

CR. 1371-TA

Document of  
The World Bank

FOR OFFICIAL USE ONLY

Report No. P-3547-TA

REPORT AND RECOMMENDATION  
OF THE  
PRESIDENT OF THE  
INTERNATIONAL DEVELOPMENT ASSOCIATION  
TO THE  
EXECUTIVE DIRECTORS  
ON A  
PROPOSED DEVELOPMENT CREDIT  
OF SDR 5.9 MILLION  
(AN AMOUNT EQUIVALENT TO US\$6.3 MILLION)  
TO THE  
UNITED REPUBLIC OF TANZANIA  
FOR A  
COAL ENGINEERING PROJECT

May 2, 1983

This document has a restricted distribution and may be used by recipients only in the performance of their official duties. Its contents may not otherwise be disclosed without World Bank authorization.

### CURRENCY EQUIVALENTS

Currency Unit	=	Tanzania Shilling (TSh)
TSh 1.00	=	US\$0.11
US\$1.00	=	TSh 9.40
US\$1.00	=	SDR 0.927

(As the Tanzania Shilling is officially valued in relation to a basket of the currencies of Tanzania's trading partners, the USDollar/Tanzania Shilling exchange rate is subject to change. Conversions in this report were made at US\$1.00 to TSh 9.40 which was the level set in the most recent exchange rate adjustment in March 1982. The USDollar/SDR exchange rate used in this report is that of March 31, 1983.)

### ABBREVIATIONS AND ACRONYMS

CDC	-	Colonial (now Commonwealth) Development Corporation
MOM	-	Ministry of Minerals
MWE	-	Ministry of Water and Energy
STAMICO	-	State Mining Corporation
TANESCO	-	Tanzania Electric Supply Company
TPDC	-	Tanzania Petroleum Development Corporation
toe	-	tonnes of oil equivalent
tpy	-	tonnes per year

### FISCAL YEAR

Government - July 1 to June 30

Coal Engineering ProjectCredit and Project Summary

Borrower: United Republic of Tanzania

Beneficiary: Ministry of Minerals (MOM) and State Mining Corporation (STAMICO)

Amount: SDR 5.9 million (US\$6.3 million equivalent)

Terms: Standard

Project Description: The project would support Government efforts to evaluate the economic potential of the indigenous coal resources of Tanzania. Its objectives would be (i) to provide the Government with updated geological data on the Kabulo Ridge area in the Songwe-Kiwira coalfield, and to complete a feasibility study for commercial development of this deposit, if warranted, and (ii) to assist with the exploration and delineation of further reserves at Tanzania's only producing coal mine at Ilima. The project would also strengthen the technical and management capabilities of MOM and STAMICO in coal operations and financial administration.

Benefits: The project would broaden Tanzania's energy supply base by establishing the costs and most appropriate technical means of extracting coal from new sites. Foreign exchange savings of about US\$3 million per year could be achieved by 1987 from industrial uses of domestic coal, if follow-up investments were made at Ilima. In the longer term, confirmation of coal availability at Kabulo Ridge at a reasonable cost would open up attractive alternatives to hydroelectric and hydrocarbon based power generation facilities.

Risks: There is a small risk that further coal exploration work will not confirm the existence of economically and technically viable deposits at Kabulo and Ilima. The main exploration component would hence be phased to allow assessment of preliminary geological results, as well as the market outlook for coal, prior to undertaking further expenditures.

<u>Estimated</u> <u>Project Costs:</u> <sup>1</sup>	<u>Local</u>	<u>Foreign</u>	<u>Total</u>
	-----US\$ million-----		
Kabulo Ridge Exploration and Feasibility Study	0.44	3.77	4.21
Ilima Exploration	0.14	0.15	0.29
Training and Technical Assistance	<u>0.13</u>	<u>0.45</u>	<u>0.58</u>
Sub-total	<u>0.71</u>	<u>4.37</u>	<u>5.08</u>

Contingencies:			
Physical	0.10	0.54	0.64
Price	0.26	0.99	1.25
Total	<u>1.07</u>	<u>5.90</u>	<u>6.97</u>

<u>Financing Plan:</u>	<u>Local</u>	<u>Foreign</u>	<u>Total</u>	<u>%</u>
	-----US\$ million-----			
IDA	0.40	5.90	6.30	90%
Government	0.67	-	0.67	10%

Estimated Disbursements:

<u>IDA Fiscal Year</u>	<u>1984</u>	<u>1985</u>	<u>1986</u>	<u>1987</u>
	-----US\$ million-----			
Annual	0.19	2.36	2.12	1.63
Cumulative	0.19	2.55	4.67	6.30

Rate of Return: Not applicable.

Staff Appraisal Report: No separate Staff Appraisal Report has been prepared.

<sup>1</sup>The project would be exempted from identifiable taxes and duties.

INTERNATIONAL DEVELOPMENT ASSOCIATION

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

1. I submit the following report and recommendation on a proposed credit to the United Republic of Tanzania of SDR 5.9 million (US\$6.3 million) equivalent on standard terms to help finance a Coal Engineering Project. The proceeds of the credit would be passed on to the State Mining Corporation by the Government as an equity contribution.

PART I - THE ECONOMY

2. The last economic memorandum on Tanzania (Report No. 3086-TA) was distributed to the Executive Directors on January 23, 1981. A revised memorandum, based on the work of two economic missions which visited Tanzania in July and September 1982, will be issued in late 1983.

Background

3. At Independence in 1961, Tanzania (then Tanganyika) was one of the poorest countries in the world. Almost solely dependent on subsistence agriculture and a few estate crops, the country had a very modest industrial base (less than 5% of GDP), and a very small number of educated and trained personnel. For the first six years after Independence, the Government's development objectives resembled those of many other less developed countries, stressing growth in per capita income and national self-sufficiency in skilled manpower, based on market forces and capital intensive agricultural projects. This approach had a number of drawbacks, such as high investment costs in the agricultural sector, and led in the Government's view to unacceptable economic and social conditions, such as widening income differentials and unequal opportunities for advancement in the rural areas. In response to this situation, the national development strategy was reassessed in 1967. The new priorities, enunciated in the Arusha Declaration and related policy statements, were directed towards establishing a socialist society, with greater emphasis on broad-based rural development, self-reliance in development efforts, and the introduction of mass education. To accomplish these ends, the State, with guidance from the Party, was expected to play the leading role, especially in the reform and creation of appropriate institutions. This led in the late 1960s to the nationalization of large-scale industry, commerce and finance, the creation of numerous parastatal bodies, the formation of ujamaa (cooperative) villages, the decentralization of government (1972), and the mass campaign of villagization (1974-76).

4. Despite some disruption arising from these major institutional changes during the period, Tanzania managed to show improvements both in social welfare and in macroeconomic performance. Primary school enrollments increased by more than 50%, life expectancy rose by almost 5 years, and access to safe water increased in both the rural and urban areas. GDP grew by 4.4% per annum from 1966 to 1973, investment averaged 24% of GDP from 1970 to 1973, and domestic resource mobilization improved with recurrent revenues rising from 15% of GDP in 1967/68 to 19% in the mid 1970s. However, the productive sectors grew slowly and the rate of return on new investments (which was centered on the industry and transport sectors) was poor. Perhaps the principal disappointment was in agriculture, the dominant sector in the economy, which grew by only 2.3% per annum from 1966 to 1973. This growth was also uneven among regions and precluded any narrowing of rural-urban income differentials. Tanzania made rapid progress towards localizing key posts in the economy, but large gaps in manpower requirements remained. Dependence on foreign aid to finance both domestic investment and the widening balance of payments gap also increased. By 1973, the issues which were to be so important for Tanzania throughout the 1970s and early 1980s were becoming clear: How quickly could a country with limited trained personnel develop a strong and efficient centrally administered economy? The Government's emphasis on equity was often at the expense of efficiency and incentives; how long could the country afford these costs? What could be done to improve the growth rate of the monetized, productive sectors?

5. The oil price increases and world recession of 1973-74 coincided with two years of below average rainfall in Tanzania. Agricultural production also was affected by disruptive changes in the rural areas at this time (decentralization and villagization), and there was a serious shortfall in foodgrain production. The Government was forced into the world market, making large purchases of foodgrains for cash. Export crop production also fell during this period and the barter terms of trade dropped by about one-third during these two years. As a result, the current account deficit rose from US\$118 million in 1973 to around US\$340 million in both 1974 and 1975. Domestically, the recurrent budget fell into deficit and Government bank borrowing rose from TSh.416 million in 1973/74 to TSh.1061 million in 1975/76.

6. The Government prepared a program to deal with at least the short-term effects of the crisis and was able to receive some assistance from the IMF and a program loan from the Bank. Under this program, import levels were tightly restricted, wages were frozen, government development expenditures were redirected towards the productive sectors, and the Tanzanian shilling was devalued by 10% against the SDR. Producer prices for food crops were substantially increased and at the same time, the National Milling Corporation (NMC) was instructed to purchase a number of drought-resistant crops such as cassava, sorghum, and pigeon peas in addition to the usual foodgrains like maize. While these steps were taken to increase food production, they also discouraged the production of export crops, weakened the financial position of NMC and required the banking system to extend large amounts of credit to NMC. Aside from the devaluation, little scope was given to market forces and Tanzania made no basic changes in its system of administered prices and government controls. The basic weaknesses of the economy persisted: declining export volumes,

limited trained manpower, disappointing growth in the monetized and productive sectors, and poor maintenance of existing capital stock and infrastructure, especially in agriculture and transport.

7. Nonetheless, the Government program, boosted greatly by the coffee boom of 1977, additional foreign assistance and reasonable weather for agriculture, was able to keep the economy in balance until 1978. During 1978, the overly stringent import controls were relaxed at the same time as the terms of trade began to deteriorate again. The balance of payments went into deficit and foreign reserves were drawn down. Then, in October 1978, the country was invaded by forces from Uganda. The resulting war, the oil price increases of 1979 and flooding and drought in different parts of Tanzania led to a worsening balance of payments deficit and the Government built up major arrears on its import payments for the first time since Independence. The domestic budget fell heavily into deficit as expenditures (led by defense) rose by 50% from 1977/78 to 1978/79 and revenues improved by only 10%. As a result, Government borrowing from the banking system increased from TSh. 600 million in 1977/78 to more than TSh. 3,000 million in 1978/79. Such borrowing was the major factor in money supply growth, which exceeded 53% in this period.

8. According to the official National Accounts statistics, GDP in constant prices has risen by 4.7% per annum since 1966, and by a slightly higher rate of 5.1% per annum over the past six years. However, this latter trend assumes an 8.6% per annum increase in subsistence agriculture, which seems somewhat overstated in the light of Bank Group project experience and the known marketed surpluses of food. Assuming a more realistic growth rate of 4.0% per annum for subsistence agriculture, overall GDP growth since 1973 would also be reduced to 4.0% per annum. With population growing by around 3.3% per annum, this implies an increase in per capita GDP of only 0.7% per annum. There also has been a change in the structure of the economy over the past seven years, away from the productive monetary sector and towards subsistence and service activities. Excluding public administration, commercial services and trade, the monetary sector has grown by only 2.3% per annum over the past seven years, well below the population growth rate. This change in the structure of the economy has been a major factor hampering the Government's efforts to mobilize domestic resources.

9. Although Tanzania has sustained a high investment ratio, this has not been matched by a similar success in the mobilization of domestic savings or in the return on investments. Up to the mid-1970s, foreign savings had financed 20-40% of domestic investment. However, the dependence on foreign savings rose sharply to more than 60% of domestic investment during the crisis years of 1974-75 and again from 1978. The major shortfalls in domestic savings have occurred in the Government sector, where they have actually been negative in some years since 1975. The low return on investments is reflected in the incremental capital-output ratio for the monetary sector, which was around 4.5 at the start of the decade and rose to between 6 and 7 by 1980.

10. Agriculture remains the most important sector in Tanzania, accounting for 90% of total employment, 50% of GDP and 80% of exports. The long-term trend growth rate of agricultural production has hardly kept pace

with population growth and apparently has fallen in more recent years as the initial expansion of export crop production (through the mid-1960s) has been reversed. This poor performance cannot be adequately explained by the limitations of the natural environment. Although the importance of rural development has continuously been highlighted in Government statements, including the Arusha Declaration and successive plans, this has not always been reflected in the allocation of resources to the agricultural sector or in policy formulation and implementation. The general direction of the Government's post-Arusha agriculture strategy has also tended to emphasize the transformation of the institutional structure of rural development (through the formation of villages and increasing public involvement in the sector) over measures designed to improve agricultural production directly. Many of these institutional changes were introduced too rapidly, without careful planning or sufficient recognition that by themselves they could not compensate for inadequate incentives and shortages of skilled manpower and managers. More recently there has been a greater awareness of the role of incentives, and recent price adjustments attest to the Government's willingness to use them to influence the pattern of agricultural production. Available manpower, however, is still stretched rather thinly throughout the sector, mainly because of the predominant role assigned to the public sector. This has resulted in weakened capacity for policy planning and implementation, especially in the areas of research and extension, and deficient distribution of fertilizers and other on-farm supplies and equipment. Another factor underlying the poor performance of agriculture has been the deterioration of transport services. Road, rail and water services have declined owing to a lack of spare parts, poor maintenance and inadequate planning and management.

#### The Current Balance of Payments Crisis and Medium Term Prospects

11. The slow growth in agricultural production, transport bottlenecks and external shocks described above have all contributed to the severe deterioration in the balance of payments over the past three years. Export volumes have fallen to a level one-third below the peaks of the mid-1960s and early 1970s. Furthermore, the terms of trade have declined by 27% since the coffee boom of 1977, due to a sharp increase in import costs, especially for petroleum, at a time when the overall level of export prices has been rising very slowly. Owing to these adverse developments, the purchasing power of Tanzania's exports in 1980 was one-third lower than in 1977 and only one-half of the 1966 level. Part of this shortfall has been offset by additional external resources, including a sharp increase in commodity and program aid to more than US\$200 million in 1980, as well as by drawings under the IMF standby program concluded in September 1980. But Tanzania has also had to utilize large amounts of exceptional financing, including suppliers' credits and an increase in import payment arrears. Despite this, the volume of imports has had to be severely curtailed, and in 1982, was still no higher than in the mid-1970s.

12. Given the deterioration in international commodity prices, as well as the limited scope for further exceptional financing, there is little immediate prospect for an improvement in the balance of payments. This continuing balance of payments constraint is inevitably having a debilitating effect on the economy, with lower imports reducing production and maintenance of existing assets, resulting in further falls in exports

and available foreign exchange. This vicious circle will be difficult to break, unless there is a substantial injection of foreign exchange and major improvements in producer incentives, parastatal operations, import allocations, the promotion of non-traditional exports, and overall government planning and budgeting. In March/April 1981, the Government introduced a number of significant measures--such as higher producer prices for coffee, sisal and tobacco and the establishment of a Special Agricultural Account at the Bank of Tanzania to ensure that a substantial proportion of foreign exchange earnings are returned to the agricultural sector. This Export Rehabilitation Program was supported by a US\$50 million credit from IDA (Cr. No. 1133-TA).

