

**DIRECTIVE 2013/12/EAC
OF THE COUNCIL OF MINISTERS**

Of

(Date of Approval by Council of Ministers)

**DIRECTIVE OF THE EAC ON CONDUCT OF
BUSINESS IN THE SECURITIES MARKET**

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Preamble

The Council of Ministers of the East African Community

Having regard to the Treaty establishing the East African Community and in particular **Articles 85 (d), 14 and 16;**

Having regard to the recommendations of the Sectoral Council on Finance and Economic Affairs;

WHEREAS Article 31 of the Common Market Protocol provides that for proper functioning of the Common Market the Partner States undertake to co-ordinate and harmonies their financial sector policies and regulatory framework to ensure the efficiency and stability of their financial systems as well as the smooth operations of the payment system;

WHEREAS Article 47 of the Common Market Protocol provides that the Partner States shall undertake to approximate their national laws and to harmonize their policies and systems for purposes of implementing this Protocol and that the Council shall issue directives for the purposes of implementing this Article;

HAS ADOPTED THIS DIRECTIVE

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ARTICLE 1 INTERPRETATION

“Community” means East African Community established by Article 2 of the Treaty.

“Competent Authority” means the national regulatory agency that is the primary supervising entity of securities markets in the Partner State;

“Council of Ministers” means the Council of Ministers of the Community established by Article 9 of the Treaty;

“Market Intermediary” means an entity licensed or approved by a Competent Authority in the Partner State;

“Partner States” means the Republic of Uganda, the Republic of Kenya, the United Republic of Tanzania, the Republic of Rwanda and the Republic of Burundi and any other country granted membership to the Community under Article 3 of the Treaty;

“Regulated activity” means any activity of which a Market Intermediary is licensed or authorized to do by any Competent Authority;

“Suspicious transaction” means transaction in which there are reasonable grounds to suspect that the transaction is related to any criminal offence. They include:

- (a) transactions having unclear economical and business target;
- (b) transactions conducted in relatively large amount cash or conducted repeatedly and unnaturally; and
- (c) transactions conducted differently from the usual and normal transactions conducted by the relevant client;

“Treaty”, means the Treaty for the establishment of the East African Community and any Annexes and Protocols thereto;

ARTICLE 2 PRINCIPLES

In implementing this Directive Partner states shall ensure that Market Intermediaries:

- (a) conduct their business fairly with due skill, care and diligence in the best interest of their clients and integrity of the market;

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- (b) adopt and observe appropriate internal code of conduct and high standards of market conduct;
- (c) know their clients by requiring them to seek from their clients and maintain information about their financial situation, investment experience and investment objectives relevant to services provided and where there is suspicious transactions to report immediately to the Competent Authority;
- (d) treat clients' particulars and information confidential, unless required by law to disclose;
- (e) take reasonable steps to provide to their clients, in a comprehensible way, any information needed to enable their clients to make balanced and informed investment decisions;
- (f) avoid conflicts of interests;
- (g) put in place mechanisms for detection and determent of manipulation and other unfair trading practices and treat clients fairly ;
- (h) have in place mechanisms for adequate protection for clients' funds; and
- (i) have adequate arrangements to the effect that all staff employed are suitable, adequately trained and properly supervised, together with well-defined compliance procedures.

ARTICLE 3 SCOPE

This Directive shall apply to all regional Market Intermediaries licensed by a Competent Authority in the Partner States to deal in securities or any other services incidental to dealing in securities.

ARTICLE 4 OBJECTIVE

To harmonize the standards on Conduct of Business of Market Intermediaries in the securities markets of Partner States with a view to protecting investors, ensuring fair, efficient and transparent markets, and reducing systemic risks.

ARTICLE 5 STANDARDS OF CONDUCT

A Market Intermediary shall, when conducting a regulated activity, apply principles of best practice and, in particular act with due skill, care and diligence and observe a high standard of

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market conduct, integrity and fair dealing.

ARTICLE 6 SUITABILITY OF SERVICES FOR CLIENT

1. A Market Intermediary shall before providing any service to the client and at all times ensure that it is in possession of;
 - (a) Copies of identification documentation of the client; and
 - (b) Information on any trading restrictions applicable to the client.
2. A Market Intermediary shall take all reasonable steps to ensure that it does not give advice or effect a transaction, on behalf of a client, unless the advice or transaction is suitable for the client considering the facts disclosed by the client and any other relevant facts about the client that the Market Intermediary is or ought to reasonably be aware of.

