CONFORMED COPY

CREDIT NUMBER 4190-TA

Financing Agreement

(Tax Modernization Project)

between

UNITED REPUBLIC OF TANZANIA

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated August 30, 2006
AGREEMENT dated August 30, 2006, between UNITED REPUBLIC OF TANZANIA (“Recipient”) and INTERNATIONAL DEVELOPMENT ASSOCIATION (“Association”). 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 eight million three hundred thousand Special Drawing Rights (SDR 8,300,000) (“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2.04 The Service Charge payable by the Recipient on the Withdrawn Credit Balance shall be equal to three-fourths of one percent (3/4 of 1%) per annum.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 Dollar.
ARTICLE III — PROJECT

3.01. The Recipient declares its commitment to the objectives of the Project and the Program. To this end, the Recipient shall carry out the Project 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 consist 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 Tanzania Revenue Authority Act, or any other legislation relating to TRA has been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the ability of TRA to perform any of its obligations under the Project Agreement.

(b) The Project, or a significant part thereof, has been amended, suspended, abrogated, repealed or waived, at the instance of the Recipient, so as to affect materially and adversely the ability of the Recipient to perform any of its obligations under this Agreement.

4.02. The Additional Event of Acceleration is that any event specified in 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 — EFFECTIVENESS; TERMINATION

5.01. The Additional Conditions of Effectiveness consists of the following:

(a) the Subsidiary Agreement has been executed on behalf of the Recipient and TRA; and

(b) the Recipient has caused TRA to submit the Operations Manual in a form and substance satisfactory to the Association.

5.02. The Effectiveness Deadline is the date ninety (90) days after the date of this Agreement.
5.03. For purposes of Section 8.05 (b) of the General Conditions, the date on which the obligations of the Recipient under Articles IV and V of the General Conditions shall terminate is 20 years 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: TREASURY  
Facsimile: (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: INDEVAS  
Telex: 248423 (MCI) or 1-202-477-6391  
Facsimile: 64145 (MCI)  
Washington, D.C.
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 objective of the Project is to assist the Recipient in supporting TRA fulfill its mission as an effective and efficient tax administration that provides high quality services with fairness and integrity.

The Project consists of the following parts, including the carrying out of Subprograms for:

Part 1 Improving Revenue Collection in a Cost Effective Way

Improving revenue collection, including narrowing the revenue gap, improving the tax structure, and modernizing customs arrangements.

Part 2 Integration of TRA Operations

Integrating taxation processes and procedures, strengthening large taxpayers’ department, providing information technology infrastructure, implementing the Asycuda++ System for customs, and strengthening domestic revenue department.

Part 3 Provision of High Quality and Responsive Customer Service

Developing taxpayer education programs, rolling out district one stop centers, promulgating a taxpayer’s charter, and establishing a quality management system and a customs client services unit.

Part 4 Promoting Tax Compliance through a Fair, Equitable and Transparent Application of Tax Laws

Unifying taxpayer identification, introducing risk management for audit-based taxes, strengthening the tax investigations department, and improving the capacity for tax enforcement.

Part 5 Improving Staff Competence, Motivation, Integrity and Accountability

Strengthening management controls, promulgating a staff charter, strengthening training capacity, and reviewing anti-corruption strategy.

Part 6 Support to Zanzibar Revenue Board

Supporting Zanzibar Revenue Board to improve efficient collection of taxes, promote voluntary compliance, provide quality service to tax payers, and improve the working environment, skills of its staff, competence and motivation.
SCHEDULE 2

Project Execution

Section I. Subsidiary Financing, Institutional and Other Arrangements

A. Subsidiary Agreement

1. To facilitate the carrying out of the Project by TRA, the Recipient shall make the proceeds of the Financing available to TRA under a subsidiary agreement between the Recipient and TRA, under terms and conditions approved by the Association, which shall include the following obligations of TRA:

   (a) carry out the Project with due diligence and efficiency, in conformity with appropriate administrative, financial and technical practices and in accordance with the Operations Manual, and provide, or cause to be provided, promptly as needed, the facilities, services and other resources required for the Project;

   (b) comply with the procedures for procurement of goods, and consultant services set forth in the Procurement Plan;

   (c) comply with record keeping, auditing and reporting requirements set forth in Section II.B(3) of this Schedule with respect to the Project, including the annual auditing of its records and accounts (operations, resources and expenditure) in respect of the Project;

   (d) at the request of the Recipient or the Association, exchange views with the Recipient and the Association with regard to the progress of the Project and the performance of its obligations under the Subsidiary Agreement; and

   (e) promptly inform the Recipient and the Association of any condition which interferes or threatens to interfere with the progress of the Project, or the performance of its obligations under the Subsidiary Agreement.

