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Report No.P-1661-TA

REPORT AND RECOMMENDATION
OF THE
PRESIDENT
TO THE
EXECUTIVE DIRECTORS
ON A
PROPOSED DEVELOPMENT CREDIT
TO
THE UNITED REPUBLIC OF TANZANIA
FOR A
DAIRY DEVELOPMENT PROJECT

June 18, 1975

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CURRENCY EQUIVALENTS

USED IN THIS REPORT

Tanzania Sh	=	US\$0.14
US\$1.00	=	TSh7.14

TANZANIA FISCAL YEAR

July 1st - June 30th

REPORT AND RECOMMENDATION OF THE PRESIDENT
TO THE EXECUTIVE DIRECTORS
ON A PROPOSED DEVELOPMENT CREDIT
TO THE UNITED REPUBLIC OF TANZANIA
FOR A DAIRY DEVELOPMENT PROJECT

1. I submit the following report and recommendation on a proposed development credit to the United Republic of Tanzania for the equivalent of US\$10.0 million on standard IDA terms to help finance a project for dairy development. Approximately \$6.5 million would be relented to the Tanzania Rural Development Bank (TRDB) for 20 years, including five years of grace, with interest at 4% per annum. TRDB would onlend to dairy operators at an interest rate of 8-½% for periods up to 15 years including grace periods of up to four years.

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 in April 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 democratic principles are being strictly adhered to within the party. 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. Tanzania is one of the 25 least developed countries as defined by the United Nations.

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, and an 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. 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 or about 38% of the increased import bill. 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. The drought became general in 1974 making necessary continued high levels of food imports from September 1974 to August 1975 when the new crop harvest begins. 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 but also reflected weaknesses in 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 partial 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 low 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 eight Bank loans amounting to \$289.8 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 May 31, 1975 and notes on the execution of on-going 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 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 development of a cotton textile plant at Mwanza has been approved; another 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. 674 EA, amounting to about \$7.4 million, for consulting services and to help support an emerging 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 from Loan No. 674 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 AGRICULTURAL SECTOR

General Background

17. Agriculture and related activities constitute the largest single sector in the Tanzanian economy. Roughly 40% of GDP is derived from the sector of which 50% constitutes subsistence production. Agricultural exports, which account for 80% of total exports, include mainly sisal, cotton, cashew nuts and coffee. About 94% of the population live in rural areas, usually in

small isolated communities and 90% of the economically active people are engaged in agriculture.

18. Most production is from smallholdings using family labor. Large-scale agriculture is represented by a small number of private estates and some state farms producing sisal, coffee, tea, wheat, rice and livestock. Estate production has diminished in importance and the state farm program remains small. Tanzania's national herd, the second largest in Africa, is grazed extensively over the 40% of the country which is free from tsetse fly infestation. It is largely managed along traditional lines. There is limited use of oxen for cultivation, mainly in the western cotton areas. In years of normal rainfall, Tanzania is largely self-sufficient in staples, but about 9% of total imports in 1973 were foods of which dairy products accounted for 24%, sugar 32% and food grains about 18%. Food imports in 1974 are expected to rise to over 20% of total imports owing to a continuation of drought conditions during the early part of the year.

Agricultural Development Strategy

19. The Government recognizes that agriculture will continue to be the main source of employment and has been trying to devise a strategy which will bring about improvement in output, incomes and the living conditions of the agricultural population.

20. The major aim is to make significant progress towards socialist organization of rural activity, based on ujamaa cooperatives and maximization of the use of labor. State farms fill a need for larger scale production units, but the approach to mechanization is cautious and in general based on proven viability. Agricultural production is to be increased within a framework of crop priorities based on production possibilities, market prospects, and a desire for increased self-sufficiency. High priority is given to raising nutritional standards in the country and to the expansion of selected export activities including cotton, livestock, flue-cured tobacco, and cashew nuts, all of which are already being assisted by the Bank Group. Several other types of farming, including dairying, pyrethrum, oilseeds and forestry products and commodities also have scope for expansion. Projects designed to develop some of these are in various stages of preparation. A vigorous policy for the development of vertically integrated single crop authorities dealing with all aspects of production, processing and marketing, is being pursued with cooperatives playing a central role.

