

CONFORMED COPY

CREDIT NUMBER 2489 TA

Development Credit Agreement

(Sixth Power Project)

between

UNITED REPUBLIC OF TANZANIA

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated July 26, 1993

CREDIT NUMBER 2489 TA

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated July 26, 1993, between UNITED REPUBLIC OF TANZANIA (the Borrower) and INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association).

WHEREAS: (A) the Borrower, having satisfied itself as to the feasibility and priority of the Project described in Schedule 2 to this Agreement, has requested the Association to assist in the financing of the Project;

(B) the Borrower intends to obtain from the European Investment Bank (EIB) a loan (the EIB Loan) in an amount equivalent to \$15,000,000 to assist in financing Part A of the Project on the terms and conditions set forth in an agreement (the EIB Loan Agreement) to be entered into between the Borrower and EIB;

(C) the Borrower and the Overseas Development Administration of the United Kingdom intend to enter into a Memorandum of Understanding (the ODA Memorandum of Understanding) for the purpose of making available to the Borrower goods and services with a value equivalent to \$3,200,000 (the ODA Grant) to assist in financing Part

H of the Project on terms and conditions set forth in the ODA Memorandum of Understanding;

(D) Parts A through H of the Project will be carried out by the Tanzania Electric Supply Company Limited (TANESCO) with the Borrower's assistance and, as part of such assistance, the Borrower will make available to TANESCO proceeds of the Credit as hereinafter provided in this Agreement;

(E) Part J of the Project will be carried out by the Zanzibar State Fuel and Power Corporation (ZSFPC) with the Borrower's assistance and, as part of such assistance, the Borrower will make available to ZSFPC through the Revolutionary Government of Zanzibar (the Government of Zanzibar) proceeds of the Credit as hereinafter provided in this Agreement; and

WHEREAS the Association has agreed, on the basis, inter alia, of the foregoing, to extend the Credit to the Borrower upon the terms and conditions set forth in this Agreement and in the Project Agreement of even date herewith between the Association and TANESCO;

NOW THEREFORE the parties hereto hereby agree as follows:

#### ARTICLE I

##### General Conditions; Definitions

Section 1.01. The "General Conditions Applicable to Development Credit Agreements" of the Association, dated January 1, 1985, with the last sentence of Section 3.02 deleted (the General Conditions) constitute an integral part of this Agreement.

Section 1.02. Unless the context otherwise requires, the several terms defined in the General Conditions and in the Preamble to this Agreement have the respective meanings therein set forth and the following additional terms have the following meanings:

(a) "Project Preparation Advance" means the project preparation advance granted by the Association to the Borrower pursuant to an exchange of letters dated November 8, 1990, and December 7, 1990, between the Borrower and the Association;

(b) "Special Account" means the account referred to in Section 2.02 (b) of this Agreement;

(c) "TANESCO Subsidiary Loan Agreement" means the agreement to be entered into between the Borrower and TANESCO pursuant to Section 3.01 (b) of this Agreement, as the same may be amended from time to time, and such term includes any schedules to the Tanesco Subsidiary Loan Agreement;

(d) "ZSFPC Subsidiary Loan Agreement" means the agreement to be entered into between the Borrower, the Zanzibar Government and pursuant to Section 3.01 (c) of this Agreement, as the same may be amended from time to time, and such term includes any schedules to the ZSFPC Subsidiary Loan Agreement;

(e) "Subsidiary Loan Agreements" means the TANESCO Subsidiary Loan Agreement and the ZSFPC Subsidiary Loan Agreement;

(f) "TANESCO" means the Tanzania Electric Supply Company Limited, registered and operating under the laws of the Borrower;

(g) "Project Agreement" means the agreement between the Association and TANESCO, of even date herewith, as the same may be amended from time to time, and such term includes all schedules and agreements supplemental to the Project Agreement;

(h) "MWEM" means the Borrower's Ministry of Water, Energy and Minerals;

(i) "NUWA" means the National Urban Water Authority

established and operating under the laws of the Borrower;

(j) "PIP" means the Productivity Improvement Program of TANESCO;

(k) "ZSFPC" means the Zanzibar State Fuel and Power Corporation established pursuant to Presidential Decree No. 12 of 1964 (the ZSFPC Decree);

(l) "PMU" means the Project Management Unit to be established by TANESCO under the Project; and

(m) "Statement of Policy" means the statement of policy, dated November 24, 1992, issued by TANESCO's Board of Directors and endorsed by the Borrower, which provides a guide to TANESCO's operations, reflecting sound management of its operations and financial policies and a balanced approach to its development and commercially oriented functions.

