



CREDIT NUMBER 1405 TA

Project Agreement

(Fourth Power (Mtera) Project)

between

INTERNATIONAL DEVELOPMENT ASSOCIATION

and

TANZANIA ELECTRIC SUPPLY COMPANY LIMITED

Dated *September 22*, 1983

PROJECT AGREEMENT

AGREEMENT, dated *September 22*, 1983, between INTERNATIONAL DEVELOPMENT ASSOCIATION (hereinafter called the Association) and TANZANIA ELECTRIC SUPPLY COMPANY LIMITED, a company organized and existing under the Laws of Tanzania (hereinafter called TANESCO).

WHEREAS by the Development Credit Agreement of even date herewith between United Republic of Tanzania (hereinafter called the Borrower) and the Association, the Association has agreed to make available to the Borrower an amount in various currencies equivalent to thirty-two million five hundred thousand Special Drawing Rights (SDR 32,500,000), 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 hereinafter set forth;

WHEREAS by a subsidiary loan 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 therein set forth; and

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

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

Definitions

Section 1.01. Wherever used in this Agreement, unless the context shall otherwise require, the several terms defined in the Development Credit 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. TANESCO shall carry out the Project described in Schedule 2 to the Development Credit Agreement (except Part E (3)) with due diligence and efficiency and in conformity with

appropriate administrative, financial, engineering and public utility practices.

Section 2.02. (a) In order to assist TANESCO in the supervision of the construction of the works under Part A of the Project and in the preparation of the studies under Part E (1), (2), (4) and (5) of the Project, TANESCO shall employ consultants whose qualifications, experience and terms and conditions of employment shall be satisfactory to the Association, such consultants to 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.

(b) In addition, TANESCO shall: (i) employ on its staff two construction supervision experts, whose qualifications and experience and terms and conditions of employment are acceptable to the Association, to work full time supervising the construction of the works under Part A of the Project; and (ii) employ a panel of experts to be entrusted with the critical review of the detailed engineering design and the progress of construction of the facilities included in Part A of the Project, as such review shall from time to time be required by the Borrower, the Association or TANESCO.

Section 2.03. Except as the Association shall otherwise agree, procurement of the civil works and goods required for the Project and to be financed out of the proceeds of the Credit shall be governed by the provisions of the Schedule to this Agreement.

Section 2.04. (a) TANESCO undertakes to insure, or make adequate provision for the insurance of, the imported goods to be financed out of the proceeds of the Credit relented to it by the Borrower against hazards incident to the acquisition, transportation and delivery thereof to the place of use or installation, and for such insurance any indemnity shall be payable in a currency freely usable by TANESCO to replace or repair such goods.

(b) TANESCO shall cause all civil works, goods and services financed out of the proceeds of the Credit relented to it by the Borrower to be used exclusively for the purposes of the Project.

Section 2.05. (a) TANESCO shall furnish to the Association, promptly upon their preparation, the plans, specifications,

reports, contract documents and construction and procurement schedules for the Project (except Part E (3)), and any material modifications thereof or additions thereto, in such detail as the Association shall reasonably request.

(b) TANESCO shall: (i) maintain records and procedures adequate to record and monitor the progress of the Project (except Part E (3)) (including its cost and the benefits to be derived from it), to identify the civil works, goods and services financed out of the proceeds of the Credit, and to disclose their use in the Project; (ii) enable the Association's representatives to visit the facilities and construction sites included in the Project and to examine the civil works and goods financed out of the proceeds of the Credit and any relevant records and documents; and (iii) furnish to the Association at regular intervals all such information as the Association shall reasonably request concerning the Project (except Part E (3)), its cost and, where appropriate, the benefits to be derived from it, the expenditures of such proceeds and the works, goods and services financed out of such proceeds.

(c) Upon the award by TANESCO of any contract for civil works, goods or services to be financed out of the proceeds of the Credit, the Association may publish a description thereof, the name and nationality of the party to whom the contract was awarded and the contract price.