21. The agricultural and rural development study (Report No. 541a-TA), December 1974, discussed Tanzania's agricultural goals, problems, and strategies in detail. The conclusions of this report have been given added significance in view of the economic problems facing Tanzania. The recent shift to projects with directly productive results will accelerate, particularly in maize and livestock. Prices of domestic agricultural products have been increased to approach import parity which will provide a renewed producer stimulus and lead to reduced import requirements. A reassessment of export taxes

on agricultural commodities and subsidies for agricultural inputs is underway with the aim of reducing influences that tend to restrict or discourage production. Difficulties in distributing production inputs and the marketing of crops will be reduced by a government program strengthening the cooperative marketing system and providing credit to private truckers.

22. In implementing its policy of reduced dependence on food imports the Government has given priority to the promotion of smallholder production of maize. Subsidized fertilizers, the use of insecticides and improved transport are included in this program. Other projects will make Tanzania self-sufficient in sugar production by 1977, improve livestock marketing in the traditional sector and expand meat processing facilities, increase cashew nut production and establish smallholder export oriented projects for tea, tobacco and cotton.

Technical Services

23. Research presently being carried out in Tanzania is generally of a good standard although strengthening of some areas is needed. In particular, there is a gap between research and its application at the farm level. Owing to inadequate dissemination of new techniques, limited material, poor logistic support and the fact that staff have been spread too thinly, the extension services have been rather ineffective in introducing the improved techniques to farmers except when organized along project lines.

The Dairy Industry

24. The dairy industry in Tanzania is relatively under-developed, and Tanzania has imported an increasing volume of dairy products to meet rising demand in the urban areas. A small commercial sector is engaged in modern dairy farming, using almost exclusively non-indigenous dairy cattle. Although a few farms are privately owned, most are run by parastatal corporations and serve commercial dairies primarily in the Arusha-Kilimanjaro-Dar es Salaam areas. Commercial dairying has declined in recent years to approximately 10 million liters in 1973 due to the departure of non-African farmers and low milk prices and many farms now stand in urgent need of rehabilitation. By far the largest volume of milk (approximately 475 million liters) is produced by traditional cattle owners. Half is available for human consumption and forms an important part of rural diets. Only a few traditional cattle owners produce for cash sale. Milk is also produced in a very limited number of ujamaa villages as a communal venture.

25. Principal constraints for dairy development include the location of some high potential areas far from major markets, low milk price levels, poor rural road networks and limited milk collection services, low milk yields of traditional cattle, shortage of feed during the dry season, weak extension services for dairy, shortages of inputs, and inadequate research to develop

dairy farming systems suitable for Tanzanian conditions. If these constraints are removed or surmounted, Tanzania could develop a viable, indigenous dairy industry, producing all its milk requirements.

26. The Government's strategy for development of the dairy industry is sound. It aims at import substitution production and recognizes the importance of dairy products in the diet of rural dwellers. While depending on parastatal organizations to quickly meet the needs of the urban sector, the Government also seeks to meet the needs of the rural population through a longer term program of assistance benefiting the smallholder.

27. Responsibility for implementing the Government dairy development program rests in the Ministry of Agriculture (KILIMO) whose Livestock Development Division (MIFUGO) has policy responsibility for all matters relating to livestock and dairy. MIFUGO carries out its policies through its research, training, husbandry, extension and veterinary staffs and through parastatal corporations. The Livestock Development Authority of Tanzania (LIDA) has broad responsibilities, including marketing and production of beef and dairy products through parastatal corporations such as the National Ranching Company (NARCO), the Dairy Farming Corporation (DAFCO) and Tanzania Dairies, Ltd. (TDL). NARCO operates beef ranches and breeding ranches. DAFCO has responsibility for developing large-scale dairy farms and TDL for developing and managing commercial milk collection, processing and distribution. The Tanzania Sisal Corporation (TSC) operates well-run beef ranches and dairy farms in the Tanga region as a part of its diversification program. The Kilimanjaro Native Cooperative Union (KNCU) and the National Agricultural and Food Corporation (NAFCO) also operate dairy farms. The Tanzania Rural Development Bank (TRDB) has been designated by the Government as the primary financial vehicle for promoting agricultural credit. Operating on commercial principles, the TRDB handles short- and medium-term credit to farmers through cooperatives, provides some technical assistance and has served as the main channel for IDA funds in previous credits

PART IV - THE PROJECT

General

28. An appraisal report entitled "Tanzania - Dairy Development Project", Report No. 765-TA, is being circulated separately. A Development Credit and Project Summary are provided as Annex III to this report.

29. The project was mainly prepared by the Government and appraised in the field in September-October 1974. Negotiations for the proposed credit were held in Washington in May 1975. The Tanzanian delegation was headed by Mr. A. Mushi, Principal Secretary, Ministry of Agriculture.

