

CONFORMED COPY

CREDIT NUMBER 3569 TA

Project Agreement

(Songo Songo Gas Development and Power Generation Project)

between

INTERNATIONAL DEVELOPMENT ASSOCIATION

and

SONGAS LIMITED

Dated October 11, 2001

CREDIT NUMBER 3569 TA

PROJECT AGREEMENT

AGREEMENT, dated October 11, 2001, between INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association) and SONGAS LIMITED (Songas).

WHEREAS (A) by the Development Credit Agreement of even date herewith between the United Republic of Tanzania (the Borrower) and the Association, the Association has agreed to make available to the Borrower an amount in various currencies equivalent to one hundred forty-five million seven hundred thousand Special Drawing Rights (SDR 145,700,000), on the terms and conditions set forth in the Development Credit Agreement, but only on condition that Songas 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 Songas, the proceeds of the credit provided for under the Development Credit Agreement for Part A of the Project will be made available to Songas on the terms and conditions set forth in said Subsidiary Loan Agreement; and

(C) Songas, 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) Songas 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 A of the Project with due diligence and efficiency and in conformity with appropriate administrative, financial, engineering, gas, power supply and environmental practices, and shall provide, or cause to be provided, promptly as needed, the funds, facilities, services and other resources required for Part A of the Project.

(b) Without limitation upon the provisions of paragraph (a) of this Section and except as the Association and Songas shall otherwise agree, Songas shall carry out Part A of 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 and works required for Part A of the Project and to be financed out of the proceeds of the Credit shall be governed by the provisions of Schedule 1 to this Agreement.

Section 2.03. (a) Songas 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 A of the Project.

(b) For the purposes of Section 9.07 of the General Conditions and without limitation thereto, Songas 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 Songas, a plan designed to ensure the sustainability of the Project; and

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

Section 2.04. Songas shall duly perform all its obligations under the Subsidiary Loan Agreement. Except as the Association shall otherwise agree, such agreement to be communicated within a reasonable time, Songas 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 material provision thereof, except as specifically contemplated or provided in such Subsidiary Loan Agreement

Section 2.05. (a) Songas shall, at the request of the Association, exchange views with the Association with regard to the progress of Part A 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) Songas shall promptly inform the Association of any condition which interferes or threatens to interfere with the progress of Part A of the Project, the accomplishment of the purposes of the Credit, or the performance by Songas of its obligations under this Agreement and under the Subsidiary Loan Agreement.

Section 2.06. Songas shall not undertake any material change in the character of its business without the prior approval of the Borrower and the Association.

Section 2.07. Songas shall consult with the Borrower and the Association:

(a) upon receipt of notice under the terms of the debenture relating to the appointment of a receiver, trustee or liquidator of Songas or of all or a substantial part of its assets;

(b) prior to admitting in writing its inability to pay its debts as they mature;

(c) prior to making a general assignment for the benefit of creditors;

- (d) upon receipt of notice of being adjudicated a bankrupt or insolvent; and
- (e) prior to filing a voluntary petition in bankruptcy or a petition or an answer seeking reorganization or any arrangement with creditors or to take advantage of any insolvency law or an answer admitting the material allegations of a petition filed against it in any bankruptcy, reorganization or insolvency proceeding, or corporate action shall be taken by it for the purpose of effecting any of the foregoing.

ARTICLE III

Management and Operations of Songas

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

Section 3.02. Songas 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 gas and power utility practices.

Section 3.03. Songas 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, and as required under the Project Contractual Agreements.

ARTICLE IV

Financial Covenants

Section 4.01. (a) Songas 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 applied, adequate to reflect its operations and financial condition and to register separately the operations, resources and expenditures related to Part A of Project.

(b) Songas 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 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 three months after the end of each such year, (A) certified copies of the 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 such records, accounts and financial statements, and the audit thereof, including the management letter concerning said audit, as the Association may from time to time reasonably request.