2. The Recipient shall exercise its rights under the Subsidiary Agreement in such manner as to protect the interests of the Recipient and the Association and to accomplish the purposes of the Financing. Except as the Association shall otherwise agree, the Recipient shall not assign, amend, arrogate or waive the Subsidiary Agreement of any of its provisions.
B. Institutional Arrangements

1. TRA shall have the responsibility for overall coordination, monitoring, reporting, evaluation and communication of Project activities.

2. Steering Committees

   (a) Without limitation upon the provisions of Part A.1 of this Section, the Recipient shall maintain, at all times until the completion of the Project, a Joint Steering Committee and a Modernization Steering Committee, both with a composition, mandate and resources satisfactory to the Association.

   (b) Without limitation to sub-paragraph (a) of this paragraph, the Joint Steering Committee shall be responsible for, *inter alia*: (i) reviewing and endorsing for joint approval by the Recipient, the Association and the Co-financiers of the Annual Work Plans and Budgets, and ensuring their consistency with the Program; (ii) reviewing progress made towards achieving the Project’s objectives; and (iii) providing comments on reports, including the external audit reports to ensure that any matter raised in such reports is adequately addressed.

   (c) Without limitation to sub-paragraph (a) of this paragraph, the Modernization Steering Committee shall be responsible for, *inter alia*: (i) reviewing, the proposals made by the Tax Modernization Program Unit; (ii) providing policy guidance to the Tax Modernization Program Unit; (iii) reviewing progress made towards achieving the Project’s objectives, and making recommendations for removal of any obstacles to the implementation of the Project; and (iii) providing comments on reports and reviews prepared by the Tax Modernization Program Unit for the benefit of the Association.

3. Implementing Agencies

   (a) Without limitation upon the provisions of Parts A.1 and A.2 of this Section, the Recipient shall ensure that TRA is 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) Without limitation to sub-paragraph (a) of this paragraph: (i) TRA shall be responsible for the overall planning, coordination, financial management, procurement, monitoring, evaluation, reporting and communication of Program activities under the Project; and (ii) Tax
Modernization Program Unit shall be responsible for the day-to-day implementation of activities under Parts 3, 4 and 5 of the Project.

C. Implementation Arrangements

1. Operations Manual. The Recipient shall carry out the Project in accordance with the arrangements and procedures set out in the Operations Manual (provided, however, that in case of any conflict between the arrangements and procedures set out in the Operations Manuals and the provisions of this Agreement, the provisions of this Agreement shall prevail) and, except as the Association shall otherwise agree, shall not amend, abrogate or waive any provision of any of the Operations Manuals, if such amendment, abrogation or waiver may, in the opinion of the Association, materially or adversely affect the implementation of the Project.

2. Memorandum of Understanding
   (a) The Recipient shall implement the Subprograms in accordance with the arrangements and procedures set out in the Memorandum of Understanding; provided, however, that in case of any conflict between the provisions of said memorandum and of this Agreement, the provisions of this Agreement shall prevail.
   (b) Except as the Association shall otherwise agree, the Recipient shall not amend, abrogate or waive any provision of the Memorandum of Understanding, if such amendment, abrogation or waiver may, in the opinion of the Association, materially or adversely affect the implementation of the Project.

3. Annual Work Plan and Budget; Subprograms
   (a) The Recipient shall prepare and furnish to Association for its joint approval with the Co-financiers, not later than April 15 of each year during the implementation of the Project, or such later date as the Association may agree in consultation with the Co-financiers, the Annual Work Plan and Budget containing all proposed Subprograms to be carried out in the following Fiscal Year, modified in a manner satisfactory to the Association, taking into account the Association’s comments and views on the matter.
   (b) The Recipient shall cause each Subprogram implementing entity to implement, monitor and evaluate its respective Subprogram in accordance with the provisions set forth in this Agreement and in more detail in the Operations Manual, and shall not make or allow to be made any material change to any Subprogram included in the approved Annual
Work Plan and Budget without consultation and approval of the Association.

