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Survey of Development Finance Institutions
Kenya, Uganda, Tanzania
13 August - 13 October 1995

Mission report*

Based on the work of Janusz Lukasik, expert on development finance institutions

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* This document has not been edited.

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Report Content: Page:

Explanatory notes

Exchange rates:

Kenya: 1 US$ = 55.5 KShs
Uganda: 1 US$ = 950.0 UShs
Tanzania: 1 US$ = 603.0 TZS

Abbreviations:

ADB - African Development Bank
AEF - Africa Enterprise Fund (of IFC)
BADEA - Arab Bank for Economic Development
BoT - Bank of Tanzania
CDC - Commonwealth Development Corporation
COMESA - Common Market for Eastern and Southern Africa
DEG - Deutsche Investitions- und Entwicklungsgesellschaft mbH
DFCK - Development Finance Company of Kenya Ltd
DFCU - Development Finance Company of Uganda Ltd
DFI - Development Finance Institution
EADB - East African Development Bank
EIB - European Development Bank
EIM - Equity Investment Management Ltd
ERAF - Exchange Risk Assumption Fund
ERP - Economic Recovery Programme
ESAMI - Eastern & Southern African Management Institute
ICDC - Industrial and Commercial Development Corp. (Kenya)
IDB - Industrial Development Bank Ltd (Kenya)
IDI - International Development Ireland Ltd
IFC - International Finance Corporation
KIE - Kenya Industrial Estates Ltd
MCI - Ministry of Commerce and Industry
MFEP - Ministry of Finance & Economic Planning
NBFI - Non-Bank Financial Institution
NBK - National Bank of Kenya Ltd
NFMO - Nederlandse Financierings-Maeschapij vor Ontwikkelingslanden N V
NPF - National Provident Fund
PBZ - People's Bank of Zanzibar
PERD - Public Enterprise Reform and Divestiture
PTA - Preferential Trade Area for Eastern and Southern Africa
RAS - Rehabilitation Advisory Services Ltd (Kenya)
SEFCO - Small Enterprises Finance Corporation Ltd (Kenya)
SIDO - Small Industries Development Organization /Tanzania/
TDFL - Tanzania Development Finance Company Ltd
TIB - Tanzania Investment Bank
TVCM - Tanzania Venture Capital Fund
UDC - Uganda Development Corporation
UDB - Uganda Development Bank
ZAFREZA- Zanzibar Free Economic Zone Authority
ZIPA - Zanzibar Investment Promotion Agency

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I. EXECUTIVE SUMMARY

Objectives of the mission.

1. To examine in each of the listed countries/cities the role and scope of the selected DFIs serving the industrial and commercial community with a view to developing a program of collaboration between UNIDO and selected DFIs.

2. To conduct a preliminary investigation into the feasibility of establishing a DFI in Zanzibar, which would be able to work with the African Development Bank and other similar organizations.

Scope of the mission.

The following DFIs were identified in the Job Description:

Uganda: - East African Development Bank (EADB),
Uganda Development Bank (UDB),

Tanzania: - Tanzania Investment Bank (TIB),
Tanzania Development Finance Company Ltd. (TDFL),

Kenya: - Industrial Development Bank (IDB),
Industrial and Commercial Dev. Corp. (ICDC).

A total of 28 institutions were finally visited in the course of the mission, the comprehensive list being presented in the relevant chapters.

Major Findings.

1. Despite the differences in their socio-economic and political structures, the economies of all three countries under review are in the process of intensive restructuring and liberalization.

2. Accelerating the industrial development of these countries, stimulating and financing the expansion of private sector through initiating new investment projects and enhancing the capabilities of the existing industries, becomes of paramount importance to the success of the economic reforms/transformation underway.

3. Irrespective of the new developments in the financial sector, which - although with different intensity - are taking place in all three countries, **the traditional DFIs** (IDB, ICDC, UDB, UDC, EADB, TIB) **are bound to play a crucial role** in this process in the years to come, **providing the vital link between the Governments' developmental priorities and the private sector.**

4. These **DFIs can also play a pivotal role in promoting and accelerating the regional integration**, facilitate the development of the long term strategy and policy to enhance focused development of targeted subsectors. Effective mechanisms for coordination between DFIs on the regional basis would help to avoid overinvestment and misallocation of the scarce resources.

5. In order to be able to attain these goals and establish

sustainable operations, DFIs have redefined their traditional role and initiated the thorough restructuring process in line with the recommendations of the Meeting of Private Sector Experts on the Industrialization of Africa (Abijan, January 1995).

6. **Intensive,urgent assistance is necessary for the DFIs to enable them to successfully complete the restructuring process and to attain their objectives.** Although the institution-specific differences exist, the majority of the problem areas appear to be common to most of the visited institutions.

7. Donor sponsored/owned DFIs (DFCK, DFCU, TDFL, TVCF) appear to be in sound condition. Neither noteworthy potential for collaboration nor need for assistance was identified.

8. DFIs financing the development of small and micro-scale enterprises (KIE, SEFCO, SIDO) appear to be in the state of crisis, further aggravated by the lack of clear definition of their future role in development financing. No potential for establishment of a new DFI financing SSI development was identified. However, assuming that the commitment on the side of the relevant Governments prevails, the existing DFIs should be supported, particularly in view of their specific mandate to promote entrepreneurial culture at the grass roots' level.

9. The Government of Zanzibar has recently stepped-up measures aimed at liberalizing the economy, including recent divestiture from its industrial and agricultural holdings and intensifying regulatory, fiscal and promotional efforts to attract foreign investment. Efforts are also underway to improve Zanzibar's infrastructure. These efforts are not accompanied by the corresponding development of the financial sector.

Discussions with the Zanzibar relevant authorities as well as the analysis of the financial sector and the development finance facilities indicate the need to establish a DFI with the aim to stimulate/assist the indigenous private sector investment initiatives to provide linkages with the emerging EPZ activities. However, inadequate capital base, underdeveloped private sector and lack of investment "culture", particularly so in manufacturing industries, impose specific requirements on any DFI to be established in Zanzibar, while at the same time posing the critical question about the adequacy of the indigenous investment initiatives supported by the sufficient supply of the bankable investment projects.

Recommendations.

1. **Regional project**, coordinated by UNIDO CTA and based in Arusha, is strongly recommended with the **development objective** to:

" Enhance and accelerate the development of the industrial private sector in Uganda, Kenya and Tanzania and strengthen the re-emerging integration processes in the Region through assisting the Countries' DFIs to improve their performance and attain sustainable, efficient operations within the liberalized economic environment.

The project will **concentrate on the development/enhancement of the target DFIs' capabilities** in the following broad areas:

- advisory services' capacity development,
- project preparation, appraisal and monitoring,
- new financial products' development/implementation,
- assistance in development of computerized data banks and MIS.

Upon the **successful attainment of its objective**, the project will have substantially contributed to the following domains:

- development of the private sector in each of the three Countries through revived performance of DFIs,
- national income development through increased volume and efficiency of employment-generating investment projects,
- enhancement of the regional integration process.

UNDP Officials visited in Uganda and Tanzania and briefed on the partial findings and the emerging concept of the regional assistance project, while generally supporting the idea, have specifically welcomed the envisaged developmental contributions.

Project's **target beneficiaries** will include:

Primary: IDB, ICDC, TIB, EADB, UDB and UDC.
Secondary: KIE, SEFCO, SIDO.
Tertiary: other relevant institutions which requested skills' upgrading within the subject areas covered.

2. A **full-fledged feasibility study** is recommended in order to ascertain whether the potential opportunities for indigenous, viable investment projects justify the **establishment of a DFI in Zanzibar.** The study could be undertaken in collaboration with the UNDP Office, Dar es Salaam, which is currently considering the survey of the existing industrial activities and investment opportunities in Zanzibar.

If the results of the study justify the establishment of a DFI, a separate project, establishing a donor funded venture capital fund institution with minority Government participation is suggested initially, with long-term loans facility to be considered at a later stage. It is desirable that such institution, apart from being strong in advisory services, will also perform training activities necessary to the potential investors. ADB, BADEA, OPEC and other Arab Funds could be approached to jointly carry out this project if found feasible.

II. INTRODUCTION.

This report was prepared by Janusz Lukasik, Expert on Development Finance Institutions, as a result of the mission covering three East African countries i.e.: Kenya, Uganda and the United Republic of Tanzania, under XA/RAF/94/644/11-69. The assignment, being a follow-up to two previous UNIDO missions, which took place in the 2-nd half of 1994, i.e. the visit to IDB (September 1994) and the Industrial Sector Review Mission (November 1994), started on 13 August 1995, comprising visits of approx. 2-weeks' duration to Kenya (Nairobi) and Uganda (Kampala) and over 3-weeks' visit to Tanzania (Dar es Salaam, Arusha and Zanzibar).

1. Mission Objectives.

The objectives of the mission, as specified in the Job Description (copy attached as Annex I), were as follows:

1.1. To examine in each of the above countries/cities the role and scope of the selected DFIs serving the industrial and commercial community with a view to developing a program of collaboration between UNIDO and selected DFIs.

1.2. To conduct a preliminary investigation into the feasibility of establishing a DFI in Zanzibar, which would be able to work with the African Development Bank and other similar organizations.

2. Mission Tasks.

In order to attain the above objectives, the following tasks were specified for the Expert:

2.1.(i) Hold detailed discussions with selected DFIs and examine with them the scope for developing a collaborative program, particularly but not exclusively, in the following fields:

(1) Industrial consultancies;
(2) Identification, preparation, evaluation as well as supervision and monitoring of projects;
(3) Provision of transitional enterprise management, developing management decision systems to improve project viability, management and monitoring;
(4) Identification and promotion of the joint venture options;
(5) Staff development training;
(6) Asset valuation, assessment and privatization options;
(7) Development of new financial products;
(8) Establishment of a data bank.

(ii) Prepare appropriate analyses and comprehensive reports on (i) above with recommendations and the activities to be included in the joint program of action.

(iii) Discuss report with DFI Unit and other sections of UNIDO.

2.2. Visit financial institutions in Zanzibar and hold discussions with relevant authorities about the feasibility of establishing a DFI for the island.

3. Scope of the mission.

The following DFIs were identified for the Expert as per the Job Description:

Uganda:
- East African Development Bank
- Uganda Development Bank

Tanzania:
- Tanzania Investment Bank
- Tanzania Development Finance Company Ltd.

Kenya:
- Industrial Development Bank
- Industrial and Commercial Development Corp.

However, in the course of discussions held with officials of the respective ministries and the above DFIs, more institutions were suggested to be visited by the Expert. Comprehensive list of the institutions visited in each Country is presented in the chapters covering detailed Expert's activities in the respective countries.

III. KENYA.

1. General Economic Background.

In an effort to reverse the economic decline the Government of Kenya has, since 1992, been actively introducing structural adjustments aimed at liberalizing the economy, facilitating the development of the private sector, stimulating investment and economic growth. A transition from inefficient, import-substituting economy towards the competitive, export oriented, market based one required, apart from major changes in the macro-economic strategic environment, the introduction of a variety of market oriented parameters and incentives. Prices, trade, exchange rates and exchange controls as well as interest rates were liberalized. A variety of fiscal reforms and export-promoting incentives were introduced. Efforts at promotion of regional economic integration were undertaken, together with provision of infrastructural services, foreign investment protection through appropriate legislative measures and some political reforms. The Government began the complicated process of retrenchment, restructuring and privatization of the parastatals.

As the consequence of the on-going economic reforms, good weather conditions and stronger domestic and external markets Kenya's declining economic growth trend, which was noted since 1989, was reversed in 1994. In this year real GDP rose by 3% as against 0.4% and 0.1% in 1992 and 1993 respectively. Forecasts for 1995 predict further acceleration of the economic growth rates to 5% increase in overall GDP.

The inflation rate, which was at 101% in June 1993, was down to 13% in March 1995 (3-month annualized base), however this trend was reversed in the following months due to the increase in money supply and growing prices of basic foodstuffs and petroleum products. Despite the short-term turbulences the inflationary pressures seem to be well under control with the 3-month annualized rates at 2.5% and 4.2% in June and July 1995 respectively, as per the recent Central Bank of Kenya's Economic Review.

Interest rates have dropped from as high as 70% in 1993 to 18% in March 1995 and 22% at present.

Kenyan Shilling exchange rate improved from over Kshs 75 to US$ 1 in mid-1993 to Kshs 44 per US$1 in January-March 1995 (a substantial appreciation of about 40%) and - after short-term turbulences - appears to stabilize at the rate of approx. Kshs 55 per US$1 in recent months.

After four years of decline gross fixed capital formation increased in 1994 by 13%. Sectoral analysis indicates that investment recovery was strongest in financial and transport and communication sectors. Investment increases in building and construction, manufacturing and agriculture sectors amounted to 13%, 12% and 6% respectively.

Although , compared with 1993, the balance of trade gap increased by 14% to US$ 565 million in 1994 as against US$ 494 million in the previous year, the total imports growth rate dropped from 34% in 1993 to 17.8% in 1994, whereas total exports increased by 19.1% as against 17.9% in 1993. The terms of trade index improved by 13% compared with 1993 level, from 90 to 101.

The IMF/World Bank Mission in March 1995, in recognition of the recent economic results, has opened way for a new aid package to the tune of approx. US$ 200 million over the period of the next 2 years under the Enhanced Structural Adjustment Facility. This package was recently suspended.

The improving economic performance appeared also to result in the gradual restoration of the flow of foreign capital, however mainly from the donor agencies. Recent turbulences appear to be of purely political nature and, hopefully, will be remedied soon.

Most frequently cited problem areas, which still adversely affect aid flows and direct investments in Kenya, appear to be as follows:

- too slow and not transparent enough process of parastatal reforms and privatization,
- inadequate progress on political reforms,
- inadequate efforts to improve infrastructural services,
- increased competition due to trade liberalization, which will - at least in a short run - lead to underutilization of capacity or even closures of those local industries unable to compete effectively with imported goods.

2. Financial Sector: the Role of DFIs.

At the end of March 1995 there were 37 commercial banks operating in Kenya, alongside with 47 NBFIs, 10 DFIs and a number of other financial institutions such as insurance companies, savings and credit cooperative societies, hire-purchase companies etc.

2.1. Commercial Banks.

These are the major source of funds for industry extended on a short-term basis. Major forms include overdraft facilities and working capital financing loans up to 1 year's maturity. Occasionally medium term financing is also provided by this sector in the form of maximum 3 years' term loan or a roll-over facility.

By the nature of the commercial banks' activities one may reasonably expect that these institutions will confine themselves largely to the short-term financing operations. Their number may however be expected to increase significantly in the foreseeable future (see: 2.2.).

In the 12 months ending March 1995 commercial banks increased their lendings to the private sector by 35% as compared with the 2% decrease a year earlier. This was mostly due to the decrease in the interest rates, low rate of inflation and the improved economic climate.

2.2. Non-Bank Financial Institutions.

At present NBFIs operate in a similar financial market segment as commercial banks, extending mostly short-term loans. However, since they rely less on demand deposits and more on time deposits they are in a position to offer also medium-term loans of up to 5-years' maturity. As in the case of the commercial banks they do not, for reasons given above, enter into the long-term lending activities.

In line with the recent policy of the Central Bank NBFIs have been instructed to convert into commercial banks. Four NBFIs have already done so, thus increasing the number of commercial banks from the original 33 to 37; 10 others have been recently approved for conversion, whereas 4 others will merge with their parent banks and 2 will convert into mortgage finance companies. The remaining ones are expected to follow suit, however there is no deadline set for the conversion to be completed.

It is unlikely that the converted NBFIs will resort to long-term financing, even though under the concept of "Universal Banking" introduced by the Central Bank they will be allowed to do so. It however appears reasonably clear that the competitive pressures within the commercial banking sector will increase.

2.3. Development Finance Institutions.

Long-term financing to manufacturing, mining and tourist industry is provided basically by 5 DFIs i.e.: Industrial Development Bank Ltd. (IDB), Industrial and Commercial Development Corporation (ICDC), Development Finance Company of Kenya Ltd. (DFCK), Small Enterprises Finance Corporation Ltd. (SEFCO) and Kenya Industrial Estates Ltd. (KIE) in the form of loans and/or equity participation. Finance is provided in both: local and foreign currency.

Foreign currency financing is also provided by East African

Development Bank (EADB), African Development Bank (ADB), International Finance Corporation (IFC) and - recently established - PTA Trade and Development Bank.

IDB - wholly owned by the Government, although with plans to privatize, IDB provides medium and long-term financing predominantly to manufacturing, but also to tourism and mining industries. Loans constitute the majority of IDB financing, with equity participation playing relatively insignificant role in the bank's portfolio; actions are under way to divest from the remaining equity investments.

ICDC - 100% Government-owned parastatal provides long-term finance predominantly to manufacturing industries in the form of loans as well as equity participation. The Corporation perceives its future role as: provision of venture capital finance to existing and start-up enterprises, loan funds to traders and industrialists and management advisory services to private sector.

