

CONFORMED COPY

CREDIT NUMBER 3279 TA

Development Credit Agreement

(Second Financial Institutions Development Project)

between

THE UNITED REPUBLIC OF TANZANIA

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated September 26, 1999

CREDIT NUMBER 3279 TA

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated September 26 1999, between THE UNITED REPUBLIC OF TANZANIA (the Borrower) and INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association).

WHEREAS (A) the Borrower, having satisfied itself as to the feasibility and priority of the Project described in Schedule 2 to this Agreement, has requested the Association to assist in the financing of the Project;

(B) the Association has received a letter dated July 26, 1999 from the Borrower describing a program of actions, objectives and policies designed to strengthen the Borrower's financial sector and, in particular, to increase the efficiency of delivery of services in such sector (the Program) and declaring the Borrower's commitment to the execution of the Program; and

WHEREAS the Association has agreed on the basis, inter alia, of the foregoing, to extend the Credit to the Borrower upon the terms and conditions set forth in this Agreement;

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 December 2, 1997 (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 the Bank of Tanzania, which is the Central Bank of the Borrower, established pursuant to the Borrower's Bank of Tanzania Act of 1995;

(b) "BSD" means the Bank Supervision Directorate of BOT;

(c) "CMSA" means the Capital Markets and Securities Authority, established pursuant to the Borrower's Capital Markets and Securities Act, Number 5 of 1994;

(d) "Government Securities" means bonds, notes, certificates of indebtedness and other negotiable or transferable instruments evidencing the public debt of the Borrower;

(e) "Implementing Agency" means BOT or the Ministries of Finance or PSRC or the Insurance Department or CMSA (all as herein defined); and "Implementing Agencies" means such entities, collectively;

(f) "Insurance Department" means the department established pursuant to the Borrower's Insurance Act, Number 18 of 1996 to regulate the insurance industry in the territories of the Borrower;

(g) "Ministries of Finance" means the Ministry of Finance of the Government of Zanzibar, part of the Borrower's territory, and the Ministry of Finance of the Borrower, collectively;

(h) "NBC 1997" means the National Bank of Commerce (1997) Limited established pursuant to the Borrower's National Bank of Commerce (1997) Limited Incorporation Act, Number 21 of 1997;

(i) "NBC97 MOU" means the memorandum of understanding entered into between the Borrower and NBC 1997 (as hereinafter defined) setting out agreed actions and targets to be followed or reached by NBC 1997 prior to privatization;

(j) "NMB" means the National Microfinance Bank established pursuant to the Borrower's National Microfinance Bank Limited Incorporation Act, Number 22 of 1997;

(k) "NMB MOU" means the memorandum of understanding entered into between the Borrower and NMB setting out agreed actions and targets to be followed or reached by NMB prior to privatization;

(l) "PBZ" means the People's Bank of Zanzibar incorporated in 1966 under Companies Decree, Chapter 153 of the Laws of Zanzibar;

(m) "Privatization Trust" means the trust established pursuant to the Borrower's Privatization Trust Act, Number 7 of 1999 and to which the Borrower has transferred or will transfer retained shares of the Restructuring Banks (as hereinafter defined), with a view to the distribution of said shares to nationals of Tanzania through collective instruments and/or the stock exchange;

(n) "Project Account" means the account referred to in Section 3.03 (a) of this Agreement;

(o) "Project Implementation Plan" means the plan referred to in paragraph A.1 of Schedule 4 to this Agreement;

(p) "Project Management Report" means each report prepared in accordance with Section 4.02 (b) of this Agreement;

(q) "Project Preparation Advance" means the project preparation advance granted by the Association to the Borrower pursuant to a letter from the Association, dated September 9, 1998 and countersigned by the Borrower on September 15, 1998;

(r) "PSRC" means the Borrower's Presidential Parastatal Sector Reform Commission established pursuant to the Borrower's Public Corporations Act of 1992;

(s) "Restructuring Bank" means NBC 1997 or NMB or PBZ or TIB or TPB (all as herein defined) and "Restructuring Banks" means such banks, collectively;

(t) "Special Account" means the account referred to in Section 2.02 (b) of this Agreement;

(u) "Tanzania Shilling" or "Tsh" means the currency of the Borrower;

(v) "Tanzania" means the territory of the Borrower;

(w) "TIB" means the Tanzania Investment Bank, established pursuant to the Tanzania Investment Bank Act, Number 20 of 1970; and

(x) "TPB" means the Tanzania Postal Bank established pursuant to the Tanzania Postal Bank Act, Number 11 of 1991.

