

CONFORMED COPY

**CREDIT NUMBER 3915 TA
GRANT NUMBER H093 TA**

Development Financing Agreement

(Secondary Education Development Program)

between

THE UNITED REPUBLIC OF TANZANIA

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated July 5, 2004

**CREDIT NUMBER 3915 TA
GRANT NUMBER H093 TA**

DEVELOPMENT FINANCING AGREEMENT

AGREEMENT, dated July 5, 2004, between THE UNITED REPUBLIC OF TANZANIA (the Borrower) and INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association).

WHEREAS (A) the Association has received from the Borrower a letter dated April 5, 2004, 2004 (the "LDP"), describing a program of actions, objectives and policies designed to achieve structural adjustment of the Borrower's secondary education subsector (hereinafter called the Program), declaring the Borrower's commitment to the execution of the Program, and requesting assistance from the Association in support of the Program during the execution thereof; and

(B) on the basis, *inter alia*, of the foregoing, the Association has decided in support of the Program to provide such assistance to the Borrower by making the Financing available in three tranches as hereinafter provided;

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

General Conditions; Definitions

Section 1.01. The "General Conditions Applicable to Development Credit Agreements" of the Association, dated January 1, 1985, (as amended through October 6, 1999) with the modifications set forth in Schedule 3 to this Agreement (the General Conditions) constitute an integral part of this Agreement:

Section 1.02. Unless the context otherwise requires, the several terms defined in the General Conditions and in the preamble to this Agreement have the respective meanings therein set forth and the following additional terms have the following meanings:

(a) "BOT" means Bank of Tanzania, the Borrower's Central Bank, established pursuant to the Bank of Tanzania Act Number 1 of 1995 of the laws of the Borrower;

(b) "Capitation Grant" means a grant provided by the Borrower to a School Board (as hereinafter defined) to meet necessary expenditures for recurrent school operations, including teaching and learning materials, textbooks, administration, school level teacher development, and maintenance;

(c) “Deposit Account” means the account referred to in Section 2.02 (a) of this Agreement;

(d) “Effectiveness Tranche” means the Tranche of the proceeds of the Credit and the proceeds of the Grant allocated to Category (1) in the table set forth in paragraph 1 of Schedule 1 to this Agreement to be released by the Association on or after the Effective Date;

(e) “FY” means the Borrower’s fiscal year beginning on July 1 of each year and ending on June 30 of the following year;

(f) “Government Schools” means any of the secondary schools referred to Section 31 of the National Education Act No. 25 of 1978 of the Borrower as amended to date;

(g) “LDP” means the Letter of Secondary Education Subsector Development Policy referred to in the first paragraph of the Preamble to this Agreement;

(h) “Local Government Authority” means a district council, a town council, a municipal council, or a city council, established under the Local Government Act Nos. 7 and 8 of 1982 of the Borrower;

(i) “MOEC” means the Borrower’s Ministry of Education and Culture;

(j) “School Boards” means School Boards, established under Section 38, Subsection 3 of the National Education Act No. 25 of 1978 of the Borrower;

(k) “School Development Grant” means a grant provided by the Borrower to a School Board to meet necessary expenditures for constructing, procuring and rehabilitating school infrastructure, furniture and equipment, based on approved school development plans;

(l) “Second Tranche” means the Tranche of the proceeds of the Credit allocated to Category (2) in the table set forth in paragraph 1 of Schedule 1 to this Agreement;

(m) “SEDP” means the Borrower’s Secondary Education Development Program adopted on March 17, 2004;

- (n) “Tanzanian Shillings” or “Tsh” means the currency of the Borrower;
- (o) “Third Tranche” means the Tranche of the proceeds of the Credit allocated to Category (3) in the table set forth in paragraph 1 of Schedule 1 to this Agreement;
- (p) “TIE” means the Tanzania Institute of Education, an agency established and operating pursuant to the Institute of Curriculum Development Act of 1975 of the Borrower; and
- (q) “Tranche” means any of the following: the Effectiveness Tranche, the Second Tranche and the Third Tranche.

