Financing Agreement

(Second Power and Gas Sector Development Policy Financing)

Between

UNITED REPUBLIC OF TANZANIA

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated April 19, 2014
FINANCING AGREEMENT

AGREEMENT dated April 10, 2014, entered into between UNITED REPUBLIC OF TANZANIA ("Recipient") and INTERNATIONAL DEVELOPMENT ASSOCIATION ("Association") for the purpose of providing financing in support of the Program (as defined in the Appendix to this Agreement). The Association has decided to provide this financing on the basis, inter alia, of: (a) the actions which the Recipient has already taken under the Program and which are described in Section I of Schedule 1 to this Agreement; and (b) the Recipient's maintenance of an adequate macro-economic policy framework. The Recipient and the Association therefore 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 this 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 five million two hundred thousand Special Drawing Rights (SDR 65,200,000) (referred to variously as "Credit" and "Financing").

2.02. The Recipient may withdraw the proceeds of the Financing in support of the Program in accordance with Section II of Schedule 1 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 The Service Charge payable by the Recipient on the Withdrawn Credit Balance shall be equal to three-fourths of one percent (3/4 of 1%) per annum.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 August 1 and February 1 in each year.

2.06. The principal amount of the Credit shall be repaid in accordance with the repayment schedule set forth in Schedule 2 to this Agreement.

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

3.01. The Recipient declares its commitment to the Program and its implementation. To this end:

(a) the Recipient and the Association shall from time to time, at the request of either party, exchange views on the Recipient’s macroeconomic policy framework and the progress achieved in carrying out the Program;

(b) prior to each such exchange of views, the Recipient shall furnish to the Association for its review and comment a report on the progress achieved in carrying out the Program, in such detail as the Association shall reasonably request; and

(c) without limitation upon the provisions of paragraphs (a) and (b) of this Section, the Recipient shall promptly inform the Association of any situation that would have the effect of materially reversing the objectives of the Program, or any action taken under the Program including any action specified in Section I of Schedule 1 to this Agreement.

ARTICLE IV—REMEDIES OF THE ASSOCIATION

4.01. The Additional Event of Suspension consists of the following, namely, that a situation has arisen which shall make it improbable that the Program, or a significant part of it, will be carried out.

ARTICLE V—EFFECTIVENESS; TERMINATION

5.01. The Additional Condition of Effectiveness consists of the following, namely, that the Association is satisfied with the progress achieved by the Recipient in carrying out the Program and with the adequacy of the Recipient’s macroeconomic policy framework.

5.02. 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
United Republic of Tanzania

Facsimile:

(255) 222 11 0326

6.03. The Association’s Address is:

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

Cable address: Telex: Facsimile:
INDEVAS 248423(MCI) 1-202-477-6391
AGREED at District of Columbia, United States of America, as of the day and year first above written.

UNITED REPUBLIC OF TANZANIA

By

Authorized Representative

Name: SAADA MIKUYA SALUM
Title: MINISTER

INTERNATIONAL DEVELOPMENT ASSOCIATION

By

Authorized Representative

Name: PHILIPPE DONGIER
Title: COUNTRY DIRECTOR
SCHEDULE 1

Program Actions; Availability of Financing Proceeds

Section I. Actions Taken Under the Program

The actions taken by the Recipient under the Program include the following:

1. The Recipient has caused TANESCO to implement new tariffs, approved by EWURA in December 2013, in order to increase its revenue.

2. The Recipient had created in its approved FY2013/14 budget a specific code with funds for transfers to TANESCO to improve fiscal transparency.

3. The Recipient has taken actions to reduce the level of transfers to TANESCO from the level of FY2012/13 and has committed that the level shall not exceed 2.5 percent of Controlled Total Expenditure in FY2013/14.

4. The Recipient has implemented and has caused TANESCO to implement the initial phase of the 2013 Policy for Private Sector Participation in Power Generation through Competitive Processes by launching PPP capacity building programs for: (a) screening and conducting due diligence; (b) financial structuring; (c) structuring processes (for selecting developers and implementing transactions); (d) preparing legal and regulatory documents; and (e) managing government and public corporation fiscal risks.

