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A.I.D. Project Number 690-0240

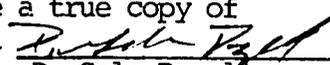
DATED: September 30 , 1987

PROJECT  
GRANT AGREEMENT  
BETWEEN  
THE TANZANIA-ZAMBIA RAILWAY AUTHORITY  
and the  
UNITED STATES OF AMERICA  
for  
REGIONAL TRANSPORT DEVELOPMENT - DAR ES SALAAM CORRIDOR PROJECT

Amount: \$37,500,000  
APP: 72-117/81021.6  
BPC: GDS7-87-21621-KG12

Amount: \$8,450,000  
APP: 72-117/81037  
BPC: GES7-87-21621-KG14

RSVN. CONTROL NO: T670001  
PROAG NO: 87-11

Certified to be a true copy of  
of the original   
D. Gale Rozeff  
OIC Southern Africa

Project Grant Agreement

Dated September 30 ,1987

Between

The Tanzania-Zambia Railway Authority (TAZARA) ("Grantee")

And

The United States of America, acting through the Agency for International Development ("A.I.D.").

Article 1: The Agreement

The purpose of this Agreement is to set out the understandings of the parties named above ("Parties") with respect to the undertaking by the Grantee of the Project described below, and with respect to the financing of the Project by the Parties.

Article 2: The Project

SECTION 2.1. Definition of Project. The Project, which is further described in Annex 1, will consist of assistance to strengthen and expand the carrying capacity and to improve the operational efficiency of the Tanzania-Zambia Railway Authority (TAZARA), principally through the provision of locomotives, spare and repair parts, tools and maintenance equipment, construction, technical assistance and training.

Annex 1, attached, amplifies the above definition of the Project. Within the limits of the above definition of the Project, elements of the amplified description stated in Annex 1 may be changed by written agreement of the authorized representatives of the Parties named in Section 8.2, without formal amendment of this Agreement.

Article 3: Financing

SECTION 3.1. The Grant. To assist the Grantee to meet the costs of carrying out the Project, A.I.D., pursuant to the Foreign Assistance Act of 1961, as amended, agrees to grant the Grantee under the terms of this Agreement not to exceed Forty-five Million Nine Hundred Fifty Thousand United States ("U.S.") Dollars (\$ 45,950,000) ("Grant").

The Grant may be used to finance foreign exchange costs, as defined in Section 6.1, and local currency costs, as defined in Section 6.2, of goods and services required for the Project.

**SECTION 3.2. Grantee Resources for the Project**

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

(b) The resources provided by Grantee for the Project will be not less than the equivalent of U.S. \$3,868,000, including costs borne on an "in-kind" basis.

**SECTION 3.3. Project Assistance Completion Date**

(a) The "Project Assistance Completion Date" (PACD), which is August 31, 1991, or such other date as the Parties may agree to in writing, is the date by which the Parties estimate that all services financed under the Grant will have been performed and all goods financed under the Grant will have been furnished for the Project as contemplated in this Agreement.

(b) Except as A.I.D. may otherwise agree in writing, A.I.D. will not issue or approve documentation which would authorize disbursement of the Grant for services performed subsequent to the PACD or for goods furnished for the project, as contemplated in this Agreement, subsequent to the PACD.

(c) Requests for disbursement, accompanied by necessary supporting documentation prescribed in Project Implementation Letters are to be received by A.I.D. or any bank described in Section 7.1 no later than nine (9) months following the PACD, or such other period as A.I.D. agrees to in writing. After such period, A.I.D., giving notice in writing to the Grantee, may at any time or times reduce the amount of the Grant by all or any part thereof for which requests for disbursement, accompanied by necessary supporting documentation prescribed in Project Implementation Letters, were not received before the expiration of said period.

**Article 4: Conditions Precedent to Disbursement**

**SECTION 4.1. First Disbursement.** Prior to the first disbursement under the Grant, except for technical assistance related to planning for project procurement activities, or to the issuance by A.I.D. of documentation pursuant to which disbursement will be made, the Grantee will, except as the Parties may otherwise agree in writing, furnish to A.I.D. in form and substance satisfactory to A.I.D.:

(a) An opinion of counsel acceptable to A.I.D. that this Agreement has been duly authorized and/or ratified by, and executed on behalf of, the Grantee, and that it constitutes a valid and legally binding obligation of the Grantee in accordance with all of its terms;

(b) A statement of the name of the person holding or acting in the office of the Grantee specified in Section 8.2, and of any additional representatives, together with a specimen signature of each person specified in such statement;

(c) Written assurances from the Governments of Tanzania and Zambia that:

1) Each government fully endorses the goals and objectives of the Project as set forth in this agreement and will facilitate in every possible way the attainment of these objectives and the fulfillment by TAZARA of its obligations under this agreement;

2) Each government will exempt A.I.D.-financed expatriate technical assistance personnel entering their country for the purposes of carrying out the Project from all duties and taxes on their income, personal and household effects (including vehicles) to the same extent and in the same manner as such exemptions are extended to such personnel under A.I.D.-financed projects carried out in each country under government-to-government agreements with A.I.D.; and to grant to such personnel such other facilities (such as visas, work permits, travel rights, etc.), as are necessary to enable them to perform their functions under the Project.

3) Each government will make arrangements as may be necessary to assure that, if funds provided under the Grant are introduced into its country by A.I.D. or any public or private agency for purposes of carrying out obligations of A.I.D. under this Agreement, such funds may be converted into currency of that country at the highest rate of exchange which, at the time the conversion is made, is not unlawful in that country.

4) In recognition of the high priority placed on the transport sector, including TAZARA, the Governments will undertake to provide adequate foreign exchange resources to TAZARA.

5) Each government will continue to support TAZARA's efforts to develop tariff rates which will enable TAZARA to operate on a viable commercial basis .

(d) Evidence that (i) TAZARA has formally designated an individual at TAZARA who will be Project Manager in Dar es Salaam to oversee Project activities and chair Project Committee meetings; and (ii) the Project Committee has held an initial meeting.

#### SECTION 4.2. Additional Disbursement

(a) Prior to disbursement under the Grant for the procurement of materials or equipment for the workshop extension at Mbeya, or to issuance by A.I.D. of documentation pursuant to which disbursement will be made with respect thereto, TAZARA will provide, in form and substance satisfactory to A.I.D., plans and specifications, architectural drawings, cost estimates and bidding documents for the construction, except as the Parties may otherwise agree in writing.

(b) Prior to disbursement under the Grant for the second order of locomotives to be delivered under the Project, or to the issuance by AID of documentation pursuant to which disbursement will be made with respect thereto, the Grantee will, except as the parties may otherwise agree in writing, furnish to A.I.D. in form and substance satisfactory to A.I.D.:

1) evidence that the TAZARA tariff structure is adequate to cover operating costs and generate a net profit on operations to the Authority or that a proposal has been accepted to revise the tariff structure, having regard to the recommendations from technical assistance advisors financed by the Project; and

2) evidence that critical vacancies in the planning and accounting departments have been filled or adequate plans have been made to fill such vacancies.

**SECTION 4.3. Notification.** When A.I.D. has determined that the conditions precedent specified in Sections 4.1 and 4.2 have been met, it will promptly notify the Grantee.

**SECTION 4.4. Terminal Dates for Conditions Precedent.** If all of the conditions specified in Section 4.1 have not been met within 120 days from the date of this Agreement, or such later date as A.I.D. may agree to in writing, A.I.D., at its option, may cancel the then undisbursed balance of the Grant, to the extent not irrevocably committed to third parties, and may terminate this Agreement by written notice to the Grantee.

**Article 5: Special Covenants**

**SECTION 5.1. Project Evaluation.** The Parties agree to establish an evaluation program as part of the Project. Except as the Parties otherwise agree in writing, the program will include, during the implementation of the Project and at one or more points thereafter:

(a) evaluation of progress toward attainment of the objectives of the Project;

(b) identification and evaluation of problem areas or constraints which may inhibit such attainment;

(c) assessment of how such information may be used to help overcome such problems; and

(d) evaluation, to the degree feasible, of the overall development impact of the Project.

**SECTION 5.2. Repair and Maintenance Fund.** The Grantee agrees that, during the life of the project and for a period of 3 years immediately thereafter, TAZARA will, unless otherwise agreed to by A.I.D. in writing, annually reserve from its foreign exchange earnings an amount equivalent to not less than U.S.\$500,000 for the purchase of locomotive spare parts for repair and maintenance of all locomotives in the fleet.

**SECTION 5.3. TAZARA Counterpart Personnel.** The Grantee agrees that it will identify a counterpart for each project-funded consultant (whether long or short-term) who will be assigned to work with the consultant during the period of the consultant's assignment.

**SECTION 5.4. Participant Trainees.** The Grantee agrees that all personnel sent for long-term training under the project will be required to return to work for TAZARA in a position making use of training provided for a period of not less than 2 years for every year of training received up to the limits set by TAZARA's bonding agreement, unless A.I.D. otherwise agrees in writing. TAZARA will require each trainee selected to sign a written commitment to this effect prior to the commencement of training.

**SECTION 5.5. Establishment of Amortization Fund.** The Grantee agrees to establish a local currency amortization fund by December 31, 1989, to cover the costs of the replacement of capital assets. The technical assistance team provided under the Project will assist in developing a plan for the establishment of the fund.

**Article 6. Procurement Source.**

**SECTION 6.1. Foreign Exchange Costs.**

(a) Disbursements pursuant to Section 7.1 will be used exclusively to finance the costs of goods and services required for the Project having, with respect to goods, their source and origin, and with respect to services their nationality in countries included in A.I.D. Geographic Code 941 (as in effect at the time orders are placed or contracts entered into for such goods or services) ("Foreign Exchange Costs"), except as A.I.D. may otherwise agree in writing, and except as provided in the Project Grant Standard Provisions Annex, Section C.1(b) with respect to marine insurance and in subsection 6.1(b) below with respect to locomotives and locomotive spare parts. Except as indicated in subsection 6.1(b), ocean transportation costs will be financed under the Grant only on vessels under flag registry of countries included in A.I.D. Geographic Code 941.