13. During negotiations of the Export Rehabilitation Credit in March 1981, agreement was also reached on a Memorandum of Understanding on Follow-Up Measures. These included more restraint and selectiveness in the public investment program, more emphasis in the recurrent budget on the operations and maintenance needs of the economy, improved foreign exchange budgeting, a re-examination of the roles (particularly purchasing mandates) of the State-owned crop authorities, the introduction of more payment-by-results schemes in industry and a review of subsidy and cost recovery arrangements in the public sector. The Government also agreed that an independent Advisory Group would be established to assist the Government in preparing a comprehensive program of economic rehabilitation and recovery.

14. The Advisory Group began work in November 1981 and completed its Report in April 1982. The Government adopted a large number of its recommendations and incorporated these in a Structural Adjustment Program which was issued in July 1982. This Program includes a series of important initiatives and proposals. The development budget for 1982/83 has been substantially cut back for the second year in a row to release resources for the operations and maintenance needs of the economy. Difficult decisions have been taken in the light of limitations on available foreign exchange and physical resources. The price control system has been reviewed and food marketing arrangements are to be reorganized. The Government has begun to allocate a larger, though still inadequate, share of foreign exchange resources to agriculture through the Special Agricultural Account established under the Export Rehabilitation Program. Agricultural producer prices have been adjusted to maintain them broadly constant in real terms, and the Government has announced its intentions to relax restrictions on interregional trade. It has also opened up the marketing of some funds (mainly minor grains such as millet) to anyone interested in conducting such trade. Special steps are being taken to control Government recurrent spending and to reduce parastatal losses. The functions of key agricultural agencies are being reduced and will be taken over by other bodies, such as cooperatives. All of these measures will serve to trim overall burdens on the public sector and give further encouragement to smallholder production.

15. However, while most of the key issues of economic recovery have been raised in the Government's Structural Adjustment Program, important decisions remain to be taken on matters such as the exchange rate and real adjustments to agricultural prices. Furthermore, the Government has yet to complete the preparation of specific action programs in key sectors (e.g. transport) which would have a measurable impact on production. In

the most important economic sector - agriculture - a Presidential Commission has recently prepared a detailed set of recommendations, and a Government policy paper on agriculture has been issued. Measures proposed include the elimination of most consumer food price subsidies, reduction in the field marketing responsibilities of the export crop parastatals, relaxation of import procedures for agricultural inputs and equipment and the strengthening of research and extension services. However, follow-up work is still needed to permit implementation of some of these measures and to define appropriate policies in other key areas, especially the decentralization of input distribution and the diversification of crop marketing channels. Further work is also necessary in estimating the resource requirements of a medium term adjustment program and indicating precisely how domestic and foreign exchange budgets will be administered to support the program.

16. A Bank economic mission reviewed the Government's program in September/October 1982. The recommendations of the Government's Agricultural Commission, and an agricultural sector report prepared by Bank staff were also discussed with senior Government officials in Dar es Salaam in March 1983. Bank staff will assist the Government during the next few months in further strengthening its proposed agricultural rehabilitation program.

17. Discussions with the IMF on a possible Standby Arrangement are continuing. Tanzania has had no access to Fund facilities since December 1980, when the Government failed to meet performance targets under a previous Standby. Following three rounds of discussions in May, June and August 1982, the Government invited a Fund mission to visit Dar es Salaam for three weeks in October 1982. No agreement was reached during this mission, particularly on the appropriate magnitude of an exchange rate adjustment, and discussions were resumed briefly in Washington in March 1983. An IMF mission visited Tanzania again for Article IV consultations in April 1983.

18. Even with a much improved export performance, Tanzania will continue to face a very difficult balance of payments situation, especially over the next three to five years. To sustain an increase in per capita GDP will require increasing amounts of aid in real terms and a careful review of import requirements, especially those for low-priority projects with long gestation periods and high foreign exchange costs. Otherwise the prospects would be for generally stagnant economic activity over the 1980s as a whole, with a substantial decline in per capita incomes. To avoid this, there will need to be continued emphasis on export performance and a concerted effort to improve the level of capacity utilization and efficiency in the economy. Furthermore, this must be done without jeopardizing vital food production.

19. Although it may be possible to finance a small portion of the current account gap through commercial borrowings, the scope for this is clearly limited; in addition to the difficulties of raising commercial credit during a period of balance of payments problems, Tanzania simply cannot afford the heavy burden of debt service payments. Therefore, the bulk of the financing requirements will have to be met by additional foreign assistance. Possible sources for this include further drawings from the IMF (which could add US\$100 million per annum), deferred payment arrangements and other concessional financing from oil-supplying countries,

additional new commitments from traditional bilateral and multilateral sources, and a continued movement towards non-project assistance.

#### External Debt

20. Owing to the very concessional terms on which past aid has been given to Tanzania and the Government's previous reluctance to use higher cost commercial loans and suppliers' credits, the country's overall debt service ratio has historically been less than 10%. However, the debt service burden is expected to increase as past loans fall due for repayment and new borrowings, including some on commercial terms, are required to meet the widening balance of payments gap. Such borrowings, together with very poor export prospects, could raise the debt service ratio to 15%-20% during the 1980s. In 1981, it is estimated that the Bank held 14% of Tanzania's external debt outstanding and disbursed (for the Bank Group, it was 33%) and the Bank Group received 21% of Tanzania's debt service. Including Tanzania's share of obligations under East Africa Community loans, the Bank's exposure was 17% (and the Bank Group share, 36%). This level of Bank exposure reflects in part the impact of recent debt write-offs, totalling US\$277 million in 1978 and 1979. We are projecting the Bank Group's share in debt service to fall over the coming decade owing to the reduced IBRD component in the lending program and the continued need for Tanzania to borrow funds on less concessional terms from other sources.

#### PART II - BANK GROUP OPERATIONS IN TANZANIA

21. Tanzania joined the Bank, IDA and IFC in 1962. Beginning with an IDA credit for education in 1963, 54 IDA credits and 19 Bank loans, two of these on Third Window terms, amounting to US\$1046.8 million have so far been approved for Tanzania. In addition, Tanzania has been a beneficiary of 10 loans totalling US\$244.8 million which were extended for the development of the common services and development bank operated regionally by Tanzania, Kenya and Uganda through their association in the East African Community. IFC investments in Tanzania, totalling US\$4.7 million, were made to the Kilombero Sugar Company in 1960 and 1964. This Company encountered financial difficulties and in 1969, IFC and other investors sold their interest in the Company to the Government. A new IFC investment of US\$1.7 million in soap manufacturing in Mbeya was approved by the Executive Directors on June 8, 1978 and an investment of US\$1.5 million in metal product manufacturing was approved in May, 1979. Annex II contains summary statements of Bank loans, IDA credits and IFC investments to Tanzania and the East African Community organizations and notes on the execution of ongoing projects.

22. Bank Group lending in Tanzania has been centered on: (i) agriculture; (ii) transport and communications; (iii) industry; and (iv) education and manpower development. Since FY81, new Bank Group lending has been focussed primarily on rehabilitation and use of existing productive facilities and the introduction of infrastructure and services (such as power generation and education facilities) of long term use to the economy. Projects have been designed to minimize new demands on the Government's recurrent, development and foreign exchange budgets; have been centered on already experienced or financially healthy institutions; have been logistically insulated, as far as possible, from general supply difficulties in the economy; and have included considerable technical

assistance and training for better maintenance and use of existing capital facilities and more effective resource allocation in the economy. Recent lending along these lines has included a second petroleum exploration project, a third technical assistance credit (focussed on key manpower gaps in the agricultural sector), and a rehabilitation credit for the Dar es Salaam sewerage system.

23. A small number of other projects may be proposed in the agriculture, energy and transport sectors during the next three years. A fourth power project, a rehabilitation program for the port of Dar es Salaam and an eighth education project have been appraised. A sixth highways project, involving mainly the reconstruction of sections of the Tanzania-Zambia highway, and a sugar and cotton rehabilitation project are also under preparation. However, the design of viable projects in the productive sectors of the economy, especially agriculture and industry, will remain problematical in the absence of a wide ranging economic adjustment program.

24. In addition to financing specific projects, the Bank Group has provided non-project assistance on three occasions in support of Government efforts to deal with its balance of payments difficulties. The first such Credit was made in 1974, the second in 1977, and the most recent, an Export Rehabilitation Program Credit (No. 1133-TA), in April 1981.

25. Project implementation in Tanzania has been adversely affected during the last four years by the disruptions of the Uganda War and the country's extreme foreign exchange difficulties, which have resulted in shortages of fuel and building materials, even when budgetary allocations for purchasing them have been adequate. External financing agencies have been increasing the share of direct and indirect foreign exchange costs covered by project budgets; however, it is impossible to cushion projects completely, particularly in remote areas, from the ramifications of the economic crisis. Despite implementation difficulties, disbursements have remained remarkably steady; Bank Group disbursements grew from US\$58 million in FY78 to US\$81 million in FY81 and reached US\$114 million in FY82. A comparison with other portfolios in the Eastern Africa Region indicates that Tanzanian disbursements have been slightly below average for the Region, ranging as a proportion of outstanding commitments at the start of the financial year, from 18.9% in 1976 to 15.7% in 1980 (compared with 20.6% and 16.5% in the same years for the Region as a whole).

26. Supervision missions have been concerned with adapting project implementation to difficult factors facing the country or individual sectors, which were not anticipated or have proved worse than expected at appraisal. A major Country Implementation Review was held in Dar es Salaam in October 1982 during which Government officials and Bank staff agreed to recommend the restructuring or discontinuation of several projects which have faced persistent implementation problems. At the same time it was agreed that the Project Implementation Monitoring Unit at the Ministry of Planning and Economic Affairs would be strengthened as a focal point for further consolidation and improvements in the Bank Group program. Intensive supervision, and in the case of the Mufindi Pulp and Paper Project, timely assistance from co-financiers have already had some

remedial results. Even in the agricultural sector, where constraints on implementation have been most severe, there have been important improvements in some projects, e.g. Dairy Development. However, considerable work remains to be done in improving project implementation and disbursements. The next Country Implementation Review will be held in October 1983.

#### East African Community (EAC)

27. Developments affecting the East African Community (EAC) were outlined to the Executive Directors in a memorandum, dated December 29, 1977, (R77-312) and in a statement made on May 6, 1980 (Sec M80-364). One of the positive results of the ongoing mediation effort has been the Partner States' decision, taken upon the mediator's recommendation, that the East Africa Development Bank (EADB) -- one of the former Community's institutions -- should continue, and a revised charter to this effect has been enacted. The three Governments commented on the mediator's proposals for the three Partner States during their meeting in Nairobi in July 1981, and decided to commence negotiations based on the mediator's proposals. The negotiations started in December 1981 in Arusha and continued in April 1982 in Jinja, September 1982 in Nairobi and December 1982 in Kampala. The discussions have passed the fact finding stage and are now focussing on details of a division formula for assets and debts. While it is generally accepted that both location of assets and the principle of equal rights of all former EAC partners should be taken into account, the weight to be given to these principles from case to case remains the major issue in the continuing negotiations.

### III. THE ENERGY AND COAL SECTORS

#### Energy Resource Base and Development Strategy

28. Total energy consumption in Tanzania in 1980 was about 5 million tonnes of oil equivalent (toe) or 7.5 million tonnes of coal equivalent (tce). About 87% of total consumption comes from the country's forest resources in forms of charcoal and firewood, mainly in the subsistence sector. The remaining 13% is commercial energy, consisting of imported crude oil and refined products, hydroelectricity and domestic coal.

29. Per capita consumption of commercial energy (about 52 kg of coal equivalent in 1979) is considerably lower than that of other African countries such as Kenya (180 kg), Angola (208 kg) and Zambia (858 kg). This reflects constrained demand for imported petroleum and the limited access to electricity in the rural areas as well as a less important industrial and mining sector. Nonetheless, Tanzania spent US\$260 million in 1980, or about 50% of its foreign exchange earnings, for imported energy.

30. In 1970-75, demand for commercial energy grew at an average rate of 4.9% p.a. In 1975-80, this rate of growth slowed to 1.4% p.a. following steep increases in oil product prices, import restrictions, higher domestic prices and conservation measures and an overall decline in economic

growth. Consumption of commercial energy is expected to grow at about 3% p.a. in the 1980s, including a 6.6% per annum increase in electricity sales following expansion of the national power grid.

31. The Government's development strategy in the sector is to foster domestic exploration of oil, gas, and coal and hydroelectric sites with a view to eventual development of such resources and to lowering the country's dependency on imported oil. The Government is looking to coal development (i) to satisfy the immediate and future demand of industries for which energy is an important cost item and coal an appropriate fuel (cement, paper, sugar), (ii) to substitute for firewood and charcoal in household uses and hence reduce deforestation, and (iii) to replace fuel oil in power generation, as far as possible, in the 1990s.

#### Institutional Framework

32. The central authority for energy development in Tanzania is the Ministry of Water and Energy (MWE). Three parastatals report to MWE: the Tanzania Electric Supply Company (TANESCO) manages electricity generation, transmission and distribution on the mainland; the Tanzania Petroleum Development Corporation (TPDC) is responsible for exploration and exploitation of oil and gas; and the Rufiji Basin Development Authority (RUBADA) is entrusted with harnessing the multi-purpose potential of the Rufiji River. While none of these institutions would be directly involved in implementing the proposed project, TANESCO and TPDC have a particular interest in seeing the long-term benefits of coal development assessed as a possible basis for major power generation facilities in Western Tanzania.

33. The Ministry of Minerals (MOM), which would have the primary role in executing the project, was established in 1980 with responsibility for policy and planning, administration and coordination of the mineral sector; these matters had previously been the responsibility of MWE. The Ministry is working to clarify sector policies and goals in an effort to spur development. In this respect, the Ministry has prepared a mining sector paper which was approved by the Cabinet in February 1983. The paper (i) defines mining policies on private participations, dividends and royalty payments, (ii) suggests short and long term goals, and (iii) establishes mining priorities, essentially for development of industrial minerals, gold and coal. The Ministry is working towards completion of a mining investment code which will encourage greater private sector involvement.

34. MOM has one parastatal organization reporting to it: this is the State Mining Corporation (STAMICO), which is responsible for development and exploitation of the country's mineral resources, including coal (paragraphs 45-47).

