

CONFORMED COPY

CREDIT NUMBER 2082 MOZ

Project Agreement

(Small and Medium Enterprise Development Project)

between

INTERNATIONAL DEVELOPMENT ASSOCIATION

and

BANCO DE MOCAMBIQUE

Dated February 7, 1990

CREDIT NUMBER 2082 MOZ

PROJECT AGREEMENT

AGREEMENT, dated February 7, 1990, between the INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association), and BANCO DE MOCAMBIQUE (BM).

WHEREAS (A) by the Development Credit Agreement of even date herewith between the People's Republic of Mozambique (the Borrower) and the Association, the Association has agreed to lend to the Borrower an amount in various currencies equivalent to twenty-five million one hundred thousand Special Drawing Rights (SDR 25,100,000), 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; and

(B) by a subsidiary administration 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 Administration 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, 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 BM

Section 2.01. 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 through UGP carry out the Project and conduct its operations and affairs, in accordance with sound financial, technical, management and environmental standards and practices, with qualified and experienced management and in accordance with its Statutes and the Implementation Program set forth in Schedule 3 to this Agreement.

Section 2.02. (a) BM shall enter into Participation Agreements with each PFI under which the equivalent of the proceeds of the Credit allocated to Part A of the Project will be lent to such PFI for relending in the form of Sub-loans to FB's to finance Subprojects, such Participation Agreements to be satisfactory to the Association and in accordance with the provisions of Schedule 1 to this Agreement.

(b) BM undertakes that, unless the Association shall otherwise agree, Sub-loans made under Part A of the Project 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.

(c) 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 Administration 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 2 to this Agreement.

Section 2.04. 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 access to land) in respect of the Project Agreement.

Section 2.05. BM shall duly perform all its obligations under the Subsidiary Administration 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 Administration Agreement or any provision thereof.

Section 2.06. (a) Notwithstanding the provision of Section 3.06 of the Development Credit Agreement, 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 Administration 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 Administration Agreement.

Section 2.07. BM shall continue to maintain UGP and CI during the implementation of the Project in a form and with functions and staffing satisfactory to the Association as provided for in Schedule 3 to this Agreement.

Section 2.08. BM shall for the purposes of Part B.2 (c) of the Project:

(a) carry out, in accordance with terms of reference satisfactory to the Association, a review of the PFIs' accounting capabilities;

(b) not later than March 31, 1991, prepare on the basis of the results of said review an action program, to strengthen the accounting capabilities of the PFIs to be implemented during Project execution; and

(c) review jointly with the Association progress in the implementation of said action program, in accordance with the provisions of Section 3.06 (a) (iv) of the Development Credit Agreement.

### ARTICLE III

#### Financial Covenants

Section 3.01. (a) BM shall maintain, or cause each of the PFIs to maintain procedures and records adequate to monitor and record the progress of the Project and of each Subproject (including its cost and the benefits to be derived from it) and to reflect in accordance with consistently maintained sound accounting practices its operations and financial condition.

(b) BM shall:

(i) have or cause each of the PFIs to have their records, accounts and financial statements (balance sheets, statements of income and expenses and related statements) referred to in paragraph (a) of this Section for each fiscal year audited, in accordance with appropriate auditing principles consistently applied by independent auditors acceptable to the Association;

(ii) furnish, or cause each of the PFIs to 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 their 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, or cause each of the PFIs to 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.

(c) For all expenditures with respect to which withdrawals from the Credit Account were made on the basis of statements of expenditure, BM shall:

(i) maintain, or cause each of the PFIs to maintain, in accordance with paragraph (a) of this Section, records and accounts reflecting such expenditures;

(ii) retain, or cause each of the PFIs to retain until at least one year after the Association has received the audit for the fiscal year in which the last withdrawal from the Credit Account was made, all records (contracts, orders, invoices, bills, receipts and other documents)

evidencing such expenditures;

- (iii) enable or cause each of the PFIs to enable the Association's representatives to examine such records; and
- (iv) ensure or cause each of the PFIs to ensure that such records and accounts are included in the annual audit referred to in paragraph (b) of this Section, and that the report of such audit contains a separate opinion by said auditors as to whether the statements of expenditure submitted during such fiscal year, together with the procedures and internal controls involved in their preparation, can be relied upon to support the related withdrawals.

#### 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) a date twenty (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 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:

INDEVAS  
Washington, D.C.

