

CONFORMED COPY

CREDIT NUMBER 4370-TA

Financing Agreement

(Energy Development and Access Expansion Project)

between

UNITED REPUBLIC OF TANZANIA

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated JANUARY 31, 2008

CREDIT NUMBER 4370 -TA

FINANCING AGREEMENT

AGREEMENT dated JANUARY 31, 2008, entered into between UNITED REPUBLIC OF TANZANIA (“Recipient”) and INTERNATIONAL DEVELOPMENT ASSOCIATION (“Association”). The Recipient and the Association hereby agree as follows:

ARTICLE I — GENERAL CONDITIONS; DEFINITIONS

- 1.01. The General Conditions (as defined in the Appendix to this Agreement) constitute an integral part of this Agreement.
- 1.02. Unless the context requires otherwise, the capitalized terms used in this Agreement have the meanings ascribed to them in the General Conditions or in the Appendix to this Agreement.

ARTICLE II — FINANCING

- 2.01. The Association agrees to extend to the Recipient, on the terms and conditions set forth or referred to in this Agreement, a credit in an amount equivalent to sixty seven million seven hundred thousand Special Drawing Rights (SDR 67,700,000) (variously, “Credit” and “Financing”) to assist in financing the project described in Schedule 1 to this Agreement (“Project”).
- 2.02. The Recipient may withdraw the proceeds of the Financing in accordance with Section IV of Schedule 2 to this Agreement.
- 2.03. The Maximum Commitment Charge Rate payable by the Recipient on the Unwithdrawn Financing Balance shall be one-half of one percent (1/2 of 1%) per annum.
- 2.04. The Service Charge payable by the Recipient on the Withdrawn Credit Balance shall be equal to three-fourths of one percent (3/4 of 1%) per annum.
- 2.05. The Payment Dates are April 15 and October 15 in each year.
- 2.06. The principal amount of the Credit shall be repaid in accordance with the repayment schedule set forth in Schedule 3 to this Agreement.
- 2.07. The Payment Currency is Dollars.

ARTICLE III — PROJECT

- 3.01. The Recipient declares its commitment to the objectives of the Project. To this end, the Recipient shall carry out Parts B and C.2 of the Project through MEM, and cause Parts A and C.1 of the Project to be carried out by TANESCO in accordance with the provisions of Article IV of the General Conditions and the Project Agreement.
- 3.02. Without limitation upon the provisions of Section 3.01 of this Agreement, and except as the Recipient and the Association shall otherwise agree, the Recipient shall ensure that the Project is carried out in accordance with the provisions of Schedule 2 to this Agreement.

ARTICLE IV — REMEDIES OF THE ASSOCIATION

- 4.01. The Additional Events of Suspension consists of the following:
- (a) a situation shall have arisen which will make it improbable that the Program, or a significant part thereof will be carried out; and
 - (b) TANESCO's Memorandum and Articles of Association, and status of its incorporation pursuant to the Companies Act of the Recipient, have been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the ability of TANESCO to perform any of its obligations under the Project Agreement.

ARTICLE V — EFFECTIVENESS; TERMINATION

- 5.01. The Additional Conditions of Effectiveness consists of the following:
- (a) the Subsidiary Agreement has been executed on behalf of the Recipient and TANESCO;
 - (b) the GEF Trust Fund Grant Agreement has been executed and delivered and all conditions precedent to its effectiveness or to the right of the Recipient to make withdrawals under it (other than the effectiveness of this Agreement) have been fulfilled;
 - (c) the Recipient and TANESCO have each prepared plans showing adequate in-house capacity for environmental and social impact management required to implement the Project; and
 - (d) the Recipient has adopted and submitted to the Association the Operating Guidelines, in a form and substance satisfactory to the Association.

- 5.02. The Additional Legal Matter shall be that the Subsidiary Agreement has been duly authorized, executed or ratified by the Recipient and TANESCO and is legally binding upon the Recipient and TANESCO in accordance with its terms.
- 5.03. The Effectiveness Deadline is the date ninety (90) days after the date of this Agreement.
- 5.04. For purposes of Section 8.05 (b) of the General Conditions, the date on which the obligations of the Recipient under this Agreement (other than those providing for payment obligations) shall terminate is twenty years after the date of this Agreement.

ARTICLE VI — REPRESENTATIVE; ADDRESSES

6.01. The Recipient's Representative is its Minister responsible for finance.

6.02. The Recipient's Address is:

Ministry of Finance
P. O. Box 9111
Dar es Salaam
Tanzania

Facsimile:

(255) 222 11 77 90

6.03. The Association's Address is:

International Development Association
1818 H Street, N.W.
Washington, D.C. 20433
United States of America

Cable:

Telex:

Facsimile:

INDEVAS

248423 (MCI)

1-202-477-6391

Washington, D.C.

AGREED at Dar es Salaam, United Republic of Tanzania, as of the day and year first above written.

UNITED REPUBLIC OF TANZANIA

By

/s/Gray Mgonja
Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By

/s/John Murray McIntire
Authorized Representative

SCHEDULE 1

Project Description

The objective of the Project is to support the Recipient's efforts to improve the quality and efficiency of the provision of electricity service within its territory, and to establish a sustainable basis for energy access expansion.

