

CONFORMED COPY

CREDIT NUMBER 4191-TA

Financing Agreement

(Financial Sector Support Project)

between

UNITED REPUBLIC OF TANZANIA

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated August 30, 2006

CREDIT NUMBER 4191-TA

FINANCING AGREEMENT

AGREEMENT dated August 30, 2006, between UNITED REPUBLIC OF TANZANIA (“Recipient”) and INTERNATIONAL DEVELOPMENT ASSOCIATION (“Association”). The Recipient and the Association hereby agree as follows:

ARTICLE I – GENERAL CONDITIONS; DEFINITIONS

- 1.01. The General Conditions (as defined in the Appendix to this Agreement) constitute an integral part of this Agreement.
- 1.02. Unless the context requires otherwise, the capitalized terms used in the Financing Agreement have the meanings ascribed to them in the General Conditions or in the Appendix to this Agreement.

ARTICLE II —FINANCING

- 2.01. The Association agrees to extend to the Recipient, on the terms and conditions set forth or referred to in this Agreement, a credit in an amount equivalent to ten million three hundred thousand Special Drawing Rights (SDR 10,300,000) (“Credit”) to assist in financing the project described in Schedule 1 to this Agreement (“Project”).
- 2.02. The Recipient may withdraw the proceeds of the Financing in accordance with Section IV of Schedule 2 to this Agreement.
- 2.03. The Maximum Commitment Charge Rate payable by the Recipient on the Unwithdrawn Financing Balance shall be one-half of one percent (1/2 of 1%) per annum.
- 2.04. The Service Charge payable by the Recipient on the Withdrawn Credit Balance shall be equal to three-fourths of one percent (3/4 of 1%) per annum.
- 2.05. The Payment Dates are May 15 and November 15 in each year.
- 2.06. The principal amount of the Credit shall be repaid in accordance with repayment schedule set forth in Schedule 3 to this Agreement.
- 2.07. The Payment Currency is Dollar.

ARTICLE III —PROJECT

- 3.01. The Recipient declares its commitment to the objectives of the Project. To this end, the Recipient shall cause the Project to be carried out by BOT, in accordance with the provisions of Article IV of the General Conditions.
- 3.02. Without limitation upon the provisions of Section 3.01 of this Agreement, and except as the Recipient and the Association shall otherwise agree, the Recipient shall ensure that the Project is carried out in accordance with the provisions of Schedule 2 to this Agreement.

ARTICLE IV — REMEDIES OF THE ASSOCIATION

- 4.01. The Additional Events of Suspension consist of the following:
 - (a) A situation has arisen which shall make it improbable that the Program, or a significant part thereof, will be carried out.
 - (b) The Bank of Tanzania Act, or any other legislation relating to BOT has been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the ability of BOT to perform any of its obligations under the Project Agreement
 - (c) The Project, or a significant part thereof, has been amended, suspended, abrogated, repealed or waived, at the instance of the Recipient, so as to affect materially and adversely the ability of the Recipient to perform any of its obligations under this Agreement.
- 4.02. The Additional Event of Acceleration is that any event specified in Section 4.01 of this Agreement occurs and is continuing for a period of 60 days after notice of the event has been given by the Association to the Recipient.

ARTICLE V – EFFECTIVENESS; TERMINATION

- 5.01. The Additional Conditions of Effectiveness consists of the following:
 - (a) the Subsidiary Agreement has been executed between the Recipient and BOT; and
 - (b) the Recipient has caused BOT to submit the Operations Manual in a form and substance satisfactory to the Association.
- 5.02. The Effectiveness Deadline is the date ninety (90) days after the date of this Agreement.

- 5.03. For purposes of Section 8.05 (b) of the General Conditions, the date on which the obligations of the Recipient under Articles IV and V of the General Conditions shall terminate is 20 years after the date of this Agreement.

ARTICLE VI—REPRESENTATIVE; ADDRESSES

- 6.01. The Recipient's Representative is its Minister responsible for finance.
- 6.02. The Recipient's Address is:

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

Cable address:

Facsimile:

TREASURY
Dar es Salaam

(255) 222 11 77 90

- 6.03. The Association's Address is:

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

Cable:

Telex:

Facsimile:

INDEVAS
Washington, D.C.

248423 (MCI) or
64145 (MCI)

1-202-477-6391

AGREED at Dar es Salaam, United Republic of Tanzania, as of the day and year first above written.

