

010 A133-275

AGENCY FOR INTERNATIONAL DEVELOPMENT

1. PAAD/621-T-6048, Financial Enterprise Development Program 621-0175

PROGRAM ASSISTANCE  
APPROVAL DOCUMENT  
(PAAD)

Amendment #2

2. Country: TANZANIA  
3. Category: Private/Financial Sector Assistance  
4. Date: 08/30/94

5. To: Paul Morris, Acting Mission Director  
7. From: Patrick C. Fleuret, Project Development Officer

6. OYB Change Number: N/A  
8. OYB Increase: N/A  
To be taken from:

9. Approval Requested for Commitment of \$10,000,000

10. Appropriation Budget Plan Code  
72-114/51014 GSS4-94-21621-KG39

11. Type Funding  
 Loan  Grant

12. Local Currency Arrangement  
 Informal  Formal  None

13. Estimated Delivery Period  
10/94 - 12/96

14. Transaction Eligibility Date  
Upon Fulfillment of Conditions

15. Commodities Financed

This is a sector assistance grant. However, because dollar tracking is required, the Government of Tanzania has agreed to use the funds for commodity procurement from Code 935 countries by private individuals and commercial firms. A negative list of goods disallowed for procurement using A.I.D. grant funds will restrict procurement under the grant.

The Mission Controller has reviewed and approved the methods of implementation and financing contained herein, including the management of local currency under the Program

16. Permitted Source  
U.S. Only  
Limited F.W.  
Free World \$10,000,000  
Cash

17. Estimated Source  
U.S. \$5,000,000  
Industrialized Countries \$5,000,000  
Local  
Other

18. Summary Description See Attached Text

19. Executed		20. Action
		<input checked="" type="checkbox"/> APPROVED <input type="checkbox"/> DISAPPROVED
21. AIA	22. Date (Date)	23. Approved by (Signature)
	08/26/94	Paul H. Morris
24. COPI	25. Date	26. Date
		8/30/94
27. FO	28. Date	29. Date

## Summary Description

### (PAAD Amendment #2 Facesheet, Block 18)

**I. Introduction.** The attached FY 94 PAAD Amendment 2 describes a non-project sector assistance cash transfer involving planned obligations and disbursements of \$40,000,000 in program funds over a three-year period, based on certain policy changes in the financial sector in Tanzania, as reflected below, and a related \$20,000,000 support project to be obligated over a six-year period, to fund project activities until the Project Activity Completion Date (PACD) of December 31, 1998. The following description outlines the non-project assistance component of the overall Program and refers, where necessary, to elements of the project component. For a more complete description of the project activities, refer to Section IV of the PAAD and the separate Project Authorization.

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

**III. The Second Amendment to the Program Grant Agreement.** The Second Amendment to the Program Grant Agreement, which shall be executed by the officer to whom authority has been granted in accordance with A.I.D. regulations and Delegations of Authority, shall contain the following essential terms and conditions, together with such other provisions as such officer deems necessary or appropriate:

- I. Third Tranche: Prior to the third tranche of the Grant, which shall be in the amount of Ten Million U.S. Dollars (\$10,000,000), the Grantee shall, except as the parties may otherwise agree in writing, furnish to A.I.D., in form and substance satisfactory to A.I.D., evidence that the:
  - (a) Grantee has adopted legislation permitting a private insurance industry to operate; and that
  - (b) Grantee has adopted a unified, market determined exchange rate; together with evidence, in form and substance satisfactory to A.I.D. that the Bank of Tanzania has:
    - (c) become subject to the amended Bank of Tanzania Act (i.e., that the law has been adopted);

- (d) completed its assessment of effectiveness of the bank supervision and regulation process;
- (e) initiated a second full-scale external bank examination;
- (f) completed portfolio reviews for the second of two financial institutions mentioned above (TIB, THB);
- (g) initiated a secondary market in government securities;
- (h) ceased exercising its power to allocate credit;
- (i) implemented a discount policy consistent with its role as lender of last resort; and
- (j) initiated interbank check clearing functions.

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

3. **Special Dollar Account:** The Government of The United Republic of Tanzania agrees that any interest earned on funds in the Special Dollar Account (to be opened) shall be returned to the Government of the United States. Alternatively, the parties may agree on a method of direct disbursement of grant proceeds by the United States in payment of certain debt or other obligations of the Government of The United Republic of Tanzania. USAID will issue a program implementation letter to provide instructions on effecting payment to the United States of any interest earned or on the alternative direct disbursement method.

**IV. Closing Statement.** This FY94 FED PAAD Amendment #2 is a face sheet amendment. All other contents of the original FY92 PAAD remain valid for the FED Program, unless previously amended.