(b) Locomotives and locomotive spare parts financed under the project shall have their source and origin, and their suppliers their nationality, in the United States (A.I.D. Geographic Code 000). Unless otherwise agreed by A.I.D., ocean transportation costs of locomotives and locomotive spare parts will be financed under the Grant only on flag vessels of the United States.

**SECTION 6.2. Local Currency Costs.** Disbursements pursuant to Section 7.2. will be used exclusively to finance the costs of goods and services required for the Project having their source and, except as AID may otherwise agree in writing, their origin in Tanzania and Zambia ("Local Currency Costs").

**Article 7. Disbursement**

**SECTION 7.1. Disbursement for Foreign Exchange Costs.**

(a) After satisfaction of conditions precedent, the Grantee may obtain disbursements of funds under the Grant for the Foreign Exchange Costs of goods or services required for the Project in accordance with the terms of this Agreement, by such of the following methods as may be mutually agreed upon:

(1) by submitting to A.I.D., with necessary supporting documentation as prescribed in Project Implementation Letters, (A) requests for reimbursement for such goods or services; or (B) requests for A.I.D. to procure commodities or services on Grantee's behalf for the Project; or,

(2) by requesting A.I.D. to issue Letters of Commitment for specified amounts (A) to one or more U.S. banks, satisfactory to A.I.D., committing A.I.D. to reimburse such bank or banks for payments made by them to contractors or suppliers, under Letters of Credit or otherwise, for such goods or services, or (B) directly to one or more contractors or suppliers, committing A.I.D. to pay such contractors or suppliers for such goods or services.

(b) Banking charges incurred by Grantee in connection with Letters of Commitment and Letters of Credit will be financed under the Grant unless Grantee instructs A.I.D. to the contrary. Such other charges as the Parties may agree to may also be financed under the Grant.

**SECTION 7.2. Disbursement for Local Currency Costs.**

(a) After satisfaction of conditions precedent, the Grantee may obtain disbursements of funds under the Grant for Local Currency Costs required for the Project in accordance with the terms of this Agreement, by submitting to A.I.D., with necessary supporting documentation as prescribed in Project Implementation Letters, requests to finance such costs.

(b) The local currency needed for such disbursements may be obtained:

(1) by acquisition by A.I.D. with U.S. Dollars by purchase; or

(2) by A.I.D. (A) requesting the Grantee to make available the local currency for such costs, and (B) thereafter making available to the Grantee, through the opening or amendment by A.I.D. of Special Letters of Credit in favor of the Grantee or its designee, an amount of U.S. Dollars equivalent to the amount of local currency made available by the Grantee, which dollars will be utilized for procurement from the United States under appropriate procedures described in Project Implementation Letters.

The U.S. dollar equivalent of the local currency made available hereunder will be, in the case of subsection (b)(1) above, the amount of U.S. dollars required by A.I.D. to obtain the local currency, and in the case of subsection (b)(2) above, an amount calculated at the rate of exchange specified in the applicable Special Letter of Credit Implementation Memorandum hereunder as of the date of the opening or amendment of the applicable Special Letter of Credit.

**SECTION 7.3. Other Forms of Disbursement.** Disbursements of the Grant may also be made through such other means as the Parties may agree to in writing.

**Article 8: Miscellaneous.**

**SECTION 8.1. 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 addresses:

To the Grantee: Tanzania - Zambia Railway Authority (TAZARA)  
TAZARA Head Office, Pugu Road, Dar Es Salaam

Mail Address: P.O. Box 2834, Dar es Salaam, Tanzania

Alternate address for cables: Telex 41059, Dar es Salaam  
Tanzania

To A.I.D.: USAID Mission to Tanzania  
Luther House, Dar Es Salaam

Mail Address: P.O. Box 9130, Dar es Salaam, Tanzania

Alternate address for cables: Telex 41591, Dar es Salaam  
Tanzania

All such communications will be in English, unless the Parties otherwise agree in writing. Other addresses may be substituted for the above upon the giving of notice. The Grantee, in addition, will provide the USAID/Mission Tanzania with a copy of each communication sent to other A.I.D. offices.

**SECTION 8.2. Representatives.** For all purposes relevant to this Agreement, the Grantee will be represented by the individual holding or acting in the office of General Manager, TAZARA, and A.I.D. will be represented by the individual holding or acting in the office of AID Representative, USAID/Tanzania, each of whom, by written notice, may designate additional representatives for all purposes other than exercising the power under Section 2.1. to revise elements of the amplified description in Annex 1. 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 8.3. Standard Provisions Annex. A "Project Grant Standard Provisions Annex" (Annex 2) is attached to and forms part of this Agreement.

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 STATES OF AMERICA

THE TANZANIA-ZAMBIA RAILWAY AUTHORITY

By: *Pamela B. Hussey*  
Pamela B. Hussey  
Title: Acting Director  
USAID/Zimbabwe and  
Southern Africa Regional Program

By: *Joseph F. Stepanek*  
Joseph F. Stepanek  
Title: A.I.D. Representative  
USAID/Tanzania

By: *S.C.I. Mapara*  
S.C.I. Mapara  
Title: General Manager

By: *J. B. Ngeleshi*  
J. B. Ngeleshi  
Title: Corporation Secretary/  
Chief Counsel

Amplified Description of the Project

Except as specifically provided herein, and within the limits of the definition set forth in Section 2.1, elements of the Amplified Project Description may be changed by written agreement of the authorized representatives of the Parties named in Section 8.2, without formal amendment of this agreement. This Annex 1 is illustrative, it will be reviewed, changed and updated periodically (usually following evaluation) to reflect the dynamic nature of the project and expected modifications in implementation over time.

Article 1: General Project Description

A. Goal

The goal of the project is to support the development of a strong economic foundation for growth in Southern Africa.

B. Purpose

The Project's purpose is to strengthen and expand the carrying capacity and improve the operational efficiency of TAZARA.

C. Illustrative End of Project Status

By the end of the four-year life of this project, the following conditions are expected to exist:

- a. an increase in cargo hauled annually from 988,000 MT in 1986 to 1.9 million MT in 1991.
- b. a 40% increase in the average locomotive availability rate from 46% in 1986 to 65% in 1991;
- c. Approximately a 50% decrease in average wagon turnaround time (Dar es Salaam-Kapiri Mposhi) from the current average of 35 days to 20 days by 1991.
- d. An increase in annual cargo carrying capacity to 2.1 MT by 1993.

D. Illustrative Project Outputs

The following outputs will be achieved by the project:

- a. 17 additional new diesel electric locomotives put in

- service and being maintained;
- b. 11 existing GE/Krupp diesel electric locomotives overhauled and 2 damaged diesel electric locomotives repaired and operating;
  - c. A maintenance program operating efficiently for the entire fleet of 30 diesel electric locomotives;
  - d. Mbeya workshop remodeled and in use to maintain diesel electric locomotives only and store diesel electric locomotive spare parts;
  - e. Improved maintenance procedures developed and implemented for diesel electric locomotives;
  - f. Rail system operating procedures developed and implemented including those for overall planning, traffic forecasting, demand analysis, and tariff setting;
  - g. Cost accounting procedures developed, computerized and in use as basis for determining operating costs;
  - h. Data on operating costs and revenue position presented to TAZARA management as basis for a realistic tariff structure;
  - i. Production, quality and inventory systems control established;
  - j. 600 TAZARA artisans, technicians, engineers and workshop supervisors receive on-the-job training;
  - k. Improved performance of 180 TAZARA management staff through refresher courses;
  - l. 6 long-term participants trained in critical railway management and operations areas;
  - m. 20 TAZARA finance department staff receive short-term training in financial management.

E. PROJECT COMPONENTS

The proposed project will finance the commodities and services necessary to carry out activities for expanding TAZARA's carrying capacity while improving management, staff and operational efficiency.

The illustrative project components to be funded by AID are:

1. Locomotive Power Component:

Eight high-powered diesel electric locomotives will be purchased with project funds during the second year of the project for delivery in the third year. An additional nine will be purchased in the third year of the project if proposed evaluation findings, recommendations and traffic projects indicate an additional need for motive power for TAZARA. All orders of locomotives will be accompanied by approximately 20% equivalent of capital value in spare parts, sufficient to maintain the locomotives at their optimum level during the first 5 years.

Project funds will also be used to purchase spare and repair parts for the 11 functioning and two damaged GE/Krupp diesel electric locomotives currently in TAZARA's fleet. The spare parts are needed for the 4-year overhaul due July 1988. The overhaul is required to maintain the diesel electric locomotives running at their optimum level.

To receive, put on line and maintain the diesel electric locomotives while providing on-the-job training for engineers and maintenance personnel at Mbeya, approximately 45 person-months of mechanical engineering technical assistance will be secured by project funds as part of the contract for purchase of locomotives from the manufacturer, 36 person months of which will be long term for a diesel electric locomotive engineer. The diesel electric locomotive engineer will provide diesel locomotive maintenance staff with enhanced skills required to maintain and service the locomotives. The additional 9 person months will be for technical services for locomotives and spare parts.

To assist TAZARA in the overhaul of its GE/Krupp locomotives 48 person-months of Technical Assistance will be provided as part of the spare and repair parts purchase contract, 36 person months of this assistance will be long term. The additional 12 person-months will help in the inventory of the spare and repair parts.

Approximate Inputs to Component:

AID contribution (\$33,600,000)

- a. 17 Diesel electric locomotives at \$25,500,000;
- b. 20% equivalent of capital costs for spare parts at \$5,100,000;

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- c. 45 person months of a diesel electric engineer at \$ 967,000 (36 long-term and 9 short-term);
- d. Spares and repair parts for GE/Krupp diesel electric locomotives at \$1,000,000;
- e. 3 years of engineering technical assistance for GE/Krupp at \$769,000.
- f. 12 person months of inventory services at \$264,000.

