Financing Agreement

(Additional Financing for Energy Development and Access Expansion Project)

between

UNITED REPUBLIC OF TANZANIA

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated April 9, 2010
CREDIT NUMBER 4726-TZ

FINANCING AGREEMENT

AGREEMENT dated April 9, 2010, entered into between the UNITED REPUBLIC OF TANZANIA (“Recipient”) and the INTERNATIONAL DEVELOPMENT ASSOCIATION (“Association”) for the purpose of providing additional financing for activities related to the Original Project (as defined in the Appendix to this Agreement). 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, the Original Financing Agreement, or this Agreement.

1.03. The Original Financing Agreement is amended as set out in Section II of 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 sixteen million one hundred thousand Special Drawing Rights (SDR 16,100,000) (variously, “Credit” and “Financing”) to assist in financing Parts B.1(d) and (e), and B.4 of the Original Project as amended pursuant to Section 1.03 of this Agreement (“Project”).

2.02. The Recipient may withdraw the proceeds of the Financing in accordance with Section II of Schedule 1 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 The Service Charge payable by the Recipient on the Withdrawn Credit Balance shall be equal to three-fourths of one percent (3/4 of 1%) per annum.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 2 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 the Project through the REA and TIB in accordance with the provisions of Article IV of the General Conditions.

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 1 to this Agreement.

**ARTICLE IV – REMEDIES OF THE ASSOCIATION**

4.01. The Additional Event of Suspension consists of the following:

REA’s or TIB’s Enabling Legislation has been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the ability of REA or TIB, as the case may be, to perform any of its respective duties or obligations under the Project.

4.02. The Additional Event of Acceleration consists of the following:

The event specified in Section 4.01 of this Agreement occurs.

**ARTICLE V – EFFECTIVENESS; TERMINATION**

5.01. The Additional Conditions of Effectiveness consist of the following:

(a) The Project Service Agreement under this Project has been executed between the Recipient and TIB; and

(b) The adoption of addendum to the Operating Guidelines in a form and substance satisfactory to the Association.

5.02. The Additional Legal Matter consists of the following, namely, that the Project Service Agreement has been duly authorized or ratified by the Recipient and TIB and is legally binding upon the Recipient and TIB in accordance with the Project Service Agreement’s 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 (20) 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 and Economic Affairs
P. O. Box 9111
Dar es Salaam
United Republic of 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, month and year first above written.

UNITED REPUBLIC OF TANZANIA

By

/s/ Ramadhani Khijjah
Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By

/s/ John McIntire
Authorized Representative
SCHEDULE 1

Project Execution

Section I.  Implementation Arrangements

A.  Institutional Arrangements

1.  Steering Committee
   (a) The Recipient shall, by not later than June 30, 2010, establish and thereafter maintain, at all times until the completion of the Project, a Steering Committee with composition, mandate and resources acceptable to the Association.
   (b) The Steering Committee shall comprise of representatives from the BOT, EWURA, MEM, MOFEA, REA, TANESCO and TIB, and shall review overall project policies and results, and oversee the implementation of the credit line and associated program/policy issues including: (i) conflict resolution involving PFI eligibility; (ii) periodic review of on-lending term methodology and benchmarks; and (iii) steps to be taken for PFIs’ compliance.

2.  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, REA shall be responsible for: (i) day to day implementation of Part B 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 Part B of the Project.

3.  BOT
   To facilitate the carrying out of Part B.4 of the Project, the Recipient shall require BOT, on behalf of the Recipient, and in accordance with the Operating Guidelines, to perform the following functions with respect to this Project:
(a) initial evaluation of PFI compliance with Eligibility Criteria based on BOT prudential regulations and in accordance with the Operating Guidelines;

(b) periodic confirmation of PFI compliance with Eligibility Criteria in accordance with the Operating Guidelines; and

(c) provision of appropriate data to TIB for the calculation of on lending terms to PFIs in accordance with the Operating Guidelines.

4. Section I.F(2) of Schedule 2 to the Original Financing Agreement is hereby incorporated by reference in this Part A and renumbered as paragraph 4, and shall apply, \textit{mutatis mutandis}, to the Financing with respect to Part B.4, and the Recipient undertakes to comply with the provisions thereof to the same extent as if such provisions had been set out in full in this Agreement.

5. Sections II A (1.)(a)(i), A (1.)(b)(ii), (iii) and (iv) and A(2.) of Schedule 2 to the Original Financing Agreement are hereby incorporated by reference in this Part A and renumbered as paragraph 5(a)(i), 5(b)(i), (ii), (iii) and (iv) and 5(c) in the place of A(2.), and shall apply, \textit{mutatis mutandis}, to the Financing with respect to the additional sub parts (d) and (e) to Part B.1 and to Part B.4, and the Recipient undertakes to comply with the provisions thereof to the same extent as if such provisions had been set out in full in this Agreement.

