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Appraisal Report Tanzania Investment Bank (TIB)

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Development Finance Companies Department

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Currency Equivalents

Currency Unit	=	Tsh
Tsh 1	=	US \$0.14
US \$1	=	Tsh 7.14

Abbreviations

ADB	African Development Bank
CIDA	Canadian International Development Authority
EADB	East African Development Bank
KfW	Kreditanstalt für Wiederaufbau
NBC	National Bank of Commerce
NDC	National Development Corporation
NIC	National Insurance Corporation
NUFA	National Association of Tanganyika Workers
SIDA	Swedish International Development Authority
TANU	Tanganyika African National Union
TDFL	Tanganyika Development Finance Company, Ltd.
TIB	Tanzania Investment Bank
TRDB	Tanzania Rural Development Bank

TIB's Fiscal Year: July 1 - June 30

TANZANIA INVESTMENT BANK

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TANZANIA INVESTMENT BANK

BASIC DATA

Exchange Rate: US\$1 = Tsh 7.14

Date of Establishment: November 1970

Ownership (as of June 30, 1975): (Tsh million)

	<u>Amount</u>	<u>Percentage</u>
Government of Tanzania	42	60
National Bank of Commerce	21	30
National Insurance Corp.	<u>7</u>	<u>10</u>
	<u>70</u>	<u>100</u>

Resources Position (as of June 30, 1975; Amounts in Tsh million):

Domestic Funds

Sources

Share capital	70.0
Retained earnings	7.9 ^{1/}
Grant	<u>49.4</u>
	<u>127.3</u>

Uses

Net fixed assets	2.2
Equity investments	24.3
Domestic currency loans	40.4
Undisbursed commitments	
Loans	43.2
Equity investments	<u>2.5</u>

Total domestic commitments 112.6

Available for new commitments

14.7

Uncommitted approvals

8.9

Foreign Funds

Sources

Untied

SIDA grants	64.5
SIDA loan	8.5
ADB	12.5
IDA	42.6
KfW	30.0
CIDA	18.3
NORAD	<u>35.8</u>

212.2

Tied & Allocated

CIDA	9.0
Dutch Government	7.0
Finnish Government	<u>4.0</u>

20.0

Total foreign resources

232.2

Uses

Loans	81.8
Equity investments	1.5
Undisbursed F.E. commitments	<u>63.7</u>

147.0

Used for local expenditures

41.7^{1/}

Total

188.7

Available for new F.E. commitments

43.5

Uncommitted approvals

51.3

^{1/} TIB used Tsh 41.7 million of foreign grants for local expenditures, including the purchase of TDFL shares and income notes.

<u>Year Ending June 30</u>	<u>1972</u>	<u>1973</u>	<u>1974</u>	<u>1975</u>
<u>Approvals (Tsh million):</u>				
Loans	34.6	52.9	94.1	128.5
Equity investments	1.2	3.4	5.9	-
Total	<u>35.8</u>	<u>56.3</u>	<u>100.0</u>	<u>128.5</u>
<u>Commitments (Tsh million):</u>				
Loans	-	54.9	53.3	160.1
Equity investments	1.0	1.7	5.9	-
Total	<u>1.0</u>	<u>56.6</u>	<u>59.2</u>	<u>160.1</u>
<u>Disbursements (Tsh million):</u>				
Loans	9.1	9.6	39.0	70.3
Equity investments	1.0	0.8	4.7	-
Total	<u>10.1</u>	<u>10.4</u>	<u>43.7</u>	<u>70.3</u>
<u>Operating Results (Tsh '000)</u>				
Profit before taxes	2,082	1,936	2,000	6,504
Profit after taxes	1,222	1,135	1,166	3,523
Profit after taxes as % of average net worth	2.4	1.9	1.7	3.4
<u>Financial Position (Tsh million):</u>				
Net worth	52.1	65.2	78.0	127.3
Total assets	134.5	142.2	155.9	265.1
Debt/equity ratio based on outstanding debt	1.6	1.2	1.3	1.1
Debt/equity ratio based on outstanding debt (excluding NBC loan)	-	-	0.4	0.7

Interest Rates and Other Charges

Interest rates on loans: Minimum lending rate is 10% p.a.

Commitment charges: 1% p.a.

Commission fee: 1%

Status of IDA-Credit 460-TA (as of August 31, 1975)

Date of effectiveness:	April 18, 1974
Amount of Credit:	\$6 million
Authorized:	\$6 million
Disbursed and outstanding:	\$2.4 million
Foreign exchange risk:	Borne by the sub-borrower
Terminal date for project submissions:	June 30, 1976
Closing date for disbursements:	June 30, 1978
Free limit:	\$100,000
Aggregate free limit:	\$1 million

SUMMARY

i. The Government established the Tanzania Investment Bank (TIB) in 1970 to finance public and private enterprises in industry, agriculture and tourism. In February 1974, IDA granted a \$6 million credit for TIB. TIB has now almost fully committed the IDA credit and other foreign resources and has requested a Bank loan.

ii. Due to drought, increases in petroleum prices and inefficient utilization of industrial capacity, Tanzania is experiencing severe economic problems. To alleviate the problems, the Government has decided to increase investment in productive enterprises. Priority has been given to increasing industrial capacity utilization and expanding industries whose capacity is fully utilized.

iii. Five years after its establishment, TIB has emerged as an important institution. Its operations have increased sharply and its financing now accounts for about twenty percent of new industrial investment. Its involvement in shaping projects has improved and its appraisal capacity has been strengthened. TIB makes a comprehensive economic evaluation of projects, thereby helping the Government in its drive to improve the efficiency of the industrial sector. As a result of an increase in TIB's net worth, its financing limit per enterprise will increase to Tsh 27 million by the end of 1975. TIB, if necessary jointly with EADB or TDFL, can now finance almost any size of project in Tanzania.

iv. TIB has good management and its Tanzanian staff has improved as a result of participation in training programs abroad. All of TIB's departments are now managed by Tanzanians.

v. TIB's major problem is its portfolio. About half of the portfolio is in arrears of more than three months. Most of the problem projects were approved shortly after TIB's establishment. Most of them can still be salvaged, if appropriate action is taken. TIB has analyzed the problems of these clients and, where necessary, taken the lead in restructuring the companies. TIB has proposed a satisfactory plan of action during negotiations.

vi. TIB's profitability is modest but is expected to increase according to TIB's projections. TIB's debt/equity ratio is 1.1:1 and TIB's financial condition is sound.

vii. Given the availability of potential projects and the improved capacity of parastatals to develop and implement projects, TIB's business prospects are good and its forecasted operations reasonable. To finance its projected commitments until the end of 1977, TIB needs Tsh 475 million including Tsh 160 million for domestic expenditures and Tsh 315 million for imports. TIB expects to cover its local resource requirements by cash generation from operations, foreign borrowings and an increase in the paid-in share capital. Taking into account likely contributions from foreign sources other

than the World Bank Group, TIB's foreign resource gap remains at Tsh 107 million. It is recommended that the Bank fill the entire gap by a \$15 million loan. The loan would cover 23% of TIB's resources requirements until December 31, 1977.

viii. The loan would finance the CIF cost of imported goods, including permanent working capital, and the estimated import component of civil works and imported goods purchased in Tanzania. It would be repaid according to a flexible amortization schedule, conforming to the aggregate amortization schedules of TIB's subloans, which have a maximum maturity of 15 years. TIB will need the Bank's prior approval of each project using \$400,000 or more of the proposed loan and will not be able to use more than \$3 million in total without the Bank's approval. TIB will on-lend the proceeds of the loan at a minimum interest rate of 10% with the foreign exchange risk being borne by the subborrower.

I. INTRODUCTION

1.01 The Tanzania Investment Bank (TIB) was established in 1970. The Government owns 60% of TIB's share capital and two parastatal organizations own the remaining 40%. The Bank has been in dialogue with TIB since its establishment in 1970. In February 1974, IDA granted a credit of \$6 million for TIB. TIB has fully committed the IDA credit and has requested further Bank assistance. This report appraises TIB for a \$15 million loan.

1.02 The objectives of the proposed loan are twofold. First, in line with the Government's plans to reduce Tanzania's economic dependence by increasing productive investment, the loan will provide resources for investment in industry, agribusiness and tourism. Second, the loan will support TIB which has become an important institution, financing about 20% of new industrial investment. Through its continued association with TIB, the Bank can help TIB further improve its procedures and project selection.

II. THE ECONOMIC ENVIRONMENT

2.01 Tanzania has a population of 14 million. With a GDP per capita of \$120, it is one of the twenty-five least developed countries. Ninety percent of the population derives its livelihood from peasantry agriculture. The agricultural sector constitutes 40% of GDP and 51% of exports. The industrial sector accounts for 11% of GDP but is increasing in importance.

Economy of Tanzania

2.02 Tanzania continues to move towards a comprehensively centrally planned economy. The Arusha Declaration of 1967 empowers the Government to nationalize major economic activities including financial institutions, large manufacturing firms and wholesale trading. Since 1967, the role of the public sector has increased markedly and Tanzania has relied increasingly upon central planning and direct controls to guide investments and to facilitate income distribution.

2.03 Due to Tanzania's centrally planned economy and its vigorous attempt to mobilize domestic resources, domestic savings increased from 10% of GDP during 1969-1970 to 18% in 1974. The level of investment reached 33% of monetary GDP (23% of total GDP) during the second 5-year plan period (1969-1974). Unfortunately, the high level of investment has not resulted in a significant growth in GDP. During the second 5-year plan period, GDP increased at an annual rate of 4.8% which was substantially less than the 6.5% envisaged in the plan. The slow growth was due to an orientation of investments towards infrastructure (specifically the investment of about \$300 million in the Tan-Zam railway) and social services. The agricultural sector's performance was disappointing due to drought and lack of effective investment programs. Also, the investments in the industrial sector remained underutilized. (See para. 2.14).

Recent Economic Developments ^{1/}

2.04 Although during the second plan the performance of Tanzania's economy was poor when compared to the magnitude of the investments, its prospects were considered promising. But the events of 1974 reversed the trend. Tanzania's overall balance of payments, which was in surplus in 1972 and 1973, turned into a deficit of Tsh 920 million (US \$129 million). Despite higher world prices of its main commodities, for example, cotton, sisal, and coffee, Tanzania reported a trade deficit of about Tsh 2 billion (US \$294 million). Consequently, the foreign exchange reserves as of March 31, 1975, were only US\$59.2 million, covering less than one month of imports. The turnaround in Tanzania's balance of payments was due to: (i) a threefold increase in petroleum prices which raised the oil bill from Tsh 240 million to Tsh 639 million; (ii) stagnation in agricultural production in 1974 due to the drought and weakness in agricultural development policy (Tanzania's food import bill increased from Tsh 286 million in 1973 to Tsh 739 million in 1974); and (iii) the sale of most export commodities by advanced contracts at low prices.

2.05 Due to strong credit expansion, the money supply (currency in circulation and demand deposits) increased by 26.2% in 1974, compared to 19.2% in 1973. The expansion was due to unprecedented increases in borrowings of both the Government and parastatals from the banking system. Government borrowings from the banking system increased by Tsh 305 million, or 31.6%. Other borrowings from the commercial bank, mostly by parastatals, increased by Tsh 857 million, or 62%. The rapid increase in money supply, shortage of supplies due to drought, inefficiencies in the industrial sector, and world-wide inflation resulted in sharp domestic price increases. The Retail Price Index for wage earners living in Dar es Salaam rose by 28.1% during the year ended June 30, 1974, compared with an increase of only 6.7 in the previous year. The cost of Living Index for middle-grade civil servants increased by 22.8% against 8.2% in the previous year. Most of the increases were due to rising food costs, which constitute two-thirds of the indices, and the rate of inflation is expected to decrease substantially as a result of increased food production.

2.06 It appears inevitable that Tanzania will continue to face economic difficulties over the next few years. The balance of payments situation is not expected to improve shortly. The trade deficit is expected to decrease only slightly to Tsh 1.9 billion. Prices of most export commodities have fallen rapidly while the costs of imports are estimated to stay the same.

2.07 In view of the economic difficulties which the country went through in the last two consecutive years, the Government decided to postpone the launching of the Third Five Year Plan until next year. This is intended to give the Government ample time to assess the food situation in the country for the current harvesting season and thereby enable the Government to re-arrange its priorities accordingly. In the plan, the Government chose a basic industry strategy which aims at a gradual structural transformation of the

^{1/} See "Report by the Government of Tanzania for the East African Consultation Meeting on Tanzania," Paris, April 22-23, 1975.

economy by giving priority to industries that process domestic raw materials for domestic consumption. Exports are seen as a logical extension of production for the home market. The Government's strategy now aims at increasing agricultural and industrial production for exports through new investments and better utilization of existing capacity. The strategy is translated into the FY 1976 budget which envisages total expenditures of Tsh 6.2 billion out of which Tsh 2.6 billion are for development expenditures. The estimated development expenditures represent an increase of 10% over 1975 while recurrent expenditures will increase by only 5%. The Government is expecting to finance 45% of the development expenditures from recurrent revenues and local borrowings and the remaining 55% from external sources.

2.08 However, the success of the new intended Government policy of ensuring efficient operation of all its parastatals requires detailed clarification and definition of policy objectives of each parastatal and the establishment of clear quantitative as well as qualitative targets by parent Ministries for their parastatals over a given time span. The Government also needs to define the roles of parent Ministries, Board of Directors and Management. A clarity of function of these various bodies which have direct impact on the operations of parastatals is very important for accountability of success and failure of any given parastatal.

The Manufacturing Sector ^{1/}

2.09 In the Industry and Mining Sector Mission Report, which was distributed to the Executive Directors in April, 1975, the Bank has raised a number of issues concerning the productivity of existing manufacturing enterprises and made suggestions for the efficiency of the public sector. The major issues and the Bank's recommendations are summarized in the following paragraphs. Tanzania's manufacturing sector has been the most rapidly growing sector. During 1964-73, the average annual growth rate of value-added in manufacturing was 9.5% in real terms; the sector's contribution to GDP increased from 7% to 10%. Employment (in firms of over 10 employees) rose from 28,100 in 1965 to 59,100 in 1972, an annual increase of 11.2%. In 1973, about 15% of Tanzania's wage earners were employed in the sector. Investment in the sector hovered between Tsh. 100-200 million (US\$12-28 million) per year during the 1966-72 period.

2.10 Structure of Industry. Tanzania has thus far followed a typical pattern of industrial development by concentrating on import substitution industries, mainly consumer goods. The share of non-food consumer goods industries in total manufacturing value-added increased from 22% in 1965 to 41% in 1971. Textile and garment industries, breweries, the cigarette factory, and radio assembly recorded the strongest expansion. The share of intermediate goods industries remained stable at around 30%. The principal growth industries in this category were: petroleum refining, printing and publishing,

1/ For a detailed analysis of Tanzania's industrial sector, see the Bank's latest report: "Tanzania: Industrial and Mining Sector Survey," No. 647-TA, March 31, 1975.

glass, cement, and fabricated metals. During the same period, the share of the capital goods industry in manufacturing value-added rose from 2.7% to 4.4%, while its share in the manufacturing output increased from 1.3% to 7.5%. Although the capital goods industry appears to be growing, it is still small and consists mostly of commercial vehicle assembly, repair and body construction plants and a few workshops. The food processing industries declined from 36.3% of total gross output in 1965 to 31.4% in 1971. The Government is now committed to increase production in this subsector.

2.11 Public Sector. Since the Arusha Declaration in 1967, Tanzania has developed a unique three-tier system to manage the industrial sector. The system consists of 3 parent ministries, 1/ 11 holding companies 2/ and about 72 operating companies. Annex 1 provides a summary of all parastatal organizations involved in Industry as of January 1, 1975. The Government owns 50% or more of the shares in all but 5 of the operating companies. In 1974, parastatals accounted for an estimated 75% of the value-added in the manufacturing sector and 90% of new capital formation. During the 1967-72 period, total revenue of manufacturing parastatals amounted to Tsh 4,611 million (US\$646 million), or 25% of all parastatals' revenue. Manufacturing parastatals appear more profitable than other parastatals. Their 7.3% net profit margin as percentage of sales was substantially higher than 5.4% of all parastatals.

