FINANCIAL PROTOCOL

BETWEEN THE GOVERNMENT OF THE ITALIAN REPUBLIC AND THE GOVERNEMENT OF THE REPUBLIC OF MOZAMBIQUE FOR THE IMPLEMENTATION OF A "PROGRAMME AID" IN SUPPORT OF SMALL AND MEDIUM ENTERPRISES

The Government of the Italian Republic and the Government of the Republic of Mozambique, hereinafter referred to as "Parties":

WHEREAS the agreed minutes of the Joint Commission for Development Cooperation held in Maputo on the 6th of February of 1988, where a commitment by the Italian Government of ECU 59,200,000 (Exchange Currency Units fifty nine million and two hundred thousand) under the form of grant has been foreseen for financing a Commodity Aid Programme in the framework of the Social and Economic Rehabilitation Programme;

WHEREAS the Memorandum of Understanding signed in Maputo on 31st of January 1992, where a commitment by the Government of the Italian Republic of Lit. 60,000,000,000 (Italian Lire sixty thousand million) under the form of grant has been foreseen for the carrying out of a programme for the import of goods and related services;

WHEREAS the Government of the Italian Republic is ready to finance the amount of Lit. 37,000,000,000 (Italian Lire thirty-seven thousand million) under the form of grant for the carrying out of a programme for the import of goods and related services made in Italy to the benefit of Mozambican Small and Medium Enterprises, hereinafter referred to as "Programme";

WHEREAS for the above stated financing of imports into Mozambique as special Financial Protocol should be reached between the Parties, hereinafter referred to as "Protocol", regulating the commitments undertaking by the Governments of both Countries;

have agreed as follows:

CLAUSE 1

PURPOSE OF THE AGREEMENT

The Government of the Italian Republic hereby agrees to grant to the Government of the Republic of Mozambique the sum of Lit. 37,000,000,000 (Italian Lire thirty-seven thousand million), subject to the terms and conditions set out in the Protocol and in the related technical annex which is an integral part of it, hereinafter referred to as "Technical Annex", for the import into Mozambique of goods and related services made in Italy. This funding, granted within the framework of the "Special Programme of Assistance for Africa" (S.P.A.) of the World Bank, is integrated with the measures already agreed upon between the World Bank and the Government of the Republic of Mozambique.

CLAUSE 2

USE OF THE GRANT

1. The funding of Lit. 37,000,000,000 (Italian Lire thirty-seven thousand million) shall be made available to the Government of the Republic of Mozambique according to terms and conditions to be agreed upon through an exchange of Note Verbales between the Parties.

2. The funding shall be employed to face:

   a) the purchase at market price of goods and related services made in Italy according to the terms and conditions envisaged in the Technical Annex;

   b) the expenses connected to the transport and to the insurance of such goods;

   c) the expenses referred to other services related to such goods;

   d) the payment of the commissions for the services provided by the procurement company, hereinafter referred to as "Procurement Company", the checking and supervision company, hereinafter referred to as "supervision Company" and the Italian agent bank, hereinafter referred to as "Agent Bank", according to the terms and conditions envisaged in the Protocol and in the Technical Annex.

3. The goods and related services acquired through the funding under the Protocol shall be entirely devoted to Small and Medium private sector companies of Mozambique, in order to reinforce their capacity to produce for external markets, or to decrease the necessity to import finished goods, and then to improve the Balance of Payments.

4. The procedures to advertise this Programme in Mozambique, the criteria to select the beneficiaries of the supplies and the terms and conditions of payment for these supplies by local operators for the setting up and replenishment of the counterpart funds, hereinafter referred to as "Counterpart Funds", shall be defined by the Government of the Republic of Mozambique jointly with the Government of the Italian republic, by means of an exchange of Notes Verbales. The general criteria for the constitution, programming, disbursement, accounting and utilisation of the Counterpart Funds are defined more in detail on the "Agreement for the Management of Counterpart Funds" signed by both Parties in Maputo on 13.06.1996.

CLAUSE 3

ROLES AND COMPETENCE

For the implementation of the Protocol:

1. The Government of the Republic of Mozambique shall appoint its own representative, hereinafter referred to as the "Person in Charge", for the management, coordination and supervision of all the activities to be carried out in Mozambique.
   In the framework of the "Special lists of companies entitled to carry out procurement and checking and supervision activities" worked out by the Ministry for Foreign Affairs - Directorate General for Development Cooperation, hereinafter referred to as "M.A.E. - D.G.C.S.", as well s the list of the "main Italian bank", in the compliance with the indications provided by the Bank of Italy, the Government of the Republic of Mozambique shall also appoint:

   a) a Procurement Company which, as agent in name and on behalf of the Government of the Republic of Mozambique, according to the contract mentioned below, shall proceed to the

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selection of the Italian suppliers, sign the purchase contracts with the Italian suppliers, make requests to open and possibly amend the related irrevocable documentary credits;

b) a Supervision Company which, as agent in name and on behalf of the Government of the Republic of Mozambique, according to the contract mentioned below, shall carry out the envisaged quality and quantity controls as well as the verification on the congruity of the prices of the supplies and issue of the relevant certificates and assessments;

c) an Agent Bank which, as agent in its name and on behalf of the Government of the Republic of Mozambique, according to the contract mentioned below, shall manage the special account referred to in clause 4 below, open the irrevocable documentary credits such as means of payment to the Italian suppliers and pay the commissions to the Procurement Company, to the Supervision Company and to the Agent Bank itself by debiting the special account.

