
LOAN NUMBER 882 ZA

Project Agreement

(Integrated Family Farming Project)

BETWEEN

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

AND

TOBACCO BOARD OF ZAMBIA

DATED FEBRUARY 27, 1973

Public Disclosure Authorized

Public Disclosure Authorized

PROJECT AGREEMENT

AGREEMENT, dated February 27, 1973, between INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (hereinafter called the Bank) and TOBACCO BOARD OF ZAMBIA (hereinafter called TBZ).

WHEREAS by the Loan Agreement of even date herewith between the Republic of Zambia (sometimes hereinafter called the Borrower) and the Bank, the Bank has agreed to make available to the Borrower an amount in various currencies equivalent to eleven million five hundred thousand dollars (\$11,500,000), on the terms and conditions set forth in the Loan Agreement, but only on condition that TBZ agree to undertake such obligations toward the Bank as hereinafter set forth;

WHEREAS by a project financing agreement to be entered into between the Borrower and TBZ, the equivalent of the proceeds of the Loan provided for under the Loan Agreement and certain additional funds will be made available to TBZ on terms and conditions therein set forth; and

WHEREAS TBZ, in consideration of the Bank's entering into the Loan Agreement with the Borrower, has agreed to undertake the obligations hereinafter set forth;

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

Definitions

Section 1.01. Wherever used in this Agreement, unless the context shall otherwise require, the several terms defined in the Loan 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. TBZ shall carry out the Project described in Schedule 2 to the Loan Agreement with due diligence and efficiency and in conformity with appropriate administrative, financial and agricultural practices.

Section 2.02. (a) In carrying out Part III of the Project, TBZ shall make loans in accordance with the Lending Policies and Procedures of TBZ set forth in Schedule 1 to this Agreement, as such Schedule 1 may be modified from time to time by agreement between the Borrower, TBZ and the Bank.

(b) TBZ shall establish a revolving fund to be used exclusively to provide seasonal loans to Farmers under Part III of the Project and to make payments of interest to the Borrower in respect of funds lent by the Borrower to TBZ under the Project Financing Agreement for purposes of providing seasonal credit. Except as the Bank shall otherwise agree, TBZ shall deposit in such revolving fund all amounts received from Farmers as repayment of principal and interest on its seasonal loans under Part III of the Project.

Section 2.03. TBZ shall timely in each year prepare and submit to the Borrower and the Bank for their agreement in accordance with Section 3.02 of the Loan Agreement, a program for development of Project Schemes and Sections (including their proposed locations, and estimated financial requirements), and shall ensure the implementation of such programs.

Section 2.04. Except as the Borrower and the Bank shall otherwise agree, the goods and services (other than services of consultants) required for the Project and to be financed out of the proceeds of the Loan, shall be procured under procedures consistent with the Guidelines for Procurement under World Bank Loans and IDA Credits, published by the Bank in April 1972, as revised in October 1972, and in accordance with, and subject to, the provisions set forth in Schedule 2 to this Agreement.

Section 2.05. (a) TBZ undertakes to insure, or make adequate provision for the insurance of, the imported goods to be financed out of the proceeds of the Loan made available to it by the Borrower against hazards incident to the acquisition, transportation and delivery thereof to the place of use or installation, and for such insurance any indemnity shall be payable in a currency freely usable by TBZ to replace or repair such goods.

(b) Except as the Borrower and the Bank shall otherwise agree, all goods and services financed out of the proceeds of the Loan made available to TBZ by the Borrower shall be used exclusively for the Project until its completion.

Section 2.06. (a) TBZ shall furnish to the Borrower and the Bank, promptly upon their preparation, the plans, specifications, reports, contract documents and for the Project, and any material modifications thereof or additions thereto, in such detail as the Borrower and the Bank shall reasonably request.

(b) TBZ: (i) shall maintain records adequate to record the progress of the Project (including the cost thereof) and to identify the goods and services financed out of the proceeds of the Loan made available to it by the Borrower, and to disclose the use thereof in the Project; (ii) shall, without limitation upon the provisions of Section 5.03 of this Agreement, enable the Borrower's and the Bank's representatives to examine the Project, the goods financed out of such proceeds and any relevant records and documents; and (iii) shall furnish to the Borrower and the Bank all such information as the Borrower and the Bank shall reasonably request concerning the Project, the expenditure of the proceeds of the Loan so made available to it and the goods and services financed out of such proceeds.