ARTICLE II

The Credit

Section 2.01. The Association agrees to lend to the Borrower, on the terms and conditions set forth or referred to in the Development Credit Agreement, an amount in various currencies equivalent to twenty million six hundred thousand Special Drawing Rights (SDR 20,600,000).

Section 2.02. (a) The amount of the Credit may be withdrawn from the Credit Account in accordance with the provisions of Schedule 1 to this Agreement for expenditures made (or, if the Association shall so agree, to be made) in respect of the reasonable cost of goods and services required for the Project and to be financed out of the proceeds of the Credit.

(b) The Borrower may, for the purposes of the Project, open and

maintain in Dollars a special deposit account in BOT on terms and conditions satisfactory to the Association. Deposits into, and payments out of, the Special Account shall be made in accordance with the provisions of Schedule 5 to this Agreement.

(c) Promptly after the Effective Date, the Association shall, on behalf of the Borrower, withdraw from the Credit Account and pay to itself the amount required to repay the principal amount of the Project Preparation Advance withdrawn and outstanding as of such date and to pay all unpaid charges thereon. The unwithdrawn balance of the authorized amount of the Project Preparation Advance shall thereupon be canceled.

Section 2.03. The Closing Date shall be December 31, 2003 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 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.

(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 canceled; 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) The 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, 2009 and ending April 1, 2039. Each installment to and including the installment payable on April 1, 2019 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

them 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

Execution of the Project

Section 3.01. (a) The Borrower declares its commitment to the objectives of the Project as set forth in Schedule 2 to this Agreement, and, to this end, shall carry out the Project through the Implementing Agencies as set out in Part B of Schedule 4 to this Agreement with due diligence and efficiency and in conformity with appropriate administrative, financial sector and capital market practices, and shall provide, promptly as needed, the funds, facilities, services and other resources required for the Project.

(b) Without limitation upon the provisions of paragraph (a) of this Section and except as the Borrower and the Association shall otherwise agree, the Borrower shall carry out the Project in accordance with the Implementation Program set forth in Schedule 4 to this Agreement.

Section 3.02. Except as the Association shall otherwise agree, procurement of the goods and consultants' services required for the

Project and to be financed out of the proceeds of the Credit shall be governed by the provisions of Schedule 3 to this Agreement.

Section 3.03. For the purposes of Section 9.07 of the General Conditions and without limitation thereto, the Borrower shall:

(a) prepare, on the basis of guidelines acceptable to the Association and furnish to the Association not later than six (6) months after the Closing Date or such later date as may be agreed for this purpose between the Borrower and the Association, a plan for the future operation of the Project; and

(b) afford the Association a reasonable opportunity to exchange views with the Borrower on said plan.

ARTICLE IV

Financial Covenants

Section 4.01. (a) The Borrower shall maintain or cause to be maintained records and accounts adequate to reflect, in accordance with sound accounting practices, the operations, resources and expenditures in respect of the Project of the departments or agencies of the Borrower responsible for carrying out the Project or any part thereof.

(b) The Borrower shall:

(i) have the records and accounts referred to in paragraph (a) of this Section, including those for the Special Account for each fiscal year audited, in accordance with appropriate auditing principles consistently applied, by independent auditors acceptable to the Association;

(ii) furnish to the Association as soon as available, but in any case not later than six months after the end of each such year, the report of such audit by said auditors, of such scope and in such detail as the Association shall have reasonably requested; and

(iii) furnish to the Association such other information concerning said records and accounts and the audit thereof as the Association shall from time to time reasonably request.

(c) For all expenditures with respect to which withdrawals from the Credit Account were made on the basis of statements of expenditure or Project Management Reports, the Borrower shall:

(i) maintain or cause to be maintained, in accordance with paragraph (a) of this Section, records and separate accounts reflecting such expenditures;

(ii) retain, until at least one year after the Association has received the audit report for the fiscal year in which the last withdrawal from the Credit Account was made, all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such

expenditures;

(iii) enable the Association's representatives to examine such records; and

(iv) ensure that such records and accounts are included in the annual audit referred to in paragraph (b) of this Section and that the report of such audit contains a separate opinion by said auditors as to whether the statements of expenditure or Project Management Reports submitted during such fiscal year, together with the procedures and internal controls involved in their preparation, can be relied upon to support the related withdrawals.