Section 4.02. (a) Except as the Association shall otherwise agree, and except as contemplated by Permitted Indebtedness as defined in the Subsidiary Loan Agreement, Songas shall not incur any debt unless a reasonable forecast of the revenues and expenditures of Songas shows that the estimated net revenues of Songas for each fiscal year during the term of the debt to be incurred shall be at least 1.4 times the estimated debt service requirements of Songas in such year on all debt of Songas including the debt to be incurred.

(b) For the purposes of this Section:

- (i) the term "debt" means any indebtedness of Songas 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 cash 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 amount 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 Songas not earlier than twelve months prior to the incurrence of the debt in question, which both the Association and Songas accept as reasonable and as to which the Association has notified Songas 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 Songas.

(c) 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 4.03. Songas shall: (a) annually review its investment program with the Association, and incorporate changes acceptable to the Association; and (b) only undertake investments in excess of \$5,000,000 equivalent, not included in the said investment program, after it has furnished to the Association satisfactory evidence that such investment is economically and technically justified.

Section 4.04. (a) Except as the Association shall otherwise agree, Songas shall not declare any dividend or make any other distribution with respect to its share capital, unless, after such dividend has been paid or other distribution has been made, the current assets, of Songas would equal to or exceed the current liabilities of Songas.

(b) For the purposes of this Section:

- (i) The term "current assets" means cash, all assets which could be in the ordinary course of business converted into cash within twelve months, including accounts receivable, short-term loans marketable securities, inventories and pre-paid expenses properly chargeable to operating expenses within the next fiscal year.
- (ii) The term "current liabilities" means all liabilities accrued but unpaid and which will become due and payable or could under circumstances then existing be called for payment within twelve months, including accounts payable, customer advances, accrued

interest, current taxes and payments in lieu of taxes, but excluding principal repayments of long term debt.

- (iii) 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.

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 Songas thereunder shall terminate on the earliest of the following three dates:

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

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

Songas Limited
P. O. Box 6342
Dar es Salaam
United Republic of Tanzania

Facsimile:

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 Songas, or by Songas on behalf of the Borrower under the Development Credit Agreement, may be taken or executed by the Managing Director or such other person or persons as the Managing Director shall designate in writing, and Songas shall furnish to the Association sufficient evidence of the authority and the authenticated specimen signature of each such person.

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

IN WITNESS WHEREOF, the parties hereto, acting through their duly authorized representatives, have caused this Agreement to be signed in their respective names in the District of Columbia, United States of America, as of the day and year first above written.

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Praful Patel

Acting Regional Vice President
Africa

SONGAS LIMITED

By /s/ Erik Luckau

Authorized Representative

SCHEDULE 1

Procurement

Procurement of Goods and Works

Part A: General

1. Goods and works for Part A of the Project shall be procured in accordance with: (a) the provisions of Section I of the "Guidelines for Procurement under IBRD Loans and IDA Credits" published by the Bank in January 1995 and revised in January and August 1996, September 1997 and January 1999 (the Guidelines); and (b) the provisions of the following Parts of this Section I.

2. In paragraphs 1.6 and 1.8 of the Guidelines, the references to "Bank member countries" and "member country" shall be deemed to be references, respectively, to "Participating Countries" and "Participating Country".

Part B: International Competitive Bidding

1. Except as otherwise provided in Part C of this Section, goods and works for Part A of the Project shall be procured under contracts awarded in accordance with the provisions of Section II of the Guidelines and paragraph 5 of Appendix 1 thereto.

2. The following provisions shall apply to goods and works for Part A of the Project to be procured under contracts awarded in accordance with the provisions of paragraph 1 of this Part B.

(a) Prequalification

Bidders for supply and installation contracts shall be prequalified in accordance with the provisions of paragraphs 2.9 and 2.10 of the Guidelines.

(b) Notification and Advertising

The invitation to prequalify or bid for each contract estimated to cost \$10,000,000 equivalent or more shall be advertised in accordance with the procedures applicable to large contracts under paragraph 2.8 of the Guidelines.