Section II. Project Monitoring, Reporting and 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 set forth below in paragraph 2. 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. The performance indicators referred to above in paragraph 1 consist of the following:

   (a) total annual tax revenue collected by TRA in relation to its annual revenue target;

   (b) average time taken to clear goods at sea ports, border posts and airports;

   (c) the percentage of taxpayers awareness on tax education programs;

   (d) percentage of written enquiries attended within seven days; and

   (e) level of perceived corruption index.

B. Financial Management, Financial Reports and Audits

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.1 of this Section, the Recipient shall prepare and furnish to the Association, not later than 45 days after the end of each six months, interim un-audited financial reports for the Project covering the six months, 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 this Schedule.

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 this Schedule.

3. Definitions. The capitalized terms used below in this Section to describe particular procurement methods or methods of review by the Association of particular contracts, refer to the corresponding method described in the Procurement Guidelines, or Consultant Guidelines, as the case may be.

B. Particular Methods of Procurement of Goods and Works

1. International Competitive Bidding. Except as otherwise provided in paragraph 2 below, goods and works shall be procured under contracts awarded on the basis of International Competitive Bidding.

2. Other Methods of Procurement of Goods and Works. The following methods of procurement, other than International Competitive Bidding, may be used for goods and works under the circumstances specified in the Procurement Plan for each such method: (a) National Competitive Bidding; (b) Direct Contracting; (c) Shopping; and (d) Established Private or Commercial Practices which have been found acceptable to the Association.

C. Particular Methods of Procurement of Consultants’ Services

1. Quality- and Cost-based Selection. Except as otherwise provided in paragraph 2 below, consultants’ services shall be procured under contracts awarded on the basis of Quality and Cost-based Selection.

2. Other Methods of Procurement of Consultants’ Services. The following methods of procurement, other than Quality and Cost-based Selection, may be used for consultants’ services under the circumstances specified in the Procurement Plan for each such method: (a) Quality Based Selection; (b) Selection under a Fixed Budget; (c) Least Cost Selection; (d) Selection Based on Consultants’ Qualifications; (e) Single-source Selection; (f) Established Private or Commercial Practices which have been found acceptable to the Association; (g) Procedures set forth in paragraphs 5.2
and 5.3 of the Consultant Guidelines for the Selection of Individual Consultants; and (h) Sole Source Procedures for the Selection of Individual Consultants.

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

Except as the Association shall determine by notice to the Recipient, the following contracts shall be subject to Prior Review by the Association: (a) each contract for goods estimated to cost the equivalent of $200,000 or more per contract; (b) all contracts selected on basis of Direct Contracting; (c) each contract for consultants’ services provided by a firm estimated to cost the equivalent of $100,000 or more per contract; (d) each contract for consultants’ services provided by an individual consultant estimated to cost the equivalent of $50,000 or more per contract; and (e) all contracts selected on Single Source basis.

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 category of Eligible Expenditures that may be financed out of the proceeds of the Financing (“Category”), the allocations of the amounts of the Financing to the Category, and the percentage of expenditures to be financed for Eligible Expenditures in the Category:

<table>
<thead>
<tr>
<th>Category</th>
<th>Amount of the Financing Allocated (expressed in SDR)</th>
<th>Percentage of Expenditures to be Financed</th>
</tr>
</thead>
<tbody>
<tr>
<td>Subprograms</td>
<td>8,300,000</td>
<td>Such percentage of Eligible Expenditures as the Association shall determine for each Fiscal Year</td>
</tr>
<tr>
<td>TOTAL AMOUNT</td>
<td>8,300,000</td>
<td></td>
</tr>
</tbody>
</table>
B. Withdrawal Conditions; Withdrawal Period.

1. Notwithstanding the provisions of Part A.1 of this Section no withdrawal shall be made:

(a) for payments made prior to the date of this Agreement; and

(b) under the Subprograms Category unless: (i) the Memorandum of Understanding has been executed on behalf of the Recipient and the Association and has entered into effect in accordance with its terms; and (ii) the Annual Work Plan and Budget for the respective Fiscal Year has been approved by the Association in accordance with Part C.3 of Section I of this Schedule.

2. The Closing Date is July 31, 2009.

Section V. Other Undertakings

A. Appointment of Financial and Procurement Auditors

1. The Recipient shall, not later than six months after the Effective Date, appoint the independent auditors referred to in Section 4.09 (b) of the General Conditions, in accordance with the provisions of Section III of this Schedule.

