

CONFORMED COPY

CREDIT NUMBER 2607 MOZ

Development Credit Agreement

(Financial Sector Capacity Building Project)

between

REPUBLIC OF MOZAMBIQUE

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated May 2, 1994

CREDIT NUMBER 2607 MOZ

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated May 2, 1994, between REPUBLIC OF MOZAMBIQUE (the Borrower) and INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association).

WHEREAS: (A) the Borrower, having satisfied itself as to the feasibility and priority of the Project described in Schedule 2 to this Agreement, has requested the Association to assist in the financing of the Project;

(B) the Association has received from the Borrower a Financial Sector Capacity Building Policy letter, dated December 1, 1993, describing a program of actions, objectives and policies designed to achieve the development of human resource capabilities within the financial sector (the Program) and declaring the Borrower's commitment to the execution of said Program;

(C) the Borrower intends to contract from the Government of the Swiss Confederation (Switzerland) a non-reimbursable contribution in an amount of one million five hundred thousand Swiss Francs (SW.F. 1,500,000) (the Swiss Contribution) to assist in financing the Project on the terms and conditions set forth in an agreement (the Swiss Contribution Agreement) to be entered into between the Borrower and Switzerland;

(D) Switzerland intends to appoint the Association to administer the Swiss Contribution in accordance with the provisions of the Procedural Arrangements, dated May 9, 1990, between

Switzerland and the Association (the Procedural Arrangements);

(E) the Borrower intends to contract from the Overseas Development Agency (ODA) a grant (the ODA Grant) to assist in financing the Project on the terms and conditions set forth in an agreement (the ODA Grant Agreement) to be entered into between the Borrower and ODA; and

WHEREAS the Association has agreed on the basis, inter alia, of the foregoing, to extend the Credit to the Borrower upon the terms and conditions set forth in this Agreement;

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 last sentence of Section 3.02 deleted (the General Conditions) constitute an integral part of this Agreement.

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) "BM" means Banco de Mocambique, the Central Bank of the Borrower established and operating pursuant to Law No. 1/92 (Lei Organica do Banco de Mocambique) of the Borrower, dated January 3, 1992;

(b) "BCM" means Banco Comercial de Mocambique, S.A.R.L., the commercial bank established and operating in the territory of the Borrower pursuant to its Statutes approved by Decree No. 3/92 of the Borrower, dated February 25, 1992;

(c) "IFBM" means the Instituto de Formacao Bancaria de Mocambique, the banking training institute of the Borrower established and operating pursuant to Acta da Assembleia Constituinte, dated November 1, 1993;

(d) "MOF" means the Ministry of Finance of the Borrower;

(e) "Project Preparation Advance" means the project preparation advance granted by the Association to the Borrower pursuant to an exchange of letters, dated August 5, 1993, and August 24, 1993, between the Borrower and the Association;

(f) "Performance Indicators" means indicators designed to measure the Borrower's performance in achieving Project objectives, as agreed between the Borrower and the Association and referred to in Section 3.06 (a) (i) of this Agreement;

(g) "Key Project Staff" means the staff responsible for Project implementation referred to under Part A of Schedule 4 to this Agreement;

(h) "BCM's Strategic Plan" means the plan of financial measures to be undertaken by the Borrower with the objective of designing and implementing strategic options to enhance BCM financial soundness and define its future organizational aspects, referred to in Section 3.06 (a) (i) of this Agreement;

(i) "Special Account" means the account referred to in Section 2.02 (c) of this Agreement;

(j) "fiscal year" means the Borrower's fiscal year which runs from January 1 to December 31;

(k) "Project Year" means each period of twelve months,

beginning the first Project Year, on the Effective Date;

(l) "Training Coordination Committee" or "TCC" means the Committee referred to in Part A (d) (i) of Schedule 4 to this Agreement; and

(m) "Swiss Contribution Account" means the account established by Switzerland for the purposes of the Swiss Contribution.

