

**CONFORMED COPY**

**CREDIT NUMBER 3965 TA**  
**GRANT NUMBER H118 TA**

# **Development Financing Agreement**

**(Second Poverty Reduction Support Credit)**

**between**

**UNITED REPUBLIC OF TANZANIA**

**and**

**INTERNATIONAL DEVELOPMENT ASSOCIATION**

**Dated August 5, 2004**

**CREDIT NUMBER 3965 TA**  
**GRANT NUMBER H118 TA**

## **DEVELOPMENT FINANCING AGREEMENT**

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

WHEREAS: (A) the Association has received from the Borrower a letter dated June 30, 2004 (the Letter of Development Policy), describing a program of actions, objectives and policies designed to eradicate poverty from the Borrower's territory (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;

(B) the Borrower has carried out the measures and taken the actions described in Schedule 2 to this Agreement to the satisfaction of the Association and has maintained a macroeconomic policy framework satisfactory to the Association; and

(C) 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 extending the Credit and the Grant to the Borrower 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 May 1, 2004) 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;
- (b) "Country Procurement Assessment Report" or "CPAR" means the Borrower's procurement assessment report, dated April 30, 2003;
- (c) "Deposit Account" means the account referred to in Section 2.02 (b) of this Agreement;
- (d) "FY" means the Borrower's fiscal year commencing on July 1 and ending on June 30 of the following year;
- (e) "PO-RALG" means the Borrower's President's Office – Regional Administration and Local Governments;
- (f) "PRS" means the Borrower's Poverty Reduction Strategy, as detailed in the Poverty Reduction Strategy Paper dated November 2, 2000, as updated and amended;
- (g) "Public Financial Management Reform Program" or "PFMRP" means the program developed by the Borrower to reform public financial management in Tanzania, as updated and amended; and
- (h) "Steering Committee" means the Borrower's steering committee for the PFMRP.

## **ARTICLE II**

### **The Financing**

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

- (a) an amount in various currencies equivalent to forty-one million Special Drawing Rights (SDR 41,000,000) (the Credit); and
- (b) an amount in various currencies equivalent to sixty-one million six hundred thousand Special Drawing Rights (SDR 61,600,000) (the Grant).

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

(b) The Borrower shall open, prior to furnishing to the Association the first request for withdrawal from the Financing Accounts, and thereafter maintain in BOT, a deposit account in Dollars on terms and conditions satisfactory to the Association. All withdrawals from the Financing Accounts 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 Financing Accounts for cancellation.

Section 2.03. The Closing Date shall be June 30, 2005 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, but not to exceed the rate of one-half of one percent (1/2 of 1%) per annum.

(b) Each 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 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 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 January 15 and July 15 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 January 15 and July 15 commencing January 15, 2015 and ending July 15, 2044. Each installment to and including the installment payable on July 15, 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 the Agreement and Article V of the General Conditions.

### **ARTICLE III**

#### **Particular Covenants**

Section 3.01. (a) The Borrower undertakes to implement the Program with due diligence to ensure that actions and policies adopted under the Program are put into effect.

(b) 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.

(c) 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.

(d) Without limitation upon the provisions of paragraph (b) 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.

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 six 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 (l) 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**

##### **Termination**

Section 5.01. 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 the Borrower responsible for finance 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  
United Republic of 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:	Telex:	Facsimile:
INDEVAS Washington, D.C.	248423 (MCI) or 64145 (MCI)	(202) 477-6391



IN WITNESS WHEREOF, the parties hereto, acting through their duly authorized representatives, have caused this Agreement to be signed in their respective \_\_\_\_\_ names \_\_\_\_\_ in Washington, D.C., as of the day and year first above written.

UNITED REPUBLIC OF TANZANIA

By /s/ Andrew Daraja

Authorized Representative

INTERNATIONAL DEVELOPMENT  
ASSOCIATION

By /s/ Judy O'Connor

Authorized Representative

## SCHEDULE 1

### Excluded Expenditures

For purposes of Section 2.02 (c) of this Agreement, the proceeds of the Financing shall not be used to finance any of the following expenditures:

1. expenditures in the currency of the Borrower or for goods or services supplied from the territory of the Borrower;
2. 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 Bank or the Association shall have financed or agreed to finance under another credit or a loan;
3. 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)

4. expenditures for goods intended for a military or paramilitary purpose or for luxury consumption;

5. 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);

6. expenditures 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

7. 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.