2.12 Private Sector. Although Tanzania's economy is dominated by the public sector, the share of the private sector is still significant. Currently, it accounts for 25% of the value added and almost 50% of employment in the manufacturing sector. Of the total 500 registered manufacturing establishments (employing 10 or more), 430 are privately owned. These include a few relatively large ones, such as a Danish sugar factory (employing about 200), a radio and gramophone assembly plant (employing 140), a glass hollow ware factory (employing 270), and a metal furniture factory (employing 325).

2.13 Lack of adequate policies prevent any significant private investment. Its role is not clearly defined and the last guide to investors, issued in January 1971, has become obsolete because of the number of changes concerning price control, import licensing, dividend transfer control and income taxation. Since Tanzania urgently needs foreign capital and know-how to increase production, it may be timely to consider establishing more joint ventures between parastatals and multinational corporations as the Government has already done in the petroleum and mining sectors.

1/ The Ministries of Commerce and Industry, Agriculture, and National Resources and Tourism.

2/ The Cashewnut Authority, the Livestock Development Authority, the National Agricultural Food Corporation, the National Development Corporation, the Petroleum Development Corporation, the Sisal Authority, the State Mining Corporation, the Sugar Development Corporation, the Tanzania Fisheries Corporation, the Tanzania Tourist Corporation and the Tanzania Wood Industries Corporation.

2.14 Stagnation in 1974. Industry, previously the fastest growing sector, stagnated in 1974. The stagnation was apparently not due to the lack of demand. The demand for simple consumer goods increased rapidly because of the increases in the minimum wage from Tsh 68 a month in 1967 to Tsh 340 in 1974. The Industrial Sector mission estimated that monetary disposable income of the public rose by at least 20% both in 1973 and 1974. While demand increased substantially, supply increased only marginally as a result of: (i) a decline in productive investments by the private sector; and (ii) the low capacity utilization in industry due to a number of factors such as supply disruptions (water and power), shortage of spare parts, lack of skilled manpower, factory layout problems, labor unrest, inadequate management and price controls.

2.15 Price Control. In order to protect consumers against excessive mark-ups, a National Price Commission (NPC) was established in 1973. NPC has a staff of about 18 and is responsible for monitoring the prices of over 1,000 types of goods and commodities. The Industrial Sector Mission observed a conflict between the Government's desire to keep the prices low to the consumer and the need to build up savings (equity) of operating companies for financing expansion. Also, as prices are based on the cost of production plus a certain profit margin, consumers often end up paying more because ex-factory prices are set on the basis of cost of the most inefficient operations plus a fixed margin. This takes away any incentive for management to reduce cost and improve productivity and builds inflationary pressures into the system as profit margins increase with the cost of production. To check the efficiency of domestic production, the Industrial Sector Mission recommended that the NPC base ex-factory prices on international prices, possibly plus a margin needed to stimulate domestic industries. The Government is still considering the mission's recommendations.

Financial Institutions

2.16 Tanzania's financial system consists of a Central Bank--The Bank of Tanzania--and, in addition to TIB, six Government-owned specialized institutions: the National Bank of Commerce for commercial banking; the National Insurance Corporation; the Tanzania Rural Development Bank; the Tanzania Housing Bank; the National Provident Fund; and the Tanganyika Post Office Savings Bank. Two other development banks operate in Tanzania: the East African Development Bank, which is owned by the Governments of the East African Community countries; and the Tanganyika Development Finance Co., Ltd. (TDFL). TDFL is owned in equal shares by the Tanzanian Government (through the Tanzania Investment Bank), and aid agencies from Germany, the Netherlands and the United Kingdom. The following is a summary describing all of the financial institutions. Annex 2 provides a summary of the interest rates structure in Tanzania.

2.17. The National Bank of Commerce (NBC) is the only commercial bank operating on the Mainland. ^{1/} NBC was established in 1967 when, following the Arusha Declaration, eight private commercial banks were nationalized and merged into a single bank. Until 1970, NBC also provided medium and long-term financing to industry, but after TIB was established in 1970, NBC discontinued this activity and transferred its entire term loan portfolio to TIB (see para. 4.09). NBC now only provides short-term financings and some working capital on a roll-over basis. NBC owns 30% of TIB's shares. As of June 30, 1974, NBC's total assets amounted to Tsh 3.1 billion. Despite the stagnation in the economy, NBC's net profit after tax increased in 1974 by 77% to Tsh 52.7 million. Total deposits increased by 27% during the year to Tsh 2.7 billion; 55% of total deposits were from the private sector. During the same year, loans outstanding increased by 62% to Tsh 2.2 billion; 84% of NBC's loans were to the public sector. Parastatals borrowings increased from Tsh 0.9 billion to Tsh 1.6 billion. Loans to the mining and manufacturing sector increased by 110% to Tsh 558 million and accounted for 25% of NBC's loan portfolio as of June 30, 1974. During 1974, NBC opened 15 new branches and 71 agencies (mobile branches) raising the total to 65 branches and 220 agencies. Consequently, the number of savings accounts increased by 66,942 to a record level of 301,539. Savings deposits rose by 19% to Tsh 362 million. The interest rate on savings deposits is 4%. NBC charges 5 to 10% on its loans; most loans are made at 8-10%.

2.18 The National Insurance Corporation (NIC) is the only insurance company in Tanzania. It is primarily a property and casualty company. It owns 10% of TIB's paid-in capital. As of December 31, 1973, NIC's total assets stood at Tsh 196 million and its investments amounted to Tsh 169 million. NIC had invested most of its funds in Government securities (about 45%), building projects (23%), and short-term deposits (23%). During 1973, investments increased by Tsh 38 million mainly in Government securities. Due to a stop in commercial construction, NIC's opportunities for investment in real estate are limited. However, it can play an active role in industrial development, by providing financing for industrial buildings.

2.19 The Tanzania Rural Development Bank (TRDB) was established in 1971 with an authorized capital of Tsh 300 million, of which Tsh 113 million has been paid-in. TRDB has offices in all except 2 of the country's 18 regions. In 1974, TRDB approved 219 loans amounting to Tsh 161 million, a 49.3% increase over 1973. The bulk of the loans were for seasonal inputs. As of June 30, 1974, its portfolio stood at Tsh 154 million. Cooperative societies, Ujamaa Cooperative Societies and the District Development Corporations accounted for 58% of the loans. TRDB's main sources of funds are bilateral donors and international agencies. IDA has used TRDB for most of its agricultural projects. TRDB has financed some small-scale industries, including

^{1/} Zanzibar has its own commercial bank, the People's Bank of Zanzibar which is not required to surrender its foreign exchange to the Bank of Tanzania.

some sawmills and a number of grain mills. Its lending rate is 8.5% for short-term and 7.5% for long-term loans.

2.20 The Tanzania Housing Bank (THB) is the main source of funds for construction of commercial and residential buildings, including low cost housing. It derives its resources primarily from public deposits on which it pays between 4.5% to 6% interest. IDA has provided \$2 million to THB as part of the site and service project. 1/ Total assets as of September 1973, were Tsh 105 million, of which Tsh 77 million were in the forms of commercial loans. Deposits as of the same date were Tsh 71 million.

2.21 The National Provident Fund (NPF) is concerned with pensions and had assets amounting to Tsh 482 million as of September 1973. These were mainly held in the form of Government securities. During the year, these holdings increased by Tsh 86 million to Tsh 416 million. Members' contributions as of September 1973, amounted to Tsh 369 million. NPF is the second largest holder of Government securities after the National Bank of Commerce.

2.22 The Tanganyika Post Office Savings Bank (POSB) is used mainly by small urban savers wishing to remit savings to their families in other parts of the country. The number of depositors has been growing rapidly and there are now approximately 330,000 accounts. As of June 30, 1974, total deposits in these accounts amounted to Tsh 69 million.

2.23 The East African Development Bank (EADB) was established in 1967. It finances only industrial projects but no tourism or agricultural projects. The World Bank provided EADB with a first line of credit of US\$8.0 million in 1972 and is presently considering a second loan. In 1974, EADB approved 3 projects for a total of Tsh 27.0 million in Tanzania, compared to 27 projects for a total of Tsh 100 million by TIB. As of March 31, 1975, EADB's cumulative disbursements in Tanzania amounted to Tsh 74.4 million, compared to Tsh 99.7 million for TIB. EADB's upper financing limit is Tsh 24.0 million and a large part of its operations in Tanzania consist of large projects jointly financed with TIB (3 of TIB's projects are also financed by EADB). EADB presently charges an interest rate of 10% p.a. plus an appraisal fee of 1% (for projects which are ultimately approved) and a commitment charge of 1% p.a.

2.24 The Tanganyika Development Company Ltd. (TDFL) was established in 1962 with a paid-in capital of Tsh 40 million. TDFL is equally owned by the Government (through TIB) and three bilateral aid agencies (United Kingdom, the Federal Republic of Germany and the Netherlands). TDFL's shareholders have also subscribed Tsh 60 million of income notes. TDFL has played an important role in project promotion and financing of projects in the manufacturing sector. In 1973, it approved 10 projects for Tsh 18.5 million. Forty percent of TDFL's commitments are for equity investments. The future growth of TDFL's operations is limited by resources constraints. Until recently TDFL financed only private projects but TDFL has now changed its policies regarding the financing of parastatals and is expected to do a few joint financings with

1/ Credit TA-495

TIB this year. TDFL's maximum commitment to a single enterprise is 10% of its net worth or Tsh 6 million. It currently charges 10-10.5% interest rate plus 1% commission fee and a commitment fee of 1% per year.

Institutions for Industrial Promotion

2.25 To promote the development of small-scale industry, the Government established in 1973 the Small Industries Development Organization (SIDO). So far, SIDO has concentrated on extension services. It already has a staff of 150, half of whom are field officers. The other half consists of specialized support staff in Dar es Salaam. SIDO planned activities include providing technical and managerial consultancy services, establishing industrial estates, conducting training programs, providing marketing services and supplying machinery on a hire purchase basis. During its first year of operations, SIDO made available machinery for Tsh 1 million. SIDO's plans are ambitious and its success will largely depend on the quality of its staff. The proper arrangements for financial support to small scale industries are still under study. The Government has established a special fund of Tsh 5 million in TIB for financing small scale industries (see para. 3.04).

2.26 The Industrial Development Center (Indcenter) is a UNIDO sponsored institution to promote private and public industries. It started operations in 1966 and has continuously been staffed by five UNIDO experts and five Tanzanians. Indcenter has mainly made feasibility studies but has had little success in getting them implemented. The Government plans to transform Indcenter into a parastatal consultancy organization when the contract with UNIDO expires.

III. THE INSTITUTION

Ownership and Functions

3.01 The Tanzania Investment Bank was established in November 1970 to provide medium and long-term financing for industrial development, including agricultural processing and tourism. By statute, TIB's share capital must be owned proportionately by the Government (60%), the National Bank of Commerce (30%), and the National Insurance Corporation (10%); both the National Bank of Commerce and the National Insurance Corporation are wholly owned by the Government. TIB's authorized capital is Tsh 200 million. The paid-in share capital will be increased from Tsh 70 million to Tsh 100 million before December 31, 1975.

Type of Activities

3.02 According to TIB's Act, TIB can make medium- and long-term loans, underwrite securities, guarantee debts, and invest in equity of enterprises. So far TIB's financing has mostly consisted of loans. Under the three-tier system parastatals are primarily responsible for project promotion, implementation and management through equity financing, while TIB is expected to

provide an independent check on these investments through its loan financing. Many parastatal projects receive an equity allocation from the Government before they apply for loan financing from TIB. To get TIB involved earlier in projects, the Bank had recommended that TIB get more leeway in making equity investments. The Government has now amended the Act and raised the limit for TIB's aggregate equity investments from 10% to 40% of TIB's net worth. Meanwhile, TIB has been able to work more closely with its borrowers and get involved in projects earlier than before. TIB's Act also empowers it to promote projects and provide technical assistance to its borrowers. TIB has a special department for the latter functions (see para 3.17).

Administration of Agency Funds

3.03 TIB's Act and Statement of Policies require that TIB must follow sound banking policies and finance only projects which are technically feasible, financially viable and economically sound. Therefore, TIB is not expected to finance unviable projects at its own risk. Because TIB operates in a centrally planned economy, it may at times be asked to finance projects that do not meet its normal lending criteria. For such operations, TIB can use agency funds, which TIB administers on behalf of the Government; the Government takes the risk on them and TIB receives an unconditional management fee of 3/4% per quarter on the outstanding balance which is reasonable in comparison with TIB's expenses.

Assistance to Small-Scale Industry

3.04 TIB has recently established a special fund for Small-Scale Industries. The initial contributions to the fund consist of a Tsh 5 million grant from the Treasury and a DM 2 million (Tsh 5.8 million) grant from KfW. To date, the smallest loan made by TIB was Tsh 300,000 (US\$42,000) for a wheat production scheme. Because it does not have a branch network, TIB intends, at least initially, to limit its assistance for small enterprises to industrial estates and areas where it has larger operations. TIB is also planning to assist the District Development Corporations and Cooperatives in preparing projects on a case-by-case basis. Unless TIB establishes a branch network, it is unlikely to play a major role in the development of small industries. For the time being this assistance can better be provided by TRDB in cooperation with SIDO.

Investment and Financial Policies

3.05 TIB's statement of Investment and Financial Policy is provided in Annex 3. TIB's minimum commitment for TIB's normal operations is Tsh 100,000 (US\$14,000). Its maximum exposure in a single enterprise is 20% of its own net worth (Tsh 127 million at present) as long as it does not exceed 75% of the total fixed investment costs of the project; normally, TIB does not finance more than 60%.

3.06 Although TIB's appraisal includes a thorough analysis of the permanent working capital requirements of its clients, TIB does not as a practice

finance working capital. According to the institutional set-up in Tanzania, the NBC is responsible for working capital financing. Especially in view of substantial cost overruns, many projects have run into working capital shortages. While these shortfalls have rarely been the only difficulty, they have added to the problems of many TIB clients. TIB will therefore before committing itself to a project obtain assurances from NBC that working capital financing will be available in appropriate amounts.

Interest Rate and Foreign Exchange Risk

3.07 It is TIB's policy to charge a minimum lending rate which will substantially reflect the cost of capital in Tanzania. Recently TIB has raised its minimum lending rate from 9% to 10% per year. This rate applies to all of TIB's operations except for operations financed from special funds, which are for specific purposes, such as small scale industry, and at concessionary terms. TIB also charges an appraisal fee of 1% (for projects which are ultimately approved) and a commitment fee of 1% per year. Despite high inflation in 1974 (28% measured by the Retail Price Index), the mission considers TIB's lending rate adequate for the following reasons:

- (i) The price increase during 1974, was largely due to the drought which forced Tanzania to import food grains and sugar at very high international prices. The Government has made vigorous attempts to increase food production and inflation is expected to decline to 10-15% in the next year and a lower rate thereafter. TIB's lending rate is expected to exceed the inflation rate over the life of the loan;
- (ii) TIB's lending rate is in line with other lending rates in Tanzania. For instance, the Tanganyika Development Finance Company charges 10-10 1/2% for medium- and long-term loans and the National Bank of Commerce charges between 8 and 10% on most overdrafts;
- (iii) Tanzania has a high domestic savings rate. In 1973, domestic savings amounted to 18% of GDP; in 1974, savings deposits with the National Bank of Commerce increased by 19%. NBC's branch network rather than the interest rate is considered the major constraint on further increases in savings;
- (iv) Interest rates play a relatively minor role in resource allocation in Tanzania's centrally planned economy with comprehensive price controls and import licensing. Investment decisions are only partially based on financial returns. Following the Bank's advice, TIB uses the economic rate of return as the primary criterion for project selection and a higher lending rate would probably not change project selection.