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 six million six hundred thousand Special Drawing Rights (SDR 6,600,000).

Section 2.02. (a) The amount of the Credit and 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 for expenditures made (or, if the Association shall so agree, to be made) in respect of the reasonable cost of goods and services required for the Project described in Schedule 2 to this Agreement and to be financed out of the proceeds of the Credit and the Swiss Contribution.

(b) Except as the Association and Switzerland shall otherwise agree or to the extent the Swiss Contribution Agreement may otherwise specify, the allocation and the procedures for withdrawals 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 Project, open and maintain in Dollars two special deposit accounts, one for the Credit (Special Account A) and one for the Swiss Contribution (Special Account B), in a commercial bank on terms and conditions satisfactory to the Association, including appropriate protection against setoff, seizure or attachment. Deposits into, and payments out of, the Special Accounts shall be made in accordance with the provisions of Schedule 5 to this Agreement.

(d) Promptly after the Effective Date, the Association shall, on behalf of the Borrower, withdraw from the Credit Account and pay to itself the amount required to repay the principal amount of the Project Preparation Advance withdrawn and outstanding as of such date and to pay all unpaid charges thereon. The unwithdrawn balance of the authorized amount of the Project Preparation Advance shall thereupon be cancelled.

Section 2.03. The Closing Date shall be June 30, 2000 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 on the principal amount of the Credit not withdrawn from time to time at a rate to be set by the Association as of June 30 of each year, but not to exceed the rate of one-half of one percent (1/2 of 1%) per annum.

(b) The commitment charge shall accrue: (i) from the date sixty days after the date of this Agreement (the accrual date) to the respective dates on which amounts shall be withdrawn by the Borrower from the Credit Account or cancelled; and (ii) at the rate set as of the June 30 immediately preceding the accrual date or at such other rates as may be set from time to time thereafter pursuant to paragraph (a) above. The rate set as of June 30 in each year shall be applied from the next payment date in that year specified in Section 2.06 of this Agreement.

(c) 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 charges and service charges shall be payable semiannually on June 1 and December 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 semi-annual installments payable on each June 1 and December 1 commencing June 1, 2004, and ending December 1, 2033. Each installment to and including the installment payable on December 1, 2013, 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 repayment 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

Execution of the Project

Section 3.01. (a) The Borrower declares its commitment to the objectives of the Project as set forth in Schedule 2 to this Agreement and, to this end, shall carry out the Project through BM with due diligence and efficiency and in conformity with appropriate banking, financial, administrative and training practices, and shall provide, promptly as needed, the funds, facilities, services and other resources required for the Project.

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

Section 3.02. 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 and the Swiss Contribution shall be governed by the provisions of Schedule 3 to this Agreement.

Section 3.03. The Borrower shall, until the completion of the Project:

(a) maintain institutional arrangements and Key Project Staff, with such responsibilities for Project implementation, and with qualifications and experience satisfactory to the Association, as specified under Part A of Schedule 4 to this Agreement; and

(b) appoint qualified local counterpart trainers to closely work with, and receive training from foreign trainers, in order to allow said local staff to gradually take full responsibility for the delivery of training programs financed under the Project.

Section 3.04. The Borrower shall take all necessary measures to implement in a timely manner a cost recovery system, in accordance with terms and conditions agreed between the Borrower and the Association including those set forth in Part C of Schedule 4 to this Agreement.

Section 3.05. The Borrower shall:

(a) not later than October 1, 1994, complete and furnish to the Association, for its review and comments, a draft of BCM's Strategic Plan;

(b) not later than January 1, 1995, commence implementation of BCM's Strategic Plan, taking into account comments made by the Association; and

(c) if required by the Strategic Plan, not later than July 1, 1995, select and employ management consultants' services for the purpose of the implementation of the strategic option identified throughout BCM's Strategic Plan, in accordance with terms of reference agreed between the Borrower and the Association in accordance with the provisions of Section II of Schedule 3 to this Agreement.