DFCK - the Government holds 30.5% share in this company through ICDC - the rest belonging to foreign institutional shareholders: CDC, DIE, IFC and NFMO. DFCK extends medium and long-term loans to new and expansion projects, mostly belonging to: tourism and hotels, agro-based industries, engineering, textiles and metal industries, which together constituted 71.3% of its total investment portfolio as of the end of 1994.

KIE - 100% Government-owned organization specializing in providing loans to informal sector and small scale enterprises, developing industrial sheds for sale or rent as well as provision of consultancy services. Its important role is also perceived by the Government as the promotion of entrepreneurship.

SEFCO - wholly-owned subsidiary of DFCK, operates in the same segment as KIE i.e.: provision of loans to small scale enterprises with the mandate to promote the entrepreneurial culture.

As at 30.06.1992 the share of the above DFIs in total lendings by commercial banks, NBFIs and DFIs amounted to 5%, whereas that in lendings to industrial sector amounted to 20% (International Development Ireland Ltd - IDI - study, 1993). The same study reveals that 56% of industrialists in Kenya require long-term financing and 47% of respondents need short to medium-term loans, which supports the statement in the current National Development Plan (1994-1996) that "... the existing financial system in Kenya is deficient in long term financing needed to stimulate economic growth and development and long term debt instruments are not well developed to meet the existing and potential demand."

3. Institutions Visited.

3.1. UNIDO Country Director's Office

3.2. Ministry of Commerce and Industry (MCI)

Introductory visit to MCI was aimed at collecting general background information. As a result - the following institutions were added to the Expert's list of DFIs visited: DFCK, SEFCO, KIE. In the process of further discussions with the parties involved a need arose to visit two more institutions: Rehabilitation Advisory Services Ltd at the initiative of the Expert and National Bank of Kenya Ltd at the invitation from the Staff Manager. A feed-back visit was paid to MCI on the last day of Expert's stay in Nairobi to discuss the results and findings.

3.3. Industrial Development Bank Ltd. (IDB)

Apart from the general meeting, attended by the higher ranking officers, three substantive meetings were held in smaller working groups,focusing on the problems of:

- current operational problems of IDB,
- sources of financing and new financial instruments,
- database establishment.

A thorough review of the professional staff present training status as well as the perceived training needs was also presented to the Expert.

3.4. Industrial & Commercial Development Corporation (ICDC)

Similarly to IDB, the general meeting was followed-up by three working meetings concentrating on various areas of ICDC activities and the potential for collaboration and/or assistance. At the request of ICDC the Expert conducted 2 demonstrations of COMFAR 2.1. as well as helped to solve problems encountered by staff members in operating PROPSPIN.

3.5. Kenya Industrial Estates Ltd. (KIE)

3.6. Small Enterprises Finance Co. Ltd. (SEFCO)

3.7. Rehabilitation Advisory Services Ltd. (RAS)

3.8. Development Finance Company of Kenya Ltd. (DFCK)

3.9. National Bank of Kenya Ltd. (NBK)

A detailed list of the persons met by the Expert in the course of the introductory and working visits is appended in ANNEX II.

4. Details of Visits: Descriptions, Analyses, Findings.

4.1. Industrial Development Bank Ltd. (IDB)

In line with its Statement of Policy and Regulations the Industrial Development Bank Ltd is a financial institution created by the Government of Kenya for the purpose of furthering the economic and industrial development of Kenya by assisting in the promotion, establishment, expansion and modernization of medium and large scale industrial enterprises.

The IDB corporate mandate is to facilitate the industrial and economic development of Kenya through the provision of:

- medium and long-term loan finance,
- working capital, machinery finance and export trade related banking facilities,
- guarantee for loans from other sources,
- corporate advisory services.

In line with the Government policy towards DFIs, IDB has undergone the thorough restructuring over the period 1992-1994, assisted by the Consultants from International Development Ireland Ltd. (IDI), in order to improve its efficiency as well as to adapt to the changing economic environment and the reforms of the financial sector. The major areas of restructuring comprise:

- conversion of all foreign currency loans into Kshs and introduction of Exchange Risk Assumption Fund (ERAF),
- introduction of the Portfolio Management Approach,
- revision of the IDB organizational structure,
- strengthening of the arrears collection procedures,
- introduction of new lending and appraisal criteria,
- disposal of equity investments through divestiture,
- rationalization of staffing levels,
- computerization.

Much of the improved IDB performance over the 1993 and 1994, which resulted in wiping out all accumulated losses and recording retained earnings of Kshs 168.6 million as of 30.06.1994, is due to the above measures.

However, in 1994 the proportion of income due to Bank's core operations declined from 48% to 39.1%. The large part of 1994 income came from unsustainable sources i.e.: high interest on Treasury Bills during the Government operation "mopping-up" the excessive liquidity, disposal of best equity investments and ERAF claims. At present interest on T-Bills is substantially down, remaining IDB equity investments are minor (Kshs 51.5 million as of 28.02.1995) and much less attractive than the ones divested from and the Treasury has not reimbursed IDB on any ERAF claim yet. With effect from 01.July 1995 the ERAF scheme has been canceled.

The Bank is burdened by arrears exceeding its total investment portfolio. Most of the arrears are tied up in projects under receivership and problem projects, numbering 31 out of the total of 59. The Bank's investment portfolio has been weakening due to loans being fully repaid, equity divestiture, increasing number of problem projects and receiverships and insufficient new lending. In fact IDB approved only 7 projects in calendar year 1993, 4 projects in 1994 and 1 project since the beginning of 1995.

Acknowledging this problem the Bank's management has been exploring the possibilities of securing the new sources of finance through contacting EIB, Eximbank of India, ADB, BADEA, German Government, IBRD and several other institutions. So far only EIB has come forward with a ECU 35 million Global Private Enterprise II Loan. The loan, managed by the Central Bank of Kenya, is open to Approved Financial Institutions (IDB is one of them) on the "first come first served" basis. IDB has managed to secure financing for one project under this scheme.

In order to sustain IDB's position as efficient and profitable financial institution, the Management recognizes that, apart from the intensified efforts aimed at mobilization of foreign financial resources, the Bank must :

- actively mobilize deposits in the local financial market,
- mobilize local currency loans with Government guarantees,
- divest from the remaining equity investments,
- dispose of projects under receivership,
- intensify its other mandated activities such as: foreign exchange dealings, provision of bridging finance, consultancy services etc.
- embark on the range of "new financial products" such as:
    - issue of bonds,
    - short-term financing,
    - financing of foreign trade transactions,
    - commercial banking services,
    - leasing,
- upgrade the skills of its staff,
- operationalize the computerized database to improve the organizational performance, facilitate management decisions and corporate planning.

Problem areas/potential for collaboration:

As a consequence of retrenchment gone out of focus IDB has lost a number of qualified staff who opted for early retirement scheme. There is therefore a general need to upgrade skills of the remaining and new staff.

This is further amplified by the Bank's planned involvement in the new fields of operation such as export/import financing, short-term loans, certificates of deposit, hire-purchase, leasing etc. There is virtually no in-house capacity for these types of operations. Development and dynamic marketing of new financial products, which could be used for internal mobilization of financial resources, appears crucial to the long-term sustainable development of KIB. In-house skills are extremely scarce in this area.

Staff involved in portfolio management activities would require skills' upgrading in project preparation, appraisal, implementation and monitoring, with special emphasis on the latter two. Expertise in appraisal of rehabilitation projects needs also to be strengthened. Two areas specifically pointed out as deficient in the general domain of project preparation and appraisal were: realistic estimation of project's market potential and access to sources of information as well as expertise in technology assessment.

In view of the increasing competition for the scarce loanable funds the Bank must have a sound pipeline of feasible projects, which could be then submitted to the donor in case a "first come - first served" credit line is opened. In the past the IDB role was rather passive in this respect, which again needs to be changed in the quickly changing economic and financial environment of Kenya.

Closely related with the above is the problem of consultancy services. IDB plans to establish Business Advisory Services Unit built into the structure of the Bank, which - apart from servicing its own clients - would also offer consultancy to the business community at large. This requires a thorough development of consulting skills over extended period of time.
UNIDO Consultant was requested to perform on-the-job training, after previous careful identification of deficient areas and skills' upgrading through organized training tailored to individual staff members' profiles.

Data processing appears to be one of the biggest problem areas in IDB operations. The present, obsolete batch accounting system is the major cause of delays in reporting. Lack of integrated MIS does not support efficient planning and budgeting. IDI has identified major bottlenecks and presented recommendations in June 1993. The Bank' Management, aware of the importance of the problem established a Steering Committee last year and efforts are underway to :

- identify the specific data required for effective operations and decision making at various levels of the organization's structure,

- identify the suitable "off-the-shelf" banking software,
- identify the optimum hardware to establish LAN.

Consultant (systems analyst with extensive experience in banking operations) is required to speed-up the process.

IDB needs also access to databases on available technologies and on market information.

4.2. Industrial & Commercial Development Corporation Ltd. (ICDC)

Original objectives of ICDC concentrated on fulfilling the developmental needs of the country such as job creation, import substitution, regionally balanced industrial growth and enhancement of value added in the manufacturing sector. These objectives were often implemented without regard to commercial profitability.

Historically three major schemes through which ICDC fulfilled its mandate were:

- Equity Investment Scheme comprising joint ventures with local and foreign partners, establishment and investment in specialized national agencies and initiation of ventures with perceived commercial potential.

- Small Loans Scheme to promote African participation in manufacturing and commerce and to develop indigenous entrepreneurial and management skills.

- Large and Medium Loans Scheme: originally a "last resort" scheme to rehabilitate ailing projects in which ICDC had already equity stake, it was further expanded to include granting loans alongside equity investment and offering medium size loans on commercial basis.

Until 1980 ICDC was entirely funded by the Government. Since then the Government funding has been declining systematically. The Corporation started to mobilize external sources of funds, both domestic and foreign, which resulted in increased cost of operations due to higher interest rates and foreign exchange losses.

During the '80 and early '90s ICDC has also got involved in expensive and not always successful rehabilitation efforts and increased lending under the Small Loans Scheme, which required subsidized funding.

Over the 5-years' period ending 30 June 1993 ICDC overheads have been rising steadily whereas the contribution from most activities remained stagnant. The large and medium loans have represented a drain on Corporation's resources while small loans contributed very little, despite the lending activities being financed by concessionary terms funding. As a consequence the Corporation was struggling hard for liquidity and profitability.

The Government of Kenya in its Parastatal Reform Program of 1992 recognized ICDC as one of the strategic parastatals and aimed at enhancing its role as provider of venture capital finance to private sector medium scale commercial and industrial enterprises.

Alongside IDB, ICDC has been subjected to the DFIs Restructuring Project, financed by the World Bank and implemented by IDI. The Corporation practically suspended its investment and lending activities since 1992, intensified debt and other arrears collection efforts and underwent the complete organizational restructuring including staff retrenchment. It only reopened for new business on 1994 with the new "portfolio based structure" well in place.

According to its new Statement of Policies and Operating Procedures the new mandate of ICDC will be to "...facilitate the industrial and economic development of Kenya by the provision of venture capital finance in a minority capacity and/or other financial services including the provision of secured long term loan capital and export finance, in order to assist the expansion and development of new and existing medium size private sector industrial and commercial undertakings in Kenya, provided such investments are expected to be wholly profitable and self supporting."

ICDC may also act as an investment agent for the Government in social projects or programs provided it is on a fully funded basis with an agreed fee structure.

The following strategies have been identified for implementation by ICDC in order to successfully accomplish its new mandate:

- introduce new products and expand traditional services such as consultancy and management services,
- carry out the intensive marketing campaign to create awareness of the products it offers and project a positive image to the investing public,
- provide prompt and personalized services to clients,
- offer competitive terms for loan products and concentrate in financing the expansion of successful enterprises,
- accelerate the divestiture of the equity portfolio and its renewal through quality investments,
- generate funds internally to finance new

investments through aggressive debt collection, sale of mature investments and cost cutting,

- strengthen staff capability through training and quality recruitments and by providing necessary incentives.

The core financial product - equity - will be provided in a minority capacity (up to 40%) within the range of Kshs 10 to 50 million to the private sector clients. The investment to be disposed of between 3 and 8 years.

The equity market being underdeveloped in Kenya, ICDC may have a significant role to play in this segment, its only direct perceived competitor being DFCK. Other equity sources active in Kenya either operate in the larger end of the market (Africa Growth Fund Ltd, IFC, ADB, IPS) or offer equity stake only as a complement to the loan (AEF, EADB).

IDB new strategy envisages concentration on loan products with no significant equity investment planned for the future.

Apart from equity investments, ICDC will - under the New Loans Program - offer commercial loans between Kshs 200,000 and 10 million, industrial loans for medium scale projects (Kshs 5 to 10 million) and loans complementary to the Corporation's equity projects within the range of Kshs 10 to 50 million. However, considering the ICDC undercapitalization and the limited availability of loanable funds, this area of activity is not expected to play significant role in the Corporation's activities in the immediate future.

The Small Loans Program will be discontinued. The Corporation does not process any new applications under this scheme, while trying to minimize the disbursements of committed ones. Loans disbursed prior to 1985 have been reviewed and 912 of them identified for write-off. The same procedure is being followed for post 1985 loans. The balance sheet has been restructured and now appears to be sound.

Over the period 1990-1992, for which the most recent information is available, the ICDC share in the total lending market in Kenya remained stable at 2.1%. The Corporation's share in lending to industry in 1992 amounted to 8.1% - the highest amongst the DFIs.

In line with the new strategy the target market for ICDC products and services will be new and existing industrial and commercial enterprises in the private sector. In terms of employment, the target enterprises will have:

- 20 - 300 employees for venture capital,
- 10 - 50 employees for loans.

The 1995-1999 corporate plan aims at 6 equity investments, 24 industrial and 360 commercial new loans annually, which represent under 1%, 7% and 8% of the total potential market segments respectively.

Problem areas/potential for collaboration:

As in the case of IDB, the undesired side effect of retrenchment was an accelerated upward mobility of the Corporation's staff. In view of the freeze on new recruitments the need arose to enhance capabilities of the available staff. The World Bank sponsored training activities under the restructuring program have been discontinued early in 1994 and, despite efforts, ICDC does not at present receive any assistance in this area, which appears to be critical for the future successful performance of the Corporation.

In order to build a sound portfolio of new viable projects ICDC would require assistance in methods and techniques of project preparation, appraisal and monitoring. The special emphasis should be put on appraisal of the going concerns and methods of risk assessment for the purpose of commercial loans extension.

With the traditional sources of funding either completely exhausted (government soft loans) or dwindling (foreign credit lines), ICDC will increasingly have to depend on funds mobilized in the internal capital market. In order to be able to successfully venture into the new areas of activities the Corporation needs to develop in-house capabilities in the following domains, where skill are inadequate or lacking:

- advising on mergers, acquisitions and disposals,
- financial engineering,
- preparation and management of public offerings,
- loans syndication,
- leasing and hire-purchase,
- factoring,
- letters of credit,
- bills' discounting,
- portfolio management,
- bridging finance,
- share underwriting,
- Forex bureaus,
- working capital financing.

In view of the broad divestiture program, as well as the significant role ICDC intends to play in the privatization program nationwide, there is also an urgent need to upgrade in-house skills in the areas of assets' valuation techniques, privatization options as well as negotiations and contracting techniques.

The Corporation is considering establishment of the Investment Trust, which would serve as a vehicle for transferring ICDC's and other Government investments, being disposed of under the privatization program, to the public.

This new venture requires however assistance/collaboration at several levels. Assuming the positive Government's reaction, which has not yet been forthcoming, ICDC would require extensive assistance to set up and initially manage such Trust, as no in-house capabilities are available at present. On-the-job training of the local selected staff would constitute one of the important responsibilities of the external manager.

Considering the high initial financing requirements, estimated by ICDC at approx. US$ 36 million, assistance would also be required to identify donor organizations willing to offer concessionary loans of 8-10 years' duration. The Corporation has approached World Bank for assistance in this project over a year ago, the response still pending.

The Corporate Advisory, Research & Development Section, established under the new organizational structure, is only 2 persons strong and requires urgent reinforcement in terms of numbers and skills in order to fulfill its envisaged role as an important profit center, rendering consultancy services to the business community.

ICDC needs also access to databases containing information on foreign markets and available technology for both: improving the quality of its own projects' appraisal and advising potential entrepreneurs.

4.3. Development Finance Company of Kenya Ltd. (DFCK)

Incorporated in 1963, DFCK has become a full-fledged, profit oriented DFI in the late '80s, following restructuring and clear definition of its new mandate. Its main objective is to "... make a contribution to the development and expansion of Kenya's industrial sector in order to help stimulate the country's economic progress within the overall framework of the Government's development policy. DFCK emphasizes the creation of new productive assets and the maintenance or improvement of existing capacity through project expansions, diversifications and refurbishment programs."

