

CONFORMED COPY

CREDIT NUMBER 1810-TA

PROJECT AGREEMENT

(Second Telecommunications Project)

between

INTERNATIONAL DEVELOPMENT ASSOCIATION

and

TANZANIA POSTS AND TELECOMMUNICATIONS CORPORATION

Dated June 16, 1987

CREDIT NUMBER 1810-TA

PROJECT AGREEMENT

AGREEMENT, dated June 16, 1987, between INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association) and TANZANIA POSTS AND TELECOMMUNICATIONS CORPORATION (TPTC).

WHEREAS (A) by the Development Credit Agreement of even date herewith between 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 seventeen million nine hundred thousand Special Drawing Rights (SDR 17,900,000), on the terms and conditions set forth in the Development Credit Agreement, but only on condition that TPTC agree to undertake such obligations toward the Association as are set forth in this Agreement;

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

WHEREAS TPTC, 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) TPTC 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 telecommunications 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 TPTC shall otherwise agree, TPTC 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, 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 1 to this Agreement.

Section 2.03. TPTC 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.

Section 2.04. TPTC shall duly perform all its obligations under the Subsidiary Loan Agreement. Except as the Association shall otherwise agree, TPTC 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) TPTC 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) TPTC 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 TPTC of its obligations under this Agreement and under the Subsidiary Loan Agreement.

Section 2.06. Until completion of the Project, TPTC shall consult with the Association prior to undertaking, in any financial year, an aggregate amount of capital investments, not included in its investment program, in excess of \$2 million.

Section 2.07. TPTC shall: (a) by no later than January 1, 1988, furnish to the Borrower and the Association, for their review and approval, an incentive scheme for its staff; and (b) by no later than June 30, 1988, implement such scheme.

Section 2.08. TPTC shall: (a) by no later than December 31, 1987, furnish to the Association a plan of action to reduce its outstanding subscriber receivables to no more than two months of revenues by the end of 1990; and (b) commencing December 31, 1987, furnish to the Association every six months an aging list of accounts receivable.

ARTICLE III

Management and Operations of TPTC

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

Section 3.02. TPTC 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 telecommunications practices.

Section 3.03. TPTC 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) TPTC shall maintain records and accounts adequate to reflect, in accordance with sound accounting practices, its operations and financial condition.

(b) TPTC shall:

(i) have its records, accounts and financial statements (balance sheets, statements) including the Project accounts and Special Account for each fiscal year audited, in accordance with appropriate auditing principles 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 four months after the end of FY1987, three months after the end of FY1988 and FY1989, and two months after the end of FY1990 and thereafter, draft financial statements;

(iii) furnish to the Association as soon as available, but in any case not later than nine months after the end of FY1987, eight months after the end of FY1988, six months after the end of FY1989 and thereafter: (A) certified copies of its financial statements for such year as so audited; and (B) the report of such audit by said auditors, of such scope and in such detail as the Association shall have reasonably requested; and

(iv) 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. TPTC shall, commencing with the end of FY1987, prepare its financial statements reflecting the revaluation of its assets and liabilities.

Section 4.03. (a) Except as the Association shall otherwise agree, TPTC shall produce, for each of its fiscal years, funds from internal sources equivalent to not less than 50% of the moving average of TPTC's total investment requirements, including incremental working capital for that year and the next following fiscal year.

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

(c) If any review shows that TPTC would not meet the requirements set forth

in paragraph (a) for TPTC's fiscal years covered by such review, TPTC shall promptly take appropriate measures (including, without limitation, adjustments of the structure or levels of its rates) in order to meet such requirements.

(d) For the purposes of this Section:

(i) The term "funds from internal sources" means the difference between:

(A) the sum of revenues from all sources related to operations, consumer deposits and consumer contributions in aid of construction, net non-operating income and any reduction in working capital other than cash; and

(B) the sum of expenses related to operations, including administration, adequate maintenance and taxes, and payments in lieu of taxes (excluding provision for depreciation charges), debt service requirements, all cash dividends and other cash distributions of surplus, increase in working capital other than cash, and other cash outflows other than capital expenditures.

