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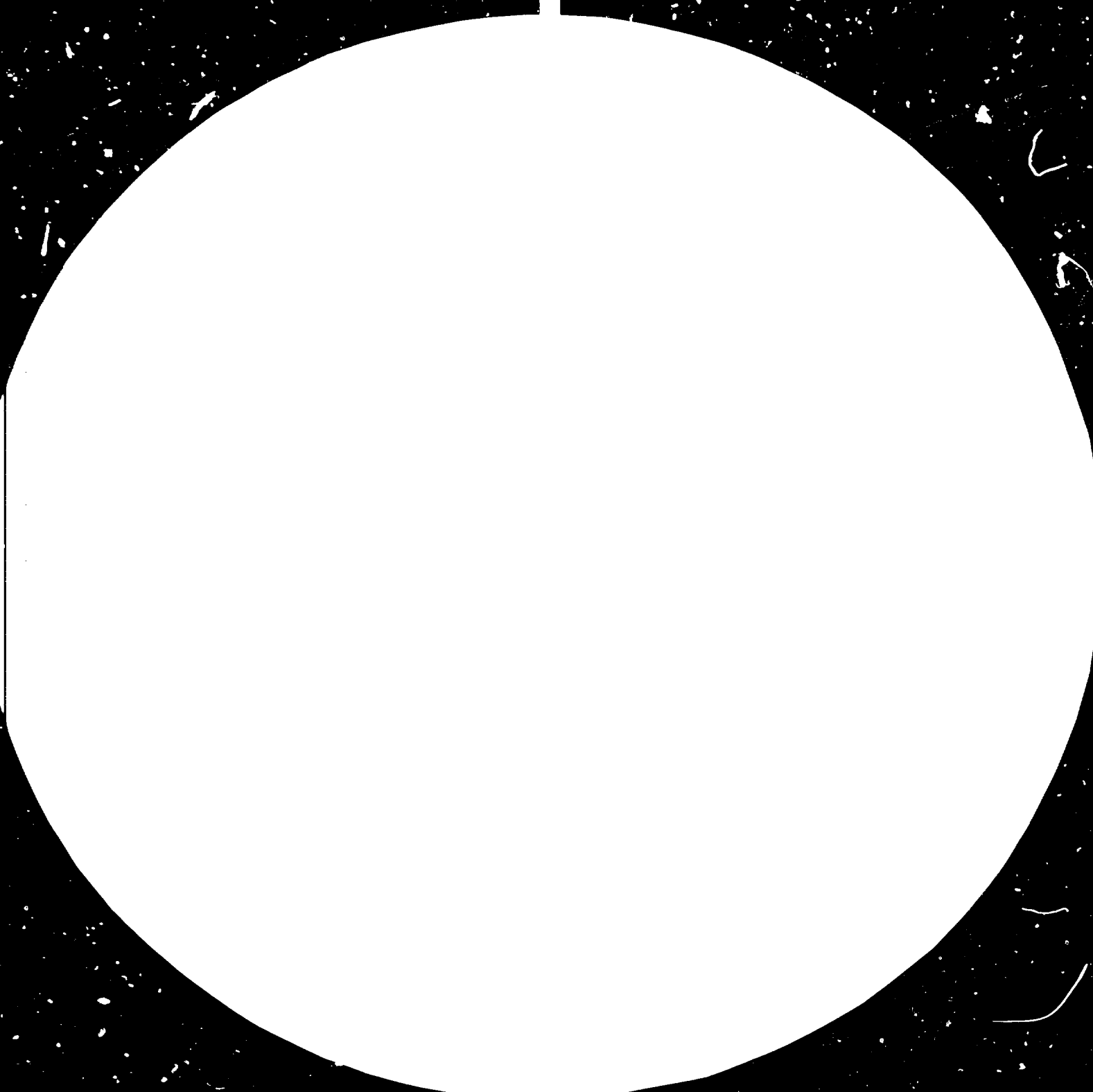

