

CONFORMED COPY

CREDIT NUMBER 3247-MOZ

Project Agreement

(Second National Water Development Project)

between

INTERNATIONAL DEVELOPMENT ASSOCIATION

and

FUNDO DE INVESTIMENTO E PATRIMONIO
DO ABASTECIMENTO DE AGUA

Dated October 6, 1999

CREDIT NUMBER 3247-MOZ

PROJECT AGREEMENT

AGREEMENT, dated October 6, 1999 between INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association) and FUNDO DE INVESTIMENTO E PATRIMONIO DO ABASTECIMENTO DE AGUA (FIPAG).

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 lend to the Borrower an amount in various currencies equivalent to fifty five million four hundred thousand Special Drawing Rights (SDR 55,400,000), on the terms and conditions set forth in the Development Credit Agreement, but only on condition that FIPAG agree to undertake such obligations toward the Association as are set forth in this Agreement; and

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

WHEREAS FIPAG, 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) FIPAG 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 Parts A and B of the Project with due diligence and efficiency and in conformity with appropriate administrative, financial, engineering, and environmental 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 FIPAG shall otherwise agree, FIPAG shall carry out the Project in accordance with the Implementation Program set forth in Schedule 4 to the Development Credit Agreement.

Section 2.02. Except as the Association shall otherwise agree, procurement of the 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 2.03. (a) FIPAG 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) in respect of the Project Agreement and Parts A and B of the Project.

(b) For the purposes of Section 9.07 of the General Conditions and without limitation thereto, FIPAG 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 FIPAG, a plan for the future operation of Parts A and B of the Project; and

(ii) afford the Association a reasonable opportunity to exchange views with FIPAG on said plan.

Section 2.04. FIPAG shall duly perform all its obligations under the Subsidiary Loan Agreement. Except as the Association shall otherwise agree, FIPAG 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 provision thereof.

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

Section 2.06. (a) FIPAG 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, under the Subsidiary Loan Agreement, and under the Contrato-programa, and other matters relating to the purposes of the Credit.

(b) FIPAG 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 FIPAG of its obligations under this Agreement, under the Subsidiary Loan Agreement and under the Contrato-programa.

Section 2.07. FIPAG shall:

(i) collect detailed information on the utilities' operating costs, production volumes, technical and commercial losses and collection ratios;

(ii) no later than 12 months after the Effective Date, take measures to ensure that 100% of all utilities' outstanding receivables (except Maputo) are settled;

(iii) no later than 18 months after the Effective Date, prepare a staffing plan, in conjunction with the PO, with respect to all employees engaged in water supply, future employment arrangements and acquired pension rights;

(iv) no later than January 31, 2000, prepare and furnish to the Association, a staffing plan and benefits package for FIPAG;

(v) maintain an asset register (of all assets), created before and during the carrying out of Parts A and B of the Project;

(vi) no later than January 31, 2000, appoint the consultants to assist FIPAG in the monitoring of the performance of the PO in implementing the private sector Management Contracts and the Lease Contract; and

(vii) no later than March 31, 2000, assure key staff are in place.

ARTICLE III

Management and Operations of FIPAG

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

Section 3.02. FIPAG 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, financial and environmental practices.

Section 3.03. FIPAG 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) FIPAG shall maintain records and accounts adequate to reflect in accordance with sound accounting practices its operations and financial condition.

(b) FIPAG 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 four 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 4.02. (a) Except as the Association shall otherwise agree, FIPAG shall produce, for its fiscal year ending on 2003, funds from internal sources equivalent to not less than 2.5% of the annual average of FIPAG's capital expenditures incurred, or expected to be incurred, and for each of its fiscal years thereafter, funds from internal sources equivalent to not less than 10% of the annual average of FIPAG's capital expenditures incurred, or expected to be incurred.

(b) Before October 31, 2001, in each of its fiscal years, FIPAG shall, on the basis of forecasts prepared by FIPAG 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 a copy of such review upon its completion.