(c) TBZ shall until the Closing Date prepare annual project evaluation and progress reports and shall before January 31 of each year submit such reports to the Borrower and the Bank for the previous crop year.

Section 2.07. TBZ shall duly perform all its obligations under the Project Financing Agreement. Except as the Borrower and the Bank shall otherwise agree, TBZ shall not take or concur in any action which would have the effect of amending, abrogating, assigning or waiving the Project Financing Agreement or any provision thereof.

ARTICLE III

Management and Operations of TBZ

Section 3.01. (a) TBZ shall at all times conduct its operations under competent and experienced management, in accordance with appropriate administrative, financial and agricultural practices and with the assistance of adequately qualified and experienced staff.

(b) TBZ shall at all times employ qualified and experienced persons to serve in the positions of Production Manager, Manager of Family Farming Schemes, and Provincial Managers, and shall, until the Closing Date, inform the Bank of any proposed appointments to such positions in sufficient time to enable the Bank to comment on their suitability before the expiration of the probationary period applicable for such appointments.

Section 3.02. Except as the Borrower and the Bank shall otherwise agree, TBZ shall at all times take all steps necessary on its part to acquire, maintain and renew all rights, powers and privileges which are necessary or useful in its operations.

Section 3.03. (a) TBZ shall at all times operate, maintain, renew and repair its facilities, plant, equipment and machinery in accordance with sound engineering and management practice.

(b) Without limitation or restriction upon the provisions of paragraph (a) above, TBZ shall adequately maintain roads and water supplies constructed under the Project until its completion.

Section 3.04. TBZ shall take out and maintain with responsible insurers, or make other provisions satisfactory to the Borrower and the Bank for, insurance against such risks and in such amounts as shall be consistent with appropriate practice.

ARTICLE IV

Financial Covenants

Section 4.01. TBZ shall maintain records adequate to reflect in accordance with consistently maintained appropriate accounting practices its operations and financial condition.

Section 4.02. Until the Closing Date, TBZ shall: (i) have its 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 Borrower and the Bank; (ii) furnish to the Borrower and the Bank 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 Borrower and the Bank shall have reasonably requested; and (iii) furnish to the Borrower and the Bank such other information concerning the accounts and financial statements of TBZ and the audit thereof as the Borrower and the Bank shall from time to time reasonably request.

Section 4.03. Until the Closing Date, TBZ shall prepare annual reviews of direct costs for marketing of tobacco, and shall inform the Borrower and the Bank, prior to the opening of the auction floors, on the proposed level of marketing charges for that season.

Section 4.04. Except as the Borrower and the Bank shall otherwise agree, TBZ shall take all steps necessary on its part to ensure that Farmers participating

in the Project shall not benefit on account of any tobacco price subsidy accorded by the Borrower to tobacco growers generally.

ARTICLE V

Consultation, Information and Inspection

Section 5.01. The Bank and TBZ shall cooperate fully to assure that the purposes of the Loan will be accomplished. To that end, the Bank and TBZ shall from time to time, at the request of either party, exchange views through their representatives with regard to the performance of their respective obligations under this Agreement, the administration, operations and financial condition of TBZ and other matters relating to the purpose of the Loan.

Section 5.02. The Bank and TBZ shall promptly inform each other of any condition which interferes with, or threatens to interfere with, the accomplishment of the purposes of the Loan, the performance by either of them of its obligations under this Agreement or the performance by the Borrower and TBZ of their respective obligations under the Project Financing Agreement.

Section 5.03. Until the Closing Date, TBZ shall enable the Borrower's and the Bank's accredited representatives to examine all plants, sites, works, properties and equipment of TBZ and any relevant records and documents in respect of the Project.

ARTICLE VI

Effective Date; Termination; Cancellation and Suspension

Section 6.01. This Agreement shall come into force and effect on the date upon which the Loan Agreement becomes effective.

Section 6.02. This Agreement and all obligations of the Bank and of TBZ thereunder shall terminate on the date on which the Loan Agreement shall terminate in accordance with its terms.

Section 6.03. All the provisions of this Agreement shall continue in full force and effect notwithstanding any cancellation or suspension under the Loan Agreement.

