

PD-ABE-609

78397

A.I.D. Program No. 621-0175
Dollar Appropriation No. 72-112/31014
Budget Plan Code: GSS2-92-31621-KG39
Program Agreement No. PRO-GR-AG-NO-92-01
Amount FY92 Obligation: \$ 10,000,000
RCN: T926045

FUNDS AVAILABLE

Office of the Controller USAID/TANZANIA

PROGRAM GRANT AGREEMENT

Date: 8/28/92

between

THE UNITED REPUBLIC OF TANZANIA

and

THE UNITED STATES OF AMERICA

acting through

THE AGENCY FOR INTERNATIONAL DEVELOPMENT

for

FINANCE AND ENTERPRISE DEVELOPMENT PROGRAM

Dated: August 28, 1992

| | |
|---|----|
| Article 1: <u>The Grant.</u> | 3 |
| Article 2: <u>Grantee Resources for the Program.</u> | 3 |
| Section 2.1 <u>General</u> | 3 |
| Section 2.2 <u>Specific.</u> | 3 |
| Article 3: <u>Dollar Disbursements.</u> | 3 |
| Article 4: <u>Conditions Precedent to Disbursement.</u> | 4 |
| Section 4.1 <u>Conditions Precedent to First Tranche</u> | 4 |
| Section 4.4 <u>Prior Actions</u> | 6 |
| Section 4.5 <u>Terminal Dates for Satisfaction of Conditions Precedent.</u> | 6 |
| Section 4.6 <u>Notification</u> | 7 |
| Article 5 <u>Uses of Dollars.</u> | 7 |
| Section 5.1 <u>Special Dollar Account</u> | 7 |
| Section 5.2 <u>Utilization of Dollars</u> | 7 |
| Article 6 <u>Special Local Currency Account.</u> | 7 |
| Article 7 <u>Miscellaneous.</u> | 8 |
| Section 7.1 <u>Reports, Records, Inspections, Audit.</u> | 8 |
| Section 7.2 <u>Program Implementation Letters</u> | 9 |
| Section 7.3 <u>Program Evaluations</u> | 9 |
| Section 7.4 <u>Consultation</u> | 10 |
| Section 7.5 <u>Completeness of Information</u> | 10 |
| Section 7.6 <u>Taxation</u> | 10 |
| Section 7.7 <u>Publicity</u> | 10 |
| Section 7.8 <u>Suspension and Termination.</u> | 10 |
| Section 7.9 <u>Representatives</u> | 11 |
| Section 7.10 <u>Communications</u> | 11 |
| Section 7.11 <u>Exchange Rate</u> | 12 |
| Section 7.12 <u>Terminal Date for Disbursement</u> | 12 |

FINANCE AND ENTERPRISE DEVELOPMENT PROGRAM AGREEMENT

This Agreement, dated _____, 1992, is hereby entered into by and between the Government of the United Republic of Tanzania ("Grantee") and the Government of the United States of America, together referred to as the "Parties".

Article 1: The Grant.

For the purpose of assisting the Grantee in its efforts to foster income earning opportunities for the unemployed and underemployed by stimulating private enterprise growth (the "Program"), A.I.D., pursuant to the U.S. Foreign Assistance Act of 1961, as amended, hereby grants to the Government of the United Republic of Tanzania, subject to the terms and conditions of this Agreement, an amount not to exceed Ten Million United States Dollars (U.S.\$10,000,000). Such amount represents the first tranche of what is anticipated to be a total Program grant in the amount of Forty Million United States Dollars (U.S.\$40,000,000) (the "Grant"). Obligation and disbursement of subsequent tranches will be subject to (1) the mutual agreement of the parties to proceed at the time of each subsequent tranche; (2) the availability of funds to A.I.D. for such purpose in accordance with the usual allocation process of the U.S. Office of Management and Budget; and (3) satisfaction of the conditions precedent in Article 4 below. The overall Program is described in more detail in Annex 1 to this Agreement. Within the limits of the above definition of the Program and the conditions precedent in Article 4 below, elements of the amplified Program description in Annex 1 may be changed by written agreement of the authorized representatives of the Parties, which representatives shall be designated in accordance with Section 7.9 below, without formal amendment of this Agreement.

Article 2: Grantee Resources for the Program.

Section 2.1 General. The Grantee agrees to provide or cause to be provided for the Program all funds, in addition to the Grant, and all other resources required to carry out the Program effectively and in a timely manner.

Section 2.2 Specific. The resources to be provided by the Grantee for the Program will not be less than the equivalent of Forty Million United States Dollars (\$40,000,000) over the life of the program, including costs borne on an "in kind" basis.

Article 3: Dollar Disbursements.