The Government of the Republic of Mozambique shall sign proper contracts with the Procurement Company, the Supervision Company and the Agent Bank which shall be consistent with provisions established in the Protocol and in the Technical Annex. The M.A.E. - D.G.C.S. shall prepare the standard text of said contracts. The commissions for the above-mentioned services shall amount respectively to 2.50%, 1.50% and 0.50% of the amount of any purchase contract of goods and related services.

2. The M.A.E.-D.G.C.S. shall appoint an Italian Expert, hereinafter referred to as "Expert", who shall assist the Person in charge in the management and in the different operational stages of the Programme and verify the proper implementation of the Programme itself. Such tasks may also be performed by the local Italian Embassy if the Expert is not present.
The M.A.E.-D.G.C.S. may also promote the drawing up of a special list of Italian Suppliers ("vendor list") to provide an operational and verification support to the Person in charge, the Expert and the Procurement Company.

3. The above-mentioned appointments shall be made through an exchange of Note Verbales, which shall be part and parcel of this Protocol.
The Procurement Company, the Supervision Company and the Agent Bank shall not have to hold any direct or indirect proprietary links among them.

CLAUSE 4

DISBURSEMENT OF THE FUNDING

1. The Government of the Republic of Mozambique shall open a special account in Italian Foreign Account Lire, hereinafter referred to as "Special Account", in its name at the Agent bank and the available funds, both capital and interest, shall be utilised solely for the purposes of the funding as envisaged in former clause 2 paragraph 2. Such Special Account shall be denominated "Government of Mozambique - Programme Aid Italy - Grant of the Government of the Italian Republic to Mozambique for public purposes in support of Small and Medium Enterprises".
With the regards to the Special Account the Government of the Republic of Mozambique commits itself to safeguard, jointly with M.A.E. - D.G.C.S., in the jurisdictional venues also, the immunity recognised by international law to the goods granted for public use in Mozambique.

2. The M.A.E. - D.G.C.S. shall give instructions for the crediting of the Special Account of the agreed funds, referred to in former clause 2 paragraph 1, upon forwarding by the Person in charge to the Procurement Company and to the M.A.E. - D.G.C.S. of the detailed lists of goods and services requested, duly signed for approval by the Expert.

3. Possible further crediting of the agreed funds shall be made upon the request of the Person in charge, signed by the Expert and supplemented by information on the Programme state of progress.

4. Within 2 (two) months since the conclusion of the Programme, the Person in charge shall give instructions to the Agent Bank to close the Special Account; if no instructions are given, the Agent Bank itself shall close the Special Account with the prior agreement of the M.A.E. - D.G.C.S.

CLAUSE 5

MANAGEMENT OF THE PROGRAMME

1. The Person in charge, assisted by the Expert, shall prepare the detailed lists of goods and related services, within the framework of the admitted supplies. Said lists, supplemented by the technical quality and quantity specifications, by indications on the final consignees, as well as by the estimated value of said supplies, shall be forwarded to the Procurement Company.

2. The Procurement Company shall select the Italian suppliers through appropriate advertising and according to the procedures envisaged in the Technical Annex, by resorting, on the bases of the different kinds of supply, to direct contracting, limited bidding and competitive bidding.

3. After performing the procedures under previous paragraph 2., the Procurement Company shall send to the Person in charge, in the case of direct contracting, the bid received or, in the case of limited or competitive bidding, the bids which are considered to be economically the most advantageous, together with its own reasoned opinion on the price and on the quality of the goods and related services.

4. The Person in charge, assisted by the Expert, shall make a comparison and analysis of the bids received by the Procurement Company and shall proceed to the award of supplies by drawing up special minutes duly grounded and related letters of award.
In such occasion the Expert shall sign said documents for approval or raise grounded objections by informing the local Italian Embassy and the M.A.E. - D.G.C.S. which may start diplomatic consultation as soon as possible.

5. The Person in charge shall forward the letters of award to the Procurement Company which shall proceed to the stipulation of the relevant purchase contracts in compliance with the indications contained in said letters.
The Person in charge shall also send to the Supervision Company the inspection orders for the quality and quantity controls of the supplies as well as, in the case of purchases made on the basis of direct contracting and/or limited bidding, the request for the verification of the congruity of prices; such assessment shall have to be issued by the Supervision Company before the signing of the relevant supply contracts. The Person in charge, if he deems it advisable or upon possible initiatives of the M.A.E. - D.G.C.S., may ask to the Supervision Company the verification of the congruity of the prices of the supplies also in the case of competitive bidding; in the presence of such event, assessment on the congruity of prices shall have to be issued however before the signature of the relevant supply contracts.

6. Shortly after the signature of the supply contracts, the Procurement Company shall ask for the opening of the relevant irrevocable documentary credits with the Agent Bank; the latter shall open said credits and notify them to the Italian suppliers according to the terms and conditions envisaged in the Technical Annex.

7. The Supervision Company shall make the envisaged quality and quantity controls on the goods supplied and, upon shipment and final delivery of the supplies, shall issue respectively the "certificate of conformity" and the "certificate of conformity and of final delivery".