ARTICLE II

The Financing

Section 2.01. The Association agrees to lend to the Borrower, on the terms and conditions set forth or referred to in this Agreement:

- (a) an amount in various currencies equivalent to eighty-two million seven hundred thousand Special Drawing Rights (SDR 82,700,000) (the Credit); and
- (b) an amount in various currencies equivalent to seventeen million seven hundred thousand Special Drawing Rights (SDR 17,700,000) (the Grant).

Section 2.02. (a) Subject to the provisions of paragraphs (b), (c) and (d) of this Section, the Borrower shall be entitled to withdraw the proceeds of the Credit and the Grant from the Credit Account and the Grant Account in support of the Program.

(b) The Borrower shall open, prior to furnishing to the Association the first request for withdrawal from the Credit Account and the Grant Account, and thereafter maintain in BOT, a Deposit Account in Dollars on terms and conditions satisfactory to the Association. All withdrawals from the Credit Account and the Grant Account shall be deposited by the Association into the Deposit Account.

(c) The Borrower undertakes that the proceeds of the Financing shall not be used to finance expenditures excluded pursuant to the provisions of Schedule 1 to this Agreement. If the Association shall have determined at any time that any proceeds of the Financing shall have been used to make a payment for an expenditure so excluded, the Borrower shall, promptly upon notice from the Association: (i) deposit into the Deposit Account an amount equal to the amount of said

payment, or (ii) if the Association shall so request, refund such amount to the Association. Amounts refunded to the Association upon such request shall be credited to the Credit Account and Grant Account for cancellation.

Section 2.03. The Closing Date shall be June 30, 2007 or such later date as the Association shall establish. The Association shall promptly notify the Borrower of such later date.

Section 2.04. (a) The Borrower shall pay to the Association: (i) a commitment charge on the principal amount of the Credit not withdrawn from time to time at a rate to be set by the Association as of June 30 of each year, but not to exceed the rate of one-half of one percent (1/2 of 1%) per annum; and (ii) a commitment charge on the principal amount of the Grant not withdrawn from time to time at a rate to be set by the association as of June 30 of each year, such rate not to exceed the rate of one-half of one percent (1/2 of 1%) per annum.

(b) The commitment charge shall accrue: (i) from the date sixty days after the date of this Agreement (the accrual date) to the respective dates on which amounts shall be withdrawn by the Borrower from the Credit Account or the Grant Account (as the case may be) or cancelled; and (ii) at the respective rate set as of the June 30 immediately preceding the accrual date and at such other rates as may be set from time to time thereafter pursuant to paragraph (a) above. The respective rate set as of June 30 in each year shall be applied from the next date in that year specified in Section 2.06 of this Agreement.

(c) Each commitment charge shall be paid: (i) at such places as the Association shall reasonably request; (ii) without restrictions of any kind imposed by, or in the territory of the Borrower; and (iii) in the currency specified in this Agreement for the purposes of Section 4.02 of the General Conditions or in such other eligible currency or currencies as may from time to time be designated or selected pursuant to the provisions of that Section.

Section 2.05. The Borrower shall pay to the Association a service charge at the rate of three-fourths of one percent (3/4 of 1%) per annum on the principal amount of the Credit withdrawn and outstanding from time to time.

Section 2.06. Commitment charges and service charges shall be payable semiannually on April 1 and October 1 in each year.

Section 2.07. (a) Subject to paragraphs (b), (c) and (d) below, the Borrower shall repay the principal amount of the Credit in semiannual installments payable on each April 1 and October 1 commencing October 1, 2014 and ending April 1, 2044. Each installment to and including the installment payable on April 1, 2024 shall be one percent (1%) of such principal amount, and each installment thereafter shall be two percent (2%) of such principal amount.

