CONFORMED COPY

CREDIT NUMBER 4003-1-TA

Financing Agreement

(Additional Financing for Local Government Support Project)

between

UNITED REPUBLIC OF TANZANIA

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated August 30, 2006
AGREEMENT dated August 30, 2006, entered into between UNITED REPUBLIC OF TANZANIA (“Recipient”) and INTERNATIONAL DEVELOPMENT ASSOCIATION (“Association”) for the purpose of providing additional financing for the Original Project (as defined in the Appendix to this Agreement). The Recipient and the Association hereby agree as follows:

ARTICLE I – GENERAL CONDITIONS; DEFINITIONS

1.01. The General Conditions (as defined in the Appendix to this Agreement) constitute an integral part of this Agreement.

1.02. Unless the context requires otherwise, the capitalized terms used in the Financing Agreement have the meanings ascribed to them in the General Conditions or in the Appendix to this Agreement.

ARTICLE II —FINANCING

2.01. The Association agrees to extend to the Recipient, on the terms and conditions set forth or referred to in this Agreement, a credit in an amount equivalent to sixty seven million one hundred thousand Special Drawing Rights (SDR 67,100,000) (“Credit”) to assist in financing the project described in Schedule 1 to this Agreement (“Project);

2.02. The Recipient may withdraw the proceeds of the Financing in accordance with Section IV of Schedule 2 to this Agreement.

2.03. The Maximum Commitment Charge Rate payable by the Recipient on the Unwithdrawn Financing Balance shall be one-half of one percent (1/2 of 1%) per annum.

2.04 The Service Charge payable by the Recipient on the Withdrawn Credit Balance shall be equal to three-fourths of one percent (3/4 of 1%) per annum.

2.05. The Payment Dates are May 15 and November 15 in each year.

2.06. The principal amount of the Credit shall be repaid in accordance with repayment schedule set forth in Schedule 3 to this Agreement.

2.07. The Payment Currency is Dollars.
ARTICLE III — PROJECT

3.01. The Recipient declares its commitment to the objectives of the Project. To this end, the Recipient shall carry out the Project through PMO-RALG, the Participating LGAs, and the DLAs, in accordance with the provisions of Article IV of the General Conditions.

3.02. Without limitation upon the provisions of Section 3.01 of this Agreement, and except as the Recipient and the Association shall otherwise agree, the Recipient shall ensure that the Project is carried out in accordance with the provisions of Schedule 2 to this Agreement.

ARTICLE IV — REMEDIES OF THE ASSOCIATION

4.01. The Additional Events of Suspension consists of the following:

(a) A situation has arisen which shall make it improbable that the Program, or a significant part thereof, will be carried out.

(b) The LG Act shall have been amended, suspended, abrogated, or waived so as to materially and adversely affect the ability of the Recipient, the Participating LGAs or the DLAs to perform any of their obligations.

4.02. The Additional Event of Acceleration shall be that any event specified in paragraphs (a) and (b) of Section 4.01 of this Agreement occurs and is continuing for a period of 60 days after notice of the event has been given by the Association to the Recipient.

ARTICLE V – TERMINATION

5.01. The Effectiveness Deadline is the date ninety (90) days after the date of this Agreement.
ARTICLE VI – REPRESENTATIVE; ADDRESSES

6.01. The Recipient’s Representative is its Minister responsible for finance.

6.02. The Recipient’s Address is:

Ministry of Finance
P. O. Box 9111
Dar es Salaam
Tanzania

Cable address:   Facsimile:

TREASURY   (255) 222 11 77 90
Dar es Salaam

6.03. The Association's Address is:

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

Cable:        Telex:        Facsimile:

INDEVAS       248423 (MCI) or 1-202-477-6391
Washington, D.C.  64145 (MCI)
AGREED at Dar es Salaam, United Republic of Tanzania, as of the day and year first above written.

UNITED REPUBLIC OF TANZANIA

By /s/ Gray S. Mgonja

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Judy O'Connor

Authorized Representative
SCHEDULE 1

Project Description

The objectives of the Project are to: (a) strengthen fiscal decentralization, and improve accountability in the use of local government resources and in the management of intergovernmental transfer systems; and (b) increase access to infrastructure and services in the Unplanned Areas of Dar es Salaam and improve revenue performance for sustainable operation and maintenance.