UNITED REPUBLIC OF TANZANIA

By /s/ Gray S. Mgonja

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Judy O'Connor

Authorized Representative

SCHEDULE 1

Project Description

The objective of the Project is to support the Recipient's effort to promote increased household and firm access to financial services, facilitate efficient financial intermediation, and support financial stability and integrity.

The Project consists of the following parts, including the carrying of Subprograms for:

Part 1: Strengthening the Banking Sector

Enhancing the soundness and efficiency of the banking sector, including strengthening the capacity of banking supervision, strengthening the capacity of selected banks, review of banking regulations, improvement of risk management programs for small banks, establishing the framework for operation of credit reference bureaus, review of the deposit insurance framework, developing reporting systems for anti-money laundering, and strengthening the financial reporting framework.

Part 2: Developing the Financial Markets

Promoting vibrant primary and secondary markets supported by appropriate and secure settlement systems and robust oversight, including strengthening the regulatory and supervision function of Capital Markets and Securities Authority, developing the secondary market for money and government securities market, developing a framework for corporate and municipal bond markets, promoting good corporate governance and improving awareness of financial markets.

Part 3: Reforming the Pension Sector

Promoting an efficient and competitive pension sector supported by appropriate legal and regulatory structure, including strengthening regulatory framework, establishing and operationalizing the pensions regulator, improving investment capacity of pension funds to manage investments and undertake actuarial analysis, increasing outreach to informal sector, and strengthening capacity for formulating and implementing pension policies.

Part 4: Strengthening the Insurance Industry

Promoting an efficient, sound, and competitive insurance industry with wider outreach and market based investment policies, including strengthening the capacity of Insurance Supervisory Department in risk-based supervision and actuarial analysis, acquiring insurance supervision software, developing banc assurance framework, reviewing investment policies, and reviewing life assurance framework.

Part 5: Facilitating the Provision of Long Term Development Finance

Improving the availability of and access to long term financing for enterprises, infrastructure and housing, including establishing a policy framework for provision of long term financing, developing a development finance guarantee scheme and a long term finance facility, developing an infrastructure financing framework, establishing a development finance institution, strengthening the small and medium enterprises guarantee scheme, establishing a framework for leasing, developing a framework for mortgage financing, and strengthening the capacity for formulating and implementing long term finance policies.

Part 6: Strengthening Micro and Rural Finance

Promoting a viable and sustainable micro and rural finance industry with wide outreach operating under an enabling legal and regulatory framework, including strengthening a regulatory framework for micro-finance institutions and cooperative associations, enhancing capacity of supervisors, supporting transformation of micro-finance institutions and cooperative associations umbrella organizations, and creating networks and apex institutions for cooperative and community based associations.

SCHEDULE 2

Project Execution

Section I. Subsidiary Financing, Institutional and Other Arrangements

A. Subsidiary Agreement

1. To facilitate the carrying out of the Project by BOT, the Recipient shall make the proceeds of the Financing available to BOT under a subsidiary agreement between the Recipient and BOT, under terms and conditions approved by the Association, which shall include the following obligations of BOT:
 - (a) carry out the Project with due diligence and efficiency, in conformity with appropriate administrative, financial and technical practices and in accordance with the Operations Manual, and provide, or cause to be provided, promptly as needed, the facilities, services and other resources required for the Project;
 - (b) comply with the procedures for procurement of goods, and consultant services set forth in the Procurement Plan;
 - (c) comply with record keeping, auditing and reporting requirements set forth in Section II.B (3) of this Schedule with respect to the Project, including the annual auditing of its records and accounts (operations, resources and expenditure) in respect of the Project;
 - (d) at the request of the Recipient or the Association, exchange views with the Recipient and the Association with regard to the progress of the Project and the performance of its obligations under the Subsidiary Agreement; and
 - (e) promptly inform the Recipient and the Association of any condition which interferes or threatens to interfere with the progress of the Project, or the performance of its obligations under the Subsidiary Agreement.
2. The Recipient shall exercise its rights under the Subsidiary Agreement in such manner as to protect the interests of the Recipient and the Association and to accomplish the purposes of the Financing. Except as the Association shall otherwise agree, the Recipient shall not assign, amend, abrogate or waive the Subsidiary Agreement or any of its provisions.

