatitis B & C, etc.) and because of the impaired healing and increased risk of secondary infections when done after surgery. For this reason, replacement solutions (plasma expanders) are often preferable to transfusion of blood for urgent volume replacement following acute bleeding. For anemia, however, prevention is preferable to treatment. The table below indicates the cost-effectiveness of these interventions for averting HIV infection. Preventing anemia in women and children, of course, has considerable benefit apart from slowing the AIDS epidemic.

Table: Cost-Effectiveness of Selected Interventions for Averting HIV Infection*

	US$
A. Blood screening for HIV	170.00
B. If blood is not screened	
- Use replacement solutions, when possible	20.00
- Treat malaria in children	4.50
- Give malaria prophylaxis to children	18.80
- Give malaria prophylaxis during pregnancy	2.20

Source: Bjorkman 1990.
Note: * Assuming an HIV sero-prevalence of 10.2% in urban adults and of 4.7% in rural adults.

The MOH supports an extensive maternal and child health program which is meant to identify women and children at risk. The high maternal and infant mortality figures for Tanzania indicate that it is only partially successful, however. Recognition that effective MCH services can help to stem the AIDS epidemic underscores the importance of these services for improving the health status of Tanzania's population.

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Coping Measures

Care and Treatment. As stated above, it is estimated that the care and treatment of AIDS cases in Tanzania is currently costing about $290 per adult and about $195 per child. These costs are thought to be minimal in that they assume that the least expensive drug is used and only palliative treatment of opportunistic illnesses is offered, except in the case of communicable diseases such as tuberculosis and pneumonia, where the infective agent itself is treated. Notwithstanding this assessment, it is essential that ways be found to bring these costs down, on both equity and efficiency grounds. The average recurrent expenditure on health in Tanzania is only about $2 per capita, and money spent on treatment of the terminally ill is likely to be diverting resources from that which could save lives.

Two cost-effective analyses of the current treatment regime have been carried out. The first compares it with a treatment alternative which concentrates the care of AIDS patients at lower level facilities, supplemented by home care, as compared to the current situation where suspected AIDS cases are sent to regional and national referral hospitals and cared for there until health authorities can do no more for them. Drugs were found to account for only 25 percent of the treatment costs; nursing and institutional care accounted for the other 75 percent. Because these latter costs are significantly greater at higher level facilities, considerable cost savings can be realized by caring for AIDS cases at health centers and dispensaries. It is estimated that the cost of treating adults could be reduced by 25 percent (from $290 to $218) while the cost of treating pediatric cases could be reduced by 21 percent (from $195 to $155). By the year 2000, such savings could total as much as TSh 9.8 billion ($49 million) annually, under the worst case scenario, and even more in the following years.

If the economic reform program is vigorously pursued, there would be some hope that Tanzania could cope with the epidemic. AIDS treatment costs would total roughly TSh 9.8 billion ($49 million), as compared to a projected recurrent health budget of TSh 28.2 billion ($141 million).

The second analysis compares the current treatment regime to one in which all of the WHO-recommended drugs are made available to a small proportion (1%) of adult AIDS patients. This analysis was carried out, not because it appears to be a desirable option, but because pressure may be brought to bear on Tanzanian health authorities to use the more powerful drugs, given that they appear on the WHO-recommended list. Because the cost of these more powerful drugs is significantly greater than the alternatives being used in Tanzania, even this very limited use increases the average treatment cost for adults by 9 percent ($290 to $317). The expenditures associated with treatment of that one percent of the population, under this hypothetical situation, amount to TSh 558,000 ($2,790)/patient. By the year 2000, the impact upon the health budget would be to increase it by TSh 885.6 billion ($4,428 million), or 7 percent more than it would have been if the most expensive drugs are excluded entirely.

These analyses indicate that the cost of caring for AIDS patients must be carefully monitored and controlled to ensure that they do not divert resources from preventive measures. All possible measures should be taken to keep the cost of treatment low, by limiting drug use, by strict adherence to treatment protocols, and by caring for patients at peripheral facilities and at home.

Survivors. While there is a distinct possibility that one impact of AIDS will be to increase the extent of poverty in Tanzania, assistance programs targetted exclusively at AIDS survivors (orphans, widows, widowers, and surviving parents) will not necessarily reach those most in need. For every AIDS orphan in Kagera in 1988, there were eight other children who had lost one or both parents due to other causes, and whose plight might be as or more desperate than those orphaned by AIDS.

