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Report No. P-1634-TA

REPORT AND RECOMMENDATION
OF THE
PRESIDENT
TO THE
EXECUTIVE DIRECTORS
ON A
PROPOSED LOAN
TO THE
UNITED REPUBLIC OF TANZANIA
FOR A
MWANZA TEXTILE PROJECT

May 20, 1975

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CURRENCY EQUIVALENTS USED

IN THIS REPORT

Tanzania Sh = US\$ 0.14

US\$ 1.00 = T Shs 7.14

TANZANIA FISCAL YEAR

July 1st - June 30th

REPORT AND RECOMMENDATION OF THE PRESIDENT
TO THE EXECUTIVE DIRECTORS
ON A PROPOSED LOAN
TO THE UNITED REPUBLIC OF TANZANIA
FOR THE MWANZA TEXTILE PROJECT

1. I submit the following report and recommendation on a proposed loan for the equivalent of US\$15.0 million to the United Republic of Tanzania to help finance the expansion of the Mwanza cotton textile project. The loan would have a term of 22 years, including five years grace, with interest at 8.5% per annum. The proceeds of the loan would be relent to the Mwanza Textile Ltd. (MTL) for 13 years, including four and one-half years of grace, at an interest of 10% per annum; MTL would bear the exchange risk. The Kuwait Fund for Arab Economic Development (Kuwait Fund) has agreed to provide an equivalent amount to the Government to cover the remaining US\$15.0 million foreign exchange required for the project, on a parallel financing basis. The Kuwait Fund loan would be made to the Government for 22 years, including five years of grace with interest at 4% per annum and would be onlent to the MTL on terms and conditions similar to the Bank loan.

PART I - THE ECONOMY

2. The last full economic report on Tanzania (AE-26) was distributed to the Executive Directors on May 22 and June 22, 1972. This was followed by an economic updating report (30-TA) distributed on December 11, 1972 and which was especially prepared for the East African Consultative Group meeting on Tanzania of January 1973. A basic economic mission is scheduled for late 1975. An agricultural sector report was issued on December 10, 1974. An industry and mining sector report and a report on the fiscal aspects of Tanzania's recent decentralization of Government was distributed in April 1975. The Consultative Group for East Africa met recently on April 22-23, 1975 to discuss the progress and prospects of the Tanzanian economy and the need for additional resources to support the Government's development policy. Country data are provided in Annex I.

3. Tanzania has a one-party system which is embodied in the constitution. The party, TANU, is a well-organized mass party and is actively engaged at the grass roots in the promotion of popular involvement in the national development effort, and within the party democratic principles are being strictly adhered to. In economic policy-making, the long-term objective of social equality prevails over economic interests of minority groups; some progress towards reducing inequality of income distribution within the category of employed workers has been made, but large gaps continue to exist between urban and rural standards of living.

4. Between 1968 and 1973, GDP increased 4.8% per year in real terms. Exports of goods and services in constant prices grew 2.8% per year during the same period. Domestic savings were maintained at about 18% of GDP. Investment increased from 19% of GDP to 23% with public sector investment rising to 80% of the total investment in 1973. Annual price increases were moderate to low. Current Government receipts more than doubled, but current expenditures increased at similar rates so that budgetary savings stagnated. While imports, especially of capital and intermediate goods grew rapidly, export earnings grew very slowly and the increasing current account deficits were financed by a rapid increase of public capital inflow, largely on concessional terms.

5. The level of domestic savings and investment is substantial and is evidence of a serious commitment to development. The growth of GDP is probably not commensurate with the investment effort. This is largely due to the large amount of investment that went into slow gestation infrastructure and social services. This was exemplified by the investment of about \$200 million in the Tan-Zam railway, the largest single project undertaken in Tanzania, and by the difficulties encountered in mounting investment in agriculture. The stagnation of agricultural export volumes and very slow growth in food production were the most worrisome problems. However, prudent domestic financial management, increasing inflow of external aid on concessionary terms, together with a rather sharp terms of trade improvement in 1973, made it possible to maintain a high investment rate while reserves, at the end of 1973 stood at a healthy \$145 million which was then the equivalent of four months' imports. Indeed, the economy appeared in relatively good shape before the events of the winter of 1973-74.

6. Three events occurred then which resulted in a drastic change in the overall balance of payments of Tanzania. First, import prices rose sharply; most particularly petroleum prices. Other import prices increased an estimated 15 to 20%. The increased cost of petroleum imports in 1974 compared to 1973 is about \$70 million. Second, the 1973 rains failed in many parts of the country resulting in a substantial reduction in food production in 1973-74. This became evident in January and February 1974 necessitating substantial increases in imports of basic food items in 1974. The drought became general in 1974 necessitating continued high levels of food imports from September 1974 to August 1975 when the new crop harvest begins. It is estimated that food imports in 1974 cost about \$150 million compared to an annual average in 1970-72 of \$40 million. The stagnation of food and agricultural export volumes in 1974 was largely attributable to the drought and weakness of Government agricultural policies.

7. The overall balance of payments was in surplus in 1972 and 1973 but the net result of the events of 1973-74 described above is that reserves declined by \$89 million in 1974 to a level representing about two weeks' imports. The upward trend of import prices, high food imports and stagnant agricultural export volumes are expected to continue into 1975 resulting in an estimated balance of payments deficit of about \$150 million. The Government has secured financing of the gap through a \$30 million Bank Program Loan of December 20, 1974 (Loan No. 1063 TA) and other multilateral and bilateral sources.

8. The projected size and persistence of the balance of payments deficit necessitate strong policy action. The Government has begun a program of investment restructuring, administrative changes, and reduction in the rate of growth of consumption that forms the basis of a sound program for the solution of the medium-term problems. Under this program, the Government has made substantial progress in reallocating public investment from infrastructure development to the directly productive sectors of agriculture, industry and mining. The single largest economic weakness is the slow growth of agricultural production. Several steps have been taken to increase output. The Government has raised producer prices so as to provide greater incentive. Retail prices have been brought near world parity. Project planning and implementation is being improved by administrative changes within the Ministry of Agriculture that will enable Government staff to be more effective. The negative impact of villagization on output is being reduced through more careful planning. The Government is reducing unnecessary non-development related recurrent expenditure and is using taxation and wage/price controls to reduce the rate of growth of private consumption.

9. The balance of payments problem is likely to persist through the end of this decade in spite of concentrated Government actions. Accordingly, Tanzania will require additional balance of payments assistance in 1976 and 1977, and a continued capital inflow in excess of the foreign exchange component of high priority projects if it is to achieve its development targets. Financing of some local expenditures will therefore be justified.

10. Tanzania is one of the three Partner States belonging to the East African Community. The 1967 Treaty for East African Cooperation is one of the most far reaching and comprehensive economic cooperation agreements in existence among sovereign states. However, in practice the degree of economic integration and cooperation among the Partner States is much less than what was envisaged in the Treaty. Political developments in the Partner States have created tensions within the Community and impaired the growth of interstate trade. These difficulties have been compounded by the balance of payments crisis which currently faces all three Partner States.

11. Tanzania's overall debt service ratio is currently about 6%. In terms of outstanding commitments, the Bank Group is Tanzania's largest creditor followed by Sweden, the People's Republic of China, Canada, Denmark, the Netherlands and the Federal Republic of Germany. Including a notional one-third share of the debt of the East African Community Corporations, the IBRD is presently holding 14% of Tanzania's outstanding external debt and IDA 16%; the IBRD share is expected to rise to about 20% in the next five years, and the IDA share to remain about the same. Debt service payments to the Bank are about 10% of total debt service payments; the corresponding share for IDA is about 2%. These two figures are projected to rise to about 20% and 3%, respectively, by 1980. Most capital aid to Tanzania is made available on very favorable terms and a declining share of the total is tied to procurement in the donor country. Suppliers' credits have been kept to the minimum.

PART II - BANK GROUP OPERATIONS IN TANZANIA

12. Tanzania joined the Bank, IDA and IFC in 1962. Beginning with an IDA credit for education in 1963, 19 credits and seven Bank loans amounting to \$274.8 million have so far been approved for Tanzania. In addition, Tanzania has been a beneficiary of nine loans, totaling \$229.8 million, which have been extended for the development of common services operated regionally by Tanzania, Kenya and Uganda through their association in the East African Community. The only IFC investments in Tanzania to date, totaling \$4.7 million, were made in the Kilombero Sugar Company in 1960 and 1964. This Company encountered financial difficulties and in 1969 IFC and other investors sold their interest in the Company to the Government. Annex II contains summary statements of Bank loans and IDA credits to Tanzania and the East African Community organizations as of March 31, 1975 and notes on the execution of ongoing projects.

