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CREDIT NUMBER 4354 - MOZ

Southern African Power Market Program

Project Agreement

(Mozambique Component – Mozambique-Malawi Transmission Interconnection Project)

between

INTERNATIONAL DEVELOPMENT ASSOCIATION

and

ELECTRICIDADE DE MOCAMBIQUE, EP

Dated September 21, 2007
PROJECT AGREEMENT

AGREEMENT dated September 21, 2007, entered into between INTERNATIONAL DEVELOPMENT ASSOCIATION ("Association") and ELECTRICIDADE DE MOCAMBIQUE, EP (EDM) ("Project Implementing Entity") ("Project Agreement") in connection with the Financing Agreement ("Financing Agreement") of same date between the REPUBLIC OF MOZAMBIQUE ("Recipient") and the Association. The Association and EDM hereby agree as follows:

ARTICLE I — GENERAL CONDITIONS; DEFINITIONS

1.01. The General Conditions (as defined in the Appendix to the Financing Agreement) constitute an integral part of this Agreement.

1.02. Unless the context requires otherwise, the capitalized terms used in this Agreement have the meanings ascribed to them in the Financing Agreement or the General Conditions.

ARTICLE II — PROJECT

2.01. EDM declares its commitment to the objectives of the Project. To this end, EDM shall carry out the Project in accordance with the provisions of Article IV of the General Conditions, and shall provide promptly as needed, the funds, facilities, services and other resources required for the Project.

2.02. Without limitation upon the provisions of Section 2.01 of this Agreement, and except as the Association and EDM shall otherwise agree, EDM shall carry the Project in accordance with the provisions of the Schedule to this Agreement.

ARTICLE III — TERMINATION

3.01. For purposes of Section 8.05 (c) of the General Conditions, the date on which the provisions of this Agreement shall terminate is twenty years after the date of this Agreement.

ARTICLE IV — REPRESENTATIVE; ADDRESSES

4.01. The Project Implementing Entity’s Representative is EDM’s Chief Executive Officer.
4.02. The Association’s Address is:

International Development Association
1818 H Street, NW
Washington, DC 20433
United States of America

Cable: INDEVAS
Telex: 248423(MCI)
Facsimile: 1-202-477-6391

4.03. The Project Implementing Entity’s Address is:

Electricidade de Mocambique, EP
Avenue Agostinho Neto, 70
Maputo
Republic of Mozambique

Facsimile:

258 21 491048
AGREED at Maputo, Mozambique, as of the day and year first above written.

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Michael Baxter

Authorized Representative

ELECTRICIDADE DE MOCAMBIQUE, EP

By /s/ Manuel João Cuambe

Authorized Representative
SCHEDULE

Execution of the Project

Section I. Implementation Arrangements

A. Institutional Arrangements

1. EDM shall, at all times during the period of the Project implementation maintain:

   (a) active participation in the Joint Project Coordination Committee. To this end, the Joint Project Coordination Committee shall be responsible for, inter alia: (i) coordination of Project activities; and (ii) determining, making recommendations, or proposing any issues for review of the Joint Project Steering Committee;

   (b) a Project Management Unit, including a project manager, engineer, social and environmental specialist, financial management specialist, and technical specialists among whom must be a transmission line and substation engineer, and an officer trained in procurement under the Procurement and Consultant Guidelines, respectively, all with qualifications, and terms of reference satisfactory to the Association; and

   (c) the services of a design and supervision consultant. To this end, said design and supervision consultant shall be appointed in accordance with the provisions of Section III.C of Schedule 2 to the Financing Agreement.

2. EDM shall carry out: (a) the Project in accordance with the Project Implementation Plan; and (b) Part A of the Project in accordance with the terms and conditions set forth in the Key Agreements, and except as the Association shall otherwise agree, shall not assign, amend, abrogate or waive the Key Agreements or any provision of any one thereof.

