

CONFORMED COPY

CREDIT NUMBER 2513 MAI

Project Agreement

(Rural Financial Services Project)

between

INTERNATIONAL DEVELOPMENT ASSOCIATION

and

MALAWI RURAL FINANCE COMPANY

Dated October 1, 1993

CREDIT NUMBER 2513 MAI

PROJECT AGREEMENT

AGREEMENT, dated October 1, 1993, between INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association) and MALAWI RURAL FINANCE COMPANY (MRFC).

WHEREAS (A) by the Development Credit Agreement of even date herewith between Republic of Malawi (the Borrower) and the Association, the Association has agreed to make available to the Borrower an amount in various currencies equivalent to eighteen million Special Drawing Rights (SDR 18,000,000), on the terms and conditions set forth in the Development Credit Agreement, but only on condition that MRFC agree 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, through the Reserve Bank of Malawi (RBM), and MRFC, part of the proceeds of the credit provided for under the Development Credit Agreement will be relented to MRFC on the terms and conditions set forth in said Subsidiary Loan Agreement; and

WHEREAS MRFC, 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 MRFC

Section 2.01. MRFC 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 as described in said Schedule and in accordance with Schedule 1 to this Agreement with due diligence and efficiency and conduct its operations and affairs, in accordance with sound financial standards and practices, with qualified and experienced management and in accordance with its Memorandum and Articles of Association.

Section 2.02. (a) MRFC undertakes that, unless the Association shall otherwise agree, Sub-loans and Seasonal Credits will be made in accordance with the procedures and on the terms and conditions set forth in Schedule 1 to this Agreement.

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

Section 2.03. Except as the Association shall otherwise agree, procurement of the goods and consultants' services required for 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.

Section 2.04. MRFC 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 acquisition, respectively) in respect of the Project Agreement.

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

Section 2.06. (a) MRFC 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) MRFC shall promptly inform the Association of any condition which interferes or threatens to interfere with the progress of the Project, the accomplishment of the purposes of the Credit, or the performance by MRFC of its obligations under this Agreement and under the Subsidiary Loan Agreement.

Section 2.07. MRFC shall adopt a manual of policies and operations, satisfactory to the Association, and, thereafter periodically update the manual to reflect any policy and operational changes.

Section 2.08. MRFC shall establish guidelines, satisfactory to the Association, for processing and administering of Subloans and Seasonal Credit.

Section 2.09. MRFC shall take all actions and measures necessary to implement the MRFC privatization action plan with a view of ensuring MRFC's privatization within a period of three years after the Effective Date.

Section 2.10. MRFC shall, for the duration of the implementation of the Project, retain a General Manager and a Financial Controller with qualifications satisfactory to the Association.

Section 2.11. (a) MRFC shall take all measures necessary to maintain a loan recovery rate of at least 90% on the operations financed under Part A (i) and (ii) of the Project.

(b) Should the recovery rate fall below 90% for reasons beyond MRFC's control, MRFC shall promptly present and implement an action plan, satisfactory to the Association, to restore the 90% recovery rate.

Section 2.12. During the implementation of the Project, BDU shall: (a) furnish its annual work program to the Association for prior review and comments; (b) periodically monitor the implementation of Part A of the Project and evaluate its impact on the End-users; and (c) submit evaluation reports to the Association at least once in each year of Project implementation.

Section 2.13. MRFC shall ensure that farmers' clubs: (a) repay 100% of outstanding Seasonal Credits before they become eligible for any additional credit; and (b) unless otherwise agreed by the Association for the 1993/1994 crop season, maintain at least 10% of their outstanding Seasonal Credits in reserve funds which will be held in a bank account controlled jointly with MRFC.

Section 2.14. MRFC shall ensure that the proceeds of Sub-loans or Seasonal Credit will not finance investments with a negative impact on the environment.

ARTICLE III

Financial Covenants

Section 3.01. (a) MRFC shall maintain procedures and records adequate to monitor and record the progress of Parts A, B.1, B.2 and C of the Project and to reflect in accordance with consistently maintained sound accounting practices the operations and financial condition of MRFC.

(b) MRFC 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 nine 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.

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 MRFC 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 15 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 MRFC 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:

197688 (TRT),
248423 (RCA),
64145 (WUI) or
82987 (FTCC)

For Malawi Rural Financial Company:

OFF Chilambula Road
P.O. Box 1280
Lilohgwe

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 MRFC may be taken or executed by the General Manager or such other person or persons as MRFC shall designate in writing, and MRFC 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/ Stephens Denning
Acting Regional Vice President
Africa

MALAWI RURAL FINANCE COMPANY

By /s/ R. B. Mbaya
Authorized Representative

SCHEDULE 1
Procedures for and Terms and Conditions of
Sub-Loans and Seasonal credits

1. Sub-loans under Part A (i) of the Project shall: (a) have maturities not exceeding five years, including appropriate grace periods, and (b) be at the market rate of interest.

2. Seasonal credits under Part A (ii) of the Project shall: (a) have maturities not exceeding 12 months; and (b) be at the market rate of interest.

3. End-users shall contribute a minimum of 10% of sub-project costs. Their contribution may include financing in kind such as labor, other inputs or work in progress.

The repayment period of: (a) Seasonal credits will vary from 6 months to a year, and (b) for short-term Sub-loans will vary from 6 months to 18 months. Medium-term sub-loans shall be made for a maximum period of 60 months, including appropriate grace periods.

4. MRFC shall carry out the initial appraisal of the sub-projects. MRFC shall review the sub-project in accordance with its own appraisal policies and lending procedures which shall continue to be satisfactory to the Association. The subproject appraisal report will be presented in a form satisfactory to the Association, and cover all relevant information, including, inter alia, the sub-projects' profitability, feasibility, and an environmental impact assessment.

MRFC shall: (a) evaluate the sub-projects in accordance with the DREA's guidelines to ensure that they will not have major adverse environmental effects; (b) take all corrective measures and actions to minimize such impact; and (c) refrain from financing sub-projects with detrimental environmental effects that cannot be mitigated.

5. Except as the Association shall otherwise agree, sub-projects under Part A (i) and (ii) of the Project shall: (a) not exceed the equivalent of \$25,000; and (b) be supported by an appraisal of the prospective End-users' creditworthiness.

6. MRFC shall, through RBM, submit to the Association for: (a) prior review and approval, the first three sub-projects to be financed with sub-loans under Part A (i) of the Project; and (b)

review and comment, the proposed lending rates for its first year of operation. Thereafter, if satisfactory standards are achieved, the Association will review a sample of sub-projects on an ex-post basis, from time to time.

7. MRFC shall prepare its own disbursements applications for presentation to RBM along with the sub-project appraisal documentation.

