

CONFORMED COPY

CREDIT NUMBER 2356 SL

(Power Sector Rehabilitation Project)

between

INTERNATIONAL DEVELOPMENT ASSOCIATION

and

NATIONAL POWER AUTHORITY

Dated November 25, 1992

CREDIT NUMBER 2356 SL

PROJECT AGREEMENT

AGREEMENT, dated November 25, 1992, between INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association) and the NATIONAL POWER AUTHORITY (NPA).

WHEREAS (A) by the Development Credit Agreement of even date herewith 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 fifteen million three hundred thousand Special Drawing Rights (SDR 15,300,000), on the terms and conditions set forth in the Development Credit Agreement, but only on condition that NPA agrees 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 NPA, 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 said Subsidiary Loan

Agreement; and

WHEREAS NPA, 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, wherever used in the Agreement, 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 "Leone" means currency of the Borrower.

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 the Project with due diligence and efficiency and in conformity with appropriate administrative, financial, engineering and public utility practices, and shall provide, or cause to be provided, promptly as needed, the funds, facilities, services and other resources required for the Project.

(b) NPA shall, by October 1, 1992, establish and thereafter maintain in a form and with functions and staffing satisfactory to the Association a Project Implementation and Control Unit. The Project Implementation and Control Unit shall, inter alia, assist in the monitoring and control of Project activities and in the preparation of quarterly reports on the carrying out of 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 1 to this Agreement.

Section 2.03. 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.

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 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, engineering and public utility 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 and public utility 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.

Section 3.04. NPA shall no later than 24 months after the date on which the Development Credit Agreement becomes effective carry out jointly with the Association a mid-term review of the Project. The subjects of the said review shall include: (i) the performance of the utility or firm referred to in Part E (2) of the Project; (ii) compliance by NPA with its obligations under this Agreement; (iii) review of the level and structure of NPA's tariffs; (iv) review of the key performance indicators of the Project; (v) the training program under the Project; and (vi) procurement under the Project.

Section 3.05. NPA shall carry out all the actions described in Schedule 2 to this Agreement.

ARTICLE IV

Financial Covenants

Section 4.01. (a) NPA shall maintain records and accounts adequate to reflect in accordance with sound accounting practices its operations and financial condition.

(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 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 six months after the end of each such year, (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
- (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) Except as the Association shall otherwise agree, NPA shall produce for its fiscal year ending March 31, 1993, 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, 1992, 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 1993 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 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 4.03. (a) Except as the Association shall otherwise agree, NPA shall produce for its fiscal year ending March 31, 1994 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 in the generation of revenues in (A) above; and
 - (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 pursuant to paragraph 2 (e) of Schedule 2 to this Agreement.

Section 4.04. (a) Except as the Association shall otherwise agree, NPA shall take all necessary action to earn for its fiscal year ending March 31, 1994 and each of its fiscal years following thereafter, an annual return for: (i) fiscal year 1994 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 current 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 1993 through 1996, 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 4.05. (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, 1993, 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 in the generation of revenues in (A) above.
- (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 4.06. Whenever for the purposes of Sections 4.02, 4.03, 4.04 and 4.05 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 4.07. (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, 1992; and

(ii) at least \$0.222 per KWh by April 1, 1993.

Section 4.08. If any such review as is referred to in paragraph (b) of Sections 4.02, 4.03, 4.04, 4.06 and 4.07 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 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 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:

197688 (TRT)
248423 (RCA)
64145 (WUI) or
82987 (FTCC)

For NPA:

National Power Authority
Head Office
Electricity House

36, Siaka Stevens Street
Freetown
Sierra Leone

Cable address:

ELECTRON
Freetown

Telex:

3268

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/ Edwin R. Lim
Acting Regional Vice President
Africa

NATIONAL POWER AUTHORITY

By /s/ W. B. Wright
Authorized Representative

SCHEDULE 1

Procurement and Consultants' Services

Section I: Procurement of Goods and Works

Part A: International Competitive Bidding

1. Except as provided in Part B hereof, goods and works 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).

2. The procedures referred to in paragraph 1 above shall be applied, with such modifications as the Association shall deem appropriate, to the procurement of the management services of the utility and/or firm referred to in Part E (2) of the Project.

