

CONFORMED COPY

CREDIT NUMBER 1841 MOZ

(Second Rehabilitation Credit)

between

PEOPLE'S REPUBLIC OF MOZAMBIQUE

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated October 5, 1987

CREDIT NUMBER 1841 MOZ

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated October 5, 1987, between PEOPLE'S REPUBLIC OF MOZAMBIQUE (the Borrower) and INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association).

WHEREAS (A) the Association has received a letter, dated June 26, 1987, from the Borrower describing a program of actions, objectives and policies designed to achieve structural adjustment of the Borrower's economy (hereinafter called the Program), declaring the Borrower's commitment to the execution of the Program, and requesting assistance from the Association in the financing of urgently needed imports required during such execution;

(B) the Borrower has also requested the Association, acting as Administrator of a Special Facility for Sub-Saharan Africa (the African Facility), established by its Executive Directors by Resolution No. IDA 85-1 of May 21, 1985, to provide additional assistance in support of the Program, and by an agreement dated September 8, 1987, between the Borrower and the Association as Administrator of the African Facility (the African Facility Credit

Agreement), the Association has agreed to provide such assistance in an aggregate principal amount equivalent to fourteen million five hundred thousand Special Drawing Rights (SDR 14,500,000);

(C) the Borrower has also requested the Association as Administrator of Special Joint Financing from the Swiss Confederation (the Swiss Grant Administrator) within the framework of the African Facility to provide additional assistance in support of the Program, and by an agreement dated September 8, 1987, between the Borrower and the Association (the Swiss Grant Agreement), the Swiss Grant Administrator has agreed to provide such assistance in an amount of sixteen million nine hundred thousand Swiss Francs (SwF 16,900,000) (the Swiss Grant);

(D) the Borrower also intends to obtain from the Government of the Swiss Confederation (Switzerland) a non-reimbursable contribution in an amount of ten million one hundred thousand Swiss Francs (SwF 10,100,000) (the Swiss Contribution) to assist in the financing of the Program on the terms and conditions set forth in a bilateral agreement (the Swiss Contribution Agreement) to be entered into between the Borrower and Switzerland;

(E) the Borrower and the Association intend, to the extent practicable, that the proceeds of the African Facility Credit and the Swiss Grant be disbursed pro rata on account of expenditures in respect of the Program, before disbursements of the proceeds of the Credit, provided for in this Agreement, and the Swiss Contribution are made; and

(F) on the basis inter alia of the foregoing, the Association has decided in support of the Program to provide such assistance to the Borrower by making the Credit in two tranches as hereinafter provided;

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

General Conditions; Definitions

Section 1.01. The "General Conditions Applicable to Development Credit Agreements" of the Association, dated January 1, 1985, with the modifications thereof set forth below (the General Conditions) constitute an integral part of this Agreement:

(a) Section 2.01, paragraph 9, shall be modified to read:

"'Project' means the imports and other activities that may be financed out of the proceeds of the Credit pursuant to the provisions of Schedule 1 to the Development Credit Agreement.";

(b) Section 9.06 (c) shall be modified to read:

"(c)Not later than six months after the Closing Date or such later date as may be agreed for this purpose between the Borrower and the Association, the Borrower shall prepare and furnish to the Association a report, of such scope and in such detail as the Association shall reasonably request, on the execution of the Program referred to in the Preamble to the Development Credit Agreement, the performance by the Borrower and the Association of their respective obligations under the Development Credit Agreement and the accomplishment of the purposes of the Credit."; and

(c) the last sentence of Section 3.02 is deleted.

Section 1.02. Unless the context otherwise requires, the several terms defined in the General Conditions and in the Preamble to this Agreement have the respective meanings therein

set forth and the following additional terms have the following meanings:

(a) "SITC" means the United Nations Standard International Trade Classification, 1986 Revision (SITC, Rev. 3), published in Commodity Indexes for the Standard International Trade Classification, Revised, Statistical Papers, Series M, No. 38/Rev. 3 (1986);

(b) "Special Accounts" means the accounts referred to in Section 2.02 (b) of this Agreement;

(c) "Swiss Contribution Account" means the account established by Switzerland for the purpose of the Swiss Contribution; and

(d) "Procedural Arrangements" means the agreement between the Government of Switzerland and the Association for cooperation in the cofinancing of specific development projects or programs within the framework of the Eighth Replenishment, dated April 9, 1987;

ARTICLE II

The Credit

Section 2.01. The Association agrees to lend to the Borrower, on the terms and conditions set forth or referred to in the Development Credit Agreement, an amount in various currencies equivalent to fifty-four million five hundred thousand Special Drawing Rights (SDR 54,500,000).