(d) Promptly after completion of the Project, but in any event not later than six months after the Closing Date or such later date as may be agreed for this purpose between TANESCO and the Association, TANESCO shall prepare and furnish to the Association a report, of such scope and in such detail as the Association shall reasonably request, on the execution and initial operation of the Project (except Part E (3)), its cost and the benefits derived and to be derived from it, the performance by TANESCO and the Association of their respective obligations under the Project Agreement and the accomplishment of the purposes of the Credit.

(e) TANESCO shall enable the Association's representatives to examine all plants, installations, sites, works, buildings, property and equipment of TANESCO and any relevant records and documents.

Section 2.06. TANESCO shall duly perform all its obligations under the Subsidiary Loan 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 Loan Agreement or any provision thereof.

Section 2.07. (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 Loan Agreement and other matters relating to the purposes of the Credit.

(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 Loan Agreement.

Section 2.08. (a) TANESCO shall complete and furnish to the Association by the dates indicated (or such other dates as the Association may agree) under terms of reference satisfactory to the Association, the following studies:

	<u>Study</u>	<u>Date</u>
(i)	under Part E (1) of the Project	July 31, 1985
(ii)	under Part E (2) of the Project	December 31, 1984
(iii)	under Part E (4) of the Project	June 30, 1984
(iv)	under Part E (5) of the Project	June 30, 1985

(b) TANESCO shall, after exchanging views with, and taking into account any comments of, the Association, take, by January 1, 1986, or such other date as the Association may agree, all such action as may be appropriate based on the recommendations of the studies carried out under Part E (1) and (5) of the Project.

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, engineering and public utility 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 public utility practices.

Section 3.03. TANESCO shall take out and maintain with the National Insurance Corporation of Tanzania or make other provisions satisfactory to the Association for insurance against such risks and in such amounts as shall be consistent with sound public utility practice.

Section 3.04. TANESCO shall not, without the consent of the Association, sell or otherwise dispose of any of its property or assets which shall be required for the efficient carrying on of its business and undertakings, including the carrying out of the Project.

Section 3.05. TANESCO shall at all times maintain its corporate existence and right to carry on its operations, and take all steps necessary to acquire, maintain and renew all rights, powers, privileges, licenses, concessions and franchises which are necessary or useful in the conduct of its business.

Section 3.06. TANESCO may establish a subsidiary or subsidiaries after prior consultation with the Association.

Section 3.07. (a) Except as the Association shall otherwise agree, TANESCO shall ensure that the aggregate amount due to it as of the last business day of every calendar month beginning December 1983 on account of electricity supplied to its customers will be less than the sum of the amounts charged or to be charged by it on account of electricity supplied to its customers during the sixty days immediately preceding that day.

(b) TANESCO shall furnish to the Association every six months commencing on June 30, 1984 a report summarizing its outstanding consumer accounts.

ARTICLE IV

Financial and Other Covenants

Section 4.01. TANESCO shall maintain records adequate to reflect in accordance with consistently maintained appropriate accounting practices its operations and financial condition.

Section 4.02. TANESCO shall:

(a) have its 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;

(b) furnish to the Association as soon as available, but in any case not later than five months after the end of each such year: (i) certified copies of its financial statements for such year as so audited; and (ii) the report of such audit by said auditors, of such scope and in such detail as the Association shall have reasonably requested; and

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

Section 4.03. Except as the Association shall otherwise agree, TANESCO and all its subsidiaries shall not incur any debt for purposes other than the Project unless the consolidated net revenue of TANESCO and all its subsidiaries for the fiscal year immediately preceding the date of such incurrence or for a later twelve-month period ended prior to the date of such incurrence, whichever period shows the greater consolidated net revenue, shall be at least 1.5 times the maximum consolidated debt service requirements for any succeeding fiscal year on all the debt of TANESCO and all its subsidiaries including the debt to be incurred. For the purposes of this section:

(a) the term "debt" means all debt, including debt assumed or guaranteed by TANESCO or a subsidiary, except debt incurred in the ordinary course of business and maturing by its terms on demand or less than one year after its incurrence;