Commercial viability is a strictly observed criterion for project approval. Other development issues, such as: promotion of local entrepreneurship, economic and environmental aspects, generation of foreign exchange, use of local raw materials, job creation effect and the efficient use of know-how are also taken into consideration in projects' ranking, provided the main criterion of commercial viability is fulfilled.

The creation of new productive assets being its primary objective, DFCK, despite the broad definition of the scope of its activities given above, does not get involved in refinancing of existing projects, transfer of existing assets or trade financing.

As per its mandate, the Company offers two types of medium- to long-term loans:

- up to Kshs 20 million or not more than 60% of total project's investment cost (agro-based),
- up to Kshs 60 million but not exceeding 50% of total project's cost.

Recently the upper limit for the latter has been raised to Kshs 90 million.

Since mid-'80s DFCK has been gradually divesting from its equity investments and, although equity is still part of the Company's financial products' offer, only minor stakes for projects' facilitating/promotion are being undertaken. Out of the total disbursements of Kshs 438 million in 1994 only Kshs 16 million took the form of equity.

It appears that RAS, with its PREFUND Concept and similar ownership structure, will take over equity participation activities within the group.

The Company has a sound portfolio of investments with the total value of Kshs 1.627 billion at the end of 1994 (including commitments) and negligible non-performing assets. Profit before tax and exceptional items for the period amounted to Kshs 181.7 million, as compared to Kshs 160.5 million in 1993.

Major source of funding continued to be the EIB Kenya Global Private Enterprise credit line, supported by cashflow from DFCK operations and divestiture from mature equity investments. It is the measure of the Company's effectiveness that of the total ECU 20 million administered by the Bank of Kenya over 1992-1994 under the I-st EIB credit line DFCK utilized approx. 70%. Out of the seven allocations approved so far in 1995 under the II-nd EIB Kenya Global Private Enterprise line of total ECU 35 million, DFCK has managed to secure five.

Problem areas/potential for collaboration:

The Company would welcome assistance in staff development training, specifically in the areas of:

- assets valuation and privatization options,
- new financial products.

The Management of DFCK is aware that, in line with the prevailing tendency amongst the Kenyan DFIs, the Company will have to get actively involved in funds mobilization in the local financial market and gradually diversify the profile of its activities through introducing such activities as: deposit taking, working capital financing as well as financing of foreign trade. The necessary banking license was recently obtained.

At the time of this report DFCK was in the advanced stage of negotiation the agreement with one of the established consultancy organizations with the purpose of having its staff trained in the above activities. The Company expects to be fully operational with respect to new financial products by mid 1996.

There appear to be no other immediate problem areas in the operations of DFCK as well as no scope for cooperation.

4.4. Kenya Industrial Estates Ltd. (KIE)

As per its statute KIE promotes entrepreneurship by financing and developing Small and Informal Sector Enterprises owned and managed by indigenous Kenyans. this is achieved by:

- provision of medium and long term loan financing,
- extending the consultancy services i.e.:
    - assistance in planning and preparation of projects,
    - assistance in project implementation,
    - training,
    - supervision and business counseling.
- developing industrial sheds for sale or rent.

The loans offered can be divided into two groups i.e.:

- loans to informal sector: Kshs 10,000 to 250 000, interest rate 2.7% monthly, repayment between 6 months and 3 years.
- loans to formal sector: up to Kshs 4,000,000 at 25% annual interest and maximum 8 years' repayment.

Maximum KIE exposure is very high, reaching 85% of the total projects' cost for loans below Kshs 1,000,000 and 80% for higher loans.

Following the Government development priorities KIE gives preference to projects which:

- generate or conserve foreign exchange,
- utilize local raw materials,
- are located in rural areas,

- are agro-based.

Established in 1967 as a Government parastatal, apart from financing the development of the SSEs, KIE played a very important promotional role developing the entrepreneurial culture at the regional level. Apart from the Kenyan Government, donor organizations such as: WB, ADB, NORAD, SIDA, GTZ, KFW, DANIDA assisted the programme in the past.

At present the Organization is at the cross-roads, with Government financial support suspended and foreign donors' funds all but dried-up. In fact the 1989 ADB credit line, which was the crucial source of KIE financing activities in the last years, is now fully drawn.

Despite certain performance improvement KIE's fund recovery rate is still far from satisfactory (70-78% over the period 1981-95 as compared with 50-60% for the period 1968-1980), although with the administration of ADB credit line the recovery rate has reportedly reached 93%.

The recent restructuring of KIE, necessitated by the changing economic environment has also resulted in a change of KIE's profile of activities. The company is no more involved in the entrepreneurship promotion. Training of actual and prospective clients had to be practically suspended since 1990 due to lack of funds. KIE also does not assist potential investors in the preparation of the pre-investment studies.

In realization of KIE's precarious position the management has undertaken the following steps to improve the situation:

- initiated activities aimed at mobilization of financial resources form the domestic market (application to KCB for Kshs 300,000,000 roll-over loan, similar application to NSSF),
- applied to foreign multilateral donor organizations for credit lines (PTA Bank, ADB),
- applied to the Government for:
  - additional capitalization,
  - transformation into a registered financial institution.

As of end June 1995 KIE has reportedly had over 600 viable small scale projects in the pipeline.

Problem areas/potential for collaboration:

Apart of the fundamental problem of funding, KIE needs assistance in the in-house capacity enhancement in the following areas:

- appraisal of going concerns for the purpose of rehabilitation, additional investment or liquidation,
- assets' valuation,
- project preparation, appraisal and monitoring,
- basic management techniques.

The acquired skills and expertise could then be applied by the KIE staff members to perform training activities in the regions.

4.5. Small Enterprises Finance Company Ltd. (SEFCO)

Small Enterprises Finance Company Ltd was established in 1983 as a subsidiary of DFCK, with the mandate to promote and assist development of the small scale industries by indigenous Kenyan investors. The Company offers loans in the range of Kshs 100,000 to Kshs 3 million at concessionary terms.

At present SEFCO is in a precarious position, with arrears exceeding the amount of total loans outstanding (Kshs 111 as against 110 million respectively) and 1994 disbursements a mere Kshs 10 million.

It is difficult to ascertain to what degree SEFCO's poor recovery rate is due to the past lack of strict adherence to the financial viability criteria in the Company's loan policy, which to some extent can be justified by the promotional cum educational role of this organization. The liberalization of Kenyan economy, despite its long-term macro-economic benefits, has - at least in the short run - undercut the weaker SSEs, thus compounding SEFCO's problems with timely recovery of its investments.

With the change of donor countries and organizations' policy towards supporting micro- and small scale enterprises, which comprises direct involvement rather that using the apparently inefficient intermediation of micro- and SSE oriented DFIs, the sources of concessionary funding are no longer available. On the other hand SEFCO is not prepared to compete with other financial organizations for the scarce and more expensive funds from the local market.

The Company's staff position has been reduced from approx. 150 at its peak operations to 34 at present.

According to DFCK official, the most probable course of action appears to be the voluntary "wind-up" of SEFCO operations, with DFCK taking over the remaining activities.

4.6. Restructuring Advisory Services Ltd. (RAS)

Despite the misleading name, RAS provides full range of consultancy services required for investment project preparation and implementation, including management support and is currently getting ready to offer direct financial support as well. In terms of consultancy services offered, the company - established by DEG (51% share), DFCK, ICDC and IDB (20%, 20% and 9% respectively) - is linked closest with DFCK, however the remaining two DFIs also avail themselves of its capabilities.

The innovative feature appears to be the RAS-PREFUND concept, under which RAS will offer the full range of support to the potential entrepreneurs, starting from project preparation up to provision of PREFUND financing support in the form of: loans, guarantees, venture capital or funds' syndication.
PREFUND, managed by RAS and financed by DEG (85%) and EIB (15%), is targeted at new projects within the total investment range of Kshs 10-40 million. The preferred form of financing is equity participation, subject to min. 25% and max. 49% share limitation, with 4-8 years'' put option to resell equity to local partners. Loans are offered at commercial rates, with max. 2-years' grace and 8 years' repayment; RAS management contract being a prerequisite.

4.6. National Bank of Kenya. (NBK)

Having increased its network of branch offices NBK is currently undertaking the provision of loans and equity capital to SSEs in the country. Assistance is urgently sought to thoroughly develop skills in:

- project appraisal, implementation and monitoring,
- venture-capital financing,
- currency risk hedging,

for a group of NBK staff, so that they could perform the trainers' role for in-house capability development in the above areas.

5. Conclusions/Recommendations - Kenya.

Detailed talks held with the representatives of DFIs in Kenya, combined with the background reading and discussions with Government officials, lead to the following conclusions:

1. The entire Kenyan economy, together with financial market and its institutions, is in the process of intensive restructuring.

2. In the emerging new economic and financial environment, KIB and ICDC - the traditional parastatal DFIs financing medium and large scale projects - are still mandated by the Government to contribute significantly to the economic transition and financing the future development of the private sector. With their role redefined and internal restructuring almost completed, they are now expected to maintain sustainable operations and facilitate the industrial development of the private sector by providing wide variety of high quality financial services. Their privatization is foreseen in 3-5 years' time.

In order to achieve these objectives KIE and ICDC will have to:

- further enhance the internal efficiency of their operations,
- redefine their financing base,
- enter into new fields of operation (new financial products),
- develop missing or inadequate staff capabilities,
- operationalize/improve their computerized information systems,
- secure access to databases containing data on foreign markets and technology.

3. Donor funded/sponsored DFIs are showing signs of fast and sound growth, with no significant problems apparent and no immediate scope for collaboration. They are in the lead as far as introduction of new financial products and innovative banking techniques are concerned.

4. Small and micro-scale enterprise financing DFIs (KIE, SEFCO), despite efforts at restructuring, suffer from liquidity problems, inadequate funding sources, poor although improved, recovery rate and - in some areas - inadequate in-house capabilities. With foreign donors' involvement reoriented towards direct "grass roots" projects' assistance and Government financial support suspended, they appear to be in dire straits.

Given their development mandate of promoting the entrepreneurial culture amongst the "first generation businessmen", maintaining sustainable operation is hardly possible for these institutions even at most efficient performance.

Provided the Government's policy vis-a-vis micro- and small-scale enterprises is redefined, the existing DFIs still appear the best vehicle to support SSE development, assuming that intensive support is extended to them in terms of in-house capacities' enhancement, specifically in the areas of appraisal of going concerns, project preparation, appraisal and monitoring as well as project management.

5. In order to be able to successfully fulfill their mandated role and maintain sustainable operation KIB and JCDC, the two DFIs targeted as focal institutions in the Expert's Job Description, require urgent assistance in the following areas:

- development of in-house capabilities in the area of new financial products and services, inter alia:
    - mergers, acquisitions and disposals,
    - financial engineering,
    - preparation & management of public offerings,
    - funds' syndication,
    - leasing and hire-purchase,
    - factoring,
    - letters of credit,
    - bills' discounting,
    - portfolio management,
    - bridging finance,
    - shares' underwriting,
    - Forex bureaus,
    - working capital financing.

- skills' enhancement in investment projects' preparation, appraisal and monitoring, including appraisal of going concerns,

- development/upgrading of Advisory Services Unit, with enhancement of relevant in-house capabilities,

- skills' upgrading/development in assets' valuation and privatization options,

- computerized information system improvement, including:
    - selection of "off-the-shelf" banking software,
    - MIS development support cum guidance,
    - establishment of Local Area Network,
    - access to external databases.

- advise in identification of optimum training opportunities supplementary to the above areas.

6. Secondary beneficiaries from the above assistance activities would be:

- Ministry of Commerce and Industry, which indicated the need for capacity enhancement in the area of project preparation, appraisal and monitoring, including application of UNIDO-developed software,

- DFCK, which requested assistance in skills' upgrading in the areas of:
    - assets' valuation and privatization options,
    - new financial products.

- KIE and SEFCO, if the prerequisite mentioned under conclusion 4. materializes.

7. Modalities of possible collaboration between UNIDO and ICDC should be carefully considered regarding the ICDC request for assistance in establishing the Investment Trust as a vehicle for transferring ICDC's and other Government investments, being disposed of under the privatization programme, to the public.

The scope for collaboration is extensive, given the requested assistance to set up and initially manage the Trust, provide on-the-job training for the local staff as well as identify and approach the potential donor organizations. However, the Government's endorsement of the idea, which is a "conditio sine qua non" for any further action, has not been granted yet.

It should also be carefully analyzed to what degree the previous image of ICDC might unfavorably affect the successful implementation of the Investment Trust by this organization.

II. UGANDA

1. General Economic Background.

Despite the positive economic growth since 1988/89 and the impressive growth rates of the recent years, it should be borne in mind that the economy of Uganda is making the recovery from heavy destruction of infrastructural and industrial assets during the civil war and political upheavals of the 70's and 80's.

As of 1992/93 manufacturing constituted only 5% of GDP at factor cost, whereas non-monetary sector accounted for 34 %; GDP per capita was at approx. US$ 170 and the recent MFEP estimates put the average industrial capacity utilization rate in the range of 25%, with most of machinery and equipment dating back to the late 1950s and the 1960s. As a consequence the country experiences relatively small domestic market, with low level of personal incomes, low effective demand and domestic savings not exceeding 3% of GDP.

The IMF/World Bank-supported Economic Recovery Programme (ERP) was aimed at liberalization of the economy, stimulation of the role of private sector, stabilization of the exchange rates, control of the inflationary pressures, tax reforms, strengthening the balance of payments and promotion of the export-oriented industries.

Substantial progress has been achieved since the introduction of ERP in 1987. Economic growth has been accompanied and stimulated by reduced inflation,declining interest rates, stabilization of exchange rates and full convertibility of Ugandan Shilling, foreign exchange reserves' growth and reduction of budget deficit.

1994/95 fiscal year was particularly good for already robustly growing throughout the 1990's Ugandan economy. GDP at factor cost increased by 10%, as compared with 5.1%, 3.1%, 8.4% and 5.5% respectively for the previous 4 years. The highest growth rates were recorded by: Commerce (21.6%), Manufacturing (17.7%), Construction (17.6%) and Transport & Communication (13.8%). Industries showing particularly strong growth include: drinks and tobacco,chemicals, paints, soap and steel products.

As a consequence of stringent fiscal policy overall annual inflation rate in May 1995 was down to 2.9% as compared to 16.2% a year before.

As per the Public Enterprise Reform and Divestiture (PERD) Statute of October 1993 the public enterprise (PE) sector comprised 107 PEs. The privatization programme aims at transferring 85% of existing PEs to the private sector within 2 years. By June 1995 34 PEs have been divested, 11 have been offered to prospective investors, 25 PEs are under preparation and 18 liquidations/strike-offs are under way.

Despite the remarkable decrease in inflation, bank lending rates have been almost stable at approx. 22% which compares unfavorably with the savings deposits rates' reduction to less than 3%. This disparity is attributed to the structural problems of the banking sector trying, by such big spread, to cover its high operating costs stemming from large proportion of non-performing assets in the banks' portfolio.

Over the period December 1993 to December 1994 Uganda Shilling appreciated by 21.4 % from UShs 1187 per 1 US$ to UShs 933 per 1 US$ (weighted Exchange Bureaus average). This was attributed to foreign exchange inflows due to capital repatriation, private investment and coffee boom. Such appreciation could potentially disrupt the efforts to stimulate and diversify the Ugandan export sector; the Government intervened therefore through Bank of Uganda purchasing US$ 31 million. Another step in the same direction was the introduction of coffee stabilization tax.

The foreign trade balance worsened in the fiscal year 1994/95 to US$ - 584.5 million as compared with US$ - 560.2 million a year before. Although the dynamics of export (83%) by far exceeded import growth rate (34%), mainly due to the coffee export receipts increase from US$ 172.34 million to US$ 402.14 million, this should, to a large degree, be treated as "windfall profit" resulting from more than doubling of the coffee prices. The non-coffee exports' increase by 65% in the same period appears to be more sustainable phenomenon, resulting from the consequent Government policy of diversifying and promoting export activities.

The capital account has, over the last four years, been characterized by the steady increase of medium and long-term loan disbursement and a steady decline in the level of debt repayment, the corresponding values for 1994/1995 being US$ 304.63 million and US$ - 83.71 million respectively.

Total external resources' flow in 1994/95 marginally exceeded that of the previous year, reaching the level of US$ 509.93 million, of which project aid, equally split between loans and grants, totaled US$ 313.26 million. The country, and particularly its budget, remains heavily dependent on foreign assistance. At the end of December 1994 the total external debt of Uganda amounted to US$ 3.15 billion, slightly over 60% of GDP.

Most commonly quoted constraints to development comprise:

- insufficient infrastructure,
- inefficient banking system,
- high lending rates not conducive to long-term investment,
- weak institutional capacity of the public service,

- large role of parastatals in the manufacturing sector,
- shortage of skilled personnel (especially technical and management), inadequate local market, lack of standards and quality consciousness.