The Project consists of the following parts:

Part A: TANESCO's Transmission and Distribution Network Investments

1. Supporting electric power transmission and distribution system upgrade investments, including, *inter alia*:
 - (a) electric power transmission network investment for: (i) extension of existing substations in the city of Dar es Salaam; (ii) construction of substations in the city of Dar es Salaam; (iii) construction of an electric power substation at Kilimanjaro International Airport; and (iv) construction of electric power transmission lines for the city of Dar es Salaam; and
 - (b) electric power distribution network investments for: (i) construction of substations in the city of Dar es Salaam, Arusha and Kilimanjaro regions; (ii) rehabilitation and upgrading of existing substations in the city of Dar es Salaam; and (iii) construction of 33 and 11 KV overhead lines in the city of Dar es Salaam, Arusha and Kilimanjaro regions.

2. Supporting ongrid access expansion investments including carrying out of at least 25,000 new electric power connections in the city of Dar es Salaam, Arusha and Kilimanjaro regions through a supply and installation contract for, *inter alia*: (a) provision of short low voltage overhead lines; (b) acquisition of metering and testing equipment; (c) acquisition of vehicles and communication equipment; (d) provision of training and technical advisory services for use and maintenance of equipment; and (e) acquisition of necessary medium voltage and low voltage overhead lines and distribution transformers that promote low losses and better quality of supply.

3. Supporting electric power distribution upgrade investments to facilitate implementation of a low loss High Voltage Distribution System, including conversion of the existing Low Voltage Distribution System in the peri urban areas of the city of Dar es Salaam to a high voltage configuration to enhance the quality of electric power supply, reduce technical losses, increase energy efficiency and to prevent pilferage of electricity.

4. Supporting commercial and institutional capacity development to improve TANESCO's revenues and reduce system losses including, *inter alia*:

- (a) replacement of about 60,000 credit meters with pre-paid meters;
- (b) implementing a general customer centralized call attention center, and a high-value customer cell for large electricity consumers in the city of Dar es Salaam;
- (c) carrying out the installation of about 1800 solid state meters for high revenue yielding electricity consumers; and
- (d) carrying out information technology related investments including, *inter alia*: (i) incorporation of a new corporate commercial management system for monitoring of activities related to TANESCO's revenue generation; (ii) incorporation of a new corporate technical service management system intended to optimize attention of electricity consumers' claims related to poor quality of electricity supply; and (iii) incorporation of a new resources management system to support centralized corporate functions.

5. Provision of technical advisory services to strengthen TANESCO's capacity:

- (a) for design, preparation of specifications and bidding documents, and supervision to ensure coordinated implementation of the commercial management system, technical service management system, and resources management system.
- (b) to improve commercial management and customer service, including: (i) designing and implementing a new organizational structure for the marketing department, a centralized call center and a high-value customer cell; (ii) defining and effectively applying operational procedures for optimized performance of the marketing department; (iii) identifying and implementing action plans for short-term sustainable reduction of non-technical losses; and (iv) developing the personnel capacity for new technology and modern utility management.
- (c) for design, preparation of specification and bidding documents, and supervision of activities for: (i) about 10,000 new customers in the high voltage distribution cluster; (ii) about 25,000 new customers for ongrid access expansion; (iii) replacement of about 60,000 credit meters with prepaid meters; and (iv) installation of about 1,800 solid state meters with remote metering.

6. Strengthening TANESCO's capacity for supervision and management of Part A of the Project, through the provision of technical advisory services, acquisition of goods and motor vehicles.

Part B: Off-Grid Investment Framework and Pilot Investments

Supporting institutional set-up of REA and developing, testing and demonstrating new electrification approaches, including:

1. Carrying out of the following rural electrification demand-driven small power generation and distribution Subprojects: (a) Small Renewable Power Generation Subprojects; (b) Grid-connected Mini-grids Subprojects; and (c) Isolated Mini-grids Subprojects, all through the provision of Matching Grants and Performance Grants.

2. Supporting sustainable solar market development in remote rural areas, including:

(a) implementing Sustainable Solar Market Packages for supply and installation, maintenance and associated services of solar photovoltaic and other lighting systems to health centers, rural post-primary schools, and other rural public institutions, through the acquisition of goods and services for supply, installation and maintenance, and the provision of technical advisory services; and

(b) carrying out of Individual System Subprojects to: (i) facilitate sustainable and affordable electricity service with photovoltaic and other lighting systems to rural private schools, private health centers and other private sector enterprises and homes; and (ii) develop commercial supply channel for photovoltaic and other lighting systems all through the provision of Performance Grants and Matching Grants.

3. Strengthening the institutional and human capacity of REA, MEM, and EWURA for: (a) market assessment and data collection; (b) pipeline development; (c) renewable energy assessments; (d) development of rural electrification and programs; (e) monitoring and evaluation; and (f) providing technical support to the private sector enterprises, public institutions, non-governmental organizations and community-based organizations involved in implementation of Subprojects and activities under Part B of the Project, all through the provision of technical advisory services, and provision of training to personnel of REA, MEM, EWURA, and private sector enterprises involved in implementation of off-grid electrification under Part B of the Project.

Part C: Technical Assistance

1. Developing the human and institutional capacity of TANESCO including:
 - (a) carrying out an assessment of the needs for capacity and competence of TANESCO personnel; and
 - (b) strengthening TANESCO's personnel capacity for managerial skills, all through the provision of technical advisory services, training and workshops.

2. Developing the Recipient's capacity to develop private and public power generation projects, through the provision of technical advisory services including, high quality legal, technical, financial, environmental and social expertise.