8. Upon presentation by the Italian suppliers of the documents requested by the irrevocable documentary credit, the Agent Bank shall control them and, if they comply with the terms and conditions envisaged by the documentary credit, it shall make payments from the special account according to the proceedings set out in the Technical Annex.
All the commissions, including opening and amendment ones, the customary fees and expenses applicable to the irrevocable documentary credits shall be born by the Italian suppliers benefiting from said credits.

9. At the same time as and in proportion to each payment made under the irrevocable documentary credits to the Italian suppliers benefiting from said credits, the Agent Bank shall pay to the Procurement Company, to the Supervision Company, and to itself the commission envisaged in former clause 3 against the issue of final invoice and of discharge receipt.

10. The Government of the Italian Republic may carry out any verification and control on the management of the Programme and suspend the granting of funds for evident defaults. To this end, a copy of all the documents related to the execution of the Programme shall be sent to M.A.E. - D.G.C.S.

CLAUSE 6

COUNTERPART FUNDS

1. If all or part of the goods and related services are sold to local operators, the proceeds from such sail shall be allocated to the creation in Mozambique of the Counterpart Funds or channelled in the same if already existing. The resale price in Meticais shall be commensurate with local free or controlled market price of said goods; in cases where no reference price exist, the goods shall be valued in relation to an equivalent price of that of other goods of the same type. The conditions of payment shall be such to ensure the widest possible participation by local private operators.

2. By joint agreement between the Parties, the Counterpart Funds shall be managed accordingly with the procedures agreed upon in the "Agreement on the Management of Counterpart Funds" signed in Maputo on 13.06.1996. The Counterpart Funds may also be used exceptionally and upon a reasoned request by the Government of the Republic of Mozambique to face possible local costs of this Programme, as specified in the Technical Annex.

3. The arrangements between the Parties for the management of the Counterpart Funds shall have to take into account the directives envisaged in the Protocol.

CLAUSE 7

INFORMATION REPORTS AND ACCOUNTING DOCUMENTS

The management of this Programme entails the drawing up of information reports and the production of accounting documents as specified in detail in the Technical Annex.

CLAUSE 8

CONSULTATIONS

1. The Parties shall cooperate with a view to reaching the objectives of the Protocol and, when so requested by one of the said Parties, they undertake to:

   a) proceeding to the exchange of views through their diplomatic representatives as far as the fulfilment of their respective obligations set out in the Protocol is concerned;

   b) providing the other Party with all the information requested in relation to the execution of the Protocol.

2. The Parties shall immediately notify each other of any event which may hamper the reaching of the objectives for which the grant has been provided or the fulfilment of the obligations established by the Protocol and shall take any step which may be necessary for the better use of the grant.

CLAUSE 9

AMENDMENTS

The Parties may amend the Protocol and the Technical Annex by means of an exchange of Note Verbales.

CLAUSE 10

SETTLEMENT OF DISPUTES

Disputes arising with respect to the interpretation and/or the application of the Protocol and of the Technical Annex shall be settled through diplomatic channels.

CLAUSE 11

ENTRY INTO FORCE AND DURATION

1. This Protocol shall come into force at the date of the last of the two notifications by wich the two Parties shall communicate officially each other the fulfilment of their respective internal proceedings duly envisaged and shall remain in force until the complete realisation of the Programme.

2. If for any reason, the execution of the Programme cannot be concluded in compliance with the Protocol, the Parties shall consult each other on the matter; the remaining funds may be used only prior agreement between the Parties.

In witness thereof the undersigned Representatives, duly authorised by their respective Governments, have signed the Protocol.

Done in Maputo on December 11/1996 in 2 (two) originals in English language, both texts being equally binding.

For the Government of
the Italian Republic

For the Government of
the Republic of Mozambique

TECHNICAL ANNEX

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A. GOODS ADMITTED

Approval shall be given solely to the supply of the goods and related services listed below:

1) basic goods and capital goods, including those necessary for the rehabilitation of already existing plants;

2) services related to the supplies under previous point 1), including the installation, assemblying and operation of machinery and equipment.

B. GOODS NON ADMITTED

Non-essential and luxury goods such as perfumes, cosmetics and soaps, artistic objects, watches and clocks, alcoholic beverages, sport articles, handicraft goods, cinecameras and films, domestic furniture, clothing leather and skins, footwear and accessories, as well as goods, materials and/or services directly or indirectly related to military activities; cars, motor-cycles and textiles articles for private use and/or for resale.

C. EXPENDITURES WHICH CANNOT BE FUNDED

Excise and custom duties, insurance and transport expenditures beyond the geographical point of delivery of goods and any other expenditure related to the import of supplies in Mozambique cannot be funded.

