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AIRGRAM

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FROM - NAIROBI

SUBJECT - Noncapital Project Paper, Proposed Project 618-11-970-631, Supply Management Improvement

REFERENCE - M.O. 1025.1

NONCAPITAL PROJECT PAPER (PROP)

A. Country East Africa Regional Project No. 618-11-~~970~~ 790-631

Submission Date: November 20, 1967 Original X Revision No.____

Project Title: Supply Management Improvement

U.S. Obligation Span: FY 68 through FY 69

Physical Implementation Span: FY 68 through FY 70

Gross life-of-project financial requirements:

U.S. dollars	140,000
U.S.-owned currency	
Cooperating country cash contribution	6,000
Other donor	*
Totals	146,000

*This project is complementary to and will be coordinated with the

OTHER AGENCY
State
Agrim
Treas

Attachment to AID/W
Appendix A (2)

AFR 1/3/68

PAGE 1 OF 13 PAGES

DRAFTED BY	OFFICE	PHONE NO.	DATE	APPROVED BY:
E.Galesnyi	OSP		12/26/67	Albert L. Boucher, Assistant Director for Regional Programming

AID AND OTHER CLEARANCES

DIR:JJHinman (draft)

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proposed UNDP Training & Development Project, under which it is estimated East African Railways & Harbors (EAR&H) will contribute $1,216,950 and UNDP $1,219,750.

B. Summary Description, Including Tabulation of Planned Inputs

1. Necessity & Justification - The original proposal for this regional project, improving supply management for East African Railways & Harbors (EAR&H), was developed as a result of an AID supported ECA initiative to improve governmental supply management throughout Africa. In February 1965, the ECA plenary session voted to include supply management improvement as an element of its work plan and AID agreed to support the initiative through technical assistance in individual organizations or countries where its project criteria could be met. The ECA Public Administration Division then made preliminary project surveys, and an E-1 based upon the survey was sent to AID/W from the former Regional Activities Office in Nairobi. The ECA concluded that through modernized supply management of the EAR&H substantial savings could be realized. EAR&H reports a recurring regional expenditure of $35 million and an $6 million inventory. In March 1967 a Technical Assistance paper was prepared by AFR/ID/PS, recommending approval of this project. This included a proposal to analyze the present EAR&H system of preparing cost estimates, of acquisition and possession of stores, for making policy recommendations founded on the analysis, and finally for setting up the new procedures including an implementation plan. The signing of the Treaty for East African Cooperation on June 6, 1967, however, necessitated significant changes in the project as the EAR&H administration is to be separated into two Corporations - the E.A. Harbors Corporation and E.A. Railways Corporation. Boards of Governors for the two Corporations were appointed on December 1, 1967, and it is planned that the Corporations will operate independently by December 1968. In addition, the Railways Corporation is required to establish strong, functionally comparable regional administrations at the three national capitals - Kampala, Nairobi, and Dar es Salaam.

It is considered essential that the introduction of modernized supply management systems be made at this time when the Corporations are being established. The East Africa Regional Council endorses the project and has determined that its implementation would further regional integration in East Africa.

2. Project Goals & Targets - The present EAR&H supply activities are primarily carried out by a Supply Department with its headquarters and main Supply Depot at Nairobi. With the separation into two Corporations it will be necessary to create two Supply Departments (one for each Corporation) and introduce a decentralized supply organization for the railways. The priority task must be the establishment of the Supply Department of the E.A. Harbors Corporation, which will have its headquarters at Dar es Salaam.

At the time the original request was made to USAID (under the UN-ECA/USAID Supply Management Improvement Project) the task would have been solely concerned with the introduction of improvements in the EAR&H Supply Department. The new Treaty for

East African Cooperation, however, changes the aims and scope of the project as follows:

(a) To create separate Supply Departments for the E.A. Railways Corporation and for the E.A. Harbors Corporation;

(b) To develop the most effective supply organization, operating and administrative systems and related procedures and forms for each Supply Department, including a Regional Supply organization for the Railways Corporation;

(c) To utilize the E.A. Railways Corporation Data Processing Center for those railway supply procedures where computerization would be effective and economic;

(d) To advise and assist with implementation of approved changes;

(e) To assist with the planning of such staff retraining as will be necessary;

(f) To assist with the initial retraining of supply staff.

3. Minimum Output/Achievement Levels to Warrant Continued U.S. Participation - Not applicable as project would terminate in two years when the Supply Departments are established and operating.

