

Ref. No. Foreign Exchange Circular No. 6000/DEMEX.REG/58

24th September, 1998

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The Managing Director
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The Managing Director
Exim Bank (T) Ltd
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The Managing Director
Akiba Commercial Bank Ltd
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The General Manager
Tanzania Postal Bank Ltd
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Managing Director
Habib African Bank
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Managing Director
Crown Finance and Leasing
DAR ES SALAAM

Managing Director
Furaha Finance Limited
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General Manager
Ulc (Tanzania) Limited
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General Manager
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P.O. Box 9053
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Re: LIBERALISATION OF FOREIGN EXCHANGE REGIME

1.0 GENERAL

- 1.1 These directions consolidate all previous instructions given by the Bank of Tanzania by way of circulars as part of the liberalization of the exchange regime in Tanzania. Consistent with the Government's policy move to liberalize current account transactions, it has been deemed necessary to issue these directions focusing on transactions which are still subject of restrictions and certain procedural requirements only.

1.2 These directions carry administrative instructions intended to guide banks and financial institutions involved in the administration and management of foreign exchange transactions on regular basis and as such do not relate to specific transactions, subject of separate regulatory requirements, effected by banks and financial institutions themselves. In addition to the general observance of prudent practices customary in banking, access to foreign currency facilities by residents from banks and financial institutions should be in conformity with these broad directions. It should be noted, however, that these directions are promulgated subject to Foreign Exchange Regulations, and whenever the provisions of these directions are in conflict with the provisions of the said Regulations, the latter shall prevail.

2.0 CURRENT ACCOUNT TRANSACTIONS

2.1 As a general rule, banks and financial institutions are allowed to provide access to foreign currency facilities to residents in respect of all current account payments and transfers free of any ceilings, the exception being for travel abroad in which case the United States dollars 10,000 (ten thousand) ceiling for an individual shall continue to apply. Banks and financial institutions availing residents such foreign currency facilities will be required to observe normal prudent banking practices and comply with the following general requirements:

- (a) Production of relevant documentary evidence in support of the request made at the time of availing the foreign currency facility by the applicant.

- (b) Retention of the aforesaid documents (in original form) by banks and financial institutions for the purpose of examination by the Bank of Tanzania in the exercise of its prudential and regulatory functions.

2.2 Specific requirements shall be observed by banks and financial institutions in respect of the itemised transactions as hereunder:

EXPORT TRANSACTIONS

- (i) Consideration for export proceeds realisation beyond 90 days in the case of agricultural and natural resources products, and 180 days in the case of manufactured products;
- Details of the relevant consignments and reasons for the delay should be properly documented.
 - The banks should satisfy themselves as to when the proceeds will be realised. The extension granted should however not exceed 90 days following the lapse of the initial allowable time limit of 90 for agricultural and natural resources products and 180 days following the lapse of the initial allowable time limit of 180 days for manufactured products.
- (ii) Consideration for acceptance of export proceeds less than the value stated in relevant documents.

- International price changes for the commodities in that specific market at that particular time, deterioration of the products exported or short-shipment should be properly documented and notarised by competent authority.

(iii) Consideration for remittances to settle claims by overseas buyers of exports for short shipment, inferior qualities, non-fulfillment of qualities and related reasons.

- The respective documents should be notarised by competent authority.

IMPORT TRANSACTIONS

(i) Consideration for making direct payments in respect of imports.

- In addition to invoices and shipping documents, the banks should demand prior production of Clean Report of Findings (CRF) from an authorised inspection firm. Where documents are not immediately available, banks should allow such remittances for their customers (with whom they have account relationship) and ensure that documents are submitted within 30 days from the date of the remittance.

(ii) Consideration for advance payments for imports.

- Remittance may be made against properly authenticated Advance Payment Guarantee and proforma Invoice/supply contract.

- The customer must have an account relationship with the bank, which should exercise prudence particularly as it relates to reasonableness and fairness of the price for the relevant goods.
- Other import procedures shall apply in respect of remaining balance for externalisation.

(iii) Payment for imports which require import licenses.

- In addition to invoices and shipping documents, banks should satisfy themselves that authentic ministerial permits have been obtained and that they are in order.

(iv) Consideration for deferred payments for imports or any financial facilities tenure of which do not exceed 365 days.

- Interest rate and other charges if any should reflect the prevailing market conditions for the relevant currency of borrowing at the time of signing the relevant agreement.
- Borrowing should be arranged in the same currencies in which repayments for imports are required to be settled.
- Banks should provide reports to the Bank of Tanzania as per the format provided in Form 16.

TRAVEL ABROAD

Consideration for travel allowances exceeding US\$10,000 for international travels. This direction shall also be applicable to Bureaux de Change operations.

- In addition to valid travel documents, the traveler should produce documented evidence to the effect that the travel will last for more than forty days.