Telex:

440098 (ITT)  
248423 (RCA) or

64145 (WUI)

For Banco de Mocambique:

Banco de Mocambique  
Departamento de Relacoes Internacionais  
Avenida 25 de Setembro 1695  
P.O. Box 423  
Maputo, Mozambique

Cable address

Telex:

MOBANCO  
Maputo

6355/7 BMMO

Facsimile:

29718

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 the Governor of Banco de Mocambique, or by such other person or persons as such 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/ Edward V.K. Jaycox

Regional Vice President  
Africa

BANCO DE MOCAMBIQUE

By /s/ Valeriano Ferrao

Authorized Representative

SCHEDULE 1

Terms and Conditions of Participation  
Agreements and Sub-loans

A. Participation Agreements

1. (a) PFIs shall relend the Meticais equivalent of the proceeds of the Credit to Final Beneficiaries (FBs) for Investment Projects, for terms of three (3) to twelve (12) years, including periods of grace of one (1) to four (4) years.

(b) PFIs shall charge a variable interest rate on Sub-loans to FBs

at the Borrower's prevailing interest rate including a margin approved by BM/Central and negotiated within the respective Participation Agreement. For the purposes of this Schedule the term "prevailing interest rate" means the rate determined by the Borrower pursuant to the provisions of a joint Despacho issued by the Minister of Finance of the Borrower and the Governor of Banco de Mocambique, dated September 7, 1989, as amended from time to time.

2. 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 Sub-loans to FBs under Part A 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 Sub-loans granted to FBs; and

(e) provide UGP and the Association with such information as they may reasonably request.

3. Procurement

(a) With respect to the procurement of goods and services to be financed under Sub-loans made under Part A of the Project, each Participation Agreement shall contain provisions requiring each PFI to comply with the following procedures:

(i) goods and services 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.

(ii) Goods and services estimated to cost the equivalent of \$500,000 or more shall be procured under contracts awarded in accordance with procedures consistent with those set forth in Sections I and II of the "Guidelines for Procurement under IBRD Loans and IDA Credits" published by the Bank in May 1985 (the Guidelines).

(iii) Goods estimated to cost the equivalent of \$100,000 but less than \$500,000 per contract: (A) may be procured under contracts awarded on the basis of comparison of price quotations solicited from a list of at least three qualified suppliers in accordance with procedures acceptable to the Association; and (B) all contracts for such goods shall be reviewed by the PFIs before submitting them to UGP for their approval and award.

(iv) Civil works estimated to cost more than the equivalent of \$100,000 per contract may be procured under contracts awarded on the basis of competitive bidding, advertised locally, in accordance with procedures satisfactory to the Association.

(v) Consultants shall have qualifications, experience, and be employed on terms and conditions satisfactory to the

Association. Such consultants shall be selected in accordance with principles and procedures satisfactory to the Association on the basis of the "Guidelines for the Use of Consultants by World Bank Borrowers and by the World Bank as Executing Agency" published by the Association in August 1981.

(b) Each PFI shall undertake that such goods and services shall be used exclusively in the carrying out of the Subproject and shall maintain appropriate records of the procurement procedures followed.

4. No expenditures for goods or services required for a Subproject shall be eligible for financing out of the proceeds of the Credit unless the Sub-loan for such Subproject shall have been:

(a) approved by the Association and such expenditures shall have been made not earlier than ninety (90) days prior to the date on which the Association shall have received the application and information required under paragraph 5 (a) of this Schedule in respect of such Sub-loan; or

(b) 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 5 (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 a Subproject in an amount to be financed out of the proceeds of the Credit which shall not exceed the sum of two hundred and fifty thousand dollars (\$250,000) equivalent, the foregoing amount being subject to change from time to time as determined by the Association at the request of the Borrower.

5. (a) When presenting a Sub-loan (other than a free-limit Sub-loan) to the Association for approval, UGP shall furnish to the Association an application, in form satisfactory to the Association, together with: (i) a description of the FB; (ii) a financial and economic appraisal of the Subproject, including procurement procedures and a description of the expenditures proposed to be financed out of the proceeds of the Credit; (iii) the proposed terms and conditions of the Sub-loan including the schedule of amortization of the Sub-loan; and (iv) 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 Sub-loan shall contain: (i) a summary description of the FB and the Subproject, including procurement procedures and 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 December 31, 1995.

6. Sub-loans shall be made on terms whereby BM shall cause each PFI to obtain, by written contract with the FB or by other appropriate legal means, rights adequate to protect the interests of the Borrower, the Association and BM, including, for any Sub-loan, the right to:

(a) require the FB to carry out and operate the Subproject with due diligence and efficiency and in accordance with sound technical, financial, environmental 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 procured in accordance with the provisions of Schedule 2 to this Agreement; and (ii) such goods and services

shall be used exclusively in the carrying out of the Subproject;

(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 Subproject, the operation thereof, and any relevant records and documents;

(d) require that: (i) the FB 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 FB 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 FB and to the benefits to be derived from the Subproject; and

(f) suspend or terminate the right of the FB to the use of the proceeds of the Credit upon failure by such FB to perform its obligations under its contract with the PFIS.

