

CONFORMED COPY

CREDIT NUMBER 2771 TA

Development Credit Agreement
(Financial Institutions Development Project)

between

UNITED REPUBLIC OF TANZANIA

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated October 27, 1995

CREDIT NUMBER 2771 TA

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated October 27, 1995, between UNITED REPUBLIC OF TANZANIA (the Borrower) and INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association).

WHEREAS (A) the Association has received a letter, dated February 23 1995, from the Borrower describing a program of actions, objectives and policies designed to strengthen and reform the Borrower's financial sector (hereinafter called the Program), and declaring the Borrower's commitment to the execution of the Program;

(B) 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;

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 last sentence of Section 3.02 deleted (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) "MOF/URT" means the Borrower's Ministry of Finance;
- (b) "MOF/GOZ" means the Ministry of Finance of the Government of Zanzibar, part of the Borrower's territory;
- (c) "BOT" means the Bank of Tanzania established pursuant to the Bank of Tanzania Act, No. 12 of 1965 as amended;
- (d) "Project Preparation Advance" means the project preparation advance granted by the Association to the Borrower pursuant to a letter from the Association, dated January 17, 1995 and countersigned by the Borrower on January 25, 1995.
- (e) "Special Account" means the account referred to in Section 2.02 (b) of this Agreement;
- (f) "NBC" means the National Bank of Commerce established pursuant to the National Bank of Commerce Act, No. 1 of 1967, as amended;
- (g) "PBZ" means the People's Bank of Zanzibar incorporated in 1966 under the Companies Decree, Chapter 153 of the Laws of Zanzibar;
- (h) "TIB" means the Tanzania Investment Bank, established pursuant to the Tanzania Investment Bank Act, No. 20 of 1970, as amended;
- (i) "THB" means the Tanzania Housing Bank, established pursuant to the Tanzania Housing Bank Act, No. 34 of 1972, as amended;
- (j) "PTF" means the Privatization Trust Fund referred to in Part C.2 of the Project, to be established by the Borrower and to which the Borrower shall transfer retained shares of privatized parastatals, with a view to the distribution of said shares to Tanzanian nationals through collective instruments and/or the stock exchange;
- (k) "CMSA" means the Capital Markets and Securities Authority established pursuant to the Capital Markets and Securities Act, No. 5 of 1994;
- (l) "Government Securities" means bonds, notes, certificates of indebtedness and other negotiable or transferable instruments evidencing the public debt of the Borrower; and
- (m) "TZS" means Tanzania Shillings, the Borrower's currency.

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 seven million five hundred thousand Special Drawing Rights (SDR 7,500,000).

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 described in Schedule 2 to this Agreement 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 a commercial bank on terms and conditions satisfactory to the Association, including appropriate protection against set-off, seizure or attachment. 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 June 30, 1999, 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 or 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 payment 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 March 15 and September 15 in each year.

Section 2.07. (a) Subject to paragraphs (b) and (c) below, the Borrower shall repay the principal amount of the Credit in semi-annual installments payable on each March 15 and September 15 and commencing September 15, 2005, and ending March 15, 2035. Each installment to and including the installment payable

on March 15, 2015, 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 gross national product per capita, as determined by the Association, shall have exceeded \$790 in constant 1985 dollars for five consecutive years; 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 terms of repayment of installments under paragraph (a) above by 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. If so requested by the Borrower, the Association may revise such modification 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.

(c) 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 Kingdom of Great Britain and Northern Ireland 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 BOT, all 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. Without limitation upon the provisions of Article IX of the General Conditions, the Borrower shall:

(a) prepare, on the basis of guidelines acceptable to the Association, and furnish to the Association 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, a plan for the future operation of the Project;

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

(c) thereafter, carry out said plan with due diligence and efficiency and in accordance with appropriate administrative, financial sector and capital market practices, taking into account the Association's comments thereon.

Section 3.04. The Borrower shall until completion of the Project: (a) furnish annually to the Association not later than six months immediately following the end of the respective financial years of NBC and PBZ, the annual financial accounts of NBC and PBZ, audited by independent auditors selected in accordance with the provisions of the Borrower's Banking and Financial Institutions Act, No. 12 of 1991; and (b) prior to furnishing each of the said accounts ensure that (i) adjustments requested by the said auditors in the said accounts shall be made by NBC and PBZ in the accounts; and (ii) any loan of NBC and PBZ classified as a loss, in accordance with the BOT directives, shall be written off.

Section 3.05. The Borrower shall by October 31, 1995, based on the diagnostic evaluation: (a) offer for sale at least one urban branch network of NBC; and (b) identify a joint venture partner for the corporate subsidiary of NBC.