This report analyzes four options for rendering assistance to survivors of the AIDS epidemic, all of which are being undertaken on a limited scale in the country. These options are: (a) caring for orphans in orphanages; (b) direct transfers of cash or goods; (c) subsidies for school uniforms and/or fees; and (c) child care and feeding centers. Two issues will confront all programs targetted exclusively at AIDS survivors: cost and equity. Although the costs of the four options analyzed varied considerable, all would become prohibitive if such assistance were to be provided to all those adversely affected by the death of a loved one from AIDS. For example, the cost of caring for a child in an orphanage can run to TSh 130,000 ($650) to over TSh 180,000 ($900) a year. The costs of other programs are less (between TSh 4,000 and TSh 30,000 ($20-150) per child per year) but still unsustainable given the numbers of orphans likely to result from the AIDS epidemic. In Kagera region, alone, more than 5,600 children are thought to have been orphaned by the disease. Even a program costing only $20/child could not be afforded by Tanzania given the many other legitimate demands on its scarce resources.

Because AIDS strikes rich and poor alike, AIDS victims and their families are not necessarily more deserving of assistance than their neighbors. Many of the victims come from better-off families; there may well be other families in the community untouched by AIDS in greater need of assistance. Assistance targetted to AIDS survivors - because of the large numbers involved - could well divert resources from programs designed to reach the poorest segments of society.

Given the magnitude of the survivor problem in general and the limited resources for their support, it is imperative that programs to assist survivors: (1) establish criteria for identifying those most in need of assistance; and (2) adopt low-cost, sustainable interventions that will maximize the impact of program resources. The programs most likely to assist those AIDS survivors who are in greatest need, without diverting resources from others equally in need, are those targetted at the poor, rather than those targeted to AIDS survivors. This suggests that resources should be directed to programs such as the "Iringa-style" child survival programs, which depend upon community involvement and commitment and which are targeted at needy families generally. This

underscores, once again, the fact that the decisions regarding allocation of scarce resources for coping with AIDS must be taken at the local level.

Moderating the Adverse Economic Impacts

Even with a concerted and successful effort to combat the spread of HIV infection as outlined in this report, AIDS and its effects will be felt on the Tanzanian economy for many years to come. What can the Government do to lessen these effects? In addition to the recommendations made in this report for slowing the spread of HIV, the report's analysis indicates that four actions are required:

1) the economic reform must be pursued vigorously and with determination;

2) mechanisms must be established to ensure that the care of AIDS patients does not divert resources from preventive measures to slow the spread of the disease and from other priority health interventions;

3) donor aid must be increased to offset the reduction in public and private savings and to respond to increased poverty; and

4) investment in human capital should remain a high priority.

Chapter III describes the likely macro-economic impact of AIDS on the economy and explores the probable implications for public expenditures, comparing the increased demand for health services brought about by the disease with the expenditures likely to be available to the public health sector under three different reform scenarios. The simulations suggest that the faster the economy is able to adjust to market price signals, the smaller with be the negative consequences of the AIDS epidemic on economic growth. Further, the analysis indicates that, without rapid economic growth stimulated by the reform program, Tanzania cannot generate the public expenditures required to maintain its current public health effort, including more effective prevention and control of other STDs, and meet even a small proportion of the costs of caring for AIDS patients. The success of the fight against AIDS will therefore be closely linked with the determination of Tanzanian policymakers to pursue economic reform, including a major restructuring of the budget, the key parastatals, and the cooperative and financial sectors.

Because caring for those who are ill will place inevitable pressure on health facilities, ways must be found to insulate the funds and personnel required for preventive health programs from the growing demands of patient care. This can be done, in part, by careful design and implementation of budgets, by improved planning, and by establishing and following treatment protocols which are resource saving. Of primary importance, however, will be acceptance by health planners and policy

makers at every level that these hard choices are required for the ultimate good of Tanzanian society.

Even if minimal public resources are used for the care of AIDS patients, the growing number of ill will inevitably reduce public and private saving that would otherwise be available for productive investment. Minimizing the adverse impact which this "dissaving" will have on Tanzania's future growth prospects will require increased financial assistance from multilateral and bilateral donors. The Bank should, in its economic work, attempt to estimate the magnitude of these increased resources and assist the Government in mobilizing them, to the extent that the country continues to pursue its economic reform program vigorously and imaginatively.