2. Financial Sector: the Role of DFIs..

2.1. Commercial Banks.

As of today there are 13 commercial banks operating in Uganda, excluding two recently taken over by the Bank of Uganda (Sembule and Nile Bank). Of this number seven are indigenous and the remainder of foreign parentage.

Uganda Commercial Bank, playing major role in the commercial banks' sector (over 50% of banking activities in the economy), while suffering from huge stock of non-performing assets, is undergoing slow restructuring. It is expected that with shedding of non-performing assets (estimated at UShs 80 billion) scheduled for first quarter of 1996, and acceleration of the restructuring process - the UCB recovery will be imminent.

The total deposits with commercial banks as of end June 1995 amounted to UShs 402.6 bn, compared with UShs 313.4 bn one year ago. The volume of loans to the private sector increased over the same period by 20.8%, from UShs 193.5 bn to UShs 233.8 bn.

2.2. Non-Bank Financial Institutions.

NBFIs group in Uganda comprises 10 credit institutions, 19 insurance companies and 1 building society. The role of these institutions as financial intermediaries remains still relatively low, however the growth rates and diversification of insurance industry in the last years are remarkable.

2.3. Development Finance Institutions.

Medium and long-term financing to mining, manufacturing and tourist industry in Uganda is provided by 4 DFIs: East African Development Bank (EADB), Uganda Development Bank (UDB), Development Finance Company of Uganda (DFCU) and Uganda Development Corporation (UDC); the latter providing only equity capital, whereas the first three offer loans and/or equity participation to new and expansion projects.

EADB - Jointly owned by the three Member States of the former East African Community, EADB is the only regional DFI, mandated to identify, promote and finance regional projects. Long term loans in local and foreign currencies to regional and national projects remain the core activity of the Bank, however it also offers short term financing, equity investment, assistance in privatization and advisory services.

UDB - Wholly Government-owned Uganda Development Bank remains the largest DFI in the Country, accounting for ca. 60 % of long-term loans extended through the banking system. UDB offers predominantly medium and long-term loans to industry, agriculture and tourism. Short-term working capital financing and equity participation play minor role in UDB operations and are only offered to the established clients.

DFCU - There are 4 shareholders, each holding 25% share, i.e.: UDC, CDC, DEG, IFC. The Bank provides loans in foreign and local currency of 5-10 years duration: it also makes equity investments.
DFCU is able to invest in almost any sector, however the dominant sectors in its current portfolio are: agriculture/horticulture (25%), manufacturing (25%), food and agro-processing (20%) and tourism/hotels (15%), priority being given to export-oriented projects.

UDC - Parastatal organization mandated to identify, develop and co-finance large scale projects in mining and manufacturing industries. UDC's participates in the form of equity investment, not exceeding 25% of the total project financing requirements, often assisting private investors in securing other financing sources. After the project becomes operational UDC divests, selling its share to the private sector.

According to the Ministry of Finance and Economic Planning,the Government has no mechanisms to handle foreign donors' financial resources other than the existing DFIs. With their mandate and performance criteria redefined, restructuring completed or underway, the above DFIs will therefore continue to play vital role in development financing in the foreseeable future.

In Uganda there are no DFIs specializing in medium to long term financing of small and micro-scale enterprises. This role is mainly fulfilled by the Uganda Commercial Bank and direct donor sponsorship.

3. Institutions Visited.

3.1. UNDP Office

3.2. Ministry of Trade and Industry

3.3. Development Finance Company of Uganda Ltd. (DFCU)

3.4. East African Development Bank (EADB)

3.5. Uganda Development Bank (UDB)

3.6. Uganda Development Corporation Ltd. (UDC)

3.7. Ministry of Finance & Economic Planning (MF&EP)

A detailed list of the persons met by the Expert in the course of the introductory and working visits is appended in ANNEX II.

4. Details of Visits: Descriptions, Analyses, Findings.

4.1. East African Development Bank. (EADB)

The only surviving institution of the defunct East African Community, EADB was established in 1967 as a DFI mandated to "...generate and finance industrial projects of regional significance and redress the imbalance of industrial development in the three Member States of Kenya, Uganda and Tanzania."

Despite the collapse of EAC, the Member States amended and re-enacted the EADB Charter in 1980, its future mandate defined as "...financing projects and offering a broad range of financial services in the Member States' economies with the objective of strengthening regional cooperation."

The core business of EADB remain medium- to long-term loans in local and foreign currencies for new projects as well as for modernization, rehabilitation and expansion of the existing ones, within the range of SDR 200,000 to 4 million with max. 15 years' repayment period. Priority areas include: agriculture, industry, tourism and infrastructure.

Short-term working capital financing (SDR 50,000 to 300,000) is also supplied by the Bank. Originally offered only to projects in Uganda, utilizing special funds provided by DANIDA and SIDA, this facility has since 1993 been extended to the remaining two Member States, for which EADB used its own funds.

Equity financing constitutes minor part of the EADB portfolio and is only offered on a very selective basis, subject to a maximum exposure limit of 25% of the authorized share capital of the project.

The Bank follows a rather conservative exposure policy, whereby its total commitment, including loan and any other financial involvement to any single project should not exceed 50% of the project's net worth.

EADB offers also advisory and consultancy services, loan guarantees and acts as agency for donor funds being channeled to projects in East Africa.

Other than the three Member States, EADB shareholders include: NFMO, DFG, ADB, Consortium of Yugoslav institutions, Grindlays Bank of Africa, Nairobi, P K Banken, Stockholm, Standard Chartered Bank, London and Barclays Bank International, London. Its sources of investment funds come from: ADB, EIB, EBRD, NORDIC Development Fund, SIDA, DANIDA, Norwegian Development Agency, FMO and EXIMBANK of Japan.

Troubled by poor performance of its investment portfolio (by the end of 1992 only 30% performed without major problems; the figure dropping further down to 24% in the next year), high administration costs and inefficient organization ,EADB has established Restructuring Unit in 1992 to begin the Bank's restructuring process in earnest in 1993.

Restructuring of EADB is considered by MF&EP as very successful; the Bank being perceived now as efficient, dynamic and competent institution, with the new organizational structure well in place, staff position reduced from 97 to 74, Uganda Regional Office closed - its functions taken over by headquarters - and the new Long Term Strategy approved by the donors in early 1994. The Restructuring Unit is in the process of winding-up.

EADB has improved debt collection, intensified restructuring or sale of non-performing projects and stepped-up supervision and monitoring of projects under implementation. Provision for doubtful accounts was drastically qualified and the loss carried forward reduced from SDR 3.88 million in 1993 to SDR 0.7 million a year after. As of mid 1995 the Bank was financing 29 projects in Uganda with the total amount approved of SDR 29.57 million, 15 in Kenya to the tune of SDR 16.67 million and 30 in Tanzania with approvals totaling SDR 17.6 million.

The bulk of EADB portfolio is still composed of the national projects, in co-financing of which the Bank participates together with the national DFIs. Only few regional projects have been successfully implemented so far. Clearly aware of its mandate as a regionally owned and regionally targeted DFI, the Bank expects to increase the share of cross-border projects in its portfolio under the environment conducive to regional integration efforts.

In line with EADB long term strategy, the newly established Business Development Department is actively seeking opportunities for the diversification of the range of bank's products.

A NORDIC-assisted East African Venture Capital Facility is expected to become operational next year.

Initiating of an assets' leasing operation - also with NORDIC assistance - is likewise planned for 1996.

The Bank is already involved in identifying viable investment opportunities, arising out of the on-going privatization of the public enterprises, and supporting private sector investors by supplying equity and loan facilities for acquisition, rehabilitation and operation of such enterprises. However, to take full advantage of the emerging business opportunities in this domain, EADB plans to get more actively committed to the process by offering a wider range of privatization-related services and expertise.

This expertise would be concentrated within the Consultancy Services Unit, which is being consolidated internally, with the ultimate purpose to offer to the external business community fee-based services in the areas of i.a.:

- preparation of feasibility studies,
- development of business plans,
- assets' valuation,
- project restructuring and rehabilitation,
- technology appraisal and selection,
- establishment of joint ventures,
- funds' syndication.

Problem areas/potential for collaboration:

Comprehensive information strategy is a weak spot of EADB. Recognizing this, the Bank's Management has initiated steps to develop the computer network, integrating the separate units automated in isolation. Ultimately the Regional Business Information System is planned to be established in order to cater to the needs of both internal and external users.

An initial diagnostic study was prepared in April 1995 by the Royal Tropical Institute, Amsterdam.

EADB Management has requested UNIDO assistance in the following aspects related to the above:

- identification of appropriate databases,
- identification of appropriate information technology and computerization,
- establishing the Regional Information Center,
- staff training in information technology.

In order to avoid duplication of efforts, the future involvement of Royal Tropical Institute would, however, have to be analyzed.

In the area of project appraisal and monitoring EADB would welcome UNIDO software cum training. COMFAR III Expert, BEST and FIT were specifically mentioned.

Apart from being necessary for the Bank's projects, capacity enhancement in project appraisal and monitoring is also necessary for strengthening the capabilities of the Consultancy Services Unit. The Unit needs also to enhance its expertise in preparation of business plans, restructuring and rehabilitation of projects as well as in funds syndication for large projects with regional characteristics.

With plans underway to intensify its involvement in the on-going privatization of public enterprises in the region, EADB needs to enhance its in-house capacity in assets' valuation, privatization options and techniques and in facilitation of establishment and operations of the joint ventures.

UNIDO expertise and assistance was also requested in the area of new financial products' development and launching. Again, in order to avoid duplication of efforts, the degree and scope of prospective other institutions' (NORDIC) assistance would have to be examined in detail.

Last, but not least, EADB Management would also appreciate collaboration with UNIDO in identifying the optimum staff training opportunities in the above mentioned areas.

4.2. Uganda Development Bank. (UDB)

Established in 1972 with the mandate to finance the development of the productive sectors of the economy through provision of medium and long term development finance, UDB manages between 60% and 70% of Government-controlled foreign loans extended to agriculture, tourism, manufacturing and mining.

Since 1981 credit from external lending sources has been the major source of the Bank's funding. Originally directed towards rehabilitation of industries dilapidated over the 1970s, the funds were later increasingly committed to the new development projects.

Loans are being offered within the range of min. US$ 50,000 in case of agricultural projects and US$ 100,000 for industrial projects to the maximum of US$ 4 million, with maturity between 5 and 10 years. Recently loans as small as US$ 10,000 were also extended out of the UDB's own sources of funding. These, however represent slightly over 11% of the total portfolio. In the past, exposure of the UDB was - in the extreme cases - reaching 80% of the project's investment costs.

The Bank offers no meaningful equity financing due to inadequate capital base as well as lack of appropriate in-house expertise.

The UDB total portfolio worth US$ 130 million at the end of 1991 has, over the last years, increased only moderately to reach US$ 135.5 million as of mid 1995. The condition of the portfolio is, however, very poor. Suffice to say that the total provision for loan losses up to end 1995 is estimated at US$ 18 million and 71% of interest receipts are suspended. UDB Profit and Loss Account has been consistently showing losses over the '90s, the only exception being 1992. The biggest loss in 1993 was due to decrease of net exchange gains, more than doubled expenditure on salaries and related expenses as well as drastic increase of provision for loan losses. Over 1994 and I-st half of 1995 the losses are systematically decreasing.

At the project level, major reasons for project failure or delayed implementation and thus failure or delay in interest and principal repayment have been quoted as follows:

- inadequate equity to implement the project,
- inadequate working capital (not provided by UDB),
- failure to complete legal documentation,
- poor implementation management,
- loan funds' misuse.

At the macro level depressed demand for projects' products/services due to the liberalization of the economy and increased competition from imports, high inflation rates and the Government's preference for projects with high social and economic merits without much regard for their commercial viability are often quoted as major reasons for the dismal UDB's portfolio performance in the 1990s.

According to the Bank's Principal Adviser, poor portfolio performance "across the board" indicates that the negative effects of the Government's interference on the past UDB performance may be overstated. Had the Government priority for social projects been the major cause of the the Bank's poor performance, the remaining projects would have performed better. As it is, other abovementioned factors plus poor project appraisal in the past and inadequate/lacking project monitoring appear to be the major causes of the present situation.

Recognizing the need for improving the Bank's performance the Management has initiated steps in this direction as early as 1991, whereby a comprehensive Corporate Plan was drawn for the first time, and a programme of institutional collaboration with ICICI was developed with the aim of reviewing UDB loan portfolio, upgrading professional skills of its staff and suggesting changes in the Bank's structure and management capabilities.

The Project Restructuring Unit was set up with the major responsibility of handling sick projects and designing for them the appropriate restructuring strategies. As a result, loan recovery rate has shown a marked increase in the last quarter of 1992.

ICICI has organized 2 in-house training seminars in Financial Management, presented restructuring proposal and established a stand-by facility providing UDB with information sources on advanced technology and supply sources.

The Bank has retrenched, reducing its staff position from 80 to approx. 60 professionals. Several training programs organized by Bradford, Harvard IID and ADB were attended by UDB staff, mostly in the areas of project preparation, appraisal and monitoring.

A complete diagnostic study, sponsored by CFTC, is currently underway, with major recommendations for the comprehensive Bank's restructuring to be presented for discussion in October 1995. Its major recommendations comprise the following areas:

- capitalization,
- management of non-performing assets,
- interest rate, investment and financing policy,
- project implementation, monitoring and evaluation,
- debt collection,
- audit,
- financial administration and accounting,
- new products and services,
- monitoring external lines of credit,
- economic analysis.

Detailed proposals regarding the above areas, including the organizational changes necessary for their effective implementation, will be presented to the Board in October 1995.

Development of Loans Operations Management Information System was commissioned to Rank Consult (U) Ltd of Uganda and Tata Consultancy Services of India. Concept report was submitted by the Consultants in August 1995.

The Management is aware that,in order to fit into the changing financial market of the Country, UDB will - apart from improving the effectiveness of its performance in the traditional Bank's domain i.e.: long term lending - have to increase the scope of its operations including i.a.: debt/equity financing packages, working capital financing, foreign trade financing, leasing and hire-purchase. A full-fledged Export Promotion and Servicing Division with full range of export-related services is also under consideration.

UDB expects to be re-capitalized - to the extent of capital adequacy required - by the end of 1996, so that, after the period of stabilization, it is ready for flotation not later than in 5-years' time.

Problem areas/potential for collaboration:

As presented in the above analysis, major UDB problem areas are being already addressed at the strategic level.

Implementation of new strategies will, however, critically depend on substantial capacity development in the areas of operation which are new to UDB or where present skills are inadequate. These include:

- project identification and preparation.

  In the past UDB relied on project preinvestment studies presented by the sponsors. However, in view of the acute shortage in Uganda of skills in this domain, the Bank has realized, in order to build a sound pipeline of commercially viable projects, the necessity to assist potential entrepreneurs in project identification and preparation.

- market studies.

  Usually appear the most deficient part of the preinvestment studies presented. With the size of projects financed by UDB increasing, the importance of appropriate preparation of market analysis and forecast becomes crucial. This is even more so in case of export-oriented studies, where lack of expertise and information on potential export markets is acute.

- establishment of joint-ventures, contracting and negotiations' techniques.

  Despite the training programme in negotiations and contracting techniques, organized by UNIDO in Kampala in 1994, demand is still high for skills in these areas, specifically related to j-v establishment.

- technology appraisal and transfer.

  On top of capacity development in these areas, UDB needs also access to data sources on available technology and sources of supply; arrangement similar to that existing with ICICI has been requested.

- new financial products.

  Assistance in the form of organized training as well as expert assigned to UDB for the period of several months to expedite initial organizational matters as well as provide on-the-job training is required.

- monitoring project's performance.

  Methodology and skills' development, ideally supported by the appropriate software, is urgently required to enable UDB to develop "early warning system" informing about potential threats to clients' projects performance.

UDB has also requested assistance in on-line access to UNIDO databases on technology and in development of management decision support system, which would be superimposed on the currently developed loans system.

Collaboration in preparing feasibility studies for large industrial projects as well as consultancy in environmental impact assessment studies is also being sought.

4.3. Development Finance Company of Uganda. (DFCU)

Established in 1960, DFCU was performing well until 1972. In the following political and economic upheaval the Company was practically dormant until the late '80s. Since it was rehabilitated and refinanced in 1988 DFCU has been growing fast in the 90's, achieving in 1994 the portfolio of US$ 12 million as against US$ 5 millions two years before. The target disbursement for 1995 amounts to US$ 7.6 million.

In 1994 DFCU's books showed profit of approx. US$ 130,000.

The Company (ranking third amongst the DFIs in Uganda) offers loans of 5-10 years' maturity ranging from US$ 100,000 to US$ 1,000,000 at varying interest rates and D:E ratio not exceeding 50%. In extreme cases the maximum limit can be stretched to US$ 1,500,000; for larger projects DFCU extends assistance in finding suitable financiers. DFCU provides also equity investments within the range of US$ 100,000 to 800,000, maintaining its equity shareholding within 10-40% limits.