3.08 Except for IDA-credit 460-TA and the loan from the African Development Bank, all foreign loans have been passed on to TIB are denominated in Tanzanian Shillings. TIB will also pass-on the foreign exchange risk on the proposed Bank loan to sub-borrowers.

Board of Directors

3.09 TIB's Board is chaired by the Managing Director, who is appointed by the President, and has eight other members. Five of the members are nominated by the Minister of Finance, two by the National Bank of Commerce and one by the National Insurance Corporation. Annex 4 provides a list of current Board members. They include the Principal Secretaries of Finance, Economic Affairs and Development Planning, and Commerce and Industry. TIB's Board meets bi-monthly and holds active discussions on policy matters and all proposed projects. It has the sole power in approving loans and equity investments and authorizing rescheduling.

Management

3.10 TIB's management consists of a Managing Director and a General Manager. The Chairman and Managing Director is Mr. Mbowe. He is a Director of several important parastatals, the East African Development Bank and TDFL. He is responsible for policy matters and TIB's external affairs. TIB's General Manager is appointed by the Minister of Finance and is responsible for the day-to-day management of the Bank. Since the former General Manager left last November, Mr. Mbowe has also acted in his capacity. The Government plans to nominate a new General Manager, however.

3.11 TIB's management is assisted by two major committees: a Loan Committee and a Management Committee. The Loan Committee consists of the General Manager, all Department Directors and a Legal Advisor. It meets twice a month and decides on financing proposals submitted by the Operations and Development Planning Departments. No loans can be presented to the Board without clearance of the Committee. The Management Committee is chaired by the General Manager and includes all Department Directors. The committee makes rulings on all internal administrative matters. The same members constitute five other committees: an appointment committee, a housing committee, an education committee, a promotion committee and a committee on the employment of expatriates.

Organization and Staff

3.12 TIB is organized along functional lines. Annex 5 provides TIB's Organization Chart, illustrating the Departments and professional staff in each Department. TIB has four departments: Operations, Planning and Development, Finance, and Administration and Legal. Tanzanians head all these departments.

3.13 As of June 1975, TIB's total professional staff numbered 31, of which nine were expatriates. While most of the expatriates are made available from foreign aid, TIB must pay the Treasury the equivalent local salary. TIB has an excellent training program for its staff (see para. 3.21), and is making active use of training program abroad; 3 officers will return from training in 1975. While TIB has made marked improvement in strengthening its Tanzanian staff, it will continue to use expatriates in areas in which it lacks expertise. Several bilateral aid agencies have indicated their interest in continuing such assistance, if requested.

3.14 The Operations Department is responsible for appraisal and follow-up. It has a staff of 12, including 5 expatriates.

3.15 Appraisals. The appraisal division has eight professionals, half of whom are expatriates. The financial and economic analysis of TIB's appraisals are good. TIB has no separate engineering department and engineers form part of the appraisal teams. TIB's technical evaluations are satisfactory. Despite TIB's good appraisals, several of TIB-assisted projects have run into difficulty because the appraisal assumptions proved to be wrong. To avoid similar cases in the future, TIB will more critically review the projection assumptions and test the potential impact of cost overruns, delays in implementation, and different product prices through sensitivity analysis.

3.16 Follow-up Division. TIB has commenced systematic follow-up activities. Management has recognized the paramount importance of this function in view of the problems with TIB's increasing portfolio. The Division is temporarily headed by an expatriate and employs three Tanzanians with overseas training. In view of the serious condition of the portfolio (see para 4.07) TIB intends to further strengthen its follow-up role and to transform the follow-up division into a separate department at an appropriate time in the future.

3.17 The Development and Planning Department, which consists of 9 professional staff, including four expatriates, is primarily involved in promoting projects. TIB has recently financed the first projects promoted by this department and TIB expects that several will follow in the next year. Given the similarity of staff in this department and the Operations Department and in view of the manpower constraints and the shortage of qualified Tanzanian staff in the Operations Department, TIB's management intends to use the staff in this department flexibly.

3.18 Finance Department. TIB's accounting and financial management, which have been weak, have improved recently. TIB plans to further strengthen the Finance Department by recruiting an experienced financial analyst for it. The bank has offered its assistance in finding a suitable candidate.

3.19 Internal Auditing Department. TIB activated its internal auditing function last September in response to the recommendation of the Tanzania Audit Corporation. The department is headed by a qualified accountant, who reports

directly to the Chairman and Managing Director. The main tasks of the Department are: (i) to strengthen the accounting system; (ii) to improve TIB's cash flow management; and (iii) to identify and report weaknesses in operations of various departments of TIB.

3.20 Administration Department. This Department is in charge of administering legal matters, the Board Secretariat, Personnel Management and General Services.

3.21 Staff Development. TIB has an excellent training program. The training is divided into two main phases. The initial training which takes about one year and includes: on-the-job training with all departments in TIB, a project appraisal course at the Institute of Finance Management in Dar-es-Salaam, and on-the-job training with one of the parastatals. Once a new recruit completes this initial training, he will be given professional staff status. After spending a year with TIB, he can qualify for advanced training overseas. TIB's training outlets overseas include: Arthur D. Little (nine months), the Institute of Social Science in The Hague, Netherlands, and other development finance companies, such as, ICICI and PICIC. 1/ Ten of TIB's staff have already completed one or more of these programs and five more are enrolled in them at present.

Procedures

3.22 Legal. TIB's legal work is performed satisfactorily by the Tanzania Legal Corporation, a Government legal services agency. Due to implementation of a standard loan agreement and resolution of most issues before loan approval, the time lag between the approvals and commitments has been reduced to an average of 2 months. TIB's Board has also passed a resolution that TIB has the right to cancel the loan if the loan agreements are not signed within six months after the Board's approval. TIB's standard loan documents are satisfactory.

3.23 Procurement and Disbursement. Although TIB normally requires international tendering for all items above Tsh 100,000 (US\$14,000), it may waive this requirement if local contractors or suppliers are available. Procurement procedures also require that TIB must be consulted before contracts for goods or services to be financed by TIB are awarded. TIB's disbursement procedures are adequate.

3.24 Audit. By statute, TIB must be audited by the Tanzania Audit Corporation (TAC), which is owned by the Government. TIB's FY 1975 audit is satisfactory. Compared to earlier audits, TIB's FY 1975 audit has improved markedly because of improvement in TIB's accounting system and the re-organization of TAC. TAC's new management has developed a comprehensive

1/ Industrial Credit and Investment Corporation of India Ltd., and Pakistan Industrial Credit and Investment Corporation.

program to strengthen TAC by training its staff in Tanzania, Kenya, and abroad, while employing expatriates in the meantime. UNDP has agreed to finance the program.

IV. RESOURCES, OPERATIONS, PORTFOLIO AND FINANCIAL CONDITION

Resources

4.01 As of June 30, 1975, TIB's domestic resources consisted of its paid-in share capital accumulated reserves (Tsh. 7.9 million) and grants from the Government (Tsh 7.7 million) ^{1/}. Foreign resources consisted of Tsh. 212.2 million in untied funds from SIDA, ADB, IDA, KfW, CIDA and NORAD. In addition, TIB had committed Tsh. 20.0 million of tied funds from CIDA, the Netherlands and Finland. Annex 6 provides the amount, terms and conditions of each foreign credit line. Except for the ADB loan and the IDA credit, all foreign credit lines have been made to the Government and passed on in local currency to TIB through the Umbrella Agreement. The ADB loan was made directly to TIB; the IDA credit was passed on to TIB through a subsidiary loan agreement.

Operations

4.02 TIB is now the principal institution for medium- and long-term financing in Tanzania. TIB's operations have increased rapidly. During FY 1975, TIB approved loans for Tsh. 129 million, almost equalling the total amount approved during the previous four years, and representing 15% of total parastatal investments of Tsh. 900 million.

4.03 A summary of TIB's operations since its inception is provided in Annex 7. As of June 30, 1975, TIB had approved 79 loans for a total of Tsh. 318 million and 8 equity investments for a total of Tsh. 10.6 million. All approvals, except for Tsh. 19.8 million of cancellations, have been committed. The time lag between approvals and commitments has declined to an average of 2 months and is satisfactory. As of June 30, 1975, TIB's total disbursements amounted to Tsh. 135 million. TIB's disbursement rate has improved marginally. The main causes of the lag in disbursements are: (i) the time lag in obtaining machinery from abroad; (ii) delays in implementation of projects due to building material shortages; and (iii) difficulties in finding qualified management needed to implement the projects. TIB has approved some loans before identifying management; it has now corrected this and usually requires proper management arrangements before approving the project and reserves the right to approve project management prior to disbursing funds. TIB plans to further speed-up disbursements by improving its follow-up during project implementation.

^{1/} In addition, TIB received Tsh. 41.7 million grants from SIDA.

4.04 Annex 8 provides a breakdown of TIB's loan approvals since its inception by size, maturity, interest rates, economic activity and location. The average size of loans has increased from Tsh. 1.7 million (\$238,000) in 1971 to Tsh. 4.5 million (\$629,000) in 1975; half of all approved loans are for less than Tsh. 3.6 million (\$500,000) but one fifth of the loans were over Tsh. 7 million (\$1 million) and accounted for half of the amount. The average maturity is 9 years. The average interest rate is 9.2%, TIB charges 10% on new loans. Most TIB assisted projects use domestic raw materials. The three most important subsectors were food and food processing (30%); wood and wood processing (13%); and tanneries and leather processing (10%). Other important subsectors were textile (6%), tourism (6%), and transport (12%). TIB's loans were concentrated in 3 major urban areas: Dar es Salaam (37%); Arusha (18%) and Mwanza (12%). This was mainly due to the pattern of infrastructure development in Tanzania. TIB is making efforts, however, to expand its activities throughout the country.

4.05 Annex 9 provides a list of all equity investments approved as of June 30, 1975. The list includes seven equity investments totalling Tsh. 9.1 million, out of which Tsh. 6.4 million were disbursed. In addition, TIB--with grants from the Treasury--has invested Tsh. 10 million in TDFL's equity and Tsh. 7.9 million in its 8% income notes. Except for the interest income from TDFL's income notes, TIB has to date not received any returns from its equity investments. Three equity investments amounting to Tsh. 4.5 million (67% of equity portfolio excluding TDFL) are in companies with serious problems. These enterprises are: Tanzania Navy Beans, National Engineering Company, and Mtibwa Sugar (see para. 4.07 and Annex 11). Based on TIB's present net worth, the aggregate limit of its equity investments is Tsh. 51.0 million.

4.06 Annex 10 provides a summary of key economic indicators of all projects approved during the first 9 months of FY 1975. During the period, TIB approved 16 loans to 15 enterprises for a total of Tsh. 79 million. Nine loans were for new projects. TIB's loans accounted for 41% of total project costs of Tsh. 194 million. Based on TIB's appraisals, these investments will create 2,400 direct jobs at an investment cost per job of US\$11,000 which is low. Two-thirds of the projects are for import substitution. All except three projects use domestic raw materials. TIB estimated that the export projects will generate annual exports of Tsh. 97 million. The average estimated financial rate of return is 19% and the economic rate of return 31%. Forty percent of TIB's approvals were in the agro-industry. This was in response to the Government's policy of increasing food production. The other major sectors which received financing from TIB were textiles (13%), tanneries and leather (11%), and wood products (5%). TIB made loans to a few new sectors including metal products and construction.

TIB's Loan Portfolio 1/

4.07 As of June 30, 1975, TIB's loan portfolio consisted of 37 projects for a total of Tsh. 122 million. Fifteen loans accounting for Tsh. 65 million (53% of the portfolio) were in arrears over 3 months. Two projects accounting for 11% of the portfolio have settled their overdues since. Annex 11 provides a detailed analysis of TIB's portfolio, and a summary of the condition of all problem projects. For the analysis, TIB's portfolio has been divided in the following four categories (amounts in Tsh. million):

	<u>No. of Projects</u>	<u>Amount</u>	<u>% of total</u>
A. Operating companies in difficulty, with uncertain prospects	5	23.1	18.9
B. Operating companies in difficulty, but with reasonable prospects	4	13.7	11.2
C. Problem free operating companies	13	49.6	40.6
D. Projects under construction	<u>15</u>	<u>35.8</u>	<u>29.3</u>
Total	<u>37</u>	<u>122.2</u>	<u>100.0</u>

The projects in category A are all in arrears for more than three months. They have generally technical as well as market problems, are overburdened with short-term debt and have grim short-term prospects but may be salvaged if appropriate action is taken. When necessary, TIB has taken the lead in analyzing the problems of these clients and steps are being undertaken to solve the problems of these companies. In this regard, it is useful that TIB is represented on the Boards of most of its clients. Most of the projects in Group B are in arrears and face problems in the short run, but have reasonable prospects. Nevertheless, TIB needs to watch them closely. Some of the projects under implementation have potential problems; for most it is too early to make a judgment on their prospects. TIB has analysed each problem project and satisfactory actions to solve their problems are being undertaken.

4.08 The problem projects were among the first to be approved by TIB. Although TIB's appraisals have improved considerably since, the condition of the portfolio highlights the need for TIB to review critically the projection assumptions and the technical aspects of the projects. TIB has already started doing sensitivity analysis on the critical project variables.

1/ Paras. 4.07 to 4.08 deal with TIB's portfolio; the NBC portfolio is dealt with in para. 4.09.

TIB is aware of the need to realistically assess whether the implementation schedules, the contingency allowances and the capital structure are reasonable in order to avoid shortages in working capital.

NBC Portfolio

4.09 In 1971, NBC's term portfolio, consisting of 37 outstanding loans amounting to Tsh. 100.2 million, was transferred to TIB. TIB purchased this portfolio at face value for which it received a loan from NBC in an equal amount. TIB pays NBC 5-1/2% in interest plus a guarantee fee of 3/4 of 1% on the outstanding balance. In addition, NBC charges 1/16 of 1% on any amount which it collects on TIB's behalf. NBC guarantees the outstanding loans unconditionally. The average yield of the portfolio is 7-1/2%. Thus, TIB earns a spread of 1-1/4%. As of June 30, 1975, the NBC portfolio had been reduced to 14 loans amounting to Tsh. 38.1 million. Five loans amounting to Tsh. 24.2 million or 63% of the portfolio were in arrears for more than three months. The loans include a Tsh. 20 million loan to Serengeti Safari Lodge.

Financial Position

4.10 TIB's audited balance sheets are shown in Annex 12. As of June 30, 1975, TIB's total assets amounted to Tsh. 265 million, including TIB's loan portfolio (46%), TIB's equity portfolio (9%), current assets (30%) and the NBC portfolio (14%). TIB is relatively liquid; it had Tsh. 74 million in net current assets as of June 30, 1975. TIB's liquidity is due to the fact that many of its creditors disburse to TIB when they approve a subproject but before TIB needs the funds for disbursement to its clients. TIB's financing consists of Tsh. 125 million of long-term debt (including the NBC loan of Tsh. 38 million) and a net worth of Tsh. 127 million. Its long-term debt/equity ratio including the NBC loan was 1.1:1. Since the NBC loan is supported entirely by the unconditionally guaranteed NBC portfolio, it is conservative to include the NBC loan in TIB's long-term debt. Excluding the NBC loan, TIB's long-term debt/equity ratio is only 0.7:1 which is well below the limit agreed with IDA of 3:1. Although the auditors consider TIB's provisions of Tsh. 1.2 million adequate, they appear rather low in relation to the size and condition of TIB's portfolio. However, TIB does not plan to distribute dividends and TIB's general reserves together with provisions are adequate to cover potential losses. TIB is therefore creditworthy.

Financial Results

4.11 Annex 13 provides TIB's income statements, and Annex 14 shows some selected financial ratios. In FY 1975, TIB earned Tsh. 3 million, or 3.4% on its average net worth, compared with Tsh. 1.2 million in FY 1974. Interest income from the NBC portfolio, which accounted for 75% of total income in 1971, now accounts for only one fourth of TIB's revenue. Administrative expenses as percentage of average total assets declined from 2.0% in FY 1974 to 1.6% in FY 1975. This is reasonable.