4. General Approach/Plan of Action - As a result of discussions between the General Manager EAR&H and officials of AID/K in August 1967, EAR&H has requested the services of at least two well qualified Supply Consultants for a period of two years to assist in establishing a new supply management system. The AID Supply Consultants provided on a fully funded basis could make a significant contribution by providing assistance at this time. The work encompasses innovational aspects not found in the usual operational tasks, as new supply systems must be created. The Consultants would have to be men of proven ability and versatility as they will deal with a multitude of factors in establishing the new systems.

The EAR&H would assign African officers to work on a full-time basis to understudy the supply consultants with the ultimate aim of continuing implementation of approved proposals after the supply consultants have completed their assignments. EAR&H officers working under the direction of the U.N. Management Consultant now assigned to EAR&H have compiled a detailed record of all existing Supply Department procedures and related forms. This material will be made available to the consultants. EAR&H would expect that the Consultant's proposals be based on the broad organization and principles of effective supply management defined in the UN-ECA guide, (attached - Appendix A) "Effective Government Supply Management in the Countries of Africa (June 1965)". As indicated on page 6 of subject Appendix A, the Supply Management concept includes operation and management of a central procurement and contract office. EAR&H envisages a central procurement office for each Corporation although local purchases would be handled on a decentralized basis. The Corporations would comply

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NAIROBI TO AID A-347

NONCAPITAL PROJECT FUNDING (OBLIGATIONS IN $000)

Table 1

COUNTRY: EAST AFRICA REGIONAL

Project Title: SUPPLY MANAGEMENT IMPROVEMENT

PROP DATE Mo/Day/Yr
Original 11/20/67
Rev. No.
Project No. 618-11-970-631

Fiscal Years	Ap	L/G	Total	Cont 1/	Personnel Serv. AID	Personnel Serv. PASA	Personnel Serv. CONT	Participants U.S. Agencies	Participants CONT	Other Costs Dir U.S.Ag	Other Costs CONT	Other Costs Dir & U.S.Ag	Other Costs CONT
Prior through Act. FY 67													
Oper. FY 68	TC	G	140	140			140						
Budg. FY 69	TC	G	-	-			-						
B + 1 FY 70													
B + 2 FY 71													
B + 3 FY 72													
All Subs.													
Total Life	TC	G	140	140			140						

1/ Memorandum (nonadd) column

Note that format of this page is same as E-1a

If a second page of table is used, space year-line entries on second page at same location as on first page.

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Table 1
Page 2 of 2* Exchg rate $1=Shs.7.14 Project No. 618-11-970-681

Fiscal Years	AID-controlled Local Currency U.S.-Owned	AID-controlled Local Currency Country-Owned 3/	Other Cash Contribution Cooperating Country 4/	Other Donor Funds 5/ ($ Equiv.)	Food for Freedom Commodities 6/ Metric Tons (000)	Food for Freedom Commodities 6/ CCC Value & Freight ($000)	Food for Freedom Commodities 6/ World Market Price ($000)
Prior through Act. FY 67							
Oper. FY 68			3				
Budg. FY 69			3				
B + 1 FY 70							
B + 2 FY 71							
B + 3 FY 72							
All Subs.							
Total Life							

If only page 2 of table is applicable, state page 2 only and insert heading block from page 1 at top of page.

2/ As of preparation date

3/ E.g., counterpart, describe in footnote.

4/ Describe in-kind contributions in narrative.

5/ Footnote names, for food projects or food elements of project, include voluntary agencies here as appropriate.

6/ Identify commodities and approximate tonnages included in a footnote.

with normal USAID requirements for other support facilities such as ka a housing allowance and services available to the consultants.

The EAR&H is also requesting the assistance of the United Nations Development Program with implementation of a Training and Development Project. It is planned that the activities of the consultants under this project be coordinated with those of the UNDP input. Where appropriate, UNDP experts would assist and cooperate with the AID consultants. Training facilities and equipment to be provided by the UNDP would be made available to the AID consultants. No provision has been made for supply management expertise in the EAR&H request to the UNDP. Specifics of the proposed UNDP component are outlined in Section C of this PROP.

Although the present AID proposal is limited to establishment of a new supply management system, and can be accomplished in the two-year period cited, the question of trained personnel and operating efficiency is a separate matter. The need for such training and for further external assistance must be subsequently determined, but at present involves no request by EAR&H or commitment to provide the same by AID.

C. Setting or Environment

1. Conditions and Environmental Factors - The EAR&H is a non-profit organization responsible to the East African Common Services Organization for the provision of railways, ports and motor transport services in Kenya, Uganda, and Tanzania, and marine services on Lakes Tanganyika and Victoria. The total population of the three countries served is approximately 26 million and the land area is more than 680,000 square miles.