D. COMMISSIONS FOR SERVICES

For the services specified in clause 3 paragraph 1. of the Protocol, the Government of the Republic of Mozambique shall pay:

- to the Procurement Company a 2.50% commission on each payment made in availment of the documentary credit issued according to the relevant contract for the supply of goods and related services. In the case that, for reasons independent from the activity of the Procurement Company, the cancellation of suppliers selection procedures and/or supply contracts should be disposed, the Government of the Republic of Mozambique shall pay to the Procurement Company commissions commensurate with the activities truly carried out by the Procurement Company itself and calculated, as regards to cancelled suppliers selection procedures, on the basis of the estimated value of the requested supplies determined by the Person in charge in agreement with the Expert, and indicated in the lists of requested goods referred to in clause 5 paragraph 1. and in section H. below of the Technical Annex. In order to assess the value of several supplies, following the evaluation and tabulation of bids made by the Procurement Company, the average value of the bids which are deemed valid shall be taken into account. To this end the 2.50% percentage shall be split as follows:

a) verification of the technical specifications of the requested goods, definition of lots and preparation of the relevant dossier concerning the suppliers selection procedures: 25%;

b) launching and management of the suppliers selection procedures: 15%;

c) evaluation and tabulation of the bids: 40%;

d) contract negotiation and stipulation and request for the related opening of the irrevocable documentary credits: 20%.

The percentages set for under previous points a), b), c) and d) may be cumulated; it is understood that in case of cancellations of supply contracts, the Procurement Company shall be entitled to receive the payment of 2.50% of the amounts of the cancelled contracts.
As to the sums due following the cancelled suppliers selection procedures and/or supply contracts, the Procurement Company's invoices shall be signed for approval by the Person in charge and for conformity by the Expert; such final invoices shall also state that the invoiced amounts have been determined in accordance with the present provisions;

- to the Supervision Company a 1,50% commission on each payment made in availment of the documentary credit issued according to the relevant contract for the supply of goods and related services;

- to the Agent Bank a 0,50% commission on each payment made in availment of the documentary credit issued according to the relevant contract for the supply of goods and related services. The Agent Bank shall also collect from Italian suppliers, benefiting from the irrevocable documentary credits, the commissions including opening and amendment ones, the customary fees and expenses applicable to said credits.

For the above mentioned commissions the Procurement Company, the Supervision Company and the Agent Bank shall issue final invoices and discharge receipts.

E. <u>SPECIAL LIST OF COMPANIES ENTITLED TO CARRY OUT PROCUREMENT ACTIVITIES</u>

- Agmin Italy S.r.l.
Via Pallone, n. 8 - 37121 VERONA

- <u>Ccpl - Consorzio di cooperative di produzione e lavoro</u> S.c.r.l.
Via M.K. Gandhi, n. 8 - 42100 REGGIO EMILIA

- <u>Cogis - Compagnia generale interscambi</u> S.p.A.
Piazza della Repubblica, n. 32 - 20124 MILANO

- <u>Comerint</u> S.p.A.
Via Paolo Di Dono, n. 223 - 00143 ROMA

- <u>Commisint - Commissionaria Internazionale</u> S.p.A.
Corso Matteotti, n. 40 - 10121 TORINO

- <u>Fortrade Financing</u> S.p.A.
Via Mascheroni, n. 31 - 20145 MILANO

- <u>Intraco</u> S.p.A.
Via [illegible], n. 12 - 20145 MILANO

- <u>Italcos</u> S.p.A.
Via degli Scialoja, n. 6 - 00196 ROMA

- I.T.S. - Italian Trading Service S.p.A.
Via San Nicola da Tolentino, n. 50 - 00187 ROMA

- Media Trade S.p.A.
Via Felice Turati, n. 7 - 20121 MILANO

- Rest-Ital S.p.A.
Viale Premuda, n. 38/A - 20129 MILANO

- Società Mercantile Internazionale - Intersomer S.p.A.
Via P. Ferrari, n. 6 - 20121 MILANO

- Vittorio Cauvin S.p.A.
Via XX Settembre, n. 31/7 - 16121 GENOVA

F. SPECIAL LIST OF COMPANIES ENTITLED TO CARRY OUT CHECKING AND SUPERVISION ACTIVITIES

- Bossi & C. Transiti S.p.A.
Via D. Fiasella, n. 1 - 16121 GENOVA

- Sitris S.r.l.
Via Noè, n. 23 - 20133 MILANO

- Società Generale di Sorveglianza (S.G.S.) S.p.A.
Via G. Gozzi, n. 1/A - 20100 MILANO

- Viglienzone Adriatica S.p.A.
Via Circonvallazione Piazza D'Armi, n. 130 (2° Piano) - 48188 RAVENNA

G. LIST OF THE MAIN ITALIAN BANKS

- Banca Commerciale Italiana S.p.A.
Piazza della Scala, n. 6 - 20121 MILANO

- Banca di Roma S.p.A.
Via M. Minghetti, n. 17 - 00187 ROMA

- Banca Monte dei Paschi di Siena S.p.A.
Piazza Salimbeni, n. 3 - 53100 SIENA

- Banca Nazionale del Lavoro S.p.A.
Via V. Veneto, n. 119 - 00187 ROMA

- Banco di Napoli S.p.A.
Via Toledo, nn. 177/178 - 80132 NAPOLI

- Cassa di Risparmio delle Provincie Lombarde - CARIPLO S.p.A.
Via Monte di Pietà, n. 8 - 20121 MILANO

- Credito Italiano S.p.A.
Via del Corso, n. 374 - 00186 ROMA

- Istituto Bancario San Paolo di Torino S.p.A.
Piazza San Carlo, n. 156 - 20121 TORINO

H. OPERATIONAL PROCEDURES FOR THE MANAGEMENT OF THE PROGRAMME

After fulfilling the procedures under clause 3 and clause 4 paragraph 1. of the Protocol, the Person in charge, before preparing the lists of goods and related services, shall have the task of:

a) advertising the Programme in Mozambique through the most appropriate information channels and collecting the requests of the local operators;

b) defining the list of local beneficiaries who may use this Programme, on the basis of criteria under clause 2 paragraph 4. of the Protocol.