TAZARA's contribution (\$500,000 equivalent in local currency):

TAZARA's contribution to the locomotive power component includes salaries of TAZARA staff in the Mbeya workshop who will maintain project-financed locomotives and repair and maintain the GE/Krupp locomotives. It also includes the salary of one counterpart for a contract engineer, office space, support staff, office supplies, training facilities, operation and maintenance of equipment and vehicles.

Illustrative Outputs from Component:

- a. 17 new diesel electric locomotives put into service.
- b. 11 existing GE/Krupp diesel electric locomotives overhauled, 2 repaired and operating.
- c. Maintenance program and on-the-job training for diesel electric locomotives established and functioning at Mbeya workshop.
- d. Maintenance program institutionalized for entire diesel locomotive fleet.

2. Construction Component

TAZARA has two large workshops, one at Dar es Salaam and another at Mpika, fitted with identical equipment for the maintenance of Chinese diesel hydraulic locomotives and wagons. The smaller workshop at Mbeya is used solely for the maintenance of the GE/Krupp diesel electric locomotives and to store spare parts that TAZARA purchased in 1984-85. Greater maintenance and efficiency will be achieved if all of current and additional diesel electric locomotives are serviced at

Mbeya. Very little of the equipment in the two larger workshops can be utilized or transferred to Mbeya for use on the diesel electric locomotives. The Mbeya workshop will be extended and equipped for heavy repair work in order to accommodate servicing of all the current and future diesel electric locomotives.

The proposed expansion would consist of an area of about 1,460 square meters (27 m x 54 m) for heavy repair work on diesel electric locomotives. The flooring will be provided with three built-in run-through tracks. Each track will have an under-floor pit arrangement similar to those in the existing facility. The proposed expansion will be adjacent to the north wall of the existing light-repair shop. The proposed workshop will be serviced with an overhead 30-ton gantry crane for removal and replacement of major components.

The structural and architectural features of the proposed expansion will conform with the design of the existing structures.

Adjacent to the north wall of the proposed workshop, another additional structure will house storage of parts, materials and a demonstration classroom to conduct necessary training sessions for repairs on locomotives. The proposed addition would be an area of about 1300 square meters (24 m x 54 m).

#### Design Cost Estimates and Construction

Architectural design of the proposed extensions shall be steel structural components, with walling of roof sheeting. Floors shall be built to withstand movement of locomotives. TAZARA will commission an experienced and qualified local firm to carry out design work and prepare the invitation for bid (IFB) documents for the proposed construction.

Tanzania has both design and construction capacity to design and build such types of structures. The following cost estimates have been made on a cost per square meter basis based on a review made by AID engineers to compare the costs of construction of similar structures built in Tanzania during the last six months and on a review of the costs of local and imported construction commodities.

- i. Proposed Workshop structure, total estimated area 1,460 square meters.

Estimates @ \$400 per sq. mt.                      \$ 584,000

- ii. Storage area and demonstration classroom,  
total estimated area 1,300 sq. mt.

Estimates @ \$400 per sq. mt.	\$520,000
Sub-total costs	US\$1,104,000
Other costs	\$ 246,000
Total Costs	\$1,350,000

Approximate Inputs to Component:

AID contribution (US\$400,000):

AID's contribution toward construction costs shall be limited to the procurement of the foreign currency portion of building materials and fixed equipment for the workshop such as rail lines, overhead gantry cranes, and demonstration equipment.

TAZARA's Contribution (US\$900,000 in local currency equivalent):

TAZARA will finance the local currency cost of construction which includes services for engineering, architectural drawings and services, locally available construction material, construction supervision, labor and furnishings.

Other Donor Contribution (US\$50,000 equivalent):

Technical advisors funded by the Nordic group will provide assistance for the review of engineering and architectural drawings and supervision of construction.

Illustrative Outputs from Component:

- a. Mbeya workshop extended and in use to maintain diesel electric locomotives, store spare parts and used as a demonstration and training room for locomotive technicians;
- b. Maintenance program developed and instituted for entire diesel locomotive fleet at Mbeya;
- c. Mbeya workshop designated and functioning as center for servicing diesel electric locomotives.

3. Equipment and Tools Component:

Project funds will be used to purchase the minimum required tools and equipment for the workshop at Mbeya. The diesel electric locomotive supplier and GE will provide the list of minimum tools required to maintain the project-funded diesel locomotives and overhaul 11 and repair 2 GE/Krupp diesel locomotives

in service. These include brake system component testing equipment, valve seat grinding set, crankshaft deflection, bearing installation tools, scraper, etc.

Approximate Inputs to Component

AID Contribution (\$1,800,000):

- a. \$500,000 for tools and equipment required to overhaul and maintain the current fleet of GE/Krupp diesel electric locomotives at the Mbeya workshop.
- b. \$1,300,000 for tools and equipment required for all three of TAZARA's workshops to maintain the locomotive fleet. (Mbeya \$450,000; Dar es Salaam \$200,000 and Mpika \$650,000).

TAZARA's Contribution (\$700,000 equivalent in local currency):

TAZARA's contribution to the tools and equipment component will include salaries of TAZARA supply management staff, other support staff, office space and storage areas.

Illustrative Output from Component

- a. Tools and equipment received at all workshops and being utilized.
  - b. 11 existing GE/Krupp diesel locomotives overhauled, 2 repaired and all operating.
  - c. Maintenance program underway for entire diesel locomotive fleet.
  - d. Improved maintenance procedures developed and being implemented for diesel electric locomotives.
4. Technical Assistance Component (exclusive of locomotives and spare parts procurement technical assistance)

A total of approximately 168 person-months of technical assistance will be provided in two separate contracting modes.

- i. Long-Term Management Accounting Assistance (approximately 36 person-months)  
Approximately 36 person-months of long-term services of a management accountant procured through a personal services contract (PSC) will be provided to the Finance Department of TAZARA.

The contractor will work under the supervision of the Finance Manager and will work in collaboration with the short-term experts provided by the financial IQC. The technical assistance will enable the department to:

- a. ensure accounting information is properly prepared;
  - b. manage the data processing function for the accounting department;
  - c. direct the preparation of financial information for management, supervise budget preparation and cost analysis and assist to implement data processing systems;
  - d. assist management, when required, in the preparation of budgets, and collect and summarize the budgets for their approval;
  - e. ensure that the data processing equipment used by the department in Tanzania Region is properly maintained;
  - f. formulate training programs for and ensure regular on-the-job training of all subordinates.
- ii. Railway Operations Management Assistance

The services of a railway operations and management firm will be secured through competitive procurement for the total of approximately 132 person-months. The rail management firm may sub-contract parts of the technical services to other firms. The services to be provided are:

- a. Approximately 3 years of long-term services of a railway management specialist will be provided to TAZARA's headquarters in Dar es Salaam to help define management and technical problems and develop a program to resolve these problems. Primary areas to be addressed include workshop management, quality control, financial management, planning, tariff adjustments, training, and general locomotive fleet operations and performance. The rail management specialist will arrive in the first year of project implementation. The specialist will report directly to the Deputy General Manager who may assign other TAZARA staff as counterparts depending on the functional problem area being addressed at any given time.

In collaboration with TAZARA staff, the full-time railway management advisor will also plan for and coordinate approximately 96 person-months of short-term technical assistance (including scheduling and the preparation of scopes of work) as described below.

- b. Approximately 6 person-months of short-term assistance in railway management to establish and implement production, and quality control systems.
- c. Approximately 24 person-months of short-term technical assistance in economic planning, market analysis, traffic forecasting and demand analysis which will be provided to the Planning Department during the life of project.

Severe gaps in data have been identified in traffic operations including goods tracking operations, wagon utilization and interchange policies with other railways. The services of a transport economist experienced in railway problems will be provided to conduct traffic surveys, determine traffic demands, review traffic performance, translate traffic forecast into operational indices, conduct an annual review, in collaboration with the finance and traffic departments, of operating costs and provide advice establishing appropriate tariff rates. The economist will also advise on proposals for investment projects intended to achieve the objectives of traffic operations.

- d. Approximately 9 person-months of short-term engineering technical assistance over the life of project will be provided to the Corporate Planning Department of TAZARA. The engineer will work closely with the traffic and engineering departments, will translate the transport demand with appropriate operational indices and plan for the mechanical engineering needs of TAZARA. She/he will conduct an assessment of the existing capacity of mechanical equipment vis-a-vis the prepared plan, review all proposals for investment in mechanical equipment and all other matters related to new equipment with manufacturers and donors. The engineer will also advise on formulation of corporate strategy and policies appropriate to mechanical engineering. The engineer will work closely with a counterpart identified by TAZARA and train at least one person in developing policies and a strategy for TAZARA's investments and operations.

- e. Approximately 15 person-months of short-term assistance will be funded to assist in TAZARA's training and personnel development. The individual will function at TAZARA's headquarters. The specialist will develop in-service, short-term management training, and develop and implement the long-term U.S. participant training program.
- f. Approximately 42 person-months of short-term financial and accounting assistance to the Finance Department of TAZARA. The technical assistance will enable the department to develop procedures for making a complete and accurate record of all expenditures, prepare regular management accounts and information, institute cost systems as a basis for the conduct of accurate and reliable tariff review, develop an effective internal audit capability, automate its financial management services, prepare a staff assessment study for the department, develop financial training plans, train and ensure that adequate staff and skills are available to manage an efficient and effective Finance Department.

Approximate Inputs to Component:

AID Contribution (\$3,436,000):

- a. 36 person-months full-time PSC in accounting at \$135,000 per year, \$405,000;
- b. 36 person-months full-time of a railway management expert at \$256,300 per year, \$ 769,000; and
- c. 96 person-months (pm) of short-term technical assistance at \$22,000 per person-month, \$2,112,000 consisting of:
  - 6 pm for development of rail management control systems (production and quality)
  - 9 pm for economic planning
  - 9 pm for traffic forecasting and demand analysis
  - 42 person-months of short-term financial and accounting assistance including data processing experts;

- 6 pm for market analysis
  - 9 pm for wagon utilization/control and mechanical engineering systems
  - 15 pm for management training
- d. Office equipment and supplies such as portable computers, duplicating machines and other supplies for the Planning, Traffic, Mechanical, Supplies and Personnel Departments at \$150,000.