7. Sub-loans for any Subproject for rehabilitation or expansion of existing small and medium-scale enterprises may not exceed ninety percent (90%) of the total cost of the proposed Subproject nor a total equivalent to one million dollars (\$1,000,000.)

8. Sub-loans for any Subproject to be carried out by a new enterprise may not exceed a total equivalent to one million dollars (\$1,000,000).

9. Sub-loans may finance up to eighty (80%) of any Subproject to be carried out by a new enterprise. Exceptionally, in new enterprises, the Sub-loan limit may be extended to ninety percent (90%).

10. PFIs may cofinance the cost of Subprojects from their own resources.

11. No Sub-loan granted by any PFI shall be eligible for refinancing by BM out of the proceeds of the Credit without the prior verification of UGP as to its eligibility and without the approval of the Association; once three (3) Sub-loans for each PFI shall have been so approved, however, the approval of the Association shall no longer be required for the subsequent free-limit Sub-loans granted by such PFI.

B. Eligibility Criteria for Final Beneficiaries and Investment Projects  
- General Procedures

1. Enterprises: (a) engaged, inter alia, in agro-related industries, mining, quarrying, all manufacturing and processing, construction, transport and commercial services; (b) legally constituted under Mozambican law; and (c) with not more than two hundred (200) workers provided that in the case of high-merit Subprojects, UGP may consider on a case-by-case basis requests from Enterprises with more than two hundred (200) workers to receive Sub-loans from PFIs to carry out said Subprojects.

2. Sub-loans shall be used by FBs to have financing of: (a) fixed assets (including machinery, equipment, factory buildings and related civil works) rehabilitation and replacement; (b) associated incremental permanent working capital (including increases in stocks of imported raw materials and components); (c) spare parts; and (d) technical know-how consultancy services and training. For the purposes of this Schedule, the term "permanent working capital" means the working capital equal to twelve (12) month-production required by an enterprise when it is operating at its target level of capacity utilization.



3. During implementation of the Subproject, the FB shall be required: (a) to maintain a total debt service coverage ratio of not less than 1.5; and (b) in the case of an existing enterprise to maintain its equity at an equivalent of not less than ten (10%) percent of total enterprise assets. For the purpose of this Schedule, the term "total debt service coverage ratio" means net revenues (revenue less associated cost, excluding provision for depreciation and debt service payments) divided by debt service payments (including interest and principal, but excluding interest during construction).

4. Appraisal of Subprojects:

(a) UGP shall review the appraisal reports prepared by the PFI concerned in accordance with procedures acceptable to the Association; and

(b) appraisal reports shall include, inter alia, the following: (i) analysis of the proposed Subproject, including its technical soundness, financial viability, economic efficiency and managerial capability; (ii) calculation of the incremental financial rate of return (FRR) which shall be at least twelve (12%) percent; (iii) calculation of the incremental economic rate of return (ERR) which shall be at least twelve (12%) percent; and (iv) assessment of the environmental impact of the proposed Subproject, in particular in cases of enterprises which (A) extract natural resources, (B) cause particular pollution problems, (C) create special hazards for workers, or (D) create risks for consumers.

SCHEDULE 2

Procurement and Consultants' Services

Section I. Procurement of Goods and Works

Part A: International Competitive Bidding

Except as provided in Part D hereof, goods and works estimated to cost the equivalent of \$500,000 or more shall be procured under contracts awarded in accordance with procedures consistent with those set forth in Sections I and II of the "Guidelines for Procurement under IBRD Loans and IDA Credits" published by the Bank in May 1985 (the Guidelines).

Part B: Preference for Domestic Manufacturers

In the procurement of goods in accordance with the procedures described in Part A.1 hereof, goods manufactured in Mozambique may be granted a margin of preference in accordance with, and subject to, the provisions of paragraphs 2.55 and 2.56 of the Guidelines and paragraphs 1 through 4 of Appendix 2 thereto.

Part C: Preference for Domestic Contractors

In the procurement of works in accordance with the procedures described in Part A.1 hereof, the Borrower may grant a margin of preference to domestic contractors in accordance with, and subject to the provisions of paragraphs 2.55 and 2.56 of the Guidelines and paragraph 5 of Appendix 2 thereto.

Part D: Other Procurement Procedures

1. Local Competitive Bidding:

Goods and works estimated to cost \$100,000 or more up to \$500,000 per contract may be procured under contracts awarded on the basis of competitive bidding, advertised locally, in accordance with procedures satisfactory to the Association.

2. International or Local Shopping:

Items or groups of items estimated to cost the equivalent of \$100,000 or more up to \$500,000 may be procured under contracts awarded on the basis of comparison of price quotations solicited from a list of at least three suppliers eligible under the Guidelines, in accordance with procedures acceptable to the Association.