(b) Whenever: (i) the Borrower's per capita gross national product (GNP), as determined by the Association, shall have exceeded for three consecutive years the level established annually by the Association for determining eligibility to access the Association's resources; and (ii) the Bank shall consider the Borrower creditworthy for Bank lending, the Association may, subsequent to the review and approval thereof by the Executive Directors of the Association and after due consideration by the Association of the development of the Borrower's economy, modify the repayment of installments under paragraph (a) above by:

- (A) requiring the Borrower to repay twice the amount of each such installment not yet due until the principal amount of the Credit shall have been repaid; and
- (B) requiring the Borrower to commence repayment of the principal amount of the Credit as of the first semiannual payment date referred to in paragraph (a) above falling six months or more after the date on which the Association notifies the Borrower that the events set out in this paragraph (b) have occurred, provided, however, that there shall be a grace period of a minimum of five years on such repayment of principal.

(c) If so requested by the Borrower, the Association may revise the modification referred to in paragraph (b) above to include, in lieu of some or all of the increase in the amounts of such installments, the payment of interest at an annual rate agreed with the Association on the principal amount of the Credit withdrawn and outstanding from time to time, provided that, in the judgment of the Association, such revision shall not change the grant element obtained under the above-mentioned repayment modification.

(d) If, at any time after a modification of terms pursuant to paragraph (b) above, the Association determines that the Borrower's economic condition has deteriorated significantly, the Association may, if so requested by the Borrower, further modify the terms of repayment to conform to the schedule of installments as provided in paragraph (a) above.

Section 2.08. The currency of the United States of America is hereby specified for the purposes of Section 4.02 of the General Conditions.

Section 2.09. BOT is designated as representative of the Borrower for the purposes of taking any action required or permitted to be taken under the provisions of Section 2.02 of this Agreement and Article V of the General Conditions.

ARTICLE III

Particular Covenants

Section 3.01. (a) The Borrower and the Association shall from time to time, at the request of either party, exchange views on the progress achieved in carrying out the Program and the actions specified in Schedule 2 to this Agreement.

(b) Prior to each such exchange of views, the Borrower shall furnish to the Association for its review and comment a report on the progress achieved in carrying out the Program, in such detail as the Association shall reasonably request.

(c) Without limitation upon the provisions of paragraph (a) of this Section, the Borrower shall exchange views with the Association on any proposed action to be taken after the disbursement of the Financing which would have the effect of materially reversing the objectives of the Program, or any action taken under the Program, including any action specified in Schedule 2 to this Agreement.

(d) If, after said exchange of views, the Association is not so satisfied, the Association may give notice to the Borrower to that effect and, if within 90 days after such notice, the Borrower shall not have taken steps satisfactory to the Association, in respect of (a), (b) and (c) above, as the case may be, then the Association may, by notice to the Borrower, cancel the unwithdrawn amount of the Credit or Grant, or any part thereof.

Section 3.02. Upon the Association's request, the Borrower shall:

(a) have the Deposit Account audited in accordance with appropriate auditing principles consistently applied, by independent auditors acceptable to the Association;

(b) furnish to the Association as soon as available, but in any case not later than four months after the date of the Association's request for such audit, a certified copy of the report of such audit by said auditors, of such scope and in such detail as the Association shall have reasonably requested; and

(c) furnish to the Association such other information concerning the Deposit Account and the audit thereof as the Association shall have reasonably requested.

ARTICLE IV

Additional Event of Suspension

Section 4.01. Pursuant to Section 6.02 (1) of the General Conditions, the following additional event is specified, namely, that a situation has arisen which shall make it improbable that the Program, or a significant part thereof, will be carried out.

ARTICLE V

Effective Date; Termination

Section 5.01. The following events are specified as additional conditions to the effectiveness of the Development Financing Agreement within the meaning of Section 12.01 (b) of the General Conditions:

The Borrower has furnished to the Association evidence that it has:

- (i) issued circulars satisfactory to the Association governing delivery to, and management of capitation, development and scholarship grants in secondary schools;
- (ii) issued circulars determining criteria and norms acceptable to the Association for posting of teachers in Government Schools; and
- (iii) caused TIE to: (a) enter into legal agreements satisfactory to the Association, with private sector publishers, for the purposes of publishing existing textbook titles; and (b) disengage from the business of publishing any new textbooks for secondary schools.