V. PROSPECTS

TIB's Operational Strategy

5.01 In line with the Government's intention to increase investment in the productive sectors, TIB plans to continue expanding its lending operations. Through further improvement of its relations with parastatals, TIB expects to become involved earlier in parastatal investments and enhance its role in developing projects. TIB expects that its promotional efforts, which started a few years ago, will soon bear fruits. By strengthening portfolio supervision, TIB plans to play a constructive role in improving the problem projects in its portfolio. TIB is keen to support the Government's plans for small-scale industry and intends to gain experience in this field by financing small industries in selected areas. To achieve these ambitious objectives, TIB will further strengthen its staff and reduce its dependence on expatriates by continued training.

Business Outlook

5.02 Many promising investment opportunities in the industrial sector exist. In 1974, an industrial sector mission of the Bank ^{1/} identified a large number of projects with a total investment cost of Tsh 7 billion. The projects belonged to various sub-sectors in which Tanzania can be competitive, such as sugar processing, textiles, leather processing, pulp and paper, wood working, cashewnut processing, sisal spinning and cement. In the past, the limited capacity of most parastatals to make detailed feasibility and engineering studies has constrained project development. The parastatal capacity has improved and, in the future, project development will also be aided by the establishment of a parastatal consultancy firm (see para. 2.26) and a proposed IDA project to finance feasibility and engineering studies of industrial projects by foreign consultants.

5.03 Given (i) the shift in Government emphasis to the productive sectors, particularly manufacturing, mining and agro-industry; (ii) the availability of potential projects; (iii) the improved capacity of parastatals to develop and implement projects; (iv) the emergence of District Development Corporations ^{2/} as a new class of borrowers; and (v) TIB's increased ability to appraise projects, TIB's business prospects are good. In June 1975, the Government and TANU ^{3/} agreed to postpone the third 5-year plan (July 1,

^{1/} See Tanzania: Industrial and Mining Sector Survey, Report No. 647-TA, March 31, 1975.

^{2/} In 1974, as a part of its decentralization policy, the Government established development corporations in each district of the country.

^{3/} Tanganyika African National Union.

1975 - June 30, 1980) because of financial constraints. In turn, an annual plan aimed at increasing production and improving the efficiency of existing operations has been launched. The 1976 plan envisages total expenditures of Tsh 6.2 billion out of which Tsh 2.7 billion or 44% are developmental expenditures. Parastatal organizations, mainly in the manufacturing, mining and agricultural sectors, would receive Tsh 958 million (US\$134 million), or 35% of total developmental expenditures. TIB is expected to finance between 15-20% of these new investments. TIB may also administer a substantial amount of developmental expenditures on behalf of the Government.

5.04 As of June 30, 1975, TIB's project pipeline consisted of 20 projects with total costs amounting to Tsh. 541 million, out of which TIB expected to provide about Tsh. 156 million. Annex 15 provides a list of these projects. TIB approved 3 projects amounting to Tsh. 30 million from this pipeline in August. The projects appear well conceived and cover various sub-sectors including textile, food processing, wood products, chemicals and small-scale industries. All except two of the projects are for import substitution. Nine of the projects are new. Typically, TIB's financing is matched by new equity provided by the Government through budget allocations. One large project (cashewnuts) is co-financed by the Bank and the Government who will provide together Tsh. 208 million. Two other projects are expected to be co-financed by TDFL. Three new projects are private. TIB expects to approve all projects in FY 1976.

Resource Requirements

5.05 TIB's projected operations during the next five years and the underlying assumptions are provided in Annexes 16 and 17. TIB expects to approve Tsh. 160 million in FY 1976, Tsh. 200 million in FY 1977, and Tsh. 240 million in FY 1978. For the larger projects TIB's financing will have to be supplemented by financings from EADB and TDFL. Given TIB's pipeline and the Government's emphasis on expansion of the industrial sector, the projected operations are reasonable, provided TIB has adequate resources. Its resources requirements until December 31, 1977 and the proposed financing plan are as follows (amounts in Tsh. million):

	<u>Domestic</u>	<u>Foreign</u>	<u>Total</u>
<u>Resources Requirements</u>			
Loan commitments	146	315	461
Equity commitments	8	-	8
Debt repayment	<u>6</u>	<u>-</u>	<u>6</u>
Total	<u>160</u>	<u>315</u>	<u>475</u>
<u>Financing Plan</u>			
Existing uncommitted resources	15	43	58
Earnings and depreciation	26	-	26
New equity	30	-	30
Loan collections	50	-	50
Estimated foreign borrowings <u>/1</u>	<u>60</u>	<u>165</u>	<u>225</u>
Total	<u>181</u>	<u>208</u>	<u>389</u>
Resources surplus (gap)	21	(107)	(86)

/1 Assumes that 25% of new foreign borrowings will be used to finance local expenditures.

5.06 TIB needs Tsh. 475 million (US\$66.5 million) to cover its commitments until December 31, 1977. Out of this amount, Tsh. 315 million or about 67% would be needed for foreign expenditures. As of July 1, 1975, Tsh. 43 million of foreign resources was still available for new commitments while uncommitted approvals were Tsh. 51 million. TIB's foreign donors and creditors, including CIDA, SIDA, NORAD, KfW, and ADB, have indicated their willingness to provide a total sum of Tsh. 225 million to cover TIB's requirements until 1978. Assuming that TIB can use 25% of new foreign resources for local costs, TIB remaining foreign resource gap would be Tsh 107 million (US\$15 million). It is proposed that the Bank cover this gap with a \$15 million loan. The Bank loan would meet 23% of TIB total resource requirements.

Projected Financial Results

5.08 Annex 18 provides TIB's projected balance sheets. TIB's total assets are expected to increase from Tsh. 265 million at the end of FY 1975 to Tsh. 931 million in FY 1980, reflecting the envisaged growth of TIB's operations. TIB's long-term debt/equity ratio is expected to remain below 3:1 until FY 1980 when it will climb to 3.2:1. Even if forecast collections

are reduced to allow for sizeable reschedulings. TIB's debt service coverage is estimated to remain above 3 throughout the projection period.

5.09 TIB's projected income statements and changes in TIB's financial position are shown in Annexes 19 and 20. Annex 14 shows relevant financial ratios. The projections show that TIB's profits after tax are expected to increase to Tsh. 18.1 million in FY 1980. The figures allow for increases in provisions equal to 3% of new disbursements. Provisions would increase to 2.5% of the outstanding loan and equity portfolio in FY 1980. Net profit as a percentage of average net worth is estimated to increase from 3.4% in FY1975 to 8.7% in FY 1980. The projected improvement in TIB's profitability is due to: (i) a substantial increase in TIB's portfolio and leverage; (ii) an increase in spread between the cost of borrowed funds and the yield on loans; (iii) economies of scale reflected in lower administrative costs as percentage of average total assets. Administrative expenses as percentage of total assets are expected to decline from 1.6% in FY 1975 to 1.0% in FY 1980, which is reasonable.

VI. CONCLUSIONS AND RECOMMENDATIONS

6.01 TIB has become the major institution for medium and long-term financing of industry, large-scale agriculture and tourism. Its top management is able and influential. Its staff has improved considerably and Tanzanians now occupy all management positions. The quality of its appraisals is good and systematic follow-up activities have started. Its volume of operations has increased sharply and now accounts for about 20% of new industrial investments. Because of its improved relations with parastatals and its increased appraisal capacity, TIB is becoming more influential in developing and selecting parastatal investment projects.

6.02 To alleviate Tanzania's severe economic problems, resulting from increases in petroleum prices and stagnation in the agricultural sector, the Government has given priority to industry for future investments. A Bank industrial sector mission has identified a large number of promising investment opportunities. Given the improved capacity of parastatals to develop and implement projects and TIB's increased ability to appraise them, TIB's business prospects are good.

6.03 TIB's major problem is the condition of its portfolio. During negotiations, TIB has outlined a satisfactory plan of actions it intends to take to solve the problems of the most troublesome projects.

6.04 Taking into account expected funds from other creditors, TIB needs Tsh 107 million in foreign resources to cover its projected commitments until the end of 1977. A Bank loan of \$15 million is recommended. The loan would fill TIB's remaining foreign resources gap and cover 23% of TIB's commitments until December 31, 1977. TIB's plans to obtain local resources are adequate.

6.05 The objective of the proposed loan is to support the Government in its plans to increase productive investment, especially in industry. It will also enable the Bank to help TIB further improve its procedures and project selection.

6.06 The proposed loan will finance the cif cost of imported goods and the estimated import component of civil works and imported goods purchased in Tanzania. It will be repaid according to a flexible amortization schedule, conforming to the aggregate amortization schedules of TIB's subloans, which have a maximum maturity of 15 years. TIB will need the Bank's prior approval of each project using \$400,000 or more of the proposed loan and will not be able to use more than \$3 million in total without the Bank's approval. TIB will on-lend the proceeds of the loan at a minimum interest rate of 10% with the foreign exchange risk being borne by the subborrower.

SUMMARY OF PARASTATAL ORGANIZATIONS IN INDUSTRY
(as of January 1975)

Parent Ministry	Holding Company (reporting to parent ministry)	Operating companies (wholly owned by Government unless otherwise indicated)
Commerce and Industries	National Development Corporation (NDC)	British American Tobacco Company Ltd. (BAT) (50%) Kibo Paper Industries Ltd. National Printing Company Ltd. National Small Scale Industries Corporation (NSIC) Tanganyika Instant Coffee Company Ltd. (90%) Tanganyika Tegry Plastics Ltd. Tanzania Breweries Ltd. National Steel Corporation Ltd. Tanzania Shoe Company Ltd. Tanzania Tanneries Ltd. Tanzania Publishing House Ltd. Ubongo Farm Implements Manufacturing Company Ltd. Steel Rolling Mills Ltd. (80%) Aluminium Africa Ltd. (Alaf) (60%) Tanzania Fertilizer Company Ltd. (TFC) (60%) General Tyre East Africa Ltd. (74%) National Bicycles Company Ltd. Print Pak Tanzania Ltd. (60%) National Arts of Tanzania Ltd.
	State Mining Corporation (STAMICO)	Williamson Diamonds Ltd. (50%) Tanzania Diamond Cutting Company Ltd. (50%) Tanzania Portland Cement Company Ltd. Mbeya Cement Company Ltd. Nyanza Salt Mines Ltd. Beach Sans Mining Company Ltd. Tanzania Gemstone Industries Ltd. Tanganyika Meerscham Corporation Ltd. Lupa Gold Field Mines Ltd.
	Tanzania Petroleum Development Corporation	Agip (Tanzania) Ltd. (50%) Shell and BP (Tanzania) Ltd. (50%) Tanz. & Italian Petr. Ref. Co. (TIPER) (50%)
National Resources and Tourism	Tanzania Wood Industries Corporation (TWICO)	Sikh Sawmills Ltd. Arusha Fibre Board Ltd. Tembo Chip Board Ltd. Tabora Maitu Products Ltd. Giraffe Extract Company Ltd.
	Tanzania Fisheries Corporation (TAFICO)	
	Tanzania Tourist Corporation (TTC)	Tanzania Hotels Ltd. Tanzania Wildlife Safaries Forodhani Hotel State Travel Service Tanzania Film Corporation Kilimanjaro Hotels Ltd. Tanzania Tours Ltd. (TTL)

Agriculture

National Agricultural
Food Corporation (NAFCO)

Arusha Plantations
Basuto Wheat Scheme
Kiru Valley Development
Corporation, Ltd.
Lime Products Development
Corporation, Ltd.
New Mwananchi Ocean Products,
Ltd.
Kwamtili (50%)
Mafia Coconut (50%)
National Cold Chain Operation
(NCCO)
West Kilimanjaro Farms
Oljoro Farms
Rift Wall Estates
Tanzania Seed Company, Ltd.
Tanzania Navy Beans Company,
Ltd.
Bagamoyo Farms
Kibaha Wheat Project
Nachingwea Soya Beans Pilot
Scheme

Tanzania Sisal Authority

Tanzania Sisal Corporation (TSC)

Sugar Development Corporation

Kilombero Sugar Corporation
Mtibwa Sugar Estates
Kagera Sugar

Cashew Nut Authority of
Tanzania (CATA)

Tanita Company Ltd. (85%)
Mtwara Cashewnut Company Ltd.
(50%)
National Cashew Company Ltd.

Livestock Development Authority
(LIDA)

Tanzania Livestock Marketing
Company (TLMC)
National Ranching Company
Ltd. (NARCO)
Dairy Farming Corporation Ltd.
(DAFCO)
Tanzania Daires Ltd. (TDL)
Tanzania Meat Processing
Company (TMPC)
Tanzania Hides and Skins Ltd.

TANZANIA INVESTMENT BANK

1/

Interest Rate Structure in Tanzania

	<u>1969-1972</u>	<u>1973</u>	<u>June 1974</u>
<u>Bank of Tanzania</u>			
Rediscounts and advances			
Commercial bills			
Group: 90 days	5.00	5.00	5.00
91-180 days	5.50	5.50	5.50
Other 90 days 2/	5.25-6.00	5.25-6.00	5.25-6.00
91-180 days	5.75-6.50	5.75-6.50	5.75-6.50
Treasury bills (35 days) 3/			
Rediscounts	4.27	4.27	4.27
Advances	4.77	4.77	4.77
<u>Commercial Banks</u>			
Deposits			
Savings			
Time (7 days' notice)	3.50	4.00	4.00
3-6 months	3.00-3.50	3.00-3.50	3.00-3.50
6-9 months	4.00	4.00	4.00
9-12 months	4.25	4.25	4.25
Lending	4.50	4.50	4.50
	6.50-10.00	5.00-10.00	5.00-10.00
<u>Other financial institutions</u>			
Post Office Savings Bank			
Deposits	3.00	3.00	4.00
Tanzania Housing Bank			
Savings accounts	4.50	4.50	4.50
Deposit accounts	5.50	5.50	5.50
Fixed term deposits			
1 year	5.50	5.50	5.50
2 years	6.00	6.00	6.00
Rural Development Bank			
Short-term lending	8.50	8.50	8.50
Long-term lending	7.50	7.50	7.50
East African Development Bank			
	8.50-9.00	9.00	10.00
Tanganyika Development Finance Co., Ltd.			
	8.50-9.50	9.00-9.50	10.00-10.50

1/ As of June 30, 1975.

2/ Rate depends on the purpose for which the bill was drawn.

3/ For treasury bills of all maturities rediscounts are one-half per cent and advances one per cent above the current rate for bills.

IBRD/DFCD

October 6, 1975

TIB'S STATEMENT OF
INVESTMENT AND FINANCIAL POLICY

The Tanzania Investment Bank (TIB) was created by an Act of the Tanzania National Assembly which came into effect on November 16, 1970.

The Objects of the Bank

TIB will extend its assistance on the basis of national priorities for economic and social development as laid down in the current and future national development plans. In this respect, TIB will:

- (a) make available long and medium term finance for:
 - (i) the development of manufacturing, assembly and processing industries including industries engaged in the processing of products of agriculture, forestry or fishing;
 - (ii) the development of engineering, construction, transport, tourist and mining industries; and
 - (iii) the development of large-scale corporate agriculture, ranching, forestry and fishing.
- (b) provide technical assistance and advice for the purpose of promoting industrial development;
- (c) administer such special funds as may from time to time be placed at the disposal of the Bank; and
- (d) undertake such other activities as may be necessary or advantageous for the purpose of furthering the foregoing objectives.

A. General Policy

1. As a national development institution, TIB will lend its assistance to the development of soundly managed enterprises in the United Republic of Tanzania in all the sectors of the economy specified in the Act.
2. TIB will extend its assistance on the basis of national priorities for economic and social development as laid down in the current and future development plans. TIB will only finance projects which are technically feasible and economically sound and financially viable. TIB's economic evaluation will

take into account, among others, the foreign exchange savings or earnings, the development of manpower skills, employment opportunities and the spread effects on the rest of the economy, as well as the effect on government budget.