6. Section III of Schedule 2 to the Original Financing Agreement is hereby incorporated by reference in this Part A and renumbered as paragraph 6, and shall apply, \textit{mutatis mutandis}, to the Financing with respect to the additional sub parts (d) and (e) to Part B.1 and to Part B.4, and the Recipient undertakes to comply with the provisions thereof to the same extent as if such provisions had been set out in full in this Agreement.

B. Anti-Corruption

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

C. Safeguards

The Recipient shall ensure that the Project Reports referred to in Section II.A.1(a) of Schedule 2 to the Original Financing Agreement include information on the implementation of Parts B.1(d) and (e), and Part B.4 of the Project.
D. Project Service Agreement

1. To facilitate the carrying out of Part B.4 of the Project, the Recipient shall enter into a service agreement with TIB, under terms and conditions approved by the Association (“Project Service Agreement”), which shall, *inter alia*, include the following:

(a) the requirement that TIB carry out its functions under Part B.4 of the Project with due diligence and efficiency, in conformity with appropriate administrative and financial management practices, including updating TIB’s financial regulations manual within six (6) months of the Effective Date, and in accordance with the Operating Guidelines, and provide, or cause to be provided, promptly as needed, the facilities, services and other resources required to carry out its functions under Part B.4 of the Project, which shall include, *inter alia*, the following:

   (i) liaison with PFIs, including review of completeness of PFI applications per Operating Guidelines and Eligibility Criteria, and entering into Participation Agreements with PFIs on behalf of Recipient;

   (ii) liaison with BOT confirming PFI’s Eligibility Criteria;

   (iii) financial management of credit line funds, including requesting disbursements from the REA, and disbursing funds to PFIs;

   (iv) requesting no objections from the Association for re-financing packages if required by the Operating Guidelines;

   (v) collection of loan re-payment from PFIs;

   (vi) periodically calculating and announcing the on-lending terms, according to the methodology established in the Operating Guidelines; and

   (vii) financial reporting to MOFEA, MEM, REA and the Association.

(b) the requirement on the part of TIB to comply with record keeping, auditing and reporting requirements set forth in Section II of Schedule 2 to the Original Financing Agreement and Section I.A(4) to this Agreement with respect to Part B.4 of the Project, including the annual auditing of its records and accounts in respect of the Project (operations, resources and expenditure in respect of Part B.4 of the Project).
2. The Recipient shall exercise its rights under the Project Service 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 Project Service Agreement or any of its provisions.

E. PFI Participation Agreements for Financing Small Power Projects (SPPs)

1. To facilitate the carrying out of Part B.4 of the Project, the Recipient shall make part of the proceeds of the Financing available to PFIs, through one or more subsidiary agreements (“Participation Agreement(s)”) between PFIs and TIB, acting as Recipient’s agent, under terms and conditions approved by the Association, which shall, inter alia, include the following:

   (a) PFIs shall use the proceeds of Participation Agreements to provide Sub-Loans to Investment Enterprises to finance SPPs. To this end, PFIs shall appraise, approve and monitor SPPs, and administer the Sub-loans in accordance with the provisions and procedures set forth or referred to in this Part E and in more detail in the Operating Guidelines.

   (b) No proposed SPP shall be eligible for financing under a Sub-loan unless the PFI has determined, on the basis of an appraisal conducted in accordance with this sub paragraph and the Operating Guidelines, that the proposed SPP satisfies the eligibility criteria specified below and set forth or referred to in more detail in the Operating Guidelines, which shall include the following:

      (i) the proposed SPP activities shall fall within the scope of Part B.4 of the Project, and shall exclude any activities and expenditures specified as ineligible in the Operating Guidelines;

      (ii) the proposed SPP shall be initiated by an Investment Enterprise 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; and

      (iii) the Investment Enterprise 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.

2. Sub-loans shall be provided pursuant to Sub-financing Agreements in form and substance acceptable to the Recipient and the Association, and under terms and
conditions acceptable to the Recipient and the Association, including the following:

(a) Sub-loans shall be:

(i) denominated and repayable in Tanzanian Shillings (TZS);

(ii) charged interest on the principal amount withdrawn and outstanding from time to time at the rate to be determined by the Participating Financial Institution;

(iii) repayable over a period not exceeding fifteen (15) years from the date of the Sub-financing Agreement.