TAZARA's Contribution:

TAZARA's contribution to the technical assistance component includes salaries of counterpart staff, office space, support staff, office supplies and equipment, operation and maintenance of equipment and vehicles.

Illustrative Outputs from Components:

- a. Inventory, production and quality controls established at TAZARA workshops. The short-term technical assistance in railway management maintenance systems will establish these systems initially at Mbeya and later at other workshops.
- b. Maintenance program instituted for entire diesel locomotive fleet.
- c. Rail system operating procedures developed and implemented including overall planning, traffic forecasting, traffic demand analysis, automated accounting procedures, cost analysis, rail tariff review and setting. The review and establishment of a realistic marginal operating cost will lead to a review of tariffs and development of a tariff structure that is related to operating costs. At the conclusion of the financial technical assistance, the data obtained, analysis performed and policies recommended will be considered in the decision to provide the additional 9 locomotives to TAZARA.

5. Training Component:

Training consists of four parts with the objective of increasing TAZARA workers' efficiency and productivity.

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a. On-the-job Training:

This element of the training program will be conducted mainly at the Mbeya workshop by the contract diesel electric locomotive engineer who will maintain and service the diesel electric locomotive fleet. Through daily on-the-job training and trouble shooting the staff of the Mbeya workshop, consisting of engineers, technicians and artisans, will be trained in mechanical and electrical trade courses, (Module 1-12 of the TAZARA training manual), and the first cycle of workshop manager, supervisor, storekeeper and assistant courses.

b. Management Training

This element of the Project will assist in improving productivity and efficiency by developing and carrying out management training programs to improve work-related behavior (e.g., communication, decision making, supervision, planning, discipline, attendance and problem solving). The experiential, participatory and problem solving approach to training that will be used will be conducted by a cadre of five trainers from TAZARA's school at Mpika, a team of experienced trainers from the SADCC transport and management institutions in the region such as the Institute of Development Management in Tanzania, and American management consultants. It will be aimed at 180 of TAZARA's mid- and upper-level managers. The staff to be trained will be divided into around five groups of approximately 30-40 each. Each group will undertake three training sessions, approximately 8-10 months apart, over the life of the project. On-the-job follow-up will be provided between training sessions by management and training consultants. A separate cycle of management training consisting of approximately 3 seminars will also be developed for TAZARA's dozen most senior executives.

c. Participant Training:

Long- and short-term participant training will be geared to TAZARA's technical needs. Approximately 144 person-months, leading to six Master's degrees, will be provided in the areas of most immediate need. Preliminary needs have been identified to train at least two senior accountants, one corporate planner and one

mechanical engineer to the Masters Degree level. Short-term programs and study tours in the U.S. and third countries will be provided for managers, technicians and trainers in such areas as rail systems operations and maintenance, management, pricing, statistics and information services, computer programming and training of trainers. When practical training will be conducted at TAZARA.

d. Short-Term Work Study:

Study tours will be provided for lower-grade Mechanical Engineering Staff. The objective of the tours will be to: (a) provide broader-based experience from which these workers can increase their skills, knowledge and commitment and (b) provide a reward for job performance. Groups of five or six workers will be taken to view operations of other workshops they would normally not have the opportunity to see. For example, workers at Mbeya or Mpika would be given a one-week tour of the Dar es Salaam operations or operations of railroads in neighboring SADCC countries such as Zambia Railways, National Railways of Zimbabwe or Botswana Railways. If these study tours prove successful, they will be expanded with the assistance of other donors.

Approximate Inputs to Component:

AID contribution (\$1,075,000)

- a. On-the-job training by a diesel electric locomotive engineer at Mbeya (see inputs to locomotive purchases);
- b. Executive and in-service Management training (\$320,000) consisting of:
  - i. Training Management Advisors, 15 person-months, U.S. and other;
  - ii. Training Specialist, 15 person-months, regional expert paid in foreign currency;
  - iii. Supplies and Equipment, \$75,000 worth of training materials and supplies.
- c. Participant training (\$460,000)

144 person-months of training leading to 6 MSc degrees.

- d. Short-term work study (\$20,000)
- e. Short-term specialized accounting studies provided by experts from regional institutions such as the Institute of Finance Management (IFM), the Eastern and Southern African Management Institute (ESAMI) and the Institute of Development Management (IDM) (\$200,000).

TAZARA's contribution:

- a. Salaries and benefits for the artisans, engineers and technicians at Mbeya who will be trained, support staff, other equipment, etc.;
- b. Executive and in-service management training, for support staff, equipment supplies, salaries of 5 TAZARA teachers who will be the lead trainers and local currency costs of management consultants and trainers from ESAMI, IFM and IDM;
- c. Salaries of staff participant trainees, office supplies, support staff, etc.;
- d. Short-term work study;
- e. Equipment and supplies.

Illustrative Outputs from Component:

- a. 600 maintenance staff, engineers, artisans, mechanics, technicians, inventory clerks and supervisors trained at Mbeya workshops and storage shops;
- b. 11 GE/Krupp diesel electric and 2 damaged GE/Krupp locomotives given 4-year overhaul and repaired, respectively;
- c. Improved maintenance procedures instituted for all diesel electric locomotives;
- d. At least 180 mid- and upper-level TAZARA managers trained;

- e. A core of 5 staff members from the TAZARA training school (Mpika) trained as management trainers;
- f. The management training program institutionalized as part of TAZARA's staff development program;
- g. Overall improvement in management efficiency and productivity;
- h. 6 TAZARA employees receive Masters' degrees in critical fields;
- i. 25 person-months of short-term training received in U.S.;
- j. 10 person-months of short-term training received in third countries;
- k. 120 person-months of training received at TAZARA through services of consultants;
- l. Improved staff efficiency and productivity;
- m. 30 study tours involving at least 150 lower-level Mechanical Engineering Department staff such as train operators, artisans, and mechanics.

Article III: Responsibility of the Parties

1. Project Management and Coordination

a. TAZARA:

TAZARA has the primary responsibility for the implementation of the project. With the assistance provided under this project through contracts and direct support from AID, TAZARA has the necessary capability to administer the procurement, contracting and construction elements of the project and has indicated that it will assign professional staff to work exclusively on coordinating project activities and to be the direct liaison with U.S. contractors and suppliers and the USAID/Tanzania Project Officer. Given the high priority TAZARA places on this project, the Deputy General Manager of TAZARA has assured AID that he will make himself available to all parties to resolve any and all substantive project issues which may arise.

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A Project Committee will be established to direct the implementation of the project. The Committee will be chaired by TAZARA's Project Manager and will include, subject to further agreement, representatives from USAID/Tanzania, and technical assistance firms. The precise size, functions and responsibilities, and composition of the committee will be decided mutually by TAZARA and USAID/Tanzania as soon as possible after the signing of the agreement. The Project Committee will meet monthly to review, monitor and plan project implementation actions.

The meetings will focus on past work plans, actions and accomplishments, future work plans, quarterly reports on progress and the draft implementation schedule for the upcoming month. The committee will also inspect work and review training in progress.

The General Manager of TAZARA, as the highest official at TAZARA, is ultimately responsible for overall management of the project and will approve the expenditure of funds, sign contract documents and enter into contracts, acknowledge final receipt of goods and correspond as necessary with AID on project implementation matters. TAZARA's Mechanical Engineering Department will be responsible for preparing technical specifications and lists of parts to be procured. TAZARA's Supplies Manager and the technical office concerned will work directly with the AID Regional Commodity Management Officer (RCMO) to prepare the terms and conditions of procurement documents for goods and with the Regional Contracting Officer (RCO) to prepare scopes of work and requests for technical proposals, select contractors and award contracts. The Supplies Manager, assisted by project funded technical assistance will also verify and accept commodities and equipment procured with project funds.

b. USAID

USAID/Tanzania will manage and monitor the project, with assistance from the REDSO/ESA Engineer, Commodity Management Officer and Legal advisors and, on an as-needed basis, from USAID/Zimbabwe staff. USAID/Tanzania has recruited a direct hire Project Officer who will be the project manager. He will be assisted by a direct hire engineer and a PSC engineer, both of whom are being recruited to manage the proposed Economic Policy Reform Program in Tanzania (which focuses on improvements to Tanzania's road network). The Project Officer will be a member of the Project Committee and it will be his responsibility to maintain contact with the contractors and TAZARA's Project Manager.

Financial monitoring will be the responsibility of the Controller, USAID/Tanzania, assisted as necessary by the Regional Financial Management Center (RFMC) in Nairobi. The project will undergo financial reviews and audits by a certified accounting firm through a contract with USAID/Tanzania or RFMC. Funding is included in the monitoring and evaluation portion of the project budget to cover the costs of external audits.

During implementation of the project, the Project Officer may call on other appropriate USAID/Tanzania officers for assistance. Additional professional services (e.g., engineering, contract, procurement, legal) will be provided by REDSO/ESA on an as-needed basis.

c. Reporting Requirements

1. Progress Reports:

TAZARA through the Project Committee, will submit progress reports on a quarterly basis to USAID/Tanzania. These reports are to be submitted within 15 days after the end of a calendar quarter.

The project progress reports are expected to cover, inter alia:

- i. Major activities and general progress against the work plan;
- ii. Problem areas requiring Project Committee and USAID assistance for solution;
- iii. Issues and problems that impinge on the future implementation and direction of the project;
- iv. TAZARA's proposed solutions to the problems;
- v. Action to be taken during the next quarter; and
- vi. Information on any matter which the Project Committee and/or USAID may reasonably request.

d. Financial Reports

The TAZARA Project Manager will report U.S. dollar disbursements under the project on a quarterly basis to the Project Committee and AID. Reports are to be submitted within 15 days after the end of the calendar quarter.

Disbursements will be shown by line item category for the previous quarter and cumulatively. Categories shall be the same as those shown in the project budget estimate in this grant agreement. Any current and anticipated financial problems shall be clearly noted and explained in the report. Financial problems requiring resolution by the Project Committee and USAID shall be highlighted. Should the need arise for a particular financial report format, the USAID/Tanzania Controller will provide the necessary guidance in a Project Implementation Letter.