Section 4.02. (a) Without limitation upon the provisions of Section 4.01 of this Agreement, the Borrower shall carry out a time-bound action plan, acceptable to the Association, for the strengthening of its financial management system for the Project, in order to enable the Borrower, not later than July 31, 2000, or such later date as the Association shall agree, to prepare quarterly Project Management Reports, acceptable to the Association, each of which:

(i) (A) sets forth actual sources and applications of funds for the Project, both cumulatively and for the period covered by said report, and projected sources and applications of funds for the Project for the six-month period following the period covered by said report; and (B) shows separately expenditures financed out of the proceeds of the Credit during the period covered by said report and expenditures proposed to be financed out of the proceeds of the Credit during the six-month period following the period covered by said report;

(ii) (A) describes physical progress in Project implementation, both cumulatively and for the period covered by said report; and (B) explains variances between the actual and previously forecast implementation targets; and

(iii) sets forth the status of procurement under the Project and expenditures under contracts financed out of the proceeds of the Credit, as at the end of the period covered by said report.

(b) Upon the completion of the action plan referred to in paragraph (a) of this Section, the Borrower shall prepare in accordance with guidelines acceptable to the Association, and furnish to the Association not later than 45 days after the end of each calendar quarter a Project Management Report for such period.

Section 4.03. The Borrower shall, commencing in 1999 and until completion of the Project:

(a) furnish to the Association not later than six months after the end of the respective fiscal year of each of the Restructuring Banks, the annual financial accounts of such Restructuring Bank, audited by independent auditors acceptable to the Association; and

(b) prior to furnishing each of the said accounts, ensure that:
(i) any adjustments in the accounts requested by the said auditors shall

be made by each Restructuring Bank; and (ii) any loan of any Restructuring Bank classified as a loss in accordance with the BOT directives shall be written off.

ARTICLE V

Remedies of the Association

Section 5.01. Pursuant to Section 6.02 (1) of the General Conditions, the following additional event is specified, that is that a situation has arisen which shall make it improbable that the Program, or a significant part thereof, will be carried out.

ARTICLE VI

Effective Date; Termination

Section 6.01. The following events are specified as additional conditions to the effectiveness of the Development Credit Agreement within the meaning of Section 12.01 (b) of the General Conditions:

(a) The Borrower has furnished to the Association the Project Implementation Plan, except for the details referred to in paragraph A.1 (b) of Schedule 4 to this Agreement, and the Association has found such Project Implementation Plan to be acceptable.

(b) The Borrower has: (i) entered into a management contract with a management team chosen in accordance with the provisions of Section II of Schedule 3 to this Agreement to operate NMB; (ii) completed any remedial action plans, acceptable to the Association, required to enforce compliance with the MOUs; and (iii) furnished to the Association a timetable acceptable to the Association for the privatization of NMB.

(c) The Borrower has established a financial management system for the Project, including accounting procedures, satisfactory to the Association and adequate to ensure proper monitoring of Project activities.

Section 6.02. 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 VII

Representatives of the Borrower; Addresses

Section 7.01. Except as provided in Section 2.09 of this Agreement, the Minister of the Borrower at the time responsible for finance is designated as representative of the Borrower for the purposes of Section 11.03 of the General Conditions.

Section 7.02. 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

expenditures

(a)	under Part A.2 of the Project	3,900,000	
(b)	other than under Part A.2 of the Project	260,000	
(2)	Consultants' services:		100%
(a)	under Part A.2 of the Project	5,400,000	
(b)	under Part A.3 (b) of the Project	380,000	
(c)	under Part D of the Project	300,000	
(d)	other than under Parts A.2, A.3 (b) and D of the Project	2,250,000	
(3)	Training:		100%
(a)	under Part A.2 of the Project	1,300,000	
(b)	other than under Part A.2 of the Project	1,100,000	
(4)	Severance payments under disbursed by Part A.2 (c) of the Project	1,200,000	100% of amounts NMB
(5)	Incremental operating costs	120,000	90%
(6)	Refunding of Project Preparation Advance	1,550,000	Amounts due pursuant to Section 2.02 (c) of this Agreement
(7)	Unallocated	2,840,000	
	TOTAL	20,600,000	

2. For the purposes of this Schedule:

(a) the term "foreign expenditures" means expenditures in the currency of any country other than that of the Borrower for goods or services supplied from the territory of any country other than that of the Borrower;

(b) the term "local expenditures" means expenditures in the currency of the Borrower or for goods or services supplied from the territory of the Borrower;

(c) the terms "Severance Payments" means payments made or to be made to an NMB employee who has been separated from NMB under Part A. 1 (c) of the Project; and

(d) the term "Incremental operating costs" means the incremental

costs incurred on account of Project implementation, management and monitoring, including office supplies, vehicle operation, travel and supervision costs but excluding salaries of officials of the Borrower's civil service and of audit of Project accounts.