To counter the slower growth of the economy due to AIDS, increased investment in both human and other capital will be required. While more study will be required to determine the appropriate balance between the two, it seems clear that increased attention to building the human resource base will be necessary, given the fact that certain skills are already in short supply and many experienced workers will die prematurely as a result of the epidemic. This argues for an even greater effort by the Government and donors to improve and expand the education sector at all levels. Special attention will need to be given to girls' education, because of their particular vulnerability to increased demands at home and the positive links between the level of female education and other development goals.

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ANNEX T

DRAFT TRUST DEED - SOCIAL ACTION TRUST

THE SOCIAL ACTION TRUST

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INTRODUCTION

In line with the terms of reference, this report dwells upon the practical steps to be taken to establish the "Social Action Trust". This report consists of the following four chapters:-

1. The legal provisions governing the establishment and operation of Trusts in Tanzania;

2. The draft Trust Instrument for the said Social Action Trust;

3. Explanation of the draft Trust Instrument;

4. The time and steps required to establish the said Social Action Trust as a legal and operational entity.

The Executory Trust Deed hereunder is designed with flexibility to allow the Trustees to put into effect the true intent of this Trust (to invest in the Tanzanian private sector) as the anticipated changes in the Tanzanian economic climate unfold. While a charitable Trust is exempt from taxes and various duties, it cannot maintain this privilege if it is involved in permanent trading. Thus, what is presented in this report, is a device that allows Trust Funds to be invested through the private sector financial institutions and or the FED Venture Capital Fund and yet maintain the privilege of a charitable trust.

Under Article 3., of the draft Trust Deed, the Trustees **".....stand possessed of the Trust Fund upon trust"**, while under Article 4., the Trustees **".....stand possessed of the Trust Fund and Income thereof upon trust"**.

The purpose for the above construction is to allow the Trustees as per the terms of reference to the Contractor, to:-

(a) invest the Trust Fund in the Tanzanian private sector, and
(b) use the earnings from interest and investments to make grants to Non Governmental Organizations. Were Article 4., not constructed thus, only the income but not the Trust Fund would be subject to the Trusts hereunder.

The above notwithstanding, the Trustees by virtue of the above construction can decide to invest the Trust Fund and award grants out of income only or where they consider it necessary from the Trust Fund itself.

The Contractor regrets the fact that the five year operational budget cannot prepared at this stage as many probabilities have still to be thought out. However, the fee charged by the Administrator General to register a charitable organization as body corporate is a sum of five (5000) Tanzania Shillings only.

CHAPTER 1.

SUMMARY OF THE MAIN LEGAL PROVISIONS GOVERNING THE ESTABLISHMENT AND OPERATION OF TRUSTS IN TANZANIA.

The Establishment and Operation of Trusts in Tanzania falls under the Administrator General's Office, and is regulated by The Trustees Incorporation Ordinance, Chapter 375, of 1956. Where the above Ordinance may not have provided conclusive guidance, reference is made to Statutes of General Application and Operation of the United Kingdom applicable before July 1920. As well as relying on Statutory Law, the law governing Trusts and Trustees follows the principals of equity. Equity can loosely be defined as fairness.

Definition of Trusts.

Though one cannot define trusts in definite and precise terms, there have been many attempts so to do, and one such definition has been chosen hereunder:-

KEETON'S Definition of Trust.

" All that can be said of a trust....is that it is the relationship which arises wherever a person called the Trustee is compelled in Equity to hold property, whether real or personal, and whether by legal or equitable title, for the benefit of some persons (of whom he may be one and who are termed *cestuis que trust*) or for some objects permitted by law, in such a way that the real benefit of the property accrues, not to the trustee, but to the beneficiaries or other objects of the trust " : (The Law of Trusts,8th Edn.,1963).

Briefly, hereunder are the substance of, and, main legal provisions which affect the establishment and operation of Trusts in Tanzania.

(a) WHO CAN APPLY.

Applicants under Section 2 (i) Chapter 375, fall into two broad categories, namely:-

(i) a body of persons or associations professing and wishing to promote common objectives touching on custom, religion, kinships, nationality, educational, literary, scientific, social or any other charitable purpose;

(ii) a body of persons or associations or any individual holding property in trust for an educational, literary, scientific, social or charitable purpose. **(the Social Action Trust is under this sub clause)**

Three distinct applicants are contemplated:

(i) a body of persons or groups unregistered;
(ii) an association registered under Societies Ordinance Chapter 337.,
(iii) individuals.

(b) MANNER AND CONTENT OF APPLICATION.

An application under S.2 (2), of the Ordinance has to be made in Form T 1.1., in the First Schedule of Trustees Incorporation Rules,1956. (see Annex Two for Form T.1.1.)