2. Illustrative Project Implementation Schedule

The following schedule presents an illustrative plan for the major implementation actions to take place during the project along with the responsible agents. The schedule is illustrative and is not expected to be followed to the letter. At several points within the life of the project, the schedule will be updated and/or changed when necessary by written agreement between AID and the Grantee without formal amendment of this grant.

A. <u>Activity:</u>	<u>Proposed Dates</u>	<u>Primary Responsible Organization</u>
. Project Agreement signed	September 1987	TAZARA/AID
. PIL No. 1 sent to TAZARA	October 1987	USAID/TANZANI,
. Conditions Precedent to initial disbursement	November 1987	TAZARA
. RFTP for railway managerial services prepared	November 1987	RCO/TAZARA/ USAID/TANZANI,
. RFTP for railway managerial services published	November 1987	RCO
. Design drawings, specifications and preliminary contract documents for construction of Mbeya workshop completed. Bills of Quantities and specifications prepared for building items requiring FX	November 1987	TAZARA

. TAZARA develops performance specifications for procurement of new 3200 hp locomotives completed	November 1987	TAZARA
. RFTP for railway managerial services closed	December 1987	TAZARA/RCMO/USAID
. RFQ/IFB for FX items for Mbeya workshop prepared	December 1987	TAZARA/USAID/RCMO
. List of spare and repair parts and technical services for GE/Krupp locomotives prepared	December 1987	TAZARA
. Construction of workshop extension contract prepared and issued	December 1987	TAZARA/USAID
. List of tools and workshop equipment prepared	December 1987	TAZARA
. RFQ for 8 new 3200 hp locomotives prepared	December 1987	TAZARA
. Selection process for long-term participants begins	December 1987	TAZARA
. RFQ for new 3200 hp locomotives advertised in U.S.	January 1988	RCMO/TAZARA
. RFQ/IFB for FX items for Mbeya workshop advertised	January 1988	RCO/RCMO/
. PSC Financial Technical Assistance contracted	January 1988	TAZARA
. Evaluation of proposals for railway managerial services	January 1988	TAZARA/RCO USAID
. Proposals received for supply of new 3200 hp locomotives	February 1988	TAZARA
. Negotiations for railway managerial services completed	March 1988	TAZARA/RCO

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. Contract let for FX items for Mbeya workshop	March 1988	TAZARA/RCO
. RFQ for purchase of parts for GE/ Krupp locomotive spares prepared	March 1988	RCMO/RCO
. Contract for railway managerial services awarded	April 1988	TAZARA/RCO
. Contract for supply of 8 new 3200 hp locomotives awarded	April 1988	TAZARA
. Locomotive engineer arrives at Mbeya under locomotive supply contract	April 1988	Contractor
. On-the-job training begins at Mbeya	April 1988	Contractor TAZARA
. Local purchase of training equipment	May 1988	TAZARA/RCMO
. Long-term Technical Assistance for Railway Management Services arrive in country	May 1988	Contractor
. RFQ for purchase of GE/Krupp locomotive spare parts advertised	May 1988	RCO/RCMO
. Proposals for the supply of GE/Krupp locomotives spare and repair parts and services received	July 1988	TAZARA
. Contracts for the supply of GE/ Krupp locomotive spare and repair parts and services negotiated	August 1988	TAZARA

. First set of long-term participants depart for training	August 1988	USAID/TANZANIA
. Maintenance procedure plans developed	September 1988	Contractor/TAZARA
. Short-term participant training begins	September 1988	Contractor/TAZARA
. Production systems developed	September 1988	Contractor/TAZARA
. Financial assistance to Finance Department computerized its systems	Aug 88-July 89	Contractor/TAZARA
. Short-term consultant develops plan for in-service management training	Aug-Nov 1988	Contractor/TAZARA
. FX items for Mbeya workshop delivered	Aug-Nov 1988	TAZARA/ Contractor
. Transport Economist and Tariff Expert review TAZARA's traffic and provide assistance	September 1988-1989	Contractor/TAZARA
. GE/Krupp locomotive spare and repair parts and expert arrives	Sept-Dec 1988	Contractor
. Construction of Mbeya workshop completed	November 1988	TAZARA
. Overhaul and repair of GE/Krupp locomotives continue with new spares and repair parts	December 1988	Contractor/TAZARA
. Delivery of 8 new 3200 hp locomotives	July 1989	Contractor
. Locomotives put in service	August 1989	TAZARA/Contractor
. First evaluation	October 1989	USAID/Evaluation Team/TAZARA/ Contractors
. Remaining long-term participants depart for training	October 1989	TAZARA/USAID/
. Contract award for supply of additional nine 3200 hp locomotives with 20% spare parts	December 1989	RCMO/TAZARA
. Long-term participants return	August 1990	TAZARA
. PSC financial manager departs	February 1991	TAZARA
. Management training in process	1988-1991	TAZARA/Contractor

. Study tours in process	1988-1991	TAZARA/Contractor
. Delivery of nine additional 3200 hp locomotives	May 1991	RCMO/TAZARA
. Locomotives put in service	June 1991	TAZARA/Contractor
. Departure of long-term technical assistants	June 1991	Contractor
. Remaining long-term participants return	June 1991	TAZARA
. Final evaluation	July 1991	USAID/TANZANIA
. PACD	August 1991	

**B. Illustrative Plan for Procurement of Locomotives, Spare and Repair Parts, Tools and Equipment**

1. Procurement of locomotives and spare parts will be undertaken by TAZARA, assisted by REDSO and USAID staff, using the Authority's standard operating procedures as modified to ensure compliance with AID's contracting and procurement regulations. The REDSO RCMO has reviewed TAZARA's procurement procedures and found them generally acceptable. Several large procurement actions are envisioned for the supply of the proposed 17 new 3200 hp diesel locomotives and GE parts, technical services, tools and equipment necessary to repair these locomotives. Because there are only two potential U.S. suppliers of locomotives of this size (GE and General Motors) and because TAZARA will be purchasing long-term technical services as well as commodities, TAZARA will need to consider factors in addition to price, such as compatibility with existing equipment; costs of retraining existing staff to maintain more than one type of diesel electric locomotive; the desirability to minimize the use, inventory and storage varieties of spare parts; and recurrent costs (e.g., fuel efficiencies) in making an award. Thus, procurement will be conducted by competitive negotiation in accordance with the guidance contained in AID Handbook (HB) 11, Chapter 3.

The procurement of tools and other specialized equipment for the workshop will be accomplished with full and open competition under an Invitation for Bids (IFB) or a Request for Quotations (RFQ). The exact method of procurement will be decided upon after AID has had a chance to review the complete list of required items with TAZARA. The RCMO will assist TAZARA to advertize all AID-financed commodity procurements, as required by AID regulations. Contracts exceeding \$100,000 in value will be reviewed by the RCMO, USAID/Controller and approved by the Director, USAID/Tanzania, prior to AID commitment of funds. The commodity procurement schedule in C below provides tentative timing for the purchase and arrival of each commodity category.

2. Source and Origin of Procurement:

The authorized source and origin of new locomotives and locomotive spare parts, is AID Geographic Code 000. The authorized source and origin for all other project inputs is AID Geographic Code 941, Tanzania, and Zambia.

3. Shipping

Because only a few very large consignments of goods are envisioned, and because no U.S. Flag vessels presently provide scheduled liner service from the East Coast of the United States to the port of Dar es Salaam, the RCMO and the TAZARA Supplies Manager will work with the AID Office of Procurement, Transportation Services Division (SER/OP/TRANS) to explore the possibility of chartering a vessel or of inducing a U.S. Flag vessel to carry the project's consignments from the U.S. to Dar es Salaam. If this is not feasible, then a determination of non-availability will be sought which will permit use of non-U.S. Flag vessels.

4. Receipt and Utilization

All commodities purchased under the project will be shipped to the port of Dar es Salaam and will be titled to TAZARA. The responsibility for customs clearance and delivery of project commodities to the appropriated site will rest with TAZARA. Goods financed by AID will be cleared within one month of their receipt. The General Manager of TAZARA will acknowledge receipt by letter to the Director, USAID/Tanzania, of all goods financed by AID within 1 month of receipt. All parts, tools and equipment purchased with AID-provided funds will be inventoried and entered into the official property records of TAZARA within three months of clearance from customs. The TAZARA property record books will indicate the items in the inventory which were purchased with AID funds. Any project goods which will be directly used by project-funded technical advisors will be titled to TAZARA with the stipulation that such goods are for the exclusive use of the technical advisors during the project. At the end of the project, such goods will be used for such purposes as are agreed to by TAZARA and AID.

C. Commodity Procurement and Delivery Schedule

The schedule below refers to the number of days after the signing of the Grant Agreement:

<u>Action Completed</u>	<u>Number of Days After Grant Agreement is Signed</u>
TAZARA develops specifications for procurement of the new 3200 hp locomotives and related services	90
RFQ for the new 3200 hp locomotives prepared by TAZARA with help of the RCMO	120*
RFQ for new 3,200 hp locomotives issued	140
Bids received for supply of the new 3200 hp locomotives	180
Contract awarded for the supply of the new 3200 hp locomotives	200
Delivery of the new 3200 hp locomotives	380-600
List of parts for GE/Krupp locomotives prepared	220
RFQ for the purchase of the GE/Krupp locomotives spare and repair parts advertised	240
RFQ for the purchase of the GE/Krupp locomotive spare parts advertised	260
Quotations for the supply of the GE/Krupp locomotive spare parts received	300
Contracts for the supply of the GE Krupp locomotive spare parts completed	340
GE/Krupp locomotive spare and repair parts and services arrive in country	400-480
Blueprints and specifications for construction contract for Mbeya workshop completed	90
Construction contract prepared and issued	120
Construction of workshop at Mbeya completed	480

List of requirements and specifications prepared for FX items required for Mbeya workshop	120
RFP/IFB for FX items for Mbeya workshop	140
Contract let for FX items for Mbeya workshop	200
FX items for Mbeya workshop delivered	320-480

- \* 45 person-months of technical assistance to be provided by the locomotive supplier, will be part of this procurement.