## ARTICLE II

### The Credit

Section 2.01. The Association agrees to lend to the Borrower, on the terms and conditions set forth or referred to in this Development Credit Agreement, an amount in various currencies equivalent to one hundred and forty-four million two hundred thousand Special Drawing Rights (SDR 144,200,000).

Section 2.02. (a) The amount of the Credit may be withdrawn from the Credit Account in accordance with the provisions of Schedule 1 to this Agreement for expenditures made (or, if the Association shall so agree, to be made) in respect of the reasonable cost of goods and services required for the Project and to be financed out of the proceeds of the Credit.

(b) The Borrower shall, for the purposes of Parts A through H of the Project, open and maintain in dollars a special deposit account in a commercial bank on terms and conditions satisfactory to the Association, including appropriate protection against set-off, seizure or attachment. Deposits into, and payments out of, the Special Account shall be made in accordance with the provisions of Schedule 4 to this Agreement.

(c) Promptly after the Effective Date, the Association shall, on behalf of the Borrower, withdraw from the Credit Account and pay to itself the amount required to repay the principal amount of the Project Preparation Advance withdrawn and outstanding as of such date and to pay all unpaid charges thereon. The unwithdrawn balance of the authorized amount of the Project Preparation Advance shall thereupon be cancelled.

Section 2.03. The Closing Date shall be June 30, 2000, or such later date as the Association shall establish. The Association shall promptly notify the Borrower of such later date.

Section 2.04. (a) The Borrower shall pay to the Association a commitment charge on the principal amount of the Credit not withdrawn from time to time at a rate to be set by the Association as of June 30 of each year, but not to exceed the rate of one-half of one percent (1/2 of 1%) per annum.

(b) The commitment charge shall accrue: (i) from the date sixty days after the date of this Agreement (the accrual date) to the respective dates on which amounts shall be withdrawn by the Borrower from the Credit Account or cancelled; and (ii) at the rate set as of the June 30 immediately preceding the accrual date or at such other rates as may be set from time to time thereafter pursuant to paragraph (a) above. The rate set as of June 30 in each year shall be applied from the next payment date in that year specified in Section 2.06 of this Agreement.

(c) The commitment charge shall be paid: (i) at such places as the Association shall reasonably request; (ii) without restrictions of any kind imposed by, or in the territory of, the Borrower; and (iii) in the currency specified in this Agreement for the purposes of Section 4.02 of the General Conditions or in such other eligible currency or currencies as may from time to time be designated or selected pursuant to the provisions of that Section.

Section 2.05. The Borrower shall pay to the Association a service charge at the rate of three-fourths of one per cent (3/4 of 1%) per annum on the principal amount of the Credit withdrawn and outstanding from time to time.

Section 2.06. Commitment charges and service charges shall be payable semiannually on February 15 and August 15 in each year.

Section 2.07. (a) Subject to paragraphs (b) and (c) below, the Borrower shall repay the principal amount of the Credit in semi-annual installments payable on each February 15 and August 15 commencing August 15, 2003, and ending February 15, 2033. Each installment to and including the installment payable on August 15, 2013, shall be one percent (1%) of such principal amount, and each installment thereafter shall be two percent (2%) of such principal amount.

(b) Whenever: (i) the Borrower's gross national product per capita, as determined by the Association, shall have exceeded \$790 in constant 1985 dollars for five consecutive years; and (ii) the Bank shall consider the Borrower creditworthy for Bank lending, the Association may, subsequent to the review and approval thereof by the Executive Directors of the Association and after due consideration by them of the development of the Borrower's economy, modify the terms of repayment of installments under paragraph (a) above by requiring the Borrower to repay twice the amount of each such installment not yet due until the principal amount of the Credit shall have been repaid. If so requested by the Borrower, the Association may revise such modification to include, in lieu of some or all of the increase in the amounts of such installments, the payment of interest at an annual rate agreed with the Association on the principal amount of the Credit withdrawn and outstanding from time to time, provided that, in the judgment of the Association, such revision shall not change the grant element obtained under the above-mentioned repayment modification.