13. Our lending program, reflecting the emphasis the Tanzanian Government is placing on agricultural development, has increasingly focused on directly productive activities in the rural sector. Up to the end of FY72, 10 out of 14 loans and credits have been made for infrastructure. All but one of the loans to the East African Community organizations, of which Tanzania is a beneficiary and co-guarantor, have been extended for improvements in transportation and communications. However, the approval by the Executive Directors of the Flue-Cured Tobacco Project (Credit No. 217 TA), in October 1970 opened a new phase in our lending for more directly productive activities. The Smallholder Tea Development Project (Credit No. 287 TA) and a Second Livestock Project (Credit No. 382 TA) were approved in March 1972 and April 1973, respectively. A Cotton Development Project (Credit No. 454 TA), a Cashewnut Development Project (Loan No. 1014 TA) and the Kigoma Integrated Rural Development Project (Credit No. 508 TA) were approved in 1974. Maize and fisheries projects are scheduled for appraisal in June of this year. Preparation for the Tabora rural development project and a forestry project are underway.

14. Tanzania is developing an institutional structure, stressing greater regionalization and development of ujamaa villages, designed to promote and respond to development initiatives. These institutions are still in their formative stages, and related organizational and staffing difficulties have sometimes resulted in the project delays referred to in Annex II. Tanzania's education and training programs are expected to solve the manpower problem in the longer run, but meanwhile there will continue to be a need for technical assistance in planning and implementation if the difficulties in executing projects are to be overcome. The Government has taken steps to speed up recruitment of needed expatriate technical expertise and is giving priority to improving project implementation. At the request of the Government, about 15 technical staff have been supplied by Agricultural Development Services (ADS). With the further assistance of the Regional Mission in Eastern Africa, project implementation is expected to improve. Discussions of a technical assistance project to

aid project preparation are underway with the Government. The proposed fifth education project will help improve project implementation and Government administration by providing, among other things, training for village and cooperative managers, bookkeepers, and accountants.

15. The urban Sites and Services Project (Credit No. 495 TA) approved in July 1974 marked the Bank Group's first lending to Tanzania for urban development. The Credit for the Tanzania Investment Bank (Credit No. 460 TA) was approved in February 1974 and has now been fully committed. A second loan is scheduled for appraisal later this year. A Highway Maintenance Project (Credit No. 507 TA) was approved in August 1974. A proposed project for industrial estate development at Morogoro is presently under preparation. In view of the overall balance of payments difficulties presently being faced by Tanzania (see above paragraphs) a Program Loan (Loan No. 1063 TA) was approved in December 1974.

16. The difficulties facing the East African Community Corporations referred to in paragraph 10 have affected the Bank's lending program for the Community. As a result of the agreement between the Partner States in July 1974 on measures to rehabilitate the East African Railways Corporation the Executive Directors approved a proposal on November 5, 1974 to allow the EARC to use the uncommitted portion of Loan No. 647 EA, amounting to about \$7.4 million, for consulting services and to help support an emergency investment program. However, since EARC corporate funds are not being transferred in accordance with the agreed formula and Sh 60 million, out of a total of Sh 150 million the Partner States agreed to inject into EARC, have not been paid, the EARC's right to make withdrawals from the Loan Account of Loan No. 647 EA was suspended in February 1975, pending action on both these issues. Furthermore, in the current state of uncertainty regarding the future structure of the Community Corporations, appraisal of further proposed Community projects for Corporations which may have structural changes have been postponed until the issues mentioned above have been clarified. The Bank has throughout this difficult period provided assistance to facilitate solutions to the problems facing Community Corporations. This effort is continuing but in view of the fundamental and complex nature of the problems involved it would be reasonable to expect that the process of resolving these problems will not be an easy task.

PART III - THE INDUSTRIAL SECTOR

17. The manufacturing sector in Tanzania accounts for only 10% of GNP but is increasing in importance. The average growth rate of value added by the sector from 1964-72 was 9.8%. The share of manufacturing employment in total non-agricultural wage employment increased from 12.5% in 1964 to about 19% in 1971 and the total number of jobs in registered manufacturing enterprises employing 10 or more was about 55,000 in 1971. Industrial investment increased from T Sh 150 million in 1966 to T Sh 157.2 million in 1971.

18. The strongest growth in the period 1965-71 has taken place in the non-food consumer goods industries with their share in total manufacturing value increasing from 22% to 41%, with the largest expansion taking place in industries producing textiles, beer, cigarettes and radios. In intermediate goods industries the principal growth was in petroleum refining, printing and publishing, glass, cement and fabricated metal products. More recently there was a significant expansion in the intermediate goods industries by the establishment of a tire plant, a fertilizer factory, a steel rolling mill and a farm implements factory. The capital goods industry is still quite small and consists mostly of commercial vehicle assembly, repair and body construction plants and a few factories for the manufacture and repair of a limited range of industrial machinery. This industry is however rapidly expanding in terms of output and its share in the value of total manufacturing output increased from 1.3% in 1965 to 7.5% in 1971.

19. Since independence in 1962, Tanzania has followed a pattern of industrial development concentrating on establishing or expanding industries for import substitution. Consequently the imports of consumer goods have been reduced from 54% of total commodity imports in 1961 to 27% in 1971. The Government's long-term industrial development strategy aims to broaden the base of industry beyond pure import substitution and aims at a gradual structural transformation of the economy by giving priority to industries that process domestic raw materials for consumption in the home market and by requiring that traditional exports are locally processed as far as can be economically justified. As many of the most obvious import substitution projects have already been implemented, the future program includes expansion of the existing industries, in particular textile production, as planned under this project, sugar production, partly financed under Credit No. 513 TA and Loan No. 1063 TA and cement. In addition to investment in import substitution industries, some export oriented projects such as processing of cashewnuts, financed under Loan No. 1014 TA, sisal spinning, leather tanning and leather goods have already been undertaken and have potential for further expansion. In the mining sector, phosphate, soda ash, rare materials from local sands, iron ore, coal and natural gas are examples of mineral development possibilities. The strategy also emphasizes the development of domestic machine tool manufacturing and maintenance capacity with the promotion of metal engineering industries and training of industrial engineers. A component of this strategy will be the establishment of an integrated steel mill in Chunya district based on domestic coal and iron ore reserves. This project is under preparation and will be financed by the People's Republic of China's bilateral assistance. The scope, size and timing of the project is currently under examination.

20. In the Industry and Mining Sector Mission report, which was distributed to the Executive Directors in April 1975, the Bank has raised issues concerning the improvements required in the productivity of existing state manufacturing enterprises and the need for increasing the efficiency of the public sector. There is also the need for the Government to specify the exact role of the private sector. Since the Arusha Declaration (1967)

and the acquisition by the Government of majority interest in all important manufacturing enterprises and financial institutions most industrial activity is now in the public sector and all major projects started after 1967 have been in the public sector. Nevertheless the contribution of private firms is appreciable and accounts for about 25% of the value added and 50% of the employment in the sector. There is need, therefore, for the removal of uncertainties to the future role of private investment so that this sector, which has considerable potential, can also assist in industrial development.

21. After the Arusha Declaration, nationalized industrial enterprises were regrouped in the National Development Corporation (NDC). Subsequent to 1970 the Government split several state corporations from NDC including those dealing with agricultural processing, tourism, forestry and textiles. These have been grouped into holding companies which manage existing enterprises and promote new projects through equity investments in their respective sectors. This step towards decentralization has helped considerably in reducing delays and in developing responsible management at the parastatal level but further steps need to be taken to strengthen management at the firm level to bring about the further devolution of responsibility to this level. The critical shortage of competent and experienced middle-level Tanzanian managers is a perennial problem and a large number of enterprises are still dependent on expatriate personnel. This dependence is expected to continue beyond 1980 which has been mentioned as the target year for national self-sufficiency in technical manpower. However, with the intensive programs underway in the different parastatals as well as the seven management training institutions for different levels of skills, effective steps would have been taken to train sufficient Tanzanians to reduce the present dependence on expatriate management.

22. Tanzania has several institutions providing finance for industry; the most important of these is the Tanzania Investment Bank (TIB) which was the recipient of a Credit of \$6 million in January 1974 (Credit No. 460 TA). As estimated 25% of all new investment in the manufacturing sector is channeled through TIB and the Bank has made good progress in building up capacity to appraise projects and to form independent judgments on the financial and economic merits of projects submitted for financing. TIB loan commitments in 1974 totaled T Sh 53.7 million and disbursements T Sh 42.7 million. TIB also makes some equity investments. The Tanganyika Development Finance Company Ltd. (TDFL) is smaller than TIB and the principal banking source for private investment. It was established in 1962 and is owned in equal shares by the Government and British, German and Dutch aid agencies. Because of its limited resources TDFL concentrates on small projects; individual loans rarely exceed T Sh 3 million and its operations amount to about T Sh 10 million per year. Industrial investments can also be financed by the East African Development Bank (EADB), created in 1967, which has a Bank Loan of \$8 million made in 1972. EADB's charter excludes it from financing tourism, transportation and agricultural projects. Its operations in Tanzania have amounted to about T Sh 14 million per year.

