

CONFORMED COPY

CREDIT NUMBER 3317-MOZ

Project Agreement

(Enterprise Development Project)

between

INTERNATIONAL DEVELOPMENT ASSOCIATION

and

BANCO DE MOCAMBIQUE

Dated March 1, 2000

CREDIT NUMBER 3317-MOZ

PROJECT AGREEMENT

AGREEMENT, dated March 1, 2000, between INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association) and BANCO DE MOCAMBIQUE (BM).

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 nineteen million two hundred thousand Special Drawing Rights (SDR 19,200,000), on the terms and conditions set forth in the Development Credit Agreement, but only on condition that BM 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 and BM the proceeds of the Credit provided for under the Development Credit Agreement will be made available to BM on terms and conditions set forth in said Subsidiary Loan Agreement; and

WHEREAS BM, 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, 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 BM

Section 2.01. (a) BM 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 Part B of the Project and conduct its operations and affairs in conformity with appropriate administrative, financial and banking practices, and shall provide, promptly as needed, the funds, facilities, services and other resources required for Part B of the Project.

(b) Without limitation upon the provisions of paragraph (a) of this Section and except as the Association and BM shall otherwise agree, BM shall carry out the Project in accordance with the Implementation Program set forth in Schedule 4 to the Development Credit Agreement.

Section 2.02. (a) BM undertakes that, unless the Association shall otherwise agree, Subloans 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) BM shall exercise its rights in relation to each Investment Project in such manner as to: (i) protect the interests of the Association and of BM; (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. (a) BM 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 Part B of the Project.

(b) For the purposes of Section 9.07 of the General Conditions and without limitation thereto, BM shall:

(i) prepare, on the basis of guidelines acceptable to the Association, and furnish to the Association, 30 days after the Closing Date or such later date as may be agreed for this purpose between the Association and BM, a plan for the future operation of Part B of the Project; and

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

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

Section 2.07. BM shall implement Part B of the Project, in accordance with the Project Implementation Manual and, except as the Association shall otherwise agree, BM shall not amend or waive any provision thereof if, in the opinion of the Association, such amendment or waiver may materially and adversely affect the overall

implementation of the Project.

Section 2.08. BM shall, not later than May 31, 2002, take all necessary measures to lift the credit ceilings.

ARTICLE III

Financial Covenants

Section 3.01. (a) BM shall maintain procedures and records adequate to monitor and record the progress of Part B 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 BM and to register separately the operations, resources and expenditures related to Part B of the Project and each Investment Project.

(b) BM shall:

- (i) have the records and accounts referred to in paragraph (a) above 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.

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 BM 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 10 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 BM 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:

INTBAFRAD
Washington, D.C.

Telex:

248423 (MCI) or
64145 (MCI)

For Banco de Moçambique:

Governor
Banco de Moçambique
Departamento de Relações Internacionais
Maputo
Republic of Mozambique

Cable address:

MOBANCO
Maputo

Telex:

6355/7 BMMO

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 BM or by BM 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 the Governor shall designate in writing, and BM 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

Regional Vice President
Africa

BANCO DE MOCAMBIQUE

By /s/ Marcos Namashulua

Authorized Representative

SCHEDULE 1

Terms and Conditions of Subloans and Investments

A. Procedures for and Terms and Conditions of Subloans

1. Currency

All Subloans shall be made and denominated in Meticaís.

2. Interest Rates

Interest on Subloans to Investment Enterprises shall be charged at a variable rate determined by PFIs on a quarterly basis.

3. Maturities

The term of any Subloan shall be 2- 1/2 to 7 years, with a maximum grace period of one year, unless otherwise agreed between the Association and BM.

4. Maximum Size

(a) Except as the Association may otherwise agree, the maximum size of any Traditional Subloan shall be \$300,000 equivalent. No Traditional Subloan shall be made to any Investment Enterprise if the aggregate of such proposed Traditional Subloan and the outstanding balances under all other Traditional Subloans to such Investment Enterprise financed out of the proceeds of the Credit exceeds \$300,000 except as the Association may otherwise agree.

(b) The maximum size of any Special Facility Subloan shall be \$15,000 equivalent. Except as the Association may otherwise agree, no Special Facility Subloan shall be made to any Investment Enterprise if the aggregate of such proposed Subloan and the outstanding balances under all other Special Facility Subloans to such Investment Enterprise financed out of the proceeds of the Credit exceeds such amount.