(c) If, at any time after a modification of terms pursuant to paragraph (b) above, the Association determines that the Borrower's economic condition has deteriorated significantly, the Association may, if so requested by the Borrower, further modify the terms of repayment to conform to the schedule of installments as provided in paragraph (a) above.

Section 2.08. The currency of the United Kingdom of Great Britain and Northern Ireland is hereby specified for the purposes of Section 4.02 of the General Conditions.

Section 2.09. (a) TANESCO is designated as representative of the Borrower in respect of Parts A through H of the Project for the purposes of taking any action required or permitted to be taken under the provisions of Section 2.02 of this Agreement and Article V of the General Conditions.

(b) ZSFPC is designated as representative of the Borrower in respect of Part J of the Project for the purposes of taking any action required or permitted to be taken under the provisions of Section 2.02 of this Agreement and Article V of the General Conditions.

### ARTICLE III

#### Execution of the Project

Section 3.01. (a) The Borrower declares its commitment to the

objectives of the Project as set forth in Schedule 2 to this Agreement and, to this end:

- (i) shall carry out Part I of the Project with due diligence and efficiency and in conformity with appropriate administrative and financial practices and shall provide, promptly as needed, the funds, facilities, services and other resources required for such Parts of the Project;
- (ii) without limitation or restriction upon any of its other obligations under this Development Credit Agreement (A) shall cause TANESCO to perform all its obligations set forth in the Project Agreement, (B) shall take or cause to be taken all action, including the provision of funds, facilities, services and other resources, necessary or appropriate to enable TANESCO to perform such obligations, and (C) shall not take or permit to be taken any action which would prevent or interfere with such performance; and
- (iii) without limitation or restriction upon any of its other obligations under this Development Credit Agreement (A) shall cause ZSFPC to perform all its obligations set forth in the ZSFPC Subsidiary Loan Agreement, (B) shall take or cause to be taken all action necessary or appropriate to enable ZSFPC to perform such obligations, and (C) shall not take or permit to be taken any action which would prevent or interfere with such performance.

(b) The Borrower shall relend the proceeds of the Credit for Parts A through H of the Project to TANESCO under a subsidiary loan agreement to be entered into between the Borrower and TANESCO, under terms and conditions which shall have been approved by the Association and which shall include an interest of at least 7.43% per annum, with the principal to be repaid in 20 years including a grace period of five years, and with TANESCO bearing the cost of fluctuations in the currencies relent to it.

(c) The Borrower shall relend the proceeds of the Credit for Part J of the Project to ZSFPC through the Zanzibar Government under a subsidiary loan agreement to be entered into between the Borrower, the Zanzibar Government and ZSFPC under terms and conditions which shall have been approved by the Association and which shall include:

- (i) interest payable by ZSFPC of at least 7.43% per annum;
- (ii) repayment by ZSFPC of principal in 20 years including a grace period of five years;
- (iii) the bearing by ZSFPC of the cost of fluctuations in the currencies relent to it; and
- (iv) provisions in the ZSFPC Subsidiary Loan Agreement requiring ZSFPC to carry out the actions described in Schedule 5 to this Agreement.

(d) The Borrower shall exercise its rights under the Subsidiary Loan Agreements in such manner as to protect the interests of the Borrower and the Association and to accomplish the purposes of the Credit, and except as the Association shall otherwise agree, the Borrower shall not assign, amend, abrogate or waive the Subsidiary Loan Agreements or any provision thereof.

Section 3.02. The Borrower and the Association hereby agree that 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:

- (i) Parts A through H of the Project shall be carried out by TANESCO pursuant to Section 2.03 of the Project Agreement; and
- (ii) Part J of the Project shall be carried out by ZSFPC pursuant to paragraph 1 (iv) of Schedule 5 to this Agreement and the applicable provisions of the ZSFPC Subsidiary Loan Agreement.

