

CONFORMED COPY

CREDIT NUMBER 3916 TA

Project Agreement

(Emergency Power Supply Project)

between

INTERNATIONAL DEVELOPMENT ASSOCIATION

and

TANZANIA ELECTRIC SUPPLY COMPANY LIMITED

Dated July 5, 2004

CREDIT NUMBER 3916 TA

PROJECT AGREEMENT

AGREEMENT dated July 5, 2004, between INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association) and TANZANIA ELECTRIC SUPPLY COMPANY LIMITED (TANESCO).

WHEREAS (A) by the Development Credit Agreement of even date herewith between the United Republic of Tanzania (the Borrower) and the Association, the Association has agreed to make available to the Borrower an amount in various currencies equivalent to thirty million two hundred thousand Special Drawing Rights (SDR 30,200,000), on the terms and conditions set forth in the Development Credit Agreement, but only on condition that TANESCO agree to undertake such obligations toward the Association as are set forth in this Agreement;

(B) by a subsidiary grant agreement to be entered into between the Borrower and TANESCO, the proceeds of the Credit provided for under the Development Credit Agreement will be made available to TANESCO on the terms and conditions set forth in said Subsidiary Grant Agreement; and

WHEREAS TANESCO, in consideration of the Association's entering into the Development Credit Agreement with the Borrower, has agreed to undertake the obligations set forth in this Agreement;

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

Definitions

Section 1.01. Unless the context otherwise requires, the several terms defined in the Development Credit Agreement, the Preamble to this Agreement and in the General Conditions (as so defined) have the respective meanings therein set forth.

ARTICLE II

Execution of the Project

Section 2.01. (a) TANESCO declares its commitment to the objectives of the Project as set forth in Schedule 2 to the Development Credit Agreement, and, to this end, shall carry out the Project with due diligence and efficiency and in conformity with appropriate administrative, financial, engineering and technical practices, and shall provide, or cause to be provided, promptly as needed, the funds, facilities, services and other resources required for the Project.

(b) Without limitation upon the provisions of paragraph (a) of this Section and except as the Association and TANESCO shall otherwise agree, TANESCO shall carry out the Project in accordance with the Implementation Program set forth in Schedule 2 to this Agreement.

Section 2.02. Except as the Association shall otherwise agree, procurement of the goods required for the Project and to be financed out of the proceeds of the Credit shall be governed by the provisions of Schedule 1 to this Agreement.

Section 2.03. (a) TANESCO shall carry out the obligations set forth in Sections 9.03, 9.04, 9.05, 9.06, 9.07 and 9.08 of the General Conditions (relating to insurance, use of goods and services, plans and schedules, records and reports, maintenance and land acquisition, respectively) in respect of the Project.

(b) For the purposes of Section 9.06 of the General Conditions and without limitation thereto, TANESCO shall:

- (i) prepare, on the basis of guidelines acceptable to the Association and furnish to the Association not later than four (4) months after the Closing Date or such later date as may be agreed for this purpose between the Association, the Borrower and TANESCO, a plan designed to ensure the sustainability of the Project's objectives; and
- (ii) afford the Association a reasonable opportunity to exchange views with the Borrower and TANESCO on said plan.

Section 2.04. TANESCO shall duly perform all its obligations under the Subsidiary Grant Agreement. Except as the Association shall otherwise agree, TANESCO shall not take or concur in any action which would have the effect of amending, abrogating, assigning or waiving the Subsidiary Grant Agreement or any provision thereof.

Section 2.05. (a) TANESCO shall, at the request of the Association, exchange views with the Association with regard to the progress of the Project, the performance of its obligations under this Agreement and under the Subsidiary Grant Agreement.

(b) TANESCO shall promptly inform the Association of any condition which interferes or threatens to interfere with the progress of the Project, the accomplishment of the purposes of the Credit, or the performance by TANESCO of its obligations under this Agreement and under the Subsidiary Grant Agreement.

ARTICLE III

Management and Operations of TANESCO

Section 3.01. TANESCO shall carry on its operations and conduct its affairs in accordance with sound administrative, financial and technical practices under the supervision of qualified and experienced management assisted by competent staff in adequate numbers.