ARTICLE VII**Miscellaneous Provisions**

Section 7.01. 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 Bank:

International Bank for
Reconstruction and Development
1818 H Street, N.W.
Washington, D.C. 20433
United States of America

Cable address:

INTBAFRAD
Washington, D.C.

For TBZ:

Tobacco Board of Zambia
P.O.Box 1963
Lusaka, Zambia

Cable address:

TIB
Lusaka

Section 7.02. Any action required or permitted to be taken, and any documents required or permitted to be executed, under this Agreement on behalf of TBZ may be taken or executed by the Chairman of TBZ or such other person or persons as TBZ shall designate in writing.

Section 7.03. TBZ shall furnish to the Bank sufficient evidence of the authority and the authenticated specimen signature of the person or persons who will, on behalf of TBZ, take any action or execute any documents required or permitted to be taken or executed by TBZ pursuant to any of the provisions of this Agreement.

Section 7.04. 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 representatives thereunto duly authorized, have caused this Agreement to be signed in their respective names and delivered in the District of Columbia, United States of America, as of the day and year first above written.

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By /s/ Bernard R. Bell

*Regional Vice President
Eastern Africa*

TOBACCO BOARD OF ZAMBIA

By /s/ Unia G. Mwila, M.P.

Authorized Representative

SCHEDULE 1**Lending Policies and Procedures of TBZ**

In making the loans referred to in Section 2.02(a) of this Agreement, TBZ will follow the policies and procedures outlined below, as such policies and procedures may be amended from time to time by TBZ with the approval of the Borrower and the Bank.

Eligibility

No Farmer will be eligible for credit unless:

- (i) he is registered with TBZ as a tobacco grower;
- (ii) he has sufficient land to maintain a satisfactory crop rotation and enough natural timber for at least four years of tobacco curing; and
- (iii) the acreage of tobacco and maize to be grown will not exceed the acreage that can be efficiently worked exclusively by the Farmer and his family.

Seasonal Loans

1. TBZ will make seasonal loans to each eligible Farmer of up to 320 kwacha for each hectare of tobacco and each hectare of maize expected to be planted, to cover the cost of seasonal farm inputs including land preparation by tractor hire service (for the first three years only), seed, seedlings, fertilizer, insecticides, tobacco baling materials, crop insurance, bale handling and transport of maize and tobacco crops.

2. Seasonal loans will bear interest at an annual rate of not less than 12% on amounts withdrawn and outstanding.

3. Seasonal loans will be repaid by a date not later than August 31 in the year in which the tobacco or maize crop is sold.

Medium-term Loans

1. TBZ will make medium-term loans to each eligible Farmer of up to 175 kwacha to cover the costs of constructing curing barns and a grading shed, and for purchasing equipment and small tools.

2. Medium-term loans will bear interest at an annual rate of not less than 9-1/2% on amounts withdrawn and outstanding.

3. Medium-term loans will be repaid within five years, including one year of grace, in four annual instalments each payable by a date not later than August 31 in the year in which the tobacco or maize crop is sold.

Disbursement

TBZ will generally disburse its loans to Farmers in kind.

Documentation and Supervision

1. Each eligible Farmer will complete and sign (i) a loan agreement in an appropriate form, and a stop order form, before the granting of any loan to him under the Project; and (ii) on receipt of goods or services granted under such loan, a form of acceptance for those goods or services.

2. The staff of TBZ will regularly visit Farmers and take such other steps as may be required to ensure that the amounts drawn on loans are applied exclusively to the purposes for which they were lent.

Loan Recoveries

Recovery of all loans shall be effected by TBZ or its agents by deduction from the proceeds of sale of the tobacco or maize crop by lodging a copy of a Farmer's stop order with the Tobacco Auction Floor, the National Marketing Board of Zambia or the Eastern Province Cooperative Marketing Association.

SCHEDULE 2**Procurement**

1. Vehicles, tractors, equipment, fertilizer and roofing materials shall be procured, as far as possible, in bulk contracts. Any contract for such goods estimated to cost the equivalent of \$30,000 or more shall be awarded on the basis of international competition, as follows:

(a) Before bids are invited, TBZ shall furnish to the Borrower and the Bank, for their comments, the text of the invitations to bid and the specifications and other bidding documents, together with a description of the advertising procedures to be followed for the bidding, and shall make such modifications in the said documents or procedure as the Borrower and the Bank shall reasonably request. Any further modification to the bidding documents shall require the Borrower's and the Bank's concurrence before it is issued to the prospective bidders.