The Grant shall be disbursed in three separate tranches. Grantee may obtain disbursement of each tranche by written request to A.I.D. following receipt of the notification described in Section 4.5 below that the conditions precedent for that particular tranche have been satisfied. The funds shall be disbursed into the Special Dollar Account described in Article 5 below and used only for the purposes and in accordance with the terms of such Article 5.

Article 4: Conditions Precedent to Disbursement.

Section 4.1 Conditions Precedent to First Tranche. Prior to the first tranche of the Grant, which shall be in the amount of Ten Million U.S. Dollars (\$10,000,000), Grantee shall, except as the Parties may otherwise agree in writing, furnish to A.I.D., in form and substance satisfactory to A.I.D.:

- (a) A statement representing and warranting that the named person or persons have the authority to act as the representative or representatives of the Grantee pursuant to section 7.2, together with a specimen signature of each person certified as to its authenticity;
- (b) Documentation that the Grantee has established a separate, non-commingled Special Local Currency Account for deposits of local currency as required by Article 6 below. The permissible utilization of said deposits are set forth in such Article 6. Close AEPRP and PL 480 Title II.
- (c) Evidence that the Bank of Tanzania has:
 - (i) completed its internal review of the Bank of Tanzania Act to ensure consistency with the Banking and Financial Institutions Act of 1991;
 - (ii) elevated the Bank Supervision Department to Directorate Status;
 - (iii) completed the Capital Adequacy and Asset Concentration regulations;
 - (iv) scheduled loan portfolio reviews for TIB and THB.
 - (v) inaugurated discount window surveillance by monitoring the amounts and quality of credit extended.
 - (vi) initiated (prepared Terms of Reference for) the design of a secondary market in government securities.
 - (vii) within the context of the amendments planned for the 1965 BOT Act, prepared a plan to (a) phase out setting of credit terms, (b) eliminate administratively allocated credit, and (c) become a "lender of last resort" for the banking system.
 - (viii) accepted responsibility for interbank check clearing.
 - (ix) prepared a regulatory and legislative agenda to define the sequence of actions required to lay the groundwork for a private insurance industry.

- (x) assessed options for moving further toward a fully market based foreign exchange regime.

Second Tranche. Prior to the second tranche of the Grant, which shall be in the amount of Fifteen Million U.S. Dollars (\$15,000,000), Grantee shall, except as the Parties may otherwise agree in writing, furnish to A.I.D., in form and substance satisfactory to A.I.D., evidence that the Bank of Tanzania has:

- (a) completed drafting amendments to the Bank of Tanzania Act of 1965;
- (b) completed and adopted the revised Manual of Inspection Policies and Procedures to reflect the new prudential regulations;
- (c) initiated one full-scale external bank examination;
- (d) completed portfolio reviews for at least one of the financial institutions mentioned above (TIB, THB);
- (e) initiated use of changes in the discount rate to influence the amount of loans extended to the economy by the banks;
- (f) completed drafting of regulations to implement the government securities market;
- (g) Further liberalizes interest rate policy by eliminating the maximum lending rate;
- (h) assessed alternative interbank check clearing mechanisms;
- (i) drafted legislation enabling a private insurance industry;
- (j) continued progress toward a unified, market-determined foreign exchange allocation mechanism.

Third Tranche. Prior to the third tranche of the Grant, which shall be in the amount of Fifteen Million U.S. Dollars (\$15,000,000), Grantee shall, except as the Parties may otherwise agree in writing, furnish to A.I.D., in form and substance satisfactory to A.I.D., evidence that:

- (a) Grantee has adopted legislation permitting private insurance industry to operate; and that

- (b) Grantee has adopted a unified, market determined exchange rate together with evidence, in form and substance satisfactory to A.I.D., that the Bank of Tanzania has:
- (c) become subject to the amended Bank of Tanzania Act (i.e., that the law has been adopted);
- (d) completed its assessment of effectiveness of the bank supervision and regulation process;
- (e) initiated a second full-scale external bank examination;
- (f) completed portfolio reviews for the second of the two financial institutions mentioned above (TIB, THB);
- (g) initiated a secondary market in government securities;
- (h) ceased exercising its power to allocate credit;
- (i) implemented a discount policy consistent with its role as lender of last resort; and
- (j) initiated interbank check clearing functions.

Section 4.4 Prior Actions. It shall be a continuing condition precedent to all tranches hereunder that Grantee shall have complied with all provisions of this Agreement, including but not limited to the requirements of Article 6 below regarding deposits of local currency, and that all actions taken or agreed to be taken as conditions precedent to any prior disbursement shall not be rescinded or altered by Grantee in a manner which materially interferes with the objectives of the Program, except as A.I.D. may otherwise agree in writing.

Section 4.5 Terminal Dates for Satisfaction of Conditions Precedent.