The Textile Industry

23. Tanzania's textile industry has expanded rapidly in the last ten years and now ranks first in the manufacturing sector accounting for 25% of employment, 13% of value added and 11% of the value of output in the industrial sector as a whole. Employment in the textile industry is at present around 17,000 with an additional 3,000 employed in the garment industry. Starting from almost complete import dependence for textiles in 1966 Tanzania has now achieved more than 65% national self-sufficiency. Expansion of the textile industry is a key element in Tanzania's industrial strategy (referred to earlier in para. 19) of gradually restructuring the economy by linking the pattern of production more closely to domestic resource availability and local demand. The production of exportable surpluses is seen as a logical extension of this strategy once the major portion of domestic demand has been satisfied.

24. Tanzania's cotton is of the medium-long staple variety which enables the manufacture of a quality fabric. At present only 15% of the domestic cotton production is used by the local textile industry and the rest is exported as raw cotton. Consumption of cotton and other fabrics in Tanzania is still very low and stands at only 7.9 meters per capita per annum, as compared to 8.8 meters for Africa as a whole (excluding South Africa) and 15.7 meters in all developing countries. Actual consumption of woven fabrics has increased from 78 million meters in 1966 to 114 million meters in 1974. Of the 1974 fabric consumption 76 million meters was locally produced and 41 million meters imported at an estimated cost of about \$40 million. The proposed project and other minor expansions currently underway, would almost eliminate import needs for cotton fabrics for the projected consumption level up to the early 1980s. Production costs of cotton textiles in Tanzania are comparable to those in major producing countries and ex-factory prices are approximately the same as the C.I.F. costs of imported fabrics, using an appropriate shadow exchange rate. In addition to the cotton fabric imports which would be substituted through the proposed project, imports of blended fabric material of about 30 million meters per year are estimated in the near future. The Government is therefore considering the next major textile project to produce blended materials. Tanzania's cotton is ideally suited for this type of fabric and there appear to be export possibilities for such material specially to other East African countries. An amount of US\$200,000 has been provided in the proposed project to prepare the technical and economic feasibility report for such a project and to also examine the potential export markets for fabrics made in Tanzania. The Government has agreed, that, as part of the continuing dialogue on the development of the textile sector, it will exchange views with the Bank on the conclusions of the study and apply these conclusions to any major expansion of the textile industry (Section 4.02, Loan Agreement).

25. The National Textile Corporation (Texco) which was created in January 1974 and to which all the textile industry activities were transferred from NDC is responsible for the textile sector in Tanzania. Texco is organized as a holding company and exercises overall responsibility for

management, production, planning and expansion programs of its eight associated and subsidiary companies including MTL, the beneficiary of the proposed loan. The authorized capital of Texco is T Sh 500 million (US\$70 million) of which T Sh 70 million (US\$10 million) is paid in. The share capital is fully owned by the Government. Texco's Board of Directors is chaired by the Minister of Industries and Commerce and consists of nine members including the Managing Director of Texco. The marketing of all products manufactured by Texco companies is carried out by the National Textile Industries Corporation (Natex), a wholly owned subsidiary of Texco. Natex is also responsible for imports and exports of yarn, fabrics, garments, as well as other textile articles and agricultural bags. The garment manufacturing and knitting industry consists entirely of small production units in the private sector.

PART IV - THE PROJECT

26. An Appraisal Report entitled "Mwanza Textile Project" is being distributed separately. A Loan and Project Summary is provided as Annex III to this report.

27. The project was identified in April/May 1974 out of three textile projects for which feasibility studies were submitted to the Bank. It was appraised in the field in November 1974. Negotiations for the proposed loan were held in Washington on April 28, 1975. The Tanzanian delegation was headed by Mr. Kazaura, Principal Secretary, Ministry of Commerce and Industries.

Project Scope and Location

28. The project consists of an expansion of the existing MTL plant situated eight kilometers from the town of Mwanza on Lake Victoria (see map). Mwanza town has a population of 50,000 and is the headquarters of one of the 20 regional administrations into which the country is divided. The town is at a distance of about 1,100 km (by air) northwest of Dar es Salaam and is connected by rail, road and air services to the rest of the country and by steamer services on Lake Victoria to Kenya and Uganda. The existing MTL plant has a capacity of about 25 million linear meters/year of cotton fabrics and started production in 1968. Through the proposed project the production of MTL will be expanded by another 20 million meters per year of finished fabrics. The Project would add about 28,000 spindles and 580 looms as well as bleaching, mercerizing, dyeing and printing equipment to the existing facilities taking into account that the existing mill is not entirely balanced. The project would be built adjacent to the existing MTL plant in space which was originally earmarked for such an expansion. The existing MTL plant uses modern although conventional equipment and has a relatively high standard of quality and efficiency. The proposed expansion will use new and similar conventional machinery.

29. Mwanza is located in Tanzania's cotton growing belt and there will be sufficient supplies of raw cotton for the increased production, as at projected full production levels the mill will require 38,000 bales of cotton per annum out of the cotton crop estimated at 500,000 bales for 1980. Additional water consumption required for the project will be made available from the municipal water supply system. The power supply is provided by the Tanzania Electric Supply Company (TANESCO) and the additional power required for the project will be provided under an expansion program presently underway by TANESCO with financing from TIB and bilateral sources. The Government has agreed (Section 4.03 of the Loan Agreement) to cause TANESCO to complete its expansion program in time to allow sufficient power to be provided for the efficient operation of the integrated plant. Appropriate measures will be taken and special equipment selected for the project to avoid adverse effects on ecology and occupational health.

Project Costs and Financing

30. The total financing required for the project, including interest during construction, is estimated at US\$44.3 million of which US\$30 million would be in foreign exchange. Price escalation of 12% in 1975, 10% in 1976 and 8% in 1977 for foreign and 30% per annum for local expenditures has been provided for in the cost estimates, amounting to a total of US\$9.1 million. The unusually high percentage rate for local price escalation is based on past and estimated future rises in local construction costs. The cost estimates also include a 5% physical contingency of US\$1.3 million (this is relatively low since the project scope is well defined and the equipment to be procured is fairly standard), working capital requirements of US\$4.6 million, US\$0.4 million for study and training and US\$3.5 million for interest during construction.

31. The proposed Bank loan of US\$15 million would cover half of the foreign exchange financing required for the project. The Kuwait Fund has agreed to participate in the financing of the project on a parallel financing basis with the Bank and would provide the remaining US\$15 million. The Kuwait loan would finance the foreign exchange costs for the spinning plant and equipment, civil works and erection costs and the Bank loan would be applied to cover the foreign exchange costs of the other equipment (weaving and processing), engineering and consultancy services and interest during construction on the Bank loan. The proposed Bank loan of US\$15 million would be made to the Government for 22 years including five years grace and at an interest of 8.5% per annum, terms which are considered appropriate on country grounds. The Government would onlend the loan to the MTL for 13 years, including 4-1/2 years grace and would charge an interest rate of 10% per annum; MTL would bear the exchange risk. The proposed Kuwait Fund loan of US\$15 million equivalent (Kuwaiti Dinars 4.5 million) would also be made to the Government for 22 years, including five years of grace, at an interest of 4% per annum. The onlending terms to MTL for the Kuwaiti funds would be similar to the Bank loan. The finalization of the financing arrangements between the Kuwait Fund, the

Government, Texco and MTL would be a condition of effectiveness for the Bank loan (Section 6.01(c), Loan Agreement). This will be the first Kuwait Fund investment in Tanzania and is expected to be followed by other joint or parallel ventures with the Bank especially in the industrial sector.

32. The local funds of US\$14.3 million equivalent required for the project would be provided through an increase in MTL's equity by US\$14.1 million equivalent and US\$0.2 million equivalent through the companies' internal cash generation. The equity would be provided by the Government to Texco which would in turn increase the equity of MTL, thereby increasing Texco's shareholdings in MTL from 40% to 90%. Assurances have been obtained from the Government and Texco that equity funds would be made available to MTL on a time schedule determined by the requirements of the project (Section 3.01(d), Loan Agreement).