The form prescribes information to be provided, including:-

(i) name of trust,
(ii) postal address,
(iii) residence of applicant,
(iv) description of the trust,
(v) number of trustees,
(vi) particulars of trustees.

This application must be signed by the applicant, and the trust instrument, or an instrument declaring the trust must be attached to the application.

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(c) CONSIDERATIONS.

Any name of a trust must carry the words " Registered Trustees ". If the Administrator General finds the name of the trust acceptable, and there is no other registered trust with the same name, he will then go to the merits of the application. The test applied is a very wide one indeed.
The Administrator General has power to register any trust he finds acceptable. Such registration can either be outright or subject to directions and conditions. In both cases, where registration is granted, a certificate of Incorporation is granted under S.5, of the Ordinance.

(d) EFFECT OF INCORPORATION.

The Certificate acts as conclusive proof that pre-incorporation obligations have been fulfilled and excepting any intervening event warranting revocation under S.16., that it is properly registered. All the attributes of a body corporate such as:-

(i) perpetual succession,
(ii) right to possess and act through Common Seal,
(iii) power to sue and be sued,
(iv) right to acquire and hold land and to dispose or transfer any interest in land akin to that exercised by natural persons,

are possessed and exercisable by the trustees.

THE TRUSTEES OBTAIN FULL OWNERSHIP OF THE PROPERTY SUBJECT TO THE TRUST AND THE SETTLOR CEASES TO HAVE ANY RIGHTS IN THE TRUST PROPERTY.

Thus under Section 7 of the Ordinance, all properties already held by persons applying for registration, subject to compliance with procedural stipulations of Laws under which ownership is held such as Land Registration Ordinance Chapter 334., vest into the Trust Body Corporate on receipt of the Certificate of Incorporation.
Furthermore, entitlement to a donation, gift or disposition made but not yet possessed by the Trustees, or if it is then made in a will or other deed,vests under S.8., of the Ordinance to the registered Trustees.

The Administrator General has to give notice in the Official Gazette of the certificate of incorporation granted under this Ordinance.

FORM T.1.1.

Form T.1.1., must be filed to the Administrator General duly filled and signed by all the Trustees when applying for incorporation as a body corporate.

FORM T.1.2.

The Trustees must file Form T.1.2., applying for approval before they can change the name of a body corporate.

FORM T.1.3.

Whenever approval has been obtained to change the name of a body corporate and such change has been effected, the Trustees must file Form T.1.3., in notification of the said change.

FORM T.1.4.

The Trustees must file Form T.1.4., whenever the following situations occur:-

(a) a person ceases to be a trustee,
(b) a new trustee is appointed,
(c) a trustee changes his/her name, or postal or residential address,

FORM T.1.5.

After the expiry of a period of five years from the date of incorporation, and every period of three years thereafter, the trustees must file Form T.1.5., giving the full names, residential and postal addresses of the serving trustees for the time thereof.

FORM T.1.6.

The trustees must file Form T.1.6., whenever the postal address of a body corporate is changed.

FORM T.1.7.

The trustees must file Form T.1.7., whenever the trustees shall execute any deed, make any order, exercise any power or pass any resolution:-

(a) changing the terms of the trust,
(b) changing the powers and duties of the trustees,
(c) changing the procedure of appointment or tenure of office of the trustees.

Form T.1.1., application for incorporation, must be signed by ALL the Trustees.

All the other Forms can legally be signed by two Trustees, but for the purposes of the Social Action Trust, the number should be three, (see Article 6 of the draft Trust Deed),.

Documents for which no Form has been provided or to which the prescribed Forms cannot conveniently be adapted, shall be in such form as the Administrator General shal direct or allow, the prescribed Forms being followed as nearly as the circumstances permit.

For the actual lay out of the prescribed forms, see Annex 2.

(iv) TRUSTEE'S / TRUSTEES' OFFENSES.

--- Where the body corporate makes a default in making any return or giving any notice required by or under this Ordinance to the Administrator General within the time limited thereof, EVERY Trustee being a member of the body corporate shall be guilty of an offence and shall be liable upon conviction to a fine not exceeding one hundred shillings for every day during which the default continues.

--- If any **PERSON** in any return or notice to the Administrator General required by or provided for under this Ordinance, wilfully makes a statement false in any material particular, knowing it to be false, **HE** shall be guilty of an offence and shall be liable upon conviction to a fine not exceeding ten thousand shillings or to imprisonment for a term not exceeding six months or to both such fine and imprisonment.

g. REVOCATION OF INCORPORATION.