- (a) First Tranche. The terminal date for satisfaction of the conditions precedent to the first tranche shall be June 30, 1993, unless A.I.D. shall otherwise agree in writing.
- (b) Second Tranche. The terminal date for satisfaction of the second tranche shall be June 30, 1994, except as A.I.D. shall otherwise agree in writing.
- (c) Third Tranche. The terminal date for satisfaction of the third tranche shall be June 30, 1995, except as A.I.D. shall otherwise agree in writing.

- (d) Failure to Satisfy by Terminal Date. If the conditions precedent to any tranche shall have not been satisfied by the specified terminal date, or such later date as A.I.D. may agree to in writing, then A.I.D. at its option may terminate or suspend this Agreement in accordance with Section 7.8 below.

Section 4.6 Notification. When A.I.D. has determined that the conditions precedent specified in each of Section 4.1, 4.2, 4.3, and 4.4. have been satisfied, A.I.D. will promptly notify the Grantee in writing.

Article 5 Uses of Dollars.

Section 5.1 Special Dollar Account. The Grantee shall deposit all U.S. dollar funds disbursed to it by A.I.D. under this Agreement into a separate, Special Dollar Account in the name of the GOT through Cooperative and Rural Development Bank, Dar es Salaam, or such other bank as A.I.D. may agree to in writing, maintained at all times in an interest bearing account with a U.S. banking institution acceptable to A.I.D. Interest earned by such account shall be maintained therein and used only for the same purposes as the principal may be used. Except as A.I.D. may otherwise agree in writing, no funds other the U.S. dollar funds disbursed under this Agreement and interest earned thereon shall be deposited into or otherwise commingled with such account.

Section 5.2 Utilization of Dollars. Dollars disbursed into the Special Dollar Account hereunder and interest earned on such funds will be used only for the purposes and in the manner set forth in Annex 1. No such funds will be used to finance military or paramilitary requirements of any kind, including the procurement of commodities or services for those purposes, for goods having their source or origin (or for providers of services, their nationality) in countries not included in A.I.D. Geographic code 935 Annex 3 as in effect at the time orders are placed or contracts are entered into for such goods or services, nor for the other items on the negative list of commodities appearing in Annex 1 hereto. The Parties to this Agreement shall ensure that no dollar funds granted under this Agreement will be allocated to any transaction which involves the procurement of goods or services at other than a fair and reasonable price.

Article 6 Special Local Currency Account.

- (a) The Grantee will establish and maintain a Special Local Currency Account in the Cooperative Rural Development Bank (CRDB) or such other banks which may be agreed to by the Parties. The Grantee will cause all importers, public or private, utilizing U.S. Dollar funds allocated under the Grant to deposit in the Special Local Currency Account currency of the Government of Tanzania an amount equivalent to their U.S. Dollar allocations. All currency of the Government of Tanzania generated from the allocation of Grant funds to public and private importers shall be deposited in the Special Local Currency Account. The amount of Tanzanian Shillings to be deposited

into the Special Local Currency Account shall be the Tanzania Shilling equivalent of each U.S. Dollar allocation made to a public or private importer from the Special Dollar Account, determined by using the highest official rate of exchange of U.S. Dollars into Tanzanian Shillings prevailing in Tanzania on the date the full amount of Local Currency is deposited by or for the public or private importer.

- (b) From the Special Local Currency Account an equivalent of not less than ten (10%) of the total dollar disbursements hereunder, calculated by using the highest official exchange rate permitted by the most current Foreign Exchange manual issued by the Bank of Tanzania (BOT) in Tanzania on the dates deposits were made to the Special Local Currency Account, shall be made available to the USAID Operating Expense and Program Trust Fund, for the purposes specified in the Trust Fund Agreement between the GOT and USAID.

Social Action Trust. The remainder of the local currency generations will be disbursed from the Special Local Currency Account to capitalize a Social Action Trust (the "Trust"), to be established in accordance with Tanzanian law and practice. The objectives of the Social Action Trust will be (a) to invest in the Tanzanian private sector, working through existing financial institutions and new institutions as they arise; and (b) use earnings from interest and investments to make grants to non-governmental organizations (NGOs) to strengthen Programs working to assist AIDS orphans in becoming productive members of society. (See Annex 1, Page 8 for details of Social Action Trust operation and management.)

- (c) Any interest earned on funds in the Special Local Currency Account prior to their use for agreed upon activities will be retained in such Account and used for purposes authorized in Annex 1 hereto. No portion of the interest earned shall accrue to or be deposited into the USAID Operating Expense and Program Trust Fund account.

Article 7 Miscellaneous.

Section 7.1 Reports, Records, Inspections, Audit.