3. TIB will in the framework of the national development strategy give priority to public sector projects.
4. TIB will not subsidize enterprises or projects whether in the public or private sector. In the case of projects which are less than financially viable the decision on their implementation because of the overall development effect, should be taken by the national planning authorities with appropriate recommendations for Government subsidies.
5. TIB will prepare broader studies of the sectors where important applications for TIB financing are on hand or expected in order to ensure a thorough and comprehensive evaluation of such applications. It will also prepare such other studies which will facilitate the analysis of TIB's role in the development policy of the country and which will make TIB an active partner in the national planning effort.
6. TIB will take the lead in identifying and appropriately publicizing investment opportunities in all the productive sectors of the economy. It will, where appropriate, extend technical assistance and advice to its clients in matters of project planning, organization and financing. It will also place emphasis on the use of suitable modern management techniques among its customers.
7. All applications for TIB assistance must be formerly submitted to it in writing through the applicants' Board of Directors. All applications must be accompanied by written confirmations of relevant Ministries that the project in question is in line with national development objectives.

B. Investment Policy

1. TIB will grant medium and long term loans whose terms and conditions, such as repayment periods, interest rates, commitment fees, and grace periods, will vary with the requirements of each project taking into account relevant Government policies as well, it will also invest in the share capital of enterprises, underwrite securities and guarantee debts as appropriate.

2. TIB's financial assistance from the ordinary resources will not normally amount to less than Shs. 100,000. However, TIB will be prepared to consider requests for financing of projects which, although requiring a smaller amount, nevertheless present a definite economic interest.
3. TIB will seek to diversify its portfolio in order to maintain a reasonable level of risk. In this respect and as a general rule the total outstanding commitments granted by TIB on its ordinary resources in favour of a single project shall not exceed 75% of the value of the total investment in fixed assets and capitalized services (i.e., excluding current assets/working capital). This means that TIB can wholly finance a project which is an extension, provided the total involved does not exceed 75% of the total fixed investment programme. Under normal circumstances a figure of 60% shall be an acceptable target.
4. As a rule, the total outstanding commitments granted by TIB in favour of a single project shall not exceed 20% of TIB's net worth.
5. The restrictions laid down in paragraphs (3) and (4) above may be waived in cases where TIB is acting as a trustee, on behalf of the Government or one of its agencies, for the channelling of foreign funds to a specific project and where TIB's liability towards the foreign agency or lender is fully and unconditionally covered by a guarantee from the Government or the agency concerned.
6. Under normal circumstances, TIB's total investments in the form of equity participation may not exceed 40% of its paid in share capital, unimpaired reserves and grants.
7. TIB will not grant loans for the purpose of refinancing projects.
8. In principle, TIB will participate in the financing of such projects only where the procurement of plant and machinery, contractors and services is made by way of the most widely spread tenders. As a rule, international tendering will be required, but in cases where local contractors or suppliers are available, local tenders may be considered sufficient. At all events procurement of goods and services or the award of contracts for the total or partial financing for which TIB's assistance is being sought must not take place before or without the Bank having been consulted by the applicant or project promoter. The Bank will also require minutes of meetings of boards or committees where offers have been discussed and

decisions taken with respect to suppliers, contractors, etc. Such decisions must be well documented in a comparison of the various offers received and all reasons for the choices made must be given therein.

9. In cases of single items constituting the object of TIB's financing, and whose value does not exceed Tshs. 100,000 per item, a reasonable number of different proforma invoices from various suppliers may be accepted by the Bank instead of a full tender. For the selection process the last sentence of para. 8 above applies.
10. TIB will not finance infrastructure projects such as roads, buildings, etc. except insofar as such infrastructure is required as part of a project which does come within TIB's terms of reference.
11. Where appropriate TIB will join with other financing institutions, local or foreign, in financing projects.
12. TIB will endeavor to maintain a well-balanced loan portfolio by distributing its commitments--i.e., loans, guarantees and participations--prudently among the sectors of the economy falling within the range of its objects.

C. Financial Policy

1. It will be the general aim of TIB's financial policy of maintain the value of its own capital, to manage its funds in such a way that it is at all times able to honor its obligations and to achieve a profit margin that enables it to cover its operating costs, build up adequate provisions and reserves, and remunerate its share capital.
2. TIB will maintain a satisfactory balance between the maturities of its own obligations and those of the loans it grants.
3. In cases where loans are made in currencies other than Tanzanian Shillings, TIB will not accept any exchange risks. This will have to be borne by the borrower or by the Government.
4. The minimum interest rate charged by TIB will substantially reflect the cost of capital in Tanzania, but will normally not be less than 10%.
5. In addition to interest, TIB shall charge a commission of 1% on the total loan at the time of first disbursement.
6. A commission in terms of a percentage of outstanding loans or participation amounts will be charged in return for particular

and specified services, such as one time or continuous provision of technical assistance by TIB (organizational, planning) or the negotiations and arrangement of finance from other sources. The size of the commission will have to depend on the work and effort involved for TIB, it should, however, normally not exceed 2% of the amount upon which it is charged.

7. The fee to be charged by TIB for the granting of a guarantee to a supplier or tenderer will depend on the nature of the project, the general present and expected future standing of the borrower's business, the extent of the commitment entered into, the size of the amount guaranteed and the duration of the guarantee commitment. It will normally not be less than 1-1/2% p.a. on outstanding amounts.
8. On all loans a commitment fee will be charged at the uniform rate of 1% p.a. on committed but undisbursed balances. Such commitment fee will accrue from the date of the completed signing of the loan agreement, but not later than from a date 30 days after receipt by the Borrower of the Bank's written decision to grant the loan.
9. The maximum term of a loan or guarantee will be 15 years counted from the date of the loan agreement until the date of the last repayment instalment. The maximum grace period--with interest due and payable--will be five years counted from the date of the loan agreement. The validity of Board's approval for each loan shall not exceed 6 (six) months counting from the date on which the decision was made.
10. All charges, i.e., legal fees, bank charges and commissions and all appraisal costs other than those normally incurred by the Bank, will constitute recoverable items of expenditure under the application and the loan agreement.
11. TIB will seek adequate security for its lendings, such as debentures, mortgages, promissory notes and guarantees. The kind and amount of security required will depend on the nature of the assets charged as to their degree of liquidity, the standing of the guarantors and other considerations having regard to the future expectations from a project.
12. In addition TIB will, in full awareness of the relative value of any type of classical security (except for a first-class guarantee) under present circumstances, incorporate in its loan or guarantee agreements all those conditions which in the Bank's opinion are designed to improve the borrower's management and organizational set-up with a view to improved project viability. Areas of consideration in this respect will be

(a) the selection of plant and equipment, (b) plant location, (c) technical organization, (d) cost accounting, (e) product mix, (f) marketing and (g) financial policies, procedures and practices.

13. The Borrower has the right, upon not less than 30 days notice and upon payment of all accrued interest, commitment fees, charges and commissions to repay all or any installments of the loan in advance of maturities, provided that 25% of the amount of the interest saved by the borrower through such repayment in advance shall be paid to the Bank as a premium.
14. Under certain specified conditions such as failure to make repayments or non-fulfillment of loan conditions, the Bank may, by notice to the Borrower, suspend wholly or in part the right of the Borrower to disbursements from the loan account.
15. TIB will make adequate provisions against potential losses and build up reserves to a level consistent with sound financial practices, taking into account the size and quality of its portfolio of loans and investments as well as the need to pay adequate dividends to shareholders.
16. Whenever it considers it necessary to broaden its own facilities for operations, TIB will obtain funds locally or abroad by the issue of bond loans and/or by entering into loan agreements. In this connection, the Bank will follow a prudent policy as far as debt acquisition is concerned.

D. Relationship with Enterprises Financed

1. TIB will not seek by the making of equity investments, to obtain a controlling interest in a project or enterprise. It will also generally avoid assuming management responsibilities in such projects or enterprises. This will not, however, preclude TIB from requiring membership on the Board of Directors of any or all enterprises in which it has outstanding loans or guarantee arrangements or in which it has equity participation.
2. When deciding upon the amount and the form of financial assistance it will provide, TIB will take into account all the financial requirements of the project and the general financial situation of the borrowers in question.
3. In accordance with normal banking practices, TIB will require its borrowers to provide and to maintain adequate security, to keep records and accounts in accordance with

sound accounting practices and to furnish whatever information on their operations and accounts TIB deems desirable. TIB will have the right to inspect the enterprises it finances as well as their operations and accounts.

4. Business secrets and other information furnished by applicants or clients will be treated as confidential by TIB.

IBRD/DFCD
October 6, 1975

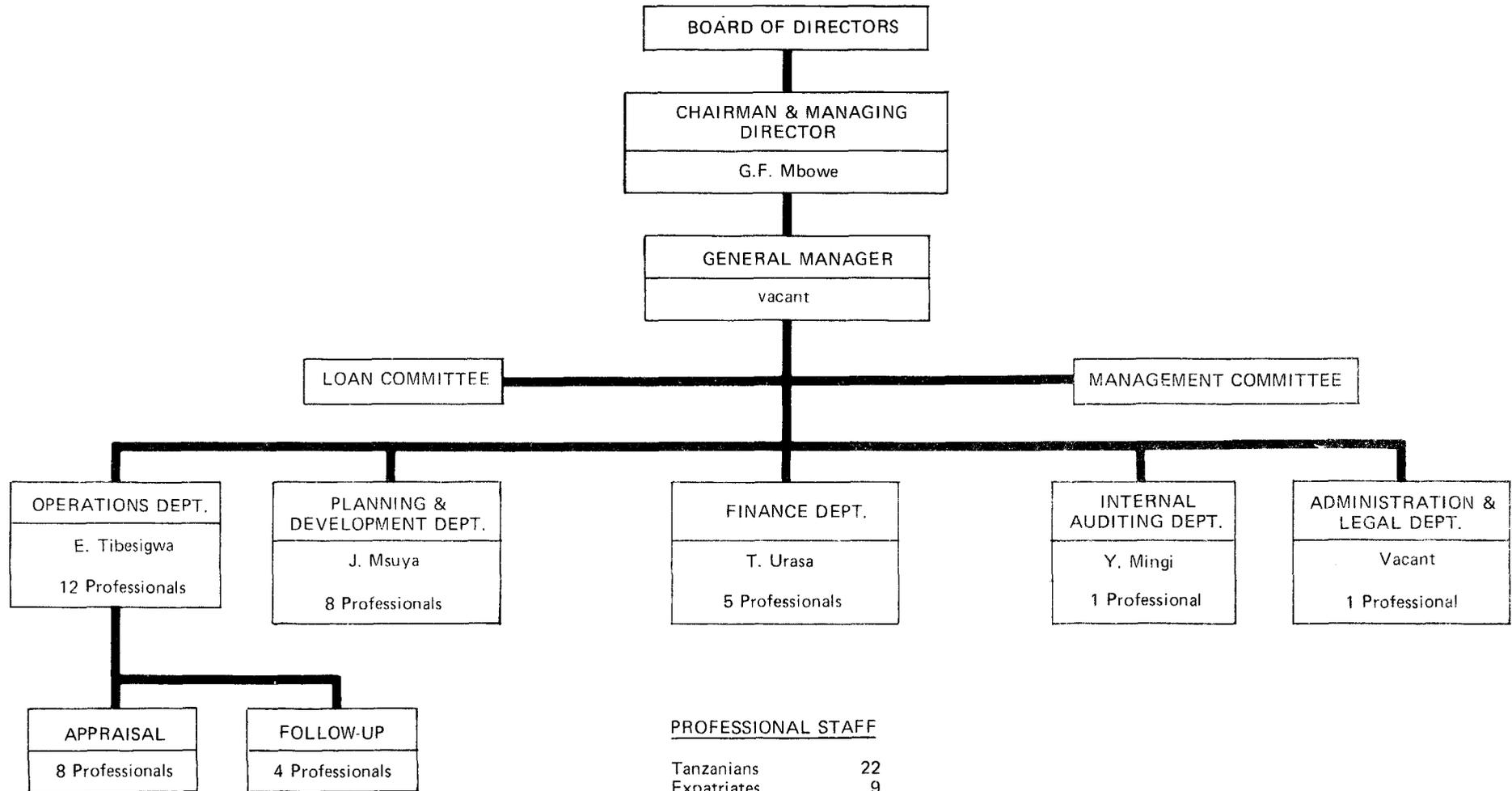
TANZANIA INVESTMENT BANK

BOARD OF DIRECTORS
(As of June 1, 1975)

<u>Board Member</u>	<u>Position</u>	<u>Appointed By</u>
Mr. G. F. Mbowe	Chairman & Managing Director	President
Dr. K. A. Malima	Principal Secretary, Treasury	Government
Mr. F. Kazaura	Principal Secretary, MINCOM	Government
Prof. J. Rweyymamu	Principal Secretary, DEVPLAN	Government
Mr. D. N. Nkembo	Chairman & Managing Director, NBC	National Bank of Commerce
vacant	-	National Bank of Commerce
Mr. G. Mwaikambo	General Manager, NIC	National Insurance Corp.
Prof. A. J. Temu	Member of Parliament	Government
Mr. C. Samwang'ombe	Representative of the National Union of Tanganyika Workers	Government

**TANZANIA INVESTMENT BANK
ORGANIZATION CHART
(As of July 1, 1975)**

ANNEX 5



PROFESSIONAL STAFF

Tanzanians	22
Expatriates	9
Total	31
Tanzanian Staff on training	5

IBRD/DFCD
October 6, 1975

World Bank-9982

TANZANIA INVESTMENT BANK

Summary of Foreign Lines of Credit
(as of June 30, 1975)

<u>Source</u>	<u>Amount</u> (in Tsh million)	<u>Tied/Untied</u>	<u>Repayment</u> <u>Period</u>	<u>Interest</u> <u>Rate</u>
<u>Funds at TIB's Risk</u>				
SIDA I (loan)	8.5	Untied	1980-1994	4% p.a.
SIDA I (grant)	6.3	Tied to TDFL	-	0% ^{1/}
SIDA II (grant)	19.2	Untied	N.A.	0% ^{2/}
SIDA III (grant)	20.0	Untied	N.A.	0% ^{2/}
SIDA import sub- stitution fund	19.0	Tied	3/	3/
ADB	12.5	Untied	1976-1988	7.0%
IDA	42.6	Untied	1977-1989	7.25%
KfW	30.0 ^{4/}	Untied	1985-2013	5.2% ^{5/}
CIDA I	13.9	Untied	1982-2022	3/
CIDA II	4.4	Tied	1984-2025	3/
OECD (Grant)	35.8	Untied	N.A.	3/
Finnish Government	4.0	Tied	1983-2000	6.75%
Dutch Government	7.0	Tied	1980-1990	2.5%
<u>Agency Funds</u>				
CIDA III	9.0	Tied	1980-2021	6%

1/ TIB received a grant of Tsh 6.25 million from the Treasury to invest in TDFL's shares.

2/ TIB does not pay interest to the Government or SIDA but must transfer 6% p.a. of the outstanding balance to a special fund for small-scale industry.

3/ Terms still to be established between TIB and the Treasury.

4/ Tsh 6 million must be used for small-scale industry.

5/ TIB is to pay 0.75% interest to the Treasury and transfer 4.45% interest charges to the Small-Scale Industry Development Fund.