ARTICLE 7 CLIENT AGREEMENT

1. A Market Intermediary shall not provide service in respect of a regulated activity unless it has entered into a written agreement with the client signed by both the client and the Market Intermediary.
2. The client agreement shall set out the basis on which the Market Intermediary's services are provided, including—
 - (a) essential information about the parties, including the names, addresses and contact information;
 - (b) services to be provided;
 - (c) fees to be charged or the way the fees will be calculated;
 - (d) nature or basis of commissions to be received by the Market Intermediary from third parties in relation to the services provided to the client;
 - (e) rights and obligations of the client, including –
 - (i) the right to receive the title for any securities purchased;
 - (ii) the right to receive a statement of all fees and charges;
 - (iii) the right to information on the remuneration received by the Market Intermediary from third parties for the services provided, in relation to the client;

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- (iv) the right to ask for information on the experience, qualifications and disciplinary history of the Market Intermediary;
 - (v) the right to receive interest on funds held by the Market Intermediary on the client's behalf;
 - (vi) the right to receive payment for securities sold within a specified period;
 - (vii) the right to see the Market Intermediary's conflict of interest policy;
 - (viii) the right to complain and to have that complaint dealt with fairly and promptly;
 - (ix) the obligation to pay fees and other charges;
- (f) rights and obligations of the Market Intermediary;
 - (g) arrangements made for securing titles to and for custody of securities bought, including where nominee or custodian accounts are to be used;
 - (h) any conflicts of interest relating to the Market Intermediary;
 - (i) any connections the Market Intermediary has with third parties that could affect the services being provided, including a requirement that the Market Intermediary deals through certain third parties or recommend certain investment products;
 - (j) the fact that the Market Intermediary is regulated by the Authority; and
 - (k) any other terms and conditions of the agreement, including the notice to be given in respect of any changes to it or its termination.

3. The agreement shall be produced in duplicate, whereby each party shall retain one copy.

ARTICLE 8 INDEPENDENCE

Where a Market Intermediary is advising or acting on behalf of a client, the Market Intermediary shall ensure that any claim it makes relating to its independence or impartiality includes any limitation that there may be on its capacity.

ARTICLE 9 ISSUE OF ADVERTISEMENTS

Where a Market Intermediary issues an advertisement concerning its securities business, it shall take all reasonable steps to ensure that –

- (a) the contents and presentation of the advertisement are demonstrably fair and not misleading; and
- (b) the advertisement discloses fairly the risks concerned.

ARTICLE 10 FAIR AND CLEAR COMMUNICATIONS

A Market Intermediary shall ensure that any agreement, communication, notification or information that it gives or sends to clients to whom it provides the service of a regulated activity is presented fairly, clearly and does not contain any misleading information.

ARTICLE 11 CLIENTS' UNDERSTANDING OF RISK

1. A Market Intermediary shall not-
 - (a) recommend a transaction to a client, or effect a transaction with or for him, unless it has taken all reasonable steps to enable the client to understand all the risks involved;
 - (b) knowingly mislead a client on any advantages or disadvantages of a contemplated transaction; or
 - (c) promise a return unless such return is contractually guaranteed.
2. A Market Intermediary shall give sufficient information to the client to ensure that the client's decisions are informed.
3. A Market Intermediary shall, when making recommendations to a client, take all reasonable steps to satisfy itself that the client has a full understanding of the—
 - (a) nature of the investment;
 - (b) fees and charges associated with the investment;
 - (c) risks of the investment;
 - (d) factors that are likely to affect the performance of the investment;
 - (e) terms and conditions of the investment; and
 - (f) consequences of departing from the terms and conditions of the investment.

ARTICLE 12 FEES

1. A Market Intermediary shall charge its fees according to the rate prescribed by the Competent Authority. In the absence of the prescribed rates, a Market Intermediary shall charge fees in accordance with its agreement with the client;

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2. A Market Intermediary shall, before providing the service of a regulated activity to a client, disclose to the client the basis for and its charges for the provision of the services and the nature and amount of any other remuneration payable by the client;
3. A Market Intermediary shall provide monthly or for each transaction a statement of fees or charges to a client on whose behalf many transactions are undertaken;
4. A Market Intermediary shall not take any fees or charges from any client's funds or liquidate client's securities for the purpose of recovering its fees or charges unless it is in accordance with the client agreement or in the manner prescribed by the Competent Authority.

