

CONFORMED COPY

CREDIT NUMBER 2827-SL

Project Agreement

(Integrated Health Sector Investment Project)

between

INTERNATIONAL DEVELOPMENT ASSOCIATION

and

NATIONAL POWER AUTHORITY

Dated October 6, 2000

CREDIT NUMBER 2827-SL

PROJECT AGREEMENT

AGREEMENT, dated October 6, 2000, between INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association) and NATIONAL POWER AUTHORITY (NPA).

WHEREAS (A) by the Development Credit Agreement dated March 21, 1996 between the Republic of Sierra Leone (the Borrower) and the Association, the Association has agreed to make available to the Borrower an amount in various currencies equivalent to thirteen million six hundred thousand Special Drawing Rights (SDR 13,600,00);

(B) by a subsidiary loan agreement to be entered into between the Borrower and NPA, part of the proceeds of the credit provided for under the Development Credit Agreement will be made available to NPA on the terms and conditions set forth in the Subsidiary Loan Agreement; and

WHEREAS NPA has agreed to undertake the obligations set forth in this Agreement;

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 and the term "Agreement Amending the Development Credit Agreement" means the Agreement dated October 6, 2000, between the Borrower and the Association amending the Development Credit Agreement.

ARTICLE II

Execution of the Project

Section 2.01. (a) NPA 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 Part B of the Project with due diligence and efficiency and in conformity with appropriate administrative, financial, engineering, public utility and environmental 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 the Borrower shall otherwise agree, NPA shall ensure that: (i) the electric generators to be purchased under Part B of Project shall first be installed in Freetown (as a temporary solution to the capital city's increased needs); and (ii) as soon as higher capacity generators have been installed in Freetown, cause the said generators to be installed in the district capital cities in which reconstruction or rehabilitation works and equipping of district hospitals are to be carried out under the Project.

Section 2.02. Except as the Association shall otherwise agree, procurement of the goods, works and consultants' services required for the Project and to be financed out of the proceeds of the Credit shall be governed by the provisions of Schedule 3 to the Development Credit Agreement.

Section 2.03. (a) NPA 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 Agreement and Part B of the Project.

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

(i) prepare, on the basis of guidelines acceptable to the Association and furnish to the Association not later than six (6) months after the Closing Date or such later date as may be agreed for this purpose between the Association and, a plan for the future operation of Part B of the Project; and

(ii) afford the Association a reasonable opportunity to exchange views with NPA on said plan.

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

Section 2.05. (a) NPA 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 Loan Agreement, and other matters relating to the purposes of the Credit.

(b) NPA shall promptly inform the Association of any condition which interferes or threatens to interfere with the progress of Part B of the Project, the accomplishment of the purposes of the Credit, or the performance by NPA of

its obligations under this Agreement and under the Subsidiary Loan Agreement.

ARTICLE III

Management and Operations of NPA

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

Section 3.02. NPA 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, public utility and environmental practices.

Section 3.03. NPA 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) NPA shall maintain a financial management system, including records and accounts, and prepare financial statements, all in accordance with accounting standards acceptable to the Association, consistently adequate to reflect in accordance with sound accounting practices its operations and financial condition and to register separately the operations, resources and expenditures related to Part B of the Project.

(b) NPA shall:

(i) have its records, accounts and financial statements (balance sheets, statements of income and expenses and related statements) for each fiscal year, including those for the Project Account, audited in accordance with auditing standards acceptable to the Association consistently applied, 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 year, (A) certified copies of its financial statements referred to in paragraph (a) of this Section for such year as so audited, and (B) an opinion on such statements and report of such audit by said auditors of such scope and in such detail as the Association shall have reasonably requested; and

(iii) furnish to the Association such other information concerning said records, accounts and financial statements as well as the audit thereof, as the Association shall from time to time reasonably request.

Section 4.02. (a) Without limitation upon the provisions of Section 4.01 of this Agreement, NAP shall carry out a time-bound action plan acceptable to the Association for the strengthening of its financial system for Part B of the Project in order to enable NAP, not later than June 30, 2001, or such later date as the Association shall agree, to prepare quarterly Project Management Reports, acceptable to the Association. Each such report shall:

(i) set forth actual sources and application of funds for Part B of the Project, both cumulatively and for the period covered by said report, and projected sources and application of

funds for the said Part of the Project for the six-month period following the period covered by said report, and show separately expenditures proposed to be financed out of the proceeds of the Credit during the six-month period following the period covered by said report;

(ii) describe physical progress in Project implementation, both cumulatively and for the period covered by said report, and explain variances between the actual and previously forecast implementation targets; and

(iii) set forth the status of procurement under the said Part of the Project and expenditures under contracts financed out of the proceeds of the Credit, as at the end of the period covered by said report.