- (a) The Grantee shall furnish A.I.D. such information and reports relating to the Program and to this Agreement, including the policy reforms undertaken hereunder, as A.I.D. may reasonably request.
- (b) Grantee will maintain or cause to be maintained accounting books, records, documents and other evidence relating to the Program and to this Agreement, adequate to show, without limitation, all receipts and disbursements from the

Special Dollar Account, the source, origin, price and delivery of commodities procured by importers accessing funds in the Special Dollar Account, and compliance with the terms and provisions of this Agreement governing the use of funds in the Special Dollar Account. At the Grantee's option, with approval by A.I.D., Program books and records shall be maintained in accordance with one of the following methods: (1) generally accepted accounting principles prevailing in the United States, (2) generally accepted accounting principles prevailing in the country of the Grantee, (3) accounting principles prescribed by the International Accounting Standards Committee (an affiliate of the International Federation of Accountants), or (4) such other accounting principles as the Parties may agree to in writing. Program books and records shall be maintained for at least three years after the date of the last disbursement by A.I.D.

- (c) Grantee shall, except as the Parties may otherwise agree in writing, have financial audits made of the funds disbursed to the Grantee under the Grant in accordance with the following terms:
 - (i) The Grantee shall select an independent auditor in accordance with the "Guidelines for Financial Audits Contracted by Foreign Recipients" issued by the A.I.D. Inspector General ("Guidelines"), and the audits shall be performed in accordance with the Guidelines.
 - (ii) An audit of the funds provided under the Grant shall be conducted for each fiscal year of the Grantee. The audit shall determine whether the receipt and expenditure of the funds provided under the Grant are presented in accordance with generally accepted accounting principles agreed to in section (b) above and whether the Grantee has complied with the terms of this Agreement. Each audit shall be completed no later than one year after the close of the Grantee's fiscal year.
- (d) Grantee will submit an audit report to A.I.D. within 30 days after completion of each audit arranged for by the Grantee in accordance with this section. The A.I.D. Inspector General will review each report to determine whether it complies with the audit requirements of this Agreement. Subject to A.I.D. approval, costs of audits performed in accordance with the terms of this section shall be charged to the Project Grant.
- (e) A.I.D. may, be the Grantee, or on request at its discretion, perform the audits required under this Agreement on behalf of the Grantee by utilizing funds under the Grant or other resources available to A.I.D. for this purpose. The Grantee shall afford authorized representatives of A.I.D. the opportunity at all reasonable times to audit or inspect the books, records and other documents relating to the Program and the Grant, including the policy reforms undertaken under the Program.

Section 7.2 Program Implementation Letters. To assist both Parties in the implementation of the Program, A.I.D., from time to time, will issue Program Implementation Letters that will furnish additional information about matters stated in this Agreement. The Parties may also use jointly agreed-upon Program Implementation Letters to confirm and record their mutual understanding on aspects of the implementation of this Agreement. Program Implementation Letters will not be used to amend the text of the Agreement, but can be used to record revisions or exceptions which are permitted by the Agreement, including the revision of elements of the amplified description of the Program in Annex 1.

Section 7.3 Program Evaluations. The Parties agree to develop on an evaluation schedule for the Program. The evaluation will include a final evaluation. And may include, during the implementation of the Program; the following schedule:

- (a) Establishment of baseline data and indicators for the program;
- (b) Evaluation of progress toward attainment of the objectives of the Program;
- (c) Identification and evaluation of problem areas or constraints which may inhibit such attainment;
- (d) Assessment of how such information may be used to help overcome such problems; and
- (e) Evaluation, to the degree feasible, of the overall development impact of the program.

Section 7.4 Consultation. The Parties will cooperate to assure that the purpose of this Agreement will be accomplished. To this end, the Parties, at the request of either, will exchange views on the progress of the Program, and other matters relating to the Program.

Section 7.5 Completeness of Information. The Grantee confirms:

- (a) that the facts and circumstances of which it has informed A.I.D., or caused A.I.D. to be informed, in the course of reaching agreement with A.I.D. on the Grant, are accurate and complete, and include all facts and circumstances that might materially affect the Program and the discharge of responsibilities under this Agreement; and
- (b) that it will inform A.I.D. in timely fashion of any subsequent facts and circumstances that might materially affect, or that it is reasonable to believe might so affect, the Program or the discharge of responsibilities under this Agreement.

Section 7.6 Taxation. The Agreement and the Grant will be free from any taxation or fees imposed under laws in effect in the United Republic of Tanzania, or which may become effective during the term of this Agreement.

Section 7.7 Publicity. The Grantee will give appropriate publicity to this Grant, and Program, and all activities carried out hereunder as a program to which the United States has contributed. Representatives of the Grantee and A.I.D. will confer from time to time to make specific arrangements for such publicity.

Section 7.8 Suspension and Termination.

- (a) A.I.D. may suspend disbursement under the Grant upon written notice to the Grantee.
- (b) Either Party may terminate this Agreement by giving the other party thirty (30) days written notice. Termination of this Agreement shall terminate any obligations of the Parties to provide financial or other resources pursuant to this Agreement.
- (c) Notwithstanding any suspension or termination, the provisions of this Agreement shall continue in full force and effect with respect to any portion of the Grant provided prior to or notwithstanding such suspension or termination.