Section 2.02. (a) The amount of the Credit and the amount of the Swiss Contribution may be withdrawn from the Credit Account and the Swiss Contribution Account in accordance with the provisions of Schedule 1 to this Agreement.

(b) Except as the Association and Switzerland shall otherwise agree, the allocation and withdrawal of the Swiss Contribution shall be governed mutatis mutandis by the provisions of the General Conditions.

(c) The Borrower shall, for the purposes of the Program, open and maintain in U.S. dollars, two special accounts in a commercial bank on terms and conditions satisfactory to the Association. Deposits into, and payments out of, the Special Accounts shall be made in accordance with the provisions of Schedule 4 to this Agreement.

Section 2.03. The Closing Date shall be December 31, 1988, or such later date as the Association shall establish. The Association shall promptly notify the Borrower of such later date.

Section 2.04. (a) The Borrower shall pay to the Association a commitment charge at the rate of one-half of one percent (1/2 of 1%) per annum on the principal amount of the Credit not withdrawn from time to time. The commitment charge shall accrue from a date sixty days after the date of the Development Credit Agreement to the respective dates on which amounts shall be withdrawn by the Borrower from the Credit Account or shall be cancelled.

(b) The commitment charge shall be paid: (i) at such places as the Association shall reasonably request; (ii) without restrictions of any kind imposed by, or in the territory of, the Borrower; and (iii) in the currency specified in this Agreement for the purposes of Section 4.02 of the General Conditions or in such other eligible currency or currencies as may, from time to time, be designated or selected pursuant to the provisions of that Section.

Section 2.05. The Borrower shall pay to the Association a service charge at the rate of three-fourths of one percent (3/4 of

1%) per annum on the principal amount of the Credit withdrawn and outstanding from time to time.

Section 2.06. Commitment and service charges shall be payable semiannually on April 1 and October 1 in each year.

Section 2.07. (a) Subject to paragraphs (b) and (c) below, the Borrower shall repay the principal amount of the Credit in semiannual installments payable on each April 1 and October 1, commencing October 1, 1997, and ending April 1, 2027. Each installment to and including the installment payable on April 1, 2007, shall be one percent (1%) of such principal amount, and each installment thereafter shall be two percent (2%) of such principal amount.

(b) Whenever: (i) the Borrower's gross national product per capita, as determined by the Association, shall have exceeded \$790 in constant 1985 dollars for five consecutive years; and (ii) the Bank shall consider the Borrower creditworthy for Bank lending, the Association may, subsequent to the review and approval thereof by the Executive Directors of the Association and after due consideration by them of the development of the Borrower's economy, modify the terms of repayment of installments under paragraph (a) above by requiring the Borrower to repay twice the amount of each such installment not yet due until the principal amount of the Credit shall have been repaid. If so requested by the Borrower, the Association may revise such modification to include, in lieu of some or all of the increase in the amounts of such installments, the payment of interest at an annual rate agreed with the Association on the principal amount of the Credit withdrawn and outstanding from time to time, provided that, in the judgment of the Association, such revision shall not change the grant element obtained under the above-mentioned repayment modification.

(c) If, at any time after a modification of terms pursuant to paragraph (b) above, the Association determines that the Borrower's economic condition has deteriorated significantly, the Association may, if so requested by the Borrower, further modify the terms of payment to conform to the schedule of installments as provided in paragraph (a) above.

Section 2.08. The currency of the United States of America is hereby specified for the purposes of Section 4.02 of the General Conditions.

ARTICLE III

Particular Covenants

Section 3.01. (a) The Borrower and the Association shall, from time to time, at the request of either party, exchange views on the progress achieved in carrying out the Program and the actions specified in Schedule 3 to this Agreement.

(b) Prior to each such exchange of views, the Borrower shall furnish to the Association, for its review and comment, a report on the progress achieved in carrying out the Program, in such detail as the Association shall reasonably request.

Section 3.02. Except as the Association shall otherwise agree, procurement of the goods to be financed out of the proceeds of the Credit and the Swiss Contribution shall be governed by the provisions of Schedule 2 to this Agreement.

Section 3.03. (a) The Borrower shall maintain, or cause to be maintained, records and accounts adequate to reflect, in accordance with consistently maintained sound accounting practices, the expenditures financed out of the proceeds of the Credit.