(ii) 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 in the generation of revenues in (A) above.

(iii) The term "working capital other than cash" means the difference between current assets excluding cash and current liabilities at the end of each fiscal year.

(iv) The term "current assets excluding cash" means all assets other than cash which could, in the ordinary course of business, be converted into cash within twelve months, including accounts receivable, marketable securities, inventories and pre-paid expenses properly chargeable to operating expenses within the next fiscal year.

(v) The term "current liabilities" means all liabilities which will become due and payable or could, under circumstances then existing, be called for payment within twelve months, including accounts payable, customer advances, debt services requirements, taxes and payments in lieu of taxes, and dividends.

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

(vii) The term "capital expenditures" means all expenditures incurred on account of fixed assets, including interest charged to construction, related to operations.

(viii) Whenever, for the purposes of this Section, 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 4.04. (a) Except as the Association shall otherwise agree, TPTC shall earn, for each of its fiscal years after its fiscal year ending December 31, 1987, an annual return of not less than 12% of the average current net value of TPTC's fixed assets in operation.

(b) (i) Before October 1, in each of its fiscal years, TPTC shall, on the basis of forecasts prepared by TPTC and satisfactory to the Association, review whether it would meet the requirements set forth in paragraph (a) 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; and

(ii) TPTC shall review the adequacy of its tariffs and make recommendations to the Borrower based on such review.

(c) If any such review shows that TPTC would not meet the requirements set forth in paragraph (a) for TPTC's fiscal years covered by such review, TPTC shall promptly take appropriate measures (including, without limitation, adjustments of the structure or levels of its tariffs) in order to meet such requirements.

(d) For the purposes of this Section:

(i) The annual return shall be calculated by dividing TPTC's net operating income, for the fiscal year in question, by one-half of the sum of the current net value of TPTC'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 basis acceptable to the Association, or other basis, but excluding interest and other charges on debt.

(v) The average current gross value of TPTC's fixed assets in operation shall be calculated as one-half of the sum of the gross value of TPTC'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 consistently maintained methods of valuation satisfactory to the Association.

(vi) The term "current net value of TPTC's fixed assets in operation" means the gross value of TPTC'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 4.05. TPTC shall: (i) by no later than June 30, 1988, furnish to the Borrower and the Association, for their review and approval, a resource transfer policy; and (ii) by December 31, 1988, commence implementation of such policy.

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 TPTC 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 TPTC 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 radiogram 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:

INDEVAS
Washington, D.C.

Telex:

440098 (ITT)
248423 (RCA) or
64145 (WUI)

For TPTC:

Tanzania Posts and
Telecommunications Corporation
P.O. Box 9070
Dar es Salaam
United Republic of Tanzania

Cable address:

TANPOSTEL
Dar es Salaam

Telex:

41054

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 TPTC, or by TPTC on behalf of the Borrower under the Development Credit Agreement, may be taken or executed by its Director General or such other person or persons as the Director General shall designate in writing, and TPTC 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/ Edward V.K. Jaycox

Regional Vice President
Africa

TANZANIA POSTS AND
TELECOMMUNICATIONS CORPORATION

By /s/ Asterius Hyera

Authorized Representative

SCHEDULE 1

Procurement and Consultants' Services

Section I: Procurement of Goods

Part A: International Competitive Bidding

Except as provided in Part B hereof, goods shall be procured under contracts awarded in accordance with procedures consistent with those set forth in Sections I and II of the "Guidelines for Procurement under IBRD Loans and IDA Credits", published by the Bank in May 1985 (the Guidelines).