Section 3.03. (a) The Borrower shall: (i) make necessary arrangements to separate TANESCO's in-house construction of transmission and distribution lines; and (ii) by December 31, 1993, offer such business to private investors.

(b) The Borrower shall: (i) by January 1, 1994, appoint consultants to carry out a study of privatization options; (ii) review the recommendations of the study taking into account the Association's comments; (iii) agree with the Association a plan of action; and (iv) promptly thereafter carry out the said plan of action.

Section 3.04. The Borrower shall on a quarterly basis commencing September 30, 1993, pay TANESCO directly for the electricity consumption of those consumers which for humanitarian reasons cannot be disconnected.

Section 3.05. The Borrower shall: (a) ensure that the tariff agreement between TANESCO and ZSFPC is complied with by ZSFPC; and (b) shall pay TANESCO for any shortfall caused by the non-payment by ZSFPC.

Section 3.06. (a) The Borrower shall, not later than June 30, 1994, carry out a joint review of the Project, with the Association and TANESCO.

(b) Such review shall, inter alia, assess whether TANESCO has: (i) increased and maintained its average tariff at the levels referred to in Section 2.09 of the Project Agreement; (ii) reduced its accounts receivable to about 75 days of sales revenues; (iii) implemented the staffing proposals referred to in paragraph 6 of Schedule 2 to the Project Agreement; (iv) offered its construction business for sale to private investors; and (v) developed a clearly defined strategy and a program for the divestiture of its distribution systems.

Section 3.07. (a) The Borrower shall, no later than June 30, 1996, carry out jointly with the Association and TANESCO a mid-term review of the Project. The purposes of such review shall be: (i) to conduct a comprehensive assessment of progress in the implementation of the physical components of the Project; and (ii) to assess whether TANESCO has taken necessary actions to meet its obligations under the Project Agreement, particularly in the areas of corporate autonomy, tariffs, collections and a competitive remuneration package for TANESCO's employees.

Section 3.08. The Borrower shall provide full financing and reimburse TANESCO for the maintenance and administration costs of any rural electrification project or any other investment it requires TANESCO to undertake, maintain or administer which the Borrower considers to be socially important but which is not financially viable.

Section 3.09. Except as the Association shall otherwise agree, procurement of the goods, works and consultants' services required for Parts I and J of the Project and to be financed out of the proceeds of the Credit shall be governed by the provisions of Schedule 3 to this Agreement.

## ARTICLE IV

### Financial Covenants

Section 4.01. (a) The Borrower shall maintain or cause to be maintained records and accounts adequate to reflect in accordance with sound accounting practices the operations, resources and expenditures in respect of Part I of the Project of the departments or agencies of the Borrower responsible for carrying out the Project or any part thereof.

(b) The Borrower shall:

- (i) have the records and accounts referred to in paragraph (a) of this Section including those for the Special Account for each fiscal year audited, in accordance with appropriate auditing principles consistently applied, by independent auditors acceptable to the Association;
- (ii) furnish to the Association, as soon as available, but in any case not later than six months after the end of each such year, a certified copy of 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 the audit thereof as the Association shall from time to time reasonably request.

(c) For all expenditures with respect to which withdrawals from the Credit Account were made on the basis of statements of expenditure, the Borrower shall:

- (i) maintain or cause to be maintained, in accordance with paragraph (a) of this Section, records and accounts reflecting such expenditures;
- (ii) retain, until at least one year after the Association has received the audit report for the fiscal year in which the last withdrawal from the Credit Account or payment out of the Special Account was made, all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures;
- (iii) enable the Association's representatives to examine such records; and
- (iv) ensure that such records and accounts are included in the annual audit referred to in paragraph (b) of this Section and that the report of such audit contains a separate opinion by said auditors as to whether the statements of expenditure submitted during such fiscal year, together with the procedures and internal controls involved in their preparation, can be relied upon to support the related withdrawals.