(i) The Administrator General may revoke incorporation:

-- if satisfied that the certificate of incorporation was obtained by means of fraud or false representation; or

-- if for a period of one month there are no trustees comprising the body corporate; or

-- if the

g. REVOCATION OF INCORPORATION.

(i) The Administrator General may revoke incorporation:

-- if satisfied that the certificate of incorporation was obtained by means of fraud or false representation; or

-- if for a period of one month there are no trustees comprising the body corporate; or

-- if the number of trustees ordinarily resident in the Territory have fallen below the minimum required ordinarily; or

-- if the body corporate has ceased to hold any property and it is improbable that it will hold such property in the near future; or

-- if the body corporate has failed to fulfil conditions in it's certificate of incorporation under this or any other Ordinance, or under the trust instrument or declaration of trust; or

-- if the trust document of such body corporate are so changed that they are no longer within the provisions subsection (1) of section 2,

In any of the above situations, the Administrator General will SERVE notice on the body corporate, or, where the body corporate has failed to give notice to the Administrator General of a change of postal address or cannot be found with the exercise of due diligence, give notice in the Gazette, that he intends to revoke the incorporation of such body corporate, either unconditionally or unless such conditions as he may determine are satisfied within such a period as may be specified in the notice, and a copy of every such notice shall, if practicable, be sent to the body or association, if any, which appointed the trustee or trustees.

In the case of the Social Action Trust, such notice would be served on the Appointors.

Even when the Administrator General has given notice to the body corporate, where the postal address is available, the Administrator General must still give notice in the same said Official Gazette of his intention to revoke the incorporation of any body corporate.

(ii) A body corporate may at any time request the Administrator General to revoke the incorporation of such body, and upon receipt of such request, the Administrator General shall by notice in the Official Gazette revoke such incorporation.

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h. EFFECT OF SUCH REVOCATION.

The property of a registered Trust vests in the Trustees in their individual capacity after revocation of incorporation.
However, the said property shall still be held under the same terms and conditions as the said property was held before the revocation of the body corporate.

i. The Control and Administration of a Charitable Trust.

Because of the special nature of a charitable trust and, in particular, the absence of a beneficiary who can enforce the trust, special rules and regulations concerning the control and administration have been designed.
The Administrator General and the Court have general supervisory powers over trusts and over the exercise of their duties, powers and discretion by trustees.

(i) Who may be a Trustee.

Any individual who is capable of holding property is capable of acting as trustee including a corporation.
The Settlor (the Appointors in this case) is free to appoint whomsoever he/she chooses. However, on the appointment of new trustees it is advisable not to appoint any person whom the court would not appoint, for such an appointment is liable to be set aside by the court.

The persons whom the court would not appoint are:

(a) persons under a disability, such as bankrupts,

(b) a person resident abroad unless the Trust property or all the beneficiaries are abroad, or at least the other two or more trustees are resident

(c) a beneficiary, or the solicitor, husband or wife of a beneficiary.

(ii) Appointment of a Trustee.

Trustees are appointed by a document in writing. The appointed Trustees are not bound to act, but if they accept the trust, or if they in fact act, they are bound to carry out their duties until such a time as they are released. An appointed Trustee may make his refusal to act clear beyond doubt by a disclaimer in writing, although there is no legal necessity for such a document.

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(iii) New Trustees.

A new trustee may be appointed in the place of another where the other:-

(a) is dead,
(b) changes residence
(c) desires to be discharged,
(d) refuses to act,
(e) is incapable of acting,
(f) is unfit to acting ("unfit" refers not to any physical defect but to defect of character).
(g) is removed by a court order,
(h) has served his/her term of office as may be specified in the trust instrument.
(i) is removed under a power in the trust instrument (see special powers of Appointors in the draft Trust Deed),.

The Appointor may even Appoint himself as a new trustee in place of another but never as an **additional** trustee.

(iv) Vesting of trust property.

A deed of appointment of a new trustee should contain an express declaration vesting trust property in those who are trustees after the appointment.Even if it does not, it is implied on any appointment made by deed.

(v) Powers of Investment.

Trustees may invest only in authorized investments, that is to say, investments authorized by the <u>trust instrument or by law.</u>

j. Summary of duties of a Trustee.

Before accepting the trust a person who has been nominated should disclose any circumstances which might result in a conflict between his interest and duty.

