

CONFORMED COPY

CREDIT NUMBER 3570 TA

Development Credit Agreement

(Primary Education Development Program)

between

THE UNITED REPUBLIC OF TANZANIA

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated October 18, 2001

CREDIT NUMBER 3570 TA

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated October 18, 2001, between THE UNITED REPUBLIC OF TANZANIA (the Borrower) and INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association).

WHEREAS the Association has received a letter (the Letter of Primary Education Subsector Development Policy), dated August 21, 2001, from the Borrower describing a program of actions, objectives and policies designed to achieve structural adjustment of the Borrower's education sector (hereinafter called the Program), declaring the Borrower's commitment to the execution of the Program, and requesting assistance from the Association in support of the Program during the execution thereof; and

WHEREAS on the basis, inter alia, of the foregoing, the Association has decided in support of the Program, to provide such assistance to the Borrower by making the Credit in three tranches as hereinafter provided;

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

General Conditions; Definitions

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

(a) Section 2.01, paragraph 12, is modified to read:

"'Project' means the program, referred to in the Preamble to the Development Credit Agreement, in support of which the Credit is made.";

(b) Section 4.01 is modified to read:

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

(c) Section 5.01 is modified to read:

"The Borrower shall be entitled to withdraw the proceeds of the Credit from the Credit Account in accordance with the provisions of the Development Credit Agreement and of these General Conditions";

(d) The last sentence of Section 5.03 is deleted;

(e) Section 9.06 (c) is modified to read:

"(c) Not later than six months after the Closing Date or such later date as may be agreed for this purpose between the Borrower and the Association, the Borrower shall prepare and furnish to the Association a report, of such scope and in such detail as the Association shall reasonably request, on the execution of the program referred to in the Preamble to the Development Credit Agreement, the performance by the Borrower and the Association of their respective obligations under the Development Credit Agreement and the accomplishment of the purposes of the Credit."; and

(f) 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.

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

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

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

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

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

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

(f) "IEC" means Information, Education and Communication;

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

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

(i) "PEDP" means the Borrower's Primary Education Development Program, adopted on July 11, 2001;

(j) "PMO" means the Borrower's Prime Minister's Office;

(k) "PO-RALG" means President's Office-Regional Administration and Local Government;

(l) "School Committees" means School Committees, established under Section 39, Subsection 3 of the Education Act, 1978, of the Borrower;

(m) "School Development Grant" means a grant provided by the Borrower to a School Committee to meet necessary expenditures for constructing, procuring and rehabilitating school infrastructure, furniture and equipment, based on Local Government Authority education plans;

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

(o) "Tanzanian Shillings" means the currency of the Borrower;

(p) "Third Tranche" means the Tranche of the proceeds of the Credit allocated to Category (3) in the table set forth in paragraph 1 of Schedule 1 to this Agreement;

(q) "Tranche" means any of the following: the Effectiveness Tranche, the Second Tranche and the Third Tranche; and

(r) "UPE" means universal primary education initiative, adopted by the Borrower in February of 1995.

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 this Agreement, an amount in various currencies equivalent to one hundred and nineteen million one hundred thousand Special Drawing Rights (SDR 119,100,000).

Section 2.02. (a) The Borrower shall open, prior to furnishing to the Association the first request for withdrawal from the Credit Account, and thereafter maintain in BOT, a Deposit Account in US dollars on terms and conditions satisfactory to the Association. All withdrawals from the Credit Account shall be deposited by the Association into the Deposit Account.

(b) Subject to the provisions of paragraph (c) of this Section, the Borrower shall be entitled to use the proceeds of the Credit withdrawn from the Credit Account and deposited into the Deposit Account in support of the Program.

(c) The Borrower undertakes that the proceeds of the Credit 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 Credit shall have been used to make a payment for an expenditure so excluded, the Borrower shall, promptly upon notice from the Association: (i) deposit into the Deposit Account an amount equal to the amount of said payment, or (ii) if the Association shall so request, refund such amount to the Association. Amounts refunded to the Association upon such request shall be credited to the Credit Account for cancellation.

