

CREDIT NUMBER 3991 MOZ

Project Agreement

(Beira Railway Project)

between

INTERNATIONAL DEVELOPMENT ASSOCIATION

and

PORTOS E CAMINHOS DE FERRO DE MOÇAMBIQUE, E.P.

Dated

, 2004

CREDIT NUMBER 3991 MOZ
PROJECT AGREEMENT

AGREEMENT dated _____, 2004, between INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association) and PORTOS E CAMINHOS DE FERRO DE MOÇAMBIQUE, E.P. (CFM);

WHEREAS (A) by the Development Credit Agreement of even date herewith between Republic of Mozambique (the Borrower) and the Association, the Association has agreed to make available to the Borrower an amount in various currencies equivalent to seventy five million six hundred thousand Special Drawing Rights (SDR 75,600,000), on the terms and conditions set forth in the Development Credit Agreement, but only on conditions that CFM agrees to undertake such obligations toward the Association as are set forth in this Agreement;

(B) by a subsidiary loan agreement to be entered into amongst the Borrower and CFM (the CFM Subsidiary Loan Agreement), part of the proceeds of the credit provided for under the Development Credit Agreement will be made available to CFM on the terms and conditions set forth in said CFM Subsidiary Loan Agreement; and

WHEREAS CFM, in consideration of the Association's entering into the Development Credit Agreement with the Borrower, has agreed to undertake the obligations set forth in this Agreement;

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

Definitions

Section 1.01. Unless the context otherwise requires, the several terms defined in the Development Credit Agreement, the Preamble to this Agreement and in the General Conditions (as so defined) have the respective meanings therein set forth.

ARTICLE II

Execution of the Project

Section 2.01. (a) CFM declares its commitment to the objectives of the Project as set forth in Schedule 2 to the Development Credit Agreement, and, to this end, shall carry out Part C of the Project with due diligence and efficiency and in conformity with appropriate administrative, financial, engineering, environmental and social practices, and shall provide, or cause to be provided, promptly as needed, the funds, facilities, services and other resources required for the Project.

(b) Without limitation upon the provisions of paragraph (a) of this Section and except as the Association and CFM shall otherwise agree, CFM shall carry out Part C of the Project in accordance with the Implementation Program set forth in Schedule 4 to the Development Credit Agreement, including the supervision, monitoring and reporting obligations set forth therein.

Section 2.02. Except as the Association shall otherwise agree, procurement of the goods, works and consultants' services required for Part C of the Project and to be financed out of the proceeds of the Credit shall be governed by the provisions of Schedule 3 to the Development Credit Agreement, as said provisions may be further elaborated in the Procurement Plan.

Section 2.03. (a) CFM shall carry out the obligations set forth in Sections 9.03, 9.04, 9.05, 9.06, 9.07 and 9.08 of the General Conditions (relating to insurance, use of goods and services, plans and schedules, records and reports, maintenance and land-use rights, respectively) in respect of the Project Agreement and Part C of the Project.

(b) For the purposes of Section 9.06 of the General Conditions and without limitation thereto, CFM shall:

- (i) prepare, on the basis of guidelines acceptable to the Association and furnish to the Association not later than six (6) months after the Closing Date or such later date as may be agreed for this purpose between the Association and CFM, a plan designed to ensure the continued achievement of the Project objectives; and
- (ii) afford the Association a reasonable opportunity to exchange views with CFM on the said plan.

Section 2.04. CFM shall duly perform all its obligations under the CFM Subsidiary Loan Agreement and the Tripartite Agreement. Except as the Association shall otherwise agree, CFM shall not take or concur in any action which would have the effect of amending, abrogating, assigning or waiving the CFM Subsidiary Loan Agreement and the Tripartite Agreement or any provision thereof.

Section 2.05. (a) CFM shall, at the request of the Association, exchange views with the Association with regard to the progress of Part C of the Project, the performance of its obligations under this Agreement, under the CFM Subsidiary Loan Agreement, and under the Tripartite Agreement and other matters relating to the purposes of the Credit.

(b) CFM shall promptly inform the Association of any condition which interferes or threatens to interfere with the progress of Part C of the Project, the accomplishment of the purposes of the Credit, or the performance by CFM of its

obligations under this Agreement, under the CFM Subsidiary Loan Agreement, and under the Tripartite Agreement.

ARTICLE III

Management and Operations of CFM

Section 3.01. CFM shall carry on its operations and conduct its affairs in accordance with sound administrative, engineering, environmental and social practices under the supervision of qualified and experienced management assisted by competent staff in adequate numbers.

Section 3.02. CFM shall at all times operate and maintain its plant, machinery, equipment and other property, and from time to time, promptly as needed, make all necessary repairs and renewals thereof, all in accordance with sound engineering, environmental, social and financial practices.