REMITTANCES FOR SERVICES

- (i) Consideration for remittances in respect of education, medical and living allowance.
 - The banks should get sufficient details documented from the relevant educational and medical institutions indicating breakdown of amount due and purpose. The documents may be in form of a letter or invoice from respective institution.
- (ii) Consideration in respect of remittances by expatriates.
 - In addition to sighting relevant employment contract and permits, the banks should get details of the purposes for remittances documented by expatriates.
- (iii) Consideration for payment for fees related to consultancy, management and royalty agreements.

- Applicants should furnish duly executed contractual documents duly executed by parties thereto, relevant invoice/fees notes and tax clearances from Tanzania Revenue Authority certifying that tax obligations have been settled.
- As for technology transfer agreements covered by the Tanzania Investment Act, 1997, there should be documentary evidence that the same has been registered with the Tanzania Investment Centre.

REMITTANCES IN RESPECT OF FOREIGN DIRECT INVESTMENTS

- (i) Consideration of remittances in respect of dividends and profits to foreign shareholders.

The banks should get audited reports indicating declared dividends/profits to be repatriated, plus authenticated documents confirming payments of all relevant taxes from Tanzania Revenue Authority.

2.3 In addition to the foregoing, the following requirements shall continue to apply:

- (a) Repatriation of export proceeds in foreign currency by exporters and reporting by banking institutions to the Bank of Tanzania of delinquent exporters beyond time allowed under 2.2(i) hereinabove.
- (b) Maintenance of foreign exchange accounts solely with domestic commercial banks in respect of foreign currency holdings of customers.

- (c) Import licences to be issued by Tanzania Revenue Authority for specified types of goods for health and security reasons. (In addition to respective Ministerial permits)
- (d) Clean Report of Findings (CRF) as a necessary document for payments for imports subject to preshipment inspection.
- (e) Offsetting of financial claims between associate resident and non-resident companies (Inter-company) accounts stands prohibited.

2.4 Banks and financial institutions involved in the administration of payments and transfers in foreign currency shall be required to compile and submit reports to the Director responsible for Banking Supervision of Bank of Tanzania once every two weeks detailing all such financial transactions handled (inflows and outflows) based on original currencies of transactions for the purposes of balance of payments statistics.

3.0 CAPITAL ACCOUNT TRANSACTIONS

3.1 The following inward capital account transactions may be processed and approved by banks subject to the requirements stated herein:

- (i) Consideration of applications for foreign loans, overdrafts, financial facility, deferred payments or guarantees by residents individuals or companies tenure of which exceed 365 days.

- A copy of executed Agreement, and disbursement and debt servicing schedules related thereto must be submitted by the approving bank to the Bank of Tanzania within 14 days of grant of approval so that Debt Record Number, which shall be the reference for disbursement and debt servicing can be issued
- Interest rate and other charges should reflect the prevailing market conditions for relevant currency of borrowing.
- Repayment period should be tied to the ability of the project to generate enough funds to service the loans in a progressive manner.
- Approved loans should not include condition precedents which require opening foreign currency accounts with banks not registered in Tanzania.
- Loan agreements with terms and conditions which are not compatible with the above stated ones should be referred to Bank of Tanzania (Debt Department) for further guidance.

3.2 Banks are permitted to authorise access to foreign currency facilities to residents in respect of outward capital account payments subject to the requirements stated hereunder:

(i) Consideration for repatriation of capital and income to foreign shareholders in respect of direct investments (including remittances in respect of proceeds in the event of liquidation).

- In addition to audited reports, banks should demand authenticated tax clearances from Tanzania Revenue Authority confirming payments of all relevant taxes.

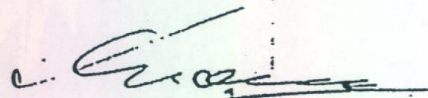
(ii) Consideration for transfers in respect of scheduled debt servicing.

- The relevant contract as approved by a commercial bank must be sighted plus creditors demand notes to that effect. Such remittances should not be effected by any bank other than the approving bank.
- Commercial Banks should furnish the Bank of Tanzania with monthly reports on loans serviced in conformity with prescribed format of form 16 indicating BOT Debt Record Number.

Applications for availing foreign currency for outward capital account transfers for purposes other than those specified above are still subject of restrictions, and should therefore be submitted to the Bank of Tanzania through commercial banks with which respective applicants have account relationships.

- 3.3 It should be noted that outward portfolio investments, foreign lending operations in favour of non-residents, acquisition of real estate, outward direct investment, operation of offshore foreign currency accounts by residents and participation of non-residents in domestic money and capital markets are still subject of restrictions.
- 4.0 It is reiterated that compliance with the requirements stated hereinabove is mandatory and shall be subject of examination and monitoring by the Bank of Tanzania and infringement attract penal sanctions as provided for in the Foreign Exchange Act, 1992. Should you require any clarification, please contact the Office of the Secretary to the Bank, Bank of Tanzania, No. 10 Mirambo Street, P.O. Box 2939, Dar es Salaam.
- 5.0 These directions cancel instructions contained in the Foreign Exchange Manual, 1992 and foreign exchange circulars issued by the Bank of Tanzania so far. These directions take immediate effect.

BANK OF TANZANIA
September, 1998



Mr. M.H. Mbaye
DEPUTY GOVERNOR