Section 2.03. The Closing Date shall be October 31, 2004, 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 and service charges shall be payable semiannually on May 1 and November 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 May 1 and November 1 commencing November 1, 2011, and ending May 1, 2041. Each installment to and including the installment payable on May 1, 2021, 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

Particular Covenants

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

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

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

(d) If, after said exchange of views, the Association shall have given notice to the Borrower that the progress achieved and actions taken are not satisfactory and, within 90 days after such notice, the Borrower shall not have achieved progress and taken actions satisfactory to the Association, then the Association may, by notice to the Borrower, cancel the unwithdrawn amount of the Credit or any part thereof.

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

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

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

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

ARTICLE IV

Additional Event of Suspension

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

ARTICLE V

Effective Date; Termination

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

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

- (i) issued guidelines, satisfactory to the Association, for implementing its policy to admit all 7-10 year old children in primary schools by 2004;

- (ii) prepared terms of reference, satisfactory to the Association, for revising the design of in-service and pre-service teacher training programs, primary school curriculum, and examinations to facilitate enhanced student learning and classroom interaction;
- (iii) issued instructions, satisfactory to the Association, for School Committees to establish and operate bank accounts into which Capitation and School Development Grants will be disbursed; and
- (iv) designated an official in PMO for PEDP coordination, and designated program coordinators, all satisfactory to the Association, in the Ministry of Education and Culture and in PO-RALG, to facilitate PEDP implementation.

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

ARTICLE VI

Representative of the Borrower; Addresses

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

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

For the Borrower:

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

| Cable address: | Telex: | Facsimile |
|---------------------------|--------|--------------------|
| TREASURY Dar es Salaam | 41329 | (255) 222 11 77 90 |

For the Association:

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

| Cable address: | 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 the District of Columbia, United States of America, as of the day and year first above written.

THE UNITED REPUBLIC OF TANZANIA

By /s/ Mustafa Nyang'anyi

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Callisto Madavo

Regional Vice President
Africa

SCHEDULE 1

Withdrawal of the Proceeds of the
Credit and Excluded Expenditures

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

| Categories | Amount of the Credit Allocated (Expressed in SDR Equivalent) | % of Expenditures to be Financed |
|---------------------------|--|--|
| (1) Effectiveness Tranche | 39,700,000 | 100% |
| (2) Second Tranche | 39,700,000 | 100% |
| (3) Third Tranche | 39,700,000 | 100% |
| Total | 119,100,000 | |

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

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

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

(c) expenditures for goods included in the following groups or subgroups of the Standard International Trade Classification, Revision 3 (SITC, Rev.3), published by the United Nations in Statistical Papers, Series M, No. 34/Rev.3 (1986) (the SITC), or any successor groups or subgroups under future revisions to the SITC, as designated by the Association by notice to the Borrower:

| Group | Subgroup | Description of Items |
|-------|----------|---|
| 112 | - | Alcoholic beverages |
| 121 | - | Tobacco, unmanufactured, tobacco refuse |
| 122 | - | Tobacco, manufactured |

| | | | |
|-----|--------|------------------------------|---|
| | | | (whether or not containing tobacco substitutes) |
| 525 | - | | Radioactive and associated materials |
| 667 | - | | Pearls, precious and semiprecious stones, unworked or worked |
| 718 | 718.7 | | Nuclear reactors, and parts thereof; fuel elements (cartridges), non-irradiated, for nuclear reactors |
| 728 | 728.43 | Tobacco processing machinery | |
| 897 | 897.3 | | Jewelry of gold, silver or platinum group metals (except watches and watch cases) and goldsmiths' or silversmiths' wares (including set gems) |
| 971 | - | | Gold, non-monetary (excluding gold ores and concentrates); |

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

(e) expenditures for environmentally hazardous goods (for purposes of this paragraph the term "environmentally hazardous goods" means goods, the manufacture, use or import of which is prohibited under the laws of the Borrower or international agreements to which the Borrower is a party, and any other goods designated as environmentally hazardous by agreement between the Borrower and the Association);

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

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

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

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

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

Schedule 2 to this Agreement have been taken.