B. Institutional Arrangements

1. BOT shall have the responsibility for overall coordination, monitoring, reporting, evaluation and communication of Project activities.
2. **Committees**
 - (a) Without limitation upon the provisions of Part B.1 of this Section, the Recipient shall maintain, at all times until the completion of the Project: (i) an Inter-institutional Committee; and (ii) a Program Coordinating Committee, all with a composition, mandate and resources satisfactory to the Association.
 - (b) Without limitation to sub-paragraph (a) of this paragraph, the Inter-Institutional Committee shall be responsible for, *inter alia*: (i) overall strategic direction and oversight of the Program; (ii) reviewing policy and legislative proposals and submitting them for adoption by the Recipient; (iii) reviewing progress made in the implementation of the Project and towards achieving the Project's objectives. To this end, the Inter-Institutional Committee shall act as an interface between the Recipient and Co-financiers.
 - (c) Without limitation to sub-paragraph (a) of this paragraph, the Program Coordinating Committee shall be responsible for, *inter alia*: (i) quality control and reviewing the terms of reference for consulting services and reports prepared by consultants; (ii) reviewing policy and position papers prepared by technical teams and transmitting them to the Inter-Institutional Committee; and (iii) preparing the Annual Work Plan and Budget.

C. Implementation Arrangements

1. **Operations Manual.** The Recipient shall, cause BOT to carry out the Project in accordance with the arrangements and procedures set out in the Operations Manual (provided, however, that in case of any conflict between the arrangements and procedures set out in the Operations Manual and the provisions of this Agreement, the provisions of this Agreement shall prevail) and, except as the Association shall otherwise agree, shall not amend, abrogate or waive any provision of the Operations Manual, if such amendment, abrogation or waiver may, in the opinion of the Association, materially or adversely affect the implementation of the Project.

2. **Memorandum of Understanding**

- (a) The Recipient shall cause BOT to implement the Subprograms in accordance with the arrangements and procedures set out in the Memorandum of Understanding; and in Schedule 1 to the Project Agreement, provided, however, that in case of any conflict between the provisions of said memorandum and of this Agreement, the provisions of this Agreement shall prevail.
- (b) Except as the Association shall otherwise agree, the Recipient shall not amend, abrogate or waive any provision of the Memorandum of Understanding, if such amendment, abrogation or waiver may, in the opinion of the Association, materially or adversely affect the implementation of the Project.

3. **Annual Work Plan and Budget; Subprograms**

- (a) The Recipient shall cause BOT to prepare and furnish to Association for its joint approval with the Co-financiers, not later than April 15 of each year during the implementation of the Project, or such later date as the Association may agree in consultation with the Co-financiers, the Annual Work Plan and Budget containing all proposed Subprograms to be carried out in the following Fiscal Year, modified in a manner satisfactory to the Association, taking into account the Association's comments and views on the matter.
- (b) The Recipient shall cause BOT to implement, monitor and evaluate each Subprogram in accordance with the provisions set forth in this Agreement, the Project Agreement and in more detail in the Operations Manual, and shall not make or allow to be made any material change to any Subprogram included in the approved Annual Work Plan and Budget without consultation and approval of the Association.

Section II. Project Monitoring, Reporting and Evaluation

A. Project Reports

- 1. The Recipient shall cause BOT to monitor and evaluate the progress of the Project and prepare Project Reports in accordance with the provisions of Section 4.08 of the General Conditions and on the basis of the indicators set forth below in paragraph 2. Each Project Report shall cover the period of six months, and shall be furnished to the Association not later than forty-five days after the end of the period covered by such report.

2. The performance indicators referred to above in paragraph 1 consist of the following:
 - (a) credit extended to the private sector (as a percentage of GDP);
 - (b) interest rate spread (lending versus deposit rates);
 - (c) proportion of adult population that uses services provided by formal financial service providers; and
 - (d) proportion of financial institutions that are in compliance with capital adequacy ratios.

B. Financial Management, Financial Reports and Audits

1. The Recipient shall cause BOT to maintain a financial management system in accordance with the provisions of Section 4.09 of the General Conditions.
2. Without limitation on the provisions of Part A.1 of this Section, the Recipient shall cause BOT to prepare and furnish to the Association, not later than 45 days after the end of every six months, interim un-audited financial reports for the Project covering the six months, in form and substance satisfactory to the Association.
3. The Recipient shall have the Project Financial Statements audited in accordance with the provisions of Section 4.09 (b) of the General Conditions. Each audit of such Financial Statements shall cover the period of one fiscal year of the Recipient. The audited Project Financial Statements for each such period shall be furnished to the Association not later than six months after the end of such period.

Section III. Procurement

A. General

1. **Goods and Works.** All goods and works required for the Project and to be financed out of the proceeds of the Financing shall be procured in accordance with the requirements set forth or referred to in Section I of the Procurement Guidelines, and with the provisions of this Schedule.
2. **Consultants' Services.** All consultants' services required for the Project and to be financed out of the proceeds of the Financing shall be procured in accordance with the requirements set forth or referred to in Sections I and IV of the Consultant Guidelines, and with the provisions of this Schedule.