Implementation and Training

33. The project will be implemented by MTL under the general supervision and control of Texco. Both Texco and MTL suffer from a shortage of locally experienced and qualified technical personnel. MTL has currently 26 expatriates at the upper and middle management levels and this need for expatriates will continue at least during the period of implementation and in the early stages of operation. Adequate assistance from consultants is also crucial for the successful implementation and operation of the project. MTL has agreed to enter into a contract with Saigol Brothers of Pakistan, who undertook the feasibility study for the project, to act as the engineering firm for the project with responsibility for project engineering, purchasing, start-up operations, personnel training and project management for the implementation of the project (Section 2.02(i), Project Agreement). Saigol Brothers will be responsible for the completion of the project according to an agreed timetable as well as for the training program. Texco and MTL have also agreed (Section 2.02(a)(ii), Project Agreement) to employ Gherzi Textil Organization (Switzerland), as technical adviser who would provide assistance in project management and implementation control mainly in supervising the work of the engineering firm in all phases of construction, erection, start-up operations and integration with the existing MTL operations. MTL has also agreed to make arrangements, acceptable to the Bank, for technical management to operate the project during a period of three years after project completion (Section 2.02(d), Project Agreement).

34, Texco and MTL have also developed a systematic job-related training program which was discussed during negotiations. Under this program a sufficient number of Tanzanians with appropriate education and experience will be selected and trained at the Pakistan College of Textile Technology in a specially designed intensive course followed by training in one of the Saigol textile mills in Pakistan. Thereby qualified operators in the different specialities will be made available at the start-up of the mill from the existing MTL cadre and those trained by Saigol. The estimated foreign exchange cost of such a training program (US\$100,000) has been included in the proposed loan.

Procurement and Disbursements

35. Equipment and materials financed out of the proceeds of the Bank loan will be procured on the basis of international competitive bidding in accordance with Bank guidelines except for (1) small items costing less than US\$50,000 equivalent which may be purchased through international shopping on the basis of suitability, availability and price considerations following approval by the Bank of the list of items involved, and (2) proprietary equipment necessary for efficient plant operation and items in limited supply which are critical to the timely completion of the project and which are estimated to cost not more than US\$2 million and which may be procured following bidding from restricted lists of qualified suppliers, with prior approval of the Bank. Equipment financed by the Kuwait Fund loan would be procured internationally according to its own procurement guidelines. Subject to prequalification, local contractors after local bidding would carry out the civil works, in part financed by the Kuwait Fund. An agreement will be entered into with the Kuwait Fund to specify the timing of procurement, method of disbursements for both the Fund and Bank, joint supervision and exchange of information to enable prompt and smooth implementation. A schedule of estimated disbursements is included in Annex III. The Bank loan would cover the foreign exchange cost of equipment and services under the Bank financed portion of the project and interest during construction on the Bank loan. To begin project implementation as soon as possible MTL, with the Bank's approval, is expected to enter into agreements with the textile engineering firm and the technical advisory team. It is recommended that retroactive financing for eligible expenditure on these agreements up to an amount of \$150,000 incurred after April 1, 1975 be included in the loan.

Operating and Financial Performance of MTL

36. MTL's operating performance has steadily improved since it started operations in 1968. Capacity utilization in 1974 was almost 90% and some marginal increase in output is expected in 1975 when total production would reach 22.7 million meters. The profit situation of the company in 1974 was satisfactory and further improvement is expected in 1975 because of improvements in operations as well as favorable price changes for inputs and outputs.

37. MTL's profitability would improve substantially on account of the project. Net income after taxes will increase from T Sh 7.8 million in 1977 to 18.0 million in 1979 and 28.1 million in the years thereafter. The more than proportional increase in sales value and earnings is due to switching to more sophisticated products as well as to economies of scale from the expansion. Net income before taxes as a percentage of sales which was only 5% in 1974 is expected to increase to more than 10% in 1975, mainly as a result of higher textile prices and lower cotton prices which only in part affected 1974 earnings. After completion of the project, net income after taxes as a percentage of sales would be at about twice the level of the existing operations. As a result of the good earning potential of the project, the financial ratios of MTL show quite

satisfactory levels despite substantial additional debt financing. The debt service coverage remains about two times after the heavy loan repayments on the existing operations in 1975 and 1976. The current ratio would improve from 0.8 in 1974 to a satisfactory level of 1.5 in 1975 as a result of internal cash generation and the increase in share capital. The debt to equity ratio would be about 60:40 from 1976 until 1979 when as a result of beginning debt repayments, it would start to gradually improve. It has been agreed that Texco and MTL will maintain a debt to equity ratio of 60 to 40 and a current ratio of 1.5 (Sections 4.03 and 4.04, Project Agreement).

38. Since MTL's profitability and sound financial situation will largely depend on the Government's policy of pricing inputs and outputs the Government has agreed to ensure that MTL -- operating efficiently -- obtains sufficient revenues to cover all its costs, service all its debts and earn a reasonable return on its invested capital (Section 3.02 of Loan Agreement). MTL has also agreed not to declare or pay any dividends until the project has been completed and thereafter only if by so doing the current ratio would not fall below 1.5 (Section 4.05, Project Agreement).

Financial and Economic Return

39. The incremental financial return of the project amounts to 24.2% before and 19.4% after taxes. It is relatively high partly because the project is an expansion using existing infrastructure and partly because existing machinery can be used more effectively in combination with the project. As usual, the return is most sensitive to changes in revenues. The return after taxes would decrease to 17.3% if a 10% reduction of textile prices is assumed. If investment costs went up 15% combined with a one year delay in project completion the return would drop to 13.9%. If the ultimate capacity utilization of the project were to be only 80%, the return would decrease to 17.7%.

40. The project faces technical, managerial and commercial risks. However, the technical and managerial risks should be limited in view of: (i) employment of an engineering firm for project implementation, (ii) employment of experienced technical advisers, (iii) MTL's experience with similar existing operations, (iv) outside assistance for operations and job-oriented training program, and (v) allowance for a relatively long implementation period and a well-defined capital costs estimate. Much will depend on the effective meshing of local and expatriate expertise. The commercial risk should be minor in view of the opportunity for import substitution and the Government's assurances on pricing.

41. The economic rate of return of the project is a satisfactory 16% using international prices for the tradeable inputs and outputs. MTL has a good production performance and capacity utilization of the plant in 1974 was about 90%. Although the project will initially be producing primarily for the domestic market in the past five years Tanzania has exported to neighbouring East African countries between 2 to 4 million

meters of cotton textiles per year and there is potential for larger exports at internationally competitive prices. The study included in the project will thoroughly investigate this potential market and recommend the investment decisions required for the further development of the textile sector. Substantial indirect benefits from the project will be derived from the employment of an additional 1,200 workers, provision of training and expertise for Tanzanians and additional industrial activity in a less developed region of the country.

PART V - LEGAL INSTRUMENTS AND AUTHORITY

42. The draft Loan Agreement between the United Republic of Tanzania and the Bank, the draft Project Agreement between the Bank, the National Textile Corporation and the Mwanza Textiles Ltd., the Report of the Committee provided for in Article III, Section 4(iii) of the Articles of Agreement and the text of a resolution approving the proposed loan are being distributed to the Executive Directors separately.

43. Features of the Loan and Project Agreements of special interest are referred to in paragraphs 29, 31, 32, 33, 37, 38 and 40 of this report.

44. I am satisfied that the proposed Loan would comply with the Articles of Agreement of the Bank.

PART VI - RECOMMENDATION

45. I recommend that the Executive Directors approve the proposed Loan.

Robert S. McNamara
President

Attachments

Washington, D.C.
May 20, 1975

Annex I

Page 1 of 3 pages

COUNTRY DATA - TANZANIA

AREA
945,087 km²

POPULATION
13.6 million (mid-1972)