(b) After bids have been received and evaluated, TBZ shall, before a final decision on the award is made, inform the Borrower and the Bank of the name of the bidder to whom it intends to award the contract and shall furnish to the Borrower and the Bank, in sufficient time for their review, a detailed report on the evaluation and comparison of the bids received, together with the reasons for the intended award. The Bank shall, if it determines that the intended award would be inconsistent with the procedures set forth or referred to in Section 2.04 of this Agreement, promptly inform TBZ and the Borrower, state the reasons for such determination and advise TBZ of any cancellation pursuant to the provisions of paragraph 4(c) of Schedule 1 to the Loan Agreement.

(c) The terms and conditions of the contract shall not, without the Borrower's and the Bank's concurrence, materially differ from those on which bids were asked.

(d) Two conformed copies of the contract shall be furnished to the Borrower and the Bank promptly after its execution and prior to the delivery to the Bank of the first application for withdrawal of funds from the Loan Account in respect of any such contract.

3. Any other contract for such goods shall be awarded on the basis of competitive procedures in the Republic of Zambia as follows: TBZ shall furnish to the Borrower and the Bank, promptly after its execution and prior to the delivery to the Bank of the first application for withdrawal of funds from the Loan Account in respect of any such contract, two conformed copies of such contract, together

with the analysis of bids, recommendations for award and such other information as the Borrower and the Bank shall reasonably request. The Bank shall, if it determines that the award of the contract is not consistent with the procedures set forth or referred to in Section 2.04 of this Agreement, promptly inform TBZ and the Borrower, state the reasons for such determination and advise TBZ of any cancellation pursuant to the provisions of paragraph 4(c) of Schedule 1 to the Loan Agreement.

4. (a) For the purpose of evaluation and comparison of bids, customs duties and other import taxes on imported goods, and sales and similar taxes on locally produced goods, shall be excluded, except to the extent hereinafter provided, and bidders shall be required to state in their bid the c.i.f. price for imported goods, or the ex-factory price for locally produced goods. The cost to the Borrower of inland freight and other expenditures incidental to the delivery of goods to the place of their use or installation shall be taken into account in the evaluation of bids in accordance with paragraph 4.7 of the Guidelines for Procurement.

(b) For purposes of the provisions hereinafter set forth, the following terms shall have the following meanings:

- (i) Preferred Domestic Bid means a bid offering goods manufactured in the Republic of Zambia if the bidder shall have established to the satisfaction of the Borrower and the Bank that the manufacturing cost of such goods includes a value added in the Republic of Zambia of not less than 20% of the ex-factory bid price.
- (ii) Non-preferred Domestic Bid means any other bid offering goods manufactured in the Republic of Zambia.
- (iii) Foreign Bid means any bid other than those specified in (a) or (b) above.

(c) For fertilizer a margin of preference may be granted by the Borrower to Preferred Domestic Bids. Such preference shall be granted by adding to each Foreign Bid, for the purpose only of comparison with Preferred Domestic Bids, an amount (hereinafter called "Domestic Preference Margin") equal to the smaller of (i) the amount of customs duties and other import taxes which a non-exempt importer would have to pay for the goods offered in the bid, or (ii) 15% of the c.i.f. bid price of such goods.

(d) If Preferred Domestic Bids are received, the comparison among all evaluated bids for each contract shall be made in the stages and with the preferences indicated below:

<i>Stage</i>	<i>Bids to be Compared</i>	<i>Preference</i>
I.	All Preferred Domestic Bids and Non-preferred Domestic Bids.	None
II.	(a) Lowest evaluated bid under Stage I, if Preferred Domestic Bid, with all Foreign Bids;	Add Domestic Preference Margin to Foreign Bids
	<i>or</i>	
	(b) Lowest evaluated bid under Stage I, if Non-preferred Domestic Bid, with all Foreign Bids.	None
III.	If lowest evaluated bid under Stage II is not the lowest evaluated bid under Stage I, all Foreign Bids.	None

(e) The bidding documents shall clearly indicate any preference which will be granted to Preferred Domestic Bids, the information required to establish the eligibility of a bid for such preference and the methods and stages that will be followed in the evaluation and comparison of bids to give effect to such preference.