2. The Recipient shall, not later than six months after the Effective Date, put in place arrangements, satisfactory to the Association, including the appointment of independent procurement auditors acceptable to the Association, in accordance with the provisions of Section III of this Schedule, for reviewing the procurement of goods, works and consultants’ services financed under the Project, including the reviewing of procurement procedures and processes.

B. Procurement Audits

The Recipient shall, not later than six months after the end of each Fiscal Year, or such later date as the Association may agree, furnish to the Association an audit report on the procurement of goods, works and consultants’ services carried out under the Project, prepared by the independent procurement auditors referred to in Part A.2 of this Section.
## 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. “Annual Work Plan and Budget” means the work plan and budget for the Program prepared annually by TRA, in accordance with Section I.C.3 of Schedule 2 to this Agreement.

2. “ASYCUDA” means Automated System for Customs Data provided by UNCTAD (as hereinafter defined).

3. “Category” means a category set forth in the table in Section IV of Schedule 2 to this Agreement.

4. “Co-financiers” means each and any co-financier (other than the Recipient) that has extended or is to extend the Co-financing (as hereinafter defined) to the Recipient pursuant to the Co-financing Agreement (as hereinafter defined), and that has signed the Memorandum of Understanding.

5. “Co-financing” means, for the purposes of Section 6.02 (g) (ii) and (iii) and Section 6.06 (c) of the General Conditions, each and any credit or grant extended or to be extended to the Recipient by the Co-financiers for the purpose of assisting in the joint co-financing of Subprograms under the Project, in accordance with the provisions of the Co-financing Agreement and the Memorandum of Understanding.

6. “Co-financing Agreement” means, for the purposes of Section 6.02 (g) (ii) and (iii) and Section 6.06 (c) of the General Conditions, each and any agreement entered or to be entered into between the Recipient and the Co-financiers providing for the Co-financing.


8. “Joint Steering Committee” means the Steering Committee referred to in Section I.B.2 (a) of Schedule 2 to this Agreement.

9. “Fiscal Year” means the Recipient’s fiscal year commencing July 1 and ending June 30 of each year.


11. “Memorandum of Understanding” means the memorandum of understanding between the Recipient, the Association and the Co-financiers, as the same may be
amended from time to time, providing for common arrangements and procedures
on procurement, disbursement, accounting, monitoring, reporting, auditing,
coordination and exchange of information required for the implementation of the
Project.

12. “Modernization Steering Committee” means the committee referred to in Section
I.B.2 (a) of Schedule 2 to this Agreement.

13. “Tax Modernization Program Unit” means the unit referred in
Section 1.B.3 (b) (ii) of Schedule 2 to this Agreement, and paragraph 2 of the
Schedule to the Project Agreement.


satisfactory to the Association, containing or referring to detailed arrangements
and procedures, including: (i) institutional coordination and day-to-day
execution of Subprogram activities; (ii) disbursement and financial
management; (iii) procurement; (iv) monitoring, evaluation, reporting, and public
information, education and communication; and (v) such other administrative,
financial, technical and organizational arrangements and procedures as shall be
required for the Project.

16. “Program” means the Recipient’s Tax Modernization Program, set out in
the TRA Corporate Plan dated July 1, 2003, and to be supported by the
Association under the Project, and set out in the letter from the Recipient to
the Association dated May 16, 2006, describing a set of objectives, policies and
actions designed to ensure enhanced transparent and modernized taxation system,
and declaring the Recipient’s commitment to the execution of the Program.

17. “Procurement Guidelines” means the “Guidelines for Procurement under IBRD
Loans and IDA Credits” published by the Bank in May 2004.

18. “Procurement Plan” means the Recipient’s procurement plan for the Project,
dated May 15, 2006, 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.

19. “Subprogram” means a program of activities under the Project and included in
the Annual Work Program and Budget.

20. “TRA” means the Tanzania Revenue Authority, a body corporate established and
operating under the Tanzania Revenue Authority Act (Cap 399, R.E. 2002) of the
laws of the Recipient, and responsible for the management and customs
administration of the Recipient.

22. “Zanzibar Revenue Board” means a body corporate established and operating pursuant to the Zanzibar Revenue Board Act No. 7 of 1996 of the laws of the Recipient, and responsible for the management and customs administration in the Island of Zanzibar.