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of:

(a) payments made for expenditures prior to the date of this Agreement, except that withdrawals, in an aggregate amount not exceeding the equivalent of SDR 421,000 may be made in respect of Categories (1), (2) and (3) on account of payments made for expenditures before that date but after July 13, 1999;

(b) payments made for expenditures under Categories (1) (a), (2) (a), (3) (a) and (4), unless and until the Association has received the details of the Project Implementation Plan referred to in paragraph A.1 (b) of Schedule 4 to this Agreement and found such details to be satisfactory;

(c) payments made for expenditures under Category 4 for Severance Payments, unless the corresponding application for withdrawal of Credit proceeds contains a certification by an independent auditor, acceptable to the Association, that such Severance Payments were made in accordance with the staff retrenchment program described in the business plan referred to in paragraph A.1 (b) (i) of Schedule 4 to this Agreement;

(d) payments made for expenditures under Category (2) (b) until an agreement has been reached between the Borrower and the Association on the actions to be taken following the review described under Part A.3 (a) of the Project; and

(e) payments made for expenditures under Category (2) (c) until the Credit Reference Bureau has been established with majority private sector shareholding in a manner acceptable to the Association.

4. The Association may require withdrawals from the Credit Account to be made on the basis of statements of expenditure for expenditures for goods and consultant firms under contracts costing less than \$100,000 equivalent each and under contracts costing less than \$50,000 equivalent each for individual consultants, under such terms and conditions as the Association shall specify by notice to the Borrower.

SCHEDULE 2

Description of the Project

The objectives of the Project are to strengthen the Borrower's financial sector and increase the efficiency of service delivery in such sector through (i) facilitating the privatization of state owned banks; (ii) strengthening the supporting financial infrastructure including banking, insurance and pension regulation and supervision; (iii) strengthening the national payments and credit system; and (iv) implementing a strategy for the development of capital markets.

The Project consists of the following parts, subject to such modifications thereof as the Borrower and the Association may agree upon from time to time to achieve such objectives:

Part A: Bank Restructuring and Privatization

1. Preparation of a detailed business plan and privatization strategy for NMB.

2. Implementing the business plan and privatization strategy for NMB, including preparing NMB for privatization by increasing productivity of its staff and strengthening its capacity to engage in micro-finance lending through:

(a) installation of computerized business operations and management information systems;

(b) carrying out a program designed to facilitate the retrenchment of NMB staff in order to reduce such staff; such program consisting of: (i) establishment of appropriate incentive schemes for early retirement and voluntary separation; (ii) provision of severance payments for remaining redundant staff; (iii) retraining programs based on regional employment opportunities; and (iv) job searching and outplacement assistance;

(c) carrying out a comprehensive training program for staff of NMB not subject to the program described under the preceding paragraph; and

(d) carrying out a pilot program to strengthen the capacity of NMB to develop and market micro finance lending instruments.

3. (a) Carrying out a review of the options for restructuring and privatizing TPB, TIB and PBZ; and

(b) thereafter, carrying out the recommendations thereof.

Part B: Banking Supervision

1. Strengthening the capacity of BOT to supervise banks through provision of training to staff of its Directorate of Bank Supervision in the areas of supervision of problem institutions, on-site examinations and methodology development.

Part C: Payments System

Design of a modern and efficient national payments and clearing system including:

1. Development of a comprehensive vision and conceptual design of new payment mechanisms, based on an assessment of the current system and user requirements; and

2. Preparation of detailed technical specifications for the national inter-bank payments and clearing system to be designed and of a time based implementation plan.

Part D: Credit Reference Bureau

Establishment and management of a credit reference bureau.

Part E: Capital Markets and Securities Authority

1. Establishment of the institutional framework for the working of a viable capital market in Tanzania including preparation of appropriate regulations.
2. Strengthening the capacity of CMSA to regulate the capital market in Tanzania.
3. Training of dealers and potential stockbrokers.
4. Carrying out a publicity and educational program for the general public, including nationwide dissemination of information.
5. Completion of selected public issues of securities, including design of distribution procedures, determination of offer prices and allotment procedures.