The Project consists of the Original Project.
SCHEDULE 2

Project Execution

Section I. Institutional and Other Arrangements

A. Institutional Arrangements

The Recipient shall: (a) implement the Project in accordance with the institutional and other arrangements set forth in Schedule 4 to the Original Financing Agreement; and (b) ensure that PMO-RALG and the National Audit Office, are maintained at all times during the implementation of the Project with functions, staffing and resources satisfactory to the Association, for the purpose of ensuring the prompt and efficient implementation of the Project.

B. Implementation Arrangements

The Recipient shall, in accordance with the provisions of Schedule 4 to the Original Financing Agreement, carry out the Project in accordance with the arrangements and procedures set out in the PIP, the FMM, and the LLG Planning Guide (provided, however, that in case of any conflict between the arrangements and procedures set out in the PIP, the FMM, or the LLG Planning Guide, and the provisions of this Agreement, the provisions of this Agreement shall prevail) and, except as the Association shall otherwise agree, not amend, abrogate or waive any provision of the PIP, the FMM, and the LLG Planning Guide, if such amendment, abrogation or waiver may, in the opinion of the Association, materially or adversely affect the implementation of the Project.

C. Environmental and Social Measures

The Recipient shall: (a) cause the Participating LGAs to implement Part A.1 of the Project in accordance with paragraph 4(a) of Schedule 4 to the Original financing Agreement, the ESMF and the RPF; and (b) carry out Part B.1 in accordance with paragraph 4(b) of Schedule 4 to the Original Financing Agreement, the CEMP and RAP.

D. Terms and Conditions for Financing Subprojects under Part A of the Project

The Recipient shall, in accordance with the provisions of paragraph 5 of Schedule 4 to the Original Financing Agreement: (a) ensure that the Participating LGAs meet the eligibility criteria agreed with the Association; and (b) enter into a Participation Agreement with each Participating LGA. To this end, the following shall be required as evidence additional to the evidence referred to in paragraph 5(e) of Schedule 4 to the Original Financing Agreement for CDG financed Subprojects:
(i) Fourth Year: FY2007/08

(A) submission by the Recipient of an annual performance assessment report, satisfactory to the Association, prepared by PMO-RALG on the utilization of CDGs and CBGs financed during the second year of Project Implementation;

(B) submission of a schedule setting forth the amounts of CDGs released to Participating LGAs during the preceding FY, and the amounts to be released to Participating LGAs in the next FY;

(C) certification that no reallocations, deviations in usage, suspension or partial suspension of funds has occurred with respect to funds previously released as compared against the indicative planning figures of Participating LGAs;

(D) submission of signed Participation Agreements between the Recipient and any additional Participating LGAs and of any amendments to existing Participation Agreements;

(E) cash flow forecasts for FY 2007/08 for CDGs and CBGs for Participating LGAs; and

(F) submission by Participating LGAs of a progress report on the implementation of the audit strategy referred to in paragraph 5 (e) (i) (B) of the Original Financing Agreement.

(ii) Fifth Year: FY2008/09

(A) submission by the Recipient of an annual performance assessment report, satisfactory to the Association, prepared by PMO-RALG on the utilization of CDGs and CBGs financed during the third year of Project Implementation;

(B) submission by the Recipient of an independent evaluation, in form and substance satisfactory to the Association, on the annual Participating LGAs assessment undertaken to date, including an evaluation on the assessment process on the Participating LGAs in the preceding FYs. Such assessment shall test the adequacy of the annual performance assessments, in accordance with terms of reference satisfactory to the Association, to be prepared and submitted by PMO-RALG;

(C) submission by the Recipient of an independent evaluation, satisfactory to the Association, carried out by PMO-RALG on procurements undertaken to date by Participating LGAs,
including an evaluation on the procurement process used by the Participating LGAs in the preceding FYs;

(D) submission of a schedule setting forth the amounts of CDGs released to Participating LGAs during the preceding FY, and the amounts to be released to Participating LGAs in the next FY;

(E) certification that no reallocations, deviations in usage, suspension or partial suspension of funds has occurred with respect to funds previously released as compared against the indicative planning figures of Participating LGAs;

(F) submission of signed Participation Agreements between the Recipient and any additional Participating LGAs and of any amendments to existing Participation Agreements;

(G) cash flow forecasts for FY 2007/08 for CDGs and CBGs for Participating LGAs; and

(H) submission by Participating LGAs of a progress report on the implementation of the audit strategy referred to in paragraph 5 (e) (i) (B) of the Original Financing Agreement.

