

CONFORMED COPY

CREDIT NUMBER 2359 BU

(Private Sector Development Project)

between

INTERNATIONAL DEVELOPMENT ASSOCIATION

and

BANQUE DE LA REPUBLIQUE DU BURUNDI

Dated June 22, 1992

CREDIT NUMBER 2359 BU

PROJECT AGREEMENT

AGREEMENT, dated June 22, 1992, between the INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association) and the BANQUE DE LA REPUBLIQUE DU BURUNDI (BRB).

WHEREAS (A) by the Development Credit Agreement of even date herewith between the Republic of Burundi (the Borrower) and the Association, the Association has agreed to lend to the Borrower an amount in various currencies equivalent to twelve million four hundred thousand Special Drawing Rights (SDR 12,400,000), on the terms and conditions set forth in the Development Credit Agreement, but only on condition that BRB 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 BRB, part of the proceeds of the credit provided for under the Development Credit Agreement will be made available to BRB on terms and conditions set forth in said Subsidiary Loan Agreement; and

WHEREAS BRB, 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, and the following additional terms have the following meanings:

- (a) "BANCOBU" means Banque Commerciale du Burundi;
- (b) "BCB, means Banque de Credit de Bujumbura;
- (c) "SBF" means Societe Burundaise de Financement;
- (d) "BBCI" means Banque Burundaise de Commerce et d'Investissement;
- (e) "BNDE" means Banque Nationale de Developpement Economique;
- (f) "MBB" means Meridien Bank of Burundi; and
- (g) "CAMOFI" means Caisse de Mobilisation et de Financement.

ARTICLE II

Execution of the Project; Management and Operations of BRB

Section 2.01. (a) BRB 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, C.1 and C.5 of the Project and conduct its operations and affairs, in accordance with sound financial standards and practices, with qualified and experienced management and in accordance with its Statutes.

(b) Without limitation upon the provisions of paragraph (a) of this Section and except as the Association and BRB shall otherwise agree, BRB shall carry out Parts A and C.1 of the Project in accordance with the Implementation Program set forth in Schedule 2 to this Agreement.

Section 2.02. (a) BRB undertakes that, unless the Association shall otherwise agree, Sub-loans and Investments 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) BRB shall exercise its rights in relation to each Investment Project in such manner as to: (i) protect the interests of the Association and of BRB; (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. BRB shall (a) cause PFIs to 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 and Part A of the Project; and (b) carry out the obligations referred to in (a) above in respect of the Project Agreement and Parts C.1

and C.5 of the Project.

Section 2.05. BRB shall duly perform all its obligations under the Subsidiary Loan Agreement. Except as the Association shall otherwise agree, BRB 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 2.06. (a) BRB 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) BRB 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 BRB of its obligations under this Agreement and under the Subsidiary Loan Agreement.

ARTICLE III

Financial Covenants

Section 3.01. (a) BRB shall cause PMU to maintain procedures and records adequate to monitor and record the progress of Part A 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 BRB.

(b) BRB shall cause PMU to:

(i) have its records, accounts and financial statements (balance sheets, 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. BRB shall take such steps satisfactory to the Association as shall be necessary to protect itself against risk of loss resulting from changes in the rates of exchange between the various currencies (including Burundi Franc) used in its operations.

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

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

(ii) a date fifteen 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 BRB 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 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:

INDEVAS
Washington, D.C.

Telex:

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

For Banque de la Republique:

B.P. 705
Bujumbura
Burundi

Section 5.02. Any action required or permitted to be taken, and any documents required or permitted to be executed, under this Agreement on behalf of BRB or by BRB on behalf of the Borrower under the Development Credit Agreement, may be taken or executed by its Governor, or by such other person or persons as BRB shall designate in writing, and BRB 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/ Edward V. K. Jaycox

Regional Vice President

BANQUE DE LA REPUBLIQUE DU BURUNDI

By /s/ Julien Kavakure

Authorized Representative

SCHEDULE 1

Terms and Conditions of Sub-loans
and Investments

1. (a) Lending Terms Sub-loans approved by PFIs will carry variable and market-determined lending rates which will be reviewed annually by BRB and the Association to ensure that they reflect market rates. PFIs will be charged a variable interest rate equal to the weighted average yield in the Borrower's auction market for three-month treasury certificates, as determined by BRB. Repayment periods of Sub-loans shall not exceed thirteen years, including a grace period of two to three years for repayment of principal.

(b) PFIs Eligibility criteria. Any commercial bank, development bank or financial institution registered in the Republic of Burundi and engaged or willing to engage in medium or long-term lending will be eligible as a PFI, provided it submits to BRB (i) independently audited and satisfactory annual financial accounts and statements on its finances and operations, and (ii) an undertaking to reinforce its loan supervision and collection of bad debts; to reinforce its internal auditing and accounting procedures; and to upgrade and train its professional staff.