While preparing the lists of goods and related services, the Person in charge, assisted by the Expert, shall pay particular attention to the "neutrality" of the technical specifications of the goods to acquire through limited bidding or competitive bidding as well as to the Italian origin of said goods; he shall also send such lists to the Procurement Company specifying quality and quantity of the requested goods and indicating their estimated value.

These lists, supplemented by the indication of the final consignees, shall be grouped according to the type of products - so as to ensure the acquisition of goods on the basis of the best cost-effectiveness criteria - and shall be also motivated if they bear indications or recommendations of specific suppliers to refer to in the admitted cases of direct contracting or limited bidding; moreover, said lists shall be signed by the Expert for approval.

When receiving these lists, the Procurement Company shall send to the Person in charge and to the Expert a partial purchase programme subdivided in lots with the indication of the related acquisition procedures of the requested goods and services.

As to the purchase of supplies of spare parts, the Procurement Company shall proceed to the selection of suppliers through direct contracting, without limits as far as amounts are concerned, by asking for bids directly to the original manufacturers/suppliers of the goods to which the spare parts refer, on the basis of the indications provided by the Person in charge in the lists of the requested supplies.

As to the purchase of supplies for amounts below or equal to Lit. 400.000.000 (Italian Lire four hundred million), devoted to the enlargement and/or to the completion of already existing production lines and to complementary supplies, the Procurement Company shall proceed to the selection of suppliers through direct contracting; to this end it shall ask for bids to be made directly by the manufacturers/suppliers indicated by the Person in charge in the lists of the requested supplies.

As to the purchase of supplies for amounts below or equal to Lit. 400.000.000 (Italian Lire four hundred million), out of the cases foreseen in the former paragraph, the Procurement Company shall proceed to the selection of suppliers through limited bidding with a preselection of the suppliers; such preselection shall consist in the compilation by the Procurement Company, in full autonomy and responsibility, of a short list on the basis of its own knowledge of the type of products and of the market, as well as on the basis of the applicants indicated by the Person in charge in the lists of the requested supplies.

As to the purchase of supplies for amounts above Lit. 400.000.000 (Italian Lire four hundred million), the Procurement Company shall proceed to the selection of suppliers through competitive bidding appropriately advertised; to this end, the Procurement Company shall prepare and send to M.A.E. - D.G.C.S. a tender notice inclusive of the necessary information (kind of supply; bid bond, where envisaged; terms for the presentation of bids; etc.) and supplemented by the bidding documents.

The tender notice shall be made known as soon as possible by the M.A.E. - D.G.C.S. through advertising in the Cooperation Bulletin and/or the Official Gazette - Trade Advertisements and/or on the national press. The M.A.E. - D.G.C.S. shall also make known said tender notice through the information channels and the network of the Offices of the "Istituto Nazionale per il Commercio Estero - I.C.E." (National Institute for Foreign Trade), of the "Unione Italiana delle Camere di Commercio - Unioncamere" (Italian Chambers of Commerce Union) and of the Agent bank.

Once advertising has been performed, the Procurement Company may also invite possible suppliers, interested or indicated by the Person in charge in the lists of the requested supplies, to participate in the tender.

In order to perform the above stated tasks, the Person in charge, the Expert and the Procurement Company may also make use of the "vendor list" referred to in clause 3 paragraph 2. of the protocol, where available, as instruments for operational and verification support.

For all the suppliers selection procedures, the Procurement Company shall prepare appropriate documents that shall be made available to the concerned suppliers upon payment of a fee to compensate the expenses for the preparation of the mentioned documents.

In case of competitive bidding, these documents shall include the General Conditions of Contracts prepared by M.A.E. - D.G.C.S., the Special Conditions of Contract by the Procurement Company on the basis of the provisions envisaged by the Protocol and of the technical specifications of the requested supplies. As to the part related to the instructions to bidders and to the contract conditions, such document shall include:

- the source of funding;
- the necessary requirements to be admitted to the selection procedures;
- the technical description and the total quantity of the requested supplies as well as the possible minimum quantity acceptable for the bid;
- the Italian origin of the supplies evidenced by a certificate of origin;
- the terms for the presentation of the bids (roughly 2 (two) months);
- the terms and conditions of delivery of goods defined in compliance with the "INCOTERMS 1990", "Delivered Ex Quay (Duty Unpaid) ... (city with port)...." and/or "Delivered Duty Unpaid - Customs of ... (city without port)..../ Unloading Charges on Seller's account". In the case of complex supplies, upon sending the list of goods, the Person in charge may ask, on the basis of grounded reasons, for different terms of delivery of goods to be approved by the M.A.E. - D.G.C.S. The prices contained in the bids shall have to correspond, within reasonable limits, to the prices indicated in the lists for exports or, at any rate, to the prevailing applicable prices for export. Such prices shall also include the guarantee which consists in the obligation for the supplier to repair or to change at his own care and expenses all those parts and components which prove to be imperfect or burdened with hidden

defects; moreover, on-the-spot assistance shall have to be included for particular types of goods as well as - upon specific request by the Person in charge and the Expert - the costs related to the assembly, installation and operation of machinery and equipment. Furthermore the bidder shall have to commit himself - if ever selected as awardee of the supply - to providing post-sale assistance locally, after the guarantee period, to ensure the maintenance, the repair and the rapid supply of spare parts, specifying how he intends to organise himself with a view to performing such service;