Funding sources, apart from the international shareholding institutions, include EIB, KFW and USAID.

Recently a leasing company was established as a separate business entity. Plans are also under way to intensify DFCU involvement in the privatization process underway in Uganda.

The staff (25 local professionals) is subjected to intensive training, both in Uganda and abroad.

DFCU does not assist potential investors at the stage of pre-investment study preparation; it gets however heavily involved at the project implementation stage, providing i.a. assistance and expertise in technology appraisal, optimization of supply sources etc. As a matter of policy the Company does not and will not commit itself to providing consultancy services outside the organization, reserving its consultancy capabilities for its own clients.

Problem areas/potential for collaboration:

According to the Operations Manager, DFCU would welcome the establishment of external unit providing, on a commercial basis, transitional managerial (specifically accounting) and engineering services.

Other than the above, no problem areas nor potential for collaboration could be identified during the visit.

4.4. Uganda Development Corporation Ltd. (UDC)

Since October 1991 when the privatization of public enterprises started in Uganda, the UDC was entrusted with a new mandate to "...identify and initiate large investment projects to be taken over by the private sector in mining and manufacturing industries only."

The minimum projects' total investment cost was set at US$ 10,000,000, with maximum UDC equity involvement limited to 25%. The initial Government capitalization totaled US$ 15 million. Further capitalization is considered on a case-by-case basis. The major role of UDC is therefore to provide crucial link between Government and the private sector, initiating and developing large projects in line with the governmental sectoral development priorities, mobilizing private sector equity and loan financing and entrepreneurial capacities thus stimulating private sector industrial investment initiative. Eventually the UCD divests from its equity shareholding, leaving the project entirely in private hands. The Corporation never participates in management of projects.

Problem areas/potential for collaboration:

As perceived by the UDC top Management, in order to successfully fulfill its mandate, the Corporation requires assistance in the following areas:

- training/skills upgrading in investment project identification,preparation, appraisal,implementation and monitoring, for existing professionals and novices, which UDC plans to recruit.

- developing a Consultancy Services Unit within the Corporation to assist private medium scale entrepreneurs in project preparation and implementation,

- development of the database within UDC with links to other data banks to provide information on markets, technologies, supply sources, investment opportunities offered and contributions/partners sought for UDC's "own" projects as well as assistance to medium scale private entrepreneurs (linkage to Consultancy Services Unit). The database would also serve the purpose of supporting the development of new UDC-led projects as well as monitoring the on-going projects, in which the Corporation has equity shareholding,

- financial expertise in mobilization of financial resources (funds syndication for large projects).

UDC requires also urgent assistance in preparation/updating of the feasibility studies for the following projects:

- utilization of iron ore deposits,
- sheet and container glass manufacturing,
- pulp and paper manufacturing,

as well as technical assistance in instant coffee production project (partner with technology) and mining of marble in Karamoja.

Technical expertise in mineralogy and mining is also sought to assist UDC in developing sector-related projects.

5. Conclusions/Recommendations - Uganda.

Detailed discussions with the representatives of the Ugandan DFIs, Government officials and UNDP representatives, supported by the background readings, lead to the following conclusions:

1. The fast growth, rehabilitation and restructuring of the Ugandan economy requires intensive support of the development financing institutions to stimulate the progress of the private sector.

2. The financial market in Uganda being less developed than that of Kenya, the role of the existing DFIs will be crucial in further provision of the financial services, specifically development-oriented medium and long-term financing. These institutions have all undergone - or are currently undergoing - the thorough process of restructuring and redefining their scope of activities in order to improve their efficiency, achieve sustainability of operations and be able to provide broader and better financial services to the business community. Since the consultancy market in Uganda is underdeveloped, one of the crucial functions of the DFIs will be to provide advisory services to the business community.

3. As in the case of DFCK, the donor sponsored/funded DFCU has been growing fast in the '90s. The Company has no problem with non-performing projects due to strict adherence to rigorous commercial viability criteria, concentrates its activities on loans, equity and leasing operations and does not intend to offer advisory services to the potential entrepreneurs.

DFCU does not require assistance, neither the immediate potential for collaboration was established.

4. There is no DFI in Uganda financing development of the small and micro scale enterprises, the only support to this sector being extended by the direct involvement of the donor organizations.

5. The remaining three DFI, i.e.: EADB, UDB and UDC, to be able to attain their objectives, require intensive and urgent assistance in order to:

- improve the internal efficiency of their operations,
- restructure/redefine their financial base,
- introduce new financial products and services,
- develop the missing in-house capabilities in the prospective new areas of operations, and upgrade the existing ones,
- enhance/develop the computerization of the internal operations and develop the management information systems,
- gain access to international data sources, particularly in

the areas of export markets' and technology.

6. Since the scope of activities of the three institutions as well as the intensity of required support in the deficient areas differ, the potential for assistance/collaboration will be discussed on a case-by-case basis.

6.1. **EADB.**

The regional character of this institution makes it a natural agent for furthering the East African regional integration efforts.

EADB Management has requested urgent assistance in the following areas:

- project appraisal and monitoring.

  EADB would welcome UNIDO software cum training. COMFAR III Expert, BEST and FIT were specifically mentioned.

- capacity enhancement in project appraisal and monitoring is also necessary for strengthening the capabilities of the Consultancy Services Unit. The Unit needs also to enhance its expertise in:
  - preparation of business plans,
  - restructuring and rehabilitation of projects,
  - funds' syndication for large projects with regional characteristics.

- with plans underway to intensify its involvement in the on-going privatization of public enterprises in the region, EADB needs to enhance its in-house capacity in:
  - assets' valuation,
  - privatization options and techniques,
  - facilitation of establishment and operations of the joint ventures.

- UNIDO expertise and assistance was also requested in the area of new financial products' development and launching.

NOTE: In order to avoid duplication of efforts, the degree and scope of prospective other institutions' (NORDIC) assistance in this subject area would, however, have to be examined in detail.

- collaboration with UNIDO in identifying the optimum staff training opportunities in the above mentioned areas.

The potential for collaboration may be identified in the following aspects related to the internal computerization of EADB operations and the development of the Regional Business Information Center:

- identification of appropriate databases,
- identification of appropriate information technology and computerization,
- establishing the Regional Information Center,
- staff training in information technology.

NOTE: Again, in order to avoid duplication of efforts, the future prospective involvement of Royal Tropical Institute, Amsterdam, would have to be analyzed.

6.2. **UDB.**

The largest institution on the long-term lending market of Uganda, UDB manages between 60% and 70% of the Government-controlled foreign loans for industry and agriculture.

Substantial capacity enhancement is necessary for this Bank in the following areas:

- project identification and preparation,

  In view of the acute shortage in Uganda of skills in this domain, the Bank has realized that, in order to build a sound pipeline of commercially viable projects, it is necessary to assist potential entrepreneurs in project identification and preparation.

- market studies,

  Usually appeared the most deficient part of the preinvestment studies presented. With the size of projects financed by UDB increasing, the importance of appropriate preparation of market analysis and forecast becomes crucial. This is even more so in case of export-oriented studies, where lack of expertise and information on potential export markets is acute.

- establishment of joint-ventures, enhancing contracting and negotiations' techniques, specifically related to j-v establishment,

- technology appraisal and transfer,

  On top of capacity enhancement in these areas, UDB needs also access to data sources on available technology and sources of supply; arrangement similar to that existing with ICICI has been requested.

- new financial products,

  Assistance in the form of organized training as well as Expert assigned to UDB for the period of several months to expedite initial organizational matters as well as provide on-the-job training is required.

- monitoring project's performance,

  Methodology and skills' development, ideally supported by the appropriate software, is urgently required.

UDB has also requested assistance in on-line access to UNIDO databases on technology and in development of management decision support system, which would be superimposed on the currently developed loans system.

Collaboration with UNIDO in preparing feasibility studies for large industrial projects as well as consultancy in environmental impact assessment studies is also being sought.

6.3. UDC.

Uganda Development Corporation provides crucial link between Government and the private sector, initiating and developing large projects in line with the Government's development priorities, offering equity participation, from which it eventually divests.

UDC requires assistance in the following areas:

- training/skills upgrading in investment project identification, preparation, appraisal, implementation and monitoring, for existing professionals and novices, which UDC plans to recruit.
- developing a Consultancy Services Unit within the corporation to assist private medium scale entrepreneurs in project preparation and implementation,

- development of the database within UDC with links to other data banks to provide information on markets, technologies, supply sources, investment opportunities offered and contributions/partners sought for UDC's "own" projects as well as assistance to medium scale private entrepreneurs (linkage to Consultancy Services Unit). The database would also serve the purpose of supporting the development of new UDC-led projects as well as monitoring the on-going projects, in which the Corporation has equity shareholding,

- financial expertise in mobilization of financial resources (funds syndication for large projects).

UDC requires also urgent assistance in preparation/updating of the feasibility studies for the following projects:

- utilization of iron ore deposits,
- sheet and container glass manufacturing,
- pulp and paper manufacturing,

as well as technical assistance in instant coffee production project (partner with technology) and mining of marble in Karamoja.

Technical expertise in mineralogy and mining is also sought to assist UDC in developing sector-related projects.

7. UNDP Resident Representative, and the entire Office is highly committed to the cause of East African regional integration and the enhancement of the role of the private sector in the region. The idea of the regional technical assistance project aimed at enhancement of the role and performance of the DFIs in the region, and thus assisting the development of the private sector investment activities and promoting regional cooperation, was well received. It was mentioned, that funds could be made available on the side of UNDP to co-finance the development of such project.

V. TANZANIA

V.1. Dar es Salaam.

1.1. General Economic Background.

Over the '80s and into the early '90s Tanzanian economy has been experiencing low and fluctuating growth, high inflation rates, increasing unemployment, substantial budget and balance of payments' deficits.

The Government of Tanzania has come to realize that public sector is not in a position to dynamically lead the economic development of the Country and has - since mid '80s - begun to redefine its role in the economic development, turning gradually from centralized control to more market-oriented mechanisms. The process, assisted by the World Bank and IMF, was accelerated in the early '90s with the introduction of such measures as restructuring and downsizing of the public sector, liberalization of the economy including: financial sector, foreign trade and exchange rates, and encouraging the private sector to undertake more active role in the investment process.

The industrial sector capacity utilization, which fell from 53% during the period 1976-80 to an average of 26% in mid 1980s, improved again to about 50% in 1992 as a consequence of Economic Recovery Programs (ERP) introduced since 1986. However, the average 1985-92 industrial sector's share in GDP was still at the 8.4% level, as compared with 13% in 1976.

The 1993 GDP increased by 4.1%, as against 2.6% in the previous year, which would have been more encouraging had the bulk of 1993 GDP performance not been mostly due to the bumper crop harvest. The manufacturing sector (which grew by only 2.1% as against the targeted 6.5%) continued to suffer from difficulties in raw materials' availability, inadequate and interrupted water and power supplies and increased competition from imports. Construction activity fell by 10.3% while mining activity index dropped by 19.1%.

The monetary policy objectives of curbing inflation were not achieved in that year mostly due to the credit expansion to cover Government's increasing budget deficit.

Despite the number of measures taken by the Government in order to enhance revenue collection and reduce expenditures prior to the 1994/95 budget implementation - the first half of this year was characterized by rampant tax evasions and exemptions as well as recurrent expenditures' overruns. This has prompted the Government to introduce the series of extraordinary measures aimed at increasing budget discipline and curb the tax evasion practices. As a result a marked improvement in the performance was noted towards the end of the fiscal year, with revenue collection exceeding the annual budget estimates by 0.6% and total budget expenditures 3.4% below the revised estimates.

The development expenditure however, recorded only TZS 29.9 billion (below 7% of the total) as against the planned target of TZS 151.5 billion, mostly due to the withholding of aid by the foreign donors.

The rate of inflation, still at 36.1% (annualized monthly CPI change) in March 1995, was down to 28.% in May this year. It remains to be seen to what degree this is the beginning of the sustainable downward trend, since some sources attribute the recent decline in the inflation rates to the increased food production throughout the Country.

The 1993/94 balance of trade was far from satisfying, with net reserves declining as a consequence by 16.1% (end June 1994 against end June 1993) to TZS 32.2 billion. This resulted mostly from the poor export earnings due to unfavorable world market prices for Tanzania's major export commodities and to the reduced donor disbursements through Open General License and Commodity Import Support schemes. In contrast, 1994/95 showed improved export earnings (from US$ 486 million to US$ 612 million, i.e.: by 26%) mostly due to the commodity prices' increase and a significant decline of the services' account deficit. Still, the export earnings were only able to cover approx. 1/3 of the imports' bill and - as a consequence of donors' decision to suspend aid disbursement to Tanzania since November 1994 - the balance of payments' support foreign aid disbursement fell short of expectations by US$ 125 million.

The total external debt committed and outstanding as at 30 June 1995 amounted to US$ 6,919.5 million, of which disbursed outstanding debt represented 70.3%. Bilateral commitments accounted for 47.3%, whereas multilateral debt represented 42.7%. The Central Government accounts for 91.9% of the total debt, with 6% going to the public corporations and 2.1% to the private sector - largely due to the private sector's limited access to the international financial resources.

Despite the rather grim picture emerging from the above figures, over the recent years Tanzania has made substantial progress in restructuring its economy and gradually gearing it towards the market oriented operations. The budget deficit has been reduced, the trade regime liberalized and the overvalued exchange rate substantially depreciated. The Government completed the initial retrenchment and set up the legal and institutional framework for the privatization of the public sector enterprises. The Parastatal Sector reform Commission became fully operational in 1993. By the end of that year 20 parastatals had been sold or leased, 22 put under receivership and 117 were being prepared for divestiture in 1994. As of mid 1995 however, the facilities which would accelerate the parastatal reform process, such as stock exchange and unit trusts were not yet operational. Preparations are underway to open the Dar es Salaam stock exchange in mid 1996.

Over the next two fiscal years the main focus of the Government's structural policies will concentrate on:

- consolidating and extending reforms of the financial sector,
- removing barriers to private sector investment,
- increasing efficiency and reducing the size of the public sector,
- further liberalization of the external payments system,
- continuation of the agricultural marketing reforms,
- improvement of the social and physical infrastructure and environment protection.

1.2. Financial Sector; the Role of DFIs.

As of the end of 1994, apart from the central Bank of Tanzania, there were 17 other financial institutions operating in the United Republic of Tanzania, i.e.: 6 commercial banks, 4 DFIs, 2 insurance companies, 2 savings institutions, 1 national provident fund, 1 parastatal pension fund and 1 hire-purchase company.

The sector, dominated by public institutions, was in the past characterized by the narrow range of financial services, lack of competition, unchecked money supply to non-productive investments, cumulation of arrears, lack of accountability and poor management.

The 1990 Banking and Financial Institutions Act and the subsequent regulations have paved the way to liberalization of the sector and restructuring of its institutions as well as opening-up the sector to private competition. The reforms are underway, however the pace remains to be accelerated.

1.2.1. Commercial Banks.

Six commercial banks operate currently in Tanzania, the group being dominated by the National Bank of Commerce with 1992/93 deposits totaling TZS 226,738.2 million, followed by Cooperative and Rural Development Bank with TZS 21,204.0 million and the Tanzania Postal Bank with TZS 11,915.0 million.

Tanzanian commercial banks are burdened with large arrears, inefficient operations and poor service level.

A comprehensive financial sector reform includes i.a.: replacement of NBC Board of Directors, portfolio review and the recently undertaken Diagnostic Review to be followed by recapitalization, performance improvement, downsizing and the ultimate privatization. Private banks, allowed to operate in the country under license from Bank of Tanzania, are gradually being established.

1.2.2. Non-Bank Financial Institutions.

There are 2 insurance companies, 2 savings institutions, 1 national provident fund, 1 parastatal pension fund and 1 hire-purchase company.

The subsector, dominated by the National Insurance Corporation, does not - at present - play significant role in the financial intermediation. Legislation already issued provides sufficient framework for the development of private capital markets, including stock exchange, unit trusts and venture capital funds.

1.2.3. Development Finance Institutions.

Ouc of the four local DFIs in Tanzania mandated to offer medium and long term finance to manufacturing, mining and agro-based investment projects, i.e.: TIB, TDFL, TVCF and SIDO, TVCF offers only equity participation, whereas TIB and SIDO are currently practically inactive as DFIs - TIB due to the on-going restructuring and SIDO due to lack of external funding sources and internal liquidity problems.

TIB - Tanzania Investment Bank - 100% Government owned parastatal was established in 1970 to cater primarily to the development needs of the parastatals. With its mandate redefined in 1991 the Bank is now expected to support the development of the private sector by offering medium- and long-term loans, equity participation and a variety of other financial products and services.