(c) Accreditation of PFIs will be based on a special review by BRB and approval by the Association. If accreditation is not granted, the concerned institution will be informed of the reasons. Such institution can renew its application after complying with the requirements. Accreditation may be withdrawn in the event of the failure of a PFI to comply at any time with the requirements set forth above.

(d) Investment Enterprise Eligibility. The criteria for an Investment Enterprise to be eligible for a Sub-loan include:

(i) a determination that the Investment Project is technically feasible, financially and economically viable and environmentally sound;

(ii) a minimum expected financial rate of return of at least 10 percent. In addition, for Investment Projects estimated to cost US\$350,000 or more, a minimum expected economic rate of return of 10 percent, in real terms, will be required;

(iii) a minimum projected debt service coverage of 1.5 over the life of the Investment Project, and a maximum debt to equity ratio of 2.33:1.00, calculated on the basis of the Investment enterprise's total debts; and

(iv) the Investment Project satisfies environmental impact tests to be undertaken as deemed necessary by PMU and the Association.

(e) Eligible purposes. All productive Investment Projects, including investments in associated permanent working capital for new projects, contributing to the economic development of the Republic of Burundi, with the exception of land acquisition and housing construction, will be eligible for financing under the Project.

(f) Limitations. (i) Sub-loans for any Investment Project for extension or

rehabilitation of existing facilities may not exceed eighty percent (80%) of its total cost; and (ii) Sub-loans for any other Investment Project may not exceed seventy (70%) percent of the proposed Investment Project.

2. 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 or Investment 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 3 (a) of this Schedule in respect of such Sub-loan or Investment; 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 3 (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 \$1,000,000 equivalent, when added to any other outstanding amounts financed or proposed to be financed out of the proceeds of the Credit or of any other credit, provided for in any outstanding development credit agreement between the Borrower and the Association entered into before the date of this Agreement, the proceeds of which have been or are being used for financing goods and services directly and materially related to such Investment Project the foregoing amount being subject to change from time to time as determined by the Association; provided that the first three Sub-loans (and in any event the first Sub-loan based on an appraisal report requiring an economic rate of return calculation) presented for approval by BANCOBU, BCB, SBF, BCCI and CAMOFI respectively, shall not be free limit Sub-loans.

3. (a) When presenting a Sub-loan (other than a free-limit Sub-loan) or an Investment to the Association for approval, BRB shall furnish to the Association an application, in form satisfactory to the Association, together with (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 or Investment, 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 BRB 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 June 30, 1997.

4. Sub-loans and Investments shall be made on terms whereby BRB 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 BRB, including, in the case of any Sub-loan and, to the extent that it shall be appropriate, in the case of any Investment, 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 the goods and services to be financed out of the proceeds of the Credit 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 BRB 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 PFI.

SCHEDULE 2

Implementation Program for Parts A and C.1 of the Project

1. Under Part A of the Project, BRB shall onlend funds to PFIs as demand for Investment Project arises. PFIs will make medium- and long-term Sub-loans in Burundi for the purposes referred to in Schedule 1 to this Agreement. The line of credit will be managed by PMU, under the administrative supervision of BRB.

2. BRB shall, for the purposes of Parts A and C.1 of the Project establish and maintain the PMU with functions, organization and operations satisfactory to the Association and in accordance with the Subsidiary Loan Agreement.

(a) Functions:

The PMU shall, inter alia:

(i) ensure adherence of PFIs to established procedures in selecting eligible Investment Projects and ensure application of appropriate standards for Sub-loan appraisals;

(ii) review eligibility and authorize financing under Part A of the Project for Investment Projects submitted by PFIs. For Investment Projects estimated to cost the equivalent of US\$350,000 equivalent or less, PMU shall insure that the requests meet the eligibility criteria and give its approval within five working days from submission. For Investment Projects estimated to cost the equivalent of US\$350,000 or more, PMU shall review the requests in more detail, give its comments on the quality of the appraisal to the PFI and ensure that the eligibility and financing criteria are met, all within a maximum period of ten working days;

(iii) ensure liaison between the Association, the PFIs and other donors on matters related to the Project;

(iv) provide guidance to potential beneficiaries for the preparation of Investment Projects including safeguards for projects with potential environmental hazards, and procurement procedures;

(v) organize training courses and seminars in project appraisal and supervision techniques for BRB and other bank staff and selected private

entrepreneurs including staff of local consulting firms;

approval, in (vi) manage subloan disbursement and collection operations upon relation with the Credit Department of BRB;

(vii) supervision of projects; and

the Closing (viii) preparation of the Project Completion Report within six months of Date.

(b) Staff.

PMU staff shall, inter alia, include:

1 economist (Director),
1 credit analyst,
1 financial analyst,
1 engineer/computer analyst,
1 technical engineer, and
appropriate administrative staff.

(c) PMU will receive a spread of at least one percent per annum, on the outstanding amount of Sub-loans to cover its administrative expenses, this spread will be reviewed periodically by BRB and the Association to ensure that it covers the actual administrative expenses of PMU.