Section 7.9 Representatives. for all purposes relevant to this Agreement, the Grantee will be represented by the individual holding or acting in the office of the Principal Secretary Minister of Finance and A.I.D. will be represented by the individual holding or acting in the office of the A.I.D. Director, each of whom, by written notice, may designate additional representatives for all purposes other than formal amendment of this Agreement. The names of the representatives of the Grantee, with specimen signatures, will be provided to A.I.D., which may accept as duly authorized any instrument signed by such representatives in implementation of this Agreement, until receipt of written notice of revocation of their authority.

Section 7.10 Communications. Any notice, request, document, or other communication submitted by either Party to the other under this Agreement will be in writing or by telegram or cable, and will be deemed duly given or sent when delivered to such party at the following address:

To the Grantee: Principal Secretary
Ministry of Finance
P.O. Box 9111
Dar es Salaam

To A.I.D.: USAID/Tanzania
P. O. Box 9130
Dar es Salaam, Tanzania
Attention: Director

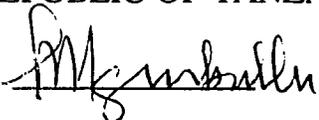
All such communications will be in English. Other addresses may be substituted for the above upon the giving of notice.

Section 7.11 Exchange Rate. Except as A.I.D. may otherwise agree in writing, the dollar equivalency of the Grantee contributions required under Section 2.2. above will be calculated using the highest official rate of exchange which, at the time of specific commitments by the Grantee, is not unlawful in Tanzania.

Section 7.12 Terminal Date for Disbursement. Except as A.I.D. may otherwise agree in writing, the terminal date for disbursement of the Grant shall be June 30, 1995. The entire Grant must be disbursed by such date.

In WITNESS WHEREOF, the Grantee and the United States of America, each acting through its duly authorized representative, have caused this Agreement to be signed in their names and delivered as of the day and year first above written.

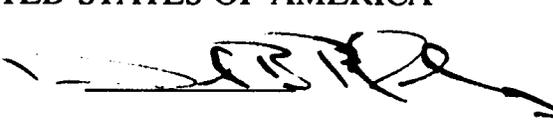
UNITED REPUBLIC OF TANZANIA

By: 

Name: Peter Ngumbulu

Title: Principal Secretary
Ministry of Finance

UNITED STATES OF AMERICA

By: 

Name: Dale Pfeiffer

Title: Director
USAID Tanzania

Attachments:

Annex 1 - Amplified Program Description

Annex 2 - Standard Provisions

Annex 3 - Geographic Codes

A.I.D. Program No. 621-0175

Dollar Appropriation No. 72-112/31014

Budget Plan Code: GSS2-92-31621-KG39

Program Agreement No. PRO-GR-AG-NO-92-01

Amount FY92 Obligation: \$ 10,000.000

RCN: T926045

Annex 1

Amplified Program Description

Finance Enterprise Development Program

(FED)

August 1992

Annex 1

Amplified Program Description

Introduction

The Financial Enterprise Development Program involves planned disbursements of \$40,000,000 in Program funds over a three year period, based on certain policy changes in the financial sector in Tanzania, as reflected below and in the Program Grant Agreement to which this Annex 1 is appended, and a related \$10,000,000 in projectized funds which will be obligated under a separate Project Grant Agreement. The following description outlines the policy component of the overall Program and refers, where necessary, to elements of the project component. For a more complete description of the project component, refer to Annex 1, Amplified Project Description, attached to the Project Grant Agreement. In all cases, any conflict between the provisions of this Amplified Program Description (including the Policy Matrix attached as Annex 2) and the body of the Program Grant Agreement shall be resolved in favor of the latter document.

Program Goal and Purpose

The GOAL of the FED Program is to stimulate income increases in Tanzania. The PURPOSE of the FED Program is to foster income earning opportunities for the un- and under-employed by stimulating private enterprise growth. This purpose will be accomplished (a) by helping to establish a financially sound and diverse financial sector capable of meeting the challenges posed by the move to a market economy; and (b) by helping to mobilize a private sector response to the opportunities created by the gathering pace of liberalization.

Summary Description

The policy component of the FED Program is organized conceptually around one policy theme and five areas of Program activity, and is organized sequentially into three tranches. The release of funds under each tranche is dependent upon the GOT meeting specific conditions as detailed in Article 4 of the Program Grant Agreement. The strategy in selecting specific policy objectives is based on the following principles: the policy objectives will be fully consistent with macroeconomic and sectoral policy adjustments already laid out by the GOT with IMF and World Bank support; the policy objectives will be clearly within the management interest and institutional capabilities of the Bank of Tanzania; the policy objectives will not threaten government revenue streams; and the policy objectives will be amenable to clear assessment of progress based on performance. The FED Program also includes a project component in support of these policy objectives, which is designed to help the BOT implement individual reform

actions. Annex 2 (Policy Matrix) provides a summary of the policy benchmarks in each Program area and illustrates the sequence of tranches.