## ARTICLE V

### Remedies of the Association

Section 5.01. (a) Pursuant to Section 6.02 (h) of the General Conditions, the following additional events are specified:

- (i) TANESCO or ZSFPC shall have failed to perform

any of their obligations under the Project Agreement or the ZSFPC Subsidiary Loan Agreement;

- (ii) as a result of events which have occurred after the date of this Development Credit Agreement, an extraordinary situation shall have arisen which shall make it improbable that TANESCO or ZSFPC will be able to perform their obligations under the Project Agreement or the ZSFPC Subsidiary Loan Agreement;
- (iii) the Electricity (Tanganyika Electric Supply Company Limited) License, 1957 or the ZSFPC Decree shall have been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the ability of TANESCO or ZSFPC to perform any of their obligations under the Project Agreement or the ZSFPC Subsidiary Loan Agreement;
- (iv) the Borrower or any other authority having jurisdiction shall have taken any action for the dissolution or disestablishment of TANESCO or ZSFPC or for the suspension of their operations;
- (v) the Statement of Policy shall have been amended or changed without the prior consent of the Association; and
- (vi) subject to subparagraph (ii) of this paragraph
  - (A) the right of the Borrower to withdraw the proceeds of any loan or grant made to the Borrower for the financing of the Project (including the EIB Loan and the ODA Grant) shall have been suspended, cancelled or terminated in whole or in part, pursuant to the terms thereof, or
  - (B) any such loan shall have become due and payable prior to the agreed maturity thereof.

(b) Paragraph (a) (vi) of this Section shall not apply if the Borrower establishes to the satisfaction of the Association that: (i) such suspension, cancellation, termination or prematuring is not caused by the failure of the Borrower to perform any of its obligations under such agreement; and (ii) adequate funds for the Project are available to the Borrower from other sources on terms and conditions consistent with the obligations of the Borrower under this Agreement.

Section 5.02. Pursuant to Section 7.01 (d) of the General Conditions, the following additional events are specified:

(a) any event specified in paragraph (a) (i) and (v) of Section 5.01 of this Agreement shall occur and shall continue for a period of sixty days after notice thereof shall have been given by the Association to the Borrower; and

(b) any event specified in paragraph (a) (iii), (iv) and (vi) of Section 5.01 of this Agreement shall occur, subject in the case of the event specified in paragraph (a) (vi) to the proviso of paragraph (b) of that Section.

#### ARTICLE VI

##### Effective Date; Termination

Section 6.01. The following events are specified as additional



conditions to the effectiveness of this Development Credit Agreement within the meaning of Section 12.01 (b) of the General Conditions:

(a) the TANESCO Subsidiary Loan Agreement has been executed on behalf of the Borrower and TANESCO;

(b) TANESCO has appointed the project manager for the lower Kihansi hydro-power scheme with qualifications and experience, and under terms and conditions, satisfactory to the Association;

(c) TANESCO has established the project management unit referred to in paragraph 1 of Schedule 2 to the Project Agreement and appointed a Project Manager satisfactory to the Association;

(d) the Borrower has taken action satisfactory to the Association to finalise all cofinancing arrangements required for the Project;

(e) TANESCO's average tariff has been increased to US \$0.09 per kWh; and

(f) TANESCO has completed the certification of the outstanding bills due from the Borrower's agencies and the Borrower has paid TANESCO for all such outstanding bills.

Section 6.02. The following are specified as additional matters, within the meaning of Section 12.02 (b) of the General Conditions, to be included in the opinion or opinions to be furnished to the Association:

(a) that the Project Agreement has been duly authorized or ratified by TANESCO, and is legally binding upon TANESCO in accordance with its terms; and

(b) that the TANESCO Subsidiary Loan Agreement has been duly authorized or ratified by the Borrower and TANESCO and is legally binding upon the Borrower and TANESCO in accordance with its terms.

Section 6.03. The date ninety (90) days after the date of this Agreement is hereby specified for the purposes of Section 12.04 of the General Conditions.

#### ARTICLE VII

##### Representative of the Borrower; Addresses

Section 7.01. Except as provided in Section 2.09 of this Agreement, the Minister of the Borrower responsible for Finance is designated as representative of the Borrower for the purposes of Section 11.03 of the General Conditions.

Section 7.02. The following addresses are specified for the purposes of Section 11.01 of the General Conditions:

For the Borrower:

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

Cable address:

TREASURY  
Dar es Salaam

Telex:

41329

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)

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.