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

(d) For the purposes of this Section:

(i) The term "funds from internal sources" means the difference between:

(A) the sum of revenues from all sources related to operations, consumer deposits and consumer contributions in aid of construction, net non-operating income and any reduction in working capital other than cash; and

(B) the sum of all expenses related to operations, including administration, adequate maintenance and taxes and payments in lieu of taxes (excluding provision for depreciation and other non-cash operating charges), debt service requirements, all cash dividends and other cash distributions of surplus, increase in working capital other

than cash and other cash outflows other than capital expenditures.

- (ii) The term "net non-operating income" means the difference between:
- (A) revenues from all sources other than those related to operations; and
 - (B) expenses, including taxes and payments in lieu of taxes, incurred in the generation of revenues in (A) above.
- (iii) The term "working capital other than cash" means the difference between current assets excluding cash and current liabilities at the end of each fiscal year.
- (iv) The term "current assets excluding cash" means all assets other than cash which could in the ordinary course of business be converted into cash within twelve months, including accounts receivable, inventories and pre-paid expenses properly chargeable to operating expenses within the next fiscal year.
- (v) 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.
- (vi) The term "debt service requirements" means the aggregate amount of repayments of, and interest and other charges on, debt.
- (vii) The term "capital expenditures" means all expenditures incurred on account of fixed assets, including interest charged to construction, related to operations.
- (viii) 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 4.03. (a) Except as the Association shall otherwise agree, FIPAG shall not incur any debt unless a reasonable forecast of the revenues and expenditures of FIPAG shows that the estimated net revenues of FIPAG for each fiscal year during the term of the debt to be incurred shall be at least 1.5 times the estimated debt service requirements of FIPAG in such year on all debt of FIPAG including the debt to be incurred.

(b) For the purposes of this Section:

- (i) The term "debt" means any indebtedness of FIPAG maturing by its terms more than one year after the date on which it is originally incurred.
- (ii) Debt shall be deemed to be incurred: (A) 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 (B) under a guarantee agreement, on the date the agreement providing for such guarantee has been entered into.
- (iii) The term "net revenues" means the difference between:
- (A) the sum of revenues from all sources related to operations

and net non-operating income, and

(B) the sum of all expenses related to operations including administration, adequate 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.

(iv) The term "net non-operating income" means the difference between:

operations; (A) revenues from all sources other than those related to and

incurred (B) expenses, including taxes and payments in lieu of taxes, in the generation of revenues in (A) above.

(v) The term "debt service requirements" means the aggregate amount of repayments of, and interest and other charges on, debt.

(vi) The term "reasonable forecast" means a forecast prepared by FIPAG not earlier than twelve months prior to the incurrence of the debt in question, which both the Association and FIPAG accept as reasonable and as to which the Association has notified FIPAG of its acceptability, provided that no event has occurred since such notification which has, or may reasonably be expected in the future to have, a material adverse effect on the financial condition or future operating results of FIPAG.

(vii) 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.

ARTICLE V

Effective Date; Termination Cancellation and Suspension

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 FIPAG thereunder shall terminate on the earlier of the following two dates:

(i) the date on which the Development Credit Agreement shall terminate; or

(ii) the date 20 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 FIPAG 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, 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 addresses 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:

INTBAFRAD
Washington, D.C.

Telex:

248423 (MCI) or
64145 (MCI)

For FUNDO DE INVESTIMENTO E PATRIMONIO DO ABASTECIMENTO DE AGUA:

Avenida 25 de Setembro 942
Maputo
Mozambique

Section 6.02. Any action required or permitted to be taken, and any documents required or permitted to be executed, under this Agreement on behalf of FIPAG or by FIPAG on behalf of the Borrower under the Development Credit Agreement, may be taken or executed by its Chairman, or by such other person or persons as the Chairman shall designate in writing, and FIPAG 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 the District of Columbia, United States of America, as of the day and year first above written.

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Callisto Madavo

Regional Vice President
Africa

FUNDO DE INVESTIMENTO E PATRIMONIO
DO ABASTECIMENTO DE AGUA

By /s/ Marcos Namashulua

Authorized Representative