On accepting the trust, **four major duties** fall to the trustee, and the **TRUSTEE MUST:-**

(a) acquaint him/herself with the terms of the trust,

(b) inspect the trust instrument and related documents,

(c) ensure that the trust property is vested in the names of him/herself and the other trustees,

(d) if appointed as a new trustee for a trust already inexistence, investigate any circumstances from which aprior breach of trust might be inferred, and, where necessary, take the appropriate steps.

SOCIAL ACTION TRUST TO BE ESTABLISHED BY DEED OF SETTLEMENT

Synopsis of contents the Trust Deed.

ARTICLE.

1. Interpretation.
2. Applicable Law.
3. Trusts of Capital.
4. Trusts of Income and beneficiaries.
5. Name of Trust.
6. Appointment/removal/retirement of Trustees.
7. Meetings of the Board of Trustees.
8. Trustees diligence.
9. Trustees powers.
10. Restriction on exercise of power.
11. Duty to provide Common Seal.
12. Investment/Grants Managers reporting/accounting.
13. Trustees powers/duty to Beneficiaries.
14. Dealings with Beneficiaries (accounting).
15. Indemnity of retiring Trustees.
16. Trustees renumeration and Management fees.

ANNEX ONE.

1. General Power.
2. Powers of Investment.

ANNEX TWO.

The prescribed Forms T.1.1., to T.1.7.

CHAPTER TWO

TRUST DEED (DRAFT)

THIS TRUST DEED is made on the...day of....., One Thousand Nine Hundred and Ninety Two BETWEEN **The Principal Secretary, Ministry of Finance P.O. Box 9111 Dar es Salaam** (hereinafter called the "**Settlor**") of the one part, and:

.....,
.....,
.....,
.....,
.....,
.....,

(hereinafter called "**The Trustees**") of the other part.

WHEREAS

1. The Settlor is desirous of:-

   (a) assisting Non Governmental Organizations involved in the assistance of orphans created by the AIDS pandemic and any other organizations involved in similar Charitable Community Projects in Tanzania, and

   (b) assisting the Tanzanian private sector by investing through the existing private sector financial institutions and new ones as they arise.

2. The **Settlor**, having raised the sum of..... ..... Tanzania Shillings through generations under Section.....of the **Program Grant Agreement for the Finance and Enterprise Development Program ("FED")**, dated....., with the **U.S. Agency for International Development**, is desirous of transferring the same to the Trustees to be held by them upon trusts hereinafter declared.

The **Settlor**, further, and irrevocably, commits himself/herself over a period of the FED Program to render to the said Trustees under the same said trusts the sum of Tanzania Shillings by installment, at the rate of exchange applicable at the time of future disbursements of dollars into the Special Dollar Account in accordance with Section..... of the Program Grant Agreement.

3. The **Settlor** hereby expressly grants the **Mission Director, USAID/Tanzania**, acting in concert with the **Governor, Bank of Tanzania**, Special Powers of **"Appointors"**, not only to appoint the above mentioned first Trustees, but also to appoint, remove or retire any Trustee or Trustees or new Trustee or Trustees. The said Mission Director, USAID/Tanzania may resign from the said position of Co-Appointor at the conclusion of the FED Program in Tanzania.

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NOW THIS DEED WITNESSETH as follows:

1 IN this deed the following expressions shall unless the context otherwise requires have the following meanings respectively, that is to say:-

(1) **"the Appointors"** shall mean the Mission Director USAID/Tanzania, acting in concert with the Governor Bank of Tanzania, their successors or whosoever shall be acting in their said capacities.

(2) **"Grants Manager"** shall mean the firm retained to administer the grants program in accordance with Article 9 Clause (1) below.

(3) **"Income Investment Account"** shall mean the account/accounts into which income from the investment of the Trust Fund shall be deposited or held.

(4) **"Investment Manager"** shall mean the firm retained to manage investments of the principal and income of the Trust in accordance Article 6 Clause 1 below.

(5) **"the Term of Office"** shall mean the three year period that a Trustee/Trustees shall hold office.

(6) **"the Trustees"** shall mean the Trustees and the survivors or survivor of them or other Trustees or Trustee for the time being hereof.

(7) **"the Trust Fund"** shall mean the said sums so described as aforesaid and all other monies, investments securities and property, paid or transferred to and accepted by the Trustees upon the trusts and with and subject to the powers and provisions of this Deed and the moneys investments securities and property from time to time representing the same or any parts thereof.

(8) **"Trust Fund Investment Account"** shall mean the account/accounts or whatever form the said Trust Fund shall be deposited or held.