- the use by Italian suppliers of national carriers;
- the terms and conditions of delivery;
- the description of the procedures to evaluate bids;
- the terms and conditions of execution of the quality and quantity controls of the supplies and of the possible controls on the congruity of prices;
- the right of the Government of the Republic of Mozambique to refuse all bids and to cancel tender procedures;
- the indications of the percentage amount of the bid bond (commitment to keep the bid until the awarding of the tender) and of the performance bond (guarantee for the good execution of the supplies), where envisaged; such percentages shall not have to exceed respectively 2% and 10% of the value of the supplies;
- the insurance which ensures the maximum "all risks" coverage as envisaged by the " Institute Cargo Clauses " (ICC) forms or by similar ones for 110% of the value of the supplies on the basis of the clause of delivery of goods and in favour of the seller;
- the terms and conditions of payment to be implemented through irrevocable documentary credits. The Procurement Company shall forward to the Agent Bank the requests for the opening of the irrevocable documentary credits together with 2 (two) true copies of the supply contracts and the pro-forma invoices; the supply contracts and the pro-forma invoices shall be part and parcel of the relevant documentary credits. In the request by the Procurement Company for the opening of the irrevocable documentary credit, an advance payment can be envisaged for a maximum amount of 60% of the contract price, against presentation on behalf of the Italian supplier of a pro-forma invoice and issuance of a discharge receipt and upon presentation as well of a bank guarantee of equal amount in favour of the Government of the Republic of Mozambique, which shall be released when the final delivery of the supplies is performed, as evidenced by the " certificate of conformity and of final delivery" issued by the Supervision Company. At the moment of the final delivery, after the issuance of the " certificate of conformity and of final delivery", a payment shall be made, in addition to the possible advance received, that shall not exceed 90% of the contract price where a period of guarantee for supplies is envisaged; in the case of supplies for which no period of guarantee is envisaged, payment shall be made to the extent of 100% of the contract price. Said payment shall be made against issuance of a discharge receipt and upon presentation of: invoice in 5 (five) copies; sea transport bill of lading " clean on board " issued in favour of the beneficiary of the documentary credit (exporter), with blank endorsement and marked "freight prepaid " (one original of the bill of lading shall follow the goods as document representing the goods themselves so as to enable the consignee or the Person in charge to have them delivered); anumalia documents under the law in force; health and analysis certificates, where envisaged; certificate of the Italian origin of the supplies; responsibility statement by the Italian supplier that the goods supplied have been produced in Italy; and that one original of the bill of lading travels with the goods with the provision for the ship commander to deliver it to the consignee or the Person in charge;" certificate of conformity and of

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final delivery" issued by the Supervision Company; other kinds of transport documents, as an alternative to the sea transport bill of lading, envisaged by the documentary credit.
The Agent Bank may accept documents required by the documentary credit submitted after 21 (twenty-one) days as from the shipping date; at any rate such documents shall have to be submitted by the documentary credit expiry date.
In the case of delivery of supplies by " tranches", payments shall be made proportionally to the value of each "tranche".
In the case of supplies for which a period of guarantee is envisaged, the balance, equal to 10% of the contract amount, shall be paid automatically against issuance of a discharge receipt by the Italian supplier at the end of the guarantee period envisaged by contract; such period starting as from the date of the " certificate of conformity and of final delivery". Said balance may also be paid to the Italian supplier upon delivery of the whole supply to the consignee or to the Person in charge upon issuance of a discharge receipt and presentation of a bank guarantee of equal amount in favour of the Government of the Republic of Mozambique, which shall be automatically released within 30 (thirty) days since the expiry of the guarantee period;

- the date, the place and the time of the unsealing of bids at the presence of those to whom it may possibly concern;

- the penalties envisaged in case of defaults.

Subject to the envisaged contract conditions, in the case of direct contracting and of limited bidding, the above stated documents shall be appropriately streamlined by the Procurement Company and the terms for the presentation of bids shall be shortened.

At the end of the tender the Procurement Company shall proceed to unseal the bids, at the presence of those to whom it may possibly concern, and shall draw up the "minutes of the unsealing of bids".

The bids arriving beyond the envisaged deadline shall be excluded.

As to the accepted bids, the Procurement Company shall keep the bank guarantees or the policy guarantees (bid bond) issued to ensure the keeping of the bid, where envisaged.