3. Direct Contracting:

Goods and works estimated to cost less than the equivalent of \$100,000 may be procured under direct contracting, in accordance with procedures acceptable to the Association.

Part E: Review by the Association of Procurement Decisions

1. Review of invitations to bid and of proposed awards and final contracts:

(a) With respect to each contract estimated to cost the equivalent of \$100,000 or more, the procedures set forth in paragraphs 2 and 4 of Appendix 1 to the Guidelines shall apply. Where payments for such contract are to be made out of the Special Account, such procedures shall be modified to ensure that the two conformed copies of the contract required to be furnished to the Association pursuant to said paragraph 2 (d) shall be furnished to the Association prior to the making of the first payment out of the Special Account in respect of such contract.

(b) With respect to each contract not governed by the preceding paragraph, the procedures set forth in paragraphs 3 and 4 of Appendix 1 to the Guidelines shall apply. Where payments for such contract are to be made out of the Special Account, such procedures shall be modified to ensure that the two conformed copies of the contract together with the other information required to be furnished to the Association as part of the evidence to be furnished pursuant to paragraph 4 of Schedule 5 to this Agreement.

3. The figure of 15% is hereby specified for purposes of paragraph 4 of Appendix 1 to the Guidelines.

Section II. Employment of Consultants

In order to assist the Borrower in carrying out the Project, the Borrower shall employ consultants whose qualifications, experience and terms and conditions of employment shall be satisfactory to the Association. Such consultants shall be selected in accordance with principles and procedures satisfactory to the Association on the basis of the "Guidelines for the Use of Consultants by World Bank Borrowers and by the World Bank as Executing Agency" published by the Bank in August 1981.

SCHEDULE 3

Implementation Program

A. Apex Unit (UGP)

1. UGP, established as an apex unit within the Departamento de Relacoes Internacionais of BM/Central (Departamento), shall be responsible for coordinating, managing and supervising the overall implementation of the Project.

2. Staff

(a) UGP shall be headed by a Manager who shall report directly to the Head of the Departamento and shall be assisted by an Adviser with qualifications and experience acceptable to the Association.

(b) UGP shall have qualified and experienced staff, including, inter alia, the following:

- (i) two (2) Project Analysts;
- (ii) two (2) Administrative Officers; and
- (iii) Support staff, in appropriate numbers.

### 3. Functions

UGP shall be responsible, inter alia, for:

(a) providing guidance to PFIs in selecting eligible Subprojects in accordance with the procedures, terms and conditions set forth in Schedule 1 to this Agreement;

(b) ensuring the application of appropriate standards for Subproject appraisal;

(c) supervising the PFI's compliance with their obligations under the Participation Agreements;

(d) reviewing eligibility and authorizing financing for Subprojects submitted by PFIs: (i) for Sub-loans of less than \$100,000, ensuring that the requests meet the eligibility criteria are approved within ten (10) working days from submission; (ii) for Sub-loans above \$100,000 but less than \$250,000 equivalent, reviewing and making comments on the quality of the appraisal carried out by the PFI concerned, before approving it within ten (10) working days from submission; and (iii) for Sub-loans of or above \$250,000 equivalent, reviewing and commenting on the appraisal as referred above, before submitting the Subproject to the Association for its approval;

(e) administering the Special Account, ensuring proper disbursement of proceeds of the Credit and supervising and centralizing the collection and forwarding to the Association of supporting documentation;

(f) supervising, on a sample basis, the implementation of Subprojects;

(g) ensuring the liaison between the Association and the PFIs on matters related to the Project;

(h) maintaining appropriate records required for supervision and Project completion reports; and

(i) acting as Secretary to the CI, as hereinafter defined.

#### B. Project Steering Committee (CI)

1. The Manager of UGP shall consult with a Project steering committee (CI) to oversee Project implementation.

2. CI, established by the Governor of Banco de Mocambique, shall be composed of representatives of the following institutions, inter alia:

- (a) BM (Chairperson empowered to call CI's meetings);
- (b) Ministry of Finance;
- (c) Ministry of Industry and Energy;
- (d) Ministry of Commerce and Trade; and
- (e) National Planning Commission.

The Chairperson of the CI may, at its discretion, request the participation of other government agencies, public and/or private institutions related to the subsectors receiving assistance under the Project.

3. CI shall have the following functions:

(a) monitoring progress achieved in implementing the Project;

(b) coordination of sectoral objectives and sectoral distribution of Sub-loans under Part A of the Project;

(c) monitoring and advising UGP on Project policy aspects, application of Subproject eligibility criteria, and import licensing; and

(d) monitoring cofinancing, disbursements and debt service issues encountered by UGP during Project implementation.