5. The Recipient has adopted the recommendations of the Presidential Big Results Now Initiative to develop a roadmap for structural reforms of the energy sector and has established a Ministry Delivery Unit within MEM to oversee the implementation of the recommendations.

6. The Recipient has adopted the Natural Gas Policy.

7. The Recipient has launched a program to adopt a Tanzania Natural Resource Charter and has established an expert panel to oversee the program.

8. The Recipient has established a top-level institutional mechanism to enhance inter-ministerial coordination by mandating the Cabinet Committee on Economic Affairs to handle the natural gas agenda and creating an inter-ministerial senior taskforce on natural gas.

Section II. **Availability of Financing Proceeds**

A. **General.** The Recipient may withdraw the proceeds of the Financing in accordance with the provisions of this Section and such additional instructions as the Association may specify by notice to the Recipient.

B. **Allocation of Financing Amounts.** The Financing is allocated in a single withdrawal tranche, from which the Recipient may make withdrawals of the Financing. The allocation of the amounts of the Financing to this end is set out in the table below:

<table>
<thead>
<tr>
<th>Allocations</th>
<th>Amount of the Financing Allocated (expressed in SDR)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Single Withdrawal Tranche</td>
<td>65,200,000</td>
</tr>
<tr>
<td><strong>TOTAL AMOUNT</strong></td>
<td><strong>65,200,000</strong></td>
</tr>
</tbody>
</table>

C. **Withdrawal Tranche Release Conditions**

No withdrawal shall be made of the Single Withdrawal Tranche unless the Association is satisfied: (a) with the Program being carried out by the Recipient; and (b) with the adequacy of the Recipient’s macroeconomic policy framework.

D. **Deposits of Financing Amounts**

1. The Recipient shall open, prior to furnishing to the Association the first request for withdrawal from the Financing Account, and thereafter maintain the following two deposit accounts (“Deposit Accounts”) on terms and conditions satisfactory to the Bank:

   (a) a deposit account in Dollars (“Foreign Currency Deposit Account”); and

   (b) a deposit account in Tanzania Shillings (“Local Currency Deposit Account”).

2. All withdrawals from the Financing Account shall be deposited by the Association into the Foreign Currency Deposit Account. Upon each deposit of an amount of the Financing into the Foreign Currency Deposit Account, the Recipient shall deposit an equivalent amount into the Local Currency Deposit Account. All amounts withdrawn from the Local Currency Deposit Account shall be used exclusively for budgeted public expenditures.
E. **Excluded Expenditures**

The Recipient undertakes that the proceeds of the Financing shall not be used to finance Excluded Expenditures. If the Association determines at any time that an amount of the Financing was used to make a payment for an Excluded Expenditure, the Recipient shall, promptly upon notice from the Association, refund an amount equal to the amount of such payment to the Association. Amounts refunded to the Association upon such request shall be cancelled.

F. **Audit**

Upon the Association’s request, the Recipient shall:

1. have both Deposit Accounts audited by independent auditors acceptable to the Association, in accordance with consistently applied auditing standards acceptable to the Association;

2. furnish to the Association as soon as available, but in any case not later than four (4) months after the date of the Association’s request for such audit, a certified copy of the report of such audit, of such scope and in such detail as the Association shall reasonably request, and make such report publicly available in a timely fashion and in a manner acceptable to the Association; and

3. furnish to the Association such other information concerning the Deposit Accounts and their audit as the Association shall reasonably request.

G. **Closing Date.** The Closing Date is June 30, 2015.
SCHEDULE 2

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 August 1 and February 1:</td>
<td></td>
</tr>
<tr>
<td>Commencing August 1, 2024, to and including February 1, 2034</td>
<td>1%</td>
</tr>
<tr>
<td>Commencing August 1, 2034, to and including February 1, 2054</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

Section I. Definitions

1. "Cabinet Committee on Economic Affairs" means the Recipient’s Cabinet Committee on Economic Affairs, or any successor thereto.

2. "Controlled Total Public Expenditure" means total public expenditure minus consolidated funds services, wages, and foreign-funded development expenditure.

3. "Deposit Accounts" means both the Foreign Currency Deposit Account and the Local Currency Deposit Account.