B. Anti-Corruption

EDM shall ensure that the Project is carried out in accordance with the provisions of the Anti-Corruption Guidelines.
C. **Environmental and Social Safeguards**

1. EDM shall:

   (a) carry out the Project in accordance with the environmental, social and resettlement guidelines, rules and procedures defined in the Resettlement Policy Framework, and the Environmental Impact Assessment Report;

   (b) not amend or waive, or permit to be waived, the Environmental Impact Assessment Report, and the Resettlement Policy Framework, or any provision thereof;

   (c) prior to construction of the Transmission Interconnection Line, which would result in displacement of any Affected Persons or adversely affect their standards of living, or their rights, usufructs or customary rights to land or other resources under the Project, ensure that:

      (i) an assessment is carried out in consultation with the Association to determine whether a Resettlement Action Plan would be required, and in the event that such Resettlement Action Plan is required, prepare and submit a detailed Resettlement Action Plan acceptable to the Association;

      (ii) all rights to land, usufructs or customary rights and other property are allocated or acquired, compensation therefore is paid and resettlement is carried out in accordance with the principles and institutional procedures established in the Resettlement Action Plan;

      (iii) Affected Persons shall be compensated, resettled and rehabilitated in accordance with the Resettlement Action Plan. To this end, EDM shall open and maintain an account in a commercial bank, acceptable to the Association, and deposit therein the amount adequate to cover all costs associated with the compensation and resettlement of the Affected Persons;

      (iv) the implementation arrangements for resettlement, including compensation, relocation and rehabilitation of Affected Persons are documented; and

      (v) the implementation of such Resettlement Action Plan is completed in a manner satisfactory to the Association.

2. Without limitation upon the provisions of Section I.C.1, EDM shall: (a) take all measures for carrying out the recommendations of the Environmental Impact Assessment Report,
and the Resettlement Policy Framework in a timely and effective manner; and (b) include in the Project Reports referred to in Section II.A of this Schedule adequate information on monitoring the measures defined in the Environmental Impact Assessment Report, the Resettlement Policy Framework, and any Resettlement Action Plan.

Section II. Project Monitoring, Reporting and Evaluation

A. Project Reports

1. (a) EDM shall monitor and evaluate the progress of the Project and prepare Project Reports in accordance with the provisions of Section 4.08 of the General Conditions and on the basis of the indicators set forth below in subparagraph (b) of this paragraph. Each such Project Report shall cover the period of six months, and shall be furnished to the Recipient not later than two weeks after the end of the period covered by such report for incorporation and forwarding by the Recipient to the Association of the overall Project Report.

(b) The performance indicators referred to above in sub-paragraph (a) consist of the following:

   (i) Annual volume of electricity traded between the Recipient and the Republic of Malawi (kWh/year);

   (ii) Key Agreements are signed and implementation is in compliance with their respective provisions;

   (iii) increased number of EDM customers served at Matambo substation; and

   (iv) current ratio (as defined in Section II.B.3 of this Schedule) for FY 2008, and following FYs is greater than or equal to 1.3.

2. EDM shall provide to the Recipient not later than October 31, 2009 for incorporation in the report referred to in Section 4.08 (c) of the General Conditions all such information as the Recipient or the Association shall reasonably request for the purposes of such Section.

B. Financial Management, Financial Reports and Audits

1. EDM shall maintain a financial management system and prepare financial statements in accordance with consistently applied accounting standards acceptable to the Association, both in a manner adequate to reflect the operations and financial condition of the EDM, including the operations, resources and expenditures related to the Project.
2. EDM shall have its financial statements referred to above audited by independent auditors acceptable to the Association, in accordance with consistently applied auditing standards acceptable to the Association. Each audit of these financial statements shall cover the period of one fiscal year of EDM. The audited financial statements for each period shall be furnished to the Association not later than six months after the end of the period.

3. Except as the Association shall otherwise agree, EDM shall maintain:

   (a) a current ratio greater than, or equal to 1.3 for FY 2008, and the following Fys; and

   (b) a collection-generation ratio greater than, or equal to 71% for FY 2008, 73% for FY 2009, and 74% for FY 2010, respectively.

For the purpose of this Section:

   (i) the term “current ratio” means current assets divided by current liabilities.

   (ii) the term “collection-generation ratio” means:

       (A) energy collected by EDM divided by energy sent out by EDM;

       (B) energy collected by EDM is equal to (energy sent out to EDM less transmission and distribution losses in EDM’s system) multiplied by EDM’s billing collection ratio;

       (C) energy sent out from EDM’s generation systems, or entering EDM’s systems through purchases; and

       (D) EDM billing collection ratio means energy collected divided by energy billed.

4. EDM shall, not later than three months after the Effective Date, appoint the independent auditors referred to in Section 4.09 (b) of the General Conditions, in accordance with the provisions of Section III of this Schedule.
Section III. **Procurement**

All goods, works and services required for the Project and to be financed out of the proceeds of the Financing shall be procured in accordance with the provisions of Section III of Schedule 2 to the Financing Agreement.