ARTICLE 13 CLIENTS' RIGHTS

1. A Market Intermediary shall not, in any written communication or agreement, exclude or restrict –
 - (a) any duty or liability to a client which it has under any law ;
 - (b) any other duty to act with due skill, care and diligence that is owed to a client in connection with the provision of the service of a regulated activity to the client; or
 - (c) any liability owed to a client for failure to exercise the degree of skill, care and diligence that may reasonably be expected of it in the provision of the service of a regulated activity.
2. A purported exclusion or restriction prohibited by this Directive shall be void and of no effect.

ARTICLE 14 COLD CALLING

A market intermediary shall not, for the purposes of soliciting business relating to a regulated activity, make unsolicited telephone calls or attend at any property, unless it has established and monitors the implementation of operational procedures to-

- (a) maintain a Do-Not-Call list of prospects that is updated whenever any contacted person requests not to be called again;
- (b) train staff on the use of the Do-Not-Call list;

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- (c) limit the making calls to between 8:00 A.M. and 5:00 P.M;
- (d) oblige the callers to state their first and last names at the commencement of the call;
- (e) oblige the callers to state the firm's name and address the fact that it is licensed by the Competent Authority at the commencement of the call; and
- (f) oblige the caller to provide a detailed over view of any product being marketed by the Market Intermediary prior to soliciting any offers.

ARTICLE 15 CONFLICT OF INTEREST

1. A Market Intermediary shall take all reasonable steps to ensure that conflicts of interest between itself and its clients and between one client and another are managed in such a way that the interests of clients are not adversely affected.
2. In particular, a Market Intermediary shall –
 - (a) identify and document the conflicts of interest that are likely to occur in the course of its regulated activity;
 - (b) adopt and document appropriate policies to minimize those conflicts by identifying the instances where it would refuse to act and, where this is not necessary, making arrangements to minimize the risk of any loss to the client;
 - (c) avoid any conflict of interest with clients and, where such a conflict unavoidably arises, he shall ensure fair treatment to the client by complete disclosure or by declining to act and ensure that the interests of the regulated person is not unfairly placed above those of the client.
3. A Market Intermediary shall not take advantage of information it obtained from providing services to a client for its own benefit or the benefit of its employees or the benefit of another client, and where such an eventuality is likely to occur, the Market Intermediary shall–
 - (a) adopt and document procedures, including the creation of information barriers such as information technology systems barriers and physical barriers to minimize the possibility of information from one client being used for the benefit of another client, its employees or the Market Intermediary;

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- (b) sensitize employees in matters relating to the conflict of interest and the procedures developed to avoid them;
 - (c) obtain undertakings from employees that they will not use information gained from the clients for their personal benefit.
4. A Market Intermediary shall take reasonable steps to ensure that neither it nor any of its employees or agents offers , gives, solicits or accepts any inducement that is likely to conflict with any of the duties owed to clients.

ARTICLE 16 CONTRACT NOTES

1. A market intermediary shall, in respect of every contract for the purchase or sale of securities it has entered into, not later than the end of the next trading day after the contract was entered into, make out a contract note which complies with sub-article (2) and where the Market Intermediary entered into a contract as–
- (a) agent deliver the original contract note to the person on whose behalf it entered into the contract; or
 - (b) principal, retain the contract note for itself.
2. The contract note shall state-
- (a) Whether it is in respect of a purchase or sale of securities;
 - (b) whether a specific or limit price has been specified or whether the market rate should be applied in addition to the ultimate price, per unit of the securities;
 - (c) the name and address of the Market Intermediary and the principal place at which it carries on its business;
 - (d) that the Market Intermediary is acting as principal or agent, where it is so acting;
 - (e) the name and address of the person, to whom the Market Intermediary is required to give the contract note and, where different, the name of the person for whom the transaction was undertaken;
 - (f) the date of the contract, and the date on which the contract note is made;
 - (g) the quantity and description of the securities that are the subject of the contract;
 - (h) the rate or amount of commission payable in respect of the contract;

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- (i) the amount of stamp duty, if any, payable in connection with the contract and, where applicable, in respect of the transfer;
 - (j) the date of settlement; and
 - (k) any other information as may be prescribed by the Competent Authority to ensure that there shall be a complete audit trail in respect of the execution of client instructions and the settlement of market transactions.
3. A Market Intermediary shall ensure that the client is sent with due dispatch a contract note immediately after preparing the contract note.