(b) The Borrower shall:

- (i) have the records and accounts referred to in paragraph (a) of this Section, including those for the Special Accounts 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 four months after the end of each such year, a certified copy of 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 and accounts and 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 or the Swiss Contribution Account were made on the basis of statements of expenditure, the Borrower shall:

- (i) maintain, or cause to be maintained, in accordance with paragraph (a) of this Section, records and accounts reflecting such expenditures;
- (ii) retain, until at least one year after the Association has received the audit report for the fiscal year in which the last withdrawal from the Credit Account or the Swiss Contribution Account was made, all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures;
- (iii) enable the Association's representatives to examine such records; and
- (iv) ensure that such records and accounts are included in the annual audits 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

Remedies of the Association

Section 4.01. Pursuant to Section 6.02 (h) of the General Conditions, the following additional event is specified, namely, that an event has occurred which shall make it improbable that the Program, or a significant part thereof, will be carried out.

ARTICLE V

Effective Date; Termination

Section 5.01. The following event is specified as an additional condition to the effectiveness of the Development Credit Agreement within the meaning of Section 12.01 (b) of the General Conditions, namely, that all conditions precedent to the effectiveness of the African Facility Credit Agreement and the Swiss Grant Agreement have been fulfilled.

Section 5.02. The date ninety (90) days after the date of this Agreement is hereby specified for the purposes of Section 12.04 of the General Conditions.

Section 5.03. In the event that Switzerland or the Association terminate the functions of the Association pursuant to paragraph 5 of the Procedural Arrangements, the Association shall notify the Borrower promptly of the date on which Switzerland shall assume the rights and obligations of the Association under this Agreement.

ARTICLE VI

Representative of the Borrower; Addresses

Section 6.01. The Governor of Banco de Mocambique is designated as representative of the Borrower for the purposes of Section 11.03 of the General Conditions.

Section 6.02. The following addresses are specified for the purposes of Section 11.01 of the General Conditions:

For the Borrower:

Banco de Mocambique
Avenida 25 de Setembro 1695
P.O. Box 423
Maputo
People's Republic of Mozambique

Cable address:

MOBANCO
Maputo

Telex:

6355/7 BMMO

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)

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.

PEOPLE'S REPUBLIC OF MOZAMBIQUE

By /s/ Valeriano Ferrao
Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Edward V.K. Jaycox
Regional Vice President
Africa

SCHEDULE 1

Withdrawal of the Proceeds of the Credit

1. Subject to the provisions set forth or referred to in this Schedule, the proceeds of the Credit and this Swiss Contribution may be withdrawn from the Credit Account and the Swiss Contribution Account for expenditures made (or, if the Association shall so agree, to be made) in respect of the reasonable cost of goods required during the execution of the Program and to be financed out of such proceeds.

2. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of:

(a) expenditures for goods included in the following SITC groups or sub-groups:

Group	Sub-group	Description of Items
112	-	Alcoholic beverages
122	-	Tobacco, manufactured (whether or not containing tobacco substitutes)
525	-	Radioactive and associated materials
667	-	Pearls, precious and semi-precious stones, unworked or worked
-	718.7	Nuclear reactors and parts thereof, fuel elements (cartridges), non-irradiated for nuclear reactors
Group	Sub-group	Description of Items
-	897.3	Jewelry of gold, silver or platinum group metals (except watches and watch cases) and goldsmiths' or silversmiths' wares (including set gems)
971	-	Gold, non-monetary (excluding gold ores and concentrates)

(b) expenditures in the currency of the Borrower or for goods supplied from the territory of the Borrower;

(c) payments made for expenditures prior to the date of this Agreement, except that withdrawals from the Credit in an aggregate amount not exceeding the equivalent of SDR 10,000,000 may be made on account of payments made for such expenditures before that date but after January 1, 1987;

(d) expenditures for goods procured under contracts costing less than \$5,000 equivalent;

(e) expenditures for goods supplied under a contract which any national or international financing institution or agency other than the Association shall have financed or agreed to

finance;

(f) expenditures for goods intended for a military or paramilitary purpose or for luxury consumption; and

(g) expenditures for foodstuffs (other than edible oils, infant formula and sugar) and gasoline.