#### Coal Sub-sector

35. Resources. The occurrence of coal in Tanzania was first reported around 1880. However, until about 1930, little systematic work was undertaken. At that time, some reconnaissance geological mapping took place, principally in the southwestern part of the country. No additional work took place until 1949, at which time the Colonial Development Corporation (CDC) was invited by the then Government of Tanganyika to

evaluate coal deposits of the country with a view to their economic development. This program extended from 1949 to 1957 and extensive geological investigations were conducted. These investigations included diamond drilling in the Ngaka, Mchuchuma and Songwe-Kiwira coalfields. The investigations established the presence of coal in significant quantities but no development was attempted because of the limited market prospects. Tanzanian coal resources are estimated at about 1,900 million tonnes of which about 300 million tonnes are considered proven.

36. Two further exploration projects have been undertaken in the past six years: a geological investigation of the Songwe-Kiwira coal areas by a team from the People's Republic of China and a study into the feasibility of developing the Mchuchuma coalfield by a consortium of Dr. Otto Gold GmbH, Rodeco GmbH and Saarberg-Interplan GmbH. The latter work was financed by the Federal Republic of Germany (GTZ). The primary objectives were the development of these coals for use in conjunction with the nearby iron ore deposits. Both these exploration projects have recently been completed. The iron ore projects were found to be uneconomic and no further work on iron ore development is to be undertaken in the foreseeable future.

37. Production. Coal production is limited to one small mine in the Songwe-Kiwira coalfield. This mine, the Ilima colliery, has been worked since 1953. Production is about 10,000 tonnes per year (tpy), which is barely sufficient to meet present market demands in Western Tanzania. Moreover, the present mine has not been developed systematically and poses safety hazards. The Association has informed MOM and STAMICO officials and the Mining Commissioner of the imminent dangers involved. At recent production levels, the mine will be depleted and closed down in late 1983. However, the proposed project would provide for the exploration of the Ilima area with a view to establishing 10 years of additional reserves in areas adjacent to the existing mine. If there were positive results from exploration, production could be expected to resume by 1985 and reach about 40,000 tpy by 1987.

38. Future Demand and Development Prospects. Although the use of coal in Tanzania is currently limited to domestic heating, brick burning and tea-drying, a major increase in demand is expected to occur during the 1980s among established local industries and among households as a replacement for firewood and charcoal which is being depleted. A breakdown of the latest anticipated industrial demands is to be found in Annex IV (page 2). Other possible users by 1990 are the cement factories at Dar es Salaam and Tanga which are being studied for conversion to coal use (80,000 tpy), the brick factory at Dodoma (16,000 tpy), and textile and sugar industries (up to 150,000 tpy). However, severe transportation problems, including the distances involved (920 km from Songwe Kiwira to Dar es Salaam), will probably inhibit the early development of these markets. The largest potential demand for coal in the 1990s would be for thermal power generation in Western Tanzania. While lower cost power sources may materialize (including new hydroelectric sites currently being investigated), transmission costs appear to favor coal as an eventual energy source in the western parts of the country. Other means of electrical generation (including natural gas and hydro-based facilities) would probably meet demand in the Central and Coastal regions of Tanzania.

39. The initial development to meet this increasing demand would be the expansion of the Ilima mine on the Songwe-Kiwira field (paragraph 37). The Government is also looking into two new mine developments: the Kabulo Ridge project and the Ivogo Ridge project, both of which are also part of the Songwe-Kiwira coalfield. This coalfield is most suited for early development because of its relative proximity to infrastructure and markets, compared with the Mchuchuma coalfield - Tanzania's other major coal resource. The proposed project provides for exploration and a feasibility study in support of the Kabulo Ridge development. The Chinese Government is assisting in the development of the Ivogo Ridge project, including preliminary infrastructure, such as an access road and staff housing, for an eventual mine.

40. The preliminary results of the Chinese study indicate that coal development at Ivogo Ridge could be extremely costly because of the requirement for underground mining, which is complicated by poor geological and water conditions; by contrast, the Kabulo Ridge development could likely permit relatively straightforward open pit mining techniques. The Ivogo Ridge project has been reduced in scope in the last year from a production level of 300,000 tpy to 150,000 tpy. Detailed feasibility work on the project will be completed in late 1983. The Government would provide the Association with a copy of the feasibility study for Ivogo Ridge and other sites to be examined as soon as they are available and exchange views with the Association on their findings and recommendations (Section 3.05(a) of the draft Development Credit Agreement). The purpose of such consultations would be to establish, in due course, an appropriate investment program for coal development, taking into account the differential costs associated with various mine sites (paragraph 53).

41. Kabulo Ridge appears to offer excellent prospects for the production of low grade coal suitable for industrial consumers and for thermal power generation at relatively low cost. In general open-pit coal mines are technologically more simple to develop and to operate and require less capital and operating cost per annual tonne of production. Kabulo Ridge appears a classic example of an area where a low overburden to coal ratio open pit can possibly be developed. This is in distinct contrast to Ivogo Ridge where no open-pit possibilities exist. An Indian team which assessed the Songwe-Kiwira coalfield in 1973, evaluated Kabulo Ridge, based on the CDC drilling, and suggested that in excess of 20 million tons of low grade (less than 30 percent ash) coal would be amenable to recovery by open-pit methods. A review of the data used and conclusions reached in the Indian report confirms the probability of these findings.

42. To preclude potentially sub-optimal developments in the industry, the MOM would consult with the Association on the appropriate sequence of future investments in the coal sector, based on the conclusion of exploration work to be carried out under the proposed project and the Government's economic assessment of the feasibility of various coal exploitation alternatives (Section 3.05(b) of the draft Development Credit Agreement and paragraph 53 below).

### Energy Pricing

43. The prices of oil products and other types of energy are controlled by the Government. Oil prices are based on the imported cost of crude oil and refined products plus transportation and tax. However, there are some cross subsidies (e.g. between kerosene, industrial diesel and fuel oil), to lessen the cost of household energy uses.

44. Because coal has been used only to a limited extent, little emphasis has been given to coal pricing policies or procedures by the Government Pricing Commission. At Ilima colliery, the coal price has been based roughly on production costs plus a mark-up. The Government has indicated its willingness to review and establish systematic coal pricing policies when the prospect of significant coal production is more clearly established.

### The State Mining Corporation (STAMICO)

45. Organization and Management. STAMICO was created in 1972 as a parastatal corporation to take over mining companies that had recently been nationalized. The Corporation reports to MOM. STAMICO is managed by a Board of 7-11 members chaired by the Minister of Minerals. The General Manager of STAMICO is appointed by the President. The legal functions of STAMICO are extensive, enabling STAMICO to (i) carry on the business of prospectors, producers, buyers, sellers and distributors of minerals; (ii) conduct or engage in prospecting and mining operations at all levels; (iii) acquire interests in any mining undertaking; and (iv) carry on operations as principal agent or contractor. In practice, STAMICO acts as a holding company for six operating subsidiaries, and directly oversees mine project work up to the point of commercial production. STAMICO also engages in mineral marketing on behalf of its subsidiaries and imports certain commodities (e.g. salt) at Government request.

46. STAMICO's financial condition and management capability are weak. No formal financial statements have been prepared since 1980, and those completed previously (1978-80) were considered by the Tanzania Audit Corporation to be inadequate. The position of Director of Finance is vacant, and only four out of the 16 senior financial and accounting positions in the Finance Department are filled. Strengthening of STAMICO's financial and accounting structure and organizational capability are essential to the sound management of its future operations (paragraphs 55-56).

47. STAMICO has recently prepared preliminary financial statements for 1981 and 1982 and has agreed that audited accounts for those years will be submitted to the Association by September 30, 1983 (Section 4.03 of the draft Project Agreement). As a part of the proposed project, training and technical assistance in financial accounting and management systems would be provided to strengthen STAMICO's operations. (For additional information regarding STAMICO, see paragraph 55 below and Annex IV, pages 3 and 4.)

### Previous Bank Group Lending in the Energy Sector

48. The Bank Group has made three loans to Tanzania for the development of TANESCO's hydroelectric facilities. The first was Loan 518-TA for US\$5.2 million to cover part of TANESCO's development program for the period 1967-70; the second was Loan 715-TA for US\$30 million and a supplementary loan for US\$5 million to finance part of the construction of the First Stage of the Kidatu Hydroelectric Scheme, which was completed in 1975 (Project Performance Audit Report, December 19, 1979); and the third was for the Second Stage of the Kidatu Hydroelectric Project, with Loan 1306-T-TA for US\$30 million and a supplementary Special Action Credit of US\$7.0 million, which was completed in 1981, and for which a project completion report is being prepared. These projects were implemented satisfactorily, and a fourth hydroelectric project has recently been appraised. Tanzania has received two IDA credits for petroleum exploration, the first for US\$30 million in 1980 for the initial phase of the Songo Songo offshore exploration program, and the second in 1981 for US\$20 million to finance the second phase of this program. These projects were also implemented satisfactorily, and a combined completion report is being prepared. There has been no previous direct Bank Group involvement in Tanzania's mining sector.

## IV. THE PROJECT

### Background

49. In 1979 a Bank mission carried out a preliminary assessment of the coal sub-sector in Tanzania. A follow-up identification mission in September 1981 singled out the Kabulo Ridge area of the Songwe-Kiwira coalfield as having potential for the development of an open-pit coal mine. The proposed project was prepared with the cooperation of MOM and STAMICO and was appraised in December 1982. A follow-up mission visited Tanzania in February/March 1983. Negotiations were held in Washington on April 19-22, 1983. The Tanzanian delegation was led by Mr. S. Lwakatare, Principal Secretary, Ministry of Minerals, and included Mr. W. Manning, General Manager of STAMICO. A Credit and Project Summary is given at the beginning of this report. A Supplementary Project Data Sheet is attached as Annex III.

50. Project Objectives and Description. The proposed project would support Government's efforts to evaluate the economic potential of the indigenous coal resources of Tanzania. The project's objectives would be: (i) to provide the Government with updated geological data on the Kabulo Ridge area in the Songwe-Kiwira coal field and to complete a feasibility study for this deposit, if warranted; (ii) to further assist with the exploration and delineation of reserves at the Ilima colliery; and (iii) to strengthen the technical and managerial capabilities of MOM and STAMICO in coal operations.

51. The project would consist of three components:
- (a) exploration/feasibility studies of Kabulo Ridge.  
The exploration is to confirm and supplement the existing data to a stage at which the potential for economic open-pit coal mining could be clearly established and a subsequent feasibility study for an open-pit coal mine could be undertaken;
  - (b) exploration of the Ilima coal reserves in the immediate vicinity of the Ilima colliery; and
  - (c) technical assistance and training to strengthen the capabilities of both the MOM and STAMICO in the coal sub-sector.

#### Detailed Features

52. Kabulo Ridge Studies. This work would be a three-phase program carried out sequentially. Detailed exploration work and the feasibility study, both of which would require significant additional expenditures, would be carried out only after successful completion of the previous phase. The first phase would consist of assessing and interpreting the available geological data base, and performing initial geological fieldwork. A new interpretation of the area would be prepared as a basis for identifying priority drill sites and rejecting unpromising areas. The geological fieldwork would include the drilling of about fifteen exploratory holes in the area. The second phase would be designed to obtain all the data required for a feasibility study. It would include the drilling of about 120 drillholes and the subsequent evaluation of all data obtained. Reliable information would be obtained on coal quality as well as the physical characteristics of the associated floor and roof rock strata which would be important for any mine development plan. Additional geological mapping, topographic mapping, test pitting, and bulk sampling would also be carried out. Both phases are necessary to confirm that the deposit can be mined by open pit methods. The third phase would be a feasibility study for an open-pit coal mine which would determine the economic, financial and technical viability of the most favorable area located by the exploration program. The feasibility study would evaluate alternative mining systems that could be used to recover the coal and recommend the optimum system. The capital and operating costs for the selected method would be determined. A study of infrastructure requirements for the proposed mine would include consideration of supplying coal both for a mine mouth power plant and for the industrial market, and long-term market prospects would be assessed. The safe operation of the mine and the training of both management and labor would be provided for in the development plan. Special care would be taken to assess the environmental impact of the mine development, particularly the risk of possible pollution through acid water drainage from the mine. The impact on the local population would also be assessed carefully.

53. Regular progress reports and final reports for each phase would be prepared and submitted to the Association. Transition from phase one to phase two would be undertaken only after careful appraisal of the results of the earlier phase and agreement with the Association on the work program

for the next phase. Transition from phase two to phase three, which entails commitment to feasibility work, would be based on satisfactory review by the Association of the detailed completion report for phase two as well as an assessment of economic considerations, such as the market outlook for coal at the time, the likely development costs of alternative production sites and the availability of investment financing for the technical options identified (Section 2.06(c) of the draft Project Agreement and Schedule 1, paragraphs 3(b) and 3(c) of the draft Development Credit Agreement). If the results of the earlier work did not justify undertaking a feasibility study, the balance of funds for this component would be cancelled.

54. Ilima Exploration. The second component of the project would be the exploration of the Ilima area of the Songwe-Kiwira coalfield to determine whether there are additional reserves for continued production. There are three blocks of coal reserves in Ilima. The present mine is operating in only one of these blocks and it may be exhausted by December 1983; the other blocks have yet to be properly explored. The proposed program at Ilima would involve drilling 10-12 boreholes over 4-6 months followed by preparation of an appropriate mining plan.

55. Technical Assistance and Training. The project would also attempt to build up a nucleus of expertise at MOM and STAMICO to manage the development of the coal sub-sector in Tanzania. The technical assistance would be internationally recruited and would include a full-time secondment to MOM of a senior coal mining adviser, attached directly to the Minister's and Principal Secretary's office; the adviser would be appointed by February 1, 1984 (Section 3.02(a) of the draft Development Credit Agreement). He would provide guidance to MOM on coal sector development, including coordination of sectorwide investment analysis (paragraph 53), and would establish a training program for MOM and STAMICO in conjunction with the training officer at STAMICO. A full-time senior financial expert would also be appointed to the Finance Department of STAMICO by December 31, 1983 (Section 2.03(b) of the draft Project Agreement). The expert would be responsible for organizing and structuring a financial management and control system for STAMICO and its subsidiaries. The senior financial expert would also establish a training program for the accounting staff of headquarters and projects divisions, and provide guidance and training to the junior staff. STAMICO would appoint two senior accountants and appoint three other accountants to positions now vacant in the two accounting divisions by January 1, 1984 (Section 3.01 of the draft Project Agreement).