Part F: Insurance

1. Strengthening the Insurance Department's capacity to regulate the insurance industry through assisting it to develop a supervisory methodology and policy framework, including drafting of regulatory guidelines and of supporting accounting principles and standards to be adopted by the insurance industry.
2. Carrying out a study to assess the feasibility of combining the regulation of insurance with that of pensions under one regulatory body.
3. Carrying out a study to assess the options for restructuring and privatizing the National Insurance Corporation.

Part G: Privatization Trust

Establishment and management of operations of the Privatization Trust.

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The Project is expected to be completed by June 30, 2003.

SCHEDULE 3

Procurement and Consultants' Services

Section I. Procurement of Goods

Part A: General

Goods shall be procured in accordance with the provisions of Section I of the "Guidelines for Procurement under IBRD Loans and IDA Credits" published by the Bank in January 1995 and revised in January and August 1996, September 1997 and January 1999, (the Guidelines) and the following provisions of this Section.

Part B: International Competitive Bidding

1. Except as otherwise provided in Part C of this Section, goods shall be procured under contracts awarded in accordance with the provisions of

Section II of the Guidelines and paragraph 5 of Appendix 1 thereto.

2. The following provisions shall apply to goods to be procured under contracts awarded in accordance with the provisions of paragraph 1 of this Part B.

(a) Grouping of contracts

To the extent practicable, contracts for goods shall be grouped in bid packages estimated to cost \$100,000 equivalent or more each.

(b) Preference for domestically manufactured goods

The provisions of paragraphs 2.54 and 2.55 of the Guidelines and Appendix 2 thereto shall apply to goods manufactured in the territory of the Borrower.

Part C: Other Procurement Procedures

1. National Competitive Bidding

Goods estimated to cost less than \$100,000 equivalent per contract, up to an aggregate amount not to exceed \$700,000 equivalent, may be procured under contracts awarded in accordance with the provisions of paragraphs 3.3 and 3.4 of the Guidelines.

2. International or National Shopping

Goods estimated to cost less than \$50,000 equivalent per contract which are readily available off-the-shelf and cannot be grouped, up to an aggregate amount not to exceed \$100,000 equivalent, may be procured under contracts awarded on the basis of national shopping procedures in accordance with the provisions of paragraphs 3.5 and 3.6 of the Guidelines, provided that if such goods are not available locally, they may be procured under contracts awarded on the basis of international shopping procedures in accordance with the provisions of paragraphs 3.5 and 3.6 of the Guidelines.

3. Procurement from UN Agencies

Equipment procured within the first six months after the Effective Date and which cannot be packaged for competitive tenders, up to an aggregate amount not to exceed \$300,000 equivalent, may be procured from the Inter-Agency Procurement Services Organization of the United Nations in accordance with the provisions of paragraph 3.9 of the Guidelines.

Part D: Review by the Association of Procurement Decisions

1. Procurement Planning

Prior to the issuance of any invitations to prequalify for bidding or to bid for contracts, the proposed procurement plan for the Project shall be furnished to the Association for its review and approval, in accordance with the provisions of paragraph 1 of Appendix 1 to the Guidelines. Procurement of all goods shall be undertaken in accordance with such procurement plan as shall have been approved by the Association, and with the provisions of said paragraph 1.

2. Prior Review

With respect to each contract for goods estimated to cost the equivalent of \$100,000 or more, the procedures set forth in paragraphs 2 and 3 of Appendix 1 to the Guidelines shall apply.

3. Post Review

With respect to each contract not governed by paragraph 2 of this Part, the procedures set forth in paragraph 4 of Appendix 1 to the Guidelines shall apply.

Section II. Employment of Consultants

Part A: General

Consultants' services shall be procured in accordance with the provisions of the Introduction and Section IV of the "Guidelines: Selection and Employment of Consultants by World Bank Borrowers" published by the Bank in January 1997 and revised in September 1997 and January 1999 (the Consultant Guidelines) and the following provisions of Section II of this Schedule.

Part B: Quality- and Cost-based Selection

1. Except as otherwise provided in Part C of this Section, consultants' services shall be procured under contracts awarded in accordance with the provisions of Section II of the Consultant Guidelines, paragraph 3 of Appendix 1 thereto, Appendix 2 thereto, and the provisions of paragraphs 3.13 through 3.18 thereof applicable to quality- and cost-based selection of consultants.