Section 3.06. The Borrower shall:

(a) not later than twelve months after the Effective Date, and yearly thereafter, until the completion of the Project, conduct with the Association annual Project implementation reviews, including a midterm review, by the end of the second Project Year to:

- (i) monitor, in accordance with Performance Indicators agreed between the Borrower and the Association, progress achieved in the implementation of the following: (A) training programs; (B) BCM's Strategic Plan; (C) adjustment of the existing, and enactment of the new financial legal and regulatory framework; (D) actions taken to ensure appropriate transfer of responsibilities to local counterpart trainers, and the most efficient utilization of technical assistance financed under the Project; (E) cost recovery system; (F) the Program; and (G) the results of beneficiary assessment for banking systems clients;
- (ii) review proposed measures taken by the Borrower to ensure timely provision of local counterpart funds to the Project;
- (iii) exchange information among staff and government and private institutions responsible for Project

implementation;

- (iv) identify issues which may delay Project implementation and propose appropriate solutions;
- (v) review the status of all other technical assistance provided by donor agencies and Cofinanciers;
- (vi) update Performance Indicators, the Implementation Program described under Schedule 4 to this Agreement, and approve the action program for the upcoming Project Year;

(b) not later than four weeks prior to such annual and midterm reviews, furnish to the Association for its review and comments, a report in such detail as the Association shall reasonably request, including:

- (i) an evaluation of progress achieved in Project implementation pursuant to the Performance Indicators; and
- (ii) a draft action program including training programs to be carried out during the upcoming Project Year; and

(c) promptly after completing such annual and midterm reviews, carry out those recommendations arising out of said reviews, as shall be agreed between the Borrower and the Association.

ARTICLE IV

Financial Covenants

Section 4.01. (a) The Borrower shall maintain, or cause to be maintained, records and accounts adequate to reflect in accordance with sound accounting practices the operations, resources and expenditures in respect of the Project of the departments or agencies of the Borrower responsible for carrying out the Project or any part thereof.

(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 six 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, 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 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 or payment out of the Special Accounts 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 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 V

Remedies of the Association

Section 5.01. Pursuant to Section 6.02 (h) of the General Conditions, the following additional events are specified:

(a) a situation shall have arisen which shall make it improbable that the Program or a significant part thereof will be carried out; and

(b) the BCM's Strategic Plan shall have been amended, or waived so as to affect materially and adversely the ability of the Borrower to perform any of its obligations under this Agreement.

Section 5.02. Pursuant to Section 7.01 (d) of the General Conditions, the following additional event is specified, namely that the events specified in paragraphs (a) and (b) of Section 5.01 of this Agreement shall occur.

ARTICLE VI

Termination

Section 6.01. The date one hundred twenty (120) days after the date of this Agreement is hereby specified for the purposes of Section 12.04 of the General Conditions.

Section 6.02. In the event that Switzerland or the Association terminates the functions of the Association pursuant to paragraph 9 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 in respect of the Swiss Contribution.

ARTICLE VII

Representatives of the Borrower; Addresses

Section 7.01. The Governor of Banco de Mocambique of the Borrower is designated as representative of the Borrower for the purposes of Section 11.03 of the General Conditions.

Section 7.02. The following addresses are specified for the purposes of Section 11.01 of the General Conditions:

For the Borrower:

Banco de Mocambique

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

Cable address: MOBANCO
Maputo

Telex: 6576/7

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: 248423 (RCA)
82987 (FTCC)
64145 (WUI) or
197688 (TRT)

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.

REPUBLIC OF MOZAMBIQUE

By /s/ Hipolito Zozimo Patricio
Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Stephen M. Denning
Acting Regional Vice President
Africa

SCHEDULE 1

Withdrawal of the Proceeds of the Credit

1. The table below sets forth the Categories of items to be financed out of the proceeds of the Credit, the allocation of the amounts of the Credit to each Category and the percentage of expenditures for items so to be financed