3. No withdrawal shall be made and no commitment shall be entered into to pay amounts to the Borrower or others, in respect of expenditures to be financed out of the proceeds of the Credit and the Swiss Contribution, after the aggregate of the proceeds of the Credit and the Swiss Contribution withdrawn from the Credit Account and the Swiss Contribution Account and the total amount of such commitments shall have reached the equivalent of: (i) SDR 27,250,000 from the Credit; and (ii) SwF 5,000,000 from the Swiss Contribution, unless the Association shall be satisfied, after an exchange of views as described in Section 3.01 of this Agreement:

(a) with the progress achieved by the Borrower in the carrying out of the Program; and

(b) that the actions described in Schedule 3 to this Agreement have been taken.

4. If, after such exchange of views, the Association is not so satisfied and this situation shall not be rectified by the Borrower within 90 days after notice thereof by the Association, then the Association may, by notice to the Borrower, cancel the amount of the Credit and the Swiss Contribution unwithdrawn from the Credit Account and the Swiss Contribution Account, respectively, or any part thereof.

SCHEDULE 2

Procurement

1. Contracts for the procurement of goods estimated to cost the equivalent of \$2,000,000 or more each shall be awarded through international competitive bidding 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), subject to the following modifications:

(a) Paragraph 2.8 of the Guidelines is deleted and the following is substituted therefor:

"2.8 Notification and Advertising

The international community should be notified in a timely manner of the opportunity to bid. This will be done by advertising invitations to apply for inclusion in a bidder's invitation list, to apply for prequalification or to bid; such advertisements should be placed in at least one newspaper of general circulation in the Borrower's country and, in addition, in at least one of the following forms:

- (i) a notice in the United Nations publication, Development Forum, Business Edition; or
- (ii) an advertisement in a newspaper, periodical or technical journal of wide international circulation; or
- (iii) a notice to local representatives of countries and territories, referred to in the Guidelines, that are potential suppliers of the goods required."

(b) The following is added at the end of paragraph 2.21 of

the Guidelines:

"As a further alternative, bidding documents may require the bidder to state the bid price in a single currency widely used in international trade and specified in the bidding documents."

(c) Paragraphs 2.55 and 2.56 of the Guidelines are deleted.

2. Contracts for goods estimated to cost the equivalent of less than \$2,000,000 each shall be awarded on the basis of the normal procurement procedures of the purchaser of such goods.

3. With respect to each contract referred to in paragraph 1 of this Schedule, the Borrower shall furnish to the Association, prior to the submission to the Association of the first application for withdrawal of funds from the Credit Account and the Swiss Contribution Account in respect of such contract, two conformed copies of such contract, together with the analysis of the respective bids and recommendations for award, a description of the advertising and tendering procedures followed and such other information as the Association shall reasonably request.

4. With respect to each contract referred to in paragraph 2 of this Schedule, the Borrower shall furnish to the Association, prior to the submission to the Association of the first application for withdrawal of funds from the Credit Account and the Swiss Contribution Account in respect thereof, such documentation and information as the Association may reasonably request to support withdrawal applications in respect of such contract.

5. Notwithstanding the provisions of paragraphs 3 and 4 of this Schedule, where payments under a contract are to be made out of the proceeds of the Special Accounts, the copies of such contract or documentation and information to be furnished to the Association pursuant to the provisions of paragraph 3 or paragraph 4 of this Schedule, as the case may be, shall be furnished to the Association as part of the evidence required under paragraph 4 of Schedule 4 to this Agreement.

6. The provisions of the preceding paragraphs 3, 4 and 5 shall not apply to contracts on account of which the Association has authorized withdrawals from the Credit Account and the Swiss Contribution Account on the basis of statements of expenditure.

SCHEDULE 3

Actions Referred to in Paragraph 3 (b) of Schedule 1 to this Agreement

1. The Borrower shall: (i) reduce the number of product groups on its fixed price list from 46 to 37; and (ii) furnish to the Association a plan of action, satisfactory to the Association, for further reductions from 37 to 32.

2. The Borrower shall establish an improved foreign exchange allocation system, that will, inter alia, incorporate quarterly assessments of foreign exchange availability and demand, and take into account the overall economic efficiency of operations of proposed users according to criteria agreed between the Borrower and the Association.

3. The Borrower shall: (i) complete the study of the interim trading measures; and (ii) furnish to the Association a plan of action satisfactory to the Association, to implement the results of such study.

4. The Borrower shall reduce the number of products which must be imported through only one trading corporation from eleven to five and the number of export commodities from three to one.

5. The Borrower shall: (i) complete the study of the 25 industrial and 15 agricultural enterprises; and (ii) furnish to the Association a plan of action, satisfactory to the Association, to implement the recommendations for restructuring (rehabilitation, divestiture or closure) of these enterprises.

