

CONFORMED COPY

CREDIT NUMBER 2489 TA

Project Agreement

(Sixth Power Project)

between

INTERNATIONAL DEVELOPMENT ASSOCIATION

and

TANZANIA ELECTRIC SUPPLY COMPANY LIMITED

Dated July 26, 1993

CREDIT NUMBER 2489 TA

PROJECT AGREEMENT

AGREEMENT, dated July 26, 1993, between INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association) and TANZANIA ELECTRIC SUPPLY COMPANY LIMITED (TANESCO).

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 one hundred and forty-four million two hundred thousand Special Drawing Rights (SDR 144,200,000), on the terms and conditions set forth in the Development Credit Agreement, but only on condition that TANESCO 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 TANESCO (the TANESCO Subsidiary Loan Agreement), the proceeds of the credit provided for under the Development Credit Agreement will be relented to TANESCO on the terms and conditions set forth in the Tanesco Subsidiary Loan Agreement; and

WHEREAS TANESCO, 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 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) TANESCO 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 Parts A through H of the Project with due diligence and efficiency and in conformity with appropriate administrative, financial, engineering and power supply practices, and in accordance with the Statement of Policy and shall provide, or cause to be provided, promptly as needed, the funds, facilities, services and other resources required for Parts A through H of the Project.

(b) Without limitation upon the provisions of paragraph (a) of this Section and except as the Association and TANESCO shall otherwise agree, TANESCO shall carry out Parts A through H 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, works and consultants' services required for Parts A through H 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. TANESCO shall carry out the obligations set forth in Sections 9.03 through 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 this Project Agreement and Parts A through H of the Project.

Section 2.04. TANESCO shall duly perform all its obligations under the Tanesco 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 Tanesco Subsidiary Loan Agreement or any provision thereof.

Section 2.05. (a) TANESCO shall, at the request of the Association, exchange views with the Association with regard to the progress of Parts A through H 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 Parts A through H 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 2.06. TANESCO shall, prior to making any changes to its Statement of Policy, seek the approval of the Borrower and the Association.

Section 2.07. TANESCO shall, no later than December 31, 1993, have offered its in-house construction of transmission and distribution lines for sale.

Section 2.08. TANESCO shall: (a) annually review its investment program for the power sub-sector 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 2.09. TANESCO shall, until the agreed recommendations of the tariff study under Part H of the Project are implemented, annually adjust its average tariff by 3.5% in United States dollar terms to offset the estimated international inflation.

### 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 and power supply 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 power supply practices.

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

(b) TANESCO 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 ten months after the end of the 1992 financial year and six months after the end of each such year 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
- (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, TANESCO shall produce, for each of the following of its fiscal years funds from internal sources equivalent to not less than 15% for Fiscal Year 1993, 25% for Fiscal Year 1994, 20% for Fiscal Year 1995, and 30% for Fiscal Years 1996, 1997 and 1998, of the annual average of TANESCO's capital expenditures incurred, or expected to be incurred, for that year and the three next following fiscal years.

(b) Before the end of September in each of its fiscal years, TANESCO shall, on the basis of forecasts prepared by TANESCO 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 such review shows that TANESCO would not meet the requirements set forth in paragraph (a) for TANESCO's fiscal years covered by such review, TANESCO shall promptly take all necessary 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 all expenses related to operations, including administration, adequate maintenance and taxes and payments in lieu of taxes (excluding provision for depreciation and other non-cash operating 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 service 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; and
- (vii) the term "capital expenditures" means all expenditures on account of fixed assets, including interest charged to construction, related to operations.

(e) 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. (a) Except as the Association shall otherwise agree, TANESCO shall not incur any debt unless a reasonable forecast of the revenues and expenditures of TANESCO shows that the estimated net revenues of TANESCO for each fiscal year during the term of the debt to be incurred shall be at least 1.3 times the estimated debt service requirements of TANESCO in such year on all debt of TANESCO including the debt to be incurred.

(b) For the purposes of this Section:

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

(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.

#### 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) the date twenty 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:

Telex:

INDEVAS  
Washington, D.C.

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

For TANESCO:

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

Cable address:

Telex:

TANESCO  
Dar es Salaam

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, or by TANESCO 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 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 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 ELECTRIC SUPPLY COMPANY LIMITED

By /s/ Charles Nyirabu  
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 D 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 1992 (the Guidelines). For fixed price contracts, the invitation to bid referred to in paragraph 2.13 of the Guidelines shall provide that, when contract award is delayed beyond the original bid validity period, the successful bidder's bid price will be increased for each week of delay by two predisclosed correction factors acceptable to the Association, one to be applied to all foreign currency components and the other to the local currency component of the bid price. Such an increase shall not be taken into account in the bid evaluation.

2. Bidders for civil works (other than preliminary works included in Part A of the Project) shall be prequalified as provided in paragraph 2.10 of the Guidelines.

3. To the extent practicable, contracts for civil works shall be grouped into bid packages estimated to cost the equivalent of \$500,000 or more.

Part B: Preference for Domestic Manufacturers

In the procurement of goods in accordance with the procedures described in Part A.1 hereof, goods manufactured in Tanzania may be granted a margin of preference in accordance with, and subject to, the provisions of paragraphs 2.55 and 2.56 of the Guidelines and paragraphs 1 through 4 of Appendix 2 thereto.

Part C: Preference for Domestic Contractors

In the procurement of works in accordance with the procedures described in Part A.1 hereof, TANESCO may grant a margin of preference to domestic contractors in accordance with, and subject to, the provisions of paragraphs 2.55 and 2.56 of the Guidelines and paragraph 5 of Appendix 2 thereto.