Main Theme: Consolidating BOT Role as a Central Bank. During the next three to five years, the heaviest burden for implementing financial sector reform policies will fall on the Bank of Tanzania. The BOT will be passing through a transition period in 1993-1996 as it becomes a stronger central banking institution with solely central bank functions. During this period, the BOT will bear the prime responsibility for (a) establishing a new, revised Bank of Tanzania Act; (b) completion, promulgation and implementation of prudential regulations needed to establish a competitive banking sector, which implies instituting a routine Program of bank supervision, portfolio reviews, and bank examinations; (c) enhancing instruments of monetary policy; (d) discontinuing functions that are inconsistent with the central bank role; and (e) setting the groundwork for a more diverse financial sector. These five areas of Program activity (a through e above) constitute an ambitious and daunting Program of policy and institutional change that will require substantial support if it is to be carried through successfully.

Program Area A: Improved Central Bank Legislation. The objective of Program Area A is to help the Bank of Tanzania establish a sound legislative framework for strengthening its role as a central banking institution.

Tranche 1: BOT finalizes its internal review of the Bank of Tanzania Act of 1965 to ensure consistency with the Banking and Financial Institutions Act of 1991.

Tranche 2: BOT drafts amendments to the 1965 Act.

Tranche 3: Amendments to the BOT Act of 1965 become law.

Action in this program area requires legislative change in the third tranche. Neither the BOT nor indeed the GOT can guarantee, absolutely, that specific legislation will be enacted. However, action in this area is already underway, the need for legislative adjustments is endorsed by the BOT, and the underlying objectives are well understood and believed to be desirable at senior levels in government. This suggests that legislative approval will be granted, and hence these are reasonable policy conditions. Short term technical assistance will be provided if required by the BOT.

Program Area B: Strengthen Supervisory and Regulatory Functions. The objective of Program Area B is to assist the Bank of Tanzania in instituting a rigorous framework of regulations and procedures required to properly supervise and regulate the banking sector in Tanzania.

Tranche 1: BOT elevates Bank Supervision Department to Directorate Status.

BOT finalizes Capital Adequacy and Asset Concentration regulations.

BOT schedules loan portfolio reviews for TIB and THB.

Tranche 2: *BOT completes the revised Manual of Inspection Policies and Procedures to reflect the new prudential regulations.*

BOT undertakes one full-scale external bank examination.

BOT completes portfolio reviews for one of the financial institutions mentioned above (TIB, THB).

Tranche 3: *BOT assesses effectiveness of the bank supervision and regulation process.*

BOT undertakes one additional full-scale external bank examination.

BOT completes portfolio reviews for second of the two financial institutions mentioned above (TIB, THB).

Action in this program area is within the management interests and capability of the BOT, with short term technical assistance and training support through the FED program and other donor assistance.

Program Area C: Enhance Instruments of Monetary Policy. The objective of Program Area C is to assist the BOT in responding to its emerging responsibilities as a fully functional central bank.

Tranche 1: *BOT inaugurates discount window surveillance by monitoring the amounts and quality of credit extended.*

BOT initiates (prepares Terms of Reference for) the design of a secondary market in government securities.

Tranche 2: *BOT uses changes in the discount rate to influence the amount of loans extended to the economy by the banks.*

BOT finalizes regulations to implement the government securities market.

Tranche 3: *BOT initiates secondary market in government securities.*

Action in this program area is within the management interests and capability of the

BOT, with short term technical assistance and training support through the FED program and other donor assistance.

Program Area D: Discontinue Non-Central-Bank Functions. The objective of Program Area D is to help the BOT shed outmoded functions that are inconsistent with the role of the nation's central bank.

Tranche 1: Within the context of the amendments planned for the 1965 BOT Act, BOT prepares a plan to (a) phase out setting of credit terms, (b) eliminate administratively allocated credit, and (c) become a "lender of last resort" for the banking system.

Tranche 2: BOT further liberalizes interest rate policy by eliminating the maximum lending rate.

Tranche 3: BOT ceases to exercise its power to allocate credit.

BOT implements a discount policy consistent with the role as lender of last resort.

Action in this program area is within the management interests and capability of the BOT, with short term technical assistance and training support through the FED program and other donor assistance. However, action in this area will also require close coordination and agreement with the Ministry of Finance.

Program Area E: Foster a Diverse, Competitive Financial Sector. The objective of Program Area E is to help the BOT take on responsibilities and activities necessary to support growth and improvement in the financial sector and the economy as a whole.

Tranche 1: BOT accepts responsibility for interbank check clearing.

BOT prepares a regulatory and legislative agenda to define the sequence of actions required to lay the groundwork for a private insurance industry.