Project Description

30. The project is an integral part of the Government's long-term program for the improvement of dairy farming in Tanzania. The project includes (i) rehabilitation and expansion of commercial dairy farming on nine parastatal farms and improvement and expansion of milk collection, processing and distribution facilities, (ii) development of the traditional dairy sector in 50 ujamaa villages, (iii) breeding improved dairy heifers, (iv) related technical services and applied investigational work for animal disease control, and (v) future project preparation.

31. Seventeen dairy units of about 350 cows each would be developed or established at nine dairy farms in five regions (see map). Two new farms would be established and seven dairy farms already operating would be rehabilitated and expanded. The condition of these farms varies widely, ranging from quite successful dairy farms to very run-down farms with animals in poor condition.

32. The farms would be run as commercial ventures under the management of DAFCO and are located near existing or planned processing facilities. Modern intensive dairy farming practices would be followed using predominantly non-indigenous cattle and a high degree of mechanization to produce and preserve sufficient fodder to last through the long, dry season. The farms would, in addition to producing milk for the urban markets, serve as a nucleus for development of farming techniques applicable to different regions and geographic conditions, and for training managers and farmers in dairy farming. Development of these units would permit the Government to develop dairy farming models that could be extended to other farms in the future.

33. The project would improve milk collection systems in Dar es Salaam and Arusha. Milk collection centers would be located on dairy farms and would serve neighboring small producers. Processing and distribution facilities in Dar es Salaam would be expanded, obsolete equipment replaced, production bottlenecks removed and new equipment installed. Vehicles would also be provided to improve milk distribution.

34. Small (20 cow) dairy units would be developed in 50 ujamaa villages in suitable regions as a pilot program to develop dairies in ujamaa villages. These units would be based on up-graded cattle from the heifer breeding unit and would be run as communal ventures, with milk generally consumed within the village as a source of protein, and in some cases sold. This program will help to develop the technical and institutional base for future projects.

35. A breeding unit would be established in the West Lake region (see map) to produce approximately 1,800 dairy heifers a year for sale to parastatal dairy farms, individual farmers, and ujamaa villages. These heifers are essential to build up herds on parastatal dairy farms and ujamaa dairy units developed under this project, and would also provide a

source of up-graded dairy cows that would be required for future dairy projects, particularly those directed at village producers. The breeding program would use 6,000 zebu-boran cows raised on the ranches, and would be based on artificial insemination with imported semen from pedigree dairy bulls.

36. A total of 30 man years of technical assistance would be provided for the commercial dairy farms, the ujamaa dairy units, and the West Lake heifer breeding unit, to train Tanzanian managers, develop management systems and administrative procedures, and prepare future projects. Specialists would be internationally recruited to serve as dairy farm group managers, manager of the heifer breeding unit, a project preparation team for the ujamaa dairy farms, and to provide technical support at LIDA headquarters, and financial advice to TRDB. The qualifications and experience of these experts and their terms and conditions of employment would be subject to approval by the Association (Section 2.02 of the Project Agreement and Section 3.02 of the Development Credit Agreement). Funds would be provided for overseas fellowships and in-country short courses to develop skills in dairy farming techniques and for studies to assist in monitoring and evaluating project performance.

37. An applied research program on the impact of foot-and-mouth disease (FMD) and other animal diseases on the traditional cattle herd would be initiated. This program would be designed to analyze existing information on herd co-efficients and the reported incidence of FMD and other diseases and to conduct applied investigational work at village level to measure losses in production that result from FMD outbreaks. The principal items financed would be a veterinary economist and staff and logistic support.

Organization and Execution

38. Implementation of the project is estimated to take five years. The Ministry of Agriculture (KILIMO), as the parent organization, would have overall responsibility for project implementation. LIDA would oversee and monitor the project through a project coordinator who would expedite and coordinate implementation. The Board of Directors of LIDA, which has members from all agencies involved in the project, would serve as project coordinating committee. The committee would be responsible for approval of ranch development plans. DAFCO would manage its own commercial dairy farms as well as those of KNCU, NAFCO and TSC. TRDB, in conjunction with the regional livestock staff, would be responsible for the ujamaa dairy program, NARCO would establish the West Lake heifer breeding unit. TDL would be responsible for the milk processing and collection component. KILIMO, LIDA and TRDB would direct and coordinate technical services.