(b) Upon completion of the action plan referred to in paragraph (a) of this Section, NPA shall prepare in accordance with guidelines acceptable to the Association, and furnish to the Association, not later than 45 days after the end of each calendar quarter, a Project Management Report for such period.

Section 4.03 (a) Except as the Association shall otherwise agree, NPA shall produce for its fiscal year ending March 31, 2001 total revenues equivalent to not less than the sum of its total cash operating expenses and interest and other charges on debt.

(b) Before December 31, 2000, NPA shall, on the basis of forecasts prepared by NPA and satisfactory to the Association, review whether it would meet the requirements set forth in paragraph (a) of this Section in respect of fiscal year 2001 and shall furnish to the Association the results of such review upon its completion.

(c) For the purposes of this Section:

(i) the term "total revenues" means the sum of total operating revenues and net non-operating income;

(ii) the term "total operating revenues" means revenues from all sources related to operations;

(iii) the term "non-operating income" means the difference between:

(A) revenues from all sources not related to operations; and

(B) expenses, including taxes and payments in lieu of taxes, incurred in the generation of revenues in (A) above; and

(iv) the term "total cash operating expenses" means all expenses related to operations, including administration, adequate maintenance and taxes and payments in lieu of taxes but excluding provision for depreciation.

Section 4.04. (a) Except as the Association shall otherwise agree, NPA shall produce for its fiscal year ending March 31, 2002 and each of its fiscal years following thereafter total revenues equivalent to not less than the sum of its total operating expenses and interest and other charges on debt.

(b) Before April 1, in each fiscal year referred to in paragraph (a) above, NPA shall, on the basis of forecasts prepared by NPA and satisfactory to the Association, review whether it would meet the requirements set forth in said paragraph in respect of such year and the next following fiscal year and shall furnish to the Association the results of such review upon its completion.

(c) For the purposes of this Section:

(i) the term "total revenues" means the sum of total operating revenues and net non-operating income;

(ii) the term "total operating revenues" means revenues from all sources related to operations;

(iii) the term "net non-operating income" means the difference between:

(A) revenues from all sources not related to operations; and

(B) expenses, including taxes and payments in lieu of taxes, incurred above; and in the generation of revenues in (A)

(iv) the term "total operating expenses" means all expenses related to operations, including administration, adequate maintenance and taxes and payments in lieu of taxes, and provision for depreciation calculated on the basis of NPA's fixed assets in operation as revalued in accordance with sound and consistently maintained methods of valuation satisfactory to the Association.

Section 4.05. (a) Except as the Association shall otherwise agree, NPA shall take all necessary action to earn for its fiscal year ending March 31, 2002 and each of its fiscal years following thereafter, annual return for: (i) fiscal year 2002 of not less than 4.5% of the average current net value of NPA's fixed assets in operation; and (ii) each of the fiscal years following thereafter not less than 6% of the average net value of said fixed assets.

(b) Before April 1 in each fiscal year referred to in paragraph (a) above, NPA shall, on the basis of forecasts prepared by NPA and satisfactory to the Association, review whether it would meet the requirements set forth in said paragraph in respect of such year and the next following fiscal year and shall furnish to the Association the results of such review upon its completion.

(c) For the purposes of this Section:

(i) the annual return shall be calculated by dividing NPA's net operating income for the fiscal year in question by one half of the sum of the current net value of NPA's fixed assets in operation at the beginning and at the end of that fiscal year;

(ii) the term "net operating income" means total operating revenues less total operating expenses;

(iii) the term "total operating revenues" means revenues from all sources related to operations;

(iv) the term "total operating expenses" means all expenses related to operations, including administration, adequate maintenance, taxes and payments in lieu of taxes, and provision for depreciation on a straight-line basis at a rate of not less than: (A) 4.6% per annum for its fiscal years 2001 through 2004, and (B) 3.2% per annum for its fiscal years following thereafter, of the average current gross value of NPA's fixed assets in operation, or other basis acceptable to the Association, but excluding interest and other charges on debt;

(v) the average current gross value of NPA's fixed assets in operation shall be calculated as one-half of the sum of the gross value of NPA's fixed assets in operation at the beginning and at the end of the fiscal year, as valued from time to time in accordance with sound and consistently

maintained methods of valuation satisfactory to the Association; and

(vi) the term "current net value of NPA's fixed assets in operation" means the gross value of NPA's fixed assets in operation less the amount of accumulated depreciation, as valued from time to time in accordance with sound and consistently maintained methods of valuation satisfactory to the Association.

