

CONFORMED COPY

CREDIT NUMBER 2967 TA

Development Credit Agreement

(Structural Adjustment Credit)

between

UNITED REPUBLIC OF TANZANIA

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated September 12, 1997

CREDIT NUMBER 2967 TA

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated September 12, 1997, between UNITED REPUBLIC OF TANZANIA (the Borrower) and INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association).

WHEREAS (A) the Association has received a letter dated May 2, 1997 and amended by letter dated August 28, 1997 (hereinafter called the Letter of Development Policy) from the Borrower describing a program of actions, objectives and policies designed to achieve structural adjustment of the Borrower's economy (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) 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 five tranches as hereinafter provided;

(C) the Borrower intends to obtain from the Kingdom of Norway (Norway), a grant (the Norwegian Grant) in an amount of twenty-five million Norwegian Kroner (NOK 25,000,000) to assist in financing the Program on the terms and conditions set forth in an agreement (the Norwegian Grant Agreement) to be entered into between the Borrower and Norway; 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, with the modifications thereto set forth below (the General Conditions) constitute an integral part of this Agreement:

(a) Section 2.01, paragraph 9, 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) the last sentence of Section 3.02 is deleted;

(c) 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.";

(d) 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;

(e) the last sentence of Section 5.03 is deleted;

(f) 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

(g) 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) "IDA Reflow" means an amount equivalent to two million eight hundred thousand Special Drawing Rights (SDR 2,800,000) made available by the Association for the benefit of the Borrower under the Association's Fiscal Year 1997 Allocations of IDA Reflows, as set forth in Resolution IDA/R96-178 dated November 5, 1996;

(b) "First Tranche" means the portion of the Credit not exceeding the equivalent of thirty-eight million nine hundred and fifty thousand Special Drawing Rights (SDR 38,950,000) (including therein an amount of two million eight hundred thousand Special Drawing Rights (SDR 2,800,000) being the amount of the IDA Reflow) to be released by the Association on or after the Effective Date;

(c) "Social Sector Tranche" means the portion of the Credit not exceeding the equivalent of eighteen million one hundred thousand Special Drawing Rights (SDR 18,100,000) to be released by the Association after the Borrower has carried out the actions specified in Part A of Schedule 2 to this Agreement and otherwise complied with the provisions of Section 2.02 (d) of this Agreement;

(d) "Parastatal Reform Tranche" means the portion of the Credit not exceeding the equivalent of ten million eight hundred and fifty thousand Special Drawing Rights

(SDR 10,850,000) to be released by the Association after the Borrower has carried out the actions specified in Part B of Schedule 2 to this Agreement and otherwise complied with the provisions of Section 2.02 (d) of this Agreement;

(e) "Banking Sector Tranche" means the portion of the Credit not exceeding the equivalent of eighteen million one hundred thousand Special Drawing Rights (SDR 18,100,000) to be released by the Association after the Borrower has carried out the actions specified in Part C of Schedule 2 to this Agreement and otherwise complied with the provisions of Section 2.02 (d) of this Agreement;

(f) "Petroleum Sector Tranche" means the portion of the Credit not exceeding the equivalent of seven million two hundred thousand Special Drawing Rights (SDR 7,200,000) to be released by the Association after the Borrower has carried out the actions specified in Part D of Schedule 2 to this Agreement and otherwise complied with the provisions of Section 2.02 (d) of this Agreement;

(g) "Subsequent Tranches" means, collectively, the Social Sector Tranche, the Parastatal Reform Tranche, the Banking Sector Tranche, and the Petroleum Sector Tranche, and "Subsequent Tranche" means any of the Subsequent Tranches;

(h) "District" means each of the Borrower's local government units established under Section 5 (1) of its Local Government (District Authority) Act Number 7 of 1982;

(i) "BOT" means Bank of Tanzania, the Borrower's Central Bank;

(j) "NBC" means the National Bank of Commerce;

(k) "TRC" means Tanzania Railways Corporation;

(l) "TPDC" means the Tanzania Petroleum Development Corporation;

(m) "Tanzania Shilling" and "Tsh." mean the currency of the Borrower;

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

(o) "Fiscal Year" means the fiscal year of the Borrower which commences on July 1 in each calendar year and ends on June 30 of the subsequent calendar year.