Section 3.06. The Borrower shall by October 31, 1995: (a) appoint, or cause to be appointed, a General Manager and a Financial Controller to assist PBZ under terms of reference and with qualifications, acceptable to the Borrower and the Association; and (b) ensure that PBZ has commenced implementation of the restructuring plan referred to in Part A.2 of the Project.

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, 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
- (iii) furnish to the Association such other information concerning said records, 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, the Borrower shall:

- (i) maintain or cause to be maintained, in accordance with paragraph (a) of this Section, records and 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 or payment out of the Special 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 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.

ARTICLE V

Remedies of the Association

Section 5.01. 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 VI

Effectiveness; Termination

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

(a) the Borrower has completed the diagnostic evaluation of NBC and has furnished to the Association a time-bound action plan, including an interim business plan and a recovery plan for NBC's top fifty non-performing loans, satisfactory to the Association, for the implementation of the downsizing and restructuring of NBC;

(b) NBC has appointed consultants to carry out the divestiture strategy referred to in Section 3.05 of this Agreement and Part A.1 of the Project; and

(c) the Borrower has contracted the banking advisory services referred to in paragraph 2 of Schedule 4 to this Agreement.

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, at the time responsible for Finance of the Borrower, 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

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:

INDEVAS
Washington, D.C.

Telex:

248423 (RCA)
82987 (FTCC)
64145 (WUI) or
197688 (TRT)

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/ Edward V.K. Jaycox

Regional Vice President, Africa

SCHEDULE 1

Withdrawal of the Proceeds of the Credit

1. The table below sets forth the Categories of items to be financed out of the proceeds of the Credit, the allocation of the amounts of the Credit to each Category and the percentage of expenditures for items so to be financed in each Category:

Amount of the Credit Allocated	% of Expenditures
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Category	(Expressed in SDR Equivalent)	to be Financed
(1) Equipment, vehicles and computers	340,000	100% of foreign expenditures and 75% of local expenditures
(2) Consultants' services for the Project (other than Part B.3 of the Project)	4,800,000	80%
(3) Training	480,000	100%
(4) Consultants' services for Part B.3 of the Project	1,030,000	80%
(5) Refunding of Project Preparation Advance	550,000	Amount due pursuant to Section 2.02 (c) of this Agreement
(6) Unallocated	300,000	
TOTAL	7,500,000	

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; and

(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.

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; and (b) any study to be financed under Category (4) until the Association has approved the terms of reference for such study.

4. The Association may require withdrawals from the Credit Account to be made on the basis of statements of expenditure for expenditures for goods, services and training under contracts not exceeding \$30,000 equivalent, 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: (i) encourage competition in the commercial banking sector; (ii) strengthen banking regulation and supervision; (iii) improve the payment system; (iv) promote and support parastatal reforms, including privatization, of state-owned enterprises; (v) develop a market for Government Securities; (vi) establish a regulatory structure for securities markets and insurance; and (vii) develop a corporate securities market.

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

1. Implementation of a divestiture strategy for NBC, based on the findings and recommendations of the diagnostic evaluation, including: (a) the strengthening and reorganization of NBC and its operations under professional management; (b) the divestiture of at least one urban branch network; (c) the establishment of a joint venture corporate subsidiary; and (d) a plan for addressing NBC's impaired loan portfolio.
2. Restructuring of PBZ under professional management, into a viable commercial bank, including the preparation of a business plan, formulation of appropriate policies and operating procedures, installation of effective internal control, the design of a marketing strategy and the introduction of new financial services.
3. Provision of advisory services to MOF/URT and MOF/GOZ, to monitor the implementation of the restructuring plans for NBC, PBZ, TIB and THB.

Part B: Financial Infrastructure Strengthening

1. Strengthening BOT's Bank Supervision Directorate through the training of its staff in supervision of problem institutions, on-site examinations and methodology development.
2. Establishment of an insurance commission, including drafting and implementation of prudential regulations for licensing, regulating and supervising insurance companies.
3. Carrying out of: (a) studies to assess the feasibility of: (i) the development of a national payments and clearing system; and (ii) the establishment of a credit information bureau; and (b) such other studies identified by the Borrower and the Association, as shall facilitate the carrying out of this Part of the Project.

Part C: Capital Markets Development

1. (a) Assisting and strengthening CMSA in the regulation and development of the capital market, including the establishment of a viable capital market in Tanzania and the preparation of such regulations as shall be necessary for the purpose.
 - (b) Training of dealers and potential stockbrokers.
 - (c) Carrying out a basic publicity and educational program for the general public, including nationwide distribution of information.
 - (d) Completion of the first public issue, including design of distribution procedures, determination of offer prices and allotment procedures.
 - (e) Preparation of a stock exchange blue-print and action plan.
2. Establishment and management of the Privatization Trust Fund.