SCHEDULE 2**Project Execution****Section I. Implementation Arrangements****A. Institutional Arrangements****1. TANESCO**

The Recipient shall ensure that Parts A and C.1 of the Project are carried out by TANESCO in accordance with the provisions of this Agreement and the Project Agreement, and in accordance with the guidelines, procedures, recommendations, and other specifications set forth in the Procurement Plan, and in connection with Part A of the Project, the Environmental Impact and Social Assessment, the Environmental Audit and the Resettlement Policy Framework, and any Resettlement Action Plan for Part A of the Project.

2. Ministry of Energy and Minerals

(a) The Recipient shall ensure that the Ministry of Energy and Minerals, including the department responsible for energy, and a coordinating team comprised of a project coordinator, a technical specialist, an accountant and other specialized personnel as may be necessary, is maintained at all times during the implementation of the Project with functions, staffing and resources satisfactory to the Association.

(b) Without limitation upon the provisions of sub-paragraph (a) of this paragraph, MEM shall be responsible for, *inter alia*: (i) day to day implementation of activities under Parts B and C.2 of the Project, including overall planning, coordination, financial management, procurement, monitoring, evaluation, reporting and communication of the Project; and (ii) dissemination, appraisal, administration, fiduciary supervision, monitoring, reporting and evaluation of Subprojects under Parts B.1 and B.2(b) of the Project, and Sustainable Solar Market Packages under Part B.2(a) of the Project.

3. REA

(a) The Recipient shall ensure that REA is maintained at all times during the implementation of the Project with functions, staffing and resources satisfactory to the Association.

(b) Without limitation upon the provisions of sub-paragraph (a) of this paragraph, and upon demonstration of adequate administration capacity, REA shall, pursuant to a memorandum of understanding, or other

administrative arrangement with MEM, be responsible for: (i) day to day implementation of Parts B.1 and B.2 of the Project; (ii) procurement; (iii) environmental and social safeguard guidelines; (iv) monitoring, evaluation, reporting and communication; and (v) such other administrative, financial, technical and organizational arrangements and procedures as shall be required for Subprojects carried out by Beneficiaries under Parts B.1 and B.2(b) of the Project, and Sustainable Solar Market Packages under Part B.2 of the Project. To this end, MEM shall develop and implement a capacity building program for REA staff, including integrating key REA staff in its tasks for day to day management and implementation of Parts B.1 and B.2 of the Project.

B. Subsidiary Agreement

1. To facilitate the carrying out of Parts A and C.1 of the Project, the Recipient shall make part of the proceeds of the Financing available to TANESCO under a subsidiary agreement between the Recipient and TANESCO, under terms and conditions approved by the Association (“Subsidiary Agreement”), which shall, *inter alia*, include the following:
 - (a) the requirement that TANESCO carry out Parts A and C.1 of the Project with due diligence and efficiency, in conformity with appropriate administrative, financial, engineering, technical, environmental and social safeguard practices, and provide, or cause to be provided, promptly as needed, the facilities, services and other resources required for Parts A and C.1 of the Project;
 - (b) the obligation of the TANESCO to comply with the procedures for procurement of works, goods, and consultants’ services set forth in the Procurement Plan and this Agreement;
 - (c) the requirement that TANESCO comply with record keeping, auditing and reporting requirements set forth in Section II of this Schedule with respect to Parts A and C.1 of the Project, including the annual auditing of its records and accounts in respect of the Project (operations, resources and expenditure in respect of Parts A and C.1 of the Project);
 - (d) the obligation of TANESCO to exchange views with the Recipient and the Association with regard to the progress of Parts A and C.1 of Project and the performance of its obligations under the Subsidiary Agreement; and
 - (e) the requirement that TANESCO promptly inform the Recipient and the Association of any condition which interferes or threatens to interfere

with the progress of Parts A and C.1 of the Project, or the performance of its obligations under the Subsidiary Agreement.

2. The Recipient shall exercise its rights under the Subsidiary Agreement in such manner as to protect the interests of the Recipient and the Association and to accomplish the purposes of the Financing. Except as the Association shall otherwise agree, the Recipient shall not assign, amend, abrogate or waive the Subsidiary Agreement or any of its provisions.

C. Operating Guidelines

1. The Recipient, through MEM, shall adopt Operating Guidelines in form and substance satisfactory to the Association, containing detailed arrangements and procedures for: (i) institutional coordination and day-to-day execution of Parts B.1 and B.2(b) of the Project; (ii) eligibility criteria for Beneficiaries, terms and conditions, approval and administration of Grants for Subprojects; (iii) budgeting, disbursement and financial management; (iv) procurement; (v) environmental and social safeguard guidelines; (vi) monitoring, evaluation, reporting and communication; and (vii) such other administrative, financial, technical and organizational arrangements and procedures as shall be required for Subprojects under Parts B.1 and B.2(b) of the Project.
2. The Recipient, through MEM shall carry out Parts B.1 and B.2 of the Project in accordance with the arrangements and procedures set out in the Operating Guidelines (provided, however, that in case of any conflict between the arrangements and procedures set out in the Operating Guidelines and the provisions of this Agreement, the provisions of this agreement shall prevail) and, except as the Association shall otherwise agree, shall not amend, abrogate or waive any provision of the Operating Guidelines, if such amendment, abrogation or waiver shall, in the opinion of the Association, materially or adversely affect the implementation of Parts B.1 and B.2 of the Project.

