DEBT SWAP FOR DEVELOPMENT PROGRAM BETWEEN THE UNITED REPUBLIC OF TANZANIA AND THE KINGDOM OF SPAIN

The Spanish Ministry of Economy and Finance and the Tanzanian Ministry of Finance (MOF), considering the Spanish Government decision of promoting and fostering the cooperative relations between Tanzania and Spain and of contributing to the Tanzanian development, have convened the following Debt Swap for Development Programme between the United Republic of Tanzania and the Kingdom of Spain.

This agreement stems from the Spanish Law on External Debt Management (thereafter called Debt Law) which foresees within its articulate an additional debt relief for the highly indebted poor countries (HIPC).

1. Aim of the Agreement and description of the debt swap mechanism

1.1. The goal of this agreement is to contribute to the economic and social development of Tanzania through a Debt Swap for Development Programme. This instrument allows the debt obligations of Tanzania towards Spain to be transformed in investment projects with impact in the economic and human development of Tanzania.

1.2. Based on the articulate of the Spanish Debt Law, the Spanish Authorities agreed on July 13th 2007 to grant an additional debt relief to HIPC. In particular, the decision of Spanish Cabinet of Ministers foresees the write off of the debt contracted before December 31st 2003. Tanzania is part of these beneficiary countries with eligible debt, so it will benefit from this initiative.

1.3. The debt swap mechanism will imply that the service of the debt due by Tanzania to Spain and specified in Annex 1 will be deposited in a Trust Fund. Particularly, the Tanzanian Government will deposit in the Fund a 40% of the debt service affected by the cancellation.

The freed-up resources directed to the Tanzanian-Spanish Fund will be assigned to the finance of projects specified in article 1.1.

1.4. The debt affected by this programme stems from ODA loans granted by Spain, and the total amount of principal adds up to US$8,323,341.34.

Considering the interests included in the flows deposited in the Tanzanian-Spanish Fund the total amount of debt relief will be **US$11.041.521,67** and this quantity will be considered as the total amount of debt linked to the programme.

This debt is identified and listed in the Annex 1.

2. Tanzania-Spain Debt for Development Swap Fund

2.1. A Tanzania-Spain Debt for Development Swap Fund (the Fund) will be created.

Tanzania will keep servicing the debt obligations specified in Annex 1 following the original schedule and in the local currency until the cumulative amount disbursed reaches 40% of the eligible debt listed in Annex 1. The exchange rate used will be the one registered by the Tanzanian Central Bank. The reference exchange rate will be that registered two working days before the date of disbursement.

The Tanzanian Ministry of Finance will inform punctually the Spanish Official Credit Institute (ICO) and the members of the Bi-national Committee of the disbursements already made.

Spain will write off the total amount of each original disbursement as it is deposited in the Tanzanian-Spanish Fund following the schedule in Annex 2.

When the amount disbursed by Tanzania in the Fund reaches the 40% of the principal of the debt cancelled –as it is clearly explained in Annex 1- the Tanzanian obligation to feed the Fund will finish. As soon as the last payment is made by Tanzania, Spain will cancel all the remaining debt included in Annex 1.

The resources that form the Tanzanian-Spanish Fund will be deposited in a current account decided by the Bi-national Committee described in article 4. The financial management of these resources will be specified in the Programme Rules passed by the Bi-national Committee.

2.2. The scheduled maturities could be advanced in accordance to article 4.

2.3. The Tanzanian Ministry of Finance and the ICO -as the Spanish financial agent responsible for the management of the eligible debt- will agree on the necessary mechanisms for the transmission of information regarding with the disbursements to the Fund and with the debt cancelled.

3. Use of the Fund's Resources. Projects to be financed through the Debt Swap Programme

3.1. The resources deposited in the Fund will be used to finance the projects listed in article 1.1 and that imply the participation of Tanzanian and/or Spanish firms or non government organizations for development.

3.2. The projects to be financed with the Fund resources will have to be economic and technically feasible and must be executed by Tanzanian and/or Spanish firms or non government organizations for development duly qualified and with recognised financial solvency.