(b) PFI shall obtain rights adequate to protect interests of the Recipient and the Association, including the right to:

(i) suspend or terminate the right of the Investment Enterprise to use the proceeds of the Sub-loan, or obtain a refund of all or any part of the amount of the Sub-loan then withdrawn, upon the Investment Enterprise’s failure to perform any of its obligations under the Sub-financing Agreement; and

(ii) require each Investment Enterprise to:

(A) carry out its SPP project with due diligence and efficiency and in accordance with sound technical, economic, financial, managerial, environmental and social standards and practices satisfactory to the Recipient and the Association, including in accordance with the provisions of: (i) the Anti-Corruption Guidelines applicable to recipients of loan proceeds other than the Recipient; (ii) the Operating Guidelines; and (iii) the Environmental and Social Management Framework and Resettlement Policy Framework;

(B) provide, promptly as needed, the resources required for the SPP;

(C) procure the goods, works and services to be financed out of the Sub-loan in accordance with the provisions of the this Agreement;

(D) maintain policies and procedures adequate to enable it to monitor and evaluate in accordance with indicators
acceptable to the Recipient and the Association, the progress of the Sub-loan and the achievement of its objectives;

(E) (1) maintain a financial management system and prepare financial statements in accordance with consistently applied accounting standards acceptable to the Recipient and the Association, both in a manner adequate to reflect the operations, resources and expenditures related to the SPP; and (2) at the Recipient’s or the Association’s request, have such financial statements audited by independent auditors acceptable to the Association, in accordance with consistently applied auditing standards acceptable to the Association, and promptly furnish the statements as so audited to the Recipient, the Association;

(F) enable the Recipient and the Association to inspect the SPP, its operation and any relevant records and documents; and

(G) prepare and furnish to the Recipient and the Association all such information as the Recipient or the Association shall reasonably request relating to the foregoing.

3. The Recipient, through TIB, shall cause each PFI to exercise its rights under its Sub-financing 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 Recipient and the Association shall otherwise agree, a PFI shall not assign, amend, abrogate or waive any Sub-financing Agreement or any of its provisions.

F. Operating Guidelines

1. The Recipient, through REA, shall prepare and thereafter adopt an addendum to the Operating Guidelines, in form and substance satisfactory to the Association, which shall contain additional detailed arrangements and procedures governing Part B.1(d) and (e), and Part B.4 of the Project, including: (i) institutional coordination and day-to-day execution; (ii) eligibility criteria for SPPs and PFIs, and terms and conditions, approval and administration of Sub-loans; (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 Part B.1(d) and (e), and Part B.4 of the Project.
2. The Recipient, through REA, shall carry out Part B.1(d) and (e) of the Project and, through REA and TIB, shall carry out B.4 of the Project in accordance with the arrangements and procedures set out in the addendum to the Operating Guidelines (provided, however, that in case of any conflict between the arrangements and procedures set out in the addendum to 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 addendum to the Operating Guidelines, if such amendment, abrogation or waiver shall, in the opinion of the Association, materially or adversely affect the implementation of Part B.1(d) and (e), and Part B.4 of the Project.

Section II. 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 shall 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 category of Eligible Expenditures that may be financed out of the proceeds of the Financing (“Category”), the allocations of the amounts of the Financing to the Category, and the percentage of expenditures to be financed for Eligible Expenditures in the said Category:

<table>
<thead>
<tr>
<th>Category</th>
<th>Amount of the Additional Credit Allocated (Expressed in SDR Equivalent)</th>
<th>% of Expenditures to be Financed</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1) Goods, Works, Consultants Services, Training, Workshops, and Operating Costs for subparts (d) and (e) of Part B.1 of the Project</td>
<td>1,300,000</td>
<td>100%</td>
</tr>
<tr>
<td>2) Sub-loans to PFIs for SPPs in Part B.4 of the Project</td>
<td>14,800,000</td>
<td>100%</td>
</tr>
<tr>
<td>TOTAL</td>
<td>16,100,000</td>
<td></td>
</tr>
</tbody>
</table>
B. Withdrawal Conditions; Withdrawal Period

1. Notwithstanding the provisions of Part A of this Section, no withdrawal shall be made for payments made prior to the date of this Agreement.

2. The Closing Date is March 31, 2015.
**SCHEDULE 2**

**Repayment Schedule**

<table>
<thead>
<tr>
<th>Date Payment Due</th>
<th>Principal Amount of the Credit repayable (expressed as a percentage)*</th>
</tr>
</thead>
<tbody>
<tr>
<td>On each April 15 and October 15:</td>
<td></td>
</tr>
<tr>
<td>commencing April 15, 2020, to and including October 15, 2029</td>
<td>1%</td>
</tr>
<tr>
<td>commencing April 15, 2030, to and including October 15, 2049</td>
<td>2%</td>
</tr>
</tbody>
</table>

* 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

Section I. Definitions


2. “BOT” means Bank of Tanzania, the Recipient’s central bank established and operating pursuant to the Bank of Tanzania Act No. 4 of 2006 of the laws of the Recipient.