DENSITY
147 /a Per km² of arable land

SOCIAL INDICATORS

	Tanzania		Reference Countries		
	1960	1970	Kenya 1970	Korea 1970	Malaysia* 1970
GNP PER CAPITA US\$ (ATLAS BASIS) /1	..	120 /b,d	170 /b	310 /b	430 /b
DEMOGRAPHIC					
Crude birth rate (per thousand)	46 /c,d	47 /e	48 /f	28	34 /g
Crude death rate (per thousand)	25 /c,d	22 /e	18 /f	8	7 /g,h,i
Infant mortality rate (per thousand live births)	225	160-165 /e	55	..	41 /g
Life expectancy at birth (years)	38 /c	43	48 /f	65	59
Gross reproduction rate /2	..	3.2	3.4	2.6	2.7
Population growth rate /3	2.2	3.0 /h	3.2 /h	2.2 /h	2.9 /h
Population growth rate - urban	..	5 /d,i	7 /i,j,k	6 /k	..
Age structure (percent)					
0-14	42 /c,d,i	44 /e	48 /m	40 /b	45 /g
15-64	56 /c,d,i	53 /e	48 /m	57 /b	52 /g
65 and over	2 /c,d,i	3 /e	4 /m	3 /b	3 /g
Age dependency ratio /4	0.8 /c,d	0.9 /e	1.1 /m	0.8	0.9 /g
Economic dependency ratio /4	1.2	1.2	1.4	1.4	1.6 /g
Urban population as percent of total	4 /c,d,p	7 /n,q	10 /i,m	41 /k	29 /g,i
Family planning: No. of acceptors cumulative (thous.)	..	..	..	..	220 /g
No. of users (% of married women)	..	..	..	..	15 /g
EMPLOYMENT					
Total labor force (thousands)	4,900 /y	5,600 /d,e	5,100 /m,s	10,500 /b	3,200 /g
Percentage employed in agriculture	89 /y	91 /d,e	90 /m,s	48 /b	45 /g
Percentage unemployed	..	..	..	5 /b	8 /g
INCOME DISTRIBUTION					
Percent of national income received by highest 5%	..	34 /e	..	15 /o,t	27 /i,u
Percent of national income received by highest 20%	..	60 /e	..	37 /o,t	52 /i,u
Percent of national income received by lowest 20%	..	5 /e	..	10 /o,t	4 /i,u
Percent of national income received by lowest 40%	..	14 /e	..	24 /o,t	12 /i,u
DISTRIBUTION OF LAND OWNERSHIP					
% owned by top 10% of owners	..	..	..	28	..
% owned by smallest 10% of owners	..	..	..	2	..
HEALTH AND NUTRITION					
Population per physician	20,000 /d	21,570 /d	7,830 /y	2,210 /y	3,860 /f,v
Population per nursing person	..	4,890 /d	1,470 /y	1,760 /y	1,080 /f,v
Population per hospital bed	530 /d	700 /d	770	1,920	330
Per capita calorie supply as % of requirements /5	by /x	73	101	103	54 /f,z
Per capita protein supply, total (grams per day) /6	42	43	71	65	49 /f,z
Of which, animal and pulses	22 /x	23	29	19 /m,y	20 /f,z
Leath. rate 1-4 years /7	..	..	..	..	6 /o,w
EDUCATION					
Adjusted /8 primary school enrollment ratio	25	37 /aa	67	104	89 /f
Adjusted /8 secondary school enrollment ratio	2	3 /aa	9 /ab	41	34 /g
Years of schooling provided, first and second level	13	13	13	12	13
Vocational enrollment as % of sec. school enrollment	23	4 /aa	2	15 /o	3 /f
Adult literacy rate %	..	..	30 /aa,ad	91 /ac,al	89 /ud,ae
HOUSING					
Average No. of persons per room (urban)	1.8 /af	..	..	2.7	..
Percent of occupied units without piped water	..	..	..	80 /ak	..
Access to electricity (as % of total population)	..	..	..	50	..
Percent of rural population connected to electricity	..	..	..	30	..
CONSUMPTION					
Radio receivers per 1000 population	2	16 /b	48 /b	128 /o	42 /b
Passenger cars per 1000 population	..	3 /b,ah	9 /b,ah	2 /b	26 /b,af
Electric power consumption (kwh p.c.)	15 /d	31 /b	78 /b	392 /b	444 /b,af
Newsprint consumption p.c. kg per year	0.1 /e,i	0.1 /b	0.5 /b	3.7 /b	3.0 /b,af

Notes: Figures refer either to the latest periods or to the latest years. Latest periods refer in principle to the years 1956-60 or 1966-70; the latest years in principle to 1960 and 1970.

- /1 The Per Capita GNP estimate is at market prices for years other than 1959, calculated by the same conversion technique as the 1972 World Bank Atlas.
- /2 Average number of daughters per woman of reproductive age.
- /3 Population growth rates are for the decades ending in 1960 and 1970.
- /4 Ratio of population under 15 and 65 and over to population of ages 15-64 for age dependency ratio and to labor force of ages 15-64 for economic dependency ratio.
- /5 FAO reference standards represent physiological requirements for normal activity and health, taking

- account of environmental temperature, body weights, and distribution by age and sex of national populations.
- /6 Protein standards (requirements) for all countries as established by USDA Economic Research Service provide for a minimum allowance of 60 grams of total protein per day, and 20 grams of animal and pulse protein, of which 10 grams should be animal protein. These standards are somewhat lower than those of 75 grams of total protein and 23 grams of animal protein as an average for the world, proposed by FAO in the Third World Food Survey.
- /7 Some studies have suggested that crude death rates of children ages 1 through 4 may be used as a first approximation index of malnutrition.
- /8 Percentage enrolled of corresponding population of school age as defined for each country.

/a Excluding forests and pastures; /b 1972; /c 1957; /d Tanganyika; /e 1967; /f UN estimate, 1965-70; /g West Malaysia; /h 1960-77; /i 15 gazetted townships, 1957-67; /j 2,000 or more inhabitants; /k Seoul City and municipalities of 5,000 or more inhabitants; /l African population; /m 1969; /n 1973; /o 1971; /p 33 gazetted townships; /q 16 gazetted townships; /r Gazetted areas of 10,000 or more inhabitants; /s Labor force 15-59 age bracket; /t Households; /u Metro towns; /v Number on register, not all working in country; /w Personnel in government services only; /x 1961-63; /y Estimate; /z 1964-66; /aa 1968; /ab including teacher training at third level; /ac Definition unknown; /ad 15 years and over; /ae 1966; /af 1973, Zanzibar; /ag 1962-67; /ah including government vehicles; /ai Registered only; /aj 1963; /ak Water piped inside; /al Ten years and over.

* Malaysia is selected as the objective country because its population is comparable in size and its economic development is several steps ahead.

ECONOMIC DEVELOPMENT DATA
(Amounts in millions of U.S. dollars)