D. Contracting and Methods of Financing

A review of TAZARA operations indicates that TAZARA has the necessary capability to carry out project procurement actions. AID will make direct payment to U.S. suppliers for all major procurement actions. The inter-governmental agreement between Tanzania and Zambia establishing TAZARA explicitly empowers it as a corporate body to act as agent of the two governments in all matters relating to the railroad. TAZARA is, therefore, fully authorized to enter into any contractual or procurement agreements related to its operations. The General Manager is the procurement agent; however, he has delegated this authority to the Supplies Manager and a Tender Committee for the procurement of all goods and services. TAZARA has procured rolling stock, supplies, equipment and services from local and overseas suppliers. TAZARA will use the same procedures, modified according to USAID regulations where necessary, for project procurement. The overall institutional and administrative arrangements within TAZARA are sufficient to enable TAZARA to expeditiously manage a large procurement of diesel locomotives, spare parts and related managerial technical services.

The following Table outlines the methods of implementation and financing for project activities:

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METHOD OF IMPLEMENTATION AND FINANCING

<u>CATEGORY</u>	<u>IMPLEMENTATION METHOD</u>	<u>FINANCING METHOD</u>
1. Procurement of locomotives, 20% spares and 45 pm of engineering technical assistance	TAZARA, HB 11 Contract	Direct Letter of Commitment by AID/W
2. Procurement of work-shop tools and equipment	TAZARA, HB 11 Contract	Direct Letter of Commitment by AID/W
3. Procurement of spare repair parts and related technical services for GE/Krupp locomotives	TAZARA, HB 11 Contract	Direct Letter of Commitment by AID/W
4. Procurement of construction/work-shop equipment	TAZARA, HB 11 Contract	Direct Letter of Commitment by AID/W
5. Procurement of managerial technical assistance	TAZARA, HB 11 Contract	Direct Payment to Contractor by USAID/Tanzania
6. Procurement of PSC Management Accountant	TAZARA	Direct Payment to Contractor by USAID/Tanzania
7. Long/short term U.S. training	USAID/Tanzania PIO/P, ST/AID/WASH	Direct Payment by AID/W
8. Short-term in-country training	PIL - TAZARA training Unit; Contractors	Direct Payment by USAID/Tanzania or RFMC
9. Other local procurement	TAZARA, HB 11 Direct TAZARA procurement using both TAZARA and U.S. funds	Direct Payment by USAID/Tanzania or direct payment with TAZARA's own funds

**E. Technical Assistance**

Four contract mechanisms are proposed for use to implement the technical assistance components of the project.

The Requests for Proposals for the new diesel electric

locomotives will include approximately 45 person-months of technical services 36 person-months of which will be long term (in addition to the normal 1-week per locomotive typically supplied by manufacturers).

To procure the services of a railway management firm, a Request for Technical Proposals will be prepared and issued within 30 days after satisfaction of Conditions Precedent. Proposals will be evaluated and a contract negotiated and signed 8 months after signing the grant. The long-term railway operations manager will arrive approximately 9 months after signing the grant. She/he will collaborate with TAZARA to develop a work plan and schedule for the short-term technical assistance. Although the PP team and TAZARA have preliminarily identified areas where short-term technical assistance appears to be most critically needed, the long-term railways management specialist will be responsible for verifying this assessment and identifying specific needs. Together with TAZARA management staff, the long-term advisor will prepare required scopes of work, schedules and other requirements to facilitate the short-term technical assistance effort. Obviously, the rail systems management team will need to coordinate some activities with the locomotive specialist at Mbeya (e.g., mechanical engineering).

The project will fund the full-time services of an accountant (from within the SADCC region) to help TAZARA operationalize its new accounting system. The accountant will be primarily operational, but will also assist other technical advisors in such areas as training needs identification and implementing an effective cost accounting system. The accountant will be hired for approximately 36 person-months.

Finally to assist in the repair and overhaul of the existing GE/Krupp electric locomotives, 36 person-months of long-term service of a locomotive repair mechanical engineer will be secured as part of the GE/Krupp spare parts contract. Services will begin before the arrival of the spare and repair parts. An additional 12 person-months of short-term services for inventory systems development will also be part of contract.

F. Training

TAZARA's Chief Training Officer, under the direction of the Deputy General Manager, will be the primary implementing officer for the training component.

### **Participant Selection:**

- a) **In service management training:** It is proposed that all mid- and upper-level managers at TAZARA will receive this training.
- b) **Participant training:** long- and short-term participants will be nominated by TAZARA after approval of the TAZARA Selection Administration Committee in accordance with training plans and criteria established approximately by month 6 of the project. All nominations for training will be subject to AID concurrence.
- c) **Study tours:** study tours for staff members will be recommended by supervisors in the Mechanical Engineering Department in conformity to plans and criteria established approximately by month 6 of the project.

### **Procurement**

\$75,000 worth of training materials will be ordered through a host country contract in approximately month 3 of the project for delivery between Months 6 and 12. With the exception of photocopiers, all items will be bought off the shelf in the region.

### **Logistical support**

TAZARA will provide offices, classrooms, storage facilities and boarding and transportation for in-country training. The contractor will be responsible for short-term housing and all overseas transportation arrangements.

Article IV: Illustrative Financial Plan

ILLUSTRATIVE SUMMARY OF AID's CONTRIBUTION

<u>ITEM</u>	<u>COST IN US\$</u>
17 3200 hp diesel electric locomotives	25,500,000
Spare parts at 20% equivalent of costs of locomotives	5,100,000
45 person-months of technical services for on-the-job training and other technical work for diesel electric locomotives	967,000
Spare parts for 11 and repair parts for 2 GE/Krupp diesel electric locomotives presently in TAZARA's fleet	1,000,000
36 person-months of Technical services for overhaul of diesel electric locomotives and 12 person-months of services for inventory of parts	1,033,000
Tools and equipment for workshops	1,800,000
Mbeya workshop extension	400,000
Other managerial and technical services (long-term)	1,174,000
Other managerial and technical services (short-term)	2,112,000
Office equipment associated with Technical Assistance	150,000
Long- and Short-term training	1,075,000
Evaluation and financial audits	<u>150,000</u>
SUBTOTAL	\$ 40,461,000
Contingency and Inflation	\$ <u>5,489,000</u>
TOTAL	\$ 45,950,000

ILLUSTRATIVE SUMMARY OF TAZARA'S CONTRIBUTION IN EQUIVALENT US\$

<u>CATEGORY OF ITEMS</u>	<u>ESTIMATED COST</u>
* Locomotives, spare parts and related services	500,000
* Tools and Equipment	700,000
** Construction	900,000
Training	365,000
Technical assistance including office supplies and equipment	800,000
Project Monitoring and Evaluation	<u>100,000</u>
	SUBTOTAL \$ 3,365,000
Contingency and inflation	<u>\$ 503,000</u>
	TOTAL <u>\$ 3,868,000</u>

- \* Consists of salaries of counterpart staff, staff involved in maintenance and repair of diesel electric locomotives and on-the-job training in the servicing of locomotives and for support and supply management staff, etc.

ILLUSTRATIVE COST ESTIMATES AND FINANCIAL PLAN  
(in US\$ 000)

	USAID		TAZARA		OTHER		TOTAL
	FX	LC	FX	LC	FX	LC	
<b>LOCOMOTIVES/SPARE PARTS</b>							
GE locomotives	(33,600)	-	-	(500)	-	-	(34,100)
Technical Assistance for 17 weeks (inclusive)	25,500	-	-	-	-	-	25,500
Equivalent of capital costs for spare parts for locomotives	-	-	-	-	-	-	0
Year technical assistance at \$256,300/year and 9 person-months of short term T.A.	5,100	-	-	-	-	-	5,100
Local staff	967	-	-	-	-	-	967
Repair parts for 11 and repair parts for damaged GE licensed Krupp locomotives	-	-	-	500	-	-	500
Year technical assistance to repair GE/	1,000	-	-	-	-	-	1,000
App and 12 pm of inventory assistance	1,033	-	-	-	-	-	1,033
<b>TOOLS/EQUIPMENT</b>							
Workmen's tools (Dar, Mbeya and Mpika)	(1,800)	-	-	(700)	-	-	(2,500)
Special GE tools (Mbeya)	400	-	-	-	-	-	400
Special GE equipment (Mbeya)	300	-	-	-	-	-	300
Anton bridge crane and parts (Mbeya)	500	-	-	-	-	-	500
Additional high-powered equipment (Mpika & Dar)	200	-	-	-	-	-	200
Local staff/services	400	-	-	-	-	-	400
	-	-	-	700	-	-	700
<b>CONSTRUCTION</b>							
Heavy repair workshop for U30C	(400)	-	-	(900)	(50)	-	(1,350)
New railroad run-through tracks and equipment	200	-	-	500	-	-	700
	100	-	-	-	-	-	100

	USAID		TAZARA		OTHER		TOTAL
	FX	LC	FX	LC	FX	LC	
demonstration and storage rooms	-	-	-	300	-	-	300
audiovisual equipment	50	-	-	-	-	-	50
technical assistance	50	-	-	100	50	-	200
<b>TRAINING</b>	<b>(1,075)</b>	-	-	<b>(365)</b>	<b>(25)</b>	-	<b>(1,465)</b>
executive management training	100	-	-	40	10	-	150
in-service management training	220	-	-	150	5	-	375
equipment and supplies	75	-	-	20	5	-	100
long-term training (6 MSc degrees)	460	-	-	140	-	-	600
short-term training (seminars, study tours)	20	-	-	15	5	-	40
specialized financial management training at ESAMI for TAZARA staff	200	-	-	-	-	-	200
<b>TECHNICAL ASSISTANCE</b>	<b>(3,436)</b>	-	-	<b>(800)</b>	<b>(80)</b>	-	<b>(5,036)</b>
long-term Technical Assistance	1,174	-	-	300	10	-	1,484
railway Systems Management Specialist to be located in Dar at \$256,300/year for 3 years	769	-	-	300	10	-	1,079
SC Accountant to be located in Dar at average of \$135,000/year	405	-	-	-	-	-	405
short-term Technical Assistance	2,262	-	-	500	70	-	2,832
Materials/Production Systems Specialist (3 person-months @ \$22,000/month)	66	-	-	25	10	-	101
Work Planning/Quality Systems Specialist (3 person-months @ \$22,000/month)	66	-	-	25	10	-	101
Logon Control/Utilization Mechanical Engineering Systems Specialist (9 person-months @ \$22,000/month)	198	-	-	50	10	-	258
tariff Rate Review/Development Specialist (9 person-months @ \$22,000/month)	198	-	-	50	10	-	258