5. Prepayment

Any Subloan or any part of any such Subloan may be repaid to a PFI in advance of maturity without penalty.

B. Eligibility Criteria for Investment Enterprises and Investment Projects

1. Only Investment Enterprises that qualify as majority owned Private Enterprises, and established and operating under the laws of the Borrower shall be eligible to receive Subloans from PFIs to carry out Investment Projects.

2. For any Investment Project to be eligible for financing under a Subloan:

(a) the Investment Enterprise shall have no outstanding loans in default;

(b) the Investment Project must be financially and technically viable, consistent with existing environmental policies and environmentally sound, as determined in accordance with guidelines satisfactory to the Association; and

(c) except as the Association may otherwise agree, the Investment Project must not involve financing for commodity-based farming, real estate or finance sector.

3. Eligibility criteria for the Special Facility Subloan

A Special Facility Subloan shall only be made available to the Investment Enterprises which meet the following requirements: (i) no history of previous formal borrowing from banks including no previous borrowing under the Special Facility Subloan; (ii) minimum equity contribution of 10 percent of the investment project; and (iii) a maximum of US\$40,000 in total assets.

4. Eligibility criteria for Traditional Subloan

A Traditional Subloan shall be made available only to the Investment Enterprises which meet the following requirements: (i) no outstanding loans in default; (ii) minimum equity of 25 percent of the amount of the investment project; (iii) a maximum of US\$500,000 in total assets.

C. Principal Terms and Conditions of PFI Subsidiary Loans and Participation Agreements

1. Except as the Association shall otherwise agree, the following principal terms and conditions set forth in this Schedule shall apply for the purposes of Section 2.02 of this Agreement with respect to Participation Agreements.

(a) Amount and Currency

BM shall onlend to any PFI from the proceeds of the Credit for the purpose of making any Subloan an amount in Metical (the PFI Subsidiary Loan) equal to the amount of such Sub- loan.

(b) Interest on a PFI Subsidiary Loan shall be charged on the principal amount thereof outstanding from time to time at the average of the 180-day deposit rate of each commercial bank reported to BM, calculated at least on a quarterly

basis.

(c) PFI Subsidiary Loan shall be repaid by a PFI to BM in accordance with fixed amortization schedules.

(d) PFI Subsidiary Loan can be prepaid without penalty.

(e) A maximum exposure level for each PFI shall be set at \$1,500,000 or 10% of the PFI's networth, whichever is lower.

2. Eligibility Criteria for PFIs

(a) Any bank or financial institution operating in the territory of the Borrower shall become eligible as a PFI if it shall have satisfied the following criteria during the preceding twelve month period:

(i) compliance, if applicable, with monetary regulations and banking laws and regulations, and membership in the clearing house system of BM;

(ii) compliance with the prudential regulatory requirements of BM, including capital adequacy ratio, maximum loan concentration limits, loan classification and provisioning, and foreign exchange risk exposure;

(iii) a net profit evidenced by audited accounts prepared in accordance with international standards;

(iv) total non-performing loans of less than 20% of portfolio;

(v) presentation of a document describing and showing a satisfactory term-lending organizational structure, staff experience, policies and procedures and training program.

(vi) implementation of financing policies and operating procedures satisfactory to BM and the Association, relating, among other things, to credit policy and to asset review and loan recovery procedures; and

(vii) technical, financial and administrative capacity for managing its lending activities, and operating policies, procedures, organization and staffing for evaluating and supervising loans, satisfactory to BM and the Association.

(b) The eligibility of PFIs shall immediately cease if:

(i) collections on Subloans drop to less than 85% of amounts coming due;

(ii) required annual audit reports are not received within 45 days of their respective due date, or contain qualified opinion;

(iii) required quarterly progress reports are not received 45 days of their respective due dates; and

(iv) the PFIs cease to meet the criteria as detailed in paragraph (a) above.