	Actual			Projected			1964-	1967-	1970-	1973-	1970	1971	1972
	1970	1971	1972	1974	1975	1976	1969	1972	1973	1976			
NATIONAL ACCOUNTS													
	3-Year Average at 1967-1969 Prices & Exchange Rates						Average Annual Growth Rates				As Percent of GDY		
Gross Domestic Product	1214.1	1275.4	1342.7	1494.7	1562.0	1632.1	6.1	4.9	5.6	4.5	100.0	100.9	103.6
Gains from Terms of Trade (+)	- 0.2	- 10.8	- 47.0	- 21.5	- 32.3	- 49.0							
Gross Domestic Income	1213.9	1264.6	1295.7	1473.2	1529.7	1583.1	5.0	4.5	5.1	4.0	100.0	100.0	100.0
Import (incl. NFS)	366.6	395.1	365.7	413.6	400.3	389.5	6.7	6.8	1.4	0.6	30.2	31.2	28.2
Exports " (import capacity)	302.5	310.6	306.0	275.2	287.2	329.2	2.1	2.6	0.7	2.0	25.0	24.6	23.6
Resource Gap	63.1	84.5	59.7	138.4	113.1	60.3					5.2	6.7	4.6
Consumption Expenditures	1022.8	1061.6	1060.0	1288.3	1315.8	1312.4	5.8	4.8	4.7	3.8	84.3	84.0	81.8
Investment " (incl. stocks)	254.2	287.6	295.4	323.3	327.0	331.0	9.1	8.4	6.7	2.4	20.9	22.7	22.8
Domestic Savings	191.1	203.1	235.7	184.9	213.9	270.7	1.4	2.7	7.3	4.7	15.7	16.1	18.2
National Savings	198.0	206.8	235.3	180.9	207.5	261.3	3.1	3.4	4.9	4.5	16.3	16.4	18.2
MERCHANDISE TRADE													
	Annual Data at Current Prices						1966-72	1970-73	1973-76	As Percent of Total			
Imports													
Capital goods	94.2	117.0	125.2	137.2	138.0	149.5	13.5	14.0	2.4		29.6	30.7	31.0
Intermediate goods (excl. fuels)	101.7	132.1	154.4	210.6	212.1	226.6	13.5	21.5	7.6		31.9	34.6	38.2
Fuels and related materials	27.0	35.8	41.3	139.4	145.0	161.8	16.3	27.7	42.0		8.5	9.4	10.2
of which: Petroleum	(27.0)	(35.8)	(41.3)	(139.4)	(145.0)	(161.8)	(16.3)	(27.7)	(42.0)		(8.5)	(9.4)	(10.2)
Consumption goods	95.5	96.6	82.9	225.3	188.0	84.8	1.0	1.4	-5.2		30.0	25.3	20.5
Total Merch. Imports (cif)	318.4	381.5	403.8	712.5	683.1	622.7	8.7	14.4	9.3		100.0	100.0	100.0
Exports^{1/}													
Primary products (excl. fuels)	183.1	183.1	208.6	329.5	332.7	337.4	0.6	13.2	8.2		77.4	75.4	72.3
Fuels and related materials))))))))))))
of which: Petroleum	53.4	59.8	30.7	42.0	43.7	48.8	14.5	9.7	22.5		22.6	24.6	10.6
Manufactured goods	)	)	49.1	54.0	59.4	65.4	)	)	6.6		)	)	17.0
Total Merch. Exports (fob)	236.5	242.9	288.4	425.5	435.8	451.6	3.7	12.0	8.5		100.0	100.0	100.0
Tourism and Border Trade	..	..	..	..	..	..	
Merchandise Trade Indices													
	Average 1967-69 = 100												
Export Price Index	100.6	102.0	112.6	174.2	170.1	171.0							
Import Price Index	99.0	103.5	122.9	137.8	189.2	196.5							
Terms of Trade Index	101.6	98.5	86.7	92.7	89.9	87.0							
Exports Volume Index	126.0	127.0	132.0	135.3	143.0	149.8							
VALUE ADDED BY SECTOR													
	Annual Data at 1966 Prices and Exchange Rates						Average Annual Growth Rates				As Percent of Total		
							1964-69	1965-70	1966-71	1967-72			
Agriculture	446.5	442.7	471.2				3.3	4.4	1.4	2.6	40.0	38.1	38.5
Industry and Mining	179.2	198.0	202.7				9.3	8.3	7.2	5.0	16.0	17.0	16.5
Service	491.1	522.0	521.3				7.1	7.6	7.0	6.1	44.0	44.2	43.0
Total	1116.8	1162.7	1255.3				5.7	6.3	4.7	4.5	100.0	100.0	100.0
PUBLIC FINANCE													
	Annual Data at Current Prices						1967-72				As Percent of GDP		
(Central Government)													
Current Receipts	235.6	260.3	306.3					14.0			19.2	20.6	23.0
Current Expenditures	228.4	249.3	306.6					15.4			18.6	19.7	23.0
Budgetary Savings	7.2	11.0	-0.3					-			0.6	0.9	-
Other Public Sector	39.0	57.0	75.0					25.0			3.2	4.5	5.6
Public Sector Investment	163.0	233.0	233.0					21.0			13.3	18.4	17.5
CURRENT EXPENDITURE DETAILS													
As % Total Current Expend.	Actual		Prelim.										
	FY1971	FY1972	FY1973										
Education	21.1	17.5	18.6										
Other Social Services	)	)	10.3										
Agriculture	31.5	27.3	12.5										
Other Economic Services	)	)	15.4										
Administration and Defense	30.5	32.0	9.52/										
Other	16.9	23.2	33.7										
Total Current Expenditures	100.0	100.0	100.0										
SELECTED INDICATORS													
(Calculated from 3-year averaged data)	1960-	1965-	1970-	1973-									
	1965	1970	1975	1978									
Average ICOR		2.9	4.3	4.3									
Import Elasticity		1.6	0.4	0.5									
Marginal Domestic Savings Rate		0.1	0.1	0.25									
Marginal National Savings Rate		0.2	0.1	0.2									
LABOR FORCE AND OUTPUT PER WORKER													
	Total Labor Force				Value Added Per Worker (in current prices)								
	In Millions		% of Total		In U.S. Dollars		Percent of Average						
	1971		1971		1971		1971						
Agriculture	5.3		91		98		43						
Industry	0.1		2		1590		694						
Service	0.4		7		2170		948						
Total	5.8		100		229		100						

. not applicable - nil or negligible
.. not available -- less than half the smallest unit shown

1/ Includes re-exports, unclassified domestic exports and adjustments for time, value and coverage
2/ Defense only

November 18, 1974

BALANCE OF PAYMENTS, EXTERNAL ASSISTANCE AND DEBT
(amounts in millions of U.S. dollars at current prices)

	Actual				Estimated 1973	Projected						Avg. Annual Growth Rate 1969-1979
	1969	1970	1971	1972		1974	1975	1976	1977	1978	1979	
SUMMARY BALANCE OF PAYMENTS												
Exports (incl. NFS)	276.8	308.8	333.1	397.5	479.8	516.9	543.4	646.8	713.0	802.7	915.6	13.0
Imports (incl. NFS)	288.4	373.1	449.8	476.1	591.1	776.9	757.4	765.3	859.8	964.2	1079.3	14.0
Resource Balance (X-M)	-11.6	-64.3	-116.7	-78.6	-111.3	-260.0	-214.0	-118.5	-146.8	-161.5	-163.7	
Interest (net)	-2.9	-3.5	-3.0	-3.4	-5.9	-7.3	-13.6	-21.1	-22.6	-32.0	-49.7	33.0
Direct Investment Income	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Workers' Remittances	8.6	12.4	9.3	-1.7	0.7	14.0	7.0	7.7	8.5	9.3	10.2	1.7
Current Transfers (net)	-5.9	-55.4	-110.4	-83.7	-118.0	-254.8	-221.7	-133.4	-162.4	-185.7	-204.7	
Balance on Current Accounts	nil	nil	nil	nil	nil	nil	nil	nil	nil	nil	nil	
Private Direct Investment	10.0	12.0	14.0	16.0	18.0	20.0	21.5	23.1	24.8	26.7	28.7	11.0
Official Capital Grants												
Public M< Loans												
Disbursements	44.0	49.1	49.8	126.6	154.2	133.0	82.6	83.2	91.5	100.6	110.7	9.7
-Repayments	-9.9	-9.7	-11.9	-15.4	-13.2	-14.0	-14.0	-14.0	-14.0	-14.5	-15.0	4.3
Net Disbursements	34.1	39.4	37.9	111.2	141.0	119.0	68.6	69.2	77.5	86.1	95.7	10.8
Other M< Loans												
Disbursements	0.0	0.0	0.0	..	..	..	..	..	..	..	..
-Repayments	0.0	0.0	0.0	4.5	11.4	11.2	12.1	13.2	14.4	15.6	17.1	
Net Disbursements												
Capital Transactions n.e.i.	-21.0	-52.0	-15.0	28.2	-6.6							
Change in Net Reserves	2.8	-15.3	-4.7	60.2	27.7							
GRANT AND LOAN COMMITMENTS												
Official Grants & Grant-like												
Public M< Loans												
IBRD	7.0	30.0	-	-	-							
IDA	20.5	9.0	9.8	10.8	28.8							
Other	-	-	-	3.3	2.0							
Other Multilateral												
Governments	48.8	232.4	26.3	49.3	94.9							
Suppliers	-	0.3	-	-	-							
Financial Institutions	3.2	3.0	-	-	-							
Bonds	-	-	-	-	-							
Public Loans n.e.i.	16.9	2.2	0.8	-	-							
Total Public M< Loans												
DEBT AND DEBT SERVICE^{1/}												
Public Debt Out. & Disbursed						176.4	220.2	262.5	344.5	424.6		
Interest on Public Debt						6.1	6.2	6.6	6.9	8.7		
Repayments on Public Debt						9.9	9.7	11.9	29.0	11.5		
Total Public Debt Service						16.0	15.9	18.5	35.8	20.2		
Other Debt Service (net)						-	-	-	-	-		
Total Debt Service (net)						-	-	-	-	-		
Burden on Export Earnings (%)												
Public Debt Service						5.8	5.2	5.6	9.0	4.2		
Total Debt Service						5.8	5.2	5.6	9.0	4.2		
TDS+Direct Invest. Inc.						5.1	4.8	5.1	7.7	3.0		
Average Terms of Public Debt												
Int. as % Prior Year DO&D						4.2	3.5	3.0	2.6	2.5		
Amort. as % Prior Year DO&D						6.8	5.5	5.4	11.0	3.3		
IBRD/IDA Debt Out. & Disbursed												
" as % Public Debt O&D						1.4	1.7	4.1	7.6	7.4		
" as % Public Debt Service ^{2/}						0.0	0.6	1.6	2.2	10.0		
IDA Debt Out. & Disbursed												
" as % Public Debt O&D						14.2	15.4	16.1	15.6	13.7		
" as % Public Debt Service ^{2/}						0.6	0.6	1.1	1.1	1.9		
EXTERNAL DEBT												
	Actual Debt Outstanding on Dec. 31, 1972											
	Disbursed Only		Percent									
World Bank	24.0		7.0									
IDA	49.1		14.2									
Other Multilateral	2.5		0.7									
Governments	213.5		62.0									
Suppliers	0.3		0.1									
Financial Institutions	24.2		7.0									
Bonds	10.1		2.9									
Public Debts n.e.i	20.9		6.1									
Total Public M< Debt	344.6		100.0									
Other M< Debts												
Short-term Debt (disb. only)												