	USAID		TAZARA		OTHER		TOTAL
	FX	LC	FX	LC	FX	LC	
Transport Economist (9 person-months @ \$22,000/month)	198	-	-	50	10	-	258
Market Analyst (9 person-months @ \$22,000/month)	132	-	-	50	10	-	192
Training/Staff Development Specialist (15 person-months @ \$22,000/month)	330	-	-	100	10	-	440
Financial, accounting and data processing specialists (42 person-months at \$22,000)	924	-	-	350	-	-	1,274
Office equipment/supplies for Technical Assistants' use at TAZARA	150	-	-	100	-	-	250
PROJECT MONITORING AND EVALUATION	( 150)	-	-	( 100)	(20)	-	( 270)
Sub-total	40,461	0	0	3,225	175	-	43,861
Contingency and Inflation	5,489	0	0	503	29	0	5,871
TOTAL	45,950	0	0	3,728	204	0	49,732

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BEST AVAILABLE DOCUMENT

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ILLUSTRATIVE FINANCIAL PLAN OF U.S. CONTRIBUTION BY FY (EXPENDITURE)  
(In US\$ 000)

	YEAR 1	YEAR 2	YEAR 3	YEAR 4	TOTAL
<b>I. LOCOMOTIVES/SPARES</b>	1,718	14,924	16,738	220	33,600
Locomotives (17 diesel electric)	-	12,000	13,500	-	25,500
20% equivalent of capital costs for spare parts for locomotives	-	2,400	2,700	-	5,100
Spare and repair parts for GE/Krupp locomotives	1,000	-	-	-	1,000
Technical Assistance (new Locomotives)	293	229	247	198	967
Technical Assistance (GE/Krupp overhaul)	425	295	291	22	1,033
<b>II. TOOLS AND EQUIPMENT</b>	1,800	-	-	-	1,800
Special tools & equipment for diesel electric locomotives	1,800	-	-	-	1,800
<b>III. CONSTRUCTION</b>	350	50	-	-	400
Extension of heavy repair workshops with demonstration room and storage for diesel electric locomotives	200	50	-	-	250
2 new railway run-through tracks and equipment	100	-	-	-	100
Audiovisual equipment	50	-	-	-	50
Technical Assistance for Workshop Construction	-	-	-	-	-
<b>IV. TRAINING</b>	98	382	335	260	1,075
In-service management training	-	100	100	50	250
Executive management training (3 seminars)	10	20	20	20	70
Training equipment and supplies	5	30	30	10	75
6 long-term MSc training	30	150	150	130	460
30 study tours with 5 persons in each tour at \$600 per tour	3	7	5	5	20
20 persons trained at ESAMI in accounting	50	75	30	45	200

	YEAR 1	YEAR 2	YEAR 3	YEAR 4	TOTAL
<b>TECHNICAL ASSISTANCE</b>	<b>1,016</b>	<b>1,070</b>	<b>856</b>	<b>494</b>	<b>3,436</b>
Long-term Technical Assistance					
Railway Systems Operations Specialist	293	229	247	-	769
PSC Accountant	125	135	145	-	405
Short-term Technical Assistance (\$22,000 per month)					
Production Control System Specialist	22	22	22	-	66
Quality Control System Specialist	22	22	22	-	66
Wagon Utilization Specialist (Mechanical Engineer)	66	66	66	-	198
Tariff Rate Review and Development Specialist	66	110	22	-	198
Transport Economist	66	110	22	-	198
Market Analyst	66	66	-	-	132
Training/Staff Development Specialist	30	100	100	100	330
Equipment for Technical Assistance use at TAZARA	150	-	-	-	150
Revenue, Payroll Accountants and Computer Specialist	110	210	210	394	924
<b>MONITORING/EVALUATION</b>	<b>15</b>	<b>25</b>	<b>55</b>	<b>55</b>	<b>150</b>
Unscheduled evaluations and audits	15	25	55	55	150
<b>Sub-Total</b>	<b>4,997</b>	<b>16,451</b>	<b>17,984</b>	<b>1,029</b>	<b>40,461</b>
Inflation at 5% per annum compounded; Contingency at 8%	327	2,131	3,000	31	5,489
<b>TOTAL</b>	<b>5,324</b>	<b>18,582</b>	<b>20,984</b>	<b>1,060</b>	<b>45,950</b>

## Article V: ILLUSTRATIVE EVALUATION PLAN

Two project evaluations, an interim one in August 1989 and a final evaluation at the completion of the project in July 1991 are scheduled.

In both cases, the evaluation teams will include a railways management specialist (contract), railway engineer (contract), transport economist (contract), commodity management officer (AID), an education and human resources officer (AID) and if necessary, a project development officer (AID). In addition, TAZARA will provide the services of appropriate personnel to serve on the evaluation teams (e.g., mechanical engineer, planning officer). The Project Committee and the USAID/Tanzania Project Manager will provide all necessary documentation and data required by the team. The project budget includes \$100,000 for the two evaluations.

The first evaluation will focus on the verification of traffic demand trends in comparison to current forecasts. This review will help determine the number of new diesel locomotives needed to cover demand through 1993. At the time of PP design, existing forecasts indicate a need to procure 17 new locomotives to meet 1993 traffic levels. Eight of these will be purchased immediately after the Grant Agreement is signed in 1988, and the remaining nine will be ordered in 1989, pending verification of traffic trends. The 1989 evaluation will also assess TAZARA's performance in establishing reliable and accurate cost data and the use of this data to set appropriate tariff rates. Thirdly, the interim evaluation will review progress toward achieving the outputs established for the project, particularly but not limited to an assessment of increased staff capabilities as a result of training and technical assistance provided under the project as well as changes in staffing levels achieved by TAZARA. A condition precedent to the disbursement of funds for the second tranche of nine locomotives will be included in the Grant Agreement requiring specific actions on the part of TAZARA regarding the recruitment of qualified staff as well as the recording of accurate cost data upon which to base tariff rates.

The interim evaluation will also cover implementation matters such as the timeliness of delivery of project commodities, the quality of technical assistance and training and progress toward increasing productivity at workshops. To the extent possible, objective project performance indicators, such as turnaround time and locomotive availability, will be reviewed (based on TAZARA's data and actual observations by the evaluation team), although it may only be possible to assess trends at this point.

The final evaluation is scheduled shortly before the PACD. This evaluation will review all aspects of the implementation and impact of the project and the findings and recommendations will be incorporated into AID's evaluation system in order to share pertinent lessons learned. In addition to repeating assessments included in the first evaluation, the final evaluation will document the impact of the project by measuring changes in locomotive availability, carrying capacity, management systems improvements, and maintenance capability. Although parts of the evaluation will be somewhat subjective (e.g., quality of accounting data, general improvements in management), indicators such as average locomotive availability, average turnaround time of wagons and the time required to service locomotives will be directly measurable and can be used as surrogate measures of improvement in related areas such as management and staff development.

Project Grant StandardProvisions Annex

**Definitions:** As used in this Annex, the "Agreement" refers to the Project Grant Agreement to which this Annex is attached and of which this Annex forms a part. Terms used in this Annex have the same meaning or reference as in the Agreement.

**Article A: Project Implementation Letters**

To assist Grantee in the implementation of the Project, A.I.D., from time to time, will issue Project Implementation Letters that will furnish additional information about matters stated in this Agreement. The parties may also use jointly agreed-upon Project Implementation Letters to confirm and record their mutual understanding on aspects of the implementation of this Agreement. Project 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 Project in Annex 1.

**Article B: General Covenants.**

**SECTION B.1. 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 Project, the performance of obligations under this Agreement, the performance of any consultants, contractors, or suppliers engaged on the Project, and other matters relating to the Project.

**SECTION B.2. Execution of Project.**

The Grantee will:

(a) carry out the Project or cause it to be carried out with due diligence and efficiency, in conformity with sound technical, financial, and management practices, and in conformity with those documents, plans, specifications, contracts, schedules or other arrangements, and with any modifications therein, approved by A.I.D. pursuant to this Agreement; and

(b) provide qualified and experienced management for, and train such staff as may be appropriate for the maintenance and operation of the Project, and, as applicable for continuing activities, cause the Project to be operated and maintained in such manner as to assure the continuing and successful achievement of the purposes of the Project.

**Article B: General Covenants (Continued)**

**SECTION B.3. Utilization of Goods and Services.**

(a) Any resources financed under the Grant will, unless otherwise agreed in writing by A.I.D., be devoted to the Project until the completion of the Project, and thereafter will be used so as to further the objectives sought in carrying out the Project.

(b) Goods or services financed under the Grant, except as A.I.D. may otherwise agree in writing, will not be used to promote or assist a foreign aid project or activity associated with or financed by a country not included in Code 935 of the A.I.D. Geographic Code Book as in effect at the time of such use.

**SECTION B.4. Reports, Records, Inspections, Audit.**

The Grantee will:

(a) furnish A.I.D. such information and reports relating to the Project and to this Agreement as A.I.D. may reasonably request;

(b) maintain or cause to be maintained, in accordance with generally accepted accounting principles and practices consistently applied, books and records relating to the Project and to this Agreement, adequate to show, without limitation, the receipt and use of goods and services acquired under the Grant. Such books and records will be audited regularly, in accordance with generally accepted auditing standards, and maintained for three years after the date of last disbursement by A.I.D.; such books and records will also be adequate to show the nature and extent of solicitations of prospective suppliers of goods and services acquired, the basis of award of contracts and orders, and the overall progress of the Project toward completion; and

(c) afford authorized representatives of a Party the opportunity at all reasonable times to inspect the Project, the utilization of goods and services financed by such Party, and books, records, and other documents relating to the Project and the Grant.