D. Anti-Corruption

The Recipient shall ensure that the Project is carried out in accordance with the provisions of the Anti-Corruption Guidelines.

E. Subprojects

1. Grants

Without limitation upon the provisions of Part A of this Section, the Recipient, through MEM, shall appraise, approve and monitor Subprojects under

Parts B.1 and B.2 (b) of the Project, and administer the Grants in accordance with the provisions and procedures set forth or referred to in this Part E and in more detail in the Operating Guidelines.

2. **Eligibility Criteria for Subprojects**

No proposed Subproject shall be eligible for financing under a Grant out of the proceeds of the Financing unless the Recipient, through MEM and REA, has determined, on the basis of an appraisal conducted in accordance with this sub-paragraph and the guidelines set forth in the Operating Guidelines, that the proposed Subproject satisfies the eligibility criteria specified below and set forth or referred to in more detail in the Operating Guidelines, which shall include, *inter alia*, the following:

- (a) The proposed Subproject activities shall fall within the areas described under Parts B.1 and B.2(b) of the Project in Schedule 1 to this Agreement, and shall exclude any activities and expenditures specified as ineligible in the Operating Guidelines;
- (b) the proposed Subproject shall be initiated by a Beneficiary which has been registered as a legal entity and has the capacity to enter into a binding contract under the laws of the Recipient, and which has met the other eligibility criteria specified or referred to in the Operating Guidelines;
- (c) the Beneficiary has adequate technical, financial management and procurement capacity to implement the proposed Subproject in compliance with the guidelines set forth in the Operating Guidelines, and the Anti Corruption Guidelines; and
- (d) the Beneficiary shall be eligible to receive subsequent Grants if it has completed the preceding Subproject to the satisfaction of MEM and REA, in accordance with the terms of the Grant Agreement.

3. **Approval of Grants**

Based on appraisal and recommendation of its task team in accordance with paragraph 2 of this Part E, MEM shall: (a) approve Subprojects whose cost falls below the threshold specified in the Operating Guidelines for prior no-objection by the Association or which do not otherwise require such no-objection as specified in the Operating Guidelines; and (b) recommend for the Association's prior no-objection Subprojects which require such no-objection as specified in the Operating Guidelines.

4. **Terms and Conditions of Grants**

A Subproject shall be carried out pursuant to the respective Matching Grant Agreement, or Performance Grant Agreement, to be concluded between MEM, on behalf of the Recipient, and the respective Beneficiary, under terms and conditions described or referred to in more detail in the Operating Guidelines and satisfactory to the Association, which, *inter alia*, shall include the following:

- (a) the description of the activities to be implemented, including the outputs and performance targets to be achieved, and the arrangements for monitoring and reporting on the implementation of the Subproject;
- (b) the obligation of the Beneficiary of a Matching Grant, except a public institution Beneficiary, to contribute, in cash and/or in-kind, a minimum percentage of the projected Sub-project as specified in the Operating Guidelines;
- (c) the modalities of transfer of funds by MEM to the Beneficiary for the financing of the Subproject;
- (d) the obligation of the Beneficiary to: (i) carry out the Subproject with due diligence and efficiency and in accordance with sound technical, engineering, environmental, financial, managerial practices, and the Anti-Corruption Guidelines; and (ii) maintain adequate records to reflect, in accordance with sound accounting practices, the operations, resources and expenditures relating to the Subproject;
- (e) the requirement that the goods, works and consultants' services to be financed from the proceeds of the Grant shall be procured in accordance with procedures ensuring efficiency and economy and in accordance with Operating Guidelines and provisions of Section III of this Schedule, and shall be used exclusively in the carrying out of the Subproject; and
- (f) the right of MEM and REA, on behalf of the Recipient, to: (i) inspect by itself, or jointly with the Association, if the Association shall so request, the goods, works, sites, plants and construction included in the Subproject, the operations thereof and any relevant records and documents; (ii) obtain all information as it, or the Association, shall reasonably request regarding the administration, operation and financial conditions of Subprojects; and (iii) suspend or terminate the right of any Beneficiary to use the proceeds of the Grant upon failure by the Beneficiary to perform any of its obligations under the respective Grant Agreement.

5. **Administration of Grant Agreements**

MEM and REA shall exercise its rights under the Grant Agreements in such manner as to protect the interests of the Recipient and the Association and to accomplish the purposes of the Project, and, except as the Association shall otherwise agree, the Recipient shall not assign, amend, abrogate or waive any Grant Agreement or any substantial provision thereof.

F. **Environmental and Social Safeguards**

1. **Part A of the Project**

(a) The Recipient shall ensure that: (i) Part A of the Project is carried out by TANESCO in accordance with the Resettlement Policy Framework, any Resettlement Action Plan, the Environmental Audit, and the Environmental Impact and Social Assessment; (ii) prior to construction of any electric power transmission or distribution lines, installation of electric power transformers, or construction, upgrading or rehabilitation of a power substation, a technical study and survey, satisfactory to the Association, is conducted to ascertain if such construction, rehabilitation or upgrade would result in displacement of any Affected Persons or adversely affect their standards of living, or their rights, usufructs or customary rights to land or other resources, and as may be required, the appropriate Resettlement Action Plans are prepared, approved and implemented in accordance with the Resettlement Policy Framework; (iii) all measures for carrying out the recommendations of the Environmental Audit, the Environmental Impact and Social Assessment, and the Resettlement Policy Framework are taken in a timely manner; and (iv) the Project Reports referred to in Part A of Section II of this Schedule shall include adequate information on monitoring the measures defined in the Environmental Audit, the Environmental Impact and Social Assessment, and the Resettlement Policy Framework.