3. “Category” means a category set forth in the table in Section II of Schedule 1 to this Agreement.


5. “Eligibility Criteria” means the Recipient’s list of criteria, acceptable to the Association, to determine whether an entity qualifies to be a Participating Financial Institution (PFI) for the purposes of this Project, including the following eligibility requirements: (a) adequate profitability, capital and portfolio quality; (b) acceptable level of loan collections; (c) appropriate capacity, including staffing, for carrying out subproject appraisals - including environmental assessment; and (d) appropriate prudential policies, administrative structure and business procedures.


8. “Investment Enterprise” means an entity that receives a Sub-loan for the purpose of carrying out a Small Power Project (SPP).


10. “Original Financing Agreement” means the agreement dated January 31, 2008, between the Recipient and the Association to provide the Recipient with a credit in an amount in various currencies equivalent to sixty seven million seven hundred thousand Special Drawing Rights (SDR 67,700,000) to assist in financing the Energy Development and Access Expansion Project.
11. “Original Project” means the project described in Schedule 1 to the Financing Agreement entered into by the Recipient and the Association, which Agreement is dated January 31, 2008, to assist the Recipient in financing the Energy Development and Access Expansion Project.

12. “Participation Agreement” means a participation agreement referred to in Section I.E of Schedule 1 to this Agreement.

13. “Participating Financial Institution” or “PFI” means any financial institution established and operating in accordance with the laws of the Recipient, that satisfies the Eligibility Criteria to participate in the Project and executes a Participation Agreement for this purpose.

14. “Procurement Plan” means the Recipient’s procurement plan for the Project, 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.


16. “Project Service Agreement” means the agreements to be entered into between the Recipient and TIB, pursuant to Part D of Section I of Schedule 1 to this Agreement, as the same may be amended from time to time, with the approval of the Association.

17. “SPPs” means Small Power Projects for renewable energy or energy conservation that qualify under the Operating Guidelines as eligible for a Sub-loan.

18. “Sub-financing Agreement” means an agreement to be entered into between a PFI and an Investment Enterprise pursuant to Section I E (3.) of Schedule 1 to this Agreement, as the same may be amended from time to time, and such term includes all schedules to the Sub-financing Agreement.

19. “Sub-loan” means a loan made, or proposed to be made, to an Investment Enterprise by a PFI out of the proceeds of a Participation Agreement to finance one or more SPPs.

20. “TIB” means Tanzania Investment Bank Limited, the Recipient’s leading development bank established and operating pursuant to the Companies Act CAP 212 R.E. 2002 of the laws of the Recipient.
Section II. Amendment to Original Financing Agreement

The Original Financing Agreement is amended as set forth below.

1. Schedule 1, Project Description, is amended as follows:
   (a) the first paragraph is amended to read as follows:

   The objective of the Original Project is to support the Recipient’s efforts to improve the quality and efficiency of the electricity service provision in the main three growth centers of Dar es Salaam, Arusha, and Kilimanjaro and to establish a sustainable basis for energy access expansion and renewable energy development in Tanzania.

   (b) Part B.1 is amended by adding after paragraph (c) thereof the following new paragraphs (d) and (e):

   (d) technical support to PFIs and TIB for appraisal, supervision, staff training and other capacity building needs in relation to the development of their renewable energy lending portfolios; and (e) piloting new techniques and implementation approaches aimed at reducing the costs of distribution networks.

   (c) Part B is amended by adding after Part B.3 thereof the following new Part B.4:

   4. Renewable Energy Credit Line – providing Sub-loans to PFIs to finance SPPs.

2. Schedule 2, Section II A (1.) (b) is amended by amending subparagraphs (iii) and (iv) thereof to read as follows:

   (iii) REA is fully functional, as demonstrated by: (A) capacity to develop, finance and implement scale-up of pilot schemes; and (B) pipeline of 50,000 new rural connections; and

   (iv) 25 megawatts of renewable energy capacity constructed under the Project.

3. Schedule 2, Section IV B (2.) is amended to read as follows:

   2. The Closing Date shall be March 31, 2015, or such later date as the Association shall establish. The Association shall promptly notify the Recipient of such later date.
4. Appendix definition number (23) “Matching Grant” is amended to read as follows:

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, and to PFI and TIB under Part B.4 of the Project for appraisal, supervision, staff training and other capacity building needs in relation to the development of their renewable energy lending portfolio.