3. Processing Subloan Applications

BM shall ensure that PFIs adopt the following procedures when processing Subloan applications for Investment Projects:

(a) PFIs shall carry out the appraisal of Investment Projects in accordance with procedures acceptable to the Association, which shall include: (i) a review of the financial and technical viability of the Investment Project and of the financing plan, (ii) an assessment of the management capacity of the Investment Enterprise, and (iii) a determination that the Investment Project complies with existing policies pertaining to the environment and is environmentally sound; and

(b) PFIs shall determine the eligibility of the Investment Enterprise and Investment Project for Subloan financing under this Schedule.

4. Participation Agreements

(a) PFIs shall relend the Meticaís equivalent of the proceeds of the Credit to Investment Enterprises for Investment Projects, for terms of 2-1/2 to 7 years, including a one year period of grace, unless otherwise agreed between the Association and BM.

(b) PFIs shall determine and charge a variable interest rate on Subloans to Investment Enterprises. Such rate shall not be less than the rate charged by BM to PFIs, as referred to in paragraph C.1(b) of this Schedule.

5. Each Participation Agreement shall contain provisions pursuant to which each PFI shall:

(a) continue to be duly established and operating under the laws of the Borrower;

(b) appraise the financial, technical, environmental and economic feasibility of Subprojects;

(c) make Subloans to Investment Enterprises under Part B of the Project on the basis of the criteria, procedures and terms and conditions set forth in this Schedule;

(d) maintain the organization, management staff and other resources required for the efficient carrying out of its activities and for the management of Subloans granted to Investment Enterprises;

(e) be required to submit detailed quarterly reports on Subloans including information on amounts collected, amounts overdue, and aging of overdue amounts;

(f) required to pay a penalty at twice the interest rate charged to PFIs, for amounts remaining undisbursed to Sub-borrowers, or any disbursement which is not consistent with the agreed requirements and which is not returned within one month of the scheduled disbursement;

(g) provide BM and the Association with all such information as they may reasonably request; and

(h) carry out a general review of the Subprojects either (i) after the initial allocation for the traditional Subloans or special facility Subloans have been fully committed, or (ii) on the date the mid-term review referred to in paragraph 4 (b) of Schedule 4 to the Development Credit Agreement is carried out, whichever comes earlier. Thereafter, following the lifting of credit ceiling by BM as referred to in Section 2.07 of this Agreement, PFIs shall be eligible for additional commitments following their provision of matching funds equal to at least one third of the amount to be made available to individual Sub-projects.

6. 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 Subloan 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 Subloan; or

(b) the Subloan for such Investment Project shall have been a free-limit Subloan 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 Subloan. For the purposes of the Development Credit Agreement and this Agreement, a free-limit Subloan shall be a Subloan for an Investment Project in an amount to be financed out of the proceeds of the Credit which shall not exceed the sum of \$100,000 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.

7. (a) When presenting a Subloan (other than a free-limit Subloan) or an Investment to the Association for approval, BM 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 Subloan, including the schedule of amortization of the Subloan 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 BM for authorization to make withdrawals from the Credit Account in respect of a free-limit Subloan 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 Subloan, 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, 2003.

8. Subloans and Investments shall be made on terms whereby BM 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 BM including, in the case of any Subloan 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: (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 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 BM 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;

(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 BM; and

(g) require annually, from the PFIs, audited reports in accordance with internationally acceptable standards.

9. Other

(a) BM shall ensure that Part B of the Project is managed through UASP which shall serve as the Credit Administrator (the Credit Administrator). BM shall be primarily responsible for ensuring that the PFIs are solvent, well-managed, and operating in accordance with sound financial policies. The Credit Administrator shall be responsible for the day-to-day administration and ensuring that the Subloans are provided to eligible Investment Enterprises and for assisting PFIs in efficiently,

and in a timely manner intermediating funds, and monitoring the repayment performances of sub-borrowers.

(b) During the approval process, BM shall be responsible for ascertaining and certifying the eligibility of the PFIs, and for confirming approval of the PFI's participation within three days of the receipt of application to the Credit Administrators. The Credit Administrator shall be responsible for the administrative aspects and shall, within seven days of confirmation by BM of the PFI's eligibility, approve or disapprove individual Subloans based on the eligibility criteria without assessing the feasibility or other appraisal elements of Subloans.

(c) The BM shall cause the Credit Administrator to obtain from PFI their detailed quarterly reports on Subloans and shall monitor the information on amount collected, amounts overdue and the aging of overdue amounts.