Section 5.02. The date ninety (90) days after the date of this Agreement is hereby specified for the purposes of Section 12.04 of the General Conditions.

ARTICLE VI

Representative of the Borrower; Addresses

Section 6.01. Except as provided in Section 2.09 of this Agreement, the Minister of Finance of the Borrower is designated as the representative of the Borrower for the purposes of Section 11.03 of the General Conditions.

Section 6.02. The following addresses are specified for the purposes of Section 11.01 of the General Conditions:

For the Borrower:

Ministry of Finance
P.O. Box 9111
Dar es Salaam
Tanzania

Cable address:

Telex:

Facsimile:

TREASURY
Dar es Salaam

41329

(255) 222 11 77 90

For the Association:

International Development Association
1818 H Street, N.W.
Washington, D.C. 20433
United States of America

Cable address:
INDEVAS

Telex:
248423 (MCI) or

Facsimile:
(202) 477-6391

Washington, D.C. 64145 (MCI)

IN WITNESS WHEREOF, the parties hereto, acting through their duly authorized representatives, have caused this Agreement to be signed in their respective names in Dar es Salaam, The United Republic of Tanzania, as of the day and year first above written.

THE UNITED REPUBLIC OF TANZANIA

By /s/ Grey Mgonja

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Judy O'Connor

Authorized Representative

SCHEDULE 1

**Withdrawal of the Proceeds of the
Financing and Excluded Expenditures**

1. Subject to the provisions set forth or referred to in this Schedule, the table below sets forth the amounts allocated to specific Tranches to be withdrawn from the Credit Account and Grant Account:

<u>Categories</u>	<u>Amount of the Credit Allocated (Expressed in SDR Equivalent)</u>	<u>Amount of the Grant Allocated (Expressed in SDR Equivalent)</u>	<u>% of Expenditures to be Financed</u>
(1) Effectiveness Tranche	15,800,000	17,700,000	100%
(2) Second Tranche	33,500,000		100%
(3) Third Tranche	33,400,000		100%
Total	<u>82,700,000</u> =====	<u>17,700,000</u> =====	

2. Notwithstanding the provisions of paragraph 1 above, and for purposes of Section 2.02 (c) of this Agreement, the proceeds of the Financing shall not be used to finance the following expenditures:

(a) expenditures in the currency of the Borrower or for goods or services supplied from the territory of the Borrower;

(b) expenditures for goods or services supplied under a contract which any national or international financing institution or agency other than the Bank or the Association shall have financed or agreed to finance, or which the Association or the Bank shall have financed or agreed to finance under another credit or a loan; and

(c) expenditures for goods included in the following groups or subgroups of the Standard International Trade Classification, Revision 3 (SITC, Rev.3), published by the United Nations in Statistical Papers, Series M, No. 34/Rev.3 (1986) (the SITC), or any successor groups or

subgroups under future revisions to the SITC, as designated by the Association by notice to the Borrower:

<u>Group</u>	<u>Subgroup</u>	<u>Description of Items</u>
112	-	Alcoholic beverages
121	-	Tobacco, unmanufactured, tobacco refuse
122	-	Tobacco, manufactured (whether or not containing tobacco substitutes)
525	-	Radioactive and associated materials
667	-	Pearls, precious and semiprecious stones, unworked or worked
718	718.7	Nuclear reactors, and parts thereof; fuel elements (cartridges), non-irradiated, for nuclear reactors
728	728.43	Tobacco processing machinery
897	897.3	Jewelry of gold, silver or platinum group metals (except watches and watch cases) and goldsmiths' or

		silversmiths' wares (including set gems)
971	-	Gold, non-monetary (excluding gold ores and concentrates);

(d) expenditures for goods intended for a military or paramilitary purpose or for luxury consumption;