56. Training would be provided in coal geology and mine engineering so that future operations could be handled principally by local specialists. Two geologists would be trained initially by the consultants at the drill camp at Kabulo Ridge. After a period of six to eight months at the site they would each spend four to six months abroad at an exploration camp and at the consultants' office. This would enable them to prepare the detailed geological reports required for mine planning and operation. The three mining engineers at Ilima would be trained abroad in coal mine planning, development and extraction (in geological conditions comparable to those at Ilima) and in mine safety. The overseas training period would last about two months for each person, part of which would be spent in an institute of mine planning and design, and the rest in a coal mine.

### Project Execution

57. The project would be implemented under the authority of STAMICO, with guidance from MOM. While weak in many respects, STAMICO is the appropriate institution for this purpose. Major emphasis would be given to strengthening the agency through technical assistance and training (paragraphs 55-56). Steps have already been taken to establish a project implementation unit (PIU) within STAMICO which will report to the Director of Mining Development. The PIU will be chaired by a senior administrator and include a senior geologist, a senior coal mining engineer and a senior financial manager. These staff will have qualifications satisfactory to the Association (Section 2.02 of the draft Project Agreement). Work in the PIU would be part-time, allowing STAMICO to make use of some of its existing staff without diverting them from their existing responsibilities. Following the exploration work at Kabulo Ridge, a review would be made by MOM and the Association to determine if additional staffing of the PIU was required.

58. Internationally recruited geology and mining consultants would be retained to undertake the Kabulo Ridge component of the project and to assist STAMICO staff with exploration and mine planning at Ilima. The consultants would be responsible for training a number of local geologists who would be associated with the project at the working level from its inception. Since Tanzania has other potential coalfields, the acquisition of appropriate managerial and technical skills in the coal sector is considered essential. The consultants would report directly to the PIU who would oversee their activities. The appointment of consultants on terms and conditions acceptable to IDA would be a condition of effectiveness of the proposed credit (Section 5.01(a) of the draft Development Credit Agreement.)

59. Mineral rights required for the execution of the project would be issued to STAMICO by the Government in accordance with the Mining Act of 1979 (Section 3.06 of the draft Development Credit Agreement). Receipt of evidence that such rights had been issued would be a condition of effectiveness of the credit (Section 5.01(b) of the draft Development Credit Agreement).

### Project Cost and Financing

60. The total project cost is estimated at about US\$7.0 million equivalent, of which US\$5.9 million would be in foreign exchange. Detailed cost estimates are shown in the Credit and Project Summary. Most of the foreign exchange costs would be incurred on the Kabulo Ridge exploration (US\$4.4 million) and feasibility study (US\$0.7 million); the remaining costs would be accounted for by the Ilima exploration component (US\$0.2 million) and technical assistance and training (US\$0.6 million). The average cost of the foreign consultancy services for exploration and feasibility work at Kabulo Ridge, including travel, subsistence and other reimbursable costs, is estimated at US\$11,000 per man-month which is considered reasonable. These cost estimates are based on December 1982 prices and include 10% for physical contingencies. Price contingencies are based on assumed annual inflation rates of 14.0% for 1983, 13.0% for 1984, 12.0% for 1985 and 10.0% for 1986 for local costs, and 8.0% for 1983, 7.5%

for 1984 and 7.0% for 1985 and 6.0% for 1986 for foreign expenditures. The project would be exempted from identifiable taxes and duties. A short list of consultants to carry out the Kabulo Ridge component of the project should be ready by June 1983. It is expected that proposals would be invited in July 1983 and a contract awarded in November 1983.

61. The proposed Credit of SDR 5.9 million (about \$6.3 million equivalent) would cover 90% of total project costs, including 100% of the foreign exchange costs and 30% of local costs (US\$300,000 equivalent). The credit would be made to Government on standard IDA terms. The proceeds of the credit would be passed on to STAMICO by Government as an equity contribution. In the event that a mine development project were undertaken with Bank Group financing, the engineering costs financed under the credit would be capitalized and its proceeds refinanced. The balance of project expenditures in local currency, estimated at US\$0.7 million, would be financed by the Government.

#### Procurement and Disbursement

62. Consulting services for the exploration and mine feasibility study would be obtained in accordance with the Association's Guidelines for the Use of Consultants. These specialized consulting services would cost about US\$2.1 million. The drilling activities (US\$2.5 million) would be sub-contracted by the consultant in accordance with international competitive bidding (ICB) procedures and subject to approval by STAMICO and the Association. Procurement of equipment such as bulldozers, trucks and jeeps would be by limited international tendering acceptable to the Association. Individual packages would be limited to US\$150,000 with an aggregate ceiling of US\$0.5 million. The Association would require prior review of all ICB packages while the equipment procurement would be subject to selective prior review of approximately 50% of the total value.

63. The credit would be disbursed against: (a) 100% of foreign expenditures and 85% of local expenditures on equipment, vehicles and spare parts; (b) 100% of total expenditures on drilling and exploration services; and (c) 100% of foreign expenditures and 30% of local expenditures on consultants' services and training.

#### Reports and Audits

64. STAMICO would maintain separate project accounts which would be audited annually by an independent auditor acceptable to the Association. STAMICO would also be required to submit to the Association audited annual accounts for 1981 and 1982 and for subsequent years during the project, not later than six months after the end of each fiscal year. STAMICO would submit progress reports to the Association within 45 days of the end of each quarter, and a final report for each phase of each component within three months of the completion of that phase (Section 2.06 of the draft Project Agreement.)

#### Environmental Issues

65. The proposed project itself would not entail significant environmental issues, as disturbances of the surface, such as drill sites

and test-pits, would be minor. The project, however, would include a preliminary assessment of the environmental impact of any eventual coal mining project and attempt to minimize any adverse potential effects.

#### Benefits and Risks

66. The project would be an important step towards broadening the energy supply base in Tanzania by increasing the supply of indigenous coal and thus substituting for imported fuel. In the short term, the project would provide the basis for coal production from the Ilima colliery of 10,000 tonnes in 1985, increasing to 40,000 tonnes in 1987. In view of the anticipated demands for coal in Western Tanzania from the Mbeya cement plant, and the local tea estates, this increased coal production would provide savings in imported coal of approximately US\$1.0 million in 1985 and US\$3.2 million in 1987 when full production is achieved. Following development of lower cost coal at Kabulo Ridge, savings in foreign exchange from import substitution would increase substantially even if international fuel prices were to decline further from present levels. In the medium term, if coal can be produced at US\$25 per tonne, which is a reasonable expectation for the Kabulo Ridge project, it could be an economically attractive basis for power development in Western Tanzania in the early 1990's.

67. The project would provide important institutional benefits to MOM and STAMICO through technical assistance in geology, mining and finance that would strengthen the management of the respective institutions in operations, reconnaissance and development of coal resources. Personnel of MOM and STAMICO would benefit from the transfer of exploration and engineering technology through on-the-job and more formal training to be financed under the project.

68. There is a risk that the proposed exploration activities would not result in establishing economically and technically viable coal deposits. However, the extent of geological work already conducted in the area makes this risk acceptably small. To further minimize the risk of unproductive expenditures, the second and third phases of the major exploration component of the project would only be undertaken following a careful assessment of previous results and the market prospects for coal in the light of other possible coal mine developments at the time.

#### PART V - LEGAL INSTRUMENT AND AUTHORITY

69. The draft Development Credit Agreement between the United Republic of Tanzania and the Association, the draft Project Agreement between the Association and the State Mining Corporation, and the Recommendation of the Committee provided for in Article V, Section 1(d) of the Articles of Agreement of the Association are being distributed to the Executive Directors separately. Special conditions of the credit are listed in Section III of Annex III.

70. It would be conditions of effectiveness of the proposed credit that consultants, satisfactory to the Association, had been appointed to undertake the major exploration and engineering activities at Kabulo Ridge,

and that STAMICO had been assigned the necessary mineral rights by the Government to permit such work (Section 5.01 of the draft Development Credit Agreement). It would be a condition of disbursement in respect of the second and third phases of the Kabulo Ridge component of the project that the conclusions and recommendations of the preceding phase and the work program for the subsequent phase had been accepted by the Association (Schedule 1, paragraphs 4(b) and 4(c) of the draft Development Credit Agreement).

71. I am satisfied that the proposed Credit would comply with the Articles of Agreement of the Association.

PART VI - RECOMMENDATION

72. I recommend that the Executive Directors approve the proposed Credit.

A. W. Clausen  
President

Attachment

May 2, 1983  
Washington, D.C.

TABLE 3A  
TANZANIA - SOCIAL INDICATORS DATA SHEET

AREA (THOUSAND SQ. KM.)	TANZANIA			REFERENCE GROUPS (WEIGHTED AVERAGES - MOST RECENT ESTIMATE <sup>1</sup> )	
	MOST RECENT			LOW INCOME	MIDDLE INCOME
	1960 /b	1970 /b	ESTIMATE /b	AFRICA SOUTH OF SAHARA	AFRICA SOUTH OF SAHARA
TOTAL	975.1				
AGRICULTURAL	401.4				
GNP PER CAPITA (US\$)	70.0	130.0	280.0/1	250.8	1053.2
ENERGY CONSUMPTION PER CAPITA (KILOGRAMS OF COAL EQUIVALENT)	41.1	63.0	50.5	66.5	610.1
POPULATION AND VITAL STATISTICS					
POPULATION, MID-YEAR (THOUSANDS)	10201.0	13300.0	18650.0	.	.
URBAN POPULATION (PERCENT OF TOTAL)	4.8	6.9	11.8	17.8	28.3
POPULATION PROJECTIONS					
POPULATION IN YEAR 2000 (MILLIONS)			36.2	.	.
STATIONARY POPULATION (MILLIONS)			110.5	.	.
YEAR STATIONARY POPULATION IS REACHED			2100	.	.
POPULATION DENSITY					
PER SQ. KM.	10.8	14.1	19.1	27.7	54.7
PER SQ. KM. AGRICULTURAL LAND	26.6	33.4	44.9	86.7	129.9
POPULATION AGE STRUCTURE (PERCENT)					
0-14 YRS.	42.7	44.4	46.0	44.8	46.0
15-64 YRS.	54.3	52.5	50.9	52.3	51.1
65 YRS. AND ABOVE	3.0	3.1	3.0	2.9	2.8
POPULATION GROWTH RATE (PERCENT)					
TOTAL	2.2	2.7	3.4	2.7	2.8
URBAN	5.0	6.3	8.7	6.2	5.2
CRUDE BIRTH RATE (PER THOUSAND)					
	45.6	46.8	46.3	47.3	47.2
CRUDE DEATH RATE (PER THOUSAND)					
	22.4	18.6	15.1	19.5	15.7
GROSS REPRODUCTION RATE					
	3.0	3.1	3.2	3.2	3.2
FAMILY PLANNING					
ACCEPTORS, ANNUAL (THOUSANDS)	..	..	93.6/c	.	.
USERS (PERCENT OF MARRIED WOMEN)	..	..	..	..	..
FOOD AND NUTRITION					
INDEX OF FOOD PRODUCTION					
PER CAPITA (1969-71=100)	95.0	104.0	89.0	88.7	90.7
PER CAPITA SUPPLY OF CALORIES (PERCENT OF REQUIREMENTS)					
	90.0	91.0	86.5/d	90.2	93.9
PROTEINS (GRAMS PER DAY)					
	46.3	48.8	47.6/d	53.1	54.8
OF WHICH ANIMAL AND PULSE					
	17.8	21.2	20.5/d	18.4	17.0
CHILD (AGES 1-4) MORTALITY RATE	33.1	25.6	19.4	26.7	23.9
HEALTH					
LIFE EXPECTANCY AT BIRTH (YEARS)	41.7	46.7	51.6	45.6	51.0
INFANT MORTALITY RATE (PER THOUSAND)					
	151.5	125.3	102.9	129.9	118.5
ACCESS TO SAFE WATER (PERCENT OF POPULATION)					
TOTAL	..	13.0	39.0/e	23.9	..
URBAN	..	61.0	88.0/e	54.9	..
RURAL	..	9.0	36.0/e	18.5	..
ACCESS TO EXCRETA DISPOSAL (PERCENT OF POPULATION)					
TOTAL	..	..	17.0/e	25.8	..
URBAN	..	..	88.0/e	63.1	..
RURAL	..	..	14.0/e	20.2	..
POPULATION PER PHYSICIAN					
	18216.1	22240.8	17553.1/d	32097.3	14185.2
POPULATION PER NURSING PERSON					
	11886.9/f,g	7162.1	2387.5/d	3264.6	2213.2
POPULATION PER HOSPITAL BED					
TOTAL	595.5/g	717.8	499.8/d	1225.0	1036.4
URBAN	55.3/g	58.6	81.3/d	249.5	430.8
RURAL	1532.9/g	..	1191.1/d	1712.1	3678.6
ADMISSIONS PER HOSPITAL BED					
	..	..	..	..	..
HOUSING					
AVERAGE SIZE OF HOUSEHOLD					
TOTAL	..	4.4/1	..	..	..
URBAN	3.1/h	3.2/1	..	..	..
RURAL	..	4.5/1	5.3	..	..
AVERAGE NUMBER OF PERSONS PER ROOM					
TOTAL	..	..	..	..	..
URBAN	1.8/h	..	..	..	..
RURAL	..	..	..	..	..
ACCESS TO ELECTRICITY (PERCENT OF DWELLINGS)					
TOTAL	..	..	..	..	..
URBAN	..	..	..	..	..
RURAL	..	..	..	..	..