3.3. The projects to be financed with the Fund resources should include a public signal showing that they were carried out with funds stemmed from the Spanish debt swap mechanism.

3.4. The projects to be financed and carried out with the fund resources will be exempted from all taxes in accordance to the prevailing tax laws of the United Republic of Tanzania. These laws provide for the exemption of the value added tax (VAT) on projects to be financed and carried out with the Fund resources as well as any other custom tariffs applied to goods and services imported through this programme. In any case, the fund resources will not be used to finance taxes established by the United Republic of Tanzania. VAT exemption is not applicable to outsourcing or acquisitions made by contractor firms related to the projects financed by this fund.

3.5. In accordance to The Clean Development Mechanism under the Kyotò Protocol, when the projects financed through the Fund resources generate or could generate Certified Emissions Reductions, Spain will have the preference right to buy them.

However, in order to ensure transparency in the whole process and as per CDM national implementation guidelines, the Vice-President of the URT as the Designated National Authority will be prior informed of all the projects which will be implemented in the auspice of this agreement with the potential view of generating CER.

The price for the purchase of CERs generated from the implementation of such projects will be based on the market price at the moment of the transaction.

4. Management of the Programme. The Joint Tanzania-Spain Committee

4.1. A Joint Tanzania-Spain Committee (also called Bi-national Committee) will be created to manage the Tanzanian-Spanish Fund.

This Bi-national Committee will be integrated by representatives of The National Debt Management Committee (NDMC) and a representative of Directorate General for International Finance of the Spanish Ministry of Economy and Finance and the Economic and Commercial Counsellor of the Spanish Embassy in Tanzania.

4.2. This Bi-national Committee will be in charge of:

- The definition of the Fund resources management policies and the adoption of whatever agreements need to be reached in order to achieve an efficient performance of the programme.
- The establishment of the Tanzanian-Spanish Fund yearly priorities on investment and outlays.
- The approval of the projects to be financed with the Fund, the assessment reports and the independent audits to be held.
- The general monitoring of the programme and the adoption of whatever relevant decision to be taken.
- The approval of the resolution of public tenders launched to sale the projects.
- Any other function to be addressed to the Bi-national Committee by its rules.

4.3. The Joint Committee will take all its decisions by consensus.

4.4. Should the projects payments schedule need to be brought forward, the Bi-national Committee will be allowed to ask the Tanzanian Ministry of Finance to order payments in advance.

4.5. In order to attend its obligations, the Bi-national Committee will meet whenever it will be necessary and, at least, twice a year.

4.6. During its constituent session, the Bi-national Committee will approve a ruling that will specify and fix the functioning of this programme (the so called Programme Rules).

5. Unit of Technical Assistance

5.1. In order to favour a correct selection and performance of the projects to be financed with the Fund, the Bi-national Committee will be supported by a Technical Assistance Unit or Technical Committee that will be defined in the Programme Regulation.

5.2. Among the members of the Technical Committee there will be, on the Tanzanian side, representatives of the Technical Debt Management Committee (TDMC) and on the Spanish side, the Economic and Commercial Counsellor of the Spanish Embassy in Tanzania, the representative of the Spanish Agency for Cooperation and a Non Governmental Organization.

6. External support for the management of the Programme

In order to improve the functioning of this Programme, the Bi-national Committee will be able to decide the hiring of external support. The costs of this operation could be charged to the Fund. The objective of hiring this external help should be to provide with technical knowledge, with logistic support and with assessing and monitoring capacity.

7. Selection, Financing and Monitoring of the Projects

7.1. First stage: presenting and selecting projects

In this stage, the Technical Committee will propose to the Bi-national Committee a set of projects listed on the bases of their suitable characteristics and capacity to fulfil the Programme objectives, being thus the projects appropriate to be financed with the Fund.

The latter notwithstanding, any of the Bi-national Committee members will be able to present projects considered by them in accordance with the objectives of this Programme.