(b) the term "incur" with reference to any debt includes any modification of the terms of payment of such debt. Debt shall be deemed to be incurred on the date on which a contract or loan agreement or guarantee agreement is executed;

(c) the term "net revenue" means gross operating revenue of TANESCO, adjusted to take account of tariffs in effect at the time of the incurrence of debt even though they were not in effect during the entire fiscal year or twelve-month period to which such revenue relates, less all operating expenses, including adequate maintenance, taxes, if any, and administrative expenses, but before provision of depreciation and interest and other charges on debt;

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

(e) whenever it shall be necessary to value in the currency of the Borrower debt payable in another currency, such valuation shall be made on the basis of the rate of exchange at which such other currency is obtainable by TANESCO, at the time such valuation is made, for the purposes of servicing such debt, or, if such other currency is not obtainable, at the rate of exchange that will be reasonably determined by the Association in consultation with the Bank of Tanzania.

Section 4.04. Except as the Association shall otherwise agree:

(a) TANESCO shall increase the average level of its tariffs for electric power services prevailing on the date of this Agreement by 20% effective no later than January 1, 1984.

(b) Thereafter, TANESCO shall, from time to time take, or cause to be taken, all such measures (including, without limitation, adjustments of the structure or levels of its tariffs for electric power services) as shall be required to produce: (i) for the two fiscal years after its fiscal year ending on December 31, 1984, funds from internal sources equivalent to not less than 25%

of the annual average of TANESCO's capital expenditures incurred, or expected to be incurred, during that year, the preceding fiscal year and the next following fiscal year; and (ii) for each fiscal year thereafter, funds from internal resources equivalent to not less than 40% of the annual average of TANESCO's capital expenditures incurred or to be incurred during that year, the preceding fiscal year and the next following fiscal year.

(c) Before September 30 in each fiscal year, TANESCO shall, on the basis of forecasts prepared by it and satisfactory to the Association, review the adequacy of its tariffs to meet the requirement set forth in the preceding paragraph (b) 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.

(d) For the purposes of this Section:

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

(1) The sum of gross revenues from all sources related to electric power operations, consumer deposits and cash consumer contributions in aid of construction, net non-operating income and any reduction in non-cash working capital; and

(2) The sum of all expenses of electric power operations, including maintenance and administration (excluding depreciation and other non-cash operating charges) interest and other charges on debt (excluding interest financed under a loan contract), repayment of loans (including sinking fund payments, if any), all taxes or payments in lieu of taxes, all cash dividends and other cash distributions of surplus, increase in net working capital other than cash, and any other cash outflows other than cash expenditures related to electric power operations.

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

Section 4.05. Except as the Association shall otherwise agree, TANESCO shall, in agreement with the Borrower: (a) develop, by December 31, 1984, a method for the valuation of its assets acceptable to the Association; and (b) by January 1, 1986, value, and every two years thereafter revalue, its assets in accordance with such method of valuation.

Section 4.06. In order to provide additional transmission capacity for the electric power generated under the Project, TANESCO shall, by January 1, 1987, complete the construction of a 220 kV electric power transmission line between Iringa and Mtera.

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 two dates:

- (i) the date on which the Development Credit Agreement shall terminate in accordance with its terms; or
- (ii) a 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 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, 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 TANESCO:

Tanzania Electric Supply Company Limited
P.O. Box 9024
Dar es Salaam
United Republic of Tanzania

Cable address:

TANESCO
Dar es Salaam

Telex:

41318

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 the Managing Director of TANESCO or such other person or persons as the Managing Director of 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 but one instrument.