(iii) Sixth Year: FY 2009/10

(A) submission by the Recipient of an annual performance assessment report, satisfactory to the Association, prepared by PMO-RALG on the utilization of CDGs and CBGs financed during the fourth year of Project Implementation;

(B) submission of a schedule setting forth the amounts of CDGs released to Participating LGAs during the preceding FY, and the amounts to be released to Participating LGAs in the next FY;

(C) certification that no reallocations, deviations in usage, suspension or partial suspension of funds has occurred with respect to funds previously released as compared against the indicative planning figures of Participating LGAs;

(D) submission of signed Participation Agreements between the Recipient and any additional Participating LGAs and of any amendments to existing Participation Agreements;

(E) cash flow forecasts for FY 2007/08 for CDGs and CBGs for Participating LGAs; and
section II. Project Monitoring, Reporting, Evaluation

A. Project Reports.

1. The Recipient shall monitor and evaluate the progress of the Project and prepare Project Reports in accordance with the provisions of Section 4.08 of the General Conditions and on the basis of the indicators agreed with the Association. Each Project Report shall cover the period of six months, and shall be furnished to the Association not later than forty five days after the end of the period covered by such report.

2. For purposes of Section 4.08 (c) of the General Conditions, the report on the execution of the Project and related plan required pursuant to that Section shall be furnished to the Association not later than November 30, 2007.


1. The Recipient shall maintain or cause to be maintained a financial management system in accordance with the provisions of Section 4.09 of the General Conditions.

2. Without limitation on the provisions of Part A of this Section, the Recipient shall prepare and furnish to the Association as part of the Project Report not later than forty five days after the end of each calendar quarter, interim un-audited financial reports for the Project covering the quarter, in form and substance satisfactory to the Association.

3. The Recipient shall have its Financial Statements audited in accordance with the provisions of Section 4.09 (b) of the General Conditions. Each audit of the Financial Statements shall cover the period of one fiscal year of the Recipient. The audited Financial Statements for each such period shall be furnished to the Association not later than six months after the end of such period.

section III. Procurement

A. General.

1. Goods and Works. All goods and works required for the Project and to be financed out of the proceeds of the Financing shall be procured in accordance with the requirements set forth or referred to in Section I of the Procurement Guidelines, and with the provisions of Section II of Schedule 3 to the Original Financing Agreement.
2. **Consultants’ Services.** All consultants’ services required for the Project and to be financed out of the proceeds of the Financing shall be procured in accordance with the requirements set forth or referred to in Sections I and IV of the Consultant Guidelines, and with the provisions of Section III of Schedule 3 to the Original Financing Agreement.

B. **Review by the Association of Procurement Decisions**

Except as the Association shall otherwise determine by notice to the Recipient, the contracts for goods, works and consultants’ services set forth in Section IV of Schedule 3 to the Original Financing Agreement, shall be subject to Prior Review by the Association.

All other contracts shall be subject to Post Review by the Association.

**Section IV. Withdrawal of the Proceeds of the Financing**

A. **General.**

1. The Recipient may withdraw the proceeds of the Financing in accordance with the provisions of this Section and such additional instructions as the Bank may specify by notice to the Recipient, to finance Eligible Expenditures as set forth in the table in paragraph 2 below.