ARTICLE 17 CLIENT CONFIDENTIALITY

1. A Market Intermediary shall adopt and document policies and procedures designed to ensure that information obtained from clients and third parties is kept confidential and secure. The policies and procedures adopted shall include–
 - (a) a requirement that employees undertake to maintain confidentiality, in their contract of employment;
 - (b) how to determine the employees who may have access to confidential information;
 - (c) procedures that effectively restrict access to confidential information by employees through the use of secure document management, storage systems and encryption protected information, within the Market Intermediary's Information Technology system; and
 - (d) systems designed to safeguard the integrity of any electronic record or transaction recording system.
2. A Market Intermediary shall keep confidential all information in its possession relating to a client, whether obtained from the client or third parties.
3. Notwithstanding paragraph (2), a Market Intermediary may disclose information relating to a client to the Competent Authority or an approved securities exchange:
 - (a) on request;
 - (b) if the information amounts to a suspicious transaction; or
 - (c) if it is ordered to do so by a court of competent jurisdiction in any of the Partner States.

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ARTICLE 18 EXECUTION OF CLIENT ORDER

1. A Market Intermediary shall execute a client's order:
 - (a) Only if the client has made final and irrevocable arrangements for the necessary funds or securities;
 - (b) In the chronological sequence in which the orders were received and give priority to outstanding orders
2. A Market Intermediary shall deal for a client on the best terms available for the client.

ARTICLE 19 ALLOCATION

1. A Market Intermediary shall ensure that transactions it executes are allocated to the clients who gave the orders in a timely and equitable manner;
2. Where a Market Intermediary has aggregated an order for a client's transaction with an order for its own account transaction, or with an order for another client's transaction, the Market Intermediary shall in the subsequent allocation—
 - (a) not give unfair preference to itself or to any of the clients; and
 - (b) give priority to satisfying orders for client transactions, if all orders cannot be satisfied.

ARTICLE 20 OFF-MARKET TRANSACTIONS

A Market Intermediary shall report all trades in securities dealt with otherwise than at a licensed Securities Exchange to the Competent Authority.

ARTICLE 21 FRONT RUNNING

Where a Market Intermediary has a client order to execute, or where it intends to publish to clients a price-sensitive recommendation or research or analysis, it shall not knowingly effect

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an own account transaction in the securities concerned or in any related investment until the order has been executed or until the clients for whom the publication was principally intended have had, or are likely to have had, a reasonable opportunity to react to it.

ARTICLE 22 CHURNING

A Market Intermediary shall not-

- (a) deal or arrange a deal in the exercise of discretion for any client; or
- (b) advise a client to deal, if the dealing could in the circumstances be reasonably considered as too frequent or too large having regard to the trading activities, investment objectives, size and operations of such client.

ARTICLE 23 INSIDER DEALING

A Market Intermediary shall not profit or seek to profit, either for its own account, the account of a client or any third party, from inside information in the possession of any of its officers, employees, agents, or any insider or assist anyone with such information to make profit for himself or for another person.

ARTICLE 24 COMPLAINTS PROCEDURE

1. A Market Intermediary shall adopt, document and disclose to a client its procedures for the proper handling of complaints from clients and ensure that appropriate remedial action is taken on the complaints promptly.
2. A Market Intermediary shall handle complaints in a fair, appropriate and timely manner, and shall inform the client of the outcome.
3. A Market Intermediary shall provide where a complaint is justified, appropriate restitution and address the weaknesses in its internal systems that led to the action causing the complaint and shall document all actions taken and the reasons for the decision reached.

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4. A Market Intermediary shall within seven days, inform the Competent Authority of any complaint received and action taken if any.