The East African Railways Corporation is empowered under an EAC decree "to conduct its business according to commercial principles..." Article 22 of the decree states, "The Corporation shall not be required by the government of any of the Partner States to provide to that government, or to any authority or person, transport services or inland waterways port facilities either gratuitously or at a rate or charge which is insufficient to meet the cost involved in the provision of such services or facilities by the Corporation unless the government concerned undertakes to make good the amount of the loss incurred by reason of the provision of such services or facilities."

The organization's capital exceeds $420 million and the open line route mileage of its meter gauge railway is 3,670 miles, the second largest in Africa. The annual wages bill is more than $30 million for a total staff of 43,416. This does not include wages and a staff of 13,915 of the East African Cargo Handling Services, a semi- autonomous subsidiary of EAR&H. Gross revenues of EAR&H for 1966 were $106 million with railroads accounting for $76 million and harbors $30 million. A surplus of $3.5 million was earned in 1966. The rolling stock comprises 926 carriages and 9,702 goods wagons and the total number of locomotives is 465 of which 70 are Diesels. On its Inland Marine Services there are 70 craft in operation including two wagon ferries placed in service in October 1966. The total mileage operated by the Inland Marine Service is 3,469 miles. The road service fleet consists of approximately 200 vehicles which cover a total route mileage of more than 2000 miles.

There are four major sea ports operated and controlled by the organization. They are Mombasa, Dar es Salaam, Tanga, and Mtwara. In addition to operation of the port services, EAR&H also owns all the shares in the East African Cargo Handling Services, which is responsible for all stevedoring activities at the ports. The total cargo passing through the East African ports in 1966 was 6,781,000 tons, the bulk of which was cleared through the two main ports of Mombasa and Dar es Salaam.

Catering services are operated on trains and steamers, and restaurants and buffets are operated at Nairobi, Nakuru, and Mombasa. In Tanzania the Railway Catering Department operates hotels at Dodoma, Tabora, and Mbeya.

The Stores Department is responsible for supply support to this organization and carries thousands of different stores items. Although the majority of supplies are obtained from overseas, there is also a substantial volume of local purchase activity.

The Stores Department employs several hundred employees who are divided among the Departmental Headquarters and six stores located at Nairobi, Mombasa, Dar es Salaam, Kisumu, Iringa, and Tanga. The stores at Nairobi and Dar es Salaam carry a full range of stores, while the others carry specific items or perform special functions. For example, Mombasa and Dar es Salaam are the clearance depots for all incoming shipments from abroad and are also major fuel depots; Kisumu carries supplies and spares for the administration's lake ships; Iringa specializes in vehicle spares; and Tanga carries spare parts and spares for cranes, lighters, etc. The Nairobi District Warehouse, however, is the major supply center and deals with the majority of orders for stores. It also supplies other depots with replenishment stocks.

The Departmental Headquarters of the Stores Department is comprised of seven separate groups: Stores Inspection, Stores Accounting, (accounting and stock records for all depots), Stores Audit, Administration, Indent (Overseas procurement); Stock Control (continuing review of stock positions, catalogues, initiation of replenishment action); and Local Purchase.

The officer in charge of each of these groups reports to either the Stores Superintendent or to the Assistant Stores Superintendent, the former taking a primary interest in the Stock Control and Indent Sections' activities. The officer in charge of each depot also reports to either the Stores Superintendent or to the Assistant Stores Superintendent, as appropriate.

At present, two stock record cards are used for each item in the stores. First, a stock card is maintained in the warehouse and second, a stock ledger card is maintained in the Accounts Office. The former is manually posted while the latter is posted on accounting machines and includes data on stocks of the item held at all depots. All stores must be paid for by the user departments when issued from the

Stores Department hence the financial and physical stock accounting. The UN Management Consultant believes the overall system should be revised to permit elimination of the warehouse stock records. Warehouse staff would be concerned with the maintenance of good warehousing standards, efficient and speedy receipt and issue of stores, and related activities, while Stock Control staff, on the other hand, would be concerned with the paperwork aspect of stores operations and have little or no access to stores warehouses.

Elimination of the depot stock record cards and related paperwork, if effected throughout the department, would necessarily require an overall system study sf to ensure that the necessary stock control and other essential records are maintained.