(b) The Recipient shall cause TANESCO to open and maintain an account in a commercial bank acceptable to the Association for the purpose of implementing any Resettlement Action Plans. To this end, TANESCO shall deposit into the said account an amount adequate to cover the cost associated with compensation of Affected Persons in accordance with any Resettlement Action Plans.

2. **Parts B.1 and B.2 of the Project**

(a) The Recipient shall ensure that Parts B.1 and B.2 of the Project are carried out in accordance with the Environmental and Social

Management Framework and shall, prior to financing any Subproject, or Sustainable Solar Market Package under Parts B.1 and B.2 of the Project, shall cause any Beneficiary, or Sustainable Solar Market Package service provider to prepare, disclose and implement in a manner acceptable to the Association, an environmental and social impact assessment, or environmental and social management plan in accordance with the Environmental and Social Management Framework.

- (b) The Recipient shall: (i) not waive, or permit to be waived, the Environmental and Social Management Framework, or any provision thereof, in a manner which, in the opinion of the Association, may materially and adversely affect the implementation Parts B.1 and B.2 of the Project; (ii) ensure that all measures for carrying out the Environmental and Social Management Framework are taken in a timely manner; and (iii) the Project Reports referred to in Part A of Section II to this Schedule include adequate information on monitoring the measures defined in the Environmental and Social Management Framework.

Section II. Project Monitoring, Reporting and Evaluation

A. Project Reports

- 1. (a) The Recipient shall monitor and evaluate the progress of the Project and: (i) prepare Project Reports for Parts B and C.2 of the Project; and (ii) cause TANESCO to prepare Project Reports for Parts A and C.1 of the Project, all in accordance with the provisions of Section 4.08 of the General Conditions and on the basis of the indicators set forth below in subparagraph (b) of this paragraph. Each Project Report shall cover the period of six months, and shall be furnished to the Association not later than one month after the end of the period covered by such report.
- (b) The performance indicators referred to above in sub-paragraph (a) consist of the following:
 - (i) improvement in TANESCO's operational efficiency as measured by: (A) reduction in total losses; and (B) increase in collection efficiency in targeted areas;
 - (ii) improvement in service quality as measured by: (A) increase in end user voltage; and (B) improved customer satisfaction;
 - (iii) REA is fully functional, as demonstrated by: (A) capacity to develop, finance and implement scale-up of pilot schemes; and (B) pipeline of new rural household connections; and

- (iv) number of megawatts of renewable energy installed for generation of electricity and the resulting avoided carbon dioxide emissions.
2. For the purpose of Section 4.08 (c) of the General Conditions, the report on the execution of the Project and related plan required pursuant to that Section shall be furnished to the Association not later than the date twenty four (24) months after the Effective Date.

B. Financial Management, Financial Reports and Audits

1. The Recipient shall: (a) maintain or cause to be maintained a financial management system for Parts B and C.2 of the Project; and (b) cause TANESCO to maintain a financial management system for Parts A and C.1 of the Project, all in accordance with the provisions of Section 4.09 of the General Conditions.
2. Without limitation upon the provisions of Part A of this Section, the Recipient shall: (a) in respect to Parts B and C.2 of the Project prepare and furnish to the Association; and (b) in respect to Parts A and C.1 of the Project cause TANESCO to prepare and furnish to the Association, not later than forty-five days (45) after the end of each calendar quarter, interim unaudited financial reports for the Project covering the quarter, in form and substance satisfactory to the Association.
3. The Recipient shall: (a) in respect to Parts B and C.2 of the Project have its Financial Statements audited; and (b) in respect to Parts A and C.1 of the Project cause TANESCO to audit its Financial Statements, all in accordance with the provisions of Section 4.09 (b) of the General Conditions. The respective audits of such Financial Statements shall cover the period of the respective fiscal year of TANESCO and the Recipient. The audited Financial Statements for each such period shall be furnished to the Association not later than six months after the end of such period.

Section III. Procurement

A. General

1. **Goods and Works.** All goods and works required for the Project and to be financed out of the proceeds of the Financing shall be procured in accordance with the requirements set forth or referred to in Section I of the Procurement Guidelines, and with the provisions of this Section.
2. **Consultants' Services.** All consultants' services required for the Project and to be financed out of the proceeds of the Financing shall be procured in accordance

with the requirements set forth or referred to in Sections I and IV of the Consultant Guidelines, and with the provisions of this Section.