UNITED REPUBLIC OF TANZANIA

By /s/ Charles Nyirabu  
Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Edward V. K. Jaycox  
Regional Vice President  
Africa

SCHEDULE 1

Withdrawal of the Proceeds of the Credit

1. The table below sets forth the Categories of items to be financed out of the proceeds of the Credit, the allocation of the amounts of the Credit to each Category and the percentage of expenditures for items so to be financed in each Category:

Category	Amount of the Credit Allocated (Expressed in SDR Equivalent)	% of Expenditures to be Financed
(1) Civil Works (including engineering):		100% of foreign expenditures
(a) for Parts A and B of the Project	59,600,000	
(b) for Part I of the Project	4,320,000	
(2) Electrical equipment:		100% of foreign expenditures
(a) for Parts A through I of the Project	39,640,000	
(b) for Part J of the Project (ZSFPC)	1,182,000	

(3)	Vehicles and other equipment	3,240,000	100% of foreign expenditures
(4)	Training	1,000,000	100% of foreign expenditures
	Category	Amount of the Credit Allocated (Expressed in SDR Equivalent)	% of Expenditures to be Financed
(5)	Consultants' services:		100% of foreign expenditures
(a)	for Parts A through H of the Project	4,900,000	
(b)	for Part I of the Project	500,000	
(c)	for Part J of the Project (ZSFPC)	360,000	
(6)	Refunding of Project Preparation Advance	540,000	Amounts due pursuant to Section 2.02 (c) of this Agreement
(7)	Unallocated	28,920,000	
	TOTAL	144,200,000 =====	

2. For the purposes of this Schedule, the term "foreign expenditures" means expenditures in the currency of any country other than that of the Borrower for goods or services supplied from the territory of any country other than that of the Borrower.

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of:

(a) payments made for expenditures prior to the date of this Agreement; and

(b) expenditures made under Categories (2) (b) and (5) (c) until the ZSFPC Subsidiary Loan Agreement has been duly executed and ZSFPC has adjusted its tariffs in line with tariffs on the mainland.

## SCHEDULE 2

### Description of the Project

The objectives of the Project are to: (i) meet the growing demand for electricity in a least-cost manner; (ii) assist the Borrower and TANESCO in developing a sound least-cost power sector development program, including the development of indigenous energy sources such as natural gas; (iii) improve the supply and reliability of electrical energy supply to consumers by reducing outages and losses; (iv) upgrade TANESCO's institutional and management capability; (v) improve skills of TANESCO staff; and (vi) continue assistance in power pricing policy.

The Project consists of the following Parts, subject to such modifications thereof as the Borrower and the Association may agree upon from time to time to achieve such objectives:

Part A: Lower Kihansi Hydroelectric Scheme

1. Construction of a dam of 22 meters above foundation level to provide storage of about 900,000 cubic meters.
2. Construction of a 2900 meter headrace tunnel.
3. Construction of an underground powerhouse with an ultimate capacity of 300 megawatts and an initial installation of three turbines each developing 60 Megawatts.
4. Construction of two 220 kilovolt transmission lines one from Kihansi to Iringa, and the other from Kihansi to Kidatu.

Part B: Distribution Works

1. System development and reinforcement.
2. Rehabilitation and strengthening of existing facilities.
3. System expansion in the four main load centers.

Part C: Rehabilitation of the Kidatu Hydroelectric Station

Rehabilitation of the main generating equipment as well as the control and auxiliary equipment.

Part D: Institutional Support

1. Supervision of Project implementation, including construction supervision.
2. The establishment of a panel of experts to provide guidance and advice on technical matters and construction.
3. Strengthening TANESCO's institutional capability in the areas of corporate planning, distribution planning, systems improvement, management, personnel and training.

Part E: Training

1. Training of TANESCO staff at all levels especially in areas of operation and maintenance, of generation, transmission and distributions facilities, in financial and planning areas, and in management and supervisory skills.
2. Expansion of training facilities at Kidatu for additional training for the operation and maintenance of the generating stations.

Part F: Management Information Systems

1. Upgrading of TANESCO's accounting and customer service systems, including acquisition of software, computers, meters, service materials, and vehicles.
2. Establishment of a new materials management system and a personnel management system.

