

CONFORMED COPY

CREDIT NUMBER 1891 TA

(Agricultural Export Rehabilitation Project)

between

INTERNATIONAL DEVELOPMENT ASSOCIATION

and

COOPERATIVE AND RURAL DEVELOPMENT BANK

Dated August 16, 1988

PROJECT AGREEMENT

AGREEMENT, dated August 16, 1988 between INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association) and COOPERATIVE AND RURAL DEVELOPMENT BANK (CRDB).

WHEREAS (A) by the Development Credit Agreement of even date herewith between the United Republic of Tanzania (the Borrower) and the Association, the Association has agreed to make available to the Borrower an amount in various currencies equivalent to twenty-two million Special Drawing Rights (SDR 22,000,000), on the terms and conditions set forth in the Development Credit Agreement, but only on condition that CRDB 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 between the Borrower and CRDB, part of the proceeds of the Credit provided for under the Development Credit Agreement will be made available to CRDB on the terms and conditions set forth in said Subsidiary Loan Agreement; and

WHEREAS CRDB, 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; Management and Operations of CRDB

Section 2.01. (a) CRDB 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 the Project and conduct its operations and affairs, in accordance with sound financial standards and practices and with qualified and experienced management.

(b) Without limitation upon the provisions of paragraph (a) of this Section and except as the Association and CRDB shall otherwise agree, CRDB shall carry out the Project in accordance with the Implementation Program set forth in Schedule 2 to this Agreement.

Section 2.02. In order to assist CRDB in carrying out Part B of the Project, CRDB 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.

Section 2.03. (a) CRDB undertakes that, unless the Association shall otherwise agree, Sub-loans will be made in accordance with the procedures and on the terms and conditions set forth or referred to in Schedule 1 to this Agreement.

(b) CRDB shall exercise its rights in relation to each Investment Project in such manner as to: (i) protect the interests of the Association and of CRDB; (ii) comply with its obligations under this Agreement and the Subsidiary Loan Agreement; and (iii) achieve the purposes of the Project.

Section 2.04. CRDB shall carry out the obligations set forth in Sections 9.03, 9.04, 9.05, 9.06 and 9.07 of the General Conditions (relating to insurance, use of goods and services, plans and schedules, records and reports and maintenance, respectively) in respect of the Project Agreement.

Section 2.05. CRDB shall duly perform all its obligations under the Subsidiary Loan Agreement. Except as the Association shall otherwise agree, CRDB shall not take or concur in any action which would have the effect of assigning, amending, abrogating or waiving the Subsidiary Loan Agreement or any provisions thereof.

Section 2.06. (a) CRDB shall, at the request of the Association, exchange views with the Association with regard to the progress of the Project, the performance of its obligations under this Agreement and under the Subsidiary Loan Agreement, and other matters relating to the purposes of the Credit.

(b) CRDB shall promptly inform the Association of any conditions which interfere or threatens to interfere with the progress

of the Project, the accomplishment of the purposes of the Credit, or the performance by CRDB of its obligations under this Agreement and under the Subsidiary Loan Agreement.

ARTICLE III

Financial Covenants

Section 3.01. (a) CRDB shall maintain procedures and records adequate to monitor and record the progress of the Project and of each Investment Project (including its cost and the benefits to be derived from it) and to reflect, in accordance with consistently maintained sound accounting practices, the operations and financial condition of CRDB.

(b) CRDB shall:

- (i) 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;
- (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 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
- (iii) 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.

Section 3.02. (a) Except as the Association shall otherwise agree, CRDB shall earn for each of its fiscal years after its fiscal year ending on June 30, 1990, an annual rate of return of not less than 1.2% of the total average value of the CRDB's assets in operation.

(b) Before March in each of its fiscal years, CRDB shall, on the basis of forecasts prepared by CRDB and satisfactory to the Association, review whether it would meet the requirements set forth in paragraph (a) in respect of such year and the next following fiscal year and shall furnish to the Association the results of such review upon its completion.

(c) If any such review shows that CRDB would not meet the requirements set forth in paragraph (a) for CRDB's fiscal years covered by such review, CRDB shall promptly take all necessary measures in order to meet such requirements.