ARTICLE 25 PREVENTION OF MONEY LAUNDERING

1. A Market Intermediary shall, on each occasion that a client places an order with it, obtain from the client–
 - (a) details relating to the origin and source of the money or funds used or to be used for the investment;
 - (b) where the money or funds originate from outside the country, a confirmation from the remitting entity of the nature of the client’s business and details relating to the source of the money or funds; and
 - (c) a written declaration by the client confirming–
 - (i) the accuracy of all information given under subparagraph (a) or (b); and
 - (ii) that the money or funds used for the investment in securities does not arise from the proceeds of any crime.
2. A Market Intermediary shall keep and maintain the information obtained from a client under Paragraph (1) and immediately, report any suspicious transaction to the Competent Authority.

ARTICLE 26 CLIENTS’ FUNDS

1. A Market Intermediary shall hold its clients’ funds in trust for and on behalf of the clients whom the funds were received or are held according to their respective shares.
2. Clients’ funds shall not form part of the assets of the Market Intermediary for any purpose and shall not be available in any circumstances for payment of any debt of the Market Intermediary.

ARTICLE 27 SEGREGATION OF CLIENTS’ FUNDS

1. A Market Intermediary that receives or holds clients’ funds shall open one or more client bank accounts.

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2. A Market Intermediary shall segregate its client bank accounts from any account holding funds belonging to the Market Intermediary.
3. A Market Intermediary shall deposit into a client bank account all funds received on behalf of or from a client upon receipt.
4. A Market Intermediary shall keep records of –
 - (a) all the amounts it has deposited into a client bank account held by the Market Intermediary, specifying the person on whose behalf the amounts are held and the dates on which they were deposited into the account;
 - (b) all withdrawals from a client bank account, the dates of the withdrawals, and the names of the persons on whose behalf the withdrawals were made; and
 - (c) any other particulars as may be prescribed by the Competent Authority.
5. A Market Intermediary shall on a daily basis reconcile its records showing the amounts held on behalf of each client in the client bank account and the aggregate of clients' money held in the client account or being held by third parties on behalf of clients.
6. Where there is more than one client account, the Market Intermediary shall reconcile each client account separately as well as the aggregate position on all clients' accounts.
7. The officer who is responsible for authorizing payments into and out of the client accounts shall not carry out the reconciliation.
8. A Market Intermediary shall obtain and maintain, in its records, written acknowledgement from the bank confirming that the clients' funds deposited with the bank are held in trust for the clients and are not available to offset any obligation of the Market Intermediary.

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ACCOUNTING AND USE OF CLIENTS' FUNDS

1. A market intermediary shall promptly and accurately account for clients' funds and ensure that–
 - (a) clients' funds and other funds are segregated;
 - (b) the amount of clients' funds standing to the credit of each client can be ascertained at all times; and
 - (c) funds held on behalf of a client are not used for the benefit of another client.

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2. A Market Intermediary shall not withdraw money deposited in a clients' bank account unless the money is required for the purposes of–
 - (a) making a payment to, or in accordance with the written instructions of, a person entitled to the money;
 - (b) purchasing, margining, guaranteeing, securing, transferring, adjusting or settling dealing in securities effected by the Market Intermediary on the written instructions of a client;
 - (c) defraying brokerage and other charges incurred in respect of dealings in securities effected by the Market Intermediary on the written instructions of a client; or
 - (d) making a payment that is otherwise authorized by law.

ARTICLE 29 REQUIREMENTS FOR ACCOUNTING RECORDS

1. A Market Intermediary shall prepare and maintain proper accounts and records that show the transactions, effected on its behalf or on behalf of others and the financial position of its regulated activity in accordance with the International Financial Reporting Standards.
2. A Market Intermediary shall preserve the accounting records under paragraph (1) for seven years from the date on which they are made.
3. The Competent Authority or any person authorized by the Competent Authority may, at reasonable times and during the period in which accounting records kept under paragraph (2), require a Market Intermediary to produce the accounting records for purposes of inspection.

ARTICLE 30 RECORD KEEPING

1. A market intermediary shall ensure that its records are updated on a daily basis.
2. A Market Intermediary shall establish procedures that facilitate its compliance with its financial resource, client asset and working capital requirements.
3. Notwithstanding the generality of Paragraph (2), a market intermediary shall establish procedures for-

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- (a) daily reconciliations of funds held in the client accounts;
- (b) daily calculations of the working capital and financial resource; and
- (c) the maintenance of a record of daily calculations and reconciliations.