* * *

The Project is expected to be completed by December 31, 1998.

SCHEDULE 3

Procurement and Consultants' Services

Section I. Procurement of Goods

Part A: International Competitive Bidding

1. Except as provided in Part C hereof, goods shall be procured under contracts awarded in accordance with procedures consistent with those set forth in Sections I and II of the "Guidelines for Procurement under IBRD Loans and IDA Credits" published by the Bank in May 1992 (the Guidelines), and in accordance with the following additional procedures:

(a) When contract award is delayed beyond the original bid validity period, such period may be extended once, subject to and in accordance with the provisions of paragraph 2.59 of the Guidelines, by the minimum amount of time required to complete the evaluation, obtain necessary approvals and clearances and award the contract. The bid validity period may be extended a second time only if the bidding documents or the request for extension shall provide for appropriate adjustment of the bid price to reflect changes in the cost of inputs for the contract over the period of extension. Such an increase in the bid price shall not be taken into account in the bid evaluation. With respect to each contract made subject to the Association's prior review in accordance with the provisions of Part D.1 (a) of this Section, the Association's prior approval will be required for: (i) a first extension of the bid validity period if the period of extension exceeds sixty days; and (ii) any subsequent extension of the bid validity period.

(b) In the procurement of goods in accordance with this Part A, the Borrower shall use the relevant standard bidding documents issued by the Bank, with such modifications thereto as the Association shall have agreed to be necessary for the purposes of the Project. Where no relevant standard bidding documents have been issued by the Bank, the Borrower shall use bidding documents based on other internationally recognized standard forms agreed with the Association.

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

Part B: Preference for Domestic Manufacturers

In the procurement of goods in accordance with the procedures described in Part A.1 hereof, goods manufactured in Tanzania may be granted a margin of preference in accordance with, and subject to, the provisions of paragraphs 2.55 and 2.56 of the Guidelines and paragraphs 1 through 4 of Appendix 2 thereto.

Part C: Other Procurement Procedures

1. All vehicles, up to an aggregate amount not to exceed \$100,000 equivalent, may be procured under contracts awarded on the basis of competitive bidding, advertised locally, in accordance with procedures satisfactory to the Association.

2. Items or groups of items for goods estimated to cost the equivalent of \$50,000 or less per contract, up to an aggregate amount not to exceed \$100,000 equivalent, may be procured under contracts awarded on the basis of comparison of price quotations obtained from at least three suppliers eligible under the Guidelines, in accordance with procedures acceptable to the Association.

Part D: Review by the Association of Procurement Decisions

1. Review of invitations to bid and of proposed awards and final contracts:

(a) 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 4 of Appendix 1 to the Guidelines

shall apply. Where payments for such contract are to be made out of the Special Account, such procedures shall be modified to ensure that the two conformed copies of the contract required to be furnished to the Association pursuant to said paragraph 2 (d) shall be furnished to the Association prior to the making of the first payment out of the Special Account in respect of such contract.

(b) With respect to each contract not governed by the preceding paragraph, the procedures set forth in paragraphs 3 and 4 of Appendix 1 to the Guidelines shall apply. Where payments for such contract are to be made out of the Special Account, such procedures shall be modified to ensure that the two conformed copies of the contract together with the other information required to be furnished to the Association pursuant to said paragraph 3 shall be furnished to the Association as part of the evidence to be furnished pursuant to paragraph 4 of Schedule 5 to this Agreement.

(c) The provisions of the preceding subparagraph (b) shall not apply to contracts on account of which withdrawals from the Credit Account are to be made on the basis of statements of expenditure.

2. The figure of 15% is hereby specified for purposes of paragraph 4 of Appendix 1 to the Guidelines.

Section II. Employment of Consultants

1. In order to assist the Borrower in carrying out the Project, the Borrower shall employ consultants whose qualifications, experience and terms and conditions of employment shall be satisfactory to the Association. Such consultants shall be selected in accordance with principles and procedures satisfactory to the Association on the basis of the "Guidelines for the Use of Consultants by World Bank Borrowers and by the World Bank as Executing Agency" published by the Bank in August 1981 (the Consultant Guidelines). For complex, time-based assignments, the Borrower shall employ such consultants under contracts using the standard form of contract for consultants' services issued by the Bank, with such modifications as shall have been agreed by the Association. Where no relevant standard contract documents have been issued by the Bank, the Borrower shall use other standard forms agreed with the Association.