Section 3.02. TANESCO shall at all times operate and maintain its plant, machinery, equipment and other property, and from time to time, promptly as needed, make all necessary repairs and renewals thereof, all in accordance with sound engineering, financial and technical practices.

Section 3.03. TANESCO shall take out and maintain with responsible insurers, or make other provision satisfactory to the Association for, insurance against such risks and in such amounts as shall be consistent with appropriate practice.

ARTICLE IV

Financial Covenants

Section 4.01. (a) TANESCO shall maintain a financial management system, including records and accounts, and prepare financial statements, in accordance with consistently applied accounting standards acceptable to the Association, adequate to reflect its operations and financial condition and to register separately the operations, resources and expenditures related to the Project.

(b) TANESCO shall:

- (i) have its entity financial statements (balance sheets, statements of income and expenses and related statements) for each calendar year audited, in accordance with consistently applied auditing standards acceptable to the Association, by independent auditors acceptable to the Association;

- (ii) furnish to the Association as soon as available, but in any case not later than six months after the end of each such calendar year (or such other period agreed to by the Association), (A) certified copies of the financial statements referred to in paragraph (a) of this Section, for such year (or such other period agreed to by the Association), as so audited, and (B) an opinion on such statements by said auditors, in scope and detail satisfactory to the Association; and
- (iii) furnish to the Association such other information concerning such records and accounts and the audit of such financial statements for purchases under the project, as the Association may from time to time reasonably request.

Section 4.02. (a) Without limitation upon TANESCO's reporting obligations set out in Schedule 2 to this Agreement, TANESCO shall prepare and furnish to the Association a financial monitoring report, in form and substance satisfactory to the Association, which:

- (i) sets forth sources and uses of funds for the Project, both cumulatively and for the period covered by said report, showing separately funds provided under the Credit, and explains variances between the actual and planned uses of such funds;
- (ii) describes physical progress in Project implementation, both cumulatively and for the period covered by said report, and explains variances between the actual and planned Project implementation; and
- (iii) sets forth the status of procurement and disbursements under the Project, as at the end of the period covered by said report.

(b) The first FMR, subjected to internal TANESCO audit and certified by TANESCO, shall be furnished to the Association no later than 30 days after the end of the First Project Month, and thereafter, no later than 30 days following the end of each Project Month.

(c) TANESCO shall have the Project's records and accounts (referred to in Section 4.01 (b) (i) of the Development Credit Agreement) audited, by independent auditors acceptable to the Association, not later than 45 days after the interim reporting date (which interim reporting date is the date four months after the Effective Date) and thereafter, within 45 days of the Closing Date of the Project, except as the Association shall otherwise agree.

ARTICLE V

Effective Date; Termination;

Cancellation and Suspension

Section 5.01. This Agreement shall come into force and effect on the date upon which the Development Credit Agreement becomes effective.

Section 5.02. (a) This Agreement and all obligations of the Association and of TANESCO thereunder shall terminate on the earlier of the following three dates:

- (i) the date on which the Development Credit Agreement shall terminate in accordance with its terms; or
- (ii) the date three years after the date of this Agreement; or
- (iii) the date on which the Subsidiary Grant Agreement shall terminate in accordance with its terms.

(b) If the Development Credit Agreement terminates in accordance with its terms before the date specified in paragraph (a) (ii) of this Section, the Association shall promptly notify TANESCO of this event.

Section 5.03. All the provisions of this Agreement shall continue in full force and effect notwithstanding any cancellation or suspension under the General Conditions.

ARTICLE VI

Miscellaneous Provisions

Section 6.01. Any notice or request required or permitted to be given or made under this Agreement and any agreement between the parties contemplated by this Agreement shall be in writing. Such notice or request shall be deemed to have been duly given or made when it shall be delivered by hand or by mail, telex or facsimile to the party to which it is required or permitted to be given or made at such party's address hereinafter specified or at such other address as such party shall have designated by notice to the party giving such notice or making such request. Deliveries made by facsimile transmission shall also be confirmed by mail. The addresses so specified are:

For the Association:

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

Cable address:	Telex:	Facsimile:
INDEVAS Washington, D.C.	248423 (MCI) or 64145 (MCI)	(202) 477-6391

For TANESCO:

TANZANIA ELECTRIC SUPPLY COMPANY LIMITED
Umeme Park
Morogoro Road
P.O. Box 9024
Dar es Salaam
Tanzania

Facsimile:

5 22 245 1159

Section 6.02. Any action required or permitted to be taken, and any document required or permitted to be executed, under this Agreement on behalf of TANESCO may be taken or executed by TANESCO or such other person or persons as TANESCO shall designate in writing, and TANESCO shall furnish to the Association sufficient evidence of the authority and the authenticated specimen signature of each such person.