(d) For the purposes of this Section:

- (i) the annual return shall be calculated by dividing CRDB's net operating income for the fiscal year in question by one half of the sum of the total value of CRDB's assets in operation at the beginning and at the end of that fiscal year;
- (ii) the term "net operating income" means total operating revenues less total operating expenses;
- (iii) the term "total operating revenues" means revenues from all sources related to operations;
- (iv) the term "total operating expenses" means all expenses related to operations, including

administration, adequate maintenance, taxes and payments in lieu of taxes, and provision for depreciation on a basis acceptable to the Association, but excluding interest and other charges on debt; and

- (v) the total average value of CRDB's assets in operation shall be calculated as one half of the sum of the gross value of CRDB's assets in operation at the beginning and at the end of the fiscal year, as valued from time to time in accordance with sound and consistently maintained methods of valuation satisfactory to the Association.

Section 3.03. (a) Except as the Association shall otherwise agree, CRDB shall, after its fiscal year ending on June 30, 1990, maintain a ratio of current assets to current liabilities of not less than 1.5:1.

(b) Before March in each of its fiscal years, CRDB shall, on the basis of forecasts prepared by it and satisfactory to the Association, review whether it would meet the requirements set forth in paragraph (a) in respect of such year and the next following fiscal year and shall furnish to the Association, the results of such review upon its completion.

(c) If any such review shows that CRDB would not meet the requirements set forth in paragraph (a) for its fiscal years covered by such review, CRDB shall promptly take all necessary measures in order to meet such requirements.

(d) For the purposes of this Section:

- (i) The term "current assets" means cash, all assets which could in the ordinary course of business be converted into cash within twelve months, including accounts receivable, marketable securities, inventories and pre-paid expenses properly chargeable to operating expenses within the next fiscal year.
- (ii) The term "current liabilities" means all liabilities which will become due and payable or could under circumstances then existing be called for payment within twelve months, including accounts payable, customer advances, debt service requirements, taxes and payments in lieu of taxes, and dividends.
- (iii) The term "debt service requirements" means the aggregate amount of repayments (including sinking fund payments, if any) of, and interest and other charges on, debt.
- (iv) Whenever for the purposes of this Section it shall be necessary to value, in terms of the currency of the Borrower, debt payable in another currency, such valuation shall be made on the basis of the prevailing lawful rate of exchange at which such other currency is, at the time of such valuation, obtainable for the purposes of servicing such debt, or, in the absence of such rate, on the basis of a rate of exchange acceptable to the Association.

Section 3.04. (a) Except as the Association may otherwise agree, CRDB shall earn for each of its fiscal years after its fiscal year ending on June 30, 1990, an annual rate of return of not less than 10% on its equity.

(b) Before March in each of its fiscal years, CRDB shall, on the basis of forecasts prepared by CRDB, and satisfactory to the

Association, review whether it would meet the requirements set forth in paragraph (a) in respect of such year and the next following fiscal year and shall furnish to the Association the results of such review upon its completion.

(c) If any such review shows that CRDB would not meet the requirements set forth in paragraph (a) for CRDB's fiscal years covered by such review, CRDB shall promptly take all necessary measures in order to meet such requirements.

(d) for the purposes of this Section:

- (i) the annual return shall be calculated by dividing CRDB's net operating income by paid-up capital plus general reserves;
- (ii) the term "net operating income" means total operating revenues less total operating expenses;
- (iii) the term "total operating revenues" means revenues from all sources related to operations;
- (iv) the term "total operating expenses" means all expenses related to operations including administration, adequate maintenance, taxes and payments in lieu of taxes, and provision for depreciation on a basis acceptable to the Association, but excluding interest and other charges on debt;
- (v) paid-up capital means the owners' share capital in CRDB; and
- (vi) the general reserves are the retained earnings from all of CRDB's operations.

Section 3.05. CRDB shall take such steps, as shall be necessary, to protect itself against the risk of loss resulting from changes in the rates of exchange between the various currencies used in its operations.