(9) **"Trust Standing Orders"** shall mean the laid down regulations terms conditions amounts and procedure, that shall be applied when the Trust has to pay monies salaries renumerations or whatever charges the Trust has lawfully incurred.

2. THIS Trust is established under the laws of the Republic of Tanzania and the administration of the said Trust shall be the said laws of the Republic of Tanzania.

3. THE Trustees shall stand possessed of the **Trust Fund** upon trust to retain an Investment Manager, and through the said **Investment Manager**, either to retain the same in the form of monies, property, investments and securities for the time being constituting the Trust Fund or at any time or times and from time to time to apply, sell or realize and vary the said monies, property, investments and securities in the manner authorized by Annex One of this said Deed and by the law for the investment of trust funds.

4. THE Trustees shall stand possessed of the **Trust Fund and income thereof** upon trust for the purpose of retaining a **Grants** Manager to administer a Grant Program in accordance with Annex One, and the said Grants Manager, shall with the prior approval of the Trustees award grants to Non-Governmental Organizations involved in the assistance of orphans of AIDS victims, **including but not limited to the following:**

a).....

b).....

c).....

d).....

Other Organizations, which the Trustees shall in their absolute discretion consider within the terms of this trust to be of charitable purposes valuable to the community, may also become eligible to receive grants in similar manner.

5. THE charitable trusts hereby created (herein after called "the Fund") shall be administered under the name of "Registered Trustees of.....".

6. THE Appointors shall by deed appoint the Trustees whose number shall not exceed six and shall not be less than three.

(1) The first six Trustees shall by alphabetical order serve the following Terms of Office:-

(a) the first two for two years,

(b) the next two for three years,

(c) the last two for four years.

(2) New (subsequent) Trustees shall serve for the three year Term of Office.

(3) The above notwithstanding, the Appointors may at any time by deed remove any Trustee/Trustees, provided that Appointors have given all the Trustees at least thirty (30) days' notice in writing of the said intention to remove a Trustee or Trustees.

(4) The Appointors may at their absolute discretion decide to extend the said Term of Office for any Trustee/Trustees so long as the Appointors have obtained the Trustee's/Trustees' acceptance in writing of the Proposed extension.

(5) Any Trustee may retire from the trusts of this Deed by giving not less ninety (90) day's notice in writing of his or her intention so to do to the Appointors who shall upon the expiry of such notice discharge the said Trustee, so long as at least three Trustees are in-place to run the affairs of the trust, and the departing Trustee has cleared his obligations and responsibilities to the Trust,

(6) Acts done or executed for the proper vesting of the trust fund in new or additional Trustee/Trustees shall be done and executed by the continuing or retiring Trustees at the expense of the income or capital of the Trust Fund.

(7) Any new Trustee/Trustees appointed to this said Trust shall have such powers rights and benefits as to renumeration or otherwise at or prior to the said appointment as may be agreed in writing between the new Trustee/Trustees and the Appointor.

(8) On the exercise of any power or the passing of any resolution or on the happening of any event that affects this said Trust in any form, the Trustees shall file notice to the Administrator General in the prescribed manner, see (Filing Provisions Chapter 1, and prescribed manner Annex 2).

(9) With every such notice as in Clause 7 above, where the said change is in the Trusteeship a memorandum shall be endorsed on or permanently annexed to this Trust Deed stating the names of the Trustees for the time being and shall be signed by the Trustees so named and any person dealing with the Trust shall be entitled to rely upon such memorandum (or the latest of such memoranda if more than one) as sufficient that the Trustees named therein are the duly constituted Trustees for the time being hereof.

7. (1) The Trustees shall meet at such times during each year as the Trustees may from time to time determine and shall hold an annual meeting during the month of ..... in each year.

(2) A special meeting of the Trustees may be convened at any time by not less than fourteen day's notice in writing signed by any three Trustees and served upon all.

(3) At least fourteen day's notice in writing shall be given of every meeting of The Trustees and such notice shall state the time and place of meeting and the nature of the business to be transacted thereat.

Such notice shall be sent by "recorded delivery" mail service, and the fourteen days shall run from the day of posting the said notice.
Where the said notice is sent by telex or fax, time shall run from the day of dispatch.

(4) Three Trustees shall constitute a quorum so long as the meeting has been properly convened.

(5) The chairman shall be appointed by the Trustees and shall remain in office until the end of the next annual meeting at which meeting and at every such subsequent meeting the trustees may elect another of their number as chairman.