4. "Excluded Expenditure" means any expenditure:

   (a) for goods or services supplied under a contract which any national or international financing institution or agency other than the Association or the Bank has financed or agreed to finance, or which the Association or the Bank has financed or agreed to finance under another credit, grant or loan;

   (b) for goods included in the following groups or sub-groups of the Standard International Trade Classification, Revision 3 (SITC, Rev.3), published by the United Nations in Statistical Papers, Series M, No. 34/Rev.3 (1986) (the SITC), or any successor groups or subgroups under future revisions to the SITC, as designated by the Association by notice to the Recipient:

<table>
<thead>
<tr>
<th>Group</th>
<th>Sub-group</th>
<th>Description of Item</th>
</tr>
</thead>
<tbody>
<tr>
<td>112</td>
<td></td>
<td>Alcoholic beverages</td>
</tr>
<tr>
<td>121</td>
<td></td>
<td>Tobacco, un-manufactured, tobacco refuse</td>
</tr>
<tr>
<td>122</td>
<td></td>
<td>Tobacco, manufactured (whether or not containing tobacco substitutes)</td>
</tr>
<tr>
<td>525</td>
<td></td>
<td>Radioactive and associated materials</td>
</tr>
<tr>
<td>667</td>
<td></td>
<td>Pearls, precious and semiprecious stones, unworked or worked</td>
</tr>
<tr>
<td>718</td>
<td>718.7</td>
<td>Nuclear reactors, and parts thereof; fuel elements (cartridges), non-irradiated, for nuclear reactors</td>
</tr>
<tr>
<td>728</td>
<td>728.43</td>
<td>Tobacco processing machinery</td>
</tr>
<tr>
<td>897</td>
<td>897.3</td>
<td>Jewelry of gold, silver or platinum group metals (except watches and watch cases) and goldsmiths’ or silversmiths’ wares (including set gems)</td>
</tr>
<tr>
<td>971</td>
<td></td>
<td>Gold, non-monetary (excluding gold ores and concentrates)</td>
</tr>
</tbody>
</table>
(c) for goods intended for a military or paramilitary purpose or for luxury consumption;

(d) for environmentally hazardous goods, the manufacture, use or import of which is prohibited under the laws of the Recipient or international agreements to which the Recipient is a party;

(e) on account of any payment prohibited by a decision of the United Nations Security Council taken under Chapter VII of the Charter of the United Nations; and

(f) with respect to which the Association determines that corrupt, fraudulent, collusive or coercive practices were engaged in by representatives of the Recipient or other recipient of the Financing proceeds, without the Recipient (or other such recipient) having taken timely and appropriate action satisfactory to the Association to address such practices when they occur.

5. “EWURA” mean the Recipient’s Energy and Water Utilities Regulatory Authority, or any successor thereto.

6. “Fiscal Year” or “FY” means the Recipient’s fiscal year commencing on July 1 and ending on June 30 of the following year.

7. “Foreign Currency Deposit Account” means the account referred to in Part D.1(a) of Section II of Schedule 1 to this Agreement.

8. “General Conditions” means the “International Development Association General Conditions for Credits and Grants”, dated July 31, 2010, with the modifications set forth in Section II of this Appendix.

9. “Letter of Development Policy” means the letter dated February 13, 2014, from the Recipient to the Association, describing the Program (as hereinafter defined), and declaring the Recipient’s commitment to the execution of the Program, and requesting assistance from the Association in support of the Program during its execution.

10. “Local Currency Deposit Account” means the account referred to in Part D.1(b) of Section II of Schedule 1 to this Agreement.

12. "Ministry Delivery Unit" means the unit within MEM established to oversee the implementation of the recommendations of the Presidential Big Results Now Initiative, or any successor thereto.

13. "Ministry of Finance" means the Recipient’s ministry responsible at the time for finance.

14. "Natural Gas Policy" means the policy approved by the Recipient’s Cabinet on October 19, 2013 setting forth the principles to guide domestic policies and regulations in the natural gas sector.

15. "2013 Policy for Private Sector Participation in Power Generation through Competitive Processes" means the Recipient’s policy adopted in 2013, as described in the Recipient’s Letter of Development Policy dated February 15, 2013, for the First Power and Gas Sector Development Policy Financing, in which the Recipient has committed to promote the participation of the private sector in power generation through a competitive and transparent process that respects the national laws and the best practice of international environmental and social standards.