Part B: Other Procurement Procedures

1. Spare parts and components for rehabilitation of existing equipment may be procured directly by negotiation with the original manufacturer of such equipment, provided, however, that the aggregate cost of spare parts and components so procured shall not exceed the equivalent of \$3,300,000.
2. Measuring equipment and tools may be procured under contracts awarded through limited international bidding procedures on the basis of evaluation and comparison of bids invited from at least three qualified suppliers eligible under the Guidelines and in accordance with the procedures set forth in Sections I and II of the Guidelines (excluding paragraphs 2.8, 2.9, 2.55 and 2.56 thereof).

Part C: Review by the Association of Procurement Decisions

1. Review of invitations to bid and of proposed awards and final contracts:

(a) With respect to each contract estimated to cost the equivalent of \$250,000 or more, the procedures set forth in paragraphs 2 and 4 of Appendix 1 to the Guidelines shall apply. Where payments for such contract are to be made out of the Special Account, such procedures shall be modified to ensure that the two conformed copies of the contract required to be furnished to the Association pursuant to subparagraph 2 (d) of Appendix 1 to the Guidelines shall be furnished to the Association prior to the making of the first payment out of the Special Account in respect of such contract.

(b) With respect to each contract not governed by the preceding paragraph, the procedures set forth in paragraphs 3 and 4 of Appendix 1 to the Guidelines shall apply. Where payments for such contract are to be made out of the Special Account, such procedures shall be modified to ensure that the two conformed copies of the contract, together with the other information required to be furnished to the Association pursuant to paragraph 3, shall be furnished to the Association as part of the evidence to be furnished pursuant to paragraph 4 of Schedule 3 to the Development Credit Agreement.

2. The figure of 15% is hereby specified for purposes of paragraph 4 of Appendix 1 to the Guidelines.

Section II: Employment of Consultants

In order to assist TPTC in improving its organizational structure and management system, TPTC shall, by not later than December 31, 1987, employ consultants whose qualifications, experience and terms and conditions of employment shall be satisfactory to the Association. Such consultants shall be selected in accordance with principles and procedures satisfactory to the Association on the basis of the "Guidelines for the Use of Consultants by World Bank Borrowers and by The World Bank as Executing Agency", published by the Bank in August 1981.

SCHEDULE 2

Implementation Program

1. (i) TPTC shall appoint a Project Coordinator under terms of reference and with experience and qualifications acceptable to the Borrower and the Association.
(ii) The Project Coordinator shall coordinate, monitor and report on the implementation of the Project.
2. TPTC shall, by October 1 of each year, review and agree with the Borrower and the Association on:
 - (i) its performance targets for the following fiscal year and furnish a detailed action plan to achieve such targets;
 - (ii) its updated annual expenditure program, setting forth details of: (a) network and components, switching, local networks, transmission, buildings and support activities for the following fiscal year; (b) revised institutional arrangements, if any, for implementation; (c) updated cost estimates; and (d) provision of agreed funding by the Borrower and TPTC;
 - (iii) the foreign exchange gap, in financing its operating costs, and identify sources of funds to meet such gap; and
 - (iv) the implementation of technical assistance, training of counterpart staff, and implementation objectives for the following year.
3. TPTC shall, no later than December 31, 1987, in consultation with the Borrower, prepare an action plan and commence implementation of the following measures to increase its efficiency through:
 - (i) restructuring its organizational structure and management procedures;
 - (ii) establishing profit centers;
 - (iii) contracting out those activities which can be handled more efficiently by other agencies.
4. (i) TPTC, shall by December 31, 1988, review its manpower plan with the Borrower and the Association, and prepare a computerized data base, incorporating its requirements, targets and recruitment strategy; (ii) TPTC shall, by December 31, 1987, after consultation with the Association, select training disciplines and locations for overseas fellowships.
5. The consultants employed under Section II of Schedule 1 to this Agreement shall assist TPTC to design and implement management systems necessary to assure: (a) efficient implementation of its investment program; and (b) operation and maintenance of existing and future networks.
6. TPTC shall: (i) by December 31, 1987, establish a computerized fixed assets register and a methodology for regular asset revaluation, satisfactory to the Association; and (ii) by December 31, 1988, separate telecommunications and postal accounts.