(6) If the office of chairman becomes vacant during the year of office the Trustees shall at their next meeting appoint another chairman to remain in office until the end of the next following annual meeting.

(7) If the chairman shall not be present within ten minutes after the time appointed for the meeting the Trustees shall appoint one of their number to act as chairman during that said meeting.

(8) The decisions of the Trustees shall be determined by reference to majority of the Trustees present and voting and in case of equality of votes the chairman shall have a second or casting vote.

(9) Minutes of the proceedings shall be kept and shall be signed by the chairman of the meeting and when so signed shall except for manifest error be conclusive evidence of what was done at the meeting.

(10) The provisions of this clause (apart from subclause [6]) shall not be alterable during the first five years of the said Trust's operation and thereafter, unless the Appointor surrenders his special powers to the Trustees. In that event, they may by a resolution supported by not less than four of the of the six Trustees or at least three Trustees should their said number be less than six, alter any provisions of this clause.

8. THE Trustees shall be obliged to exercise due diligence and sound commercial judgement in the investment of the trust fund and income thereof and administer the said Trust Fund within the terms of this Deed.

9. THE Trustees shall for the purpose of carrying the trusts of this Deed into effect but not further or otherwise have the following powers that is to say power:-

(1) To invest the principal sum and or part of income from the said investment in accordance with the regulations in Annex One.

(2) Subject to any such consent as may be required by law to enter into contracts and borrow money.

(3) To employ all such persons at such remuneration as they shall think fit not being a Trustee and as Employers to make all reasonable and necessary provision for the payment of pensions and superannuation to or on behalf of employees and their dependents.

(4) To form a company or companies under the Companies Acts for the time being in force with such memorandum and articles of association as they shall determine the objects of which shall be exclusively charitable in law and to transfer or cause to be transferred to such a company the whole or any part of the Trust so long as the objects of the said company thus formed shall not be in conflict with the objects of this Deed.

(5) At any time if the Trustees, with the consent of the Appointors, shall be of the opinion that the provisions hereof cannot in the circumstances continue to be carried out in accordance with their intent to transfer the Trust Fund to another charity of a similar nature or to apply the same for any other charitable purpose which the Trustees may consider to be similar to the purpose of this Deed and in accordance with a scheme to be settled by the trustees and in default the Trustees shall apply to the Administrator General for a scheme.

10. (1) **EVERY** appropriation of the benefits of the Fund shall be made by the Trustees at meetings thereof and not separately by any Trustee or Trustees.

(2) The Trustees may appoint committees which may include members who are not Trustees with a view to furthering the purpose of the Fund apart from distributing the benefits thereof **PROVIDED** first that no member of such a committee who is not a Trustee shall have any power of voting at meetings **PROVIDED** second that any such committee shall report fully and promptly back to the Trustees **PROVIDED** third that any such committee shall conform to any regulations imposed on it by the Trustees and **PROVIDED** fourth that the Trustees may at any time revoke either wholly or in part the authority of such committee so appointed.

11. **THE** Trustees shall provide a common seal which shall be kept under such custody and control as the Trustees shall from time to time determine. The seal of the Trustees shall not be affixed to any instrument except pursuant to a resolution of the Trustees and in the presence of at least two Trustees, and the said Trustees shall sign every instrument to which the common seal shall be so affixed in their presence, and in favor of any purchaser or person bona fide dealing with the Trustees and such signatures shall be conclusive evidence of the fact that the common seal has been properly affixed.

12. The Trustees upon the exercise of their powers to appoint the Investment Manager and Grants Manager shall with the prior approval of the Appointors,

(a) delegate respective responsibilities to the said Managers under contracts,

(b) provide the terms of reference to the two Managers respectively which said terms of reference shall precisely set out all the duties and responsibilities of all parties,

(c) the above notwithstanding, the Trustees shall retain the supervisory powers and all other powers and duties as Trustees.

13. THE Trustees shall by themselves or through the Grants Manager award grants from the income if there be no income from the said Trust Fund to the (NGO's) named in Article 4 of this Trust Deed and or any other (NGO's) or charitable organizations as they shall at their absolute discretion determine to be within the terms of this Trust Deed provided that they shall:

(1) Keep books of account and records showing therein all receipts and payments and containing all such records as may be appropriate and at the end of each financial year, cause the said accounts to be audited by such a qualified Firm of Accountants as may be specified the Appointor, which said Firm of Accountants shall present a report to both the Trustees and Appointors.