IBRD/DFID
October 6, 1975

TANZANIA INVESTMENT BANK

Summary of Operations 1971-1975
(Amounts in Tsh '000)

<u>Year Ending June 30</u>	<u>Loans</u>		<u>Equity</u> ^{1/} <u>Investments</u>			
	<u>No.</u>	<u>Amount</u>	<u>No.</u>	<u>Amount</u>	<u>No.</u>	<u>Amount</u>
1971 - Approvals	5	7,520	-	-	5	7,520
Commitments	-	-	-	-	-	-
Disbursements	-	-	-	-	-	-
Cancellations	1	600	-	-	1	600
1972 - Approvals	13	34,565	2	1,200	15	35,765
Commitments	-	-	1	1,000	1	1,000
Disbursements	7*	9,092	1*	1,000	8	10,092
Cancellations	4	5,200	-	-	4	5,200
1973 - Approvals	15	52,870	3	3,400	18	56,270
Commitments	20	54,855	2	1,700	22	56,555
Disbursements	6*	9,629	2*	760	8	10,389
Cancellations	4	4,000	1	1,500	5	5,500
1974 - Approvals	24	94,127	3	5,975	27	100,102
Commitments	11	53,250	3	5,900	14	59,150
Disbursements	8*	39,023	2*	4,682	10	43,705
Cancellations	3	8,500	-	-	3	8,500
1975 - Approvals	22	128,451	-	-	22	128,451
Commitments	36	160,098	-	-	36	160,098
Disbursements	8*	70,338	-	-	8	70,338
Cancellations	-	-	-	-	-	-
Accumulated Total ^{2/} , as of June 30, 1975						
Approvals	66	317,533	8	10,575	68	328,108
Commitments	56	239,537	5	8,600	57	248,137
Disbursements	41	128,082	5	6,442	42	134,524
Cancellations	11	18,300	1	1,500	12	19,800

* Number of projects on which disbursements stated during period.

^{1/} This excludes equity investment of Tsh 17.9 million in TDFL.

^{2/} Some projects had more than one loan or equity investment. The annual figures refer to the number of loans or equity investments, while the accumulated figures refer to the number of projects.

TANZANIA INVESTMENT BANK
Analysis of Loans Approved as of June 30, 1975^{1/}
(Amounts in Tsh. '000)

	<u>No.</u>	<u>%</u>	<u>Amount</u>	<u>%</u>
A. SIZE				
Up to Tsh 1 million	13	19	7,015	2
Tsh 1.0 - 2 million	13	19	18,862	6
Tsh 2.1 - 4 million	10	15	34,999	12
Tsh 4.1 - 7 million	16	24	88,114	29
Tsh 7.1 - 10 million	8	12	64,400	22
Tsh 10.1 and over	<u>7</u>	<u>10</u>	<u>85,843</u>	<u>29</u>
Total	<u>67</u>	<u>100</u>	<u>299,233</u>	<u>100</u>

Average = Tsh 4,466,000
Median = Tsh 3,600,000

B. MATURITY				
Up to 5 yrs.	9	13	21,730	7
5.1 - 7 yrs.	19	29	51,652	17
7.1 - 10 yrs.	25	37	132,939	45
Over 10 yrs.	<u>14</u>	<u>21</u>	<u>92,912</u>	<u>31</u>
Total	<u>67</u>	<u>100</u>	<u>299,233</u>	<u>100</u>

Weighted Average = 9 yrs
Median = 8 yrs

C. INTEREST RATE				
7%	1	2	7,000	2
8%	4	6	6,605	2
8.5%	15	22	51,445	17
9%	25	37	104,232	35
9.5%	2	3	8,000	3
10%	<u>20</u>	<u>30</u>	<u>121,957</u>	<u>41</u>
Total	<u>67</u>	<u>100</u>	<u>299,233</u>	<u>100</u>

Weighted Average = 9.24%
Median = 9%

^{1/} Net of Cancellations

	<u>No.</u>	<u>%</u>	<u>Amount</u>	<u>%</u>
D. ECONOMIC ACTIVITY				
Non Metallic Minerals	3	4	5,000	2
Chemical & Rubber	3	4	8,260	3
Food & Food Processing	22	33	93,914	30
Transport	4	6	34,315	12
Tourism	6	9	18,260	6
Tanneries & Leather Products	7	11	30,114	10
Textile & Rope	4	6	17,900	6
Wood & Wood Processing	7	11	38,690	13
Other	<u>11</u>	<u>16</u>	<u>52,780</u>	<u>18</u>
Total	<u>67</u>	<u>100</u>	<u>299,233</u>	<u>100</u>
E. LOCATION				
Dar es Salaam	25	37	113,815	38
Arusha	14	22	52,257	18
Mwanza	8	12	36,500	12
Tanga	5	7	9,000	3
Morogoro	5	7	42,775	14
Others	<u>10</u>	<u>15</u>	<u>44,886</u>	<u>15</u>
Total	<u>67</u>	<u>100</u>	<u>299,233</u>	<u>100</u>

TANZANIA INVESTMENT BANK
List of Equity Investments
Approved as of June 30, 1975

<u>Company</u>	<u>Economic Activity</u>	<u>Date of Approval</u>	<u>Amount Approved</u> (Tsh'000)	<u>Amount Paid-in</u> (Tsh'000)	<u>TIB's Investment As % of Total Equity</u>	<u>Company's Profit (Loss) in Last FY</u>	<u>Dividend in Last FY</u>
<u>Common Shares</u>							
1. Tanzania Chemical Industries	Chemical	5/2/73	400	400	33 1/3%	(63,750)	none
2. Tanzania Tours Limited	Tour Operator	7/31/73	1,500	1,500	43%	60,000	none
3. Tanzania Navy Bean Ltd.	Navy Bean Processing	5/15/72	200	200	15%	(504,000)	none
4. National Engineering	Mechanical Workshop	9/30/71	1,000	1,000	33%	N.A.	none
5. TDFL shares	Development Banking		10,000	10,000	25%	170,000	none
6. TDFL income notes	Development Banking		<u>7,900</u>	<u>7,900</u>	25%	-	<u>237,645</u>
Total			21,000	21,000			237,645
<u>Preferred Shares</u>							
1. Mtibwa Sugar Estate	Sugar Estate	1/24/74	3,500	3,342	N.A.	(9,200,000)	none
2. Nyanza Salt Mines	Salt Mine	6/21/74	2,000	-	N.A.	(3,812,000)	none
3. Kigoma Motel	Motel	11/8/73	<u>475</u>	<u>-</u>	N.A.	N.A.	
Total			<u>5,975</u>	<u>3,342</u>			
Total Investments in Common & Preferred Shares			<u>26,975</u>	<u>24,342</u>			

TANZANIA INVESTMENT BANK
Economic Indicators of Projects approved during
the first nine months of FY 1975

New Projects

Company	Amount Approved (Tsh'000)	Other Financing			Project Costs Tsh'000			% Local owner-ship	% Local Raw Material	No. of Direct Jobs Created	Annual Exports (Tsh'000)	Net Annual F.E. Earnings (Tsh'000)	F.R.R.	E.R.R.
		Company New Equity	Internal	Others	Total	Local	Foreign							
Tanzania Stationery Ltd.	5,500	5,500	-	2,500 (TDFL)	13,500	2,500	11,000	100	-	301	Nil	40,000	23.1%	19.4%
KILODECO-Sugar Project	4,140	1,380	-	-	5,520	5,055	465	100	100	380	Nil	2,000	10.7%	50%
UDECO-Fishing Project	500	275	146	-	921	700	221	100	100	35	Nil	900	11.3%	40%
Tanzania National Parks	1,560	-	440	1,500 ^{1/}	3,500	3,500	-	100	N.A.	60	600	600	12.6%	23.8%
TWICO-Mkata Saw Mill	4,024	1,500	-	- ^{2/}	5,524	2,024	3,500	100	100	124	6,000	4,000	20.9%	46.1%
Mwanza Tanneries Ltd.	4,500	10,000	-	12,000 (EADB, TIB)	26,500	13,000	13,500	100	100	265	40,000	30,000	18%	27%
TAFICO-Prawn Fishing	3,500	2,500	-	-	6,000	1,385	4,615	100	100	50	Nil	4,000	13.6%	19.8%
NAPCO-Setchet Wheat Scheme	4,400	5,600	-	4,000 (TCA)	14,000	9,000	5,000	100	100	50	Nil	9,000	9%	29%
Nyanza Fishing and Processing Co. Ltd.	6,000	11,025	-	7,600 (TDFL, TIB)	24,625	13,625	11,000	100	100	60	Nil	5,500	9.4%	13.6%

Expansion Projects

Tanzania Fishnets Ltd.	1,500	-	2,064	-	3,564	1,366	2,198	100	0	40	Nil	2,000	36.2%	16%
MEGCO Ltd.	7,500	8,200	-	- ^{4/}	15,700	-	15,700	100	N.A.	-	Nil	N.A.	10.8%	N.A.
Sungurateg	10,500	7,500	-	22,000 ^{3/}	40,000	6,000	34,000	100	40-100	240	10,000	80,000	27.4%	46.4%
NAPCO-Navy Beans	10,677	-	-	-	10,677	2,677	8,000	100	100	300	40,000	30,000	31.6%	50%
Tanzania Shoe Co. Ltd.	4,000	-	1,100	-	5,100	1,500	3,600	100	0	320	Nil	3,000	27.5%	6.0%
Aluminum Africa Ltd.	10,500	8,200	-	-	18,700	8,150	10,550	100	100	178	Nil	13,000	20.2%	50%
Total	78,801	61,680	3,750	49,600	193,831	70,482	123,348			2,403	96,600	224,000		

1/ TIB's other loan

2/ EADB (Tsh 6 million), and TIB's first loan (Tsh 6 million)

3/ TDFL (Tsh 2 million), THB (Tsh 1.6 million) and TIB's loan (Tsh 4 million)

4/ EADB (Tsh 20 million) and TDFL (Tsh 2 million)

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Investment cost per new direct job = Tsh 79,765 (\$11,170)

Average financial rate of return = 18.8%

Average economic rate of return = 31.1%

TANZANIA INVESTMENT BANK

Summary Description of Loan Portfolio
(as of June 30, 1975)

1. This Annex contains an analysis of TIB's loan portfolio as of June 30, 1975. The projects in the portfolio have been classified as follows (amounts in Tsh million):

A. Operating Companies in difficulty, with uncertain prospects

	<u>Amount Outstanding</u>	<u>Percentage of Portfolio</u>
1. Mtibwa Sugar *	7.0	5.7
2. Fibreboard Africa *	6.0	4.9
3. Nyanza Salt Mines *	4.5	3.7
4. Tanzania Navy Beans *	3.8	3.1
5. National Engineering Co. *	<u>1.8</u>	<u>1.5</u>
Subtotal	<u>23.1</u>	<u>18.9</u>

B. Operating Companies in difficulty, but with reasonable prospects

	<u>Amount Outstanding</u>	<u>Percentage of Portfolio</u>
1. National Cold Chain Operations *	6.9	5.6
2. Dar es Salaam Motor Transport *	5.6	4.6
3. Mwananchi Construction Co.	0.7	0.6
4. Tembo Chipboards *	<u>0.5</u>	<u>0.4</u>
Subtotal	<u>13.7</u>	<u>11.2</u>

* In arrears for more than 3 months, as of June 30, 1975.

C. Problem free operating companies

	<u>Amount Outstanding</u>	<u>Percentage of Portfolio</u>
1. Tanzania Coastal Shipping Lines *	10.1	8.3
2. Tanganyika Dyeing and Weaving	9.6	7.8
3. National Milling Corporation	9.0	7.4
4. Tanganyika Tegry Plastics	3.7	3.0
5. Tanzania Shoe	3.5	2.9
6. Tanzania Tanneries	3.4	2.8
7. Tanzania Twine & Rope *	3.4	2.8
8. Kilimanjaro Hotel	3.0	2.4
9. General Tyre *	1.7	1.4
10. Tanganyika Industrial Co.	1.4	1.1
11. Habari Printers	0.4	0.3
12. Nuta Press	0.2	0.2
13. National Printing	<u>0.2</u>	<u>0.2</u>
Subtotal	<u>49.6</u>	<u>40.6</u>

D. Projects under construction

	<u>Amount Outstanding</u>	<u>Percentage of Portfolio</u>
1. Sao Hill Saw Mills *	6.1	5.0
2. Kilombero Sugar *	5.9	4.8
3. Mwanza Tanneries	5.0	4.1
4. Nyanza Fishing & Processing	4.0	3.3
5. Kilwa Saw Mill	3.4	2.8
6. Tanesco Power Co.	2.0	1.6
7. Tanzania Chemical Industries *	2.0	1.6
8. National Milling Co.	1.8	1.5
9. Tanzania Fishnets Industries	1.5	1.2
10. Modson Garments	1.3	1.1
11. DDC Fishing Projects *	0.8	0.7
12. Tanzania National Park	0.7	0.6
13. Mount Meru Hotel	0.7	0.6
14. NAFCO - Basuto Plantation	0.3	0.2
15. Mahewi Limestone	<u>0.3</u>	<u>0.2</u>
Subtotal	<u>35.8</u>	<u>29.3</u>
Grand total	<u>122.2</u>	<u>100.0</u>

* Companies in arrears for more than 3 months, as of June 30, 1975.

2. The projects in category A are all in arrears for more than three months, have generally technical as well as market problems are overburdened with short-term debt and have grim short-term prospects, but may be salvaged if appropriate action is taken. Most of the projects in category B are in arrears for more than three months, but have reasonable prospects. Some of the projects under implementation have potential problems in particular cost overruns; for most it is too early to make a judgement on their prospects.

3. Following are summaries of the conditions of projects in categories A and B. Figures appearing before the description of the projects, are as of June 30, 1975, and "arrears" indicate obligations overdue for more than 3 months.

A. Operating Companies in Difficulty, with Uncertain Prospects:

Mtibwa Sugar Estates Ltd.

TIB's equity investment	:	Tsh 3.34 million
Percentage of share capital	:	6.8%
Undisbursed equity commitments	:	Tsh 160,000
TIB's loans outstanding	:	Tsh 7 million
Percentage of TIB's loan portfolio	:	7.7%
Undisbursed loan commitments	:	None
Arrears	:	Tsh 1.1 million in interest
Other long-term loans outstanding	:	Tsh 10 million from EADB; Tsh 3 million from TDFL

4. Mtibwa accounts for 10% of the Tanzanian sugar production. The company has a weak capital structure (debt/equity ratio of 5.1) and needs badly an increase in working capital (current ratio 0.5). The reasons for its problems have been: (i) high indirect taxes (64% of wholesale price), (ii) drought and low yields, (iii) bottlenecks in the factory and (iv) lack of effective management.

5. To alleviate Mtibwa's immediate problems the following measures have been taken: (i) the ex-factory price has been increased from Tsh 1,630/ton to Tsh 2,140/ton, (ii) equity has been increased by Tsh 27 million to remove bottlenecks in the factory and to provide for some irrigation, and (iii) HVA of Holland has been engaged to manage the company and to study the necessary rehabilitation of the factory and fields.

6. To solve Mtibwa's problems in the long run, the fields, factory and transport equipment should be rehabilitated and an irrigation system should be constructed. HVA has estimated preliminary a cost of Tsh 110 million. The Danish Government is considering to finance the irrigation program; the rest of the financing will have to come from new equity and long-term loans. A financing program should be prepared soon by TIB and the Sugar Development Corporation.

7. Since Tanzania is presently a net importer of sugar and is facing severe balance of payments problems, it is in the country's interest to salvage Mtibwa sugar.

Fibreboard Africa Ltd.

TIB loans outstanding	:	Tsh 6 million
Percentage of TIB's portfolio	:	4.9%
Undisbursed commitment	:	Tsh 2 million
Arrears	:	Tsh 290,000 in interest
Other long-term debt	:	Tsh 6 million from EADB

8. The company, which produces fibreboard, has had managerial, technical, and marketing problems since the beginning. Due to technical problems, the plant has operated far below capacity (45% in 1974), and the poor product quality has caused marketing problems. As of December 31, 1974, the company's accumulated losses amounted to Tsh 9.5 million (73% of share capital) and the D/E ratio was 5.9. The company can only be salvaged if bottlenecks of the existing plant are removed and if the company is financially restructured. To solve the technical problems, Tsh 4 million must be invested in additional equipment and vital spare parts. TIB has granted an additional loan of Tsh 2 million and TWICO has provided Tsh 1 million more. To alleviate the company's working capital problems, NBC is considering to convert its Tsh 3.5 million overdraft into a medium-term loan and EADB has been requested to reschedule its Tsh 6 million loan. One of Fibreboard's problems has been that TWICO handled the marketing and controlled the sales receipts. TWICO has now given Fibreboard autonomy in its marketing. Also, the company has arranged a management contract with a reputable Finnish firm.