. not applicable
.. not available
... not available separately
but included in total

e staff estimate
- nil or negligible
-- less than half the
smallest unit shown

^{1/} Not including Tanzania's share in EAG (debt)
^{2/} IBRD/IDA debt service as % of total public debt service

November 18, 1974

A. SUMMARY STATEMENT OF BANK LOANS FOR COMMON SERVICES GUARANTEED
BY KENYA, TANZANIA AND UGANDA AS AT MARCH 31, 1975

<u>No.</u>	<u>Year</u>	<u>Borrower</u>	<u>Purpose</u>	(US\$ million)	
				<u>Amount less cancellations</u> <u>Bank</u>	<u>Undisbursed</u>
Three loans fully disbursed				75.0	
638	EA 1969	EAHC	Harbours	35.0	5.8
674	EA 1970	EARC	Railways	42.4	17.3
675	EA 1970	EAPTC	Telecommunications	10.4	0.4
843	EA 1972	EADB	Development Finance	8.0	7.7
865	EA 1972	EAHC	Harbors	26.5	19.0
914	EA 1973	EAPTC	Telecommunications	32.5	21.3
Total				229.8	71.5
of which has been repaid				29.1	
Total now outstanding				200.7	
Amount sold				24.4	
of which has been repaid				24.4	0
Total now held by Bank				200.7	
Total undisbursed					71.5

B. STATEMENT OF BANK LOANS AND IDA CREDITS TO TANZANIA
AS AT MARCH 31, 1975

No.	Year	Borrower	Purpose	(US\$ million)		
				Amount Bank	less IDA	cancellations Undisbursed
Two loans and six credits fully disbursed				35.2		43.0
586 TA	1969	Tanzania	Roads	7.0		1.9
149 TA	1969	"	Education		5.0	1.0
217 TA	1970	"	Tobacco		9.0	6.7
715-2 TA	1974	TANESCO	Power	5.0		2.9
232 TA	1971	Tanzania	Education		3.3	2.1
265 TA	1972	"	Roads		6.5	4.8
287 TA	1972	"	Smallholder Tea		10.8	7.1
371 TA	1973	"	Education		10.3	10.2
382 TA	1973	"	Livestock		18.4	18.3
454 TA	1974	"	Cotton		17.5	17.4
460 TA	1974	"	Tanzania Investment Bank		6.0	6.0
1014 TA	1974	"	Cashewnut	21.0		21.0
495 TA	1975	"	Sites and Services		8.5	8.4
507 TA	1975	"	Highway Maintenance		10.2	10.2
508 TA	1975	"	Rural Development		10.0	10.0
513 TA	1975	"	Sugar		9.0	9.0
1041 TA	1975	"	Sugar	9.0		9.0
1063 TA	1975	"	Program	30.0		10.1
Total				107.2	167.6 ^{1/}	156.1

^{1/} Net of exchange adjustments.

		(US\$ million)		
		<u>Amount less cancellations</u>		
		<u>Bank</u>	<u>IDA</u>	<u>Undisbursed</u>
of which has been repaid		0.8	0.4	
		-----	-----	-----
		106.4		
Amount sold	0.1			
of which has been repaid	0.1			
	-----	-----		
Total now outstanding		106.4	167.2	
Total undisbursed		44.9	111.2	156.1

D. PROJECTS IN EXECUTION^{1/}
(As of May 1, 1975)

There are currently 16 projects under execution in Tanzania

AGRICULTURAL SECTOR

Credit No. 217 TA - Tobacco Project: \$9.0 million Credit of October 9, 1970; Closing Date - September 30, 1976

As a result of the Tanzania Government's intention to complete its villagization program by 1976, the process has been accelerated and a total of about 7,200 families have been moved to villages in the tobacco complexes, bringing the number of project farmers to 10,000. As a result of these vigorous efforts, it is now likely that the appraisal target of 15,000 farmers will be reached by 1975. Strict measures to enforce minimum tobacco acreages per family are expected to contribute to increased tobacco production. However, yields per hectare and quality of leaf have been below anticipated levels. Improvements are required to strengthen the extension and cooperative services. Provision of water supplies and social infrastructure are progressing well.

Credit No. 287 TA - Smallholder Tea Project: \$10.8 million Credit of March 3, 1972; Closing Date - December 31, 1976

This project has experienced serious management problems both at headquarters and in the field which have largely contributed to the shortfall in planting achievements, currently 45% of target. Insufficient and poor quality field supervision with inadequate control and guidance from headquarters have resulted in poor husbandry practices, low yields and poor quality of leaf produced. Of the four tea factories established or improved under the project, only one is performing satisfactorily. These problems are being reduced since all senior extension staff positions have been filled and monthly visits are being made to each project area. Financial management is improving and disbursements accelerating after the appointment of a Chief Accountant, Cost Accountant and Internal Auditor.

1/ These notes are designed to inform the Executive Directors regarding the progress of projects in execution, and in particular, to report any problems which are being encountered, and the actions being taken to remedy them. They should be read in this sense, and with the understanding that they do not purport to present a balanced evaluation of strengths and weaknesses in project execution.

Credit No. 508 TA - Kigoma Rural Development Project: \$10.0 million
Credit of August 21, 1974; Closing Date - December 31, 1980

The credit became effective in November 1974. Government has designated two national parastatal marketing corporations to perform the input delivery and crop marketing functions under the project rather than the Kigoma Cooperative Union which would have required a financial reorganization. Possible changes to legal documents are being studied. TRDB remains the lending channel for IDA funds under the project. The Operations Manager (henceforth designated Project Manager), Financial Controller and Land-Use Planner are now on site and heavily involved in planning implementation; several other appointments remain to be filled. A large acreage (relative to previous years) has been planted with cotton and a variety of steps are necessary (now underway) to market it effectively. The Project Management hopes that 30 project villages will qualify for loans under the project starting in September. However, this goal may be an optimistic one in view of the need for a trained bookkeeper and extension worker and preparation of a Village Site Feasibility Report for each project village as a prerequisite to its borrowing under the project.

Credit No. 454 TA - Geita Cotton Project: \$17.5 million Credit
of January 17, 1974; Closing Date - December 31, 1982

The conditions in which the project will operate were radically changed by the decision effective April 15, 1974, that farmers throughout the district should immediately move into villages. The move was poorly planned and in the short-run will adversely affect production of cotton and food crops. Although in the long-run villagization could well be advantageous to the project as savings in mechanization, extension and credit staff could be achieved, the initial implementation of the project will be delayed. A mission from RMEA is reviewing the project and their report is awaited.

Loan No. 1014 TA - Cashewnut Development Project: \$21.0 million
Loan of June 24, 1974; Closing Date - December 31, 1981

The lowest bids for the five processing facilities to be constructed under the project were considerably in excess of the appraisal estimate for the project component. Following detailed discussions between the Government and contractor, the cost has been considerably reduced by deletion of non-essential items so as to not affect the aims of the project. The Government has requested deletion of a rural water supply and a community education center; with these changes, the loan funds will be sufficient to finance 66% of the project as compared to 69%, at appraisal.

Credit No. 513 TA and Loan No. 1041 TA - Kilombero Sugar Development Project: \$9.0 million Credit and \$9.0 million Loan of September 27, 1974; Closing Date - December 31, 1979

The project was declared effective February 24, 1975. The Government is currently making good progress toward ambitious project goals. Civil works bid documents are in an advanced stage of preparation. Contracts are being let for some goods and equipment; measures to reduce possible cost overruns on the civil works components are being considered by the Government.

Credit No. 382 TA - Second Livestock Development Project: \$18.5 million Credit of May 23, 1973; Closing Date - December 31, 1977

The credit was declared effective on September 28, 1973 but so far implementation has been extremely slow. IDA disbursements to date have been limited to technical services and it is only during the past four - five months that the development of cattle ranching and marketing has started to get under way. The meat processing component of the project was recently scaled down by almost a third of appraisal proposals because of increase in costs. However, overall progress should improve now that responsibility for project implementation has been transferred to the newly established Livestock Development Authority.

EDUCATION SECTOR

Credit No. 149 TA - Second Education Project: \$5.0 million Credit of May 29, 1969; Closing Date - December 31, 1975

Most project schools are complete and all are scheduled for completion by July 1975. Completed schools are adequately furnished but not yet fully equipped. Procurement and installation of the remaining furniture and equipment is in progress. The project has experienced a minor overrun of \$0.4 million.