Section 6.03. This Agreement may be executed in several counterparts, each of which shall be an original, and all collectively be one instrument.

IN WITNESS WHEREOF, the parties hereto, acting through their duly authorized representatives, have caused this Agreement to be signed in their respective names in Dar es Salaam, The United Republic of Tanzania, as of the day and year first above written.

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Judy M. O'connor

Authorized Representative

TANZANIA ELECTRIC SUPPLY COMPANY LIMITED

By /s/ C.G.N. Huysen

Authorized Representative

SCHEDULE 1

Section I. Procurement of Goods

Section I: General

A. All goods and services (other than consultants' services) shall be procured in accordance with the provisions of Section of the "Guidelines for Procurement under IBRD Loans and IDA Credits" dated May 2004 (the Procurement Guidelines), and with the provisions of this Schedule.

B. The capitalized terms used below in this Schedule to describe particular procurement methods or methods of review by the Bank of particular contracts, have the meanings ascribed to them in the Procurement Guidelines.

Section II: Particular Methods of Procurement of Goods

A. International Competitive Bidding

Except as otherwise provided in Part B of this Section, contracts for goods shall be awarded on the basis of International Competitive Bidding. The provisions of paragraphs 2.55 and 2.56 of the Procurement Guidelines, providing for domestic preference in the evaluation of bids, shall apply to goods manufactured in the territory of the Borrower. Fuels shall be procured using the Bank's Standard Bidding Document for the Procurement of Crude Oil/Petroleum Products. Pursuant to paragraph 2.44 of the Guidelines and in consideration of the Emergency, the time allowed for the preparation and submission of bids will be reduced to 15 days.

B. Other Procurement Procedures

Direct Contracting

Goods which the Bank agrees meet the requirements for direct contracting may be procured in accordance with the provisions of said procurement method.

C. Review by the Bank of Procurement Decisions

Except as the Bank shall otherwise determine by notice to the Borrower, each contract for goods and services (other than consultants' services) procured on the basis of International Competitive Bidding, or Direct Contracting shall be subject to Prior Review by the Bank.

SCHEDULE 2

Implementation Program

A. Monthly Report

TANESCO shall:

(a) at the end of the First Project Month and thereafter, not later than 30 days following the end of each Project Month, submit a report on all matters relating to the progress of the Project.

(b) act promptly and diligently in order to take any corrective action deemed necessary to remedy any shortcoming identified in the implementation of the Project, or to implement such measures as may have been agreed upon between the parties in furtherance of the objectives of the Project.

B. Mid-Term Review

TANESCO shall review with the Association, by November 1, 2004, or such later date as the Association shall request, the monthly reports as well as the audited records and accounts, and thereafter, take all measures required to ensure the efficient completion of the Project and the achievements of the objectives thereof, based on the conclusions and recommendations of the said report and the Association's views on the matter.

C. Environmental Audit

TANESCO shall implement the Project in accordance with the recommendations of the Environmental Audit, and shall cause the IPP to comply with said recommendations.

D. Study on Demand-Side Management

TANESCO shall, with the technical assistance of the Borrower and the Association, no later than October 31, 2004, or such later date as the Association may agree, provide the Association with a study on demand-side management, which study will deal with the management of electricity demand and consumption.

SCHEDULE 3

Monitoring Indicators

- Monthly projected and actual total hydropower output (KWh)
- Monthly projected and actual IPP output (KWh)
- Monthly projected and actual Ubungo Power Plant output (KWh) until gas supply is available
- Planned and actual commissioning dates for 2x36MW additional gas turbines
- Mtera Reservoir level at the end of each month (meters above sea level)