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 ninety-three million two hundred thousand Special Drawing Rights (SDR 93,200,000) which includes an amount in various currencies equivalent to two million eight hundred thousand Special Drawing Rights (SDR 2,800,000) representing an IDA Reflow allocation made by the Association.

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 its central bank, a deposit account in 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 paragraphs (c) and (d) of this Section, the Borrower shall be entitled to use the proceeds of the Credit withdrawn from the Credit Account and deposited in 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.

(d) No withdrawals shall be made from the Credit Account after the aggregate of the proceeds of the Credit withdrawn from the Credit Account shall have reached the amount of the First Tranche unless, with respect to each Subsequent Tranche, the Association shall be satisfied, after an exchange of views as described in Section 3.01 of this Agreement and based on evidence satisfactory to the Association:

(i) with the progress achieved by the Borrower in the carrying out of the Program;

(ii) that the Borrower's macroeconomic policy framework is consistent with the objectives of the Program; and

(iii) that the Borrower has carried out the actions specified in the respective paragraph of Schedule 2 to this Agreement for that Subsequent Tranche.

(e) If, after any of the 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 2.03. The Closing Date shall be December 31, 1998 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 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 semi-annual installments payable on each January 15 and July 15 commencing July 15, 2007 and ending January 15, 2037. Each installment to and including the installment payable on January 15, 2017 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.

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 (h) 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:

(a) in its proposed budget for Fiscal Year 1998, the Borrower's cabinet has, in accordance with the provisions of paragraph 16 of the Letter of Development Policy, made the budgetary allocation for its health, education, water, power and transport sectors set forth in such paragraph;

(b) in its proposed budget for Fiscal Year 1998, the Borrower's cabinet has, in accordance with the social sector reform plan set forth in paragraphs 20 and 21 of the Letter of Development Policy, made the budgetary allocation for recurrent expenditures for primary education set forth in such paragraph;

(c) the Borrower has prepared a telecommunications sector competition policy in accordance with the parastatal reform plan set forth in paragraph 23 of the Letter of Development Policy;

(d) in accordance with the banking sector reform plan set forth in paragraphs 24 and 25 of the Letter of Development Policy, the Borrower has dissolved NBC, created three new banks and a holding company and transferred the assets and liabilities of NBC to the three new banks or to the holding company, as appropriate; and

(e) the Borrower has entered into a contract or contracts with a consultant or consultants acceptable to the Borrower and the Association on terms and conditions acceptable to the Borrower and the Association for the preparation of proposals for concession arrangements for the container terminal at Dar es Salaam.

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 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 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:

TREASURY
Dar es Salaam

Telex:

41329

For the Association:

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

Telex:

INDEVAS
Washington, D.C.

248423 (MCI) or
64145 (MCI)

IN WITNESS WHEREOF, the parties hereto, acting through their duly authorized representatives, have caused this Agreement to be signed in their respective names in the District of Columbia, United States of America, as of the day and year first above written.

UNITED REPUBLIC OF TANZANIA

By /s/ Mustafa Nyang'anyi

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Callisto Madavo

Regional Vice President
Africa

SCHEDULE 1

Excluded Expenditures

For purposes of Section 2.02 (c) of this Agreement, the proceeds of the Credit 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 loan or a credit.
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:

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
fuel for	718	718.7	Nuclear reactors, and parts thereof; elements (cartridges), non-irradiated, 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 and any other goods designated as environmentally hazardous by agreement between the Borrower and the Association).

6. Expenditures (a) 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 (b) 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.

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 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.

SCHEDULE 2

Actions Referred to in Section 2.02 (d) of this Agreement

Part A: Social Sector Reform Plan

1. In accordance with the public expenditure management plan referred to in paragraphs 17 to 19 of the Letter of Development Policy, the Borrower has reduced the number of projects in its public sector development portfolio to 800 or less, using the guidelines and criteria set forth in paragraph 18 of the Letter of Development Policy.