Part G: Workshops

Provision of workshop facilities in Dar es Salaam, in the seven distribution zones, and at Mtera, Kidatu and Pangani.

Part H: Studies

The carrying out of the following studies: (i) a power sector master plan study, (ii) revaluation of TANESCO's assets, (iii) a tariff study, and (iv) feasibility studies for two potential hydro sites.

Part I: MWEM

1. Strengthening of MWEM's Department of Energy to better plan and guide the energy sector.
2. Workover of the Mnazi Bay gasfield including construction of a pipeline and power generation facilities involving possible private sector participation.
3. Provision of consultant services for the mobilization of resources, including financing, for the development of the Songo Songo gasfield.
4. The carrying out of a privatization study.

Part J: Institutional Support to ZSFPC

Institutional support to ZSFPC including: (i) strengthening of ZSFPC's billing and finance and revenue capabilities; and (ii) provision to ZSFPC of meter and service line materials.

\* \* \*

The Project is expected to be completed by December 31, 1999.

SCHEDULE 3

Procurement and Consultants' Services

Section I: Procurement of Goods

Part A: International Competitive Bidding

Civil works and goods for Parts I and J of the Project 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.

Part B: Review by the Association of Procurement Decisions

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

With respect to all contracts, the procedures set forth in paragraphs 2 and 4 of Appendix 1 to the Guidelines shall apply. Where payments for such contracts 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.

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

Part C: 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 the Borrower in carrying out the Project, the Borrower 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 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 4

##### Special Account

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means Categories (1) through (6) set forth in the table in paragraph 1 of Schedule 1 to this Agreement;

(b) the term "eligible expenditures" means expenditures in respect of the reasonable cost of goods and services required for Parts A through H of the Project and to be financed out of the proceeds of the Credit allocated from time to time to the eligible Categories in accordance with the provisions of Schedule 1 to this Agreement; and

(c) the term "Authorized Allocation" means an amount equivalent to \$1,500,000 to be withdrawn from the Credit Account and deposited into the Special Account pursuant to paragraph 3 (a) of this Schedule.

2. Payments out of the Special Account shall be made exclusively for eligible expenditures in accordance with the provisions of this Schedule.

3. After the Association has received evidence satisfactory to it that the Special Account has been duly opened, withdrawals of the Authorized Allocation and subsequent withdrawals to replenish the Special Account shall be made as follows:

(a) For withdrawals of the Authorized Allocation, the Borrower shall furnish to the Association a request or requests for a deposit or deposits which do not exceed the aggregate amount of the Authorized Allocation. On the basis of such request or requests, the Association shall, on behalf of the Borrower, withdraw from the Credit Account and deposit into the Special Account such amount or amounts as the Borrower shall have requested.

(b) (i) For replenishment of the Special Account, the Borrower shall furnish to the Association requests for deposits into the Special Account at such intervals as the Association shall specify.

(ii) Prior to or at the time of each such request, the Borrower shall furnish to the Association the documents and other evidence required pursuant to paragraph 4 of this Schedule for the payment or payments in respect of which replenishment is requested. On the basis of each such request, the Association shall, on behalf of the Borrower,

withdraw from the Credit Account and deposit into the Special Account such amount as the Borrower shall have requested and as shall have been shown by said documents and other evidence to have been paid out of the Special Account for eligible expenditures.

All such deposits shall be withdrawn by the Association from the Credit Account under the respective eligible Categories, and in the respective equivalent amounts, as shall have been justified by said documents and other evidence.

4. For each payment made by the Borrower out of the Special Account, the Borrower shall, at such time as the Association shall reasonably request, furnish to the Association such documents and other evidence showing that such payment was made exclusively for eligible expenditures.

5. Notwithstanding the provisions of paragraph 3 of this Schedule, the Association shall not be required to make further deposits into the Special Account:

(a) if, at any time, the Association shall have determined that all further withdrawals should be made by the Borrower directly from the Credit Account in accordance with the provisions of Article V of the General Conditions and paragraph (a) of Section 2.02 of this Agreement; or

(b) once the total unwithdrawn amount of the Credit allocated to the eligible Categories for Parts A through H of the Project, less the amount of any outstanding special commitment entered into by the Association pursuant to Section 5.02 of the General Conditions with respect to Parts A through H of the Project, shall equal the equivalent of twice the amount of the Authorized Allocation.