TDFL - Jointly owned by the: Tanzanian Government through TIB (24.17%), DEG (20.83%), CDC (15.83%), NFMO (24.17%) and EIB (15%), Tanzania Development Finance Company Ltd offers loans ranging from US$ 30,000 to US$ 1 million in local and foreign currency. Maximum repayment period is 10 years, including up to 4 years' grace period. The company offers also equity participation.

TVCF - Tanzania Venture Capital Fund is the first venture capital fund in the Country. It provides equity investments within the range of US$ 50,000 to US$ 500,000 in expansion and new high growth projects, subject to the limitation of not exceeding 50% of ordinary equity. The Fund also provides short-term loans for working capital financing to its projects. Equity Investment Management Ltd. - managing TVCF under the formal management contract - makes all decisions regarding investment and divestiture.

SIDO - Wholly Government-owned Small Industries Development Organization provides loans of 3-8 years' duration, with grace period not exceeding 1 year, to micro and small-scale rural and industrial projects on preferential terms.

In addition: EADB, CDC, IFC and AEF are all active in Tanzania.

1.3. Institutions Visited.

1.3.1. UNDP Office

1.3.2. Tanzania Development Finance Company Ltd. (TDFL)

1.3.3. Small Industries Development Organization (SIDO)

1.3.4. Bank of Tanzania (BoT)

1.3.5. Tanzania Investment Bank (TIB)

Following the introductory meeting, the plenary working session was arranged to discuss specific areas for potential collaboration and/or assistance.

1.3.6. Equity Investment Management Ltd.

1.3.7. East African Development Bank, Tanzania

A detailed list of the persons met by the Expert in the course of the introductory and working visits is appended in ANNEX II.

1.4. Details of Visits: Descriptions, Analyses, Findings.

1.4.1. Tanzania Investment Bank (TIB)

Established in 1970 by the Act of Parliament, TIB - a 100% Government-owned parastatal - was originally mandated with the mission to:

- promote medium and long term finance for economic development,
- provide technical assistance and advice for the purpose of promoting industrial development,
- administer such special funds as may from time to time be placed at the disposal of the Bank,
- undertake such other activities as may be necessary or advantageous for the purpose of furthering the foregoing objectives.

Originally requested to predominantly finance parastatal projects in line with the prevailing policy of the '70s, the Bank has become gradually involved in the private sector financing. By 1980, 50% of TIB portfolio was composed of private projects.

Within the framework of the structural reforms undertaken in the '80s, aiming at transformation of the planned economy to a market oriented one, and the resulting liberalization of the financial sector - the TIB mandate was redefined in 1991. The new mission designates the Bank to "...offer a broad range of financial services and products in the areas of merchant and development banking on a commercial basis."

Loans continued to represent the core of TIB activity. In the total cumulative portfolio covering period 1970-1993, equity investments constituted 14.65%, of which over 99% were made in the manufacturing sector.

Three major sectors dominated the distribution of the loans' portfolio, with manufacturing accounting for 64%, agriculture and agro-based industries: 14%, and forestry and wood industries: 8%; the remaining 14% spread between seven sectors, none of which accounted for more than 3% of the total.

As of 30 June 1993 - the last year when loans were disbursed by TIB - the Bank's portfolio comprised 53 client companies. the arrears stood at TZS 10.4 billion, almost the same level as in the previous year and more than 82% of the total portfolio value. This is attributed to consistently poor performance of most client companies, due mostly to power rationing, constant breakdown of machinery, inadequate working capital, unfair competition etc. What is more, better clients are gradually leaving the portfolio by completing their obligations, leaving the Bank mostly with the problem ridden ones.

Despite the poor portfolio performance, TIB profit and loss account shows net profit for 1992/93 of TZS 175.2 million, as against the loss of TZS 3.457 billion in the previous year. Net profit for 1993/94 declined to TZS 150.8 million, whereas the net loss projected for 1994/95 amounts to tZS 959.1 million. The drastic decline of the profitability of the Bank's operations in 1994/95 may be largely attributed to the projected decline in interest on loans and short term investment and the projected increase in expenditures on salaries and administrative and general expenses.

Prompted by its precarious liquidity position - largely attributed to TIB offering an exclusive single product service - its new mandate and the emerging challenges of the economy being gradually liberalized, the Bank has commissioned a consulting firm: Sycip Gorres Velayo & Co. of Philipines, to prepare a Restructuring Programme, approved and financially supported by the Bank of Tanzania and the World Bank.

The objectives of the study were as follows:

- diversification of the single product offered by TIB into broad-based financial services,
- diversification of sources of funds and income for TIB,
- financial restructuring of TIB,
- restructuring of TIB client portfolio,
- organizational restructuring,
- training of TIB staff,
- privatization of TIB,
- maintaining a profitable institution.

Following the completion of the study in October 1993, TIB was expected to establish the following activities:

- money market operations,
- domestic lending, particularly trade financing,
- international trade operations,
- underwriting activities,
- financial and corporate advisory services,
- investment management and trust services.

Since then TIB has managed to introduce several of the report's recommendations. The Bank's balance sheet has been substantially cleaned, with most external liabilities taken over by the Treasury, fee-based advisory services have been extended to Loans and Advances Realization Trust, funds administration for Treasury was initiated last year with respect to IDA credit line for the petroleum sector and fee-based guarantee was extended with respect to NORSAD loan.

However, the TIB Corporate Plan for 1995/96 - 1999/2000 bears witness to the fact that the Bank's restructuring exercise is still far from complete.

Problem areas/potential for collaboration:

TIB has not been successful in obtaining much needed technical assistance in building the capabilities necessary in order to broaden its scope of activities and services offered. Technical assistance offered by the World Bank at the initial stages of the restructuring (particularly in the area of merchant banking) has been discontinued. Out of the donor agencies approached, at present only EC has been forthcoming with several placements for the Bank staff in the relevant training activities.

The following broad problem areas of the Bank's operation require assistance:

- organizational restructuring,

Despite the new organizational structure having been defined by the Consultants, TIB is unable to operationalize it due to lack of expertise in job description design. The new structure, apart from retrenchment, requires new allocation of duties. Expertise in this field, available at TIB, is inadequate, particularly so with respect to new positions related to new fields of operation, which will require new job demands, qualifications, attitudes etc.

Thorough knowledge of operation of new activities is necessary for the purpose. External assistance is therefore sought by TIB to carry out this assignment.

- trade finance,

In-house capabilities development is necessary for this function to take off successfully. Areas include:

  - import/export finance,
  - pre-export/pre-import finance,
  - short-term credits for domestic trade,
  - forex operations,
  - risk appraisal.

- restructuring/privatization of parastatals,

Skills enhancement is necessary in the areas of:

  - assets' valuation,
  - privatization options and techniques,
  - restructuring.

- Corporate advisory services.

Necessary, and often deficient, skills include:

- project preparation, appraisal and monitoring,
- financial engineering,
- financial and economic feasibility studies, including sensitivity analysis,
- development of business plans,
- negotiations and contracting,

Organizational expertise is also sought to assist the staff initially in structural/promotional/billing aspects of the fee-based consulting activities.

- computerization/MIS

The Bank requires assistance in integrating its isolated computerized systems. At present general ledger, payroll, asset register, insurance and loan account are computerized as a standalone PC-based systems. TIB expects to complete computerization of its present and future operations, organize Local Area Network and develop the integrated Management Information System. In order to achieve this, the Bank requires assistance to advise on available software/hardware and, eventually, help and direct its staff in the MIS development.

Access to databases containing information on foreign markets and technology is also required.

1.4.2. Tanzania Development Finance Company Ltd. (TDFL)

Established in 1962 TDFL has, during the period of over 30 years of operation, contributed to the development and growth of more than 200 projects. The Company's principal mandate is to "...provide medium- and long-term finance to projects with developmental value, which are operated on a commercial and profitable basis. The financing covers the establishment and expansion of industrial, agricultural and other undertakings which place emphasis on utilization of natural resources, generate or save foreign exchange."

Financing can take the form of loan, equity or both, however equity investments represent minor percentage of the TDFL portfolio. Over the last three years (1992-94) the share of equity in the total TDFL investment portfolio amounted to 2.5%, 1.21% and 3.42% respectively. Considering that the number of projects where the Company has equity stakes totaled 31 in 1994, as compared with 32 projects to which loans were extended, in may be inferred that the equity stakes represent also minor percentage of the respective projects' worth.

Sectorwise, the distribution of TDFL investment portfolio as of 31 December 1993 was as follows: agriculture 0.5%, manufacturing 54.62%, services 27.9% and natural resources 16.98%.

In terms of profitability the 1993 performance of the Company was encouraging, although less so than a year before. Profit after tax dropped from TZS 740 million to TZS 462 million, which was mainly due to the drastic reduction of proceeds from disposal of equity investments.

Loan arrears at the end of 1993 amounted to TZS 1,559 million, spread over 25 projects, which compares unfavorably with the previous year when the arrears totaled TZS 571 million in 17 projects. The bulk of the 1993 arrears (over 80%) concentrate however in 4 projects, which are already under receivership.

Nevertheless, for the year ending 31.12.1993 TDFL declared a dividend of 12% on paid up capital as against 10% in the preceding year. Similar dividend was declared in the following year.

Disbursements for 1993 - the last year for which detailed information is available - were made out of credit lines from EIB and DEG - both of them TDFL shareholders - to the tune of TZS 1,814 million. Unable to raise funds locally, TDFL has approached several international financial institutions, including IFC, EIB, ADB, OPEC Fund and PROPARCO for future lines of credit to enable the Company to implement its core planned activities as well as to facilitate implementation of the diversification options. These include: provision of corporate advisory services to the general public, leasing and commercial banking activities. At the time of preparing this report all three new functions were either operational or at the verge of starting operations.

ODA-supported Corporate Advisory Services Department is well established, with the major objective to further diversify the operations of the Company, apart from offering advisory services to the business community. New activities include: funds syndication - already operational, restructuring studies - already active, and foreign trade financing - to be initiated in 1996.

United Leasing Company (T) Ltd. has already been established and is on the verge of starting operations.

TDFL has shareholding in the newly opened Euroafrica Bank, through which commercial banking services will be offered to the general public.

The Company has also obtained the authorization of the Capital Markets and Securities Authority to act as intermediary in:

- contacting prospective purchasers on behalf of vendors of companies,
- approaching prospective private investors to acquire shares in companies,
- making markets in treasury bills, and in due course, Government bonds and equities.

Problem areas/potential for collaboration:

TDFL appears to be in sound condition. The Company's needs are well supported by its shareholders.

According to the Director, TDFL's only deficient area appears to be computerized information system and access to databanks, containing information on export markets and available technology. UNIDO assistance would be welcome in this respect. No other need for assistance nor potential for collaboration was identified during the visit.

1.4.3. Tanzania Venture Capital Fund/Equity Investment Management

The first venture capital fund in Tanzania, TVCF was launched in October 1993. Its total capital, amounting to US$ 7.61 million, was provided by 5 foreign and 2 local partners i.e.: DEG, CDC, Proparco, Swedfund, NFMO, NPF and TDFL.

The Fund makes equity investments in local companies of high growth potential, be it start-up or expansion project, together with the Tanzanian entrepreneurs. EIM managers hold a seat on Board of every company, in which TVCF has a stake and, although they never get involved in day-to-day operations, they may be called upon to assist in solving management problems.

TVCF is ready to invest in most types of business, the main exceptions being: broadcasting, schools, hospitals, tobacco and pure trading. Since its inception the Fund has invested in 15 projects worth in total US$ 10.5 million (combined TVCF investment, sponsors' investment and external loans), which makes it one of the largest investors in the formal indigenous private sector in Tanzania.

All projects are performing well and TVCF made a profit, after payment of the management fee to EIM, in its first year of operations.

1.4.4. Small Industries Development Organization. (SIDO)

The broad mandate of SIDO can be defined as "... planning, coordinating, promoting and offering technical, economic and management services to existing and prospective micro and small scale enterprises." The Organization, with 20 Regional Extension Offices, owns 14 Industrial Estates, 4 Training cum Production Centers and a Small Industries Consultancy and Training Assistance Unit.

Apart from consultancy, training and marketing support aimed at the entrepreneurship development, SIDO offers selection, procurement and financing of machinery both imported and local for small industrial units. This is performed under three different hire-purchase schemes offering loans between TZS 100,000 and 25 million on concessionary terms.

In the past SIDO, apart from the Government's financing, enjoyed support of several donor organizations, with World Bank and Swedish Government in the lead. At present the Organization is merely recycling its own meager resources, supported by declining Government funding (TZS 1 billion in 1994). With exception of GTZ, foreign donors have withdrawn their assistance in line with the prevailing tendency for direct NGOs' involvement in micro and SSE. The cooperation with GTZ also develops along these lines, with major support to local self-help organizations.

Despite its efforts to consolidate and streamline its operations over the recent years, in line with SAP recommendations, SIDO is presently experiencing serious liquidity problems. Measures taken towards cost reductions, improved loan and credit administration and increase of overall efficiency were not sufficient to secure the Organization's sustenance. Given SIDO's role in promoting the entrepreneurial culture and skills, which by definition is not self-sufficient, and withdrawal of donor agencies - this is hardly surprising.

The future role and position of this organization will to a large degree depend on the clear definition of Government's attitude towards micro and SSE development support in Tanzania.

Problem areas/potential for cooperation:

Apart from the predominant problems of inadequate liquidity and lack of clear definition of its future role, SIDO is burdened with arrears and/or failures in recovery of funds, inadequate in-house capacity in the areas of project preparation, appraisal and - particularly - monitoring as well as inadequate market research capabilities, which in the past led to overinvesting and thus excess capacity in certain areas (e.g. maize mills).

The Organization needs capabilities' enhancement in the above domains for both in-house use and training activities extended to the present and prospective clients.

Access to UNIDO database on technology sources appropriate for SSE for the purpose of offering state-of-the-art information and appraisal to the local business community was also requested.

V.2. Zanzibar.

2.1. General Economic Background.

Under the Constitution of the United Republic of Tanzania, Zanzibar maintains its own Government with a president, chief minister, cabinet, parliament and judiciary. The Government of Zanzibar is responsible for the entire spectrum of the socio-economic activities of the islands, formulating and implementing development plans, budget and maintaining control over foreign currency reserves.

Poor economic performance resulting from the African socialism model, whereby practically every major sector of the economy was owned and managed by the Government, has led to the introduction of structural adjustment programs starting in the mid '80s. The reforms, introduced along with the Mainland, were directed at increasing the role of private sector, liberalization of the economy and export-led growth.

The resulting GDP growth rates in the '90s (3.4%, 4.8%, 3.0%, and 3.3% respectively for the period 1989-1993) were, however, mostly due to growth in Wholesale & Retail Trade, Hotels & Restaurants and Transport & Communication. The share of Manufacturing and Handicraft in GDP at factor cost has dropped from 3.6% in 1990 to 1.7% in 1993.

Moreover Zanzibar has, over the '80s, practically lost its major source of foreign exchange earnings due to the sharp decline in demand for and prices of cloves and loss of markets to the competing producer countries. Since 1990 the visible balance of trade deficit has been increasing sharply, with export proceeds in 1993 covering only 11.5% of the import bill.

On the positive side the capital formation has risen from TZS 1,027 million in 1989 to TZS 9,887 and 7,884 million in 1992 and 1993 respectively, of which private sector contributed over 55%. The Government has stepped-up measures aiming at liberalizing the economy, including recent divestiture from its industrial and agricultural holdings, significantly lowering tariffs and sales taxes and intensifying efforts to attract foreign investment to the country. The latter includes establishing the Zanzibar Investment Promotion Agency (ZIPA) and Zanzibar Free Economic Zone Authority (ZAFREZA), introduction of a number of incentives and regulations conducive to foreign investment and undertaking aggressive promotion of Zanzibar's investment opportunities (vide: April 1995 Investors' Forum, which rendered highly positive results).

Efforts are underway to improve Zanzibar's infrastructure, including telecommunications, roads, airport and sea port facilities.

2.2. Financial Sector: the Role of DFIs.

Under the 1990 Banking and Financial Institutions Act all matters pertaining to currency and banks are supervised and controlled by the Bank of Tanzania. This includes authority to issue currency, control over money supply, interest rates and policy, issue of financial regulations including banking license.

The only financial institutions present in Zanzibar are: People's Bank of Zanzibar, National Bank of Commerce Branch, Bank of Tanzania Branch and Zanzibar Insurance Company.

2.2.1. Commercial Banks.

People's Bank of Zanzibar plays a multitude of roles in the Zanzibar economy. It acts as Government paymaster as well as quasi central bank holding Government's reserves of foreign currency and gold, operates corporate and individual savings accounts, including foreign exchange accounts. PBZ provides also basic services for large exporters and importers and extends short-term loans for working capital financing. PBZ has 10 branches in the Islands.

National Bank of Commerce, with only one banking facility in the town of Zanzibar, traditionally provides short-term loans to finance working capital.