2. The following provisions shall apply to consultants' services to be procured under contracts awarded in accordance with the provisions of the preceding paragraph. The short list of consultants for services for estimated to cost less than \$200,000 equivalent per contract, may comprise entirely national consultants in accordance with the provisions of paragraph 2.7 of the Consultant Guidelines.

Part C: Other Procedures for the Selection of Consultants

1. Selection Based on Consultants Qualifications.

Services estimated to cost less than \$50,000 equivalent per contract, up to an aggregate amount not to exceed \$200,000 equivalent, may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 and 3.7 of the Consultant Guidelines.

2. Least-cost Selection

Services for audits of Project accounts estimated to cost less than \$50,000 equivalent per contract, up to an aggregate amount not to exceed \$200,000 equivalent, may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 and 3.6 of the Consultant Guidelines.

3. Individual Consultants

Services for tasks that meet the requirements set forth in

paragraph 5.01 of the Consultant Guidelines shall be procured under contracts awarded to individual consultants, in accordance with the provisions of paragraphs 5.1 through 5.3 of the Consultant Guidelines.

Part D: Review by the Association of the Selection of Consultants

1. Selection Planning

Prior to the issuance to consultants of any requests for proposals, the proposed plan for the selection of consultants under the Project shall be furnished to the Association for its review and approval, in accordance with the provisions of paragraph 1 of Appendix 1 to the Consultant Guidelines. Selection of all consultants' services shall be undertaken in accordance with such selection plan as shall have been approved by the Association, and with the provisions of said paragraph 1.

2. Prior Review

(a) With respect to each contract for the employment of consulting firms, estimated to cost the equivalent of \$100,000 or more, the procedures set forth in paragraphs 1, 2 (other than the third subparagraph of paragraph 2(a)) and 5 of Appendix 1 to the Consultant Guidelines shall apply.

(b) With respect to each contract for the employment of consulting firms estimated to cost the equivalent of \$50,000 or more, but less than the equivalent of \$100,000, the procedures set forth in paragraphs 1, 2 (other than the second subparagraph of paragraph 2(a)) and 5 of Appendix 1 to the Consultant Guidelines shall apply.

(c) With respect to each contract for the employment of individual consultants estimated to cost the equivalent of \$50,000 or more, the qualifications, experience, terms of reference and terms of employment of the consultants shall be furnished to the Association for its prior review and approval. The contract shall be awarded only after said approval shall have been given.

3. Post Review

With respect to each contract not governed by paragraph 2 of this Part, the procedures set forth in paragraph 4 of Appendix 1 to the Consultant Guidelines shall apply.

SCHEDULE 4

Implementation Program

Part A: Implementation Plan and Work Programs

1. The Borrower shall furnish to the Association a Project Implementation Plan, satisfactory to the Association, containing a statement of objectives and a general description of the Project and the following details:

(a) with respect to each Part of the Project except Parts A.1 and A.2 of the Project, the Borrower shall furnish to the Association: (i) an implementation schedule, including a financing plan, covering the four-year period from 1999 to 2003; (ii) a detailed Project work program and budget for the first six months following the Effective Date for each Part of the Project except Parts A.1 and A.2 of the Project; (iii)

details of procurement and disbursement arrangements including standard bidding documents (for goods and consultants' services), and reporting requirements on financial management; (iv) monitoring and evaluation indicators; and (v) other administrative, financial and organizational arrangements, as the Association shall reasonably request; and

(b) as soon as practicable after the appointment of a management team for NMB pursuant to Section 6.01 (b) of this Agreement, the Borrower shall furnish to the Association for the purposes of Part A.2 of the Project: (i) a revised MOU, acceptable to the Association taking into account the business plan for NMB prepared by the new management team; (ii) a detailed business plan for NMB (including an implementation schedule for Part A.2 of the Project) and a corresponding financing plan covering the four-year period from 1999 to 2003 which shall be consistent with the time-bound action plan for privatization referred to in Section 6.01 (b) of this Agreement and shall include a description of the staff retrenchment program to be carried out under Part A.2 (b) of the Project; (iii) a detailed Project work program and budget for 1999; (iv) details of all procurement and disbursement arrangements including standard bidding documents (for goods and consultants' services), and reporting requirements on financial management; (v) monitoring and evaluation indicators; and (vi) other administrative, financial and organizational arrangements, as the Association shall reasonably request.

2. The Borrower shall, by December 31 in each year commencing in 1999, furnish to the Association, for its review and comments a detailed annual work program and budget for the Project for the following calendar year based on the Project Implementation Plan.