17. "Presidential Big Results Now Initiative" means the Recipient’s initiative adopted during FY2012/13, aiming at establishing a strong and effective system to oversee, monitor and evaluate the implementation of the Recipient’s development plans and programs based on an approach which hinges on: prioritization; detailed monitoring tools; and accountability for performance.

18. Program” means the program of actions, objectives and policies designed to promote growth and achieve sustainable reductions in poverty as set forth or referred to in the Letter of Development Policy.

19. “Single Withdrawal Tranche” means the amount of the Financing allocated to the category entitled “Single Withdrawal Tranche” in the table set forth in Part B of Section II of Schedule 1 to this Agreement.

20. "TANESCO" means Tanzania Electric Supply Company Limited, a limited liability electric power generation, transmission and distribution company, wholly-owned by the Recipient, established and operating pursuant to the Recipient’s Companies Act, CAP 212 (R.E 2002) and the Memorandum and Articles of Association of TANESCO, or its legal successor thereto, if acceptable to the Association.

21. "Tanzania Natural Resource Charter" means the initiative launched by the Recipient in 2013 to prepare Tanzania’s own Natural Resource Charter, which is
a set of policy principles on the successful translation of natural resource wealth into fair and sustainable development which has been adopted by the New Economic Partnership for Africa (NEPAD) as a flagship for natural resource governance in Africa.

22. “TPDC” means the Tanzania Petroleum Development Corporation, a parastatal wholly owned by the Recipient, through which the Ministry of Energy and Minerals implements its petroleum exploration and development policies and established and operating under the Public Corporations Act No. 17 through the Government Notice No. 140 of May 30, 1969.


Section II. Modifications to the General Conditions

The modifications to the General Conditions are as follows:

1. The last sentence of paragraph (a) of Section 2.03 (relating to Applications for Withdrawal) is deleted in its entirety.

2. Sections 2.04 (Designated Accounts) and 2.05 (Eligible Expenditures) are deleted in their entirety, and the remaining Sections in Article II are renumbered accordingly.

3. Sections 4.01 (Project Execution Generally), and 4.09 (Financial Management; Financial Statements; Audits) are deleted in their entirety, and the remaining Sections in Article IV are renumbered accordingly.

4. Paragraph (a) of Section 4.05 (renumbered as such pursuant to paragraph 3 above and relating to Use of Goods, Works and Services) is deleted in its entirety.

5. Paragraph (c) of Section 4.06 (renumbered as such pursuant to paragraph 3 above) is modified to read as follows:

   “Section 4.06. Plans; Documents; Records

   ... (c) The Recipient shall retain all records (contracts, orders, invoices, bills, receipts and other documents) evidencing expenditures under the Financing until two years after the Closing Date. The Recipient shall enable the Association’s representatives to examine such records.”

6. Section 4.07 (renumbered as such pursuant to paragraph 3 above) is modified to read as follows:

   “Section 4.07. Program Monitoring and Evaluation
The Recipient shall prepare, or cause to be prepared, and furnish to the Association not later than six months after the Closing Date, a report of such scope and in such detail as the Association shall reasonably request, on the execution of the Program, the performance by the Recipient and the Association of their respective obligations under the Legal Agreements and the accomplishment of the purposes of the Financing."

The following terms and definitions set forth in the Appendix are modified or deleted as follows, and the following new terms and definitions are added in alphabetical order to the Appendix as follows, with the terms being renumbered accordingly:

(a) The definition of the term “Eligible Expenditure” is modified to read as follows:

“‘Eligible Expenditure’ means any use to which the Financing is put in support of the Program, other than to finance expenditures excluded pursuant to the Financing Agreement.”

(b) The term “Financial Statements” and its definition as set forth in the Appendix are deleted in their entirety.

(c) The term “Project” is modified to read “Program” and its definition is modified to read as follows:

“‘Program’ means the program referred to in the Financing Agreement in support of which the Financing is made.” All references to “Project” throughout these General Conditions are deemed to be references to “Program.”