TABLE 3A  
TANZANIA - SOCIAL INDICATORS DATA SHEET

		TANZANIA			REFERENCE GROUPS (WEIGHTED AVERAGES - MOST RECENT ESTIMATE) <sup>/a</sup>	
		1960 <sup>/b</sup>	1970 <sup>/b</sup>	MOST RECENT ESTIMATE <sup>/b</sup>	LOW INCOME AFRICA SOUTH OF SAHARA	MIDDLE INCOME AFRICA SOUTH OF SAHARA
<b>EDUCATION</b>						
<b>ADJUSTED ENROLLMENT RATIOS</b>						
PRIMARY:	TOTAL	25.0	39.0	104.0	63.2	83.3
	MALE	33.0	47.0	113.0	72.7	96.1
	FEMALE	18.0	31.0	94.0	50.3	80.4
SECONDARY:	TOTAL	2.0	3.0	4.0	10.2	15.3
	MALE	2.0	4.0	5.0	13.2	19.4
	FEMALE	1.0	2.0	2.0	6.6	11.3
VOCATIONAL ENROL. (% OF SECONDARY)	22.6	..	1.6	7.9	4.7	
PUPIL-TEACHER RATIO	PRIMARY	45.3	45.9	41.4	47.4	38.6
	SECONDARY	19.6	18.4	19.0	26.2	23.4
ADULT LITERACY RATE (PERCENT)	9.5/ <sup>g</sup>	28.1/ <sup>i</sup>	66.0/ <sup>c</sup>	34.0	35.6	
<b>CONSUMPTION</b>						
PASSENGER CARS PER THOUSAND POPULATION	2.4	2.5	2.6/ <sup>d</sup>	3.0	31.9	
RADIO RECEIVERS PER THOUSAND POPULATION	2.0	11.3	27.7	34.8	71.8	
TV RECEIVERS PER THOUSAND POPULATION	..	0.3	0.3	1.7	17.9	
NEWSPAPER ("DAILY GENERAL INTEREST") CIRCULATION PER THOUSAND POPULATION	2.5	..	10.1	2.9	19.1	
CINEMA ANNUAL ATTENDANCE PER CAPITA	0.5	..	0.2/ <sup>d</sup>	1.1	0.6	
<b>LABOR FORCE</b>						
TOTAL LABOR FORCE (THOUSANDS)	4734.7	5841.7	7650.5	..	..	
FEMALE (PERCENT)	37.2	36.7	36.0	34.1	36.5	
AGRICULTURE (PERCENT)	89.0	86.0	83.0	78.4	56.5	
INDUSTRY (PERCENT)	4.0	5.0	6.0	9.2	17.7	
<b>PARTICIPATION RATE (PERCENT)</b>						
TOTAL	46.4	43.9	41.1	41.4	37.0	
MALE	59.1	56.3	53.1	53.9	46.9	
FEMALE	34.0	31.8	29.2	29.1	27.2	
ECONOMIC DEPENDENCY RATIO	1.0	1.1	1.2	1.2	1.3	
<b>INCOME DISTRIBUTION</b>						
<b>PERCENT OF PRIVATE INCOME RECEIVED BY</b>						
HIGHEST 5 PERCENT OF HOUSEHOLDS	..	24.7	..	..	..	
HIGHEST 20 PERCENT OF HOUSEHOLDS	..	50.4	..	..	..	
LOWEST 20 PERCENT OF HOUSEHOLDS	..	5.8	..	..	..	
LOWEST 40 PERCENT OF HOUSEHOLDS	..	16.0	..	..	..	
<b>POVERTY TARGET GROUPS</b>						
<b>ESTIMATED ABSOLUTE POVERTY INCOME LEVEL (US\$ PER CAPITA)</b>						
URBAN	..	..	147.0	134.3	507.0	
RURAL	..	..	109.0	82.9	200.6	
<b>ESTIMATED RELATIVE POVERTY INCOME LEVEL (US\$ PER CAPITA)</b>						
URBAN	..	..	125.0	96.4	523.9	
RURAL	..	..	74.0	60.4	203.6	
<b>ESTIMATED POPULATION BELOW ABSOLUTE POVERTY INCOME LEVEL (PERCENT)</b>						
URBAN	..	..	10.0	39.3	..	
RURAL	..	..	60.0	69.0	..	

.. Not available  
. Not applicable.

**NOTES**

<sup>/a</sup> The group averages for each indicator are population-weighted arithmetic means. Coverage of countries among the indicators depends on availability of data and is not uniform.

<sup>/b</sup> Unless otherwise noted, data for 1960 refer to any year between 1959 and 1961; for 1970, between 1969 and 1971; and for Most Recent Estimate, between 1978 and 1980.

<sup>/c</sup> 1976; <sup>/d</sup> 1977; <sup>/e</sup> 1975; <sup>/f</sup> Registered, not all practicing in the country; <sup>/g</sup> 1962; <sup>/h</sup> 1958; <sup>/i</sup> 1967; <sup>/j</sup> for Mainland Tanzania only.



Population : 17.5 million (mid-1979)  
GNP Per Capita: US\$270 (1979)

TANZANIA - ECONOMIC INDICATOR <sup>sb/</sup>

Indicator	Amount (million US\$ at current prices) 1979	Annual Growth Rates (%)									
		Actual					Projected				
		1976	1977	1978	1979	1980 <sup>a/</sup>	1981	1982	1983	1984	1985
<b>NATIONAL ACCOUNTS</b>											
Gross domestic product <sup>d/ e/</sup>	4,564.3	6.7	4.7	5.4	3.9	-1.5	3.7	3.6	3.6	3.6	3.6
Agriculture <sup>e/</sup>	2,210.2	9.8	7.5	7.4	8.0	-6.1	4.2	3.6	3.6	3.6	3.6
Industry	549.0	0.9	3.1	-2.2	3.1	-	3.0	4.0	4.0	4.0	4.0
Services	1,374.8	3.4	5.5	6.5	3.4	4.0	3.4	3.4	3.4	3.4	3.4
Consumption	4,115.8	1.6	12.3	14.6	-3.4	1.7	4.6	1.9	3.2	3.1	3.2
Gross investment	958.6	11.5	2.1	3.8	10.9	-6.2	3.6	3.6	3.6	3.6	3.6
Exports of GNFS	647.9	16.8	-22.8	-2.4	-2.8	-9.6	1.7	7.9	5.2	5.2	5.3
Imports of GNFS	1,158.0	0.5	4.4	34.9	-19.2	1.9	-2.9	-1.7	2.9	2.6	3.0
Gross national savings	468.0	64.5	-6.8	-58.0	99.4	-16.9	-23.9	19.0	8.8	9.7	8.8

PRICES

GDP deflator (1978 = 100)	77.2	92.4	100.0	108.5	124.8	140.4	154.4	168.3	181.8	194.5
Exchange rate (T.Sh. per US\$)	8.4	8.3	7.7	8.3	8.2	8.2	8.2	8.2	8.2	8.2

	Share of GDP at Market Prices (%) (at current prices) <sup>e/</sup>					Average Annual Increase (%) (at constant 1978 prices) <sup>f/</sup>			
	1970	1975	1980	1985	1990	1970-75	1975-80	1980-85	1985-90
	Gross domestic product <sup>e/</sup>	100.0	100.0	100.0	100.0	100.0	4.9	4.1	3.6
Agriculture <sup>e/</sup>	36.9	36.9	47.5	47.8	47.9	2.1	5.8	3.7	3.6
Industry	15.5	14.5	11.9	12.7	12.3	3.7	0.7	3.9	4.0
Services	37.2	37.8	31.1	30.8	30.6	6.6	4.6	3.4	3.4
Consumption	81.9	91.7	90.3	88.2	86.4	5.9	6.0	3.1	3.1
Gross investment	22.5	21.1	20.0	18.0	18.0	0.2	4.6	2.1	3.6
Exports GNFS	-24.0	-18.2	-12.1	-13.9	-15.2	-5.3	-6.2	5.3	5.4
Imports GNFS	28.4	31.0	22.5	20.2	19.7	-3.8	4.2	1.1	3.0
Gross national savings	18.3	7.8	9.9	11.6	13.5	-2.4	-3.6	5.7	7.0

PUBLIC FINANCE

	As % of GDP		
	1970	1975	1979
Current revenues	17.5	20.2	18.5
Current expenditures	16.2	20.2	23.9
Surplus (+) or deficit (-)	1.3	-	-5.4
Capital expenditure	8.3	11.6	12.7
Foreign financing	2.0	5.4	6.7

OTHER INDICATORS

	1970-75	1975-80	1980-85	1985-90
GNP growth rate (%)	4.7	4.2	3.6	3.6
GNP per capita growth rate (%)	1.3	0.8	0.2	0.2
ICOR	5.0	5.5	5.1	5.1
Marginal savings rate	-0.1	-0.1	0.1	0.2
Import elasticity	-0.8	1.0	0.3	0.8

<sup>a/</sup> Estimate

<sup>b/</sup> Apart from trade projections, which include small but offsetting amounts of Zanzibar trade, all data in this table are for Mainland Tanzania only.

<sup>c/</sup> Projected years at constant prices.

<sup>d/</sup> At market prices; components are expressed at factor cost and will not add due to exclusion of net indirect taxes and subsidies.

<sup>e/</sup> Historical trend from 1973 to 1979 is based on official estimates, which include subsistence production growth rate of 8.6% per annum. We estimate that a more realistic growth rate for subsistence production over this period would be nearer 4% per annum, reducing agricultural growth to 3.4% per annum and GDP growth to 3.6% per annum.

Population : 17.5 million (mid-1979)  
GNP Per Capita: US\$270 (1979)

TANZANIA - EXTERNAL TRADE<sup>b/</sup>

Indicator	Amount (million US\$ at current prices)	Annual Growth Rates (%) (at constant 1978 prices)									
		Actual					Projected				
		1976	1977	1978	1979	1980 <sup>a/</sup>	1981	1982	1983	1984	1985
<b>EXTERNAL TRADE</b>											
Merchandise exports	543.6	7.8	-29.4	-6.5	6.1	-7.8	2.1	8.5	5.3	5.3	5.3
Major primary products	339.5	9.5	-20.1	-9.7	-0.1	-4.8	3.0	8.8	4.1	4.1	4.1
Others	204.1	3.3	-18.1	2.7	21.5	-14.0	-	8.0	8.0	8.0	8.0
Merchandise imports	1,099.6	-16.4	7.7	36.8	-18.8	1.0	-3.4	-1.5	2.8	2.8	2.9
Foodgrains	19.3	-65.2	23.3	-14.7	-42.4	334.0	-3.0	-47.5	-	-	-
Petroleum	171.7	11.0	-11.5	12.8	-8.9	2.1	-7.9	5.0	3.1	3.3	3.4
Machinery and equipment	515.0	-15.2	25.1	55.1	-10.0	-7.6	-5.4	2.9	2.9	2.9	2.9
Others	393.6	-13.9	0.7	33.9	-28.9	-7.6	0.7	3.0	3.0	3.0	3.0

PRICES

Export price index	77.4	106.9	100.0	106.9	122.1	116.6	123.8	136.2	149.4	163.4
Import price index	81.1	89.5	100.0	118.2	138.2	155.7	173.3	188.5	204.4	220.9
Terms of trade index	95.4	119.4	100.0	90.4	88.3	74.9	71.4	72.2	73.1	74.0

	Composition of Merchandise Trade (%) (at current prices)					Average Annual Increase (%) (at constant 1978 prices)			
	1970	1975	1980	1985	1990	1970-75	1975-80	1980-85	1985-90
	Exports	100.0	100.0	100.0	100.0	100.0	-4.5	-5.2	5.6
Major primary products	59.2	66.3	69.2	67.6	63.5	0.2	-6.9	5.0	4.1
Others	40.8	33.7	30.8	32.4	36.5	-12.9	-1.0	6.8	8.0
Imports	100.0	100.0	100.0	100.0	100.0	1.8	2.6	0.9	3.0
Foodgrains	2.5	15.3	9.2	4.5	3.9	44.8	-5.8	-14.1	-
Petroleum	8.5	11.9	12.7	13.1	13.7	4.8	-	2.0	3.9
Machinery and equipment	35.2	30.8	41.2	38.8	36.9	0.7	11.1	1.7	2.9
Others	53.8	42.0	36.9	43.6	45.5	-1.7	-3.3	2.7	3.1

	Share of Trade with Industrial Countries (%)			Share of Trade with Developing Countries (%)			Share of Trade with Capital Surplus Oil Exporters (%)		
	1970	1975	1978	1970	1975	1978	1970	1975	1978
	Exports	54.0	48.2	68.0	40.0	43.3	23.2	0.6	0.4
Imports	57.9	59.7	74.2	27.3	25.1	17.9	1.2	3.2	0.8

DIRECTION OF TRADE

Exports	54.0	48.2	68.0	40.0	43.3	23.2	0.6	0.4	0.7
Imports	57.9	59.7	74.2	27.3	25.1	17.9	1.2	3.2	0.8

a/ Estimate

b/ Data are for all Tanzania (Mainland and Zanzibar)

Population : 17.5 million (mid-1979)  
GDP per Capita: US\$ 270 million (1979)

TANZANIA - BALANCE OF PAYMENTS, EXTERNAL CAPITAL AND DEBT  
(million US\$ at current prices)

Indicator	Actual					Projected						
	1970	1976	1977	1978	1979	1980 <sup>a/</sup>	1981	1982	1983	1984	1985	1990
<b>BALANCE OF PAYMENTS</b>												
Export of goods and services	350.4	647.2	649.6	631.2	705.6	740.6	761.8	851.1	979.2	1,121.7	1,286.1	2,287.9
of which: Merchandise f.o.b.	259.3	492.4	547.7	479.2	543.5	572.7	588.2	643.2	764.8	860.4	991.8	1,796.3
Imports of goods and services	377.9	729.6	853.4	1,271.1	1,224.3	1,432.7	1,596.5	1,758.3	1,964.2	2,182.8	2,423.7	3,900.7
of which: Merchandise c.i.f.	318.4	630.5	750.3	1,146.5	1,099.6	1,299.1	1,412.9	1,549.1	1,732.6	1,932.3	2,149.2	3,480.1
Net transfers <sup>b/</sup>	5.6	-16.4	11.9	19.2	28.1	20.0	21.6	23.3	25.2	27.2	29.4	53.2
Current account balance	-21.9	-98.8	-171.9	-620.7	-490.6	-692.1	-833.1	-881.9	-959.7	-1,031.9	-1,108.2	-1,567.6
Official grant receipts	6.2	119.0	135.0	214.1	321.4	380.9	410.4	443.2	478.7	517.0	558.3	820.4
M & LT loans (net)	38.1	97.1	162.3	151.1	255.8	329.3	392.7	408.7	451.0	484.9	569.8	772.2
Official <sup>c/</sup>	41.2	107.1	168.0	158.1	162.4	196.1	341.9	377.5	439.8	476.6	577.9	775.9
Private	-3.1	-10.0	-5.7	-7.0	93.4	133.1	50.9	31.2	11.3	8.3	-8.1	-3.0
Other capital	-29.8	-67.7	10.5	-14.6	-44.7	2.9	50.0	50.0	50.0	50.0	-36.0	-
Change in reserves (--increase)	7.4	-49.6	-135.9	270.1	-81.9	-20.0	-20.0	-20.0	-20.0	-20.0	-20.0	-23.0
International reserves	107.5	164.4	300.3	30.2	112.3	132.1	152.1	172.1	192.1	212.1	232.1	337.1
Reserves as months imports	3.4	7.7	4.2	0.3	1.1	1.1	1.1	1.2	1.2	1.2	1.2	1.1
<b>EXTERNAL CAPITAL AND DEBT</b>												
Gross disbursements	60.5	238.2	326.3	382.5	596.9	763.8						
Official grants	6.2	119.0	135.0	214.1	321.4	380.0						
Concessional loans	40.4	93.6	149.5	112.6	103.8	179.7						
DAC	20.1	58.0	73.7	64.1	33.2	33.1						
OPEC	-	1.0	6.5	1.2	1.2	35.5						
IDA	9.4	29.0	39.3	24.4	39.0	49.4						
Other	10.9	5.6	30.0	22.9	30.4	61.6						
Non-concessional loans	13.9	25.6	41.8	63.4	171.7	204.1						
Official export credits	-	7.3	-	21.7	32.1	6.8						
IBRD	4.8	17.1	30.4	31.3	36.6	31.8						
Other multilateral	-	-	3.1	7.6	5.3	14.4						
Private	9.1	1.2	8.3	2.8	97.7	151.0						
External Debt												
Debt outstanding and disbursed	322.7	1,026.3	1,218.6	1,260.1	1,422.0	1,751.3						
Official	193.4	965.7	1,158.5	1,201.4	1,266.6	1,662.7						
Private	129.3	60.6	60.1	58.7	155.4	288.5						
Undisbursed debt	408.4	536.6	560.4	617.5	699.6	679.7						
Debt service												
Total service payments	-26.3	-41.7	-51.2	-49.6	49.7	-98.2						
Interest	-10.1	-19.5	-22.3	-24.7	-30.0	-43.7						
Payments as % exports	7.5	6.4	7.6	7.9	7.1	13.3						
Average interest rate on new loans(%)	1.6	2.6	3.1	2.6	5.5	4.5						
Official	1.5	2.3	3.1	2.6	4.0	..						
Private	7.0	8.3	9.3	8.5	..	..						
Average maturity of new loans (years)	38.8	38.0	34.7	35.4	21.1	27.3						
Official	39.7	39.9	34.7	35.4	27.0	..						
Private	7.2	5.0	14.8	..	9.7	..						
As % of Debt Outstanding at End of Most Recent Year (1979)												
Maturity structure of debt outstanding												
Maturities due within 5 years											28.4	
Maturities due within 10 years											62.7	
Interest structure of debt outstanding												
Interest due within first year												3.0

<sup>a/</sup> Estimate  
<sup>b/</sup> Excludes official grant receipts.  
<sup>c/</sup> Includes financing of projected gap on IDA terms.