As to the above stated suppliers selection procedures, once bids are collected, the Procurement Company shall analyse them on the basis of their correspondence to the technical specifications, to the prices, to the other commercial conditions and to the supplier qualifications. In the case of limited bidding and of competitive bidding, the Procurement Company shall select the bids which are deemed to be the most economically advantageous and, provided that the number of bids truly received allows it, shall send at least 3 (three) bids to the Person in charge. These bids shall have to be sent to the Person in charge as soon as possible and, in case of limited bidding or of competitive bidding, within 30 (thirty) days since the date envisaged for their presentation or since the tender closing date; moreover said bids shall have to be supplemented by a final report including:

- reasoned technical opinion on prices , characteristics and quality of the goods and services offered;

- in the case of limited bidding, indications on the criteria followed in the preparation of the short list and on the number of bids received;

- in the case of competitive bidding, indications on the number of suppliers who have requested the tender notice, on the number of bids received and on the number of bids deemed valid.

Upon specific request by the Person in charge, the Procurement Company shall also send the remaining bids received to the Person in charge himself.

The Person in charge, assisted by the Expert, shall analyse and compare the bids sent by the Procurement Company and shall proceed to the award of supplies by drawing up appropriate reasoned minutes; hence the Person in charge shall notify the awards to the Procurement Company through a letter of award (as per enclosed facsimile) within 20 (twenty) days since the receiving of bids. Both the said minutes and the letters of award shall be signed by the Person in charge and by the Expert by way of agreement. At the same time of the forwarding of said letters of award, the Person in charge shall also forward to the Supervision Company the relevant inspection orders for the quality and quantity controls of the supplies as well as, in the case of direct contracting and/or of limited bidding, the request for verification of the congruity of prices. The Person in charge, if he deems it advisable or upon possible initiative of the M.A.E. - D.G.C.S., may ask the Supervision company for the verification of the congruity of the prices of the supplies also in the case of competitive bidding.

The letters of award shall include all the elements necessary to enable the Procurement Company to stipulate the relevant supply contracts and shall become operational after the assessment on the congruity of prices carried out by the Supervision Company, where envisaged or requested; such assessment shall have to be carried out and transmitted to the Procurement Company within 20 (twenty) days since the reception of the related requests by the Person in charge.

The Procurement Company shall ask the selected suppliers for the pro-forma invoices and, where envisaged, for the bank guarantees or policy guarantees (performance bond) due to ensure the good execution of the supplies; said guarantees shall be kept by the Procurement Company and shall be returned to the suppliers against presentation of the "certificate of conformity and of final delivery" of the supplies issued by the Supervision Company.

On the basis of the contents of the letters of award and of the clauses set out in the documents related to the suppliers' selection procedures, the Procurement Company, in name and on behalf of the Government of the Republic of Mozambique, shall stipulate the supply contracts within 15 (fifteen) days since the reception of the assessments on the congruity of prices sent by the Supervision Company, where envisaged or requested, or, at any rate, within 15 (fifteen) days since the reception of the letters of award. In the supply contracts the documents to be requested by the irrevocable documentary credits shall have to be quoted.

Soon after the stipulation of the contracts, the Procurement Company, in name and on behalf of the Government of the Republic of Mozambique, shall forward to the Agent Bank the requests for the opening of the irrevocable documentary credits together with 2 (two) true copies of the said contracts and of the pro-forma invoices. The supply contracts and the pro-forma invoices shall be part and parcel of the irrevocable documentary credits. Written communication that the request for the opening of the credits has been made with copy of the above stated documents shall be transmitted to the Person in charge, to the Expert and to the Supervision Company.

The Supervision Company shall carry out the quality and quantity controls on the supplied goods at the places where they are produced and/or stored, at the places of shipment on the Italian territory, at possible transit areas, at arrival at destination and in all the cases where there is a risk of substitution of the supplies.

Within 10 (ten) days since the reception of the written communication that the request for the opening of the irrevocable documentary credits has been made by the Procurement Company to the Agent Bank, the Supervision Company shall transmit by fax to the Person in charge and to the Expert the inspection plans; within 7 (seven) days since such transmission, if no objections are raised, said inspection plans shall be considered approved.

Moreover, the Supervision Company shall ask Italian suppliers to be informed with appropriate notice (not less than 3 (three) working days) of the time needed to prepare goods for inspection and of the place and person to be contacted.

Once performed the envisaged checking and supervision activities, the Supervision Company shall issue:

- before the stipulation of the supply contracts, the assessments on the congruity of prices, where envisaged or requested;
- upon the shipment of supplies, the "certificate of conformity";
- upon final delivery, the "certificate of conformity and of final delivery".

The Agent Bank, after having assessed the existence of available funds in the Special Account, shall proceed to open the irrevocable documentary credits and to notify them to the Italian suppliers as soon as possible after reception of the relevant requests by the Procurement Company or upon reception, duly signed by the Person in charge, of the documents needed for the pledge on the relevant amounts of the documentary credits, as a safeguard against possible legal actions of third creditors vis-à-vis Mozambique, where such pledge is expressly requested by the Agent Bank itself. The Agent Bank shall examine the documents required by the documentary credit according to the provisions envisaged by the "I.C.C. Uniform Customs and Practice for Documentary Credits - Publication n. 500". All documentary credits shall have to be expressly subject to the publication n. 500.