2. Notwithstanding the provisions of paragraph 1 of this Section, the provisions of the Consultant Guidelines requiring prior Association review or approval of budgets, short lists, selection procedures, letters of invitation, proposals, evaluation reports and contracts shall not apply to contracts for the employment of consulting firms estimated to cost less than \$50,000 equivalent each. However, this exception to prior Association review shall not apply to: (a) the terms of reference for such contracts or to the employment of individuals, (b) single-source selection of consulting firms, (c) assignments of a critical nature, as reasonably determined by the Association, or (d) amendments to contracts for the employment of consulting firms raising the contract value to \$50,000 equivalent or above.

SCHEDULE 4

Implementation Program

1. BOT shall be responsible for supervising the carrying out of the Project, coordinating its implementation and monitoring its progress. The Director of the Financial Markets Directorate within BOT, shall be responsible for: (a) administering Project funding and procurement processing, (b) managing the Special Account and other project accounts, and overseeing and coordinating Project implementation activities by various

institutions, (c) following up on the agreed conditions and financial provisions, and (d) furnishing to the Association periodic Project progress reports.

2. The Borrower shall appoint and maintain until completion of the Project, banking advisers with qualifications and under terms of reference acceptable to the Association, to assist the MOF/URT and MOF/GOZ in supervising the restructuring of NBC, PBZ, TIB and THB.

3. The Borrower shall: (a) furnish to the Association, no later than October 31, 1995, NBC's finalized business plan, including a recovery plan for NBC's non-performing loans; and (b) promptly thereafter cause NBC to carry out its operations in accordance with the performance targets contained therein.

4. The Borrower shall ensure that NBC promptly furnishes BOT with monthly reports on outstanding loans to large borrowers. For the purposes of this paragraph, the term 'large borrowers' is defined as the borrowers with outstanding loans of TZS 100 million and above.

5. The Borrower shall cause BOT to: (a) by October 31, 1995, furnish to the Association, for its review and comments, the 1995/1996 annual work program for the Banking Supervision Directorate, including the terms of reference and work program of the consultants required to assist in the implementation of Part B.1 of the Project; and (b) by March 31 in each year commencing 1996, furnish to the Association, for its review and comments, an annual program for the Banking Supervision Directorate, for the year next following each such year.

6. The Borrower shall cause BOT to furnish to the Association: (a) by October 31, 1995, an annual report on the financial status of all banks with action plans, for its review and comments, for problem institutions identified in such report; and (b) by September 30 in each year commencing 1996, the annual reports on the financial status of all banks and financial institutions, with action plans for problem institutions identified in such reports.

7. The Borrower shall by December 31, 1995, furnish to the Association for its review and comments the work plan for the establishment of the Insurance Commission, referred to in Part B.2 of the Project, including details of resource requirements.

8. The Borrower shall: (a) maintain until completion of the Project a Chief Executive Officer of the CMSA, with qualifications and under terms of reference, acceptable to the Association;

(b) by October 31, 1995, furnish to the Association, an annual work program and budget for CMSA, for review and comments for 1996; and

(c) by September 30 in each year, commencing in 1996, furnish to the Association an annual work program and budget for CMSA, for review and comments, for the year next following each such year.

9. The Borrower shall ensure that by December 31, 1995: (a) a management team for the PTF, acceptable to the Association, has been selected; and (b) a draft management contract for the PTF has been furnished to the Association for its comments.

10. (a) The Borrower shall, through BOT, no later than March 31, 1997, and in collaboration with MOF/GOZ, NBC, PBZ and CMSA carry out, jointly with the Association, a mid-term review of the progress made in carrying out the Project and the Program. The terms of reference of such review shall be acceptable to the Association and shall include an assessment of:

- (i) the progress made in implementing the Project;
- (ii) NBC's performance as against the performance targets in its business plan;
- (iii) implementation of PBZ's restructuring plan;
- (iv) the restructuring of the banking sector;
- (v) improvements in the regulatory environment for the financial sector; and
- (vi) project management.

(b) The Borrower shall, three months before such review, prepare and furnish to the Association the reports, in scope and detail satisfactory to the Association, needed to undertake the review, including the preparation of a program of action, to deal with deficiencies in Project implementation identified prior to such review.

(c) Based on such review, the Borrower shall promptly prepare an action plan, satisfactory to the Association, for the further implementation of the Project and the Program, and shall thereafter implement such action plan.

SCHEDULE 5

Special Account

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means Categories (1) through (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 \$500,000 to be withdrawn from the Credit Account and deposited in 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 \$250,000 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 2,000,000.

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 a deposit or deposits 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, less the amount of any outstanding special commitment 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 (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.