Credit No. 232 TA - Third Education Project: \$3.3 million Credit of February 5, 1971; Closing Date - June 30, 1975

Contracts for all 13 project institutions have now been awarded after retendering made necessary by high prices of the original quotations. As a result, the project is about 18 months behind schedule. Procurement of furniture and equipment and the fellowship training program are progressing satisfactorily. A cost overrun of about \$0.45 million is expected.

Credit No. 371 TA - Fourth Education Project: \$10.3 million Credit of April 13, 1973; Closing Date - June 30, 1978

A substantial cost overrun, possibly as much as \$13 million, for civil works is being discussed within the Government. The Government has decided to defer the construction of three secondary schools in the project to reduce building standards and to seek additional financing from bilateral aid donors.

INDUSTRIAL SECTOR

Credit No. 460 TA - Tanzania Investment Bank Project: \$6.0 million Credit of February 13, 1974; Closing Date - June 30, 1978

The credit has been fully committed. A follow-on project is under consideration.

POWER SECTOR

Loan No. 715 TA - Kidatu Hydroelectric Project: \$3.0 million Loan of December 14, 1970 and \$5.0 million Supplementary Loan No. 712-2 TA of June 24, 1971; Closing Date - June 30, 1976

Construction work for this project is nearly complete. The project is on schedule and the first unit came on stream in March 1975 and the second is expected to be completed by July 1. A mission visited Tanzania in April to appraise the second stage Kidatu power project.

TRANSPORTATION SECTOR

Credit No. 265 TA - Third Highway Project: \$6.5 million Credit of August 6, 1971; Closing Date - December 31, 1976

After long delays in completing tender arrangements, the contract for the Mtwara-Masasi road was made at nearly three times the appraised cost. Most of the overrun is covered by a \$4.4 million loan from ADB and use of the \$1.8 million balance from the Bank's Second Highway Project (Loan No. 586 TA). Construction of this road is proceeding satisfactorily.

Feeder road construction in Geita and Mara has been slowed by shortages of local funds, fuel, materials and personnel. This has received the attention of the Ministry of Works and some improvement has been effected.

Consultants' feasibility studies for Kilombero and Kilimanjaro are proceeding satisfactorily.

Credit No. 507 TA - Highway Maintenance Project: \$10.2 million
Credit of August 21, 1974; Closing Date - June 30, 1979

The project was declared effective on November 20, 1974. Recruitment of expatriates required for implementation is being discussed by the Government with the Crown Agents. Tender documents for the first batch of equipment are being prepared by the Ministry of Works.

URBAN SECTOR

Credit No. 495 TA - Sites and Services Project: \$10.0 million
Credit of July 12, 1974; Closing Date - December 31, 1978

The project was declared effective in October 1974 and has made a good start. Contract for infrastructure construction at two sites have been awarded; tenders for two other sites have been received, and contract documents for the remaining two sites are being completed. Tender prices were high on the initial bids but are becoming competitive as more sites are tendered. At present total project costs are estimated to exceed appraisal estimates by about 3%. Training program for technical staff of Ministry of Lands, Housing and Urban Development commenced in March 1975. A consultant has been appointed for Monitoring and Evaluation of the project.

PROGRAM LOAN

Loan No. 1063 TA - Program Loan: \$30.0 million Loan of December 20, 1974; Closing Date - December 31, 1975

The loan is fully disbursed. The Government continues to implement policies designed to relieve the balance of payments difficulties. A Bank mission will visit Tanzania in July to review the effect of the implementation of such policies. Although the Government has been successful in finding other sources to assist in financing the balance of payments gap, the overall resource gap will be larger than anticipated at appraisal owing to a more rapid deterioration in the terms of trade than expected.

There are currently six projects under execution by the East African Community.

TRANSPORT SECTOR

Loan No. 674 EA - Third Railways Project: \$42.4 million Loan of May 25, 1970; Closing Date - June 30, 1976

This loan was suspended on February 13, 1975. The reasons for suspension and conditions for lifting the suspension are discussed in Parts I and II of this report.

Loan No. 638 EA - Second Harbours Project: \$35.0 million Loan of August 25, 1969; Closing Date - December 31, 1975

The Harbours Corporation is in a healthy cash position overall although there have been problems in transferring funds from regional offices to headquarters. It is now expected that the project will be completed by the end of 1975.

Loan No. 865 EA - Third Harbors Project: \$26.5 million Loan of December 18, 1972; Closing Date - June 30, 1977

A delay of six months is expected in completing civil works under this project. Cost overruns have been experienced in some project items. The situation is under study by the Corporation, which will shortly issue a plan for speeding implementation.

DEVELOPMENT BANK

Loan No. 843 EA - East African Development Bank Project: \$8.0 million Loan of June 28, 1972; Closing Date - May 31, 1976

Operations of the Bank have been decentralized with a resulting strengthening of the Bank's supervisory capability. Management problems associated with decentralization have largely been rectified so that the pace of Bank operations is expected to quicken in FY76. Nearly \$6.5 million of the loan has been committed, and a second loan is being considered for appraisal.

TELECOMMUNICATIONS SECTOR

Loan No. 675 EA - Second Telecommunications Project: \$10.4 million Loan of May 25, 1970; Closing Date - June 30, 1975

Problems within the EAC have only marginally affected the Posts and Telecommunications Corporation due to the considerable existing decentralization of operating authority. Deterioration of the corporate cash position and rate of return has been slight in comparison to other Community Corporations; the situation will be improved by a rate increase allowed by the Community in February 1975.

Loan No. 914 EA - Third Telecommunications Project: \$32.5 million Loan of June 22, 1973; Closing Date - December 31, 1976

Procurement is generally on schedule with \$20 million committed and the balance near tender stage. All major items are expected to be completed by mid-1975, except two microwave links which, due to long lead time for delivery, will be delayed by 18 months.

TANZANIA - TEXTILE PROJECT

Loan and Project Summary

Borrower: United Republic of Tanzania

Amount: Loan of US\$15.0 million

Terms: 22 years, including five years' grace at 8.5% per annum

Relending Terms: Government would onlend to Mwanza Textile Ltd. (MTL) for 13 years, including 4-½ years of grace at a rate of 10% per annum.

Project Description: Expansion of the existing cotton textile mill at Mwanza to produce an additional 20 million meters of cotton fabrics per year, bringing total production of MTL to 43 million meters. The project would be implemented by a foreign engineering company and an adviser to assist the sponsors in supervision of project implementation. The project also provides for a feasibility study of a cotton blend unit including an investigation into the export potential for Tanzanian made textiles in East Africa.

<u>Estimated Cost:</u>	(US\$ million)		
	<u>Local</u>	<u>Foreign</u>	<u>Total</u>
(1) Engineering and Consultancy Services	0.3	1.0	1.3
(2) Plant and Machinery	1.6	17.1	18.7
(3) Erection and Civil Works	3.2	2.2	5.4
(4) Study and Training	0.1	0.3	0.4
(5) Working Capital	4.6	-	4.6
(6) Interest during Construction	0.5	3.0	3.5
(7) Contingency and Escalation	4.0	6.4	10.4
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Total	14.3	30.0	44.3
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Financing Plan:

	<u>Equity</u>	<u>Bank</u>	<u>Kuwait Fund</u>	<u>Total</u>
(1) Engineering and Consultancy, Study and Training	0.4	1.3	-	1.7
(2) Plant and Equip- ment (including freight and insurance):				
(a) Spinning	0.8	-	8.1	8.9
(b) Weaving and others	0.8	9.0	-	9.8
(3) Erection	0.7	-	0.5	1.2
(4) Civil Works	1.0	-	3.2	4.2
(5) Working Capital	4.6	-	-	4.6
(6) Interest during Construction	2.0	1.5	-	3.5
(7) Contingency and Escalation	4.0	3.2	3.2	10.4
Total	<u>14.3</u>	<u>15.0</u>	<u>15.0</u>	<u>44.3</u>

Estimated
Disbursements:

	<u>Calendar Year</u>		
	(US\$ million)		
<u>1975</u>	<u>1976</u>	<u>1977</u>	<u>1978</u>
0.2	7.9	5.9	1.0

Procurement
Arrangements:

For items financed by the Bank, international competitive bidding in accordance with Bank's procurement guidelines, except (1) small items costing less than US\$50,000 may be purchased through international shopping after approval by Bank of list of items (2) proprietary equipment necessary for efficient plant operation and items critical to timely completion of project estimated to cost about US\$2 million to be procured following bidding from restricted lists of qualified suppliers with prior approval of the Bank. Retro-active financing from April 1, 1975 for engineering contract up to an amount of \$150,000. Items financed by the Kuwait Fund are to be procured internationally in accordance with its procurement guidelines.

Rate of Return: Economic rate of return 16%

Financial rate of return 19%

Appraisal
Report:

Report No. 743-TA

Map:

A map showing location of project is attached.