ARTICLE 31 RETURNS

1. The Competent Authority may, by a notice in writing, require a Market Intermediary to submit to it such periodic returns as it may specify.
2. The Competent Authority may, in addition to any periodic returns required under paragraph (1), by a notice in writing require a Market Intermediary to generally or in a particular case or class of cases, submit to the Competent Authority such exceptional returns as it may specify.

ARTICLE 32 FINANCIAL STATEMENTS

1. A Market Intermediary shall, at the end of its financial year, prepare in accordance with International Financial Reporting Standards annual financial statements that consist of—
 - (a) a statement of financial position, that gives a true and fair view of the state of affairs of the Market Intermediary, as at the last day of the financial year; and
 - (b) a statement of comprehensive income, that gives a true and fair view of the Market Intermediary's profit or loss, for the financial year.
2. A Market Intermediary shall submit to the Competent Authority, within three months after the end of each financial year, its auditor's report together with—
 - (a) its annual financial statements; and
 - (b) a written confirmation that it has complied with this Directive and any other additional requirements of the Competent Authority.
3. Where an auditor's report on a Market Intermediary is qualified on grounds of the auditor's uncertainty on the completeness or accuracy of the accounting records, the report shall, when it is being submitted by the Market Intermediary to the Competent Authority be accompanied by a written statement signed by two directors stating whether—
 - (a) all the accounting records of the Market Intermediary were made available to the auditor for the purposes of its audit;

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- (b) all transactions undertaken by the Market Intermediary were properly reflected and recorded in its accounting records; and
- (c) all the other records of the Market Intermediary and related information were made available to the auditor.

ARTICLE 33 APPOINTMENT OF EXTERNAL AUDITOR

1. A Market Intermediary shall appoint an external auditor and issue him with an engagement letter that sets out his powers and duties, and is signed by both the Market Intermediary and the external auditor.
2. The Market Intermediary shall retain a copy of the engagement letter issued under paragraph (1).
3. A Market Intermediary shall, within seven days of appointing an auditor notify the Competent Authority of the appointment, in writing.
4. A Market Intermediary shall ensure that it rotates its external auditor or audit partner at least once in every four years.

ARTICLE 34 RESIGNATION OR REMOVAL OF AUDITORS

1. Where an auditor resigns, the Market Intermediary shall notify the Competent Authority, of the resignation within seven days.
2. Where the Market Intermediary intends to remove an auditor, the Market Intermediary shall, notify the Competent Authority of its intention and provide reasons thereof.

ARTICLE 35 REMEDIAL MEASURES AND ADMINISTRATIVE SANCTIONS

1. A Market Intermediary that contravenes any requirement of this Directive commits a disciplinary offence that may lead to sanctions and or penalties by any Competent Authority within the Community.

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2. Notwithstanding the generality of Paragraph (1), a Market Intermediary who contravenes any the provision of this Directive, which, in any partner is a criminal offence, may face criminal charges within that jurisdiction

ARTICLE 36 CESSATION OF BUSINESS

Where a Market Intermediary intends to withdraw from a regulated activity, it shall–

- (a) notify the Competent Authority and each of its clients of its intention; and
- (b) ensure to the satisfaction of the Authority that any business that is outstanding is properly completed or transferred to another Market Intermediary.

ARTICLE 37 AMENDMENTS

1. This Directive may be amended by the Council of Ministers.
2. Any proposals for amendment may be submitted in writing by the Partner States to the Secretary General of the East African Community.

ARTICLE 38 TRANSPOSITION

1. Partner States shall bring into force the laws, regulations and administrative provisions necessary to comply with this Directive not later than one year from the date of the Council of Ministers' approval. They shall forthwith inform the Council of Ministers thereof.
2. When Partner States adopt those measures they shall contain a reference to this Directive or shall be accompanied by such a reference on the occasion of their official publication. The methods for making such reference shall be laid down by Partner States.

ARTICLE 39 ENTRY INTO FORCE

This Directive shall enter into force upon approval by the Council.

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ARTICLE 40 ADDRESSEES

*This Directive is addressed to the Partner States.
Done in Arusha, Tanzania*