Project Costs and Financing

39. Total project costs are estimated to be US\$15.3 million, of which US\$7.3 million (48%) is foreign exchange and \$0.2 million is taxes and duties. The commercial dairy farms are estimated to cost \$4.8 million, the collection and processing component \$0.5 million, the ujamaa dairy development \$0.5 million, the heifer breeding unit \$1.4 million and technical services \$2.7 million excluding contingencies. Price contingencies of \$4.4 million and physical contingencies of \$1.0 million have been included in the total cost estimates. A 15% p.a. price contingency was used based on recent Tanzanian experience.

40. The proposed IDA credit of \$10.0 million would finance 65% of the total project cost, covering the total foreign exchange cost and 33% of local costs excluding taxes and duties. The balance would be financed by the Government, parastatal corporations and ujamaa villages.

41. Credit funds for the commercial dairy farms, ujamaa dairy units, the heifer breeding program, and milk collection, processing and distribution would be loaned by the Government to TRDB for 20 years including five years of grace at an interest rate of 4% per annum. TRDB would take the credit risk and the Government would bear the exchange risk. TRDB would loan funds for the commercial dairy farms, ujamaa dairy units, and the heifer breeding unit at 8-½% annually for 15 years with a four year grace period. Funds for the milk collection and processing component would be onlent at 8-½% for eight years with no grace period since returns would begin immediately. The lending rate is one percentage point higher than the existing lending rate for such loans by the TRDB. The 4-½% margin that TRDB would derive from onlending is sufficient to defray the cost of credit administration and procurement and delivery of inputs to the beneficiaries as well as allowing the accumulation of further funds for relending to priority rural sector projects.

42. Financial projections have been made for each of the dairy farms and found to be satisfactory, with an average 18% rate of return; operations of the heifer breeding unit would result in a financial rate of return of 33%. The financial position of the ujamaa villages will be examined during the selection of the 50 to participate in this project. Since no strong tradition of ujamaa dairy farming exists, reliance upon dairy units for cash generation would be risky. Accordingly, it is anticipated that in virtually all cases the dairy unit would be one of several communal ventures producing cash revenues. Loans would be extended only if repayment were assured by a sound source of cash income adequate to meet debt service requirements.

Production, Marketing and Prices

43. Total milk production in Tanzania is currently estimated at about 500 million liters a year with about 10 million liters entering the commercial market. Annual incremental production under the proposed project by 1980 would be about 10 million liters of milk and would increase to 15 million liters by 1987, at full development. Milk produced on project commercial dairy farms and provided through the improved collection system would be sold to the commercial dairies, which would be expanded to handle the anticipated increased volume. Milk produced in ujamaa villages would in general be sold within the villages but in some instances, where the ujamaas are located near processing facilities, surplus milk would be sold to commercial dairies. Milk prices are controlled by the Government at the producer and retail levels for commercially processed milk. The Government has previously attempted to keep milk prices low as it views this as a product of primary necessity but is now considering a substantial price increase in view of the need to provide incentives for increased production. The current price averages about T Sh 1.00 per liter and an increase to T Sh 1.25 a liter is under study. Such a price level would ensure an adequate financial return to dairy farms at current price levels. With the expansion of milk production under the project pricing policies will assume greater importance in the future and would have to be reviewed on a regular basis to ensure that they are set at a level which will assure an adequate return to both large and small producers. It was therefore agreed at negotiations that the Government would consult with the Association, at least once a year, on milk price levels in Tanzania (Section 3.03 of the Development Credit Agreement).

Procurement

44. Contracts for the supply of machinery, equipment and vehicles (US\$2.0 million) would be awarded after international competitive bidding in accordance with Bank/IDA guidelines, with the exception of some machinery for milk processing (US\$0.2 million) which would be purchased directly from the supplier of the plant's basic equipment to ensure conformity with existing equipment and to economize on procurement of spare parts and service. Cattle (US\$2.3 million) would be purchased locally. Orders would be bulked to the maximum extent possible. For small individual purchases such as single vehicles or tractors, spare parts, supplies, etc., not to exceed US\$50,000 for individual orders. Government procurement procedures would be followed. In evaluation of bids, local manufacturers would be allowed a preference margin of 15% or the existing rate of import duties, whichever is the lower.

45. Local contractors after local bidding would carry out most civil works contracts (US\$1.6 million). The balance would be constructed by force account (US\$0.6 million) or, for ujamaa units, by village labor (US\$0.1 million).

Disbursements

46. To minimize delays in project implementation, it is proposed that up to \$50,000 would be disbursed retroactively to cover technical assistance costs for the preparation of ranch plans in order to enable procurement to proceed more rapidly.