3. The Borrower shall carry out the Project in accordance with the Project Implementation Plan and subsequent work programs and shall not amend or waive such Plan or work programs or any provision thereof, in a manner which, in the opinion of the Association, may materially and adversely affect the implementation of the Project.

Part B: Institutional Arrangements

1. Part A.1 of the Project shall be implemented by NMB; Part A.2 of the Project shall be implemented by the Ministries of Finance; Parts B, C and D of the Project shall be implemented by BOT; Part E of the Project shall be implemented by CMSA; Parts F.1 and F.2 of the Project shall be implemented by the Insurance Department; and Parts F.3 and G of the Project shall be implemented by PSRC. Each Implementing Agency shall be primarily responsible for the execution of project activities under its part of the Project and timely delivery of outputs as defined and agreed under the Project Implementation Plan and shall designate a counterpart to liaise with BSD.

2. BSD shall coordinate the implementation of the Project and shall be responsible for: (a) procurement and disbursement arrangements including managing the Special Account and other project accounts; (b) overseeing and coordinating Project implementation activities by the Implementing Agencies and other relevant institutions of the Borrower; (c) following up on fulfillment of agreed financial and other covenants and provisions in this Agreement; and (d) furnishing to the Association periodic Project progress reports.

3. For the purposes of their respective parts of the Project, the Borrower shall maintain or cause to be maintained, CMSA, the Insurance Department and Privatization Trust, each with a management team and staff all having qualifications, experience and terms of reference acceptable to the Association.

4. For the purposes of Parts A and B of the Project, the Borrower shall appoint, in accordance with Section II of Schedule 3 to this Agreement, and maintain until completion of the Project, banking advisers to assist the Ministries of Finance in supervising the restructuring of the Restructuring Banks and preparing privatization strategies for them.

Part C: Mid Term Review

The Borrower shall:

(a) maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with indicators satisfactory to the Association, the carrying out of the Project and the achievement of the objectives thereof;

(b) prepare, under terms of reference satisfactory to the Association and furnish to the Association on or about August 31, 2001, a report integrating the results of the monitoring and evaluation activities performed pursuant to paragraph (a) of this Section, on the progress achieved in the carrying out of the Project during the period preceding the date of said report and setting out the measures recommended to ensure the efficient carrying out of the Project and the achievement of the objectives thereof during the period following such date; and

(c) review with the Association and in collaboration with the Implementing Agencies, by September 30, 2001, or such later date as the Association shall request, the report referred to in subparagraph (b) of this paragraph, and, thereafter, take all measures required to ensure the efficient completion of the Project and the achievement of the objectives thereof, based on the conclusions and recommendations of the said report and the Association views on the matter.

Part D: Particular Covenants

1. The Borrower shall enforce compliance with each MOU, including executing the remedial action plans contained therein as required, in such a manner as to protect the interests of the Borrower and the Association and to further the objectives of the Project, and shall not amend, abrogate, waive either MOU or any provision thereof without the prior approval of the Association and, except as provided for in the MOU for NMB, the Borrower shall not intervene in the management of NMB or in its lending policies.

2. The Borrower shall pay, by the due date, all interest due on any Government Securities issued to recapitalize NMB and NBC 1997;

3. The Borrower shall not directly or indirectly sponsor subsidized credit initiatives to businesses or individuals.

4. For the purposes of Parts A.2 and B of the Project, the Borrower shall furnish to the Association, by December 31 in each year commencing in 1999, annual reports on the financial status of all banks and financial institutions operating in Tanzania, with time-bound action plans acceptable to the Association for solving problems identified in such reports.

SCHEDULE 5

Special Account

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means Categories (1), (2), (3) and (4) set forth in the table in paragraph 1 of Schedule 1 to this Agreement;

(b) the term "eligible expenditures" means expenditures in respect of the reasonable cost of goods and services required for the Project and to be financed out of the proceeds of the Credit allocated from time to time to the eligible Categories in accordance with the provisions of Schedule 1 to this Agreement; and

(c) the term "Authorized Allocation" means an amount equivalent to \$2,300,000 to be withdrawn from the Credit Account and deposited into the Special Account pursuant to paragraph 3 (a) of this Schedule, provided, however, that unless the Association shall otherwise agree, the Authorized Allocation shall be limited to an amount equivalent to \$1,150,000 until the aggregate amount of withdrawals from the Credit Account plus the total amount of all outstanding special commitments entered into by the Association pursuant to Section 5.02 of the General Conditions shall be equal to or exceed the equivalent of SDR 3,500,000.