THE STATUS OF BANK GROUP OPERATIONS IN TANZANIA

A. STATEMENT OF BANK LOANS AND IDA CREDITS TO TANZANIA  
AS OF MARCH 31, 1983

No.	Year	Borrower	Purpose	(US\$ million)			
				Bank <sup>1</sup>	TW	IDA <sup>1</sup>	Undisbursed
Eight loans, one Third Window loan, and twenty credits fully disbursed.				121.24	29.99	184.74	
454-TA	1974	Tanzania	Cotton <sup>2</sup>			17.50	1.62
507-TA	1974	Tanzania	Highway Maintenance			10.20	1.16
580-TA	1975	Tanzania	Dairy			10.00	4.25
1128-TA	1975	Tanzania	Mwanza Textile <sup>2</sup>	15.00			0.53
601-TA	1976	Tanzania	Technical Assistance <sup>2</sup>			6.00	0.80
606-TA	1976	Tanzania	National Maize Program <sup>2</sup>			18.00	4.33
607-TA	1976	Tanzania	Fifth Education			11.00	4.55
1307-TA	1976	Tanzania	Forestry <sup>2</sup>	7.00			0.74
652-TA	1976	Tanzania	Fisheries			9.00	5.36
658-TA	1976	Tanzania	Tobacco Processing <sup>2</sup>			8.00	0.46
1354-TA	1977	Tanzania	Urban Water Supply	15.00			0.29
1385T-TA	1977	Tanzania	Morogoro Industrial Complex		11.50		1.12
1386-TA	1977	Tanzania	Morogoro Industrial Complex	11.50			0.69
703-TA	1977	Tanzania	Rural Development (Tabora)			7.20	3.95
732-TA	1977	Tanzania	Second Sites and Services			12.00	5.24
743-TA	1977	Tanzania	Trucking			15.00	3.78
1498-TA	1977	TIB	Tanzania Investment Bank	15.00			1.47
801-TA	1978	Tanzania	Second Cashewnut			27.50	6.72
802-TA	1978	Tanzania	Tobacco Handling			14.00	9.74
803-TA	1978	Tanzania	Rural Dev. (Mwanza/Shinyanga)			12.00	5.33
1607-TA	1978	Tanzania	Morogoro Textile	25.00			24.50
833-TA	1978	Tanzania	Morogoro Textile			20.00	5.04
860-TA	1979	Tanzania	Tourism Rehabilitation			14.00	9.69
861-TA	1979	Tanzania	Sixth Education			12.00	10.32
875-TA	1979	Tanzania	Mufindi Pulp and Paper			30.00	0.07
1650-TA	1979	Tanzania	Mufindi Pulp and Paper	30.00			26.64
876-TA	1979	Tanzania	Fifth Highway			20.50	14.29
1745-TA	1979	TDFL	Tanganyika Dev. Fin. Co., Ltd.	11.00			3.24
1750-TA	1979	TIB	Tanzania Investment Bank	25.00			14.25
S-24-TA	1979	Tanzania	Dar es Salaam Port Engineering			2.50	0.25
987-TA	1980	Tanzania	Tanzania Rural Dev. Bank			10.00	9.89
1007-TA	1980	Tanzania	Pyrethrum			10.00	7.15
1015-TA	1980	Tanzania	Grain Storage and Milling			43.00	39.36
1037-TA	1980	Tanzania	Smallholder Tea			14.00	12.58
1056-TA	1981	Tanzania	Seventh Education			25.00	24.58
1060-TA	1981	Tanzania	Technical Assistance II <sup>3</sup>			11.00	8.16
1070-TA	1981	Tanzania	Coconut Pilot <sup>3</sup>			6.60	4.96
1133-TA	1981	Tanzania	Export Rehabilitation Program <sup>3</sup>			47.10	5.82
1173-TA	1982	Tanzania	Telecommunications I <sup>3</sup>			25.30	25.30
1199-TA	1982	Tanzania	Songo-Songo Petroleum II <sup>3</sup>			20.30	4.10
1206-TA	1982	Tanzania	Technical Assistance III <sup>3</sup>			12.00	10.56
1229-TA	1982	Tanzania	Sao Hill Forestry-Phase II <sup>3</sup>			12.00	12.00
1271-TA	1982	Tanzania	Urban Water Supply (Suppl.) <sup>3 4</sup>			4.00	4.00
1312-TA	1983	Tanzania	Dar es Salaam Sewerage and Sanitation <sup>3 4</sup>			22.50	22.50
Total				275.74	41.49	723.94	
of which has been repaid				29.94	-	10.70	
Total now outstanding				245.80	41.49	713.24	
Amount sold				.09			
of which has been repaid				.09			
Total now held by Bank and IDA <sup>1</sup>				245.80	41.49	713.24	
Total undisbursed				72.35	1.12	287.91	361.38

1 Net of exchange adjustments.

2 Since these projects have recently been completed, loan/credit accounts will soon be closed.

3 Sixth replenishment; approximate US\$ equivalent of SDR's.

4 Not yet effective.

B. SUMMARY STATEMENT OF BANK LOANS FOR COMMON SERVICES GUARANTEED  
BY KENYA, TANZANIA AND UGANDA AS OF MARCH 31, 1983

Loan No.	Year	Borrower	Purpose	(US\$ million)	
				Amount (less cancellations)	
				Bank <sup>1</sup>	Undisbursed
Seven loans fully disbursed				135.80	
638-EA	1969	EAHC	Harbours	35.00	0.52
865-EA	1972	EAHC	Harbours	26.50	0.35
914-EA	1973	EAPTC	Telecommunications	32.50	0.28
1204-EA	1976	EADB	Development Finance	15.00	0.95
Total				244.80	2.10
of which has been repaid				80.99	
Total now outstanding				163.81	
Amount sold			24.36		
of which has been repaid			24.36	0.00	
Total now held by Bank				163.81	
				=====	
Total undisbursed				2.10	2.10

<sup>1</sup>Net of exchange adjustments.

C. PROJECTS IN EXECUTION<sup>1</sup>  
(As of March 31, 1983)

There are currently 41 projects under execution in Tanzania.

AGRICULTURE SECTOR

Credit No. 454-TA - Geita Cotton Project: US\$17.5 million  
Credit of January 17, 1974; Date of Effectiveness -  
April 5, 1974; Closing Date - December 31, 1982

The project was completed on schedule and credit account will be closed. Most of the civil works, including roads construction have been completed and trial results have established an effective spray regime although viable packages for fertilizer use have not been identified. The project was involved in the villagization process, land use planning and the establishment of block farming. Staff continuity and higher level staff training have been good. However, most appraisal targets have not been achieved. Cotton production is now declining. A Project Completion Report is under preparation.

Credit No. 652-TA - Fisheries Development Project: US\$9.0 million  
Credit of July 12, 1976; Date of Effectiveness -  
October 12, 1976; Closing Date - December 31, 1981

The Project faced major implementation difficulties, including a delay in the procurement of boats for the Kigoma Commercial Center, a major shortfall in the purchase of boats for the coastal centers and a postponement of procurement of lake transport facilities. There were problems affecting the quality of wooden boats constructed under the project and delivered to the coastal center. After considerable discussion of a possible extension of the project, project activities were terminated on December 31, 1982.

Credit No. 606-TA - National Maize Project: US\$18.0 million  
Credit of January 29, 1976; Date of Effectiveness - May 28,  
1976; Closing Date - December 31, 1982

The project was redesigned in order to intensify project activities during a three-year extension period from July 1979 to June 1982; however, this redesign had little impact on the production of food crops because of drought conditions. Inadequate research, extension and

---

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

prices also discouraged proper crop husbandry. Construction of staff houses and village stores was delayed due to shortage of building materials. The December 1982 mission found no improvement in project implementation and project activities were terminated on schedule. Credit account will soon be closed.

Credit No. 580-TA - Dairy Development Project: US\$10.0 million Credit of August 15, 1975; Date of Effectiveness - November 13, 1975; Closing Date - March 31, 1983

The project has begun to show overall improvement in its implementation. Milk production, technical parameters and budgeting control have improved, and production cost has been reduced. The large price increase in July 1980 was responsible in great part for the improved financial position of the dairies. However, implementation problems remain, and the closing date has not been extended past March 31, 1983.

Loan No. 1307-TA - Sao Hill Forestry Project (Phase I): US\$7.0 million Loan of July 12, 1976; Date of Effectiveness - October 12, 1976; Closing Date - June 30, 1982

This first phase project has been completed. While the Closing Date was not formally postponed, disbursement of committed amounts continued until September 30, 1982. Credit account will be closed.

Credit No. 658-TA - Tobacco Processing Project: US\$8.0 million Credit of September 16, 1976; Date of Effectiveness - February 15, 1977; Closing Date - December 31, 1981

The Closing Date of this Credit was December 31, 1981. However, the credit account was kept open to allow the project authorities to submit belated withdrawal applications for two eligible expenditures - security lighting and firefighting equipment. Credit account is now being closed.

Credit No. 703-TA and Credit No. 703-5-TA - Tabora Rural Development Project: US\$12.0 million Credit<sup>2</sup> of May 11, 1977; Date of Effectiveness - November 11, 1977; Closing Date - June 30, 1983

Overall project implementation has improved with the easing of cement shortages and the improved arrangement for diesel fuel supply. Specifically, the agriculture, land use, and roads components are making satisfactory progress and the water resource development has improved. With close supervision, disbursement of credit funds has also improved. The Government has submitted proposals for restructuring and extending the project beyond the current Closing Date. These proposals were reviewed during a supervision mission in October 1982. However, the mission found some deterioration in the key crop and livestock components of the project and concluded that an extension would not be justified. Project account will be closed on schedule.

<sup>2</sup>Credit No. 703-5-TA (US\$4.8 million) is financed under the special CIDA arrangements; Credit no. 703-TA is an IDA Credit of US\$7.2 million.

Credit No. 801-TA - Second Cashewnut Development Project;  
US\$27.5 million Credit of June 14, 1978; Date of Effectiveness -  
October 2, 1978; Closing Date - December 31, 1984

Factory construction is satisfactory. However, the project is seriously affected by technical, managerial, and financial problems. Particularly, the inadequate supply of raw nuts is worrisome. In addition, the appointment of key staff and the maintenance of up-to-date accounts at existing cashewnut factories continue to pose difficulties. The prospects for operation of the new facilities at full capacity are rather poor.

Credit No. 802-TA - Tobacco Handling Project: US\$14.0 million  
Credit of June 14, 1978; Date of Effectiveness - January 5, 1979,  
Closing Date - April 30, 1983

The project has faced major difficulties. Despite the low volume of tobacco handled, TAT's administrative costs remain very high. Tobacco losses during handling remain significant and TAT's ability to organize and follow through on corrective measures has been limited. It has hence been agreed that the project should be scaled down and terminated on schedule on April 30, 1983.

Credit No. 803-TA - Mwanza/Shinyanga Rural Development Project:  
US\$12.0 million Credit of June 14, 1978; Date of Effectiveness -  
March 5, 1979; Closing Date - December 31, 1984

Although some infrastructure components are proceeding satisfactorily, and housing and vehicles have been provided, the project's agricultural components are not making significant progress. This is due not only to problems of project implementation but also to general factors affecting the entire agricultural sector such as the pricing of agricultural produce and inputs, marketing problems, input supply constraints, and deficiencies of agricultural services (e.g. research, extension and credit). The Government has submitted proposals for project redesign and a joint IDA/IFAD mission visited Tanzania in December 1982 to discuss these proposals with the Government and project staff. The redesign proposals were amplified during the mission, and it was agreed in principle that the greatly reduced investment program should be implemented.

Credit No. 987-TA - Tanzania Rural Development Bank (TRDB)  
Project: US\$10.0 million credit of October 24, 1980; Effective-  
ness Date - May 18, 1981; Closing Date - December 31, 1983

TRDB is facing growing financial and managerial problems, due in part to the pervasive problems of the agricultural sector. TRDB is preparing programs to deal with the issues.

Credit No. 1007-TA - Pyrethrum Project: US\$10.0 million  
Credit of October 24, 1980; Date of Effectiveness - April 20,  
1981; Closing Date - December 31, 1985

---

The Tanganyika Pyrethrum Board's operating costs are proving much higher than expected at appraisal and it may not be possible to reduce them sufficiently in the course of the project to ensure economic production. The closure of the extraction plant at Mafinga will result in important transport savings for TPB; however, these will not be significant enough to improve prospects for the crop. Urgent steps are to be taken to reduce the operating costs of TPB and to improve the marketing of its products. Expenditures for certain new investments (e.g. headquarters building for TPB, staff housing and possibly some road improvement) are to be eliminated.

Credit No. 1037-TA - Smallholder Tea Project: US\$14.0 million  
Credit of August 20, 1980; Effectiveness Date - April 27, 1981;  
Closing Date - June 30, 1985

---

The project started slowly due to delays in appointing the General Manager and the Chief Engineer. Some start has been made in the tea nursery and fuelwood planting. The Ukalawa factory site has been selected but the construction of this facility may be delayed, pending a significant increase in tea production.