2. The following table specifies the categories of Eligible Expenditures that may be financed out of the proceeds of the Financing (“Category”), the allocations of the amounts of the Credit to each Category, and the percentage of expenditures to be financed for Eligible Expenditures in each Category:
<table>
<thead>
<tr>
<th>Category</th>
<th>Amount of the Credit Allocated (expressed in SDR)</th>
<th>Percentage of Expenditures to be Financed</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1) Civil Works</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(2) Goods under Part C of the Project</td>
<td>140,000</td>
<td>100% of foreign expenditures and 85% of local expenditures</td>
</tr>
<tr>
<td>(3) Consultants Services (including audits) under Part C of the Project</td>
<td>420,000</td>
<td>93%</td>
</tr>
<tr>
<td>(4) Training and Workshops under Part C of the Project</td>
<td>70,000</td>
<td>93%</td>
</tr>
<tr>
<td>(5) CDGs under Part A.1 of the Project</td>
<td>55,150,000</td>
<td>100% of amounts disbursed</td>
</tr>
<tr>
<td>(6) CBGs under Part A.2 of the Project</td>
<td>4,930,000</td>
<td>100% of amounts disbursed</td>
</tr>
<tr>
<td>(7) Operating Costs under Part C of the Project</td>
<td>280,000</td>
<td>70%</td>
</tr>
<tr>
<td>(8) Unallocated</td>
<td>6,110,000</td>
<td></td>
</tr>
<tr>
<td><strong>TOTAL AMOUNT</strong></td>
<td><strong>67,100,000</strong></td>
<td></td>
</tr>
</tbody>
</table>

B. **Withdrawal Conditions; Withdrawal Period.**

1. Notwithstanding the provisions of Part A of this Section no withdrawal shall be made:
   
   (a) for payments made prior to the date of this Agreement;
(b) expenditures under Category 5 unless the Participating LGAs have complied with the criteria, procedures, terms and conditions set forth or referred to in paragraph 5(e) of Schedule 4 to the Original Financing Agreement, and Section 1.D of this Schedule; and

(c) expenditures under Category 6 unless the Participating LGAs have complied with the criteria, procedures, terms and conditions set forth or referred to in Section paragraph 5(e) of Schedule 4 to the Original Financing Agreement, and Section 1.D of this Schedule.

2. The Closing Date is June 30, 2011.

Section V. Other Undertakings

1. The Recipient shall, not later than 60 days prior to request for any withdrawal for FY 2007/08: (a) prepare and submit the audit evaluation report referred to in Section 1.D (ii) (B) of this Schedule; and (b) prepare and submit the procurement evaluation report referred to in Section 1.D (ii) (C) of this Schedule, all in a form and substance satisfactory to the Association. Thereafter, and for the period of the Project implementation, submit such evaluation reports every two subsequent FYs.

2. Without limitation upon the provisions of Article 4 of this Agreement, and in the event that a Participating LGA may misappropriate, or in any manner misuse the proceeds of the financing including through corruption, fraud or other means, the Recipient shall promptly recover the amounts so misappropriated and refund such amounts to the Association. To this end, the Recipient shall exercise its remedy of suspension under the Participating Agreement as to a Participating LGA.
SCHEDULE 3

Repayment Schedule

<table>
<thead>
<tr>
<th>Date Payment Due</th>
<th>Principal Amount of the Credit repayable (expressed as a percentage)*</th>
</tr>
</thead>
<tbody>
<tr>
<td>On each May 15 and November 15:</td>
<td></td>
</tr>
<tr>
<td>commencing November 15, 2016 to and including May 15, 2026</td>
<td>1%</td>
</tr>
<tr>
<td>commencing November 15, 2026 to and including May 15, 2046</td>
<td>2%</td>
</tr>
</tbody>
</table>

*The percentages represent the percentage of the principal amount of the Credit to be repaid, except as the Association may otherwise specify pursuant to Section 3.03 (b) of the General Conditions.
APPENDIX

Definitions

1. “Category” means a category set forth in the table in Section IV of Schedule 4 to this Agreement.

2. “CBG” or “Capacity Building Grant” means a grant made, or to be made to a participating LGA under Part A.2 of the Original Project, for the purpose of implementing its Capacity Building Plan.

3. “Capacity Building Plan” means a plan to be prepared by each Participating LGA setting forth proposed measures to build capacity.