47. Funds from the Credit Account would be disbursed over five years on the following basis:

- (a) 80% of the total of each loan approved by TRDB for development of commercial dairy farms, ujamaa units, milk collection and processing, and the heifer breeding unit (US\$6.5 million); and
- (b) 100% of the foreign expenditures and 80% of local expenditures for technical services, salaries and fees (US\$2.0 million).

The remaining US\$1.5 million of the credit is unallocated.

Benefits

48. The benefits of the project would consist of increased production of milk and high grade dairy heifers, which would result in savings of foreign exchange by reducing dairy imports and increased milk consumption in villages where nutritional levels are low. Annual foreign exchange savings of about T Sh 20.0 million (US\$2.7 million) are anticipated when the project is fully developed. Ujamaa villages participating in the project would derive benefits either in the form of increased milk for consumption (and thus improved levels of nutrition) or its equivalent value as cash revenue, estimated at T Sh 21,600 (US\$3,000) per village annually at full development, and T Sh 14,000 (US\$2,000) annually from livestock sales.

49. The economic rate of return from the project is estimated at 22% over 25 years. An increase in total project costs of 10% would lower the return to 18%; a decrease in project benefits of 10% would also lower the return to 19%. The primary risk involved in this project is the sensitivity of dairy output to the quality of farm management. For the parastatal farms to remain viable, the quality of farm management would have to be improved through the technical assistance that would be provided by this credit. The ujamaa dairies involve high risk since there is little experience with this dairy model. This experiment, however, is low in cost (US\$0.5 million) and holds promise as the beginning of a large program of dairy development through developing high yielding dairy methods and a cadre of skilled manpower.

PART V - LEGAL INSTRUMENTS AND AUTHORITY

50. The draft Development Credit Agreement between the United Republic of Tanzania and the Association, the draft Project Agreement between the Association and the Tanzania Rural Development Bank, the Report of the Committee provided for in Article V, Section 1(d) of the Articles of Agreement and the text of a Resolution approving the proposed credit are being distributed to the Executive Directors separately. The draft Agreements conform to the normal pattern for livestock and agricultural credit projects.

51. Features of the Development Credit and Project Agreements of special interest are referred to in paragraphs 36 and 43 of this report. Conditions of credit effectiveness would be (a) that a subsidiary loan agreement between the Borrower and TRDB, acceptable to the Association, had been executed, and (b) that at least three group managers for the dairy farms had been recruited and taken up their posts (Section 5.01 of the Development Credit Agreement).

52. I am satisfied that the proposed credit would comply with the Articles of Agreement of the Association.

PART VI - RECOMMENDATION

53. I recommend that the Executive Directors approve the proposed credit.

Robert S. McNamara
President

Attachments

Washington, D.C.
June 18, 1975

COUNTRY DATA - TANZANIA

AREA	POPULATION	DENSITY
945,087 km ²	13.6 million (mid-1972)	147 /a Per ha 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,ad
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,ag	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,s
Family planning: No. of acceptors cumulative (thous.)	..	..	..	..	220 /k
No. of users (% of married women)	..	..	..	..	15 /k
EMPLOYMENT					
Total labor force (thousands)	1,900 /y	5,600 /d,e	5,100 /e,e	10,500 /b	3,200 /g
Percentage employed in agriculture	89 /y	91 /d,e	90 /i,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 /l,u
Percent of national income received by highest 20%	..	60 /e	..	37 /o,t	52 /l,u
Percent of national income received by lowest 20%	..	5 /e	..	10 /o,t	4 /l,u
Percent of national income received by lowest 40%	..	14 /e	..	24 /o,t	12 /l,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 /g,v
Population per nursing person	..	4,890 /d	1,470 /y	1,760 /y	1,080 /g,v
Population per hospital bed	530 /d	700 /d	770	1,920	330
Per capita calorie supply as % of requirements /5	89 /x	73	101	103	94 /g,z
Per capita protein supply, total (grams per day) /6	42	43	71	65	49 /g,z
Of which, animal and pulses	22 /x	23	29	19 /w,y	20 /g,z
Leads: have 1-4 years /7	..	..	..	..	6 /z
EDUCATION					
Adjusted /8 primary school enrollment ratio	25	37 /aa	67	104	89 /g
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 /g
Adult literacy rate %	..	..	30 /aa,ad	91 /ac,al	89 /ad,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 /e,ah	2 /b	26 /b,g
Electric power consumption (kwh p.c.)	15 /d	31 /b	78 /b	392 /b	414 /b,g
Newspaper consumption p.c. kg per year	0.1 /ai	0.1 /b	0.5 /b	3.7 /b	3.0 /b,g

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 1966 and 1970.