The Bi-national Committee will analyse all these projects and, on the basis of this study, it will decide whether or not these projects are going to be approved.

7.2. Second stage: public tender

Once one project has been approved, it will be put out to tender, in order to select its executor among Spanish and/or Tanzanian firms and non governmental organizations for development with recognised financial solvency.

This selection will be ruled by the principles of publicity, transparency y concurrence and will follow Tanzanian legal rules.

The Bi-national Committee will have to give its approval to the result of the public tender.

7.3. Third stage: carrying out and monitoring the projects.

During this step, the Bi-national Committee –advised by the Technical Committee- will have to watch over the correct management of the converted resources and over the monitoring of the execution of the projects.

For the supervision of these projects, the Bi-national Committee will receive reports half-yearly from the Technical Committee. These reports could be based on the work carried out by the external support –in the case it exists- according to article 6.

7.4. Fourth stage: assessing the projects

Once each project is carried out, the Technical Committee will present to the Bi-national Committee reports over its management and its results. The Bi-national Committee will be allowed to hire external assistance for the evaluation of the projects.

7.5 Evaluation of the Debt Swap Mechanism.

The debt swap mechanism will keep a remaining amount. This amount will be devoted to hire an external evaluation narrowly focused on the whole Debt Swap Mechanism just after the end of the program.

8. Expenditures financed by the program.

8.1. Additionally, the program will also finance:

- The hiring of external support services including the one mentioned in article 6.
- The hiring of reports and any other service decided by the Bi-national Committee.

8.2. The amount of expenditures related to the above mentioned special services subsequent to the end of projects will not exceed 4% of the resources of the programme.

9. Use of converted resources. Direct debt relief stage.

Tanzania undertakes to devote the resources released by the direct debt relief of 60% of debt linked to this programme to bolster economic growth and development.

10. Validity of the debt relief programme.

10.1. The present program will come into force once the due internal procedures for its approval will have been accomplished in both countries.

10.2. The present program will stand until the Fund will have been fully provided and its resources will have been completely used.

10.3. In the event that Tanzania will break either totally or partially its payment commitments related to this debt swap mechanism provoking delays in its outlays for periods over three months the previously approved or at progress projects will be either considered finished because of lack of funds or financed by Tanzanian authorities. Moreover, under this scenario, Spain will make no payment using its own financial resources at any event. Therefore, the debt swap mechanism will be cancelled from that moment on so Tanzania will have to face its payment duties towards Spain up to the amount of debt not cancelled yet as it is reflected on the original payment schedules, including the potential late interests generated.

In Madrid, on January 12, 2011	In Dar es Salaam, on January 28, 2011
Mr. Jose Manuel Campa	Mr. Ramadhani Khijjah
Secretary of State for the Economy Ministry of Economy and Finance Government of the Kingdom of Spain	Permanent Secretary Ministry of Finance Government of the United Republic of Tanzania

ANNEX 1

The debt cancelled by this programme is:

ODA loans contracted between June 20th 1999 and December 31st 2003 for the part disbursed as of March 31st 2007.

If there is part of this eligible debt which has been already paid after March 31st 2007 it will be deposited in the Fund or refunded to the United Republic of Tanzania.

Taking all these elements into account, the eligible debt is the following:

LOAN	CURRENCY	LAST MATURITY	AMOUNT DUE
01041004.0	USD	ARREARS	339.775,34
01041004.0	USD	24/03/2033	7.983.566,00
		TOTAL USD	**8.323.341,34**

The principal cancelled in this programme is US$8,323,341.34.

It is compulsory to deposit in the Fund the 40% of this principal, and the corresponding interests, plus the arrears as of 31st March, being therefore the total amount deposited in the Fund **US$6.387.292,20**

The total write off is therefore **US$11.041.521,67** and the disbursement in the Fund will follow the schedule determined in Annex 2.