Credit No. 1070-TA - Coconut Pilot Project: US\$6.8 million  
Credit of October 24, 1980; Date of Effectiveness - April 20,  
1981; Closing Date - March 31, 1986

---

Implementation of the project is progressing well, largely due to the quality of staff in the field. However, the Mainland Government has decided to allocate only TSh 3 million of the TSh 9.5 million in local currency needed for the project in 1982/83. Management is hence attempting to resolve this problem.

Credit No. 1015-TA - Grain Storage and Milling Project:  
US\$43.0 million Credit of April 15, 1981; Date of Effectiveness -  
July 15, 1981; Closing Date - June 30, 1987

---

Because of the uncertainties regarding the organizational structure and future responsibilities of the National Milling Corporation (NMC), project implementation has been substantially delayed. Detailed proposals for the reorganization of cereals handling and distribution are still being discussed in Tanzania. The Bank will now suggest that Government provide adequate re-design proposals which will then be appraised.

Credit No. 1229-TA - Sao Hill Forestry Project (Phase II):  
US\$12.0 million Credit of May 19, 1982; Date of Effectiveness -  
March 16, 1983; Closing Date - December 31, 1987

---

This credit, which is a follow-up to the first phase project, became effective on March 16, 1983. The afforestation program consisting

of planting, replanting, weeding, pruning and fire break maintenance are being implemented well; however, the ancilliary and support services are experiencing some difficulties.

EDUCATION SECTOR

Credit No. 607-TA - Fifth Education Project: US\$11.0 million  
Credit of January 29, 1976; Date of Effectiveness - March 23,  
1976; Closing Date - June 30, 1982

Overall project completion has reached 65% and about \$6.3 million have been disbursed. However, because of the domestic financial constraints, the shortage of building materials and the dispersed locations of the village staff housing program, it will not be possible to complete the project as planned. The Credit account will soon be closed.

Credit 861-TA - Sixth Education Project - US\$12.0 million  
Credit of January 22, 1979; Date of Effectiveness - June 25,  
1979; Closing Date - June 30, 1985

Civil works are underway at two vocational training centers and three technical secondary schools and are due to start on the Dar es Salaam School of Accountancy. Implementation is slow with resultant cost increases. However, all components (with the possible exception of the postponed MANTEP - management training for education personnel) are expected to be completed by project closing date.

Credit 1056-TA - Seventh Education Project: US\$25.0 million  
Credit of September 26, 1980; Date of Effectiveness -  
December 29, 1980; Closing Date - December 30, 1986

Implementation is proceeding slowly due to (i) staff constraints in the Project Implementation Section; (ii) delay in Government decision on location and staffing of the Coordinating Unit for Research and Education; (iii) delay in staffing and equipping of the National Examination Council and of the Tanzania Elimu Supplies; and (iv) shortages of materials. However, in Zanzibar, work on the new Teacher Training College is ahead of schedule, staff houses are now available at the Nkrumah Training College and preliminary surveys of sites have been made.

TOURISM SECTOR

Credit No. 860-TA - Tourism Rehabilitation Project: US\$14.0 million  
Credit of January 22, 1979; Date of Effectiveness -  
August 24, 1979; Closing Date - June 30, 1983

Project implementation generally is progressing much slower than anticipated at the time of appraisal mainly due to delays in execution of building works for hotel rehabilitation. All posts for technical assistance staff have been filled. The construction site identified for the Hotel and Tourism Training Institute (HTTI) proved to be unsuitable because of size and shape, thereby delaying implementation of this component. An alternative site has been located and preparation of preliminary design is

about to start. Improvements to the airport terminal were dropped because the Government was able to secure bilateral financing for a new passenger terminal building. Vehicles for anti-poaching activities have been received and allocated to TANAPA and the Ngorongoro Conservation Authority. The Closing Date will need to be postponed if IDA involvement is to continue.

#### TRANSPORT SECTOR

Credit No. 507-TA - Highway Maintenance Project: US\$10.2 million Credit of August 21, 1974; Date of Effectiveness - November 20, 1974; Closing Date - December 31, 1982

After a slow start, project implementation improved and all equipment procured through ICB has been delivered. However, it became necessary to recast the project by amending its scope to address organizational problems encountered in its implementation. The previous Closing Date of December 31, 1980 has been postponed to December 31, 1982 to allow adequate time for completion of the project. However, withdrawal applications will be accepted up to June 30, 1983 to allow an orderly termination of project activities.

Credit No. 743-TA - Trucking Industry Rehabilitation and Improvement Project: US\$15 million Credit of November 3, 1977; Date of Effectiveness - April 3, 1978 Closing Date - June 30, 1983

Although implementation has been slow due to delays in creating Regional Transport Companies and in procuring trucks, improvement has been recorded recently with the delivery of all original estimates of trucks and the Government's contribution to the National Trucking Company for equity in the transport companies has been increased. Technical assistance has been extended since 1978; currently about 15 experts are assisting in the project implementation. All five regional trucking companies were created in early 1981 and a Board of Directors was appointed, with adequate management staff to support it. They are all operational and have recorded profits between 12-25% for the first half of the current financial year.

Credit No. 876-TA - Fifth Highway Project; US\$20.0 million Credit of March 2, 1979; Date of Effectiveness - December 3, 1980; Closing Date - December 31, 1984

This is a follow-up to credit No. 507-TA in the maintenance of the national trunk road system. All three key advisers and six key local staff are now in post. However, technical assistance for the Morogoro Training School has yet to be recruited and an action program for recruitment and training of staff has yet to be prepared. All 120 students are receiving training in various engineering colleges overseas and are making good progress. Contracts for the supply of road maintenance equipment have recently been awarded and some of the equipment have been delivered.

TELECOMMUNICATIONS SECTOR

Credit No. 1173-TA - Telecommunications I Project; US\$27.0 million Credit of March 4, 1982; Date of Effectiveness - November 1, 1982; Closing Date - June 30, 1986

---

This credit became effective on November 1, 1982. Physical implementation of the project is well underway. TPTC's financial position is also considered acceptable.

PORTS SECTOR

Credit No. S-24-TA - Dar es Salaam Port Engineering Project: US\$2.5 million Credit of February 27, 1980; Date of Effectiveness - August 13, 1980; Closing Date - June 30, 1983

---

Project implementation is progressing well. The consultants have submitted a number of reports and drawings to the Tanzania Harbours Authority (THA) for their review and comment. The only major problem is one of coordination concerning the commissioning of the new oil jetty which requires that the pipe work link to the refinery and the existing network be completed and ready for use at the same time as the jetty. THA has been asked to decide on who will design and carry out the actual site work, as well as finance the foreign exchange costs. The original Closing Date of September 30, 1981 was postponed a second time in order to complete project work.

URBAN SECTOR

Credit No. 732-TA - Second National Sites and Services Project: US\$12.0 million Credit of November 3, 1977; Date of Effectiveness - April 3, 1978; Closing Date - June 30, 1984

---

The project was reshaped in 1981 to accelerate progress, to trim the scope, complexity and cost to a more achievable level commensurate with emerging experience of actual implementing capacity and to recognize newly recreated city councils, which did not exist at the time of project appraisal. Some problems are still being experienced due to shortages of trained and experienced management and manpower and equipment and spares, but overall progress is satisfactory. All civil works contracts have been let and 83% of the work has been completed. Special units have been recently established to address the continuing problem of consolidation under the first project and to initiate cost recovery. Progress is evident on both fronts. Collections are now underway in all Urban I sites and are starting up in Urban II sites as works are completed.

WATER SUPPLY SECTOR

Loan No. 1354-TA - Urban Water Supply Project: US\$15.0 million Loan of January 5, 1977; Date of Effectiveness - March 2, 1977; Closing Date - December 31, 1984

---

The Borrower's performance under the project has generally been good. Water treatment and distribution facilities have been largely

completed. Establishment of a National Urban Water Authority (NUWA) which is to own and operate major urban water supply systems in the country, was approved by the Parliament in April 1981. Implementation of the project has, however, been dominated by the poor performance of the main civil works contractor for the Mindu dam. After being given several opportunities to improve his performance, the contractor was dismissed in August 1981 and a new contract was awarded to the second lowest evaluated bidder at the time of the original contract award in December 1978. In view of the major delays and problems which have affected the completion of the dam, the project's foreign exchange cost increased by about US\$11.0 million over the appraisal estimate. Completion of the project is being financed by a supplementary credit from IDA (US\$4 million) and a grant from CIDA (US\$3.2 million). US\$3.8 million is being provided from Ln. 1354-TA by diverting funds intended for other project components.

Credit No. 1271-TA - Urban Water Supply Project  
(Supplementary): US\$4.0 million Credit of December 9, 1982;  
Closing Date - December 31, 1984

This credit is not yet effective.

Credit No. 1312-TA - Dar es Salaam Sewerage and Sanitation  
Project: US\$22.5 million Credit of December 21, 1982; Closing  
Date - December 31, 1987

This credit is not yet effective.

#### ENERGY SECTOR

Credit S-27-TA - Songo Songo Petroleum Exploration Project:  
US\$30.0 million Credit of June 30, 1980; Date of Effectiveness -  
September 12, 1980; Closing Date - September 30, 1982

Drilling of the onshore well under the project has been abandoned because of various technical difficulties which were aggravated by managerial problems, particularly the absence of close and effective project control. Drilling of the offshore well has been completed. The credit has been fully disbursed and credit account will be closed.

Credit 1199-TA - Songo Songo Petroleum II: US\$20.0 million  
Credit of January 13, 1982; Date of Effectiveness -  
February 23, 1982; Closing Date - December 31, 1983.

This credit became effective on February 23, 1982. Drilling and testing of the second well, Well SS-8, is now virtually completed. The Association and the OPEC Fund have agreed to finance a third well for purposes of confirming the extent of the natural gas reservoir at Songo Songo.

INDUSTRIAL SECTOR

Loan No. 1498-TA - Tanzania Investment Bank: US\$15.0 million  
Loan of December 28, 1977; Date of Effectiveness -  
April 3, 1978; Closing Date - June 30, 1983

This loan is now fully committed and disbursements are proceeding satisfactorily.

Loan No. 1750-TA<sup>3</sup> - Tanzania Investment Bank: US\$25.0 million  
Loan of August 20, 1979; Date of Effectiveness - February 5,  
1980; Closing Date - June 30, 1984

Commitments and disbursements are progressing satisfactorily. In the light of the difficult situation in Tanzania, particularly the severe foreign exchange shortage, TIB is revising its operational strategy to focus in the near-term on providing funds which would enable projects to replace, balance, or modernize their machinery and equipment, improve capacity utilization, promote exports, and otherwise assist improvement of balance of payments. TIB is also being encouraged to use a portion of the Bank's loan, on an exceptional basis, to meet part of the requirements for imported inputs of some of its high-priority projects which are likely to face very low capacity operation, or even closure, following meagre allocation of foreign exchange.

Loan No. 1128-TA - Mwanza Textile Project: US\$15.0 million  
Loan of June 19, 1975; Date of Effectiveness - October 6,  
1975; Closing Date - December 31, 1981

Project implementation performance has been acceptable and all technical installations are now operating satisfactorily. The National Textile Corporation (TEXCO), the holding company for state-owned textile mills, has agreed to institute an immediate action program to improve the operating performance of existing mills. The project was technically completed in October 1978 with a savings of about US\$1.7 million. In order to utilize this amount for rehabilitation of the existing facilities, which are essential parts of the project, and in order to finalize disbursements on the awarded contracts, the Closing Date was postponed by six months to December 31, 1981. The remaining balance under the loan was cancelled on February 1, 1982.

Credit No. 601-TA - Technical Assistance Project: US\$6.0 million  
Credit of January 9, 1976; Date of Effectiveness -  
September 14, 1976; Closing Date - December 31, 1982

The project was designed to assist the Government in implementing its program of economic development through financing preinvestment and feasibility studies for projects in the productive sectors, special studies for improving efficiency and capacity utilization investments, and training

---

<sup>3</sup>In addition, a US\$15.0 million EEC Special Action Credit in support of this project is being administered by IDA.

for Tanzanians in project preparation, implementation, evaluation and related techniques. The credit is fully committed and virtually completely disbursed. The credit account will soon be closed and the remaining small undisbursed balance will be cancelled.

Loan No. 1385-T-TA/Loan No. 1386-TA - Morogoro Industrial Complex: US\$11.5 million Loan on Third Window Terms and US\$11.5 million Bank loan, both of April 6, 1977; Date of Effectiveness - July 6, 1977; Closing Date - December 31, 1982

---

Project implementation is proceeding satisfactorily in spite of some initial delays in the appointment of consultants and start-up of procurement. Because of some delays in the start-up of individual components of the Industrial Complex, the project was not completed in July 1982 as scheduled. Revised capital cost estimates are only slightly higher than those contained in the Appraisal Report. The most recent supervision mission for this project recommended that the Closing Date be postponed to June 30, 1984 to permit construction and equipping of an effluent treatment plant to serve the Morogoro Industrial Estate as well as the Morogoro Textile Mill which is being constructed.

Credit No. 833-TA/Loan No. 1607-TA - Morogoro Textile Project: US\$20.0 million Credit and US\$25.0 million both of June 29, 1978; Date of Effectiveness - May 7, 1979; Closing Date - June 30, 1985

---

Project implementation is progressing satisfactorily in spite of some problems encountered with the awarding of the civil works contract. No further delay is anticipated in project completion.

Credit No. 875-TA/Loan No. 1650-TA - Mufindi Pulp and Paper Project: US\$30.0 million credit and US\$30 million Loan, both of April 6, 1979; Date of Effectiveness - April 15, 1980; Closing Date - December 31, 1983

---

Overall project implementation, including arrangements for project management, has improved. Project completion is now expected by mid-1984. Project cost has been significantly reduced with savings in civil works, equipment and particularly in erection. The rebidding of the mechanical, electrical and instrumentation installation contract (MEI) has resulted in savings of about US\$9 million. However, supplementary foreign funds will be required to finance the conversion of the mill's boilers to burn wood fuel as well as coal and oil, to provide additional start-up technical assistance, and to provide sufficient fuel, materials and other supplies for the first three years of mill operation.

Loan No. 1745-TA - Tanganyika Development Finance Company, Ltd. (TDFL) Project: US\$11.0 million Loan of July 27, 1979; Date of Effectiveness - November 1, 1979; Closing Date - December 31, 1983

---

The loan is fully committed and disbursement is proceeding satisfactorily. However, there has been a deterioration in the quality of TDFL's portfolio because of the foreign exchange constraints. An

increasing number of TDFL assisted enterprises which mainly depend on imported input are operating at less than break-even capacity. As a result, arrears in the loan portfolio have increased in the past year.