/1 The Per Capita GNP estimate is at market prices for years other than 1950, 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 1960-72; /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 1965, Zanzibar; /ag 1965-67; /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.

	Actual			Projected			1966-1969		1967-1973		1970-1973		As Percent of GNP		
	1970	1971	1972	1974	1975	1976	1969	1972	1973	1976	1970	1971	1972	1973	1974
NATIONAL ACCOUNTS															
	3-Year Average at 1967-1969 Prices & Exchange Rates						Average Annual Growth Rates				As Percent of GNP				
Gross Domestic Product	1214.1	1275.4	1342.7	1494.7	1567.0	1632.1	6.1	4.9	5.6	4.5	100.0	100.9	103.6		
Gains from Trade (+)	- 0.2	- 10.5	- 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	385.7	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	154.9	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		

	Annual Data at Current Prices						Average Annual Growth Rates			As Percent of Total		
	1966-72	1970-73	1973-76	1966-72	1970-73	1973-76	1966-72	1970-73	1973-76	1966-72	1970-73	1973-76
MERCHANDISE TRADE												
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 (incl. 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)
Manufactured goods	95.5	96.6	82.9	225.3	188.0	64.8	1.0	1.4	-5.2	30.0	25.3	20.5
Other goods	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 (incl. 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	109.6	102.0	112.6	174.2	170.1	171.0						
Import Price Index	99.0	103.5	129.9	137.8	188.2	190.5						
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						

	Annual Data at 1969 Prices and Exchange Rates			Average Annual Growth Rates				As Percent of Total		
	1966-69	1966-70	1966-71	1966-72	1966-70	1966-71	1967-72	1966-69	1966-70	1966-71
VALUE ADDED BY SECTOR										
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	196.0	202.7	9.3	8.3	7.2	5.0	16.0	17.0	16.5
Services	491.1	522.2	521.2	7.1	7.6	7.6	0.1	44.0	44.9	45.0
Total	1116.8	1162.7	1255.3	5.7	6.3	4.7	4.5	100.0	100.0	100.0

	Annual Data at Current Prices			1967-72				As Percent of GNP		
	1967-72	1967-72	1967-72	1967-72	1967-72	1967-72	1967-72	1967-72	1967-72	1967-72
PUBLIC FINANCE										
(Central Government)										
Current Receipts	235.6	260.3	306.3				14.0			
Current Expenditures	228.4	249.3	306.6				15.4			
Other Public Sector	39.0	57.0	75.0				25.0			
Public Sector Investment	163.0	233.0	233.0				21.0			

	Actual		Predim.
	FY1971	FY1972	
CURRENT EXPENDITURE DETAILS			
As % Total Current Expend.			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	1960-	1965-	1970-	1973-
	1965	1970	1975	1978
(Calculated from 3-year averaged data)				
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		(in current prices)	
	In Millions	% of Total	1971	1971
	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	1100

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

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	-5.0	-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' Remittance	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	-221.1	-133.4	-162.4	-185.7	-204.7	
Balance on Current Accounts												
Private Direct Investment	nil	nil	nil	nil	nil	nil	nil	nil	nil	nil	nil	-
Official Capital Grants	10.0	12.0	14.0	16.0	18.0	20.0	21.5	23.1	24.8	26.7	28.7	11.0
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	..	..	..	..	..	..	..	..
Net Disbursements	0.0	0.0	0.0	4.3	11.4	11.2	12.1	13.2	14.4	15.6	17.1	
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												
IFRD	7.0	30.0	-	-	-							
IDA	20.5	9.0	9.8	10.8	28.8							
Other	-	-	-	-	-							
Other Multilateral	-	-	-	3.3	2.0							
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							
IFRD 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 Debt 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

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

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

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

<u>No.</u>	<u>Year</u>	<u>Borrower</u>	<u>Purpose</u>	(US\$ million)	
				<u>Amount less cancellations Bank</u>	<u>Undisbursed</u>
Three loans fully disbursed				75.0	
638 EA	1969	EAHC	Harbours	35.0	5.3
674 EA	1970	EARC	Railways	42.4	17.3
675	1970	EAPTC	Telecommunications	10.4	0.2
843 EA	1972	EADB	Development Finance	8.0	7.2
865 EA	1972	EAHC	Harbors	26.5	17.8
914 EA	1973	EAPTC	Telecommunications	32.5	18.5
Total				229.8	66.3
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					66.3