(e) expenditures for environmentally hazardous goods (for purposes of this paragraph the term "environmentally hazardous goods" means goods, the manufacture, use or import of which is prohibited under the laws of the Borrower or international agreements to which the Borrower is a party;

(f) expenditures: (i) in the territories of any country which is not a member of the Bank or for goods procured in, or services supplied from, such territories; or (ii) on account of any payment to persons or entities, or any import of goods, if such payment or import is prohibited by a decision of the United Nations Security Council taken under Chapter VII of the Charter of the United Nations; and

(g) expenditures under a contract in respect of which the Association determines that corrupt or fraudulent practices were engaged in by representatives of the Borrower or of a beneficiary of the Financing during the procurement or execution of such contract, without the Borrower having taken timely and appropriate action satisfactory to the Association to remedy the situation.

3. No withdrawals shall be made from the Credit Account under Category (2) of the table in paragraph 1 of this Schedule unless:

(a) the full amount of the Effectiveness Tranche has been withdrawn by the Borrower under the Development Financing Agreement; and

(b) the Association shall be satisfied, after an exchange of views as described in Section 3.01 of this Agreement based on evidence satisfactory to the Association: (i) that the macroeconomic policy framework of the Borrower is consistent with the objectives of the Program, (ii) with the progress achieved by the Borrower in the carrying out of the Program, and (iii) that the actions described in Part A of Schedule 2 to this Agreement have been taken.

4. No withdrawals shall be made from the Credit Account under Category (3) of the table in paragraph 1 of this Schedule unless:

(a) the full amount specified in Category (2) has been withdrawn by the Borrower; and

(b) the Association shall be satisfied, after an exchange of views as described in Section 3.01 of this Agreement based on evidence satisfactory to the Association: (i) that the macroeconomic policy framework of the Borrower is consistent with the objectives of the Program, (ii) with the progress achieved by the Borrower in the carrying out of the Program, and (iii) that the actions described in Part B of Schedule 2 to this Agreement have been taken.

SCHEDULE 2

Actions Referred to in Section 3.01 (a) of this Agreement

Part A: Conditions for the release of the Second Tranche

1. The Borrower has allocated appropriate budgetary resources for FY 2004 - 2005 on the basis of criteria and norms referred to in paragraph – of the LDP as required to ensure adequate staffing levels and delivery of capitation, development and scholarship grants for Government Schools.
2. The Borrower has adopted a package of incentives designed to attract and keep teachers in underserved areas.
3. The Borrower has amended, in substance satisfactory to the Association, its Circular No 2 of 1998 dated August 15, 1998 governing mechanisms for approval of educational books.
4. The Borrower has adopted and implemented a program of actions designed to foster continuous development of professional skills for teachers and school administrators for secondary education across the Borrower's territory (mainland).
5. The Borrower has reduced the level of tuition fees due by students attending Government Schools (day schools) from Tsh 40,000 to Tsh 20,000.

Part B: Conditions for the release of the Third Tranche

1. The Borrower has allocated appropriate budgetary resources for FY 2005 – 2006 on the basis of criteria and norms referred to in paragraph – of the LDP as required to ensure adequate staffing levels and delivery of capitation, development and scholarship grants for secondary schools.
2. The Borrower has amended regulations determining: (a) the national curriculum required for successful graduation from secondary education level; and (b) examinations required to be taken by all students enrolled in secondary education in the Borrower's territory, all in substance satisfactory to the Association.

3. The Borrower has issued regulations in substance satisfactory to the Association determining functions and responsibilities allocated to central authorities, regional secretariats, local authorities, school boards and school managers so as to improve management and satisfactory delivery of adequate secondary education services across the Borrower's territory (mainland).

SCHEDULE 6

Modifications to the General Conditions

For the purpose of this Agreement, the provisions of the General Conditions are modified as follows:

1. Section 1.01 is amended to read:

“These General Conditions set forth certain terms and conditions generally applicable to development financing granted by the Association as a development credit and development grant to its members. They apply to any development financing agreement providing for any such development finance to the extent and subject to any modifications set forth in such agreement.”