6. The Borrower shall complete the study of the fruit and vegetable marketing system.

7. The Borrower shall make progress, satisfactory to the Association, in the carrying out of the study of the system by which goods are allocated domestically.

SCHEDULE 4

Special Accounts

1. For the purposes of this Schedule:

(a) the term "Eligible Expenditures" means expenditures in respect of the reasonable cost of goods required during the execution of the Program and to be financed out of the proceeds of the Credit in accordance with the provisions of Schedule 1 to this Agreement; and

(b) the term "Authorized Allocation" means: (i) an amount equivalent to \$15,000,000 to be withdrawn from the Credit Account and deposited into the IDA Special Account, and (ii) an amount equivalent to \$1,000,000 to be withdrawn from the Swiss Contribution Account and deposited in the Swiss Special Account, pursuant to paragraph 3 (a) of this Schedule.

2. Except as the Association shall otherwise agree, payments out of the Special Accounts shall be made exclusively for Eligible Expenditures in accordance with the provisions of this Schedule.

3. After the Association has received evidence, satisfactory to it, that a Special Account has been duly opened, withdrawals of the Authorized Allocation and subsequent withdrawals to replenish a Special Account may be made as follows:

(a) On the basis of a request or requests by the Borrower for a deposit or deposits which add up to the aggregate amount of the Authorized Allocation, the Association shall, on behalf of the Borrower, withdraw from the Credit Account and the Swiss Contribution Account and deposit into the appropriate Special Account such amount or amounts as the Borrower shall have requested.

(b) The Borrower shall furnish to the Association requests for replenishment of a Special Account at such intervals as the Association shall specify. On the basis of such requests, the Association shall withdraw from the Credit Account and the Swiss Contribution Account and deposit into the appropriate Special Account such amounts as shall be required to replenish said Special Account with amounts not exceeding the amount of payments made out of the Special Account for Eligible Expenditures. All such deposits shall be withdrawn by the Association from the Credit Account and the Swiss Contribution Account in the respective equivalent amounts as shall have been justified by the evidence supporting the request for such deposit furnished pursuant to paragraph 4 of this Schedule.

4. For each payment made by the Borrower out of a Special Account, for which the Borrower requests replenishment pursuant to paragraph 3 (b) of this Schedule, the Borrower shall furnish to the Association, prior to or at the time of such request, such documents and other evidence, as the Association shall reasonably request, showing that such payment was made for

Eligible Expenditures.

5. (a) Notwithstanding the provisions of paragraph 3 of this Schedule, no further deposit into a Special Account shall be made by the Association when either of the following situations first arises:

- (i) the Association shall have determined that all further withdrawals can be made by the Borrower directly from the Credit Account or the Swiss Contribution Account in accordance with the provisions of Article V of the General Conditions and paragraph (a) of Section 2.02 of this Agreement; or
- (ii) the total unwithdrawn amount of the Credit or the Swiss Contribution Account, minus the amount of any outstanding special commitment entered into by the Association pursuant to Section 5.02 of the General Conditions with respect to the Program, shall be equal to the equivalent of twice the amount of the Authorized Allocation.

(b) Thereafter, withdrawal from the Credit Account or the Swiss Contribution Account of the remaining unwithdrawn amount of the Credit or the Swiss Contribution shall follow such procedures as the Association shall specify by notice to the Borrower. Such further withdrawals shall be made only after and to the extent that the Association shall have been satisfied that all such amounts remaining on deposit in a Special Account as of the date of such notice will be utilized in making payments for Eligible Expenditures.

6. (a) If the Association shall have determined at any time that any payment out of a Special Account: (i) was made for any expenditure or in any amount not eligible pursuant to paragraph 2 of this Schedule; or (ii) was not justified by the evidence furnished pursuant to paragraph 4 of this Schedule, the Borrower shall, promptly upon notice from the Association, deposit into said Special Account (or, if the Association shall so request, refund to the Association) an amount equal to the amount of such payment or the portion thereof not so eligible or justified. No further deposit by the Association into said Special Account shall be made until the Borrower has made such deposit or refund.

(b) If the Association shall have determined at any time that any amount outstanding in a Special Account will not be required to cover further payments for Eligible Expenditures, the Borrower shall, promptly upon notice from the Association, refund to the Association such outstanding amount for crediting to the Credit Account or the Swiss Contribution Account.