Section 3.03. CFM shall take out and maintain with responsible insurers, or make other provision satisfactory to the Association for, insurance against such risks and in such amounts as shall be consistent with appropriate practice.

ARTICLE IV

Financial Covenants

Section 4.01. (a) CFM shall establish and maintain a financial management system, including records and accounts, and prepare financial statements, in accordance with consistently applied accounting standards acceptable to the Association, adequate to reflect its operations and financial condition and to register separately the operations, resources and expenditures related to the Project.

- (b) CFM shall:
 - (i) have its financial statements (balance sheets, statements of income and expenses and related statements) for each Fiscal Year (or other period agreed to by the Association), audited, in accordance with consistently applied auditing standards acceptable to the Association, 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 (or such other period agreed to by the Association), (A) audited copies of the financial statements referred to in paragraph (a) of this

Section, for such year (or such other period agreed to by the Association), and (B) an opinion on such statements by said auditors, in scope and detail satisfactory to the Association; and

- (iii) furnish to the Association such other information concerning such records and accounts and the audit of such financial statements, and concerning said auditors, as the Association may from time to time reasonably request.

Section 4.02. (a) Without limitation upon CFM's reporting obligations set out in Schedule 4 to the Development Credit Agreement, CFM shall prepare and furnish to the Association a financial monitoring report, in form and substance satisfactory to the Association, which:

- (i) sets forth sources and uses of funds for the Project, both cumulatively and for the period covered by said report, showing separately funds provided under the Credit, and explains variances between the actual and planned uses of such funds;
- (ii) describes physical progress in Project implementation, both cumulatively and for the period covered by said report, and explains variances between the actual and planned Project implementation; and
- (iii) sets forth the status of procurement under the Project, as at the end of the period covered by said report.

(b) The first FMR shall be furnished to the Association not later than 45 days after the end of the first calendar quarter after the Effective Date, and shall cover the period from the incurrence of the first expenditure under the Project through the end of such first calendar quarter; thereafter, each FMR shall be furnished to the Association not later than 45 days after each subsequent calendar quarter, and shall cover the period not covered by the previous FMR until the end of such calendar quarter.

ARTICLE V

Effective Date; Termination;

Section 5.01. This Agreement shall come into force and effect on the date upon which the Development Credit Agreement becomes effective.

Section 5.02. (a) This Agreement and all obligations of the Association and of CFM thereunder shall terminate on the earlier of the following two dates:

- (i) the date on which the Development Credit Agreement shall terminate in accordance with its terms; or
- (ii) the date 25 years after the date of this Agreement.

(b) If the Development Credit Agreement terminates in accordance with its terms before the date specified in paragraph (a) (ii) of this Section, the Association shall promptly notify CFM of this event.

Section 5.03. All the provisions of this Agreement shall continue in full force and effect notwithstanding any cancellation or suspension under the General Conditions.

ARTICLE VI

Miscellaneous Provisions

Section 6.01. Any notice or request required or permitted to be given or made under this Agreement and any agreement between the parties contemplated by this Agreement shall be in writing. Such notice or request shall be deemed to have been duly given or made when it shall be delivered by hand or by mail, telex or facsimile to the party to which it is required or permitted to be given or made at such party's address hereinafter specified or at such other address as such party shall have designated by notice to the party giving such notice or making such request. Deliveries made by facsimile transmission shall also be confirmed by mail. The addresses so specified are:

For the Association:

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

Cable address:	Telex:	Facsimile:
INDEVAS Washington, D.C.	248423 (MCI) or 64145 (MCI)	(202) 477-6391

For PORTOS E CAMINHOS DE FERRO DE MOÇAMBIQUE, E. P.:

Praça dos Trabalhadores
Edifício da Estação Central, 1º Andar
Caixa Postal 2158
Maputo
Mozambique

Facsímile
(25 81) 31 33 64

Section 6.02. Any action required or permitted to be taken, and any document required or permitted to be executed, under this Agreement on behalf of CFM, or by CFM on behalf of the Borrower under the Development Credit Agreement, may be taken or executed by its President and Chairman of the Board or such other person or persons as its President and Chairman of the Board shall designate in writing, and CFM shall

furnish to the Association sufficient evidence of the authority and the authenticated specimen signature of each such person.

Section 6.03. This Agreement may be executed in several counterparts, each of which shall be an original, and all collectively but one instrument.

IN WITNESS WHEREOF, the parties hereto, acting through their duly authorized representatives, have caused this Agreement to be signed in their respective names in _____, as of the day and year first above written.

INTERNATIONAL DEVELOPMENT ASSOCIATION

By

Authorized Representative

PORTOS E CAMINHOS DE FERRO DE MOÇAMBIQUE, E.P.

By

Authorized Representative

PORTOS E CAMINHOS DE FERRO DE MOÇAMBIQUE, E.P.

By

Authorized Representative