3. **Definitions.** The capitalized terms used below in this Section to describe particular procurement methods or methods of review by the Association of particular contracts, refer to the corresponding method described in the Procurement Guidelines, or Consultant Guidelines, as the case may be.

B. Particular Methods of Procurement of Goods and Works

1. **International Competitive Bidding.** Except as otherwise provided in paragraph 2 below, goods and works shall be procured under contracts awarded on the basis of International Competitive Bidding.
2. **Other Methods of Procurement of Goods and Works.** The following methods of procurement, other than International Competitive Bidding, may be used for goods and works under the circumstances specified in the Procurement Plan for each such method: (a) National Competitive Bidding; (b) Direct Contracting; (c) Shopping; and (d) Established Private or Commercial Practices which have been found acceptable to the Association.

C. Particular Methods of Procurement of Consultants' Services

1. **Quality- and Cost-based Selection.** Except as otherwise provided in paragraph 2 below, consultants' services shall be procured under contracts awarded on the basis of Quality and Cost-based Selection.
2. **Other Methods of Procurement of Consultants' Services.** The following methods of procurement, other than Quality and Cost-based Selection, may be used for consultants' services under the circumstances specified in the Procurement Plan for each such method: (a) Quality Based Selection; (b) Selection under a Fixed Budget; (c) Least Cost Selection; (d) Selection Based on Consultants' Qualifications; (e) Single-source Selection; (f) Established Private or Commercial Practices which have been found acceptable to the Association; (g) Procedures set forth in paragraphs 5.2 and 5.3 of the Consultant Guidelines for the Selection of Individual Consultants; and (h) Sole Source Procedures for the Selection of Individual Consultants.

D. Review by the Association of Procurement Decisions

Except as the Association shall determine by notice to the Recipient, the following contracts shall be subject to Prior Review by the Association: (a) each contract for goods estimated to cost the equivalent of \$ 200,000 or more per contract; (b) all contracts selected on basis of Direct Contracting; (c) each contract for consultant's services provided by a firm estimated to cost the equivalent of \$ 100,000 or more per contract; (d) each contract for consultants' services provided by an individual consultant estimated to cost the

equivalent of \$ 50,000 or more per contract; and (e) all contracts selected on Single Source basis. All other contracts shall be subject to post Review by the Association.

Section IV. Withdrawal of the Proceeds of the Financing

A. General

1. The Recipient may withdraw the proceeds of the Financing in accordance with the provisions of this Section and such additional instructions as the Association may specify by notice to the Recipient, to finance Eligible Expenditures as set forth in the table in paragraph 2 below.
2. The following table specifies the category of Eligible Expenditures that may be financed out of the proceeds of the Financing (“Category”), the allocations of the amounts of the Financing to the Category, and the percentage of expenditures to be financed for Eligible Expenditures in said Category:

Category	Amount of the Financing Allocated (expressed in SDR)	Percentage of Expenditures to be Financed
Subprograms	10,300,000	Such percentage of Eligible Expenditures as the Association shall determine for each Fiscal Year
TOTAL AMOUNT	<u>10,300,000</u>	

B. Withdrawal Conditions; Withdrawal Period.

1. Notwithstanding the provisions of Part A.1 of this Section no withdrawal shall be made:
 - (a) for payments made prior to the date of this Agreement; and
 - (b) under the Subprograms Category, unless: (i) the Memorandum of Understanding has been executed on behalf of the Recipient and the Association and has entered into effect in accordance with its terms; and (ii) the Annual Work Plan and Budget for the respective Fiscal Year has been approved by the Association in accordance with Part B.3 of Section I of this Schedule.

2. The Closing Date is July 31, 2011.

Section V. Other Undertakings

A. Appointment of Financial and Procurement Auditors

1. The Recipient shall cause BOT, not later than six months after the Effective Date, to appoint the independent auditors referred to in Section 4.09 (b) of the General Conditions, in accordance with the provisions of Section III of this Schedule.
2. The Recipient shall cause BOT, not later than six months after the Effective Date, to put in place arrangements, satisfactory to the Association, including the appointment of independent procurement auditors acceptable to the Association, in accordance with the provisions of Section III of this Schedule, for reviewing the procurement of goods, works and consultants' services financed under the Project, including the reviewing of procurement procedures and processes.