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

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

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

SCHEDULE 2

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

Part A: Conditions for the release of the Second Tranche

1. The Borrower has, in accordance with the provisions of the Annex to the LDP, achieved progress on PEDP annual performance indicators, including but not limited to: (a) number of classrooms constructed; (b) number of teachers trained; (c) pupil/teacher ratios and children enrolled; and (d) primary education budget allocated to materials, supplies and textbooks.

2. The Borrower has, in accordance with the provisions of paragraph 11 of the LDP, introduced double-shift teaching in at least 50 % of all primary school classrooms.

3. The Borrower has, in accordance with the provisions of paragraph 11 of the LDP: (a) approved a policy, including an incentive package, for the inter and intra district deployment of teachers, and (b) revised the design of in-service and pre-service teacher training programs, primary school curriculum and examinations, all satisfactory to the Association.

4. The Borrower has, in accordance with the provisions of paragraph 4 of the LDP, issued a strategy for the implementation of the national policy of non-formal and adult education.

5. The Borrower has, in accordance with the provisions of paragraph 10 of the LDP, issued guidelines and procedures to decentralize to the level of the School Committees, the procurement of textbooks, other learning materials and construction and furnishing of classrooms.

6. The Borrower has, in accordance with the provisions of paragraph 13 of the LDP, allocated adequate budget to cover: (a) the Capitation Grants to School Committees, (b) administrative costs related to Capitation Grants to Local Government Authorities, and (c) costs related to the provision of teachers to primary schools on the basis of a 1:45 teacher/pupil ratio.

7. The Borrower has, in accordance with the provisions of paragraph 11 of the LDP, issued detailed criteria for School Development Grant allocations among: (a) the Local Government Authorities; and (b) schools within the Local Government Authorities.

8. The Borrower has, in accordance with the provisions of the Annex to the LDP, distributed to the Local Authorities, the regional secretariats and the School Committees' financial management manuals related to the accounting, reporting and auditing of PEDP funds, including financial management manuals for the use of school committees and administrators at each level.

Part B: Conditions for the release of the Third Tranche

1. The Borrower has, in accordance with the provisions of the Annex to the LDP: (a)

achieved progress, satisfactory to the Association, on PEDP annual performance indicators as defined in the LDP; and (b) allocated at least 20 percent of the primary education budget to non-salary expenditures.

2. The Borrower has, in accordance with the provisions of paragraph 11 of the LDP, introduced double-shift teaching in 80% of all schools with a classroom/pupil ratio of 1:45.

3. The Borrower has, in accordance with the provisions of paragraph 11 of the LDP, made progress, satisfactory to the Association, in the implementation of incentive schemes for teacher deployment to teacher deficit districts and schools.

4. The Borrower has, in accordance with the provisions of paragraphs 9 and 11 of the LDP, made progress, satisfactory to the Association, in the implementation of the revised in-service and pre-service teacher training programs, primary school curriculum, and examinations to facilitate enhanced student learning and classroom interaction.

5. The Borrower has, in accordance with the provisions of paragraph 10 and the Annex of the LDP: (a) provided evidence that School Committees have completed school development plans, and that School Committees have fully operating bank accounts; and (b) trained staff with direct responsibility for PEDP management in participatory planning, implementation, monitoring and evaluation, as well as policy analysis and formulation.

6. The Borrower has, in accordance with the provisions of paragraph 8 and the Annex to the LDP: (a) established an Improved Educational Management Information System (EMIS), satisfactory to the Association; (b) implemented a decentralized textbook procurement system in all local government authorities that permits schools to procure textbooks; (c) strengthened the school inspection system under which each school is inspected at a minimum once every two years.

7. The Borrower has, in accordance with the provisions of paragraph 13 of the LDP, allocated adequate budget to cover: (a) the Capitation Grants and School Development Grants to School Committees, (b) administrative costs related to Capitation Grants and School Development Grants to Local Government Authorities, and (c) costs related to the provision of teachers to primary schools on the basis of a 1:45 teacher/pupil ratio.