Thereafter, withdrawal from the Credit Account of the remaining unwithdrawn amount of the Credit allocated to the eligible Categories for Parts A through H of the Project shall follow such procedures as the Association shall specify by notice to the Borrower. Such further withdrawals shall be made only after and to the extent that the Association shall have been satisfied that all such amounts remaining on deposit in the Special Account as of the date of such notice will be utilized in making payments for eligible expenditures.

6. (a) If the Association shall have determined at any time that any payment out of the Special Account: (i) was made for an expenditure or in an amount not eligible pursuant to paragraph 2 of this Schedule; or (ii) was not justified by the evidence furnished to the Association, the Borrower shall, promptly upon notice from the Association (A) provide such additional evidence as the Association may request, or (B) deposit into the Special Account (or, if the Association shall so request, refund to the Association) an amount equal to the amount of such payment or the portion thereof not so eligible or justified. Unless the Association shall otherwise agree, no further deposit by the Association into the Special Account shall be made until the Borrower has provided such evidence or made such deposit or refund, as the case may be.

(b) If the Association shall have determined at any time that any amount outstanding in the Special Account will not be required to cover further payments for eligible expenditures, the Borrower shall, promptly upon notice from the Association, refund to the Association such outstanding amount.

(c) The Borrower may, upon notice to the Association, refund to the Association all or any portion of the funds on deposit in the Special Account.

(d) Refunds to the Association made pursuant to paragraph 6 (a), (b) and (c) of this Schedule shall be credited to the Credit

Account for subsequent withdrawal or for cancellation in accordance with the relevant provisions of this Agreement, including the General Conditions.

#### SCHEDULE 5

Actions referred to in Section 3.01 (c) of this Agreement

1. The provisions of the ZSFPC Subsidiary Loan Agreement shall require ZSFPC to:

- (i) commit itself to the objectives of the Project as set forth in Schedule 2 to this Development Credit Agreement;
- (ii) carry out Part J of the Project with due diligence and efficiency and in conformity with appropriate administrative, financial, engineering and power supply practices;
- (iii) provide, or cause to be provided, promptly as needed, the funds, facilities, services and other resources required for Part J of the Project;
- (iv) until the 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;
- (v) 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 the ZSFPC Subsidiary Loan Agreement and Part J of the Project;
- (vi) duly perform all its obligations under the ZSFPC Subsidiary Loan Agreement and, except as the Association shall otherwise agree, refrain from taking or concurring in any action which would have the effect of amending, abrogating, assigning or waiving the ZSFPC Subsidiary Loan Agreement or any provision thereof;
- (vii) exchange views with the Association, at the Association's request, with regard to the progress of Part J of the Project, the performance of its obligations under the ZSFPC Subsidiary Loan Agreement, and other matters relating to the purposes of the Credit; and
- (viii) inform the Association promptly of any condition which interferes or threatens to interfere with the progress of Part J of the Project, the accomplishment of the purposes of the Credit, or the performance by ZSFPC of its obligations under the ZSFPC Subsidiary Loan Agreement.

2. The ZSFPC Subsidiary Loan Agreement shall provide that except as the Association shall otherwise agree, procurement of the goods, works and consultants' services required for Part J of the Project and to be financed out of the proceeds of the Project shall be governed by the provisions of Schedule 1 to the Project Agreement.

3. The ZSFPC Subsidiary Loan Agreement shall further require ZSFPC to:

- (i) 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;

- (ii) to operate and maintain at all times 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; and
- (iii) to 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.

4. The ZSFPC Subsidiary Loan Agreement shall also require ZSFPC to:

- (i) maintain records and accounts adequate to reflect in accordance with sound accounting practices its operations and financial condition;
  - (ii) 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;
  - (iii) furnish to the Association as soon as available, but in any case not later than six months after the end of each such year (A) certified copies of its financial statements for such year as so audited, and (B) the report of such audit by said auditors, of such scope and in such detail as the Association shall have reasonably requested; and
  - (iv) 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.
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