3. **Definitions.** The capitalized terms used below in this Section to describe particular procurement methods or methods of review by the Association of particular contracts, refer to the corresponding method described in the Procurement Guidelines, or Consultant Guidelines, as the case may be.
- B. Particular Methods of Procurement of Goods and Works, and services other than Consultants' Services**
1. **International Competitive Bidding.** Except as otherwise provided in paragraph 2 below, goods and works shall be procured under contracts awarded on the basis of International Competitive Bidding.
 2. **Other Methods of Procurement of Goods and Works.** The following methods of procurement, other than International Competitive Bidding, may be used for goods and works under the circumstances specified in the Procurement Plan for each such method: (a) National Competitive Bidding; (b) Shopping; (c) Direct Contracting; and (d) Established Private or Commercial Practices which have been found acceptable to the Association.
- C. Particular Methods of Procurement of Consultants' Services**
1. **Quality- and Cost-based Selection.** Except as otherwise provided in paragraph 2 below, consultants' services shall be procured under contracts awarded on the basis of Quality and Cost-based Selection.
 2. **Other Methods of Procurement of Consultants' Services.** The following methods of procurement, other than Quality and Cost-based Selection, may be used for consultants' services under the circumstances specified in the Procurement Plan for each such method: (a) Least Cost Selection; (b) Selection Based on Consultants' Qualifications; (c) Quality Based Selection; (d) Selection under Fixed Budget; (e) Single-source Selection; (f) Established Private or Commercial Practices which have been found acceptable to the Association; (g) Procedures set forth in paragraphs 5.2 and 5.3 of the Consultant Guidelines for the Selection of Individual Consultants; and (h) Sole Source Procedures for the Section of Individual Consultants..
- D. Review by the Association of Procurement Decisions**
1. Except as the Association shall otherwise determine by notice to the Recipient, the following contracts shall be subject to Prior Review by the Association: (a) each contract for works estimated to cost the equivalent of \$500,000 or more; (b) each contract or goods estimated to cost the equivalent of \$200,000 or

more; and (c) each contract for consultants' services provided by a firm estimated to cost the equivalent of \$100,000 or more.

2. In addition, the following prior review procedures shall apply to each contract for the employment of individual consultants (other than consultants to be selected on a sole source basis) estimated to cost the equivalent of \$50,000 or more: (a) the report on the comparison of the qualifications and experience of candidates, terms of reference and conditions of employment of the consultant shall be furnished to the Association for its prior review and approval; (b) the contract shall be awarded only after the Association's approval shall have been given; and (c) the provisions of paragraph 3 and 5 of Appendix 1 to the Consultant Guidelines shall apply to the contract.
3. The following prior review procedures shall apply to each contract for the employment of individual consultants to be selected on a sole source basis: (a) the qualifications, experience, terms of reference and conditions of employment of the consultants shall be furnished to the Association for its prior review and approval; (b) the contract shall be awarded only after the Association's approval shall have been given; and (c) the provisions of paragraph 3 of Appendix 1 to the Consultant Guidelines shall apply to the contract.
4. All other contracts shall be subject to Post Review by the Association.

Section IV. Withdrawal of the Proceeds of the Financing

A. General

1. The Recipient may withdraw the proceeds of the Financing in accordance with the provisions of Article II of the General Conditions, this Section, and such additional instructions as the Association may specify by notice to the Recipient (including the "World Bank Disbursement Guidelines for Projects" dated May 2006, as revised from time to time by the Association and as made applicable to this Agreement pursuant to such instructions), to finance Eligible Expenditures as set forth in the table in paragraph 2 below.

2. The following table specifies the categories of Eligible Expenditures that may be financed out of the proceeds of the Financing (“Category”), the allocations of the amounts of the Credit to each Category, and the percentage of expenditures to be financed for Eligible Expenditures in each Category:

| Category | Amount of the Credit Allocated (expressed in SDR) | Percentage of Expenditures to be Financed (inclusive of Taxes) |
|---|--|---|
| (1) Works and goods, including supply and installation, and services other than consultants’ services under Part A of the Project | 46,700,000 | 100% |
| (2) Consultants’ services, including audits, Training and Workshops under Parts A and C.1 of the Project | 3,100,000 | 100% |
| (3) Consultants’ services, Training and Workshops, and Operating Costs under Part B.3 of the Project, and audits for Parts B and C.2 of the Project | 400,000 | 100% |
| (4) Goods, including supply and installation, and consultants’ services under Parts B.2(a) and B.3 of the Project | 4,400,000 | 100% |
| (5) Grants for Subprojects under Part B.1 and B.2(b) of the Project | 5,500,000 | 100% of the amount disbursed |
| (6) Consultants’ services under Part C.2 of the Project | 1,600,000 | 100% |
| (7) Unallocated | 6,000,000 | |
| TOTAL AMOUNT | 67,700,000 | |

B. Withdrawal Conditions; Withdrawal Period

1. Notwithstanding the provisions of Part A of this Section, no withdrawal shall be made:
- (a) for payments made prior to the date of this Agreement; or

- (b) in respect of any Grant for a Subproject under Category (5): (i) which requires the Association's no-objection pursuant to Section 1.E.3 (a) of this Schedule, unless the Association has given its no-objection to such Grant; and (ii) unless a relevant Grant Agreement has been executed between MEM and the Beneficiary, as shall be evidenced by the first of such Grant Agreements in respect of the Subprojects.

2. The Closing Date is March 31, 2012.

Section V. Other Undertakings

Charges for Lease of Generators and Compensation to TANESCO

Except as the Association may otherwise agree, the Recipient shall, during each FY: (a) make adequate provision in its budget adequate to finance all cost and charges associated with the leased generators; and (b) provide at least approximately one billion five hundred million Tanzania Shillings (Tsh 1,500,000,000) per months as compensation to TANESCO for capacity charges arising under the Power Purchase Agreement between TANESCO and Independent Power Tanzania Limited, until such time as: (i) TANESCO shall have been fully discharged from its obligation under the said Power Purchase Agreement; or (ii) TANESCO shall have produced a reasonable forecast that demonstrates its operational cost recovery.