3. Goods to be procured through international competitive bidding, shall be exempted from pre-shipment price inspection by a third party.

Part B: Other Procurement Procedures

Spare parts, computer software and proprietary items (up to an

aggregate not to exceed \$150,000 for proprietary items and \$150,000 for other items) may be: (i) procured under contracts awarded on the basis of comparison of price quotations obtained from a list of at least three suppliers from at least two different countries eligible under the Guidelines, in accordance with procedures acceptable to the Association, or (ii) in the case of items of a proprietary nature obtainable only from one source, purchased by direct contracting from original suppliers or sources in accordance with paragraph 3.5 (b) and (c) of the Guidelines.

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 \$150,000 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 paragraph 2 (d) of said Appendix 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 of said Appendix 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.

(c) The provisions of the preceding subparagraph (b) shall not apply to contracts on account of which withdrawals from the Credit Account are to be made on the basis of statements of expenditure.

3. The figure of 10% is hereby specified for purposes of paragraph 4 of Appendix 1 to the Guidelines.

Section II: Employment of Consultants

In order to assist NPA in carrying out the Project, NPA shall 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

Actions referred to in Section 3.05 of this Agreement

1. (a) NPA shall by December 31, 1994: (i) under terms of reference satisfactory to the Association carry out (A) a power sector master plan study (including the technical studies for the connection of the Bumbuna hydro-electric power project to NPA's network), and (B) an environmental impact assessment of the said Bumbuna project; (ii) furnish to the Association for its review and comments the results of the said studies and assessment; and (iii) carry out the recommendations of the studies and assessment in accordance with a time table satisfactory to the Association.

(b) NPA shall review with the Association annually its five-year rolling investment program.

(c) NPA shall not carry out any investment project exceeding

\$1 million per year not included in the said investment program without the Association's approval.

(d) NPA shall assume responsibility for the supervision of all civil works for the Bumbuna hydro-electric power project.

2. (a) NPA shall: (i) by September 1, 1992, update its billings to the Borrower; and (ii) by April 1, 1993, update its billings to all other customers.

(b) NPA shall: (i) by March 31, 1993 reduce its accumulated non-government receivables as of the end of fiscal year 1992 by at least 50%; and (ii) thereafter write-off any such receivables as NPA and the Association shall determine to be uncollectable.

(c) NPA shall ensure that its accounts receivables for new bills shall not exceed 90 days billing in fiscal years 1993 and 1994 and 60 days billing in fiscal year 1995 and thereafter.

(d) NPA shall: (i) disconnect electric supply to all customers who fail to settle in full their bills 60 days after the billing date; and (ii) reduce by the end of its fiscal year 1997 its non-technical power losses to at least 15% of net generation.

(e) NPA shall for tariff setting purposes: (i) revalue its fixed assets by December 31, 1992, in accordance with sound and consistently maintained methods of valuation satisfactory to the Association; and (ii) carry out annual revaluations of the said assets in accordance with the said methods of valuation.

(f) NPA shall, by December 31, 1992, reinsure with responsible insurers its fixed assets in such amounts and in such freely convertible currencies as shall be consistent with appropriate practice.

3. NPA shall, by October 1, 1992, take all action necessary (including the adjustment of its tariffs) to ensure that residential electricity tariffs for consumption exceeding the first 50 kWh of consumption adequately reflect the cost to NPA of providing electricity services to residential consumers.

4. Without limiting the provisions of Section 4.01 (b) of this Agreement, NPA shall furnish to the Association, by April 1, 1993, its audited annual report for fiscal year 1992.