Part D: Other Procurement Procedures

1. Items or groups of items for specialized tools and software up to an aggregate amount equivalent to \$1,000,000, may be procured under contracts awarded through limited international bidding procedures on the basis of evaluation and comparison of bids obtained from at least three qualified suppliers eligible under the Guidelines and in accordance with procedures set forth in Sections I and II of the Guidelines (excluding paragraphs 2.8, 2.9, 2.55, 2.56 thereof).

2. Software and special computer hardware for TANESCO's distribution analysis mapping system obtainable only from one source (up to an aggregate amount not to exceed \$300,000 equivalent) may be purchased by direct contracting from original suppliers or sources in accordance with paragraph 3.5 (b) and (c) of the Guidelines.

Part E: Review by the Association of Procurement Decisions

1. Review of prequalification:

With respect to the prequalification of bidders as provided in Part A.2 hereof, the procedures set forth in paragraph 1 of Appendix 1 to the Guidelines shall apply.

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

(a) With respect to each contract estimated to cost the equivalent of \$200,000 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 said 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.

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

#### Part F: Pre-shipment Inspection

For the purposes of the pre-shipment inspection of goods imported under the Project, no price verification shall be conducted in respect of those goods to which Part A of this Section applies.

#### Section II: Employment of Consultants

1. In order to assist TANESCO in carrying out Parts A through H of the Project, TANESCO 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 (the Consultants Guidelines).

2. Notwithstanding the provisions of paragraph 1 of this Section, the provision of the Consultants Guidelines requiring prior review or approval by the Association of budgets, short lists, selection procedures, letters of invitation, proposals, evaluation reports and contracts shall not apply to contracts estimated to cost less than \$100,000 equivalent each. However, this exception to such prior review or approval requirements shall not apply to the terms of reference for such contracts nor to the employment of individuals, to single-source hiring of firms, to assignments of a critical nature as reasonably determined by the Association and to amendments of contracts raising the contract value to \$100,000 equivalent or above.

#### SCHEDULE 2

##### Implementation Program

1. TANESCO shall establish a Project Management Unit (PMU) and appoint a Project Manager, who shall have the following responsibilities: (a) coordinating the execution of the Project; (b) liaising with the Association and other financiers on the various components of the Project; (c) dealing with all correspondence, procurement activities and progress reports; and (d) liaising with the consultants employed to supervise Parts A, B and C of the Project.

2. TANESCO shall continue to fill the positions of Managing Director and Deputy Managing Directors with qualified and experienced staff.

3. TANESCO shall: (a) carry out a survey of salaries paid by other commercial organizations in Tanzania; and (b) by January 1, 1994, establish a competitive compensation structure for all levels of employees, based on such survey.
4. TANESCO shall by December 31, 1993, prepare and furnish to the Association, a demand side management program satisfactory to the Association.
5. TANESCO shall by January 1, 1994, appoint the following staff with qualifications and experience, and on terms and conditions of employment, acceptable to the Association: (i) a Planning Manager; (ii) a Systems Manager, (iii) a Management Training and Personnel Expert, (iv) a Director and Head Instructor for the Morogoro Training Institute, (v) a Training Expert for Kidatu Technical Training Institute, (vi) a Training Expert in Distribution Planning; and (vii) a PIP Expert.
6. TANESCO shall: (i) carry out a study of its manpower requirements with the assistance of an externally recruited manpower expert; (ii) by December 31, 1994, review the results of the study with the Association; and (iii) by June 30, 1995, implement recommendations of said study, taking the Association's comments into account. TANESCO shall maintain a freeze on employment, except to fill key vacant management and technical positions, and to fulfill special needs, until it has started to implement the above-mentioned recommendations.
7. TANESCO shall, commencing July 1, 1994, and annually thereafter, prepare an Annual Corporate Plan, acceptable to the Association for the next fiscal year, establishing medium-term five year business objectives and financial projections, as well as, an annual budget.
8. TANESCO shall: (a) by June 30, 1994, carry out the Asset Revaluation Study under Part H of the Project, under terms of reference satisfactory to the Association; (b) furnish the draft recommendations of said study to the Association for its review and comments; (c) finalize said recommendations taking the Association's comments into account; (d) implement the recommendations of the study within six months of the study's completion; and (e) annually thereafter revalue its assets according to the methodology recommended in the study.
9. TANESCO shall: (a) by June 30, 1994, carry out the Tariff Study referred to in Part H of the Project, under terms of reference satisfactory to the Association; (b) furnish the study to the Association for its review and comments; (c) finalize the recommendations of the study taking the Association's comments into account; (d) within six months of completion implement the recommendations of the study; and (e) update tariffs regularly based on the methodology proposed in the study.
10. TANESCO shall by June 30, 1994, implement an Environmental Mitigation Plan for the Lower Kihansi Scheme and the transmission lines from Lower Kihansi to Iringa and from Lower Kihansi to Kidatu, satisfactory to the Association.
11. TANESCO shall: (a) enforce a detailed plan of action acceptable to the Association for recovery of overdue accounts from the Borrower's agencies and parastatals, as well as its policy of disconnecting delinquent private consumers; (b) continue to prepare every three months for the Association's review, a report summarizing its outstanding consumer accounts; and (c) by December 31, 1994, reduce its accounts receivable to no more than 75 days of sales and maintain it at less than that level thereafter.
12. TANESCO shall, to ensure the continued safety of the Lower Kihansi Dam and associated structures, no later than one year before the expected date of completion of the Dam and structures, provide the Association with details of its arrangements for the inspection of the Dam and structures.

