

CONFORMED COPY

CREDIT NUMBER 4370 -TA

Project Agreement

(Energy Development and Access Expansion Project)

between

INTERNATIONAL DEVELOPMENT ASSOCIATION

and

TANZANIA ELECTRIC SUPPLY COMPANY LIMITED

Dated JANUARY 31, 2008

CREDIT NUMBER 4370 -TA

PROJECT AGREEMENT

Agreement dated JANUARY 31, 2008, entered into between INTERNATIONAL DEVELOPMENT ASSOCIATION (“Association”) and TANZANIA ELECTRIC SUPPLY COMPANY LIMITED (TANESCO) (“Project Agreement”) in connection with the Financing Agreement (“Financing Agreement”) of same date between the UNITED REPUBLIC OF TANZANIA (“Recipient”) and the Association. The Association and TANESCO hereby agree as follows:

ARTICLE I — GENERAL CONDITIONS; DEFINITIONS

- 1.01. The General Conditions (as defined in the Appendix to the Financing 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 Financing Agreement or the General Conditions.

ARTICLE II — PROJECT

- 2.01. TANESCO declares its commitment to the objectives of the Project. To this end, TANESCO shall carry out Parts A and C.1 of the Project in accordance with the provisions of Article IV of the General Conditions, and shall provide promptly as needed, the funds, facilities, services and other resources required for the Project.
- 2.02. Without limitation upon the provisions of Section 2.01 of this Agreement, and except as the Association and TANESCO shall otherwise agree, TANESCO shall carry Parts A and C.1 of the Project in accordance with the provisions of the Schedule to this Agreement.

ARTICLE III — TERMINATION

- 3.01. For purposes of Section 8.05 (c) of the General Conditions, the date on which the provisions of this Agreement shall terminate is twenty years after the date of this Agreement.

ARTICLE IV — REPRESENTATIVE; ADDRESSES

4.01. TANESCO's Representative is its Managing Director.

4.02. The Association's Address is:

International Development Association
1818 H Street, NW
Washington, DC 20433
United States of America

Cable:	Telex:	Facsimile:
INDEVAS Washington, D.C.	248423(MCI)	1-202-477-6391

4.03. TANESCO's Address is:

TANZANIA ELECTRIC SUPPLY COMPANY LIMITED
Morogoro Road
PO Box 9024
Dar es Salaam
Tanzania

Facsimile:

(255) 22 451158

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

INTERNATIONAL DEVELOPMENT ASSOCIATION

By

/s/John Murray McIntire
Authorized Representative

TANZANIA ELECTRIC SUPPLY COMPANY LIMITED

By

/s/Idris Rashidi
Authorized Representative

SCHEDULE

Execution of Parts A and C.1 of the Project

Section I. Implementation Arrangements

A. Institutional Arrangements

TANESCO shall, at all times during the period of the Project implementation:

- (a) maintain a project team within its department of projects, under the leadership of the Senior Manager Strategic Planning and Projects, and under the overall guidance of the General Manager Transmissions. The project team will include, *inter alia*, Manager Procurement, Chief Financial Officer, General Manager Marketing, and the Chief Internal Auditor; and
- (b) appoint in accordance with the provisions of Section III.C of Schedule 2 to the Financing Agreement, and maintain, the services of consultants specializing in design and supervision, including preparation, evaluation and award of bids, supervision of execution, procurement and financial management.

B. Anti-Corruption

TANESCO shall ensure that Parts A and C.1 of the Project are carried out in accordance with the provisions of the Anti-Corruption Guidelines.

C. Environmental and Social Safeguards.

1. TANESCO shall:

- (a) carry out Part A of the Project in accordance with the environmental, social and resettlement guidelines, rules and procedures defined in the Environmental Audit, Environmental Impact and Social Assessment, and the Resettlement Policy Framework;
- (b) not amend or waive, or permit to be waived, the Environmental Audit, Environmental Impact and Social Assessment, and the Resettlement Policy Framework, or any provision thereof;
- (c) prior to construction of any distribution and transmission lines, or electric power substations, which 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 under the Project, ensure that:

- (i) an assessment is carried out in consultation with the Association to determine whether a Resettlement Action Plan would be required, and in the event that such Resettlement Action Plan is required, prepare and submit a detailed Resettlement Action Plan acceptable to the Association;
 - (ii) all rights to land, usufructs or customary rights and other property are allocated or acquired, compensation therefore is paid and resettlement is carried out in accordance with the principles and institutional procedures established in any Resettlement Action Plan;
 - (iii) Affected Persons shall be compensated, resettled and rehabilitated in accordance with the Resettlement Action Plan;
 - (iv) open and maintain an account in a commercial bank, acceptable to the Association, and deposit therein the amount adequate to cover all costs associated with the compensation and resettlement of the Affected Persons;
 - (v) the implementation arrangements for resettlement, including compensation, relocation and rehabilitation of Affected Persons are documented; and
 - (vi) the implementation of such Resettlement Action Plan is completed in a manner satisfactory to the Association.
2. Without limitation upon the provisions of Section 1.C.1, TANESCO shall:
- (a) take all measures for carrying out the recommendations of the Environmental Audit, Environmental Impact and Social Assessment, and the Resettlement Policy Framework in a timely and effective manner; and (b) include in the Project Reports referred to in Section II.A of this Schedule adequate information on monitoring the measures defined in the Environmental Audit, Environmental Impact and Social Assessment, the Resettlement Policy Framework, and any Resettlement Action Plan.

Section II. Project Monitoring, Reporting and Evaluation

A. Project Reports

- 1. TANESCO shall monitor and evaluate the progress of the Project and prepare Project Reports in accordance with the provisions of Section 4.08 of the General Conditions and on the basis of the indicators set forth below in Section II.A.1 of Schedule 2 to the Financing Agreement. Each such Project Report shall cover the period of six months, and shall be furnished to the Recipient not later than two weeks after the end of the period covered by such report for incorporation and forwarding by the Recipient to the Association of the overall Project Report.

2. TANESCO shall provide to the Recipient not later than the date twenty three (23) months after the Effective Date, for incorporation in the report referred to in Section 4.08 (c) of the General Conditions all such information as the Recipient or the Association shall reasonably request for the purposes of such Section.

B. Financial Management, Financial Reports and Audits

1. TANESCO shall maintain a financial management system and prepare financial statements in accordance with consistently applied accounting standards acceptable to the Association, both in a manner adequate to reflect the operations and financial condition of the TANESCO, including the operations, resources and expenditures related to the Project.
2. TANESCO shall have its financial statements referred to above audited by independent auditors acceptable to the Association, in accordance with consistently applied auditing standards acceptable to the Association. Each audit of these financial statements shall cover the period of one fiscal year of TANESCO. The audited financial statements for each period shall be furnished to the Association not later than six months after the end of the period.
3. Except as the Association shall otherwise agree, TANESCO shall not incur any new debt, unless TANESCO shall produce a reasonable forecast of net annual revenues equal to, or greater than 1.3 times the estimated debt service requirement of TANESCO the following Fiscal Year.

For the purpose of this Section:

- (a) the term “debt” means any indebtedness maturing by its terms more than one year after the date on which it is originally incurred.
- (b) debt shall be deemed to be incurred: (i) under a loan contract or agreement or other instrument providing for such debt or for the modification of its terms of payment on the date of such contract, agreement or instrument; and (ii) under a guarantee agreement, on the date the agreement providing for such guarantee has been entered into.
- (c) The term “reasonable forecast” means a forecast prepared by TANESCO not earlier than twelve months prior to the incurrance of the debt in question, which both the Association and TANESCO accept as reasonable and as to which the Association has notified TANESCO of its acceptability, provided that no event has occurred since such notification which has, or may reasonably be expected in the future to have, material adverse effect on the financial condition or future operating results of TANESCO.

- (d) The term “net revenues” means the difference between:
 - (i) the sum of revenues from all sources related to operations, net non-operating income between that Fiscal Year and the next fiscal Year; and
 - (ii) the sum of all expenses related to operations including administration, maintenance, taxes and payments in lieu of taxes, but excluding provision for depreciation, other non-cash operating charges and interest and other charges on debt.
- (e) The term “net non-operating income” means the difference between:
 - (i) revenues from all sources other than those related to operations; and
 - (ii) expenses, including taxes and payments in lieu of taxes, incurred in the generation of revenues in (i) above, and any principal and debt repayment.
- (f) The term “debt service requirements” means the aggregate amount of repayments (including sinking fund payment, if any) of, and interest and other charges on, debt.

4. Except as the Association shall otherwise agree, TANESCO shall maintain a gross domestic sales revenue at least Tsh.100 per kilowatt hour (Tsh 100/kWh) per each unit of power generated, imported or contracted under a power purchase agreement.

For the purpose of this Section the term “gross domestic sales revenue” means the gross revenues generated from the sale of electricity of TANESCO.

Section III. Procurement

All goods, works and services required for Parts A and C.1 of the Project and to be financed out of the proceeds of the Financing shall be procured in accordance with the provisions of Section III of Schedule 2 to the Financing Agreement.