For the purposes of this section:

- (A) The term "reasonable forecast" means a forecast prepared by TANESCO not earlier than twelve months, 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, material adverse effect on the financial condition or future operating results of TANESCO.
- (B) The term "operational cost recovery" means a financial projection that demonstrates projected gross revenues to cover the full cost of operations and maintenance, administration, depreciation of assets, and the cost of servicing debt. For the purposes of clarity, the cost basis is not expected to include any cost of capital investment projects to expand generation, transmission, and distribution capacity.

SCHEDULE 3**Repayment Schedule**

| Date Payment Due | Principal Amount of the Credit repayable (expressed as a percentage)* |
|---|--|
| On each April 15 and October 15: | |
| Commencing April 15, 2018 to and including October 15, 2027 | 1% |
| commencing April 15, 2028 to and including October 15, 2047 | 2% |

* The percentages represent the percentage of the principal amount of the Credit to be repaid, except as the Association may otherwise specify pursuant to Section 3.03 (b) of the General Conditions.

APPENDIX

Definitions

1. “Affected Person” means a person who on account of execution of Part A of the Project had or would have his or her: (i) standard of living adversely affected; or (ii) right, title or interest in any house, or interest in or right to use any land (including premises, agricultural and grazing land) or right in annual or perennial crops and trees or any other fixed or movable asset, acquired or possessed, temporarily or permanently; or (iii) business, occupation, work or place of residence or habitat adversely affected, temporarily or permanently, and “Affected Persons” means, collectively, all persons who qualify as an Affected Person.
2. “Anti-Corruption Guidelines” means the “Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by IBRD Loans and IDA Credits and Grants”, dated October 15, 2006.
3. “Beneficiary” means a public institution, or a non-governmental organization, or a private sector power developer, established and operating under the laws of the Recipient, which has met the eligibility criteria specified in the Operating Guidelines (hereinafter defined) and, as a result, has been extended, or is to be extended, a Grant (hereinafter defined) for the carrying out of a Subproject.
4. “Category” means a category set forth in the table in Section IV of Schedule 2 to this Agreement.
5. “Co-financier” means the International Bank for Reconstruction and Development acting as an Implementing agency of the Global Environment Facility (GEF), referred to in paragraph 10 of the Appendix to the General Conditions.
6. “Consultant Guidelines” means the “Guidelines: Selection and Employment of Consultants by World Bank Borrowers” published by the Bank in May 2004 and revised in October 2006.
7. “Environmental Audit” means the environmental audit for construction, rehabilitation and upgrading of approximately 18 electric power substations under Part A of the Project dated November 2005, describing the set of mitigation, enhancement, monitoring, and institutional measures to be taken during implementation of Part A of the Project to mitigate adverse environmental and social impacts, offset them, or reduce them to acceptable levels, or to enhance positive impacts; as the said audit may be amended and/or supplemented from time to time with the prior concurrence of the Association.

8. “Environmental and Social Management Framework” means the framework dated July 2007, setting the policy framework, principles, standards, processes and institutional arrangements to be applied to assess potential adverse environmental and social impacts associated with Subprojects, Sustainable Solar Market Packages, or small power plants, under Parts B.1 and B.2 of the Project, and the ways to avoid, minimize, mitigate or offset them, including public consultation, disclosure and reporting, as the said framework may be amended and/or supplemented from time to time with the prior concurrence of the Association.
9. “Environmental Impact and Social Assessment” means the environmental impact and social assessment for reinforcement and upgrade of the transmission and distribution lines in the city of Dar es Salaam, Kilimanjaro and Arusha regions under Part A of the Project dated November 2005, describing the set of mitigation, enhancement, monitoring, and institutional measures to be taken during implementation of Part A of the Project to mitigate adverse environmental and social impacts, offset them, or reduce them to acceptable levels, or to enhance positive impacts; as the said environmental impact and social assessment may be amended and/or supplemented from time to time with the prior concurrence of the Association.
10. “EWURA” means the Energy and Water Utilities Regulatory Authority established and operating pursuant to the Energy and Water Utilities Act, CAP 414 (R.E. 2002), of the Laws of the Recipient.
11. “Fiscal Year” or “FY” means the Recipient’s fiscal year commencing July 1 and ending June 30 of each year.
12. “GEF Co-financing” means an amount of approximately six million five hundred thousand Dollars (\$6,500,000), to be provided by the International Bank for Reconstruction and Development, acting as an Implementing Agency of the Global Environment Facility, to assist in financing Parts B.1 and B.2 of the Project.
13. “GEF Trust Fund Grant Agreement” means the agreement of even date herewith between the Recipient and the International Bank for Reconstruction and Development, acting as the Implementing Agency of the Global Environment Facility, providing for the GEF Co-financing.
14. “General Conditions” means the “International Development Association General Conditions for Credits and Grants”, dated July 1, 2005 (as amended through October 15, 2006).
15. “Grant” means a Matching Grant or a Performance Grant (hereinafter defined).