4. “CDG” or “Capital Development Grant” means a non-sectoral transfer made, or to be made to Participating LGA to finance a Subproject (as hereinafter defined).

5. “CEMP” means the Community Environment Management Plan dated July 2004, setting forth the measures that have been identified to be taken during implementation of Part B.1 of the Project to mitigate adverse environmental and social impacts, offset them, or reduce them to acceptable levels, or to enhance positive impacts, as same may be amended from time to time with the agreement of the Association, and such term includes schedules to the said Plan.


8. “ESMF” means the Environmental and Social Management Framework dated Marked 26, 2004, approved by the Association, setting forth an environmental and social screening process that will enable Subproject implementers to identify and assess potential impacts and to propose appropriate mitigation, monitoring, and institutional measures designed to mitigate potential adverse environmental and social impacts, offset them, reduce them to acceptable levels, or to enhance positive impacts, and in accordance with which environmental management plans will be prepared and submitted to the National Environmental Management Council, supported by the PMO-RALG, for its approval, as the same may be amended from time to time with the agreement of the Association.

10. “Fiscal Year” or “FY” means the Recipient’s fiscal year which commences on July 1 of each year and ends on June 30 of the following calendar year.

11. “General Conditions” means the “International Development Association General Conditions for Credits and Grants”, dated July 1, 2005, with the modifications set forth in Section II of this Appendix.

12. “LG Act” means the Recipient’s Local Government (District Authorities) Act (CAP 287, R.E. 2002), as amended, or the Local Government (Urban Authorities) Act (CAP 288, R.E. 2002) , as amended, either individually or collectively, as the case may be.

13. “LLG Planning Guide” means the planning guide referred to in paragraph A.1 of Schedule 4 to the Original Financing Agreement.

14. “Operating Costs” means the incremental operating costs arising under Part C of the Project on account of Project coordination, implementation, and monitoring support activities carried out by PMO-RALG Support Team, including rent equipment and office supplies utilities, maintenance and operation of Project motor vehicles, travel allowances for Project staff and salaries of support staff, excluding the salaries of the Recipient’s civil service.


16. “Original Project” means the Project described in the Original Financing Agreement.

17. “Participating LGA” means a LGA that meets the eligibility criteria for participation under the Project.

18. “PIP” means the Project Implementation Plan referred to in paragraph A.1 of Schedule 4 to the Original Financing Agreement.

19. “PO-RALG” means President’s Office – Regional Administration and Local Government.

20. “PMO-RALG” means Prime Minister’s Office – Regional Administration and Local Government which has the responsibility for implementation of Project activities, formerly assigned to the then PO-RALG, in accordance with the provisions of the Original Financing Agreement.
21. “PMO-RALG Support Team” means the team created to support the implementation of Parts A and C of the Project, and referred to in paragraph 2 (a) (ii) of Schedule 4 to the Original Financing Agreement.


23. “Procurement Plan” means the Recipient’s procurement plan for the Project, dated October 1, 2004, as revised and updated to the date of this Agreement, and referred to in paragraph 1.16 of the Procurement Guidelines and paragraph 1.24 of the Consultant Guidelines, as the same shall be updated from time to time in accordance with the provisions of said paragraphs.


25. “Resettlement Action Plan” or “RAP” means the plan dated July 2004, approved by the Association for Part B of the Project, setting forth principles and procedures governing land acquisition, resettlement and compensation, as well as reporting and monitoring arrangements to ensure compliance with the said plan, as the same may be amended from time to time with the agreement of the Association.

26. “Resettlement Policy Framework” means the framework dated November 2003, approved by the Association, setting forth the governing framework for land acquisition, resettlement and compensation under Part A of the Original Project, and in accordance with which resettlement action plans will be prepared and submitted to the Association for its approval, as the same may be amended from time to time with the agreement of the Association.

27. “Subproject” means: (i) an investment in infrastructure financed, or proposed to be financed through the CDG under Part A.1 of the Original Project; and/or (ii) a capacity building activity financed, or proposed to be financed from a CBG under Part A.2 of the Original Project.

28. “Unplanned Areas” means areas which are settled spontaneously without formal land use plans.