Section 4.06. (a) Except as the Association shall otherwise agree, NPA shall not, for each of its fiscal years following next after its fiscal year ending on March 31, 2001, incur any debt unless a reasonable forecast of the revenues and expenditures of NPA for each fiscal year during the term of the debt to be incurred shall be at least 1.5 times the estimated debt service requirements of NPA in such year on all debt of NPA including the debt to be incurred.

(b) For the purposes of this Section:

(i) the term "debt" means any indebtedness of NPA maturing by its terms more than one year after the date on which it is originally incurred;

(ii) debt shall be deemed to be incurred:

(A) under a loan contract or agreement or other instrument providing for such debt or for the modification of its terms of payment on the date of such contract, agreement or instrument; and

(B) under a guarantee agreement, on the date the agreement providing for such guarantee has been entered into;

(iii) the term "net revenues" means the difference between:

(A) the sum of revenues from all sources related to operations and net non-operating income; and

(B) the sum of all expenses related to operations including administration, adequate maintenance, taxes and payments in lieu of taxes, but excluding provision for depreciation, other non-cash operating charges and interest and other charges on debt;

(iv) the term "net non-operating income" means the difference between:

(A) revenues from all sources other than those related to operations; and

(B) expenses, including taxes and payments in lieu of taxes, incurred above; in the generation of revenues in (A)

(v) the term "debt service requirements" means the aggregate of repayments (including sinking fund payments, if any) of, and interest and other charges on, debt; and

(vi) the term "reasonable forecast" means a forecast prepared by NPA not earlier than twelve months prior to the incurrence of the debt in question, which both the Association and NPA accept as reasonable and as to which the Association has notified NPA of its acceptability, provided that no event has occurred since such notification which has, or may reasonably be expected in the future to have, a material adverse effect on the financial condition or future operating results of NPA.

Section 4.07. Whenever for the purposes of Sections 4.03, 4.04, 4.05 and 4.06 of this Agreement, it shall be necessary to value, in terms of the currency of the Borrower, debt payable in another currency, such valuation shall be made on the basis of the prevailing lawful rate of exchange at which such other currency is, at the time of such valuation, obtainable for the purposes of servicing such debt or, in the absence of such rate, on the basis of a rate of exchange acceptable to the Association.

Section 4.08. (a) NPA shall provide in its tariff structure for the adjustment, under a formula satisfactory to the Association, of its electricity rates to levels appropriate to changes that may occur: (i) in the rates of exchange between the dollar and the leone; and (ii) in fuel costs.

(b) NPA shall: (i) review the levels and structure of its tariffs; and (ii) furnish to the Association semi-annually by June 30 and December 31 each year a report on (A) the adequacy of its tariffs to meet NPA's financial objectives under the Project, and (B) the effects of its tariffs on autogeneration of electricity by consumers.

(c) NPA shall increase its average tariffs to a level equivalent to: (i) at least \$0.191 per KWh by October 1, 2002; and (ii) at least \$0.222 per KWh by April 1, 2001.

Section 4.09. If any such review as is referred to in paragraph (b) of Sections 4.03, 4.04, 4.05, 4.07 and 4.08 above shows that NPA would not meet the requirements set forth in the said paragraph of the said Sections, NPA shall promptly take all necessary measures (including adjustments of the structure or levels of its tariffs) in order to meet such requirements.

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 Agreement Amending the Development Credit Agreement becomes effective.

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

(i) the date on which the Development Credit Agreement shall terminate in accordance with its terms; or

(ii) the date 20 years after the date of this Agreement.

(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 NPA 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, telegram, cable, 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. 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 NPA:

National Power Authority
Head Office
Electricity House
36, Siaka Stevens Street
Freetown
Sierra Leone

Cable address:	Telex:
ELECTRON Freetown	3628

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 NPA, or by NPA on behalf of the Borrower under the Development Credit Agreement, may be taken or executed by NPA's General Manager or such other person or persons as NPA shall designate in writing, and NPA 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 but 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 the District of Columbia, United States of America, as of the day and year first above written.

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Callisto Madavo

Regional Vice President
Africa

NATIONAL POWER AUTHORITY

By /s/ John Leigh

Authorized Representative