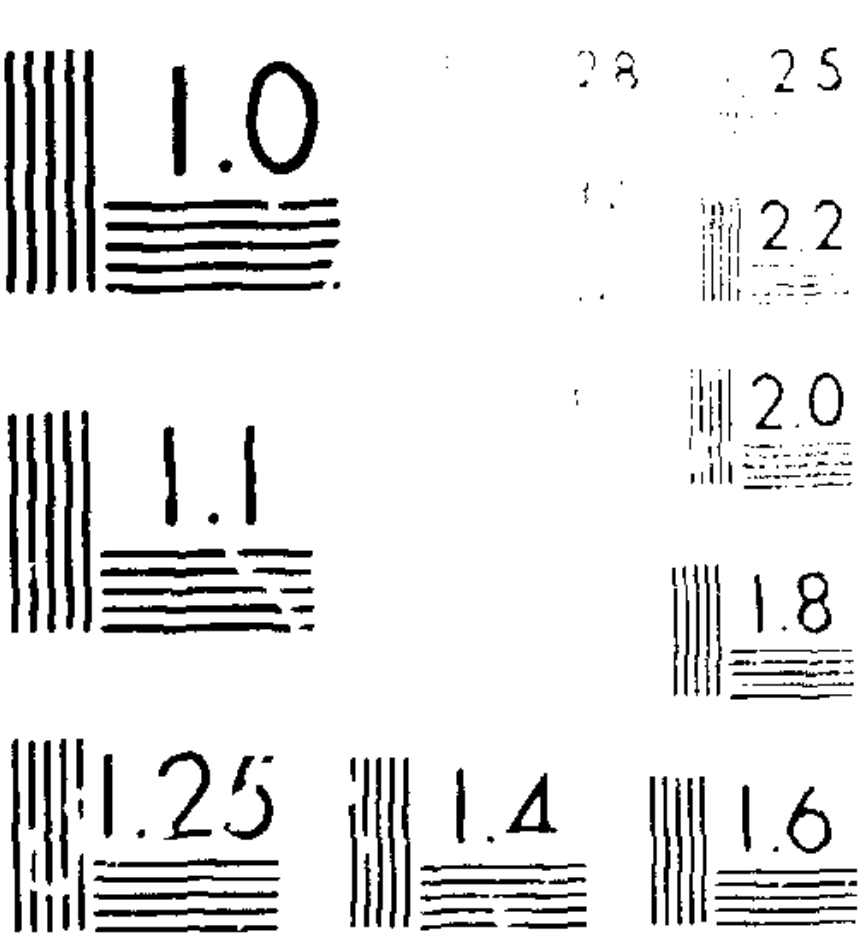
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COUNTRY BRIEF: TANZANIA*

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I. INDUSTRIAL DEVELOPMENT FINANCING ACTIVITIES IN TANZANIA

1. Tanzania's industrial development financing activities are fairly well organized. There are four development banks engaged in financing industrial investment namely, the Tanzania Investment Bank (TIB), the Tanganyika Development Finance Company Limited (TDFL), the East African Development Bank (EADB) and the Tanzania Rural Development Bank (TRDB). There is also the National Bank of Commerce (NBC), the only commercial bank in the country. TIB, TRDB and NBC are wholly Government-owned institutions whereas EADB is jointly owned by the governments of the former members of the East African Community; that is Tanzania, Uganda and Kenya. On the other hand, TDFL is owned jointly by TIB and bilateral agencies of the United Kingdom, West Germany and the Netherlands.

2. The Tanzania Investment Bank is so far the largest and principal development banking institution in the country for industrial investment. Following the guidelines set forth in the Tanzania Government's Arusha Declaration of 1967, the role of the public sector in the economy has gained foremost importance. In the industrial sector, particular emphasis is placed on stimulating public investment. Consequent to this policy most of the large industrial enterprises in the country are owned by parastatal organizations. TIB, as a result, is mainly involved in the financing of large public sector projects although support is also given to some extent to the smaller private sector projects.

3. Although TIB does not strictly promote projects, it gets involved in the preparation of some of them. Due to lack of appropriate expertise, many of its clients have to commission consultants to prepare project feasibility studies. TIB gets involved in the financing of such

studies. When TIB finances such studies, it insists on approving the terms of reference of the consultants and follows closely on the execution of the study. TIB's project supervision after projects have been physically completed is action oriented. It takes the lead in initiating programs of personnel training for some of its clients through extensive training abroad, annual seminars and short courses. TIB helps its clients also in identifying and solving technical and management problems by commissioning studies designed to single out particular factors responsible for the decline of productivity in the client companies and make concrete recommendations to improve production efficiency.

4. On the other hand TDFL, limited by its equity base, specializes in the financing of small and medium sized private enterprises. The EADB activities are limited by its Charter which restricts its investment in Tanzania to a maximum of 38.75% of its total investment. TRDB is responsible for financing economic projects in the rural areas. Its contribution in the financing of industrial projects is limited to small scale industries in the rural areas. NBC's major responsibility is to provide funds for working capital for the industrial units. However, NBC has of recent embarked on providing complete financing packages for small scale industries.