IN WITNESS WHEREOF, the parties hereto, acting through their representatives thereunto duly authorized, 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/ Willi A. Wapenhans*
Regional Vice President
Eastern Africa

TANZANIA ELECTRIC SUPPLY COMPANY LIMITED

By */s/ Benjamin W. Mhapa*
Authorized Representative

SCHEDULE

Procurement

A. International Competitive Bidding

1. Except as provided in Part B hereof, civil works and goods shall be procured under contracts awarded in accordance with procedures consistent with those set forth in the current edition of the "Guidelines for Procurement under World Bank Loans and IDA Credits" published by the Bank in March 1977 (hereinafter called the Guidelines), on the basis of international competitive bidding as described in Part A of the Guidelines.

2. For civil works and goods to be procured on the basis of international competitive bidding, in addition to the requirements of paragraph 1.2 of the Guidelines, TANESCO shall prepare and forward to the Association as soon as possible, and in any event not later than 60 days prior to the date of availability to the public of the first tender or prequalification documents relating thereto, as the case may be, a general procurement notice, in such form and detail and containing such information as the Association shall reasonably request; the Association will arrange for the publication of such notice in order to provide timely notification to prospective bidders of the opportunity to bid for the works and goods in question. TANESCO shall provide the necessary information to update such notice annually so long as any works and goods remain to be procured on the basis of international competitive bidding.

B. Other Procurement Procedures

Contracts for civil works and goods estimated to cost less than \$100,000 each may be awarded on the basis of competitive bidding advertised locally, in accordance with local procedures acceptable to the Association.

C. Review of Procurement Decisions by the Association

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

With respect to all contracts for civil works estimated to cost the equivalent of \$2,000,000 or more and all contracts for goods estimated to cost the equivalent of \$250,000 or more:

(a) Before bids are invited, TANESCO shall furnish to the Association, for its comments, the text of the invitations to bid and the specifications and other bidding documents, together with a description of the advertising procedures to be followed for the bidding, and shall make such modifications in the said documents or procedures as the Association shall reasonably request. Any further modification to the bidding documents shall require the Association's concurrence before it is issued to the prospective bidders.

(b) After bids have been received and evaluated, TANESCO shall, before a final decision on the award is made, inform the Association of the name of the bidder to which it intends to award the contract and shall furnish to the Association, in sufficient time for its review, a detailed report on the evaluation and comparison of the bids received and such other information as the Association shall reasonably request. The Association shall, if it determines that the intended award would be inconsistent with the Guidelines or this Schedule, promptly inform TANESCO and state the reasons for such determination.

(c) The terms and conditions of the contract shall not, without the Association's concurrence, materially differ from those on which bids were asked or prequalification was invited.

(d) Two conformed copies of the contract shall be furnished to the Association promptly after its execution and prior to the submission to the Association of the first application for withdrawal of funds from the Credit Account in respect of such contract.

2. With respect to each contract not governed by the preceding paragraph, TANESCO shall furnish to the Association, promptly after its execution and prior to the submission to the Association of the first application for withdrawal of funds from the Credit Account in respect of such contract, two conformed copies of such contract, together with the analysis of the respective bids, recommendations for award and such other information as the Association shall reasonably request. The Association shall, if it determines that the award of the contract was not consistent with the Guidelines or this Schedule, promptly inform TANESCO and state the reasons for such determination.

3. Before agreeing to any material modification or waiver of the terms and conditions of a contract, or granting an extension

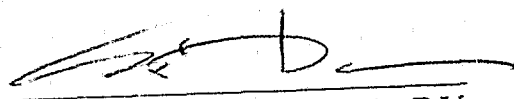
of the stipulated time for performance of such contract, or issuing any change order under such contract (except in cases of extreme urgency) which would increase the cost of the contract by more than 10% of the original price, TANESCO shall inform the Association of the proposed modification, waiver, extension or change order and the reasons therefor. The Association, if it determines that the proposal would be inconsistent with the provisions of this Agreement, shall promptly inform TANESCO and state the reasons for its determination.

INTERNATIONAL DEVELOPMENT ASSOCIATION

CERTIFICATE

I hereby certify that the foregoing is a true copy of the original in the archives of the International Development Association.

In witness whereof I have signed this Certificate and affixed the Seal of the Association thereunto the 22nd day of September, 198 3.



FOR SECRETARY