2. Payments out of the Special Account shall be made exclusively for eligible expenditures in accordance with the provisions of this Schedule.

3. After the Association has received evidence satisfactory to it that the Special Account has been duly opened, withdrawals of the Authorized Allocation and subsequent withdrawals to replenish the Special Account shall be made as follows:

(a) For withdrawals of the Authorized Allocation, the Borrower shall furnish to the Association a request or requests for deposit into the Special Account of an amount or amounts which do not exceed the aggregate amount of the Authorized Allocation. On the basis of such request or requests, the Association shall, on behalf of the Borrower, withdraw from the Credit Account and deposit into the Special Account such amount or amounts as the Borrower shall have requested.

(b) (i) For replenishment of the Special Account, the Borrower shall furnish to the Association requests for deposits into the Special Account at such intervals as the Association shall specify.

(ii) Prior to or at the time of each such request, the Borrower shall furnish to the Association the documents and other evidence required pursuant to paragraph 4 of this Schedule for the payment or payments in respect of which replenishment is requested. On the basis of each such request, the Association shall, on behalf of the Borrower, withdraw from the Credit Account and deposit into the Special Account such amount as the Borrower shall have requested and as shall have been shown by said documents and other evidence to have been paid out of the Special Account for eligible expenditures. All such deposits shall be withdrawn by the Association from the Credit Account under the respective eligible Categories, and in the respective equivalent amounts, as shall have been justified by said documents and other evidence.

4. For each payment made by the Borrower out of the Special Account, the Borrower shall, at such time as the Association shall reasonably request, furnish to the Association such documents and other evidence

showing that such payment was made exclusively for eligible expenditures.

5. Notwithstanding the provisions of paragraph 3 of this Schedule, the Association shall not be required to make further deposits into the Special Account:

(a) if, at any time, the Association shall have determined that all further withdrawals should be made by the Borrower directly from the Credit Account in accordance with the provisions of Article V of the General Conditions and paragraph (a) of Section 2.02 of this Agreement;

(b) if the Borrower shall have failed to furnish to the Association, within the period of time specified in Section 4.01 (b) (ii) of this Agreement, any of the audit reports required to be furnished to the Association pursuant to said Section in respect of the audit of the records and accounts for the Special Account;

(c) if, at any time, the Association shall have notified the Borrower of its intention to suspend in whole or in part the right of the Borrower to make withdrawals from the Credit Account pursuant to the provisions of Section 6.02 of the General Conditions; or

(d) once the total unwithdrawn amount of the Credit allocated to the eligible Categories, minus the total amount of all outstanding special commitments entered into by the Association pursuant to Section 5.02 of the General Conditions with respect to the Project, shall equal the equivalent of twice the amount of the Authorized Allocation. Thereafter, withdrawal from the Credit Account of the remaining unwithdrawn amount of the Credit allocated to the eligible Categories shall follow such procedures as the Association shall specify by notice to the Borrower. Such further withdrawals shall be made only after and to the extent that the Association shall have been satisfied that all such amounts remaining on deposit in the Special Account as of the date of such notice will be utilized in making payments for eligible expenditures.

6. (a) If the Association shall have determined at any time that any payment out of the Special Account: (i) was made for an expenditure or in an amount not eligible pursuant to paragraph 2 of this Schedule; or (ii) was not justified by the evidence furnished to the Association, the Borrower shall, promptly upon notice from the Association: (A) provide such additional evidence as the Association may request; or (B) deposit into the Special Account (or, if the Association shall so request, refund to the Association) an amount equal to the amount of such payment or the portion thereof not so eligible or justified. Unless the Association shall otherwise agree, no further deposit by the Association into the Special Account shall be made until the Borrower has provided such evidence or made such deposit or refund, as the case may be.

(b) If the Association shall have determined at any time that any amount outstanding in the Special Account will not be required to cover further payments for eligible expenditures, the Borrower shall, promptly upon notice from the Association, refund to the Association such outstanding amount.

(c) The Borrower may, upon notice to the Association, refund to the Association all or any portion of the funds on deposit in the Special Account.

(d) Refunds to the Association made pursuant to paragraph 6 (a), (b) and (c) of this Schedule shall be credited to the Credit Account for subsequent withdrawal or for cancellation in accordance with the relevant

provisions of this Agreement, including the General Conditions.