At present, each user department assigns its own requisition number and a requisition control ledger is used to establish some form of control record over the receipt of requisitions. No other internal control is established, however, until the issue has been made. This procedure could be simplified and control improved. One solution might be for the Stores Department to establish a code number of each user department with appropriate organizational and area codes. These numbers would be used by the user departments. Modification of the stores catalogues to indicate the appropriate stores division in the item number would also readily identify the location of a requisition.

There also needs to be an examination of the value and use of the numerous returns and reports which the Stores Department is required to prepare at various intervals and distri[illegible] outside the Department. Their simplification or elimination would effect substantial savings in man hours in the Accounts Section of the Stores Department Headquarters. There is an overall need for paperwork simplification throughout the supply system in order to attain the following objectives:

a. facilitate staff training;

b. simplify supply routines;

c. permit economies in staff;

d. improve control of stock and operations;

e. ensure speedy supply of stores to user departments; and

f. reduce inventories.

An important input that will affect the project will be the implementation of the proposed UNDP program. It may establish a Staff College administered by the Railways Corporation to train personnel of the Corporations. In addition, UNDP plans to include part-time in-service training to supplement the activities of the Staff

College and introduce management services to the EAR&H. The total cost of this input is estimated at $2.4 million with the UNDP and EAR&H contributing equal shares. The provisional list, subject to revision, of professional staff to be provided by the UNDP would be as follows:

Professional Staff	No.	Man Months
Project Manager	1	60
Staff College		
Principal & Lecturer	1	60
Lecturer (Mgt & Admin)	1	48
Training & Improvement Staff		
Computer Expert	1	60
Forms Management & Design	1	24
Records Management	1	24
Accounting & Audit	1	36
Personnel Admin	1	60
Senior O&M Officer	1	36
Research, Development Planning and Statistics		
Research & Planning	1	48
Statistician	1	36
Public Relations	1	24
Associate Experts		
Transport Economist	1	24
Statistician	1	24
O&M Officer	1	24
Fellowships		
5 - Averaging one year for Senior Counterparts		60

	Professional Staff	No.	Man Months
Fellowships (Cont'd)			
		15 - Averaging six months for Junior Counterparts & good students	90
		15 - Technical Fellowships for technicians and technical officers	90

The UNDP Project Manager would only be concerned with the general direction and coordination of the various administrative specialists in the project and not with other professional and technical officers. The EAR&H administration, however, intends to ensure that the activities of all bilateral and multilateral technical assistance personnel are fully coordinated.

2. Relationship of Project Goals to Country Development and Program Strategy - The project will increase the efficiency of the two Corporations that are jointly owned and operated on behalf of the three East African Governments. The [illegible] Program Memorandum for East Africa stresses that the choice of sectors for U.S. development support should take into account the "particular U.S. ability to supply aid in the sector." The EAR&H has approached AID specifically because they desire American expertise in the field of supply management.

The PM indicates that without reasonably efficient and effective organizations, Governments cannot successfully maintain essential services or carry out economic and social development programs. Improvement in the efficiency of railways and harbors will contribute to the accelerated integration of East Africa as an economic entity.

3. Obstacles to Project Goals - The EAR&H is the largest single enterprise and employer in East Africa. The split of railways and ports and their reorganization into separate entities raises complex legal, financial, and management problems. Close liaison between port and railway management will have to continue, specially in view of the fact that these operations have become interdependent. The IBRD Mission which studied East Africa in late 1966 believes that a separation of functional control will have to be carried out over a reasonable period of time and by degrees if the essential liaison between the separate managements is to be maintained. This is a project, therefore, of considerable size and complexity and thus its very size could create obstacles to be overcome if it is not properly administered.

4. Priority of Project Goals - The East African Community considers the reorganization into two Corporations as a high priority, has appointed the Boards of Governors, and set up the target dates for the creation of the Corporations. Railways and Harbors reorganization is part and parcel of the implementation of the Treaty for East African Cooperation which has first priority in all three East African countries.

D. Strategy

1. Manner and Extent of Proposed Project's Contribution to U.S. Goals - This input of supply management expertise is directly addressed to the U.S. goal of improving infra-structure and will benefit all three East African countries. The project assists a regional institution that contributes to the strength of the region as a whole.

2. Alternative Approaches or Techniques - One programming alternative to reach the same objective would be the use of Participating Agency (PASA) personnel rather than fully funded contractor personnel as proposed by this PROP. The use of contractor personnel is proposed in accordance with Policy Determination 37 of February 10, 1967 (M.O. 1000.2).