Part C: Other Procurement Procedures

National Competitive Bidding

Civil works for the Songo Songo airstrip estimated to cost less than \$350,000 equivalent, may be procured under contracts awarded in accordance with the provisions of paragraphs 3.3 and 3.4 of the Guidelines.

Part D: Review by the Association of Procurement Decisions

1. Procurement Planning

Prior to the issuance of any invitations to prequalify for bidding or to bid for contracts, the proposed procurement plan for the Project shall be furnished to the Association for its review and approval, in accordance with the provisions of paragraph 1 of Appendix 1 to the Guidelines. Procurement of all goods and works shall be undertaken in accordance with such procurement plan as shall have been approved by the Association, and with the provisions of said paragraph 1.

2. Prior Review

With respect to each contract for supply and installation estimated to cost the equivalent of \$2,000,000 or more, and each contract for works estimated to cost the equivalent of \$300,000 or more, the procedures set forth in paragraphs 2 and 3 of Appendix 1 to the Guidelines shall apply.

3. Post Review

With respect to each contract not governed by paragraph 2 of this Part, the procedures set forth in paragraph 4 of Appendix 1 to the Guidelines shall apply.

SCHEDULE 2

Implementation Program

1. Songas shall: (a) carry out all its obligations under those Project Contractual Agreements, to which it is a party; and (b) seek the Association's approval, prior to amending or waiving any provision of said agreements which, in the opinion of the Association, would materially and adversely affect the implementation of Part A of the Project.

2. Except as the Association shall otherwise agree, Songas shall, in carrying out Part A of the Project, apply the guidelines and procedures specified in the Songas Project Implementation Plan and shall not amend the Songas Project Implementation Plan or waive any provision thereof, which in the opinion of the Association will materially or adversely affect the implementation of Part A of the Project.

3. Songas shall: (a) not later than November 30, 2002, participate in the midterm review of the Project referred to in paragraph 7 (a) of Schedule 4 to the Development Credit Agreement; (b) furnish to the Association, at least thirty days prior to such review, a report, in scope and detail satisfactory to the Association, describing the status of the progress regarding the items referred to in said paragraph 7 (a); and (c) promptly thereafter implement such actions that are required on its part in accordance with the action plan referred to in paragraph 7 (c) of Schedule 4 to the Development Credit Agreement.

4. Songas shall carry out the actions required on its part under the ESMP, in accordance with the action plan and timetable contained therein.

5. Songas shall by March 31 in each year issue an annual report, in form and substance satisfactory to the Association, on its community development programs and

actions to protect bio-diversity in the Borrower's territory.

6. Songas shall:

(a) maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with the indicators set forth in Schedule 3 to this Agreement, the carrying out of Part A of the Project and the achievement of the objectives thereof;

(b) prepare, under terms of reference satisfactory to the Association, and furnish to the Association, each quarter, a report on the results of the monitoring and evaluation activities performed pursuant to paragraph (a) of this Section, on the progress achieved in the carrying out of Part A of the Project during the period preceding the date of said report and setting out the measures recommended to ensure the efficient carrying out of Part A of the Project and the achievement of the objectives thereof during the period following such date; and

(c) review with the Association, by March 31 in each year, or such later date as the Association shall request, commencing March 31, 2002, the report referred to in paragraph (b) of this Section, and, thereafter, take all measures required to ensure the efficient completion of Part A of the Project and the achievement of the objectives thereof, based on the conclusions and recommendations of the said report and the Association's views on the matter.

SCHEDULE 3

Performance Indicators

Songas

Physical Performance Indicators

207 km of 12 inch pipeline constructed and 16 km of 8 inch pipeline constructed

70mmcf/day gas processing plant constructed

Number of staff recruited and trained (of which local) by Songas

112MW Ubungo Power Plant transferred to Songas in September 2003

Financial and Operational Performance Indicators

Pipeline throughput for electricity generation increasing from 24 mmcf/day in 2003 to 28 mmcf/d in 2006

Pipeline throughput of gas for commercial use of 4 mmcf/day in 2003/4

Financial performance indicators (current ratio and debt service ratio) are underpinned within this Agreement