Nyanza Salt Mines Ltd.

TIB loan outstanding	:	Tsh 4.5 million
Percentage of TIB's loan portfolio	:	3.7%
Undisbursed commitments	:	None
Arrears	:	Tsh 400,000 in interest
Other long-term debt	:	Tsh 14.2 million from EADB

9. The company produces salt from an old thermal plant and a newly-installed solar plant. The thermal plant operates at full capacity and is profitable. Due to technical problems, the solar plant produces only 2,000 tons/year compared to full capacity of 60,000 tons/year. High overheads and high variable costs, due to continuous breakdowns, have caused losses in recent years. As of December 31, 1974, accumulated losses amounted to Tsh 5.2 million, offsetting most reserves; the debt equity ratio was 5.7 and the current ratio only 0.77. To eliminate technical bottlenecks, Tsh 2.2 million are needed for completion of the crystallizer section of the solar plant and increasing the pumping capacity. If work on the solar plant starts now, it can be completed by mid-1976.

10. Recently, the price of salt has been increased from Tsh 370/ton to Tsh 535/ton. Despite the higher price, local sales have increased. With the new price, the company expects to have a positive cash flow of Tsh 1.5 million. This would allow the company to increase its current ratio to 1 (by paying off current liabilities), but still would be insufficient to finance the additional investments needed (Tsh 2.2 million). TIB has agreed to provide Tsh 2 million in preferred shares if the parent company provides some additional equity to further alleviate working capital shortages. TIB will also propose EADB to reschedule its Tsh 14 million loan.

Tanzania Navy Beans Ltd. (TNBL)

TIB loans outstanding	:	Tsh 3.8 million
Percentage of TIB's loan portfolio	:	3.1%
Undisbursed commitments	:	Tsh 8.1 million
Arrears	:	Tsh 400,000 in principal and Tsh 135,000 in interest
TIB equity investment	:	Tsh 200,000
Percentage of share capital	:	8.7%

11. The company, which is wholly-owned by the National Agricultural Food Corporation (NAFCO), grows, buys, and processes navy beans for exports. TNBL is in a very difficult situation due to low production yields and lack of export markets. Average production costs are 1.7 times the present international price of processed beans, and expected losses for 1975 are Tsh 3.4 million. These losses will further weaken the financial condition of the company. As of December 31, 1974, the company's current ratio was 0.75 and its paid-in share capital was completely wiped out by accumulated losses.

12. TIB has approved a Tsh 10.7 million loan to finance an increase in the company's nucleus farms and factory capacity. Because of the marketing problems, high production costs and large cost overruns of the expansion program (Tsh 24 million compared to the original estimate of Tsh 12 million). TIB has suspended disbursements and is reappraising the project. As part of the reappraisal, TIB plans to study the feasibility of a canning plant to process some of the beans. The company is also actively pursuing export possibilities which will greatly depend on the harvest of beans in other parts of the world.

National Engineering Co. Ltd. (NECO)

TIB's equity investment	:	Tsh 1.0 million
Percentage of share capital	:	33%
TIB loans outstanding	:	Tsh 1.8 million
Percentage of TIB's loan portfolio	:	1.5%
Undisbursed commitments	:	Tsh 259,000
Arrears	:	Tsh 100,000 in interest

13. The company manufactures steel structures, tanks, and containers. Although NECO has a good market, it is presently facing a serious crisis due

to lack of management. Besides new management, the company needs technical personnel and a financial restructuring:

(1) The present management, whose share in the company's equity has declined from 100% to 27%, has lost interest in the company. The other shareholders of the company are the Workers Development Corporation (40%) and TIB (33%). The National Development Corporation (NDC) is presently considering to take over the remaining shares of the former owners. The machinery that was financed by TIB, arrived a long time ago, but has not yet been installed, due to the management problems. It will probably be difficult to find proper management until the future ownership of the company has been clarified.

(2) In the last two years, NECO lost the eight top technical staff (including the Chief Accountant, the Structural Engineer, the Pattern Engineer, and the Foundry Engineer), probably due to the new income tax system in the country. Recently, the company has recruited a qualified chief accountant and structural engineer and a new General Manager has been designated. The company also has obtained foreign aid for recruitment and financing of a pattern maker and a foundry engineer.

(3) Although accounts for 1974 are not available, the company is known to have financial problems. Overdrafts with NBC are exceeding Tsh 1.2 million and shortages of working capital prevents the company from acquiring enough raw materials.

B. Operating Companies in difficulty, but with reasonable prospects

National Cold Chain Operations (NCCO)

TIB loans outstanding	:	Tsh 6.9 million
Percentage of TIB's loan portfolio	:	5.6%
Undisbursed commitments	:	Tsh 3 million
Arrears	:	Tsh 60,000 in interest

14. The company, a wholly owned subsidiary of the National Agricultural Food Corporation (NAFCO), started a project in 1973 to transport frozen and refrigerated goods, especially New Zealand meat, to Zambia. NCCO's main problem is the lack of markets. Export operations failed, because Zambia is importing meat from Botswana at a lower price than the New Zealand meat and with higher quality than the Tanzanian meat. Therefore, NCCO's operations are based on relatively small fish exports and domestic distribution of fruits and vegetables.

15. Although the present financial position of the company is still reasonable, it could deteriorate if new markets are not found. In 1974, revenues were Tsh 9.5 million and losses Tsh 1.5 million. However with depreciation of Tsh 1.6 million, NCCO broke even on a cash basis. As of March 31, 1975, accumulated losses amounted to Tsh 2 million (13% of paid-in share capital), but the debt/equity ratio (0.54), and the current ratio (1.06) are still reasonable.

16. NCCO has contracted new management (a Dutch firm) to develop new operations and new markets. It has prepared an expansion program, with a total cost of Tsh 32 million, and has requested TIB for a new loan of Tsh 16.5 million. TIB should appraise critically whether new markets will be available, and how the expansion program will solve the existing problems of NCCO.

he		<u>Dar Es Salaam Motor Transport Co. (UDA)</u>	
NBC po			
	TIB loans outstanding	:	Tsh 5.6 million
	Percentage of TIB's loan portfolio	:	4.6%
	Undisbursed commitments	:	Tsh 1.87 million
	Arrears	:	Tsh 1.4 million in principal

17. UDA provides bus services in Dar es Salaam. The company has not met its obligations with TIB. In 1974, UDA lost Tsh. 3.9 million, because operating costs kept increasing while fares were fixed by the Government, and because UDA's fare collection system is poor. Although the cash flow was positive (depreciation amounted to more than Tsh 5 million), UDA did not pay TIB, because available funds were used to complete a new maintenance workshop.

18. The prospects for the company seem reasonable, because: (1) In September 1974, fares were doubled, and UDA during the last two months of 1974 made profits of Tsh 800,000 per month; (2) the company was reorganized in a more appropriate way: the rural and country services were transferred to another company (Kamota), and UDA will serve only urban areas; (3) a new manager was appointed in May 1975; (4) in a few months the construction of the workshop will be completed which will improve the maintenance of the buses. If the company improves its fare collection system and is able to maintain the level of profits at Tsh 800,000 per month, as in the last two months of 1974, it will be able to repay TIB. UDA, therefore, seems to have reasonable prospects.

Mwananchi Construction Company (MECCO)

	TIB loans outstanding	:	Tsh 734,000
	Percentage of TIB's portfolio	:	0.6%
	Undisbursed commitments	:	Tsh 6.8 million
	Arrears	:	None

19. MECCO is a construction company wholly owned by the Ministry of Works that started having losses in 1971 and faced a serious crisis at the end of 1973. In 1974, the Ministry of Works, decided to restructure MECCO financially: the NBC overdraft was converted into equity (Tsh 18.5 million), additional equity was invested by the Ministry (Tsh 10.0 million), and a loan of Tsh 7.5 million was approved by TIB to finance MECCO's expansion program. The company is still in a difficult situation, however, because of market and management problems: (1) Markets for MECCO are tight as a result of the low priority given by the Government to building construction, and because a new

company (TECCO, a joint venture between the Tanzanian Government and a Yugoslavian firm) with enter the market, reducing MECCO's work volume. To meet this problem, MECCO intends to change from constructing buildings to water and sewerage projects; (ii) MECCO lost three managers in March 1975 and will lose three expatriate engineers by September 1975. The accounting system is poor, and no financial accounts for 1974 were available in June 1975.

20. During 1974, MECCO lost Tsh 6 million and during 1975 losses may continue, due to the low volume of contracts. The prospects of MECCO are poor, unless the Ministry of Works supports the company by increasing the volume of contracts. TIB has disbursed only a small portion of its committed loan and, in its own interest, should review the market and management problems of the company to determine whether MECCO's expansion project is still profitable under the new conditions.

Tembo Chipboards

TIB loans outstanding	:	Tsh 479,000
Percentage of TIB's loan portfolio	:	0.5%
Undisbursed commitments	:	None
Arrears	:	Tsh 400,000 in principal

21. The company produces timber and chipboards for the domestic and export markets. Tembo Chipboards had production problems due to shortage of imported chemicals, lack of spare parts and frequent power cuts. The company was in a tight liquidity position and was not able to repay its obligations to TIB. However, bottlenecks have been removed and during 1974, the company increased sales of timber and chipboards by 50%. Around 60% of chipboards were exported, and the market potential seems good for the company. Financial accounts for 1974 were not available, but given the increase in production and exports, it is expected that Tembo Chipboards is operating profitably. However, TIB should verify this and determine whether the company can start repayments.

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TANZANIA INVESTMENT BANK

Balance Sheets 1971-1975
(Amounts in Tsh million)

<u>As of June 30</u>	<u>1971</u>	<u>1972</u>	<u>1973</u>	<u>1974</u>	<u>1975</u>
ASSETS					
<u>Current Assets</u>					
Cash, Deposits & Short-term Investments	37.3	14.7	15.3	23.4	66.8
Advance & Prepayments	-	0.1	0.2	0.2	1.0
Receivables	1.1	0.8	1.7	3.7	11.6
Special Deposit with NBC	12.6	26.1	20.3	4.5	0.1
Total current assets	<u>51.0</u>	<u>41.7</u>	<u>37.5</u>	<u>32.0</u>	<u>79.5</u>
<u>Long-Term Assets</u>					
TIB-Loans	-	9.1	18.0	54.2	122.2
Equity Investments	-	1.0	1.8	6.4	6.4
Less: Provisions for Losses	-	-	-	(0.3)	(1.2)
Investment in TDFL	-	-	10.0	10.0	10.0
Shares	-	-	2.5	5.0	7.9
Income Notes	93.9	81.4	70.8	46.6	38.1
NBC Portfolio	0.4	1.3	1.6	1.9	2.2
Fixed Assets (Net)	<u>94.3</u>	<u>92.8</u>	<u>104.7</u>	<u>123.8</u>	<u>185.6</u>
Total Long-Term Assets					
Total Assets	<u>145.2</u>	<u>134.5</u>	<u>142.2</u>	<u>155.9</u>	<u>265.1</u>
<u>LIABILITIES & NET WORTH</u>					
<u>Current Liabilities</u>					
Accounts Payable	0.6	0.1	0.3	1.2	2.0
Tax Payable	-	0.9	0.8	0.8	3.1
Total Current Liabilities	<u>0.6</u>	<u>1.0</u>	<u>1.1</u>	<u>2.0</u>	<u>5.1</u>
<u>Long-Term Liabilities</u>					
NBC	93.9	81.4	70.8	46.6	38.1
Foreign Borrowings	-	-	5.1	29.2	94.6
Total Long-Term Liabilities	<u>93.9</u>	<u>81.4</u>	<u>75.9</u>	<u>75.8</u>	<u>132.7</u>
<u>Net Worth</u>					
Paid-in capital	50.0	50.0	50.0	50.0	70.0
Retained Earnings	0.8	2.1	3.2	4.3	7.9
Grants 1/	-	-	12.0	23.7	49.4
Total Net Worth	<u>50.8</u>	<u>52.1</u>	<u>65.2</u>	<u>78.0</u>	<u>127.3</u>
Total Liabilities & Net Worth	<u>145.2</u>	<u>134.5</u>	<u>142.2</u>	<u>155.9</u>	<u>265.1</u>

1/ Provided by the Treasury from the SIDA credit line for investing in TDFL's shares and income notes; for loans to Mtibwa Sugar Estates, National Engineering Corp., and for Small-Scale Industries Fund.

TANZANIA INVESTMENT BANK

Income Statements
(Amounts in Tsh'000)

<u>Year ending June 30</u>	<u>1971</u>	<u>1972</u>	<u>1973</u>	<u>1974</u>	<u>1975</u>
<u>REVENUE</u>					
Short-Term Investment Income	1,129	867	513	522	855
Interest Income & Commitment Fees					
- TIB Portfolio	-	361	1,291	3,411	9,594
- NBC Portfolio	3,713	6,760	5,701	4,537	3,271
Other Income	-	-	1	15	87
Total	<u>4,842</u>	<u>7,988</u>	<u>7,506</u>	<u>8,485</u>	<u>13,807</u>
<u>EXPENSES</u>					
Salaries & Other Personnel					
Expenses		1,047	1,279	1,776	1,983
Depreciation		125	176	204	229
Other Administrative Expenses		260	646	975	1,156
Total Administrative Expenses	<u>453</u>	<u>1,452</u>	<u>2,101</u>	<u>2,955</u>	<u>3,368</u>
Interest & Commitment Charges	3,004	4,454	3,469	3,244	3,052
Provisions		-	-	286	884
Total expenses	<u>3,453</u>	<u>5,906</u>	<u>5,570</u>	<u>6,485</u>	<u>7,304</u>
NET INCOME BEFORE TAXES	1,385	2,082	1,936	2,000	6,503
Income Taxes	546	860	801	834	2,979
NET PROFIT	<u>839</u>	<u>1,222</u>	<u>1,135</u>	<u>1,166</u>	<u>3,523</u>

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TANZANIA INVESTMENT BANK

Actual and Projected Financial Ratios (1972-1980)

Year Ending June 30	Actual				Projected				
	1972	1973	1974	1975	1976	1977	1978	1979	1980
A. <u>Income Statement Items as % of Average Total Assets</u>									
Gross Income	5.7	5.4	5.7	6.6	8.1	8.9	9.5	9.9	10.1
Less: Financial Expenses	3.2	2.5	2.2	1.5	2.5	2.6	3.0	3.7	4.0
Admin. Expenses	1.0	1.5	2.0	1.6	1.2	1.1	1.0	1.0	1.0
Gross Profit	1.5	1.4	1.5	3.5	4.4	5.2	5.5	5.2	5.1
Net Earnings	0.9	0.8	0.7	1.7	1.8	2.2	2.2	2.2	2.2
B. <u>Selected Income and Cost Items</u>									
Income from Loans as % of Average Loan Portfolio	7.8	7.8	8.4	9.9	11.2	11.3	11.1	11.0	11.0
Cost of Debt as % of Average Long-Term Debt	5.1	4.4	4.0	2.9	4.9	4.7	4.8	5.4	5.6
Spread	2.7	3.4	4.4	7.0	6.3	6.6	6.3	5.6	5.4
C. <u>Net Profit and Dividends</u>									
Net Profit as % of Year-End Networth	2.5	2.3	2.3	2.8	3.4	5.1	6.3	7.6	8.4
Net Profit as % of Average Networth	2.4	1.9	1.7	3.4	3.8	5.2	6.6	7.9	8.7
D. <u>Structural Ratios</u>									
Long-Term Debt/Equity Based on Outstanding Debts	1.6	1.2	1.3	1.1	1.1	1.6	2.2	2.7	3.2
Long-Term Debt/Equity Based on Outstanding Debts (Excluding NBC Loan)	0	0	0.4	0.7	1.0	1.5	2.2	2.7	3.2
Provisions as % of TIB Loan and Equity Portfolio	0	0	0.5	1.1	1.5	1.8	2.1	2.3	2.5
E. <u>Debt Coverage</u>									
Debt Service Coverage (DSC) (Excluding NBC)	n.a.	n.a.	8.8	15.0	4.2	3.7	4.1	3.3	3.0