The Italian suppliers shall submit the requested documents to the Agent Bank which - if these documents result consistent - shall make payments; at the same time as and in proportion to each payment made for the utilisation of the documentary credits, the Agent Bank shall pay to itself, to the Procurement Company and to the Supervision Company the commissions envisaged under clause 3 paragraph 1. of the Protocol and under previous section D. of the Technical Annex.
At any rate, the Agent Bank shall respect the constraint not to exceed the amount available on the Special Account.

x The Italian suppliers shall ship the goods to destination.

All the actions aimed at facilitating the "taking charge" of the supplied goods on behalf of the consignee shall be carried out by the Supervision Company, the Person in charge and the Expert who shall also see that the "certificate of conformity and of final delivery" issued by the Supervision Company is forwarded as quickly as possible to the Italian supplier in order to enable him to submit it together with the other documents required for the utilisation of the documentary credit issued in his favour; if the consignee is not present upon issuance of the "certificate of conformity and of final delivery", the Person in charge shall remove the supplied goods in his place.

As envisaged by clause 5 paragraph 10. of the Protocol, copy of all the documents related to the execution of the Programme shall be transmitted to the M.A.E. - D.G.C.S..

I. COUNTERPART FUNDS

Local operators shall pay the goods and related services in Meticais, according to the terms and conditions established in clause 2 paragraph 4. of the Protocol.

The Person in charge and the Expert shall verify the respect by local operators of the envisaged terms and conditions of payment, by informing the Parties with periodical reports.

The local costs related to the Programme which can be funded according to clause 6 paragraph 2. of the Protocol are:

- contributions to the activity to publicise the Programme, as well as to the functioning of the local operational structure;

- advances for unforeseen expenses and circumstances hampering the operation of the Programme.

L. INFORMATION REPORTS AND ACCOUNTING DOCUMENTS

In consideration of the provisions laid down in clause 5 paragraph 10. of the Protocol the following information reports and accounting documents referred to in clause 7 of the Protocol itself shall be drawn up.

Every 4 (four) months as from the beginning of the Programme, the Expert shall prepare reports on the general trend and on the state of progress of the Programme itself, with all the useful information on the different implementation stages. Within 2 (two) months since the conclusion of the Programme, the Expert shall also prepare an analytical report on the execution of the Protocol and on the use of the funding.

The Procurement Company shall keep all the documents related to the suppliers selection procedures (lists and technical specifications of the goods and related services, tender notices and documents, suppliers requests to be included in the short lists, requests for bidding documents, bids received, short lists, "minutes of the unsealing of bids", etc.)

These documents shall have to be exhibited at any time upon request of the Person in charge and/or of the M.A.E. - D.G.C.S.. Furthermore, every 4 (four) months as from the entry into force of the contract stipulated with the Government of the Republic of Mozambique, the Procurement Company shall submit a summary report of its activities to the Person in charge and to the M.A.E. - D.G.C.S.. Finally, within 2 (two) months since the conclusion of the Programme, the Procurement Company shall submit to the Parties an overall analytical report on the services carried out.

The Supervision Company shall keep all documents related to the checking and supervision procedures (orders of inspection received, inspection plans worked out, elements for the determination of the congruity of prices, assessments on the congruity of prices, "certificates of conformity" and "certificates of conformity and of final delivery", etc.). These documents shall have to be exhibited at any time upon request of the Person in charge and/or of the M.A.E. - D.G.C.S.. Furthermore, every 4 (four) months as from the entry into force of the contract stipulated with the Government of the Republic of Mozambique, the Supervision Company shall submit a summary report of its activities to the Person in charge and to the M.A.E. - D.G.C.S.. Finally, within 2 (two) months since the conclusion of the Programme, the Supervision Company shall submit to the Parties an overall analytical report on the services carried out.

The Agent Bank shall be responsible for keeping any accounting document to justify the expenses incurred with reference to the payment of goods and related services acquired by the Government of the Republic of Mozambique and the commissions/fees due to the Procurement Company, to the Supervision Company and to the Agent Bank itself. These documents shall have to be exhibited at any time upon request of the Person in charge and/or of the M.A.E. - D.G.C.S.. Furthermore, every 3 (three) months as from the opening of the Special Account, the Agent Bank shall transmit the statements of said Special Account to the Person in charge, to the Expert and to the M.A.E. - D.G.C.S. Finally, within 2 (two) months since the closing of the Special Account, the Agent Bank shall submit to the Parties an overall analytical report on the payments/withdrawals made supplemented, as for the copy due to the M.A.E. - D.G.C.S., by true copies of the related expenses receipts.

At the conclusion of the Programme, the Person in charge shall submit to the Parties an overall report on the execution of the Protocol, on the benefits ensuing therefrom and on the results obtained with reference to the envisaged aims.

FACSIMILE OF LETTER OF AWARD

- Description of supplies:
- Quantity:
- Suppliers selection procedure adopted:
- Assessment on the congruity of prices:
- Relevant starting date or publication date (tender notice):
- Bid reception date:
- Number of bidders:
- Award basis:
- Contract award:

    a) Supplier:
    b) Buyer:
    c) Quantity of goods:
    d) Price:
    e) Delivery place:
    f) Contractual execution terms:
    g) Conditions of payment:
    h) List of documents:

- Remarks:

As to the above selection procedure, the evaluation and the award have been carried out in compliance with the provisions agreed upon with the Governement of the Italian Republic.

(date)

The person in charge

The Expert