ANNEX 2

SCHEDULE OF PAYMENTS TO THE TANZANIA-SPAIN FUND

Payments that have been disbursed and which will be transferred to the trust fund[1]:

LOAN	CURRENCY	MATURITY	PRINCIPAL	INTERESTS	DISBURSEMENT TO THE FUND
01041004.0	USD	Arrears	0.00	**339.775,34**	**339.775,34**
01041004.0	USD	24/09/2007	0,00	110.676,28	110.676,28
				YEARLY TOTAL	**450.451,62**
01041004.0	USD	24/03/2008	0,00	109.473,28	109.473,28
01041004.0	USD	24/09/2008	0,00	110.676,28	110.676,28
				YEARLY TOTAL	**220.149,56**
01041004.0	USD	24/03/2009	0,00	108.871,78	108.871,78
01041004.0	USD	24/09/2009	0,00	110.676,28	110.676,28
				YEARLY TOTAL	**219.548,06**
01041004.0	USD	24/03/2010	0,00	108.871,78	108.871,78
01041004.0	USD	24/09/2010	0,00	110.676,28	110.676,28
				YEARLY TOTAL	**219.548,06**
				TOTAL	**1.109.697,3**

Payments due by Tanzania to the trust fund:

01041004.0	USD	24/03/2011	0,00	108.871,78	108.871,78
01041004.0	USD	24/09/2011	0,00	110.676,28	110.676,28
				YEARLY TOTAL	**219.548,06**
01041004.0	USD	24/03/2012	0,00	109.473,28	109.473,28
01041004.0	USD	24/09/2012	0,00	110.676,28	110.676,28
				YEARLY TOTAL	**220.149,56**
01041004.0	USD	24/03/2013	194.721,12	108.871,78	303.592,90
01041004.0	USD	24/09/2013	194.721,12	107.976,86	302.697,98
				YEARLY TOTAL	**606.290,88**
01041004.0	USD	24/03/2014	194.721,12	103.560,96	298.282,08
01041004.0	USD	24/09/2014	194.721,12	102.578,02	297.299,14
				YEARLY TOTAL	**595.581,22**
01041004.0	USD	24/03/2015	194.721,12	98.250,14	292.971,26
01041004.0	USD	24/09/2015	194.721,12	97.179,18	291.900,30
				YEARLY TOTAL	**584.871,56**
01041004.0	USD	24/03/2016	194.721,12	93.452,80	288.173,92
01041004.0	USD	24/09/2016	194.721,12	91.780,33	286.501,45
				YEARLY TOTAL	**574.675,37**
01041004.0	USD	24/03/2017	194.721,12	87.628,51	282.349,63
01041004.0	USD	24/09/2017	194.721,12	86.381,49	281.102,61
				YEARLY TOTAL	**563.452,24**
01041004.0	USD	24/03/2018	194.721,12	82.317,69	277.038,81
01041004.0	USD	24/09/2018	194.721,12	80.982,65	275.703,77

[1] These payments have already been disbursed to ICO. The transfer of funds from ICO to the trust fund will take place once the credit account of the trust fund has been opened.

				YEARLY TOTAL	**552.742,58**
01041004.0	USD	24/03/2019	194.721,12	77.006,87	271.727,99
01041004.0	USD	24/09/2019	194.721,12	75.583,80	270.304,92
				YEARLY TOTAL	**542.032,91**
01041004.0	USD	24/03/2020	194.721,12	72.092,16	266.813,28
01041004.0	USD	24/09/2020	194.721,12	70.184,96	264.906,08
				YEARLY TOTAL	**531.719,36**
01041004.0	USD	24/03/2021	194.721,12	66.385,23	261.106,35
01041004.0	USD	24/09/2021*	19.077,49	6.347,32	25.424,81
				YEARLY TOTAL	**286.531,16**
		TOTAL	**3.329.336,53**	**3.057.955,67**	**6.387.292,20**

*This last maturity will exceed the total amount of debt assigned to the Fund, so it will be only necessary to disburse 9,8% of instalment and its corresponding interests in order to fulfil 40% of principal.