BOT assesses options for moving further toward a fully market based foreign exchange regime.

Tranche 2: BOT assesses alternative interbank check clearing mechanisms.

BOT drafts legislation enabling a private insurance industry.

BOT initiates move to a foreign exchange auction or other market based allocation mechanism.

Tranche 3: *BOT implements interbank check clearing function.*

Legislation for a private insurance industry becomes law.

BOT completes move to a foreign exchange auction or other market based allocation mechanism.

Uses of Dollars.

Special Dollar Account. The Grantee shall deposit all U.S. dollar funds disbursed to it by A.I.D. under this Agreement into a separate, Special Dollar Account in the name of the Cooperative and Rural Development Bank, Dar es Salaam, or such other bank as A.I.D. may agree to in writing, maintained at all times in an interest bearing account with a U.S. banking institution acceptable to A.I.D. Interest earned by such account shall be maintained therein and used only for the same purposes as the principal may be used. Except as A.I.D. may otherwise agree in writing, no funds other than the U.S. dollar funds disbursed under this Agreement and interest earned thereon shall be deposited into or otherwise commingled with such account.

Import Financing Facility. Subject to the provisions of the Program Grant Agreement, dollars disbursed into the Special Dollar Account hereunder and interest earned on such funds will be allocated only to private, or with separate written authorization from A.I.D., public sector importers in Tanzania, in accordance with the regulations of the Bank of Tanzania as are acceptable to A.I.D., in the same manner as funds under the Agricultural Transport Assistance Program (Program No. 621-0166) are now accessed, or in such other manner as the Parties shall mutually agree, provided that the commodities which shall be eligible for financing by Grantee shall conform to the positive and negative lists of commodities set forth below.

Commodities Positive List

The FED commodity finance facility is designed to support overall Program objectives of private enterprise growth, expanded output, and increased employment. There is also a strong presumption in favor of U.S. procurement where this is consistent with the best interests of the Tanzanian private sector, and the Grantee shall maximize U.S. procurement whenever practicable. This positive list therefore identifies an initial set of commodity categories, selected to meet these objectives. The list will be subject to modification by mutual agreement during Program implementation should this be necessary. The positive list is not intended to be exclusive; rather, it identifies preferred categories of imports. Any private sector import is eligible under the FED Program

provided it is in compliance with the negative list. Public sector organizations shall be eligible only with the express written consent of A.I.D.; it is not currently anticipated that any funds will be allocated to public sector organizations.

- A. Hand tools for machinery maintenance and repair, and for construction.
- B. Machine tools for manufacturing and industrial production.
- C. Generator sets and pump sets.
- D. Computers, telecommunications equipment, and other business machines.
- E. Cargo handling equipment and machinery.
- F. Equipment required for industrial and manufacturing plants.
- G. Equipment required for commercial building construction (heating and air conditioning, elevator mechanisms, industrial windows, doors, and other fittings).
- H. Equipment required for agroindustrial production and processing.

Commodities Negative List

This negative list has two objectives: (a) to ensure that the resources which A.I.D. for commodity support make a positive contribution to development, and (b) to ensure that the A.I.D. Program is carried out in full accord with the U.S. Foreign Assistance Act of 1961 ("FAA"), other pertinent laws, and U.S. policies. To that end the following are identified as being not eligible for financing under this Program:

- A. Unsafe and ineffective products, such as certain pesticides, food products, and pharmaceuticals.
- B. Luxury goods, such as recreational supplies and equipment, alcoholic beverages and equipment or products for their production or use, equipment or supplies for gambling facilities, jewelry, stamps, coins, furs, and the more expensive textiles.
- C. Surplus or used items.
- D. Items for military use.
- E. Weather modification equipment.
- F. Surveillance equipment of micro-miniature design for audio surveillance activities.

- G. Commodities and equipment for the purpose of inducing abortions as a method of family planning.
- H. Commodities for support of police or other law enforcement activities.
- I. Waste and scrap products.
- J. Consumer goods and items for domestic or household use, such as household furniture, cookware, footwear, clothing and processed foodstuffs.
- K. Over the road passenger and cargo vehicles.

Special Local Currency Account.

The Grantee will establish and maintain a Special Local Currency Account in the Cooperative Rural Development Bank (CRDB) or such other banks which may be agreed to by the Parties. The Grantee will cause all importers, public or private, utilizing U.S. Dollar funds allocated under the Grant to deposit in the Special Local Currency Account currency of the Government of Tanzania an amount equivalent to their U.S. Dollar allocations. All currency of the Government of Tanzania generated from the allocation of Grant funds to public and private importers shall be deposited in the Special Local Currency Account. The amount of Tanzanian Shillings to be deposited into the Special Local Currency Account shall be the Tanzania Shilling equivalent of each U.S. Dollar allocation made to a public or private importer from the Special Dollar Account, determined by using the highest official rate of exchange of U.S. Dollars into Tanzanian Shillings prevailing in Tanzania on the date the full amount of Local Currency is deposited by or for the public or private importer.