Credit No. 1060-TA - Second Technical Assistance Project: US\$11 million Credit of October 24, 1980; Date of Effectiveness - February 10, 1981, Closing Date - June 30, 1985

As of March 31, 1983, 24% of consultants' services allocation has been committed for 9 projects. Commitments and disbursements under the training component are proceeding satisfactorily. The Technical Assistance Unit is functioning efficiently. Some of the previous problems of delayed submission of subprojects on training have been overcome.

Credit No. 1206-TA - Third Technical Assistance Project: US\$12.0 million equivalent Credit of March 4, 1982; Closing Date - June 30, 1987

This credit became effective on April 1, 1982. The FAO/Government contract for the supply of the major portion of consulting services was signed in January 1983 and the Technical Assistance Advisory Committee was established in March 1983. However recruitment of experts is still at an early stage.

#### EXPORT REHABILITATION PROGRAM

Credit No. 1133-TA - Export Rehabilitation Program: US\$50.0 million Credit of April 24, 1981; Date of Effectiveness - May 12, 1981; Closing Date - March 31, 1983

Performance in achieving the stated agricultural objectives of the project has been generally disappointing. In other policy areas, recent Government actions show some improvements. Important steps remain to be taken on pricing, decentralization of internal distribution and ensuring greater accountability in public sector organization.

#### EAST AFRICAN COMMUNITY

There are currently four projects in execution in the East African Community.<sup>4</sup>

---

<sup>4</sup>Since October 1, 1977, the East African Community loans (excluding the East African Development Bank) have been disbursed on the basis of separate national guarantees. The agreed allocation of undisbursed balances for each loan, as proposed in a report to the Executive Directors dated December 29, 1977 (R77-312) and approved on January 12, 1978, is given in this Annex. The Closing Date for loans 638-EA, and 865-EA have passed. However, since the amount allocated to and guaranteed by each Partner State is clearly identified under the terms of the Agreement signed on January 25, 1978 as proposed in the above report (R77-312), we are continuing disbursements.

Loan No. 638-EA - Second Harbours Project: US\$35.0 million  
Loan of August 25, 1969; Date of Effectiveness - December 16,  
1973; Closing Date - December 31, 1977

---

Loan No. 865-EA - Third Harbours Project: US\$26.5 million  
Loan of December 18, 1972; Date of Effectiveness - April 16,  
1973; Closing Date - June 30, 1978

---

The Second Harbours project included financing for five general cargo berths and a single bay tanker terminal for the Port of Dar es Salaam; two general cargo berths and a bulk cement wharf for Mombasa; tugs, lighters, cargo handling equipment, offices, housing and general improvements for both ports. The Third Harbours project included three new deep water berths, modernization of two berths and a lighterage quay, a training school building and central repair area for Dar es Salaam; modernization of several berths and a lighterage quay, construction of a tug berth, cold storage facilities and a training building in Mombasa and improvement of a lighterage quay in Tanga. Construction of all major project elements has been completed and a joint project completion report was issued in January 1979. Because of shortage of funds under both loans, the following minor project elements have not been submitted for Bank financing: the second phase of modernization of the lighterage quay and a training school for Dar es Salaam, modernization of the lighterage quay and a training school for Mombasa. Locally financed contracts have been awarded for these project elements with the exception of the modernization of the lighterage quay in Mombasa. General cargo throughput has increased above appraisal forecasts for Dar es Salaam, and cargo handling productivity has improved with increasing throughput; however, port labor productivity has stagnated in Mombasa where general cargo throughput has declined considerably. Legislation to establish a Tanzania Harbours Authority and a Kenya Ports Authority has been enacted. Management of Ports in both countries is competent. Since work under the projects has been completed, the remaining balance of US\$516,897.23 under Loan 638-EA and US\$349,884.28 under Loan 865-EA were cancelled on November 10, 1982. The agreed allocation of undisbursed funds of October 1, 1977 between the countries concerned is given below:

<u>For Loan No. 638-EA</u>	<u>(US\$ million)</u>
Kenya	0.7
Tanzania	<u>0.6</u>
Total	1.3 ===
 <u>For Loan No. 865-EA</u>	
Kenya	1.7
Tanzania	<u>0.3</u>
Total	2.0 ===

Loan No. 914-EA - Third Telecommunications Project: US\$32.5 million Loan of June 22, 1973; Date of Effectiveness - September 19, 1973; Closing Date - December 31, 1979

---

The project included provision for procurement of local telephone exchange equipment, cables and subscriber apparatus, microwave and UHF/VHF systems and multiplex equipment, interurban cables and wires, automatic switching and signalling equipment, telegraph, telex and data equipment, and training. All project items have been completed; the undisbursed balance of US\$284,975.20 under the loan will soon be cancelled and the loan account closed. The agreed allocation of undisbursed funds as at October 1, 1977 among the countries concerned is as follows:

	<u>US\$ million</u>
Kenya	2.4
Tanzania	3.5
Uganda	<u>0.1</u>
Total	6.0
	===

Loan No. 1204-EA - East African Development Bank: US\$15.0 million Loan of March 1, 1976; Date of Effectiveness - June 7, 1976; Closing Date - June 30, 1983

---

The environment within the Community has continued to have a negative impact on EADB operations. Level of operations both for appraisal and supervision has been depressed, but there has been some improvement in the state of the portfolio with the arrears affected portfolio falling from 50% as of June 30, 1977 to 43% as of June 30, 1979. Some US\$13.65 million of the loan has been disbursed to date.

D. STATEMENT OF IFC INVESTMENT IN TANZANIA  
AS OF MARCH 31, 1983

<u>Fiscal</u> <u>Year</u>	<u>Obligor</u>	<u>Type of Business</u>	<u>Amount in US\$ Million</u>		
			<u>Loan</u>	<u>Equity</u>	<u>Total</u>
1960 & 1964	Kilombero Sugar Company	Food Processing	3.96	0.70	4.66
1978	Highland Soap and Allied Products Limited	Soap Manufacture	1.38	0.36	1.74
1979	Metal Products Limited	Household Utensils	<u>1.33</u>	<u>0.18</u>	<u>1.51</u>
		Total gross commitments	6.67	1.24	7.91
		Less cancellations, terminations, repayments and sales	<u>4.17</u>	<u>0.69</u>	<u>4.86</u>
		Total commitments now held by IFC	<u>2.50</u>	<u>0.55</u>	<u>3.05</u>
		Total undisbursed	<u>0.06</u>	<u>-</u>	<u>0.06</u>

TANZANIA  
COAL ENGINEERING PROJECT  
SUPPLEMENTARY PROJECT DATA SHEET

Section I: Timetable of Key Events

(a) Project first presented to the Association	September 1981
(b) First Association mission to review project	September 1981
(c) Departure of appraisal mission	December 1982
(d) Completion of negotiations	April 1983
(e) Planned Date of effectiveness	July 1983

Section II: Special Association Implementation Actions

None

Section III: Special Conditions

- (a) The Government would consult with the Association on the appropriate sequence of future investments in the coal sector, based on the project's results and an economic assessment of various coal exploitation alternatives (paragraph 42).
- (b) The second and third phases of the work at Kabulo Ridge would be undertaken only after a positive assessment of the results of the preceding phase (paragraph 53).
- (c) The appointment of consultants to carry out the coal exploration work and feasibility study at Kabulo Ridge, would be a condition of effectiveness (paragraph 58).

TANZANIA - Coal Engineering Project

Supplementary Information on the Energy and Coal Sectors

Resources Available

1. Tanzania's estimated coal reserves are as follows:

	<u>Coal Resources</u> (million tonnes)		<u>Total</u>
	<u>Measured</u>	<u>Indicated and Inferred</u>	
1. Ketewaka - Mchuchuma	187	495	682
2. Songwe - Kiwira	20	596	616
3. Galula	-	53	53
4. Ngaka	-	126	126
5. Liweta	-	34	34
6. Njuga	98	152	250
7. Mbamba Bay	-	29	29
8. Mhukuru	-	19	19
9. Lumecha	-	-	-
10. Ufipa	-	57	57
11. Kasulu	-	-	-
Total	<u>305</u>	<u>1,561</u>	<u>1,866</u>

Source: Report by Coal Development Committee, MWE, August 1978.

No rigorous assessment of the various criteria used to calculate and categorize these reserves has been undertaken. The reserve figures should be regarded as indicators of orders of magnitude.

Demand

2. The most recent estimates of Tanzania's coal requirements are as follows:

a) 1985: Industrial demand is expected to be 42,000 tonnes made up as follows:

(i) Tea drying/Brick burning	7,000
(ii) Mbeya cement	30,000
(iii) Household/Miscellaneous	<u>5,000</u>
	42,000

b) 1990: Industrial demand is expected to rise to 52,000 tonnes per year:

(i) Tea drying/Brick burning	7,000
(ii) Mbeya cement	40,000
(iii) Household/Miscellaneous	<u>5,000</u>
	52,000

c) 1991/92: In addition to the industrial markets described above, TANESCO is considering the installation of a coal-fired mine mouth power plant in the Songwe-Kiwira area for the years 1991/92. Recent analysis suggests that this could be the least cost option for TANESCO following the completion of the presently proposed Mtera hydroelectric project for meeting future power demand in Western Tanzania. In the coal-fired thermal plant, 350,000 tpy of coal would be required.

Energy Pricing

3. The following table shows the 1981 average energy prices in use at Dar es Salaam.

	Retail (including taxes)	Tax	Retail (including taxes)	US\$ per Million Kcal
	-----TSh-----		-----US\$-----	
Firewood a/(tonne)	150	-	18	12
Coal (tonne)	480	-	57	10
Electricity (MWh)	650	-	77	90
Liquid petroleum gas (cu ft)	5,265	360	627	60
Motor fuel (premium)(thousand liters)	9,350	1,432	1,113	107
Motor fuel (regular)	7,250	1,432	863	82
Kerosene (regular)	3,350	184	399	38
Industrial diesel	2,405	-	286	27
Gas oil	3,900	694	464	44
Fuel oil	2,134	-	254	24
Jet oil	3,849	160	458	44

a/ Firewood is practically "free" in rural areas.

State Mining Corporation

4. Structure. The State Mining Corporation (STAMICO) consists of four departments, including Mining Development, Marketing and Operation, Finance and Manpower Administration. The Mining Development Department oversees all STAMICO's subsidiaries and projects, and coordinates procurement for the subsidiaries and projects, making use of the Supplies Division. The Mining Development Department also handles consulting services for subsidiaries and projects. A Tender Committee composed of the General Manager, Corporation Secretary and Department Directors is responsible for evaluation of bids and proposals. Purchases for headquarter operations are handled directly by the Supplies Division, subject to General Manager and Financial Director approval for purchases over about US\$200 (T.Sh. 2,000). Civil works contracts for headquarters are coordinated by the Manpower Development Division. The procurement and consulting arrangements appear reasonable and MOM and STAMICO management consider them to be working effectively.

5. Staffing. There are about 500 persons in STAMICO of which about 250 are at headquarters in Dar es Salaam, 170 are at the project exploration unit and laboratory station at Dodoma and 80 are at project sites. Of the total employed, there are twenty four geologists, seven mining engineers, two chemical engineers, one mineral dressing analyst, three electrical engineers and four civil engineers. There is one senior accountant and three supporting accountants. The technical staff of the corporation lacks experience in mining and there are many vacancies in required positions in exploration, engineering and design, project development and management and corporate and project accounting.

6. Subsidiaries and Other Investments. STAMICO's subsidiaries and projects are as follows:

Tanzania: STAMICO Investments and Project, 1982

A. Subsidiaries

% STAMICO  
Ownership

1. Williamson Diamond Co.	51
2. Tanzania Diamond Cutting Co. Ltd.	100
3. Tanzania Meerscham Corporation	100
4. Nyaza Salt Mines Ltd.	100
5. Tanzania Gemstone Industries Ltd.	100
6. Minjingu Phosphates Co.	100

B. Projects Under Implementation

1. Buckreef Gold Mine
2. Kahema Gold Mine
3. Coastal Salt Manufacturers

C. Projects Under Study

1. Songwe/Kiwira Coal Mines
2. Ilima Colliery Expansion
3. Lake Natron Soda Ash Manufacture
4. Pugu Kaolin Mine Expansion
5. Bulyenkulu Gold Mine

7. STAMICO's most important equity participation (US\$6.8 million in 1980) is in Williamson Diamonds, which is jointly held with Willcraft Company Ltd. (a subsidiary of Anglo-American). The remaining subsidiaries are quite small (ranging in share value from US\$0.1 - 0.5 million in 1980). The Williamson Diamonds Ltd. is relatively well managed, both technically and financially. The company has been unprofitable since 1981, however, due to the depressed market for diamonds, as well as rising operating costs and shortages of fuel and spare parts.

8. STAMICO performs management services and trading activities for its subsidiaries for which it is compensated. The charge for management services (0.5% on turnover plus a fixed charge of US\$2,000 p.a. from Williamson Diamonds and 3.0% on turnover plus 10% on net profit from the remaining subsidiaries) has been regarded by subsidiaries as high relative to the management and technical services provided. About double the income from management fees (US\$0.6 million in 1980) comes from trading activities, where STAMICO profits from imports (largely of salt in 1980) as well as exports (diamonds). STAMICO makes loans to its subsidiaries to support operations if necessary at less than commercial rates. Its most recent loan to the Meerscham Corporation (manufacturing clay pipes) carries no interest. The loans, however, are too small to have any significant impact on STAMICO's financial condition.

Financial Operations

9. STAMICO has traditionally relied on Government budgetary support for operations and project investments, and income from trading activities and management fees for services to its subsidiaries. As a matter of budgetary practice, STAMICO makes its budgetary request through MOM to the Ministry of Finance which coordinates and determines budgetary allocations. The Ministry of Finance disburses into a commercial bank account against these allocations on a quarterly basis and replenishes the account only when STAMICO presents its statement of expenditures for the last quarter and its expected next quarter disbursements. STAMICO must apply directly to the Bank of Tanzania for an annual foreign exchange allocation and subsequent import licenses for foreign exchange purchases. Since 1979, STAMICO has received no budget support for its recurring expenses although it continues to receive support for project investments from the Government. In 1980, STAMICO made a net loss of US\$0.6 million. It made up its cash operating deficit (US\$0.2 million) from Government project investment allocations. The company's total assets in 1980 were US\$ 27.8 million. Its share capital is US\$7.8 million and it has received cumulatively through 1980 development grants totalling US\$20.8 million (US\$18.7 million from the Government, US\$0.3 million from the People's Republic of China and US\$1.8 million from Sweden).