## **SCHEDULE 2**

### **Actions Referred to in Recital (B) of the Preamble to this Agreement**

The Borrower has:

(a) presented for parliamentary approval a bill amending the Land Act, 1999, in order to ensure improved clarity of property rights, securitization of land and streamlined procedures for real estate transactions, in accordance with the provisions of paragraph 8 of the Letter of Development Policy;

(b) presented for parliamentary approval labor legislation, related to employment relations, collective labor relations, dispute resolutions and labor market institutions, in accordance with the provisions of paragraph 9 of the Letter of Development Policy;

(c) reviewed the business licensing system after consultation with stakeholders, prepared a position paper on business licensing reforms, and presented for parliamentary approval amendments to the Business Licensing Act, 1972, introducing reforms of the business licensing system, in accordance with the provisions of paragraph 10 of the Letter of Development Policy;

(d) rationalized local government taxes and levies, in accordance with the provisions of paragraph 26 of the Letter of Development Policy;

(e) approved the budget for FY 2004 in line with PRS objectives, delineating budget codes for priority sectors and items, in accordance with the provisions of paragraph 29 of the Letter of Development Policy;

(f) executed the FY 2003 budget and first semester of the FY 2004 budget in line with its approved budget and PRS priorities, and reported such budget execution as per identified expenditure budget codes for priority sectors, in accordance with the provisions of paragraph 32 of the Letter of Development Policy;

(g) implemented pay enhancement for civil servants in line with the approved budget for FY 2004, in accordance with the provisions of paragraph 39 of the Letter of Development Policy;

(h) ensured that the Steering Committee has reviewed: (i) the establishment of a management structure for the PFMRP; and (ii) the detailed annual work plan and budget for

the first phase of implementation of the PFMRP, in accordance with the provisions of paragraph 41 of the Letter of Development Policy;

(i) prepared a draft bill amending the Public Procurement Act, 2001, reflecting the CPAR recommendations, and submitted a letter from the Attorney General confirming that said bill will be presented for parliamentary approval during the 2004 budget session, in accordance with the provisions of paragraph 45 of the Letter of Development Policy;

(j) established procurement tender boards in each local government authority in accordance with the recommendations of the CPAR, in accordance with the provisions of paragraph 46 of the Letter of Development Policy;

(k) presented for parliamentary approval, as part of the annual budget, its annual borrowing and repayment plan, in accordance with the provisions of paragraph 23 of the Letter of Development Policy;

(l) enhanced the capacity of the Borrower's Vice President's Office to support and monitor implementation of the PRS, in accordance with the provisions of paragraph 18 of the Letter of Development Policy; and

(m) enhanced the capacity of PO-RALG for collecting, collating, and analyzing administrative data, in accordance with the provisions of paragraph 19 of the Letter of Development Policy.

### **SCHEDULE 3**

#### **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 modified to read as follows:

“These General Conditions set forth the terms and conditions generally applicable to the Development Financing Agreement to the extent and subject to any modifications set forth in such agreement.”

2. Section 2.01 is modified to read as follows:

- (a) Paragraph 3 of Section 2.01 is modified to read as follows:

“3. “Borrower” means the party to the Development Financing Agreement to which the Financing is made.”

- (b) Paragraph 8 of Section 2.01 is modified 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.”

- (c) The following new paragraphs are added after paragraph 11 of Section 2.01, and paragraphs 12 through 14 are renumbered as paragraphs 16 through 18 accordingly:

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

“13. “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;”

“14. “Financing” means, collectively, the Credit and the Grant;”  
and

“15. “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).”

(d) Paragraph 16 of Section 2.01 is modified to read as follows:

“16. “Project” means the Program, referred to in the Preamble to the Development Financing Agreement, in support of which the Financing is made.”

3. The term “Credit”, wherever used in the following Articles and Sections of the General Conditions, is modified 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.

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

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

6. 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.”

7. Section 4.01 is modified to read as follows:

“Except as the Borrower and the Association shall otherwise agree, withdrawals from the Financing Accounts shall be made in the currency of



the deposit account specified in Section 2.02 of the Development Financing Agreement.”

8. Section 5.01 is modified to read as follows:

“The Borrower shall be entitled to withdraw the proceeds of the Financing from the Financing Accounts in accordance with the provisions of the Development Financing Agreement and of these General Conditions.”

9. The last sentence of Section 5.03 is deleted.

10. 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”, to Section 6.02 (c) (i) after the words “any development credit agreement”, and to Section 7.01 (b) (i) after the words “any other development credit agreement”.

11. Section 6.05 is modified 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.”

12. Paragraph (c) of Section 9.06 is modified to read as follows:

“(c) Not later than six months before 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 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 Financing.”

13. 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.