2. Paragraph 8 of Section 2.01 is amended to read as follows:

“8. “Development Financing Agreement” means the particular Development Financing Agreement to which these General Conditions apply, as such agreement may be amended from time to time. Development Financing Agreement includes these General Conditions as applied thereto, and all schedules and agreements supplemental to the Development Financing Agreement.”

3. Paragraph 12 of Section 2.01 is amended to read:

12. “‘Project’ means the Program, referred to in paragraph A of the preamble to the Development Financing Agreement, in support of which the Credit and the Grant are made.”;

4. The following new paragraphs are added to Section 2.01:

“15. “Grant” means the development grant provided for in the Development Financing Agreement.”

“16. “Grant Account” means the account opened by the Association on its books in the name of the Borrower to which the amount of the Grant is credited.”

“17. “Financing” means, collectively, the Credit and the Grant.”

“18. “Financing Accounts” means, collectively, the Credit Account and the Grant Account (or, where the context so requires, either of the Credit Account or the Grant Account).”

5. The term “Credit”, wherever used in the following Articles and Sections of the General Conditions, is amended to read “Financing”: Sections 2.01(3), 2.01(12), 4.01, Article V, Article VI (excluding Section 6.05), Section 7.01(d), Article VIII, and Article IX.

6. The term “Credit Account”, wherever used in the following Articles and Sections of the General Conditions, is amended to read “Financing Accounts”: Section 2.01(6), 4.01, Article V, Article VI, and Section 12.03.

7. The term “Development Credit Agreement”, wherever used in the General Conditions, is amended to read the Development Financing Agreement.

8. Section 3.01 is modified to read as follows:

“Section 3.01. *Financing Accounts*. The amount of the Credit shall be credited to the Credit Account and may be withdrawn from the Credit Account by the Borrower as provided in the Development Financing Agreement and in these General Conditions. The amount of the Grant shall be credited to the Grant Account and may be withdrawn from the Grant Account by the Borrower as provided in the Development Financing Agreement and in these General Conditions.”

9. Section 4.01 is modified to read:

“Except as the Borrower and the Association shall otherwise agree, withdrawals from the Credit Account and the Grant Account shall be made in the currency of the deposit account specified in Section 2.02 of the Development Financing Agreement.”;

10. Section 5.01 is modified to read:

“The Borrower shall be entitled to withdraw the proceeds of the Credit and the Grant from the Credit Account and the Grant Account, respectively, in accordance with the provisions of the Development Financing Agreement and of these General Conditions”;

11. The last sentence of Section 5.03 is deleted;
12. The phrase “(including any development financing agreement or development grant agreement)” is added to Section 6.02(a)(ii) after the words “any development credit agreement” and before the words “between the Borrower and the Association”, to Section 6.02(c)(i) after the words “any development credit agreement” and before the words “with the Association”, and to Section 7.01(b)(i) after the words “any other development credit agreement” and before the words “between the Borrower and the Association”.
13. Section 6.05 is amended to read as follows:

“Except as the Borrower and the Association shall otherwise agree, any cancellation of any amount of the Credit shall be applied *pro rata* to the several installments of the principal amount of the Credit maturing after the date of such cancellation.”
14. Section 9.06 (c) is modified to read:

“(c) Not later than six months after the Closing Date or such later date as may be agreed for this purpose between the Borrower and the Association, the Borrower shall prepare and furnish to the Association a report, of such scope and in such detail as the Association shall reasonably request, on the execution of the Program referred to in paragraph A of the preamble to the Development Financing Agreement, the performance by the Borrower and the Association of their respective obligations under the Development Financing Agreement and the accomplishment of the purposes of the Credit and of the Grant.”; and
15. Section 9.04 is deleted and Sections 9.05, 9.06 (as modified above), 9.07 and 9.08 are renumbered, respectively, Sections 9.04, 9.05, 9.06 and 9.07.