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

No.	Year	Borrower	Purpose	(US\$ million)		
				Amount less cancellations Bank	IDA	Undisbursed
Three loans and six credits fully disbursed				65.2	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	5.6
715-2 TA	1974	TANESCO	Power	5.0		2.5
232 TA	1971	Tanzania	Education		3.3	2.0
265 TA	1972	"	Roads		6.5	4.2
287 TA	1972	"	Smallholder Tea		10.8	6.1
371 TA	1973	"	Education		10.3	10.1
382 TA	1973	"	Livestock		18.4	17.9
454 TA	1974	"	Cotton		17.5	17.4
460 TA	1974	"	Tanzania Investment Bank		6.0	5.2
1014 TA	1974	"	Cashewnut	21.0		21.0
495 TA	1975	"	Sites and Services		8.5	8.3
507 TA	1975	"	Highway Maintenance		10.2	10.2
508 TA	1975	"	Rural Development		10.0	9.9
513 TA	1975	"	Sugar		9.0	9.0
1041 TA	1975	"	Sugar	9.0		9.0
Total				107.2	167.6 ^{1/}	141.3
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				34.4	106.9	141.3

^{1/} Net of exchange adjustments

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 DAIRY DEVELOPMENT CREDIT AND
PROJECT SUMMARY

BORROWER: United Republic of Tanzania

AMOUNT: US\$10.0 million equivalent

TERMS: Standard IDA terms

RELENDING TERMS: The following are the proposed relending terms:

	<u>Interest</u>	<u>Amortization</u>
Government to Tanzania Rural Development Bank (TRDB)	4%	20 years including five years grace
TRDB to National Ranching Company, Dairy Farming Corporation, Tanzania Sisal Corporation, National Agricultural and Food Corporation, Kilimanjaro Native Cooperative Union and ujamaa villages	8-½%	15 years including four years grace
TRDB to Tanzania Dairies Ltd.	8-½%	8 years with no grace period

PROJECT DESCRIPTION: The project comprises rehabilitation and expansion of commercial dairy farming on parastatal farms, improvement of milk collection, processing, and distribution facilities, development of the traditional dairy sector in 50 ujamaa villages, breeding of improved dairy heifers, technical services and applied investigational work for animal disease control, and future project preparation.

ESTIMATED COST:

	(US\$ million)			
	<u>Local</u>	<u>Foreign</u>	<u>Total</u>	<u>% of Total</u>
Parastatal dairy farms	2.5	2.3	4.9	31
Ujamaa dairy development	.4	.1	.5	3
Heifer breeding unit	1.3	.1	1.4	9
Milk collection and processing	.1	.4	.5	3
Technical services	.8	1.8	2.6	18
Contingencies:				
physical	.5	.5	1.0	7
price	<u>2.3</u>	<u>2.1</u>	<u>4.4</u>	<u>29</u>
Total project cost	8.0	7.3	15.3	100

FINANCING PLAN:

	(US\$ million)	
	<u>Total</u>	<u>% of Total</u>
Government	4.2	27
Parastatal crops	1.0	7
Ujamaa villages	0.1	1
IDA	<u>10.0</u>	<u>65</u>
Total	15.3	100

ESTIMATED
DISBURSEMENTS:

	(US\$ million)				
	<u>1975/76</u>	<u>1976/77</u>	<u>1977/78</u>	<u>1978/79</u>	<u>1979/80</u>
	1.0	3.7	3.2	1.2	0.9

PROCUREMENT
ARRANGEMENTS:

International competitive bidding for equipment and furniture for contracts in excess of \$50,000; local manufacturers would be allowed a preferential margin of 15% or the existing rate of import duties, whichever is lower; Government procurement procedures would be allowed on contracts less than \$50,000 subject to a total limit of \$500,000; some specialized equipment would be procured from the manufacturer of existing plant equipment to ensure conformity; cattle would be purchased locally; civil works are unlikely to attract international bids and would be tendered locally, constructed by force account, or by ujamaa villages.

TECHNICAL
ASSISTANCE:

30 man years at a cost of \$2.6 million.