TANZANIA INVESTMENT BANK

Pipeline of Projects as of June 30, 1975
(Amounts in Tsh. million)

Project	Economic Activity	Sponsor	Type	Market	Total Project Cost	Proposed Financing		Others	Expected Date of Approval
						TIB	Company New Equity		
Sabuni Industries Ltd.	detergent production	NDC	new	domestic	27.0	11.0	12.0	4.0 (TDFL)	*
National Cold Chain Co.	cold storage	NAFCO	expansion	domestic	32.0	16.7	15.3	-	*
National Printing Co.	newspaper	NDC	expansion	domestic	2.6	2.6	-	-	*
Tanzania Coastal Shipping Line	shipping	NTC	expansion	domestic	4.0	4.0	-	-	10/75
Cotton Wool Product Ltd.	textile	private	new	domestic	10.0	3.3	6.7	-	10/75
Cashewnut Projects	cashewnut processing	CATA	expansion	exports	222.0	14.0	-	208 (IBRD & CATA)	10/75
Shinyanga Oil Refinery	oil processing	CAPEX/ TCA	new	domestic	6.1	3.2	2.9	-	10/75
Tanzania Fertilizer Co.	fertilizer production	NDC	expansion	domestic	10.1	10.0	-	-	10/75
Tanganyika Tegry Plastics	plastic products	NDC	expansion	domestic	9.3	6.5	2.8	-	10/75
Sell Storage Depot	storage facility	TPDC	expansion	domestic	17.0	17.0	-	-	12/75
Stone & Sand Project	stone crushing	KIDECO	new	domestic	0.7	0.5	0.2	-	1976
Mwanza Boatyard	boat bldg.	DDC	expansion	domestic	3.7	1.2	2.5	-	1976
Aluminum Africa	steel products	NDC	expansion	domestic	90.0	20.0	-	70.0	1976
Tanzania Filters Co.	car filters	private	new	domestic	3.5	2.1	1.4	-	1976
Four Maize Mills	maize milling	NMC	expansion	domestic	36.0	12.0	20.0	4.0 (TDFL)	1976
Alcohol Yeast Project	alcohol & yeast	TIB	new	domestic	26.0	16.0	10.0	-	1976
New Farm Machinery Units	farm implements	NDC	new	domestic	33.3	10.8	12.0	10.5	1976
Moshi Transport Co.	transport	KIDECO	expansion	domestic	1.0	1.0	-	-	1976
Mpanda Sawmill	sawmill	MFADECO	new	domestic	1.4	1.2	0.2	-	1976
Tanzania Industrial Equipment	copper winding & P.V.C.	private	new	domestic	1.4	1.0	0.4	-	1976
T O T A L					541.5	155.6	89.4	296.5	
					=====	=====	=====	=====	

* Approved in July 1975.

TANZANIA INVESTMENT BANK

Projection Assumptions

Approvals

1.	<u>1975</u> (Actual)	<u>1976</u>	<u>1977</u>	<u>1978</u>	<u>1979</u>	<u>1980</u>
		----- Amounts in Tsh million -----				
Loans	129.0	160.0	200.0	240.0	280.0	320
TDFL income						
Notes	2.4	1.2	1.2	0.5	-	-
Equity invest- ment	<u>2.7</u>	<u>2.0</u>	<u>2.0</u>	<u>2.0</u>	<u>2.0</u>	<u>2.0</u>
Total	<u>134.1</u>	<u>163.2</u>	<u>203.2</u>	<u>242.5</u>	<u>282.0</u>	<u>322</u>

Sixty-seven percent of the total loan approvals are for imports. All equity investments are in local costs.

Commitments

2. Total uncommitted approvals of Tsh 60.2 million as of June 30, 1975 are committed in FY 1976. Sixty-seven percent of loan approvals are committed in the year of approvals and 33% in the following year. Equity investments are committed in the same year.

Disbursements

3. As of July 1, 1975, undisbursed commitments were Tsh 110.7 million. It is assumed that 50% of this amount will be disbursed in FY1976; 30% in FY1977; and 20% in FY1978. Thereafter, it is assumed that twenty percent of commitments are disbursed in the year of commitment, forty percent in the second year and forty percent in the third year. Equity investments are disbursed in the year of commitment.

Loan Collections

4. Actual collection schedules are used for loans committed before July 1975. It is assumed that new loans have an average term of 11 years including 3 years of grace. It is likely that TIB has to reschedule few major loans; it is assumed that only 75% of scheduled loan collections during the next two years will materialize. Actual collection schedules apply to NBC loans.

Debt Repayments

5. Debt repayments are based on actual schedule.

Interest Income

6. NBC portfolio: An annual average yield of 7.6%.
TIB portfolio: An annual average yield of 9.2% on outstanding loans.
An annual average yield of 10% on all new loans.

Other Income from Loans

7. Commitment fees of 1% on the average undisbursed commitments.
8. Commission fee of 1% on approved loans.
9. Annual average yield of 4.4% on short-term investments. This yield reflects the average income of TIB's investment in the Treasury Bills and special deposits with NBC.

Dividend Income

10. Return on equity investments at 7% per year beginning from the fourth year after the investment is made. No dividend income expected until FY 1978. Yield on TDFL income notes is assumed at 8% per year.

Interest costs

11. NBC Loan: Annual average borrowing cost of 6-1/4%.
12. Other Borrowings: The weighted cost of borrowings will increase from 2.9% in FY 1975 to 5.6% in FY 1980. This takes into account the actual cost of borrowings contracted before June 30, 1975; 8-1/2% on new IBRD and ADB borrowings; and 6% on new borrowing during FY 1976-1980.

Receivables

13. 80% of interest income collected in the same year and 20% in the following year.

Accounts Payable

14. Accounts payable expected to increase by 10% per year.

Equity

15. TIB's paid-up capital expected to increase by Tsh 30 million to Tsh 100 million in FY 1976.

Administrative Expenses

16. Administrative expenses including salaries and personnel expenses increase by 20% per year during FY 1976 - FY 1978 and 25% per year thereafter.

Provision for Tax

17. Provision at 45% of net taxable income. Tax is payable in the following year.

Provision for Losses

18. Increases in provisions for losses are 3% of disbursements. Provisions are not tax deductible in Tanzania and taxable income has been adjusted accordingly.

Dividend Payment

19. TIB is not expected to pay any dividends during the projection period.

ISPP/DFCD
October 6, 1975

TANZANIA INVESTMENT BANK

Forecast of Operations
(Amounts in Tsh million)

<u>Year ending June 30</u>	<u>1976</u>	<u>1977</u>	<u>1978</u>	<u>1979</u>	<u>1980</u>
<u>Approvals</u>					
Loans - import component	107.0	134.0	161.0	188.0	213.0
Loans - domestic component	53.0	66.0	79.0	93.0	107.0
Equity investments	<u>3.2</u>	<u>3.2</u>	<u>2.5</u>	<u>2.0</u>	<u>2.0</u>
Total	163.2 =====	203.2 =====	242.5 =====	283.0 =====	322.0 =====
<u>Commitments</u>					
Loans - import component	111.8	125.1	152.1	179.1	204.8
Loans - domestic component	55.6	61.7	74.7	88.4	102.4
Equity investments	<u>3.2</u>	<u>3.2</u>	<u>2.5</u>	<u>2.0</u>	<u>2.0</u>
Total	170.6 =====	190.0 =====	229.3 =====	269.5 =====	309.2 =====
<u>Disbursements</u>					
Loans - import component	59.5	92.0	110.0	116.7	173.4
Loans - domestic component	29.4	45.5	69.2	72.2	85.7
Equity investments	<u>3.2</u>	<u>3.2</u>	<u>2.5</u>	<u>2.0</u>	<u>2.0</u>
Total	92.1 =====	140.7 =====	211.7 =====	220.9 =====	261.1 =====

TANZANIA INVESTMENT BANK

Projected Balance Sheets (1976-1980)
(Amounts in Tsh. million)

<u>Year Ending June 30</u>	<u>1975</u> (Actual)	<u>1976</u>	<u>1977</u>	<u>1978</u>	<u>1979</u>	<u>1980</u>
<u>ASSETS</u>						
Current assets	79.5	105.5	100.8	84.6	72.4	68.4
Current maturities of loan portfolio	<u>13.5</u>	<u>34.4</u>	<u>36.2</u>	<u>55.0</u>	<u>80.0</u>	<u>110.0</u>
Total current assets	93.0	139.9	137.0	139.6	152.4	178.4
TIB loan portfolio	108.7	172.8	277.9	434.8	576.3	728.1
Provision for bad debts	<u>(1.2)</u>	<u>(3.0)</u>	<u>(5.7)</u>	<u>(9.9)</u>	<u>(14.3)</u>	<u>(19.4)</u>
Loan portfolio (net)	107.5	169.8	272.2	424.9	562.0	708.7
NBC loan portfolio	38.1	13.7	9.9	7.2	4.6	1.9
Equity investments	24.3	27.5	30.7	33.2	35.2	37.2
Fixed and other assets (net)	<u>2.2</u>	<u>3.1</u>	<u>3.6</u>	<u>4.3</u>	<u>5.6</u>	<u>5.3</u>
Total assets	<u>265.1</u> =====	<u>354.0</u> =====	<u>453.5</u> =====	<u>609.3</u> =====	<u>759.8</u> =====	<u>931.5</u> =====
<u>LIABILITIES AND NET WORTH</u>						
Current maturities of term debt	7.9	14.3	10.9	17.7	23.7	23.6
Other current liabilities	<u>5.1</u>	<u>12.1</u>	<u>15.6</u>	<u>20.7</u>	<u>24.1</u>	<u>28.0</u>
Total current liabilities	13.0	26.4	26.5	38.4	47.8	51.6
NBC loan	38.1	13.7	9.9	7.2	4.6	1.9
Other medium- and long-term borrowings	<u>86.7</u>	<u>151.0</u>	<u>245.6</u>	<u>380.5</u>	<u>509.2</u>	<u>661.7</u>
Total medium and long-term borrowings	124.8	164.7	255.5	387.7	513.8	663.6
Paid-in share capital	70.0	100.0	100.0	100.0	100.0	100.0
Grants	49.4	49.4	49.4	49.4	49.4	49.4
Reserves and retaining earnings	<u>7.9</u>	<u>13.5</u>	<u>22.1</u>	<u>33.8</u>	<u>48.8</u>	<u>66.9</u>
Total net worth	127.3	162.9	171.5	183.2	198.2	216.3
Total liabilities and net worth	<u>265.1</u> =====	<u>354.0</u> =====	<u>453.5</u> =====	<u>609.3</u> =====	<u>759.8</u> =====	<u>931.5</u> =====

TANZANIA INVESTMENT BANK

Projected Income Statements (1976-1980)
(Amount in Tsh'000)

<u>Year ending June 30</u>	<u>1976</u>	<u>1977</u>	<u>1978</u>	<u>1979</u>	<u>1980</u>
<u>REVENUE</u>					
Interest on ST investments	2,925	4,326	4,050	3,211	2,524
Interest on loans	17,874	26,401	40,398	57,366	74,624
Commitment fees	1,892	2,385	2,562	3,047	3,527
Commission fees	1,600	2,000	2,400	2,810	3,200
Income from loans	<u>24,291</u>	<u>35,112</u>	<u>49,410</u>	<u>66,434</u>	<u>83,876</u>
Dividend income	<u>680</u>	<u>846</u>	<u>1,054</u>	<u>1,214</u>	<u>1,354</u>
Total revenue	<u>24,971</u>	<u>35,958</u>	<u>50,464</u>	<u>67,648</u>	<u>85,230</u>
<u>EXPENSES</u>					
Salaries	2,378	2,854	3,425	4,281	5,351
Depreciation	347	396	406	490	469
Other administrative expenses	1,216	1,459	1,750	2,188	2,735
Total administrative expenses	<u>3,941</u>	<u>4,709</u>	<u>5,581</u>	<u>6,959</u>	<u>8,555</u>
Interest on borrowing	6,714	9,770	15,871	24,052	33,280
Commitment fees	954	649	261	1,427	998
Total financial expenses	<u>7,668</u>	<u>10,419</u>	<u>16,132</u>	<u>25,479</u>	<u>34,278</u>
Provisions	<u>1,776</u>	<u>2,751</u>	<u>4,183</u>	<u>4,379</u>	<u>5,182</u>
Total expenses	<u>13,385</u>	<u>17,879</u>	<u>25,896</u>	<u>36,817</u>	<u>48,016</u>
<u>NET INCOME BEFORE TAXES</u>	11,587	18,079	24,568	30,832	37,214
Provision for income tax	<u>6,013</u>	<u>9,374</u>	<u>12,938</u>	<u>15,845</u>	<u>19,078</u>
<u>NET PROFIT</u>	<u>5,573</u>	<u>8,706</u>	<u>11,630</u>	<u>14,987</u>	<u>18,136</u>

TANZANIA INVESTMENT BANKProjected Changes in Financial Position (1976-1980)
(Amounts in Tsh million)

<u>Year ending June 30</u>	<u>1976</u>	<u>1977</u>	<u>1978</u>	<u>1979</u>	<u>1980</u>
<u>SOURCES</u>					
Net profit	5.6	8.7	11.6	15.0	18.1
Depreciation	0.4	0.4	0.4	0.5	0.5
Provisions	1.8	2.8	4.2	4.4	5.2
Cash from operations	<u>7.8</u>	<u>11.9</u>	<u>16.2</u>	<u>19.9</u>	<u>23.8</u>
Increase (decrease) in					
Current maturities of term debt	6.4	(3.4)	6.8	6.0	(0.1)
Other current liabilities	7.0	3.5	5.1	3.4	3.9
Medium- and long-term borrowings	39.9	90.8	132.2	126.1	149.8
Paid-in share capital	<u>30.0</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Sources	<u>91.1</u> =====	<u>102.8</u> =====	<u>160.3</u> =====	<u>155.4</u> =====	<u>177.4</u> =====
<u>USES</u>					
Increase (decrease) in					
Loan portfolio	60.6	103.1	173.0	163.9	179.1
Equity investments	3.2	3.2	2.5	2.0	2.0
Fixed and other assets	<u>1.3</u>	<u>0.9</u>	<u>1.0</u>	<u>1.6</u>	<u>0.2</u>
Total uses	<u>65.1</u> =====	<u>107.2</u> =====	<u>176.5</u> =====	<u>167.6</u> =====	<u>181.3</u> =====
Increase (decrease) in current assets	26.0	(4.7)	(16.2)	(12.2)	(3.9)

IBRD/DFCD

October 6, 1975

TANZANIA INVESTMENT BANK

Estimated Disbursement Schedule for Proposed Loan

	<u>Amount (\$'000)</u>
<u>FY 1976</u>	
Third quarter	50
Fourth quarter	150
<u>FY 1977</u>	
First quarters	250
Second quarter	350
Third quarter	500
Fourth quarter	700
<u>FY 1978</u>	
First quarter	900
Second quarter	1,100
Third quarter	1,200
Fourth quarter	1,300
<u>FY 1979</u>	
First quarter	1,400
Second quarter	1,500
Third quarter	1,300
Fourth quarter	1,100
<u>FY 1980</u>	
First quarter	1,000
Second quarter	800
Third quarter	600
Fourth quarter	400
<u>FY 1981</u>	
First quarter	<u>200</u>
Total	<u><u>15,000</u></u>