Both banks are parastatals, PBZ - set up under Zanzibar company law - wholly owned by the Government of Zanzibar and NBC - established by the act of Parliament - belonging to the Government of the United Republic of Tanzania. Both are also in serious financial difficulties.

The Branch of the Bank of Tanzania in Zanzibar limits its activities to rendering services to the Union matters i.e.: internal affairs and defense.

Three international banks: Standard Chartered, Stanbic and Trust are planning to open branches in Zanzibar, the latter being at the most advanced stage of preparations. Abu Dhabi Bank was also contacted by GoZ with the same purpose.

2.2.2. Non-Bank Financial Institutions.

Zanzibar Insurance Company enjoys the benefits of full monopoly status, similar to those of the Mainland's National Insurance Company of Tanzania, to which ZIC is directly associated.

There is no pension nor provident fund system in the Islands.

2.2.3. Development Finance Institutions.

None.

2.3. Institutions Visited.

2.3.1. Ministry of Finance (MoF)

2.3.2. Zanzibar Free Economic Zone Authority (ZAFREZA)

2.3.3. Zanzibar Investment Promotion Agency (ZIPA)

2.3.4. Bank of Tanzania (BoT)

2.4. Details of Visits: Descriptions, Analyses, Findings.

Discussions with the relevant Zanzibar authorities as well as with two international experts reveal the unanimous support to the idea of establishing a DFI for the Islands.

According to the Hon. A. Salum Ali, Minister of Finance, instituting a DFI appears as top priority in the 5-years' budget projections targeted at the development of financial sector. Its major role is perceived in providing development capital for small and medium scale indigenous investment projects enhancing linkages with the emerging foreign investment ventures. In fact the absence of a development finance institution has been the concern of the Zanzibar Government to the point that a Committee was established in the late '80s with a mandate to develop a DFI. The idea did not materialize at that time due to lack of resources and local capacities.

Recently several donor agencies were approached for the same purpose. However, since these agencies are already involved in a DFI in Tanzania (namely: TDFL), their response was not encouraging.

According to the Minister, DFIs situated in the Mainland basically concentrate their activities there. Discussions held by the Expert with representatives of the TIB, TDFL, EADB and EIM confirm this observation, the major argument being the scarcity of bankable project proposals received from Zanzibar.

Other interlocutors, specifically the CTAs: Mr. H.Pant and Mr. R.Crayne, contributed substantially to the subject area, providing valuable background information as well as arguments supporting the idea of establishing a DFI. The crux of the discussions is summarized below.

In its transition from centrally planned economy Zanzibar is rapidly opening-up to the foreign investors, whereas the indigenous investment initiatives are scarce - mostly due to the non-existent sources of long-term loans and equity capital. This is best illustrated by the fact that out of the 68 investment projects, for which at least letters of intent were signed during the April 1995 Investors' Forum, only 5 were 100% locally owned. The full benefits of foreign investment can only be experienced if the appropriate economic linkages are developed, thus stimulating indigenous industrial development and contributing to the transfer and dissemination of modern technologies, know-how, business culture and management techniques to the local private sector entrepreneurs.

The development of such linkages depends heavily on availability of medium- to long-term capital, necessary to support the entrepreneurial initiatives and translate them into investment. At present the normal sources of long-term loans or equity capital do not exist in Zanzibar. Given the present status of the financial sector's condition, several years may elapse before the existing financial institutions will be in a position to offer long-term capital - if at all they will decide to enter into the development financing area.

V.3. Arusha.

A visit to Arusha was considered necessary in view of the proposed location of the project coordinator (vide: CONCLUSIONS/ RECOMMENDATIONS).

It appears that, under the new dynamic leadership, ESAMI is clearly set to enhance its role as a leading management training institution in the region.

The Institute has professional staff capabilities, technical resources as well as accommodation facilities to be considered as a venue for some of the project's recurrent training activities.

Given their experience in the region and good professional standards ESAMI staff members could also be called upon as resource persons to provide training inputs in some of the tailor-made training activities to be developed by the project.

4. Conclusions/Recommendations - Tanzania.

4.1. Dar es Salaam.

4.1.1. Despite the apparently fast development of the financial sector in Tanzania in terms of the number of recently established banks, few of the existing financial institutions perform the activities of a DFI. Amongst the new arrivals Diamond Trust operates on a very small scale, I-st Adili offers trade finance, Savings and Finance Ltd. offers financial services and working capital financing. Only two: Karadha - just beginning the hire-purchase operations and Stanbic Financial Services Ltd. may be considered as emerging competitors.

4.1.2. The field is therefore left basically to the four institutions, analyzed under 1.4.1 - 1.4.4 (plus EADB,IFC and AEF), offering medium and long-term finance to the private sector's existing and potential entrepreneurs.

4.1.3. Out of these four, TDFL and TVCF appear to be performing well, adjusting flexibly to the changing financial sector conditions. No significant potential for collaboration was identified during visits to these organizations; both of them enjoying substantial support from the donors-shareholders.

4.1.4. TIB - in the process of thorough restructuring and reorientation of its focus from the traditional parastatal DFI to the modern, market-oriented, sustainable and efficient financial institution - requires massive support/assistance in order to achieve its objectives.

Technical assistance is urgently required, and recommended by the Expert, in the following areas:

- organizational restructuring,

Assistance in job descriptions' design. The new structure, apart from retrenchment, requires new allocation of duties. Expertise in this field, available at TIB, is inadequate, particularly so with respect to new positions related to new fields of operation, which will require new job demands, qualifications, attitudes etc. Thorough knowledge of operation of new activities is necessary for the purpose.

- trade finance,

In-house capabilities development in the following areas:

- import/export finance,
- pre-export/pre-import finance,
- short-term credits for domestic trade,
- forex operations,

- risk appraisal.

- restructuring/privatization of parastatals,

Skills enhancement through organized and on-the-job training in the areas of:

- assets' valuation,
- privatization options and techniques,
- restructuring.

- corporate advisory services,

In-house capacity enhancement in the form of training and practical experience in the following subject areas:

- project preparation, appraisal and monitoring,
- financial engineering,
- financial and economic feasibility studies, including sensitivity analysis,
- development of business plans,
- negotiations and contracting,

UNIDO software for project appraisal and monitoring, i.e.: COMFAR III Expert, BEST and FIT, together with training package is recommended.

Organizational support is also necessary to assist the staff initially in structural/promotional/billing aspects of the fee-based consulting activities.

- computerization/MIS,

The Bank requires assistance in integrating its isolated computerized systems. TIB expects to complete computerization of its present and future operations, organize Local Area Network and develop the integrated Management Information System. Assistance is necessary to advise TIB EDP staff on available software/hardware and, eventually, help and direct its staff in the MIS development.

Access to databases containing information on foreign markets and technology should also be established.

4.1.5. SIDO could be the secondary beneficiary of the recommended assistance, through participation in the skills' enhancement activities in the areas of project preparation, appraisal and - particularly - monitoring as well as market research techniques. The Organization needs capabilities' enhancement in the above domains for both in-house use and training activities extended to the present and prospective clients. SIDO could also benefit from the application of PROPSPIN, BEST and FIT.

Access to UNIDO database on technology sources appropriate for SSE for the purpose of offering state-of-the-art information and appraisal to the local business community should also be established.

4.1.6. The UNDP Office, Dar es Salaam, represented by D-y Resident Representative, indicated high interest in the findings of the mission and support for the idea of regional assistance to DFIs. Emphasis was put on the DFIs role in promoting regional integration, optimizing resource allocation in the region through coordination of private sector development activities and contribution to national income generation of the three countries.
It was also suggested that Mr. J. Ohiorheunan, Ag Chief, Regional Programme Division, UNDP, New York, be contacted to discuss the possibilities of UNDP co-financing of the project. UNDP-administered Trust Fund for all types of TA related to private sector development could also be approached for the purpose.

4.2. Zanzibar.

4.2.1. Discussions with the Zanzibar relevant authorities clearly indicate the need to establish a DFI with the aim to stimulate/assist the indigenous private sector investment initiatives to provide linkages with emerging EPZ activities.

4.2.2. Inadequate capital base, underdeveloped private sector and lack of investment "culture", particularly so in manufacturing industries, impose specific requirements on any DFI to be established in the Islands. Traditional "insurance policy" of DFIs in the region, which entails committing the bulk of funds to expansion of well performing projects or at least to investors with good track record of previous industrial activities, will hardly be applicable. Insufficient or lacking collateral will be another problem to tackle. Inadequate consulting services may result in inappropriate preparation of investment projects. Lastly, inadequate managerial skills, including sound accounting practices, may hamper the implementation of projects.

To face all these challenges a DFI to be established would have to be particularly strong in:

- project preparation and appraisal - in order to be able to offer these services to the private sector,
- risk appraisal,
- monitoring the project implementation - in order to protect its investment through early diagnosing trouble areas,
- temporary management assistance,
- management training capacity - to provide

appropriate training to prospective investors.

4.2.3. In order to ascertain whether the potential opportunities for indigenous, viable investment projects justify the establishment of a DFI - a feasibility study should be conducted first.

4.2.4. If the results of the study justify the establishment of a DFI, a donor funded venture capital fund institution with minority Government participation is suggested initially, with long-term loans facility to be considered at a later stage. It is desirable that such institution, apart from being strong in advisory services critical - as pointed above - to protect its investment, will also perform training activities necessary to the private sector potential investors.

Since the idea forwarded by the Zanzibar authorities to the donor organizations involved in TDFL, TVCF has met with their reserved reception - alternative sources of funds including ADB, BADEA, other Arab and OPEC funds should be approached, pending the positive results of the feasibility study.

VI. CONCLUSIONS/RECOMMENDATIONS

1. Despite the differences in their socio-economic and political structures apparent in the three countries under review, i.e.: Kenya, Uganda and Tanzania, the economies of all three are in the process of intensive restructuring and liberalization.

2. Accelerating the industrial development of these countries, stimulating and financing the expansion of private sector through initiating new investment projects and enhancing the capabilities of the existing industries, becomes of paramount importance to the success of the economic reforms/transformation underway,

3. Irrespective of the new developments in the financial sector, which - although with different intensity - are taking place in all three countries, traditional DFIs are bound to play crucial role in this process in the years to come, providing the crucial link between the Governments' developmental priorities and the private sector.

4. DFIs can also play pivotal role in promoting and accelerating the regional integration, facilitate the development of the long term vision,strategy and policy to enhance focused development of targeted subsectors, in which specific countries have comparative advantage, and optimize the use of the scarce resources on the regional scale. Effective mechanism for coordination between DFIs on the regional basis would help in avoiding overinvestment in particular sectors.

5. In order to be able to attain these goals and establish sustainable operations, DFIs have redefined their traditional role and initiated the thorough restructuring process aimed at:

- improving the efficiency of internal operations,
- rigorous adherence to the commercial viability criteria,
- redefining their financing base,
- broadening the scope of their operations through offering new products and services to the business community,
- in-house capabilities enhancement,
- computerization of their operations,
- access to external data sources.

These functions are in line with the recommendations of the Meeting of Private Sector Experts on the Industrialization of Africa, Abijan, January 1995.

6. Discussions held with their representatives clearly indicate that, for the DFIs to successfully complete the restructuring process and to achieve the above objectives, intensive assistance is urgently required. Although the institution-specific differences exist, the majority of the problem areas identified by the Expert during this mission appear to be common to most of

the visited institutions.

7. **Regional project to assist DFIs in the three former EAC countries is therefore strongly recommended** as one of the major outcomes of the mission, with the development objective to:

"... Enhance and accelerate the development of the industrial private sector in Uganda, Kenya and Tanzania and strengthen the re-emerging integration processes in the Region through assisting the Countries' DFIs to improve their performance and attain sustainable, efficient operations within the liberalized economic environment."

The target represents the market of approx. 70 million people with common cultural background, long-standing tradition of cooperation and a significant development potential. Private sector is perceived as one of the potent integrating factors "from the grass-roots level".

8. Major areas of activities of the proposed Project include:

- Strengthening capabilities in investment project identification, preparation, appraisal, promotion, implementation and monitoring, technology negotiations and acquisition.
  COMFAR III Expert, PROPSPIN, BEST and FIT software are recommended wherever appropriate, including training packages.

- Consulting capabilities improvement. Developed and enhanced within the DFIs, based on the solid theoretical foundations and supported by the practical experience gained by the staff through DFI operations (project preparation, appraisal and monitoring, restructuring, interim management, assets' valuation, privatization options) would not only form the essential prerequisite of the successful future operation of the immediate project's beneficiaries. These skills, supported by experience, would also in future assist the private sector. Private entrepreneurs would benefit through consultancy services rendered by the well developed Advisory Services Units to the business community at large.

- Assistance in establishing fee-based consultancy operations.

- Assistance in development/implementation of new financial products, including i.a.:

  - mergers, acquisitions and disposals,
  - financial engineering,

- preparation & management of public offerings,
- funds' syndication,
- leasing and hire-purchase,
- factoring,
- letters of credit,
- bills' discounting,
- portfolio management,
- bridging finance,
- shares' underwriting,
- Forex Bureaus,
- working capital financing.

- Assistance/advisory services in operationalizing computerized information systems, including:

  - selection of "off-the-shelf" banking software,
  - MIS development support cum guidance,
  - establishment of Local Area Network,
  - access to external databases.

- Assistance in identification of optimum external training opportunities supplementary to the above areas.

- Assistance in securing access to data banks and networks, providing private sector potential entrepreneurs with information regarding market parameters (demand, local and export potential, product quality standards, prices, promotion, distribution etc.), supply position (sectoral capacity saturation levels: local, regional), optimization of technology, supply sources for technology, raw materials and other inputs, potential for international cooperation (joint ventures, other forms).

9. The proposed project would primarily serve the needs of the following DFIs:

- Kenya:
  Industrial Development Bank Ltd,
  Industrial & Commercial Development Corporation,
- Uganda:
  East African Development Bank,
  Uganda Development Bank,
  Uganda Development Corporation,
- Tanzania:
  Tanzania Investment Bank.

Secondary beneficiaries would include institutions financing the development of small and micro-scale enterprises (SEFCO, KIE, SIDO), which could also benefit from the project activities through including some of their staff in the relevant training programs. However, due to lack of clear definition of their future role in development financing as well as substantial direct involvement of the bilateral and multilateral donor organizations in the development of SSIs in the region, these institutions will not constitute the priority target group for the project.

Tertiary beneficiaries' group would include other relevant institutions, which requested skills' upgrading/development within the subject area of the proposed project, such as commercial banks and relevant ministries.

10. UNDP Officials visited in Uganda and Tanzania and briefed on the partial findings as well as the emerging concept of the regional assistance project, while generally supporting the idea, specifically welcomed its following aspects:

- promotion of the regional integration,
- enhancement of the private sector development,
- contribution to national income generation, through improved performance of the DFIs.

11. Proposed project's strategy includes:

- direct assistance of Project Experts on location (Experts assigned to specific DFI for required period to provide advise, expertise, on-the-job training),

- training activities organized by the CTA for relevant staff of the beneficiary DFIs,

- supplementary overseas training in the narrow fields of specialization,

- development of methodology, manuals, etc. by the Project Experts assigned to specific tasks; this activity could be institution-specific or of the general character, if the subject matter pertains to several beneficiary DFIs,

- regular contact and monitoring of the DFIs' needs by the project's CTA, which should help to identify, define and expedite specific requests for technical assistance e.g.: concrete investment project-related short-term UNIDO consultancy.

In general - the regional character of the project appears conducive to yet another project's activity. The CTA, while regularly monitoring the performance of the Experts and attainment of the Project's immediate objectives, could perform the "clearing house" role, identifying the new areas in which the strengthening DFIs would ultimately require more partner-type collaboration with UNIDO.

- The Project would also provide the badly needed forum for East African DFIs, where these institutions could discuss their problems, share experiences and, ultimately coordinate their strategies to better serve the development of the Region.

12. The project, with 2 years of full operational activities, must be coordinated by UNIDO CTA assigned for the period of 27 months. Because of its regional character, number of institutions involved and a variety of services extended and functions performed by the project - a strong, centralized coordination is critical to its successful performance and timely delivery of the planned outputs.

13. Optimum location for the project appears to be ARUSHA, Tanzania, for the following reasons:

- Arusha has been earmarked as the location of the revitalized East African Community Headquarters. Such location would therefore enhance the regional character of the project.

- The proximity of Eastern & Southern African Management Institute (ESAMI), which has over the years earned substantial reputation as the regional training institution, would enable the CTA to draw upon ESAMI resources for substantive inputs in the project's training activities.

- Neutral character of the location would minimize potential doubts about unequal distribution of project's benefits, which might occur had the project been located in any of the three capitals.

- Relatively equal geographic proximity to all beneficiary institutions would facilitate project coordination activities.

The optimum site for the project's office appears to be the Arusha International Conference Centre, which will probably become the premises of the revitalized East African Community Headquarters.