RATE OF RETURN:

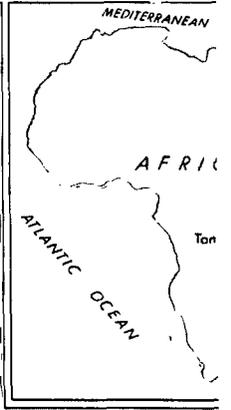
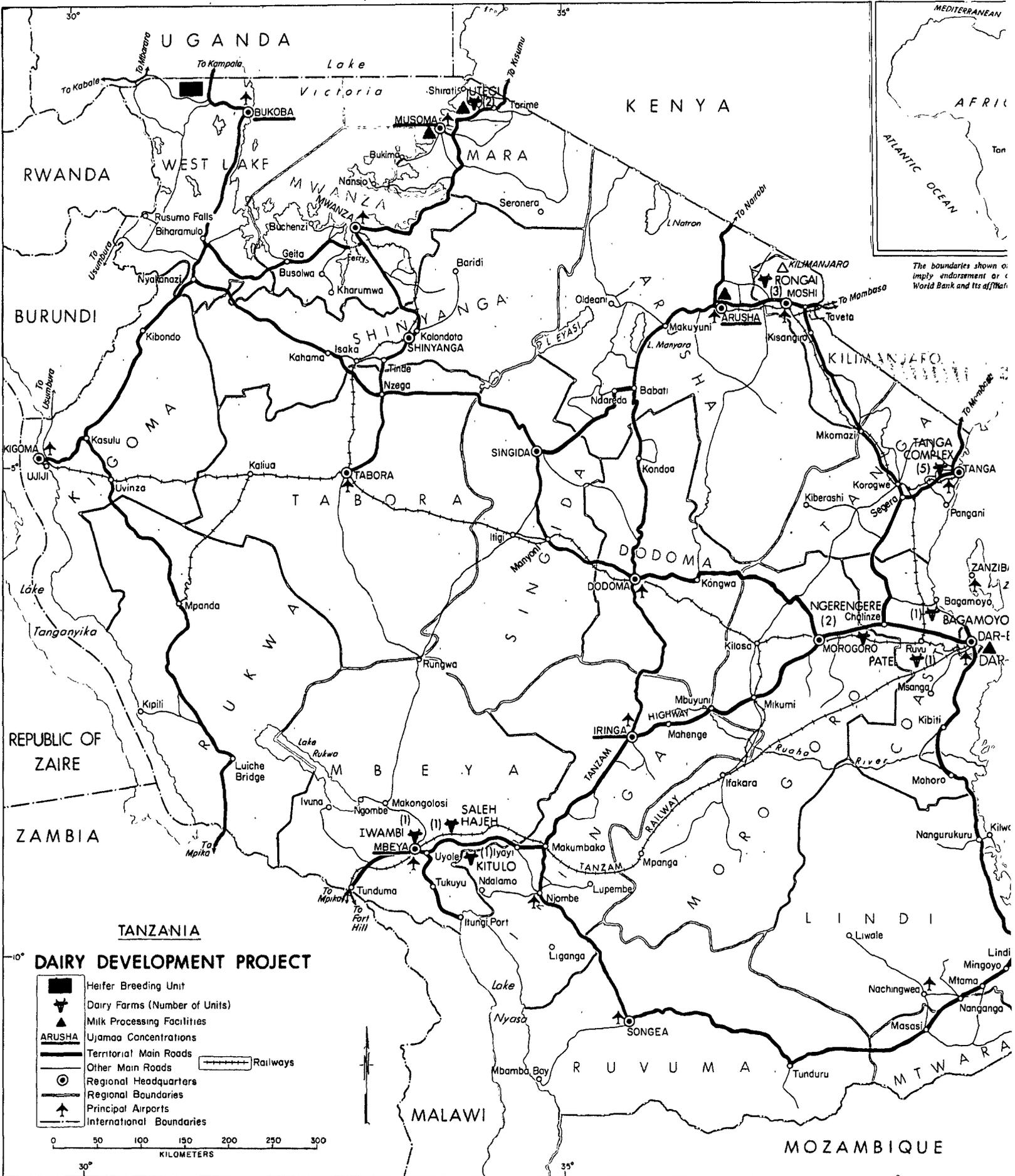
The overall economic rate of return is estimated at about 22%.

APPRAISAL REPORT:

Report No. 765-TA (May 23, 1975)

MAP:

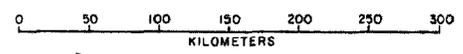
A map of Tanzania that shows the project area is attached.



The boundaries shown on this map imply endorsement or approval by the World Bank and its affiliates.

DAIRY DEVELOPMENT PROJECT

- Heifer Breeding Unit
- Dairy Farms (Number of Units)
- Milk Processing Facilities
- Ujamaa Concentrations
- Territorial Main Roads
- Other Main Roads
- Railways
- Regional Headquarters
- Regional Boundaries
- Principal Airports
- International Boundaries



30°

35°