5. It is evident from the above that there is very little overlap among the banking institutions engaged in financing industrial investment. Local funds for industrial investment are on the whole readily available in the country. It is the foreign exchange scarcity in the country that adversely affects industry, both in terms of initial investment requirements and operational requirements.

II. CURRENT EXPERIENCES AND METHODOLOGY OF EVALUATION OF TECHNOLOGICAL CONTENTS OF INDUSTRIAL PROJECTS

1. In spite of the great importance of engineering, the financial institutions in Tanzania do not undertake any original engineering work in the course of appraisal of industrial projects. During appraisal the financial institutions simply make a judgement of the ability of those who have done the work and the reasonableness of the conclusions they have reached. Technical appraisal of industrial projects involves investigation of the project's technical feasibility in terms of plant location, project cost, production processes and technology involved and its appropriateness, labour skills and ganizational and managerial inputs required, internal costs of production vis-a-vis border prices of similar products, among others. Evaluation of technical aspects centers around determining elements of cost of project, checking on the list of machinery recuired to achieve the target output and e examining the sources and availability of machinery and equipment, appraising the requirement of utility and other services and their availability or alternate arrangements and estimating and examining costs of production taking into consideration all variables for achieving optimum level of operation.

IDFI's in Tanzania lay emphasis on the acquisition of processes and equipment which have high employment potential, high productivity per unit of capital employed, utilizes indigenous raw materials, have low operating costs in terms of energy requirements and maintenance and a scale of production well suited for the environment. There are always, in their appraisal, comments on the appropriateness of the technology employed ensuring in particular that the degree of sophistication of equipment matches available local technical expertise.

3. In assessing requirements of technical personnel for supervising the implementation of the project and for actual operations, the existing pool of expertise and skills within Tanzania is assessed and where there is need for engaging the services of competent technical consultants, provision for such services are included. Where expatriate management or individuals have to be employed, realistic training programs are drawn up to facilitate indigenization of staff. Rarely does a client have a competent engineering staff fully capable of handling maintenance and operations and even when one has it may not be qualified to carry out all the engineering tasks required in the design and construction of a new facility. The tasks for which consultants may be needed vary greatly from project to project, but they may include some or all of the following: the design of the facility, the preparation of specifications and invitations to bid, the analysis of bids and the recommendations of the bidder to whom the contract should be awarded, the inspection of equipment purchased, the supervision of construction and installation and even the initial control of operations of the completed facility.

4. The financial institutions keep a "technical eye" on the project by closely liasing with the consultants as it unfolds through the various stages of implementation. After the project has become operational, the financial institutions demand submission of quarterly reports which are analysed to assess performance and technical assistance requirement of the project to improve capacity utilization, quality of products, etc. For such extension services the financial institutions use either in-house personnel or outside consultants.

III. INFORMATION REQUIRED FOR TECHNOLOGICAL EVALUATION OF PROJECTS AND EXISTING GAPS FOR OBTAINING SUCH INFORMATION

1. Development Finance Institutions (DFIs) in Tanzania draw their information needs from a variety of sources. For most projects submitted for financing, feasibility studies are a must. The studies are prepared by local consultants and where expertise is lacking, outside consultants are employed. Another valuable source of expertise is the existing high level technical manpower pool within Tanzania. Over the years a few Tanzanians have developed levels of skills comparable with international standards through training abroad, on-the-job experience and academic studies supplemented by technological and management training. DFI's draw from their experience through, both informal and formal, discussions.

2. Appraisal teams freely use library facilities, both in-house and reference sections of the Dar es Salaam University, British Council, United States Information Agencies, etc. DFI's have built up sizeable libraries stocked with reference materials from publications of professional institutions, UNIDO, World Bank, CIDA, SIDA, NORAD, etc. International institutes are contacted to provide specialist services in high technology areas (e.g. Tropical Products Institute, Japanese External Trade Organization, etc.). Appraisal Divisions take recourse to building up data base for information regarding sources and prices of machinery and also keep abreast with techniques employed and the cost of construction and civil works pertaining in the country.

3. Proper technical evaluation by DFI's is made very difficult largely by poor feasibility studies that are submitted, indecision on the part of management on the choice of technology, failure to know exactly the capacities of plants to be erected and lack of knowledge of investment

costs. Technical appraisal teams are faced with a situation where out-dated, imcomplete quotations are submitted, input requirements and cost of project are grossly under-estimated, unrealistic implementation schedules are charted out, ultimate building designs unfold as fairy tale structures and due to lack of proper comprehensive studies based on operating plants elsewhere, production bottlenecks are not foreseen and adequate safeguards not provided for.