**SECTION B.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 Project and the discharge of responsibilities under this Agreement;

(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 Project or the discharge of responsibilities under this Agreement.

SECTION B.6. Other Payments. Grantee affirms that no payments have been or will be received by any official of the Grantee in connection with the procurement of goods or services financed under the Grant, except fees, taxes, or similar payments legally established in Tanzania or Zambia.

SECTION B.7. Information and Marking. The Grantee will give appropriate publicity to the Grant and the Project as a program to which the United States has contributed, identify the Project site, and mark goods financed by A.I.D., as described in Project Implementation Letters.

Article C: Procurement Provisions.

SECTION C.1. Special Rules.

(a) The source and origin of ocean and air shipping will be deemed to be the ocean vessel's or aircraft's country of registry at the time of shipment.

(b) Premiums for marine insurance placed in Tanzania or Zambia will be deemed an eligible Foreign Exchange Cost, if otherwise eligible under Section C.7(a).

(c) Any motor vehicles financed by the Grant will be of United States manufacture, except as A.I.D. may otherwise agree in writing.

(d) Transportation by air, financed under the Grant, of property or persons, will be on carriers holding United States certification, to the extent service by such carriers is available. Details on this requirement will be described in a Project Implementation Letter.

SECTION C.2. Eligibility Date. No goods or services may be financed under the Grant which are procured pursuant to orders or contracts firmly placed or entered into prior to the date of this Agreement, except as the Parties may otherwise agree in writing.

SECTION C.3. Plans, Specifications, and Contracts. In order for there to be mutual agreement on the following matters, and except as the Parties may otherwise agree in writing:

(a) The Grantee will furnish to A.I.D. upon preparation,

(1) any plans, specifications, procurement or construction schedules, contracts or other documentation relating to goods or services to be financed under the Grant, including documentation relating to the prequalification and selection of contractors and to the solicitation of bids and proposals. Material modifications in such documentation will likewise be furnished A.I.D. on preparation;

(2) such documentation will also be furnished to A.I.D., upon preparation, relating to any goods or services, which, though not financed under the Grant, are deemed by A.I.D. to be of major importance to the Project. Aspects of the Project involving matters under this subsection (a)(2) will be identified in Project Implementation Letters;

(b) Documents related to the prequalification of contractors, and to the solicitation of bids or proposals for goods and services financed under the Grant will be approved by A.I.D. in writing prior to their issuance, and their terms will include United States standards and measurements;

(c) Contracts and contractors financed under the Grant for engineering and other professional services, for construction services, and for such other services, equipment or materials as may be specified in Project Implementation Letters, will be approved by A.I.D. in writing prior to execution of the contract. Material modifications in such contracts will also be approved in writing by A.I.D. prior to execution; and

(d) Consulting firms used by the Grantee for the Project but not financed under the Grant, the scope of their services and such of their personnel assigned to the Project as A.I.D. may specify, and construction contractors used by the Grantee for the Project but not financed under the Grant, shall be acceptable to A.I.D.

SECTION C.4. Reasonable Price. No more than reasonable prices will be paid for any goods or services financed, in whole or in part, under the Grant. Such items will be procured on a fair and, to to the maximum extent practicable, on a competitive basis.

SECTION C.5. Notification to Potential Suppliers. To permit all United States firms to have the opportunity to participate in furnishing goods and services to be financed under the Grant, the Grantee will furnish A.I.D. such information with regard thereto, and at such times, as A.I.D. may request in Project Implementation Letters.

**SECTION C.6. Shipping.**

(a) Goods which are to be transported to Tanzania and Zambia may not be financed under the Grant if transported either: (1) on an ocean vessel or aircraft under the flag of a country which is not included in A.I.D. Geographic Code 935 as in effect at the time of shipment, or (2) on an ocean vessel which A.I.D., by written notice to the Grantee has designated as ineligible; or (3) under an ocean or air charter which has not received prior A.I.D. approval.

(b) Costs of ocean or air transportation (of goods or persons) and related delivery services may not be financed under the Grant, if such goods or persons are carried: (1) on an ocean vessel under the flag of a country not, at the time of shipment, identified under the paragraph of the Agreement entitled "Procurement Source: Foreign Exchange Costs", without prior written A.I.D. approval or on a non-U.S. flag carrier if a U.S. flag carrier is available (in accordance with criteria which may be contained in the Project Implementation Letters) without prior written A.I.D. approval; or (2) on an ocean vessel which A.I.D., by written notice to the Grantee, has designated as ineligible; or (3) under an ocean vessel or air charter which has not received prior A.I.D. approval.

(c) Unless A.I.D. determines that privately owned United States-flag commercial ocean vessels are not available at fair and reasonable rates for such vessels, (1) at least fifty percent (50%) of the gross tonnage of all goods (computed separately for dry bulk carriers, dry cargo liners and tankers) financed by A.I.D. which may be transported on ocean vessels will be transported on privately owned United States-flag commercial vessels, and (2) at least fifty percent (50%) of the gross freight revenue generated by all shipments financed by A.I.D. and transported to Tanzania and Zambia on dry cargo liners shall be paid to or for the benefit of privately owned United States-flag commercial vessels. Compliance with the requirements of (1) and (2) of this sub-section must be achieved with respect to both any cargo transported from U.S. ports and any cargo transported from non-U.S. ports, computed separately.

**SECTION C.7. Insurance.**

(a) Marine insurance on goods financed by A.I.D. which are to be transported to Tanzania or Zambia may be financed as a Foreign Exchange Cost under this Agreement provided (1) such insurance is placed at the lowest available competitive rate, and (2) claims thereunder are payable in U.S. dollars or, as A.I.D. may agree in writing, in the currency in which such goods are financed or in any freely convertible currency. If the Government of Tanzania or Zambia, by statute, decree, rule, regulation, or practice discriminates with respect to A.I.D.-financed procurement against any marine insurance company authorized to do business in any State

of the United States, then all goods shipped to the territory of that country financed by A.I.D. hereunder will be insured against marine risks and such insurance will be placed in the United States with a company or companies authorized to do a marine insurance business in a State of the United States.

(b) Except as A.I.D. may otherwise agree in writing, the Grantee will insure, or cause to be insured, goods financed under the Grant imported for the Project against risks incident to their transit to the point of their use in the Project; such insurance will be issued on terms and conditions consistent with sound commercial practice and will insure the full value of the goods. Any indemnification received by the Grantee under such insurance will be used to replace or repair any material damage or any loss of the goods insured or will be used to reimburse the Grantee for the replacement or repair of such goods. Any such replacements will be of source and origin of countries listed in A.I.D. Geographic Code 935 as in effect at the time of replacement, and except as the Parties may agree in writing, will be otherwise subject to the provisions of the Agreement.

SECTION C.8. U.S. Government-Owned Excess Property. The Grantee agrees that wherever practicable, United States Government-owned excess personal property, in lieu of new items financed under the Grant, should be utilized. Funds under the Grant may be used to finance the costs of obtaining such property for the Project.

Article D: Termination; Remedies.

SECTION D.1. Termination. Either Party may terminate this Agreement by giving the other Party 30 days written notice. Termination of this Agreement will terminate any obligations of the Parties to provide financial or other resources to the Project pursuant to this Agreement, except for payment which they are committed to make pursuant to noncancellable commitments entered into with third parties prior to the termination of this Agreement. In addition, upon such termination A.I.D. may, at A.I.D., expense, direct that title to goods financed under the Grant be transferred to A.I.D. if the goods are from a source outside of Tanzania and Zambia, are in a deliverable state and have not been offloaded in ports of entry in Tanzania or Zambia.

**SECTION D.2. Refunds.**

(a) In the case of any disbursement which is not supported by valid documentation in accordance with this Agreement, or which is not made or used in accordance with this Agreement, or which was for goods or services not used in accordance with this Agreement, A.I.D., notwithstanding the availability or exercise of any other remedies under this Agreement, may require the Grantee to refund the amount of such disbursement in U.S. Dollars to A.I.D. within sixty (60) days after receipt of a request therefor.

(b) If the failure of Grantee to comply with any of its obligations under this Agreement has the result that goods or services financed under this Grant are not used effectively in accordance with this Agreement, A.I.D. may require the Grantee to refund all or any part of the amount of the disbursements under this Agreement for such goods or services in U.S. Dollars to A.I.D. within sixty days after receipt of a request therefor.

(c) The right under subsection (a) or (b) to require a refund of a disbursement will continue, notwithstanding any other provision of this Agreement, for three years from the date of the last disbursement under this Agreement.

(d) (1) Any refund under subsection (a) or (b), or (2) any refund to A.I.D. from a contractor, supplier, bank or other third party with respect to goods or services financed under the Grant, which refund relates to an unreasonable price for or erroneous invoicing of goods or services, or to goods that did not conform to specifications, or to services that were inadequate, will (A) be made available first for the cost of goods and services required for the Project, to the extent justified, and (B) the remainder, if any, will be applied to reduce the amount of the Grant.

(e) Any interest or other earnings on Grant funds disbursed by A.I.D. to the Grantee under this Agreement prior to the authorized use of such funds for the Project will be returned to A.I.D. in U.S. Dollars by the Grantee.

**SECTION D.3. Nonwaiver of Remedies.** No delay in exercising any right or remedy accruing to a Party in connection with its financing under this Agreement will be construed as a waiver of such right or remedy.

**SECTION D.4. Assignment.** The Grantee agrees, upon request, to execute an assignment to A.I.D. of any cause of action which may accrue to the Grantee in connection with or arising out of the contractual performance or breach of performance by a party to a direct U.S. Dollar contract with A.I.D. financed in whole or in part out of funds granted by A.I.D. under this Agreement.