2. In accordance with the education and training policy referred to in paragraphs 20 and 21 of the Letter of Development Policy, the Borrower has:

(a) adopted an action plan (with specific budgetary proposals), agreed upon between the Borrower and the Association, for the recruitment, training, upgrading, deployment and redeployment of primary school teachers;

(b) issued a ministerial circular (i) providing for District education officers and teachers to be recruited and hired (subject, in the case of District education officers, to approval by the ministry of the Borrower responsible for

education) by the District councils in at least 20 pilot districts; and (ii) transferring all subsidies for primary education in such pilot districts to the District councils as block grants to cover salaries and other expenses based on a formula agreed upon between the Borrower and the Association;

(c) prepared an action plan, agreed upon between the Borrower and the Association, for transferring the management of primary schools to local school committees; and

(d) prepared an action plan, agreed upon between the Borrower and the Association, for the reform of technical and higher education and technical training.

3. In accordance with the health sector reform plan referred to in paragraph 22 of the Letter of Development Policy, the Borrower has:

(a) implemented the plan described in paragraph 22 of the Letter of Development Policy to finance the full cost of pharmaceuticals delivered to hospitals within the framework of a hospital-based revolving fund involving cost sharing and subsidies with cost sharing by patients covering at least 50% of the costs;

(b) issued a ministerial circular (i) providing for the District medical officers and all other district level health staff to be recruited and hired (subject, in the case of District medical officers, to approval by the ministry of the Borrower responsible for health) by the District councils in at least 20 pilot districts; and (ii) transferring all subsidies for primary health care to the District councils as block grants to cover salaries and other expenses; and

(c) prepared an action plan agreed upon between the Borrower and the Association to reduce the number of life years lost to malaria.

Part B: Parastatal Sector Reform Plan

1. In accordance with the parastatal sector reform plan referred to in paragraph 23 of the Letter of Development Policy, the Borrower has:

2. taken all steps within its control to bring the following enterprises to the point of sale: (i) Mbeya Cement; (ii) the Sugar Development Corporation Limited; (iii) the Southern Paper Mills; (iv) Morogoro Polyester; (v) National Milling Corporation; (vi) Tanzania Tea Authority; and (vii) the Tanzania Sisal Authority; entered into a contract, acceptable to the Association, with a private enterprise for the management, under the terms set forth in paragraph 23 of the Letter of Development Policy, of the container terminal at Dar es Salaam Port; abolished the monopoly position of the National Shipping Agencies Company Limited in shipping agency services and permitted free international competition under the standards agreed with the Association;

3. amended the Tanzania Central Freight Bureau (Establishment) Act (Act Number 3 of 1981) so as to revoke the authority of the Tanzania Central Freight Bureau or any other agency to exclusively negotiate freight rates;

4. taken all steps within its control to bring the marine services division of TRC to the point of sale; and

5. taken all steps within its control to bring the Tanzania Telecommunications Company Limited to the point of sale.

6. For the purposes of this paragraph, "taking all steps within its control to bring to the point of sale" requires the Borrower to have (a) carried out a valuation of the enterprise or division as the case may be, (b) prepared an information memorandum for the enterprise or division in question as the case may be, (c) solicited offers directly or through advertisement(s) in appropriate newspapers, (d) evaluated any offers and selected successful bidder(s), and (e) invited the successful bidder(s) to enter into good faith negotiations.

Part C: Banking Sector Reform Plan

1. In accordance with the banking sector reform plan set forth in paragraphs 24 and 25 of the Letter of Development Policy, the Borrower has brought to the point of sale

the three banks to be created out of NBC as set forth in Section 5.01 (d) of this Agreement.

2. For the purposes of this paragraph, "brought to the point of sale" requires the Borrower to have (i) prepared and distributed investment memoranda for each of the three banks, (ii) solicited offers directly or through advertisement(s) in appropriate newspapers, from commercial banks meeting criteria agreed upon between the Borrower and the Association under terms and conditions agreed upon between the Borrower and the Association and (iii) evaluated any offers and selected successful bidder(s), if any, and (iv) invited the successful bidder(s), if any, to enter into good faith negotiations.

Part D: Petroleum Sector Reform Plan

In accordance with the petroleum sector reform plan set forth in paragraph 26 of the Letter of Development Policy, the Borrower has: abolished all price and import controls for petroleum products as set forth in paragraph 26 of the Letter of Development Policy; and in the Finance Act 1998, removed the tax differentials between various petroleum products.