B. Procurement Audits

The Recipient shall cause BOT, not later than six months after the end of each Fiscal Year, or such later date as the Association may agree, to furnish to the Association an audit report on the procurement of goods, works and consultants' services carried out under the Project, prepared by the independent procurement auditors referred to in Part A.2 of this Section.

SCHEDULE 3

Repayment Schedule

Date Payment Due	Principal Amount of the Credit repayable (expressed as a percentage)*
On each May 15 and November 15	
commencing November 15, 2016 to and including May 15, 2026	1%
Commencing November 15, 2026 to and including May 15, 2046	2%

*The percentages represent the percentage of the principal amount of the Credit to be repaid, except as the Association may otherwise specify pursuant to Section 3.03 (b) of the General Conditions.

APPENDIX

Definitions

1. “Annual Work Plan and Budget” means the work plan and budget prepared annually by BOT, in accordance with Section I.C.3 of Schedule 2 to this Agreement.
2. “BOT” means Bank of Tanzania, the Recipient’s central bank established and operating pursuant to the Bank of Tanzania Act (Cap 197, R.E. 2002) of the laws of the Recipient.
3. “Category” means a category set forth in the table in Section IV of Schedule 2 to this Agreement.
4. “Co-financiers” means each and any co-financier (other than the Recipient) that has extended or is to extend the Co-financing (as hereinafter defined) to the Recipient pursuant to the Co-financing Agreement (as hereinafter defined), and that has signed the Memorandum of Understanding.
5. “Co-financing” means, for the purposes of Section 6.02 (g) (ii) and (iii) and Section 6.06 (c) of the General Conditions, each and any credit or grant extended or to be extended to the Recipient by the Co-financiers for the purpose of assisting in the joint co-financing of Subprograms under the Project, in accordance with the provisions of the Co-financing Agreement and the Memorandum of Understanding.
6. “Co-financing Agreement” means, for the purposes of Section 6.02 (g) (ii) and (iii) and Section 6.06 (c) of the General Conditions, each and any agreement entered or to be entered into between the Recipient and the Co-financiers providing for the Co-financing.
7. “Consultant Guidelines” means the “Guidelines: Selection and Employment of Consultants by World Bank Borrowers” published by the Bank in May 2004.
8. “Inter-Institutional Committee” means the committee referred to in Section I.B.2 (a) of Schedule 2 to this Agreement.
9. “Fiscal Year” means the Recipient’s fiscal year commencing July 1 and ending June 30 of each year.
10. “General Conditions” means the “International Development Association General Conditions for Credits and Grants”, dated July 1, 2005.
11. “Memorandum of Understanding” means the memorandum of understanding between the Recipient, the Association and the Co-financiers, as the same may be

amended from time to time, providing for common arrangements and procedures on procurement, disbursement, accounting, monitoring, reporting, auditing, coordination and exchange of information required for the implementation of the Project.

12. “MOF” means the Recipient’s Ministry of Finance.
13. “Operations Manual” means the Recipient’s manual, in form and substance satisfactory to the Association, containing or referring to detailed arrangements and procedures, including: (i) institutional coordination and day-to-day execution of Subprogram activities; (ii) disbursement and financial management; (iii) procurement; (iv) monitoring, evaluation, reporting, and public information, education and communication; and (v) such other administrative, financial, technical and organizational arrangements and procedures as shall be required for the Project.
14. “Program” means the Recipient’s Financial Sector Reform Program, set out in the Recipient’s Second Generation Financial Sector Reforms Action Plan dated June 30,, 2005, and to be supported by the Association under the Project, and set out in the letter from the Recipient to the Association dated May 16, 2006, and declaring the Recipient’s commitment to the execution of the Program.
15. “Program Coordination Committee” means the committee referred to in Section I.B.2 (a) of Schedule 2 to this Agreement.
16. “Procurement Guidelines” means the “Guidelines for Procurement under IBRD Loans and IDA Credits” published by the Bank in May 2004.
17. “Procurement Plan” means the Recipient’s procurement plan for the Project, dated May 15, 2006, and referred to in paragraph 1.16 of the Procurement Guidelines and paragraph 1.24 of the Consultant Guidelines, as the same shall be updated from time to time in accordance with the provisions of said paragraphs.
18. “Program Administration Team” means the team referred to in paragraph 2 of the Schedule to the Project Agreement.
19. “Subprogram” means a program of activities under the Project and included in the Annual Work Program and Budget.
20. “Subsidiary Agreement” means the agreement referred to in Part A.1 of Section 1 of Schedule 2 to this Agreement pursuant to which the Recipient shall make proceeds of the Financing available to BOT.