3. Cooperating Country Leadership - The Treaty for East African Cooperation signed by the three heads of state on June 6, 1967 authorizes the separation of Railways & Harbors into two Corporations indicating a desire to achieve more efficient operation. The Board of Governors for the Corporations was appointed on December 1, 1967. Thus there is legislative support for the new organizations. The UN Management Consultant to EAR&H will give the project strong support and is extremely interested in the proposal. EAR&H has already committed itself to assigning African officers to understudy the Supply Consultants if the proposal is implemented.

4. Cross Relationships/Inventory of Related Assistance - Any improvement in railways & harbors will benefit the entire region and will assist agricultural, mining, and industrial development. Highways are still under construction and important road links between the three East African countries as with their other contiguous neighbors are missing or are in need of substantial improvement. This condition increases the importance of railways and lake service. The four major seaports handle virtually all the import/export trade of the three countries and a large volume of transit traffic for their immediate western neighbors. Thus any project which improves railway and harbor services will be supportive to the economic development of the region. The project also can provide concrete evidence of the potential savings to be made in efficient materials management and be an inducement to other organizations to make similar savings.

This proposed project would be the second involving AID assistance to the EAR&H complex. Project 618-11-340-021, Stevedoring Skills Development, provides a stevedoring team to improve cargo handling skills for the East Africa ports. The team works under the management of East African Cargo Handling Services, a subsidiary of EAR&H.

The IBRD has assisted EAR&H with loans since 1955. EAR&H is seeking to earn a 6% rate of return by 1971 to be able to keep its debt burden down by financing capital development from funds generated by its own operations. Any savings as a result of improved supply systems will aid EAR&H as the burden of interest payments and loan redemption will grow much heavier in coming years.

E. Planned Targets, Results and Outputs

1. Specifications for Completion of the Project - The project will be brought to a successful termination when the two new supply departments have been created with an effective supply organization, and the African officers can take over full responsibility for continuing implementation of the program when the consultants complete their assignments.

2. Continuing Operational/Maintenance Requirements - The project places no burden of recurring costs on the host government, and will, in fact, reduce recurring costs while freeing scarce resources for other developmental purposes.

F. Course of Action

1. Description of Inputs Provided - Under this project AID would provide two advisors on a fully funded basis to help establish the new supply departments. There are no commodities or participants involved. The Supply Consultants would be on board during the critical period when the Corporations are established and thus have the opportunity to influence procedures and shape the policy of the new supply departments. EAR&H has indicated they will comply with normal USAID requirements for logistical support and services and provide counterparts to the advisors throughout the two year assignment.

2. Scheduling - The intended split of railways and ports and their reorganization into separate corporate entities is scheduled for December 196_, by which time it is hoped ~~the major transitional~~ problems might be overcome. EAR&H has requested the consultants arrive as soon as possible and believes they could start work immediately to develop an effective supply organization. It is anticipated by EAR&H that UNDP will provide technical assistance early in CY 1968.

3. Other Resources - No non-AID resources are available to finance the special nature of proposed AID inputs. No other external dono agency is involved in assisting EAR&H in developing supply systems, and AID has been requested to provide the requisite training because American expertise is desired.

4. Role of Cooperating Country Self Help Actions - The Treaty for East African Cooperation provides the legislation necessary to create the Corporations. The proposed EAR&H input of $1.2 million to the UNDP project to improve railways and harbors and provision of logistical support for the consultants indicates the interest and intent to insure effective project implementation.

5. Appropriateness of Proposed Scale of Project - The scale of the project requiring two advisors appears appropriate in relation to the task objectives.

6. Capacity of Project to Produce Desired Results - The success of the project depends in large measure on the quality of personnel provided, both in respect

to the U.S. technicians to be recruited by AID and the counterparts provided by the Corporations. Project accomplishment will also depend in part on good working relationships between the advisors and UNDP personnel, and organizational effectiveness and efficiency of the new Corporations.

7. Ability of Environment to absorb, Support, and Utilize Project - In general, the environment of the project is favorable. There should be receptivity to the introduction of modern supply management techniques as the EAR&H is aware of the need for improved procedures to overcome present deficiencies. The next two years will be a period of change and transition with some relocation of headquarters and service and some measure of decentralization in railway operations. The timing is appropriate and the consultants can make a significant contribution in terms of developing [illegible] organization that can be utilized immediately.

C. Approval

The proposed project described above represents agreements reached between the EAR&H and USAID, on the clear understanding that any obligation of funds by AID are subject to approval of the project by AID/Washington.

(in draft)

E.N. Gakuo
General Manager
East African Railways & Harbors

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FERGUSON