Local Currency Use. The arrangement specified above will generate approximately \$40 million worth of local currency. The local currency will be put to two different uses: (a) the USAID/Tanzania Operating Expense and Program Trust Fund, and (b) a Social Action Trust. Each of these uses is reviewed briefly below.

Operating Expense and Program Trust Fund. Ten percent of the local currency generations will be reserved for an Operating Expense and Program Trust Fund for use in defraying the costs incurred by USAID/Tanzania in the operation of its Programs in Tanzania. The local commercial bank managing the Special Local Currency Account will arrange for ten percent of the deposits into the Account to be deposited into the A.I.D. Operating Expense and Program Trust Fund account on a quarterly basis. A portion of the local currency generations in the account, not to exceed one half of the total, will be available for use in meeting the local costs (chiefly training costs) incurred in implementing the Bank of Tanzania Support Package and the Business Services Center.

Social Action Trust. The remainder of the local currency generations will be disbursed from the Special Local Currency Account to capitalize a Social Action Trust (the "Trust"), to be established in accordance with Tanzanian law and practice. The objectives of the Social Action Trust will be (a) to invest in the Tanzanian private sector, working through existing financial institutions and new institutions as they arise; and (b) use earnings from interest and investments to make grants to non-governmental organizations (NGOs) to strengthen Programs working to assist AIDS orphans in becoming productive members of society. A.I.D. will prepare a draft Deed of Settlement which will establish terms and conditions governing the selection of Trustees, the terms and conditions governing permissible investments to be made on behalf of the Trust, the terms and conditions governing the use of interest and income for AIDS prevention activities in Tanzania, appropriate terms and provisions governing conflicts of interest by the Trustees or any organization having financial relationships with the Trust, and terms and provisions governing the audit responsibilities of the Trustees. Such Trust will be registered as a body corporate under Act governing Trustee's Incorporation now in effect in the United Republic of Tanzania and will be subject to the terms and conditions thereof governing charitable trusts. Appropriate provisions will be established to provide that the Trustees of such trust shall be insulated from liability for acts taken in good faith and in accordance with Tanzanian law and the Deed of Settlement. The interest and other income earned by such trust, for so long as the same are used for the charitable purposes contemplated by the Deed of Settlement, shall be exempt from all taxes, levies and duties, which would otherwise be imposed by any governmental unit within the United Republic of Tanzania.

Implementation Plan. This plan addresses (a) implementation management, and (b) the implementation schedule.

Implementation Management. Three sets of responsibilities are discussed here: (a) joint GOT/USAID responsibilities, (b) GOT responsibilities, and (c) USAID responsibilities.

-- **Joint GOT/USAID Responsibilities.** Coordination of overall Program implementation will be the responsibility of two Committees. At the principal secretary or policy level, the FED Steering Committee will include the Permanent Secretary of the Ministry of Finance, the Governor of the BOT, the Economic Advisor to the President, and the USAID/Tanzania Mission Director. This committee will monitor progress of FED implementation, including progress toward achievement of conditionality. It is expected that this committee will meet twice annually. At the senior operational level, the FED Implementation Committee will include the Deputy Permanent Secretary for External Finance in the Ministry of Finance, the Director of Economic Research and Policy of the BOT, and the USAID/Tanzania Project Development Officer. This committee will monitor Program implementation on a more regular basis, and will deal with implementation matters which require broader discussion and resolution. It is expected that this committee will meet four to six times annually. Both committees will function in an advisory capacity. They are not decision-making committees.

-- GOT Responsibilities. The GOT, through the Ministry of Finance, will have overall responsibility for implementing the FED Program. The Bank of Tanzania will be the implementing agency for the FED financial sector policy reform Program and related project support activities. This includes undertaking the necessary reform actions and providing direction for the project activities in support of the BOT reform Program. Based on actions taken, the BOT will be responsible for submitting to USAID/Tanzania evidence that the conditionalities have been met. The GOT, through the Ministry of Finance and the BOT, will ensure that covenants included in the Program agreement are met. The FED private sector support activities will be implemented with and through the Tanzanian private sector, hence there will be no separate or substantive GOT implementing agency. The Ministry of Finance will perform that function when required.

-- USAID Responsibilities. USAID/Tanzania will have responsibility for (a) maintaining a substantive dialogue with BOT and relevant agencies regarding progress in implementing the FED policy agenda, (b) arranging the contracts and/or grants required to implement the BOT support package in accordance with BOT technical direction, and (c) arranging the contracts and/or grants required to implement the Business Services Center and other related project activities in accordance with the policy and operational guidance of the FED Steering Committee and the FED Implementation Committee.