14. Proposed international staff requirements, including brief listing of the necessary qualifications, are appended in Annex III.

15. **Potential for collaboration** may exist with respect to two activities identified in the course of the mission i.e.:

- assistance to ICDC in establishing Investment Trust,
- assistance to EADB to establish Regional Business Information System.

In both cases however, "pre-feasibility' inquiries will have to be conducted prior to any commitments.

In case of ICDC, the Government endorsement - a precondition - has not been forthcoming yet. Since the concept reaches beyond the immediate scope of activities of ICDC and into the comprehensive privatization of Government projects, broader consultations will be required at various level of Kenyan Government authorities.

In case of EADB, the idea of Regional Business information Bureau appears to be justified, considering the regional character of the institution. It may however, be premature, given the stage of EADB's advancement in terms of computerization of its operations and development of the information systems' strategy.

16. The Government of Zanzibar has recently stepped-up measures aiming at liberalizing the economy, including recent divestiture from its industrial and agricultural holdings, significantly lowering tariffs and sales taxes and intensifying regulatory, fiscal and promotional efforts to attract foreign investment to the country. Efforts are also underway to improve Zanzibar's infrastructure, including telecommunications, roads, airport and sea port facilities.

These efforts are not accompanied by the corresponding development of the financial sector which, combined with the inadequate capital formation, represent a heavy barrier for the local potential investors.

17. Discussions with the Zanzibar relevant authorities as well as the analysis of the financial sector and the development finance facilities currently existing in The Islands clearly reveal the need to establish a DFI with the aim to stimulate/assist the indigenous private sector investment initiatives to provide linkages with the emerging EPZ activities. However, in order to ascertain whether the existing potential opportunities for indigenous, viable investment projects justify the establishment of a DFI - **a full-fledged feasibility study is recommended** first. The study could be undertaken in collaboration with the UNDP Office, Dar es Salaam, which is currently considering the survey of the existing industrial activities and investment opportunities in Zanzibar.

18. Inadequate capital base, underdeveloped private sector and lack of investment "culture", particularly so in manufacturing industries, impose specific requirements on any DFI to be established in Zanzibar, pending the positive results of the recommended feasibility study. To face all these challenges a DFI to be established would have to be particularly strong in:

- project preparation and appraisal - in order to be able to offer these services to the private sector,

- risk appraisal,
- monitoring the project implementation - in order to protect its investment through early diagnosis of the trouble areas,
- temporary management assistance,
- management training capacity - to enable it to provide appropriate training to prospective investors.

19. If the results of the feasibility study justify the establishment of a DFI, a separate project, establishing a donor funded venture capital fund institution with minority Government participation is suggested initially, with long-term loans facility to be considered at a later stage. It is desirable that such institution, apart from being strong in advisory services critical - as pointed above - to protect its investment, will also perform training activities necessary to the private sector potential investors.

Since the idea of establishing the DFI in The Islands, forwarded by the Zanzibar Authorities to the donor organizations involved in TDFL and TVCF has met with the reserved reception, alternative sources of funds - including ADB, BADEA and other Arab and OPEC funds - should be approached in such case.

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ANNEX I

EXPERT IN DEVELOPMENT FINANCE INSTITUTIONS

XA/RAF/94/644/11-69/032000

JOB DESCRIPTION

C.I. Martin/bi
6 June 1995

UNIDO

UNITED NATIONS INDUSTRIAL DEVELOPMENT ORGANIZATION

JOB DESCRIPTION

Post title: Expert on Development Finance Institutions

Duration: 8 weeks

Date required: As soon as possible

Duty station: East Africa (Kampala, Nairobi, Dar-es-Salaam)

Purpose of project:

To examine in each of the above countries/cities the role and scope of selected DFIs serving the industrial and commercial community with a view to developing a programme of collaboration between UNIDO and selected DFIs. Focus will be on areas where UNIDO's collective experience and expertise will make a distinct difference for the DFIs in the delivery of financial services and support to its industrial clients;

To conduct a preliminary investigation into the feasibility of establishing a DFI in Zanzibar which would be able to work with the African Development Bank and other similar organizations.

Tasks:

1.(i) Hold detailed discussions with selected DFIs (see list below) and examine with them the scope for developing a collaborative programme, particularly but not exclusively, in the following fields:

(1) Industrial consultancies;

(2) Identification, preparation, evaluation as well as supervision and monitoring of projects;
(3) Provision of transitional enterprise management developing management decision systems to improve project viability, management and monitoring;
(4) Identification and promotion of joint venture options;
(5) Staff development training;
(6) Asset valuations assessments and privatization options;
(7) Development of new financial products;
(8) Establishment of a data bank.

(ii) Prepare appropriate analyses and a comprehensive reports on (i) above with recommendations and the activities to be included in the joint programme of action.

(iii) Discuss report with DFI Unit and other sections of UNIDO.

2. Visit financial institutions in Zanzibar and hold discussions with relevant authorities about the feasibility of establishing a DFI for the island.

Qualifications:

Master's degree, preferably a doctorate in economics/ finance, industrial economics, business administration or related subjects with at least ten years post qualification experience. Knowledge of the operations of DFIs as well as how UNIDO itself operate would be a distinct advantage.

Language: English

Background:

The mandate of UNIDO, particularly its Development Finance Institution Unit (DFI), enjoins the organization to work with international and regional development banks as well as national DFIs to promote the development of the industrial sector. Pursuant to this, a mission from UNIDO visited the African Development Bank in September 1994. The Bank is the premier regional development finance institution for Africa and has played a major role in providing lines of credit to many of the continent's national development finance institutions.

In November 1994, a UNIDO Industrial Sector Review Mission visited Tanzania (including Zanzibar), Uganda and Kenya. The mission discussed with the listed DFIs the possibility of collaboration between them and UNIDO. The mission also discussed the establishment of DFIs in Zanzibar. The purpose of this assignment is to follow up those initiatives.

List of DFIs:

Uganda:	- East African Development Bank
	- Uganda Development Bank
Tanzania:	- Tanzania Investment Bank
	- Tanzania Development Finance Company Ltd.
Kenya:	- Industrial Development Bank
	- Industrial and Commercial Development Corp.

ANNEX II

ITINERARY.

14-16 August - briefing, UNIDO Headquarters, Vienna.
17-31 August - Nairobi, Kenya,
31 Aug - 13 Sept - Kampala, Uganda,
13-20 September - Dar es Salaam, Tanzania,
20-21 September - Zanzibar, Tanzania,
21-27 September - Dar es Salaam, Tanzania,
27-28 September - Zanzibar, Tanzania,
28 Sept - 02 Oct - Arusha, Tanzania,
02-09 October - Dar es Salaam, Tanzania,
10-13 October - debriefing, UNIDO Headquarters, Vienna.

INSTITUTIONS VISITED, OFFICIALS MET.

1. KENYA.

1.1. UNIDO Country Director's Office

- Mr. G. Tabah, UCD, Kenya, Uganda

1.2. Ministry of Commerce and Industry (MCI)

- Mr. J.M. Masila, Director of Industries
- Mr. M.M. Nzomo, D-y Director of Industries

1.3. Industrial Development Bank Ltd. (IDB)

- Dr. Y.A. Nzibo, Managing Director
- Mr. B.W. Maina, Chief, Corporate Planning Dept
- Mr. S.J. Ashioya, Chief Establishment Officer
- Mr. J.G. Chege, Chief, Operations Dept
- Mr. T.N. Makeni, Manager, Accounts and Finance, ag. Financial Controller
- Mr. J.K. Karanja, Manager, Money and Banking
- Mr. D.I. Horoho, Portfolio Manager
- Mr. T.O. Konyango, Planning Officer
- Mr. L.O. Nambwana, Planning Officer
- Mr. J.M. Ngangu, Principal Accountant
- Ms. G. Wairegi, Senior Systems Analyst

1.4. Industrial & Commercial Development Corporation (ICDC)

- Mr. W. Shimanyula, Corporate Planning Manager
- Mr. M.M. Kigame, Human Resources Manager
- Mr. C.N. Thamaini, Loans Manager
- Mr. J. Osunga, Equity Manager
- Mr. N.K. Chesoni, D-y Equity Manager
- Mr. S.K. Maina, D-y Equity Manager (Corporate Advisory, R & D)

- Mr. B.N. Gituku, Information Technology Manager

1.5. Kenya Industrial Estates Ltd. (KIE)

- Mr. B.M. Kikuvi, Managing Director
- Mr. A.K. Arap Mitei, General Manager, Finance & Administration
- Mr. Y.I. Diab, Project Manager

1.6. Small Enterprises Finance Co. Ltd. (SEFCO)

- Mr. A.K. Kitonyi, General Manager
- Mr. F.J. Odiembo, Projects Officer

1.7. Rehabilitation Advisory Services Ltd. (RAS)

- Mr. J. Egert, Director of Consulting Services

1.8. Development Finance Company of Kenya Ltd. (DFCK)

- Mr. C. Njomo Kamau, Head of Operations

1.9. National Bank of Kenya Ltd. (NBK)

- Mr. W. Awori, Staff Manager

2. UGANDA.

2.1. UNDP Office

- Dr. A.B. Thomas, UNDP Resident Representative
- Mr. M. Motlana, Ass-t Resident Representative
- Ms. N.B. Thomas, Private Sector Adviser
- Mr. P. Tremmel, UNIDO Programme Officer

2.2. Ministry of Trade and Industry (MoTI)

- Ms. J. Mambule, Principal Industrial Officer
- Ms. R. Sabano, Industrial Officer
- Ms. S. Sonko, Industrial Officer

2.3. Development Finance Company of Uganda Ltd. (DFCU)

- Mr. R. Phillips, Operations Manager

2.4. East African Development Bank (EADB)

- Mr. F.R. Tibeita, Director General
- Mr. G.R. Ruhurira, Project Appraisal Manager
- Mr. G. Nkini, Manager, Regional Cooperation
- Mr. A. Mutwafy, Personnel Manager
- Ms. M.E. Gumisiriza, Manager, Privatization
- Mr. S.N. Nyamwaya, Computer services Manager

2.5. Uganda Development Bank (UDB)

- Mr. F.J. Kasujja, General Manager, Operations
- Mr. J.W. Odong, General Manager, Finance
- Mr. K.K. Moses, Manager, Appraisal
- Mr. W. Naigambi, Principal Officer, Computer & Data Base Services
- Mr. J.B. Kyasa-Mukasa, Senior Loans Officer/Appraisal
- Mr. J. Kasimagwa, Senior Principal Banking Officer
- Mr. H.W. Ssemwanga, Asst Manager/Admin. & Personnel
- Dr. A.K. Appiah, Principal Consultant.

2.6. Uganda Development Corporation Ltd. (UDC)

- Mr. S.B. Rutega, Chairman
- Dr. G.S.B. Kinyatta, Director, Research and Planning

2.7. Ministry of Finance & Economic Planning (MF&EP)

- Mr. D. Kitabire, Ag. Commissioner, Macro-Economic Policy Dept.

3. TANZANIA.

3.1. Dar es Salaam.

3.1.1. UNDP Office

- Mr. S. Nhongo, D-y Resident Representative
- Ms. S. de Jong Kahol, UNIDO Programme Officer
- Mr. M. de Jong Kahol, UNDP Programme Officer

3.1.2. Tanzania Development Finance Company Ltd. (TDFL)

- Mr. V.P. Singh, D-y Director, Corporate Advisory Services

3.1.3. Small Industries Development Organization (SIDO)

- Mr. E.B. Toroka, Director General
- Mr. C. Ntabajana, Ag Director, Technology Development & Planning

3.1.4. Bank of Tanzania (BoT)

- Mr. H.M. Kessy, Manager, Non Bank Financial Institutions

3.1.5. Tanzania Investment Bank (TIB)

- Mr. A.W. Mossile, Director, Project Appraisal
- Mr. F.M. Mbala, Manager, Appraisal Department
- Mr. D.S. Mashiku, Ag Director, Finance
- Mr. N.M. Nsemwa, Director, Planning & Development
- Mr. A.C. Ishengoma, Manager, Operating Companies

- Mr. S.P. Mushumbusi, Manager, Debt Management
- Mr. A.U. Kiboma, Manager, Fee-based Feasibility Studies
- Mr. E.C. Mukongoti, Head, EDP & Technical Assistance
- Mr. R.J. Malekia, Manager, Financial Resources

3.1.6. Equity Investment Management Ltd.

- Mr. R. Satchwell, General Manager

3.1.7. East African Development Bank, Tanzania

- Mr. A.Z. Nkya, Regional Director

3.2. Zanzibar.

3.2.1. Ministry of Finance (MoF)

- Ms. A. Salum Ali, Minister
- Mr. R. Crayne, UNDP CTA
- Mr. C. Bakri, UNV

3.2.2. Zanzibar Free Economic Zone Authority (ZAFREZA)

- Mr. A.J. Shamuhuna, Executive Secretary

3.2.3. Zanzibar Investment Promotion Agency (ZIPA)

- Mr. F.S. Mbamba, Director General
- Mr. H.C. Pant, UNIDO CTA

3.2.4. Bank of Tanzania (BoT)

- Mr. S. Changwile, Managing Director

3.3. Arusha.

3.3.1. Eastern & Southern African Management Institute (ESAMI)

- Prof. P.N.K. Gulfwoli, Director General
- Mr. T.T. Mwanyika, Team Leader, Finance & Banking
- Mr. H.M. Shila, Consultant, Information Technology

ANNEX III

PROPOSED PROJECTS' INTERNATIONAL STAFF REQUIREMENTS:

Regional Project: ARUSHA.

1. Chief Technical Adviser: (27 mm)

- Masters degree (preferably PH.D.) in economics/finance,
- at least 15 years post-qualification experience,
- experience as CTA,
- experience in project preparation, appraisal and monitoring,
- training experience,
- consultancy experience,
- experience in LDCs, preferably East Africa,
- knowledge of operations of DFIs,
- strong coordinating capabilities,
- ability to travel extensively.

2. Banking Expert: (24 mm)

- advanced degree in Finance,
- min. 10 years post qualification experience in banking,
- good working knowledge of commercial banking operations,
- training experience,
- experience in LDCs an asset,
- good working knowledge of DFI operations an asset,
- ability to travel extensively.

3. Systems Analyst: (24 mm)

- advanced degree in Computer Science,
- min. 10 years post qualification experience in systems analysis and design, of which at least 5 in banking sector,
- practical knowledge of LAN: set up and operations,
- experience in MIS design,
- experience in database construction for banks,
- good working knowledge of ORACLE,
- training experience an asset,
- previous experience in LDCs an asset.

3. Two UNV Systems Analyst/Programmers (18 mm each)

4. Short-term Experts (total: 24 mm)

Feasibility Study : ZANZIBAR

1. Expert in DFIs operations/establishment - Team Leader: (3 mm)

- advanced degree in Finance/Business Administration,

- min. 15 years post qualification experience, of which at least 10 in development financing,
- practical experience in project preparation, appraisal and monitoring,
- experience in risk assessment,
- training experience,
- good organizational/reporting skills,
- previous experience in Zanzibar an asset.

ANNEX IV.

ABSTRACT

Expert on Development Finance Institutions

XA/RAF/94/644/11-69/032000

ABSTRACT.

Project title: Expert on Development Finance Institutions, XA/RAF/94/644/11-69

Project duration: 8 weeks

Project objectives:

1. To examine in each of the three countries (Kenya, Uganda, Tanzania) the role and scope of the selected DFIs serving the industrial and commercial community with a view to developing a programme of collaboration between UNIDO and selected DFIs.

2. To conduct the preliminary investigation into the feasibility of establishing a DFI in Zanzibar, which would be able to work with the African Development Bank and other similar organizations.

Conclusions/recommendations:

ad 1. Despite the liberalization process, the level of investment is considered inadequate in all three countries under review, mainly due to the shortage of available medium- to long-term capital.
In view of the imperfect/underdeveloped financial markets, DFIs will play vital role in stimulating the economic development of the region through bridging the gap between demand and supply of investment capital. With their role redefined, restructured DFIs require urgent, intensive assistance in the process of fulfilling their new mandate through supporting the private sector development.
Regional project is recommended with the objective to assist DFIs'in enhancing their capabilities in the following broad areas:

- advisory services capacity development,
- project preparation, appraisal and monitoring,
- new financial products' development,
- development of computerized MIS/data banks.

Successful attainment of the project's objectives will:

- stimulate/assist development of the private sector in each of the three countries through revived performance of DFIs,
- contribute to the national income development through increased volume and efficiency of employment generating investment projects,
- promote regional integration.

ad 2. Zanzibar is rapidly opening its economy to the foreign investors. Discussions with Zanzibar authorities clearly reveal the need to establish a DFI to assist indigenous private investment initiatives, providing linkages with emerging EPZ activities. A **full-fledged feasibility study is recommended,** pending which a separate project should be considered to assist the Government of Zanzibar in establishing a donor funded DFI, initially of a venture capital fund character.