16. “Grant Agreement” means an agreement entered into, or to be entered into, between MEM on behalf of the Recipient, and a Beneficiary, for the purpose of extending a Grant to such Beneficiary on the terms and conditions set forth or referred to in Section I.E of Schedule 2 to this Agreement.
17. “Grid-connected Mini-grids Subproject” means a set of specific activities carried out, or to be carried out by a Beneficiary under Part B.1 (b) of the Project and financed, or proposed to be financed, through a Grant.
18. “High Voltage Distribution System” means a system for distribution of electricity at high voltages of about 11kV or above, introduced to prevent electric power pilferage and reduce distribution losses.
19. “Independent Power Tanzania Limited” means a limited liability electric power generation company established and operating pursuant to the Companies Act, CAP 212 (R.E, 2002), of the laws of the Recipient, and includes any successors thereto.
20. “Individual System Subproject” means a set of specific activities carried out, or to be carried out by a Beneficiary under Part B.2 (b) of the Project and financed, or proposed to be financed, through a Grant.
21. “Isolated Mini-grids Subproject” means a set of specific activities carried out, or to be carried out by a Beneficiary under Part B.1 (c) of the Project and financed, or proposed to be financed, through a Grant.
22. “Low Voltage Distribution System” means a system for distribution of electricity at low voltages below 11kV.
23. “Matching Grant” means a grant made or proposed to be made out of the proceeds of the Financing to a private sector Beneficiary for the purpose of financing a Small Renewable Power Generation Subproject (hereinafter defined) under Parts B.1 and B.2 (b) of the Project.
24. “MEM” means the Recipient’s Ministry of Energy and Minerals.
25. “Operating Costs” means the operating costs incurred on account of the implementation of Part B of Project including maintenance of vehicles, fuel, equipment, office supplies, utilities, consumables, advertising expenses, travel per diems, and accommodation, but excluding salaries of the Recipient’s civil servants.
26. “Operating Guidelines” means the guidelines, in form and substance satisfactory to the Association, containing or referring to detailed arrangements and procedures for the implementation of Parts B.1 and B.2 of the Project, including: (i) institutional coordination and day-to-day execution of activities

Subprojects; (ii) eligibility criteria and approval, disbursement, administration and monitoring and evaluation arrangements for Subprojects, together with sample grant agreement formats, sample standard power purchase agreements and tariff; (iii) monitoring, evaluation, reporting, information, education and communication; and (iv) such other administrative, financial, technical and organizational arrangements and procedures as shall be required for Parts B.1 and B.2 of the Project.

27. “Performance Grant” means a grant made or proposed to be made out of the proceeds of the Financing to a private sector or non-governmental organization Beneficiary for the purpose of financing a Grid-connected Mini-grid Subproject, an Isolated Mini-grid Subproject, or an Individual System Subproject under Parts B.1 and B.2 (b) of the Project.
28. “Power Purchase Agreement” means the Power Purchase Agreement dated May 26, 1995 between Independent Power Tanzania Limited and Tanzania Electric Supply Company Limited, and includes all schedules, annexes, appendixes, and/or addendums to the Power Purchase Agreement, as the same may be amended from time to time by its parties.
29. “Procurement Guidelines” means the “Guidelines: Procurement under IBRD Loans and IDA Credits” published by the Bank in May 2004 and revised in October, 2006.
30. “Procurement Plan” means the Recipient’s procurement plan for the Project, dated October 8, 2007 and referred to in paragraph 1.16 of the Procurement Guidelines and paragraph 1.24 of the Consultant Guidelines, as the same shall be updated from time to time in accordance with the provisions of said paragraphs.
31. “REA” means the Rural Energy Agency established and operating pursuant to the Rural Energy Act, No.8 of 2005 of the laws of the Recipient.
32. “Resettlement Action Plan” means each plan to be prepared pursuant to the Resettlement Policy Framework, as may be required, in accordance with Section I.C.1 of the Schedule to the Project Agreement, setting out the principles, procedures, the time schedule governing acquisition of rights to land, resettlement and compensation, as well as reporting and monitoring arrangements to ensure compliance with said plan.
33. “Resettlement Policy Framework” means the framework satisfactory to the Association, dated July 2007, setting forth the guidelines and procedures for preparation of resettlement action plans in the likely event of acquisition of rights to land, resettlement procedures and compensation, institutional arrangements, including valuation procedures, budget, public consultation and

participation, monitoring and evaluation, and disclosure, as the same may be amended from time to time with the agreement of the Association.

34. “Small Renewable Power Generation Subproject” means a set of specific activities carried out or to be carried out by a Beneficiary under Part B.1 (a) of the Project and financed or proposed to be financed through a Grant.
35. “Subproject” means a Small Renewable Power Generation Subproject, or a Grid-connected Mini-grids Subproject, or an Isolated Mini-grids Subproject, or an Individual System Subproject.
36. “Subsidiary Agreement” means the agreement referred to in Section I.B of Schedule 2 to this Agreement pursuant to which the Recipient shall make part of the proceeds of the Financing available to TANESCO.
37. “Sustainable Solar Market Package” means a package under Part B.2 (a) of the Project, comprised of services for supply and installation including maintenance of a photovoltaic and other lighting system by a private sector power developer to a rural health center, post-primary school, or other rural public institution.
38. “TANESCO” means the Tanzania Electric Supply Company Limited, (Project Implementing Entity for Parts A and C.1 of the Project), a limited liability electric power generation, transmission and distribution company established and operating pursuant to the Companies Act, CAP 212 (R.E 2002) of the laws of the Recipient, and includes any successors thereto.
39. “Tanzania Shilling” or “TSh” means the currency of the Recipient.
40. “Training and Workshops” means costs associated with the training of personnel involved in Project supported activities including travel and subsistence costs for training participants, costs associated with securing the services of trainers, rental of training facilities, preparation and reproduction of training materials, and other costs directly related to course preparation and implementation, for relevant approved training and workshops.