Section 3.06. CRDB shall, by not later than September 30, 1988, provide evidence, satisfactory to the Association, that it has:

- (a) established a sound asset base; and
- (b) prepared a plan of action for reducing the remaining loan arrears as of June 30, 1987, by 33 1/3% annually, leading to the elimination of such arrears by not later than June 30, 1991.

ARTICLE IV

Effective Date; Termination;
Cancellation and Suspension

Section 4.01. This Agreement shall come into force and effect on the date upon which the Development Credit Agreement becomes effective.

Section 4.02. (a) This Agreement and all obligations of the Association and of CRDB hereunder shall terminate on the earlier of the following dates:

- (i) the date on which the Development Credit Agreement shall terminate; or
- (ii) a date 16 years after the date of this Agreement.

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

Section 4.03. All the provisions of this Agreement shall continue in full force and effect notwithstanding any cancellation or suspension under the General Conditions.

ARTICLE V

Miscellaneous Provisions

Section 5.01. 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, telegram, cable, telex or radiogram 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. 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:

INDEVAS
Washington, D.C.

Telex:

440098 (ITT)
248423 (RCA) or
64145 (WUI)

For CRDB:

Cooperative and Rural Development Bank
P.O. Box 268
Dar es Salaam
United Republic of Tanzania

Cable address:

MTAJI
Dar es Salaam

Telex:

41643

Section 5.02. Any action required or permitted to be taken, and any document required or permitted to be executed, under this Agreement on behalf of CRDB, or by CRDB on behalf of the Borrower under the Development Credit Agreement, may be taken or executed by the Chairman and Managing Director or such other person or persons as the Board of Directors of CRDB shall designate in writing, and CRDB shall furnish to the Association sufficient evidence of the authority and the authenticated specimen signature of each such person.

Section 5.03. 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 the District of Columbia, United States of America, as of the day and year first above written.

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Callisto E. Madavo
Acting Regional Vice President
Africa

COOPERATIVE AND RURAL DEVELOPMENT BANK

By /s/ Asterius M. Hyera
Authorized Representative

SCHEDULE 1

Lending Policies and Procedures

1. Eligible Investment Enterprises

To be eligible, an Investment Enterprise shall:

(a) produce an agricultural export commodity and be in need of a loan to rehabilitate or expand a viable productive activity for such commodity;

(b) engage in viable activities with good credit performance;

(c) agree to maintain a foreign exchange escrow account to enable it to meet its foreign exchange debt-service under the Project; and

(d) owe no outstanding arrears to CRDB, or have plans to clear such arrears within a reasonable period.

2. (a) Investment Projects shall be justified on the basis of an economic and financial analysis. The minimum economic rate of return for all Investment Projects above the free-limit shall be fifteen percent per annum (15%), and the minimum financial rate of return for all Investment Projects shall be seven percentage points above the cost of borrowing to the Investment Enterprises.

(b) The principal amount of each Sub-loan shall be the equivalent in dollars (determined as of the date or respective dates of withdrawal from the Credit Account) of the value of the currency or currencies so withdrawn or paid out on account of the cost of goods and services required for the carrying out of the Investment Project.

(c) Each Sub-loan shall be made on the basis of CRDB's applicable terms and conditions, provided, however, that: (i) the interest to be paid by the Investment Enterprise shall be a fixed rate of eight percent (8%) per annum; (ii) the maximum Sub-loan repayment period shall be fifteen (15) years including a maximum grace period of three (3) years; (iii) interest costs may be capitalized during the grace period; and (iv) the Investment Enterprise shall bear the foreign exchange risk.

3. No expenditures for goods or services required for an Investment Project shall be eligible for financing out of the proceeds of the Credit unless:

(a) the Sub-loan for such Investment Project shall have been approved by the Association and such expenditures shall have been made not earlier than ninety days prior to the date on which the Association shall have received the application and information required under paragraph 4 (a) of this Schedule in respect of such Sub-loan. For the purposes of the Development Credit Agreement and this Agreement, the maximum Sub-loan limit shall be \$500,000 equivalent per Investment Project; or

(b) the Sub-loan for such Investment Project shall have been a free-limit Sub-loan for which the Association has authorized withdrawals from the Credit Account and such expenditures shall have been made not earlier than ninety days prior to the date on which the Association shall have received the request and information required under paragraph 4 (b) of this Schedule in respect of such free-limit Sub-loan. For the purposes of the Development Credit Agreement and this Agreement, a free-limit Sub-loan shall be a Sub-loan for an Investment Project in an amount to be financed out of the proceeds of the Credit which shall not exceed the sum of: (i) \$250,000 equivalent, when added to any other outstanding amounts financed or proposed to be financed out of the proceeds of the Credit; or (ii) \$1,000,000 equivalent, when added to all other free-limit Sub-loans financed or proposed to be financed out of the proceeds of the Credit, the foregoing amount being subject to change from time to time as determined by the Association.

4. (a) When presenting a Sub-loan (other than a free-limit Sub-loan) to the Association for approval, CRDB shall furnish to the Association an application, in form satisfactory to the Association, which shall include inter alia: (i) a description of the Investment Enterprise and an appraisal of the Investment Project, including a description of the expenditures proposed to be financed out of the proceeds of the Credit; (ii) the proposed terms and conditions of the Sub-loan including the schedule of amortization of the Sub-loan or of repayment of the amount of the Credit to be used for the Investment; and (iii) such other information as the Association shall reasonably request.

(b) Each request by CRDB for authorization to make withdrawals from the Credit Account in respect of a free-limit Sub-loan shall contain: (i) a summary description of the Investment Enterprise and the Investment Project, including a description of the expenditures proposed to be financed out of the proceeds of the Credit, and (ii) the terms and conditions of the Sub-loan, including the schedule of amortization therefor.

(c) Applications and requests made pursuant to the provisions of sub-paragraphs (a) and (b) of this paragraph shall be presented to the Association on or before December 31, 1994.

(d) In any case CRDB shall present the first five sub-loan applications to the Association, prior to giving its authorization.

5. Sub-loans and Investment Projects shall be made on terms whereby CRDB shall obtain, by written contract with the Investment Enterprise or by other appropriate legal means, rights adequate to protect the interests of the Association and CRDB, including, in the case of any Sub-loan the right to:

(a) require the Investment Enterprise to carry out and operate the Investment Project with due diligence and efficiency and in accordance with sound technical, financial and managerial standards and to maintain adequate records;

(b) require that: (i) the goods and services to be financed out of the proceeds of the Credit shall be purchased at a reasonable price, account being taken also of other relevant factors such as time of delivery and efficiency and reliability of the goods and availability of maintenance facilities and spare parts therefor, and, in the case of services, of their quality and the competence of the parties rendering them; and (ii) such goods and services shall be used exclusively in the carrying out of the Investment Project;

(c) inspect, by itself or jointly with representatives of the Association if the Association shall so request, such goods, works, plants and construction included in the Investment Project, the operation thereof, and any relevant records and documents;

(d) require that: (i) the Investment Enterprise shall take out and maintain with responsible insurers such insurance, against such risks and in such amounts, as shall be consistent with sound business practice; and (ii) without any limitation upon the foregoing, such insurance shall cover hazards incident to the acquisition, transportation and delivery of goods financed out of the proceeds of the Credit to the place of use or installation, any indemnity thereunder to be made payable in a currency freely usable by the Investment Enterprise to replace or repair such goods;

(e) obtain all such information as the Association or CRDB shall reasonably request relating to the foregoing and to the administration, operations and financial condition of the Investment Enterprise and to the benefits to be derived from the Investment Project; and

(f) suspend or terminate the right of the Investment Enterprise to the use of the proceeds of the Credit upon failure by such Investment Enterprise to perform its obligations under its contract with CRDB.

6. CRDB shall ensure that Investment Projects are operated in accordance with sound environmental guidelines.

SCHEDULE 2

Implementation Program

Organizational Restructuring

1. CRDB shall restructure and maintain its Loan Committee, with terms of reference satisfactory to the Association, to advise the CRDB Board of Directors on Investment Project approval and to review all loan applications above Tsh 5 million. Such Committee shall comprise three senior CRDB staff members, the General Manager, Head of Development Banking and Head of Finance, as well as two outside members whose qualifications and experience shall be acceptable to the Association.

2. CRDB's Board of Directors shall, by not later than September 30, 1988, approve an organizational structure for CRDB, acceptable to the Association. CRDB shall promptly thereafter commence implementation of such structure.

Staffing

3. CRDB shall finalize its staff profile and size by September 30, 1988, and shall complete staff redeployment and where warranted retrenchment by September 30, 1989.

4. CRDB shall, by not later than December 31, 1988, employ the following professionals to staff positions within its organization for the purposes of Investment Project identification, preparation, appraisal and supervision:

(i) for its Development Bank Department; two economists, a statistician/economist, two financial analysts and two agronomists; and

(ii) for its Planning and Development Department: an engineer, a financial analyst and an economist.

Financial Rehabilitation

5. CRDB shall furnish to the Association, by not later than September 30, 1988, a financial plan of action with a view to achieving and maintaining:

(a) in all its ordinary operations an adequate financial spread over its borrowing rate to cover its costs of operation and

ensure a reasonable profit margin;

(b) a liquidity ratio of at least 1.5 by June 30, 1990;

(c) an operating profit margin of at least 10% by June 30, 1990;

(d) a fixed charges coverage of at least 1.25 times; and

(e) reducing and maintaining operating costs to a maximum of fifty percent of CRDB's income by June 30, 1990.

For the purposes of this paragraph:

"Liquidity Ratio" means current assets (cash, securities and loan with maturity of one year or less) divided by current liabilities (obligations due within one year).

"Operating Profit Margin" means pre-tax earnings divided by total revenue.

"Fixed Charges Coverage" means pre-tax earnings plus fixed charges divided by fixed charges.

"Operating Costs" means Staff costs plus administrative and general expenses plus depreciation.

"Debt Service Coverage" means pre-tax earnings plus interest and depreciation divided by interest charges plus loan repayments.

"Capital Funds" means paid-in capital plus retained earnings plus legal reserves plus provision for loan losses.

6. CRDB shall, by not later than December 31, 1988, establish a portfolio management policy, including, inter alia, guidelines for provisions for bad debt, portfolio monitoring, supervision and appraisal.

7. Except as the Association shall otherwise agree, CRDB shall not: (a) concentrate more than 10% of its loan portfolio with any single Investment Enterprise; and (b) make a Sub-loan unless the Investment Enterprise's debt service coverage is at least 1.5.

8. CRDB shall, by not later than December 31, 1988, establish a credit risk management policy, including, inter alia, how CRDB shall handle credit, customer, loan and sector risks.

Operational Policy

9. CRDB's Board of Directors shall by not later than:

(a) September 30, 1988, approve; (i) a staff manual; and (ii) a credit and portfolio management manual; and

(b) by not later than December 31, 1988, approve organizational and function statements.

10. CRDB shall update its Appraisal, Supervision and Inspection Manual by September 30, 1988.

Information Systems

11. CRDB shall: (a) by September 30, 1988, complete the review of its accounting and computer systems; and (b) by June 30, 1989, (i) update its accounting system based on the recommendations of the accounting system review, and (ii) establish and implement a Financial Information System and a Management Information System, acceptable to the Association.

Annual Work Programs:

12. (a) CRDB shall annually prepare a draft work program, which

shall, inter alia, include: (i) the list of Investment Projects identified, being prepared, appraised, approved or implemented, plus execution Schedules and comments on each Investment Project; (ii) its recruitment and training programs under the Project; (iii) the Project budget; (iv) Project commitments and disbursements; (v) a comprehensive assessment of progress relating to the implementation of its restructuring action program; (vi) its projected balance sheets, operating accounts and Profit and Loss Accounts; and (vii) discussion of any serious problem which may arise and actions to deal with them.

(b) CRDB shall submit such annual work programs to the Association for its review and comments, not later than March 31 of each year during Project Implementation, and promptly thereafter implement such program taking due account of the Association's comments.

13. CRDB shall undertake a major review of overall Project performance and furnish the report thereof to the Association by not later than June 30, 1991. Such review shall pay particular attention to the progress of institutional reforms within CRDB. CRDB shall discuss the findings of the review with the Association by not later than October 31, 1991, and reach agreement on an action program for the remainder of Project Implementation.