4. Feasibility studies have sometimes lacked in their assessment of alternative technologies and production processesavailable for the proposed product. This has either been due to bias of the consultants or to their lack of knowledge in the area. Consultants from overseas tend to forget the environment in which the project is supposed to operate and either too sophisticated a technology or even untried technology is recommended. All this leads to problems of assimilation, absorption and adaptation. The cost of the project is usually underestimated as a result of omitting some elements of cost and making under-provisions. The inputs to produce the desired product are under-estimated and under-costed.

5. The greatest areas of concern are in the projections of operating performance of the project. In most cases there is an unbroken gradual build-up of capacity utilization. The roject sponsors lack knowledge of actual problems that may crop up in the production stages and are totally unprepared for it. Consultants do not expose such pitfalls from either their own experience or from experience of similar plants operating elsewhere. This would provide sponsors with all background knowledge required so that adequate safeguards could be built and precautions taken from the word go. Another area is the lack of portraying a realistic project implementation schedule. Most of the implementation schedules are too tight and do not take into consideration factors which can upset the schedule.

6. Building designs should be process-oriented and basic and be adequate to house the plant safely and produce the products as per specification. Fancy building designs in the final stages of project implementation have had their own share of contributing enormously to project cost overruns.

7. Manpower assessment is too often done superficially leaving sizeable gaps which lead to last minute recuitment of key personnel oreven management companies. This means increased costs both in terms of management contract fees and time lost as a result of late recruitment which affects project completion.

IV. OUTLINE PROPOSAL FOR TECHNOLOGICAL INFORMATION EXCHANGE NETWORK

1. Basically DB-TIEN should act as a clearing house and be responsible for collecting, compiling, maintaining and distributing information, which should comprise of the following, among others:-

(a) Roster of feasibility studies on different projects conducted by IDFI clients.

(b) Rosterof reputable consultants who have developing country experience in feasibility studies, management consultancy, etc.

(c) Roster of appraisal reports of projects appraised by regional and national development banks.

(d) Compile a data bank of selective case studies of projects, both successful and unsuccessful, so that IDFI can benefit from experience.

(e) Standard project profile of completed projects. The format should be on lines of UNIDO prepared "Profiles of Manufacturing Establishments" with emphasis placed

on practical areas of experience in conducting feasibility studies, project implementation and subsequent operation.

(f) Compile a data bank of most recent technologies developed in the various fields particularly those that have been tested successfully in a developing country.

2. There should be exchange of information on plant and equipment costs and its operating performances, technical know-how management fees, bottlenecks faced during implementation and operation, capital cost details with areas and types of construction, input cost data and general feedback on the reliability, performance and after-sales service of the equipment vendor and provider of technical know-how. Other areas to be covered should include training aspects, manpower requirements and level/degree of skills required.

3. Another important area of information should relate to contracts and agreements between machinery suppliers and technical management firms and host country entities. This could help significantly in improving the negotiating capability of host countries in their dealings with overseas suppliers. The information system should be designed to provide information on the principal features o different types of contracts (machinery supply, technical know-how and management agreements) relating to foreign technology and services.

4. Operational Methodology: The system should be primarily oriented to meet requirements of development banks, governments and governmental agencies. Institutions and officials

dealing with investment decisions and national policies relating to foreign investment and technology are expected to make extensive use of the system. DB-TIEN should develop close links with the Industrial Development and Finance Department of the World Bank and regional development banks and institutions. Grass-root contacts with development banks and financial institutions should be maintained through UNIDO country/regional officers, who will also be responsible for collecting data and forwarding it to DB-TIEN control clearing house.

V. SOME SUGGESTIONS

1. The weakness and gaps in project preparation indicates failure to recognize the need for conducting comprehensive feasibility studies while poor project implementation speaks out for itself. TIB has already taken steps to bridge this gap by providing finance for (i) pre-investment and feasibility studies of high priority productive project proposals; (ii) special studies for improving efficiency and capacity utilization of existing investments and (iii) overseas training programs for Tanzanians in project preparation, implementation, evaluation and related techniques. The above has yielded reasonably good results and it would be worthwhile tohear from experiences of other IDFI's in this area.

2. UNIDO through the DB-TIEN should sponsor visits to client companies in different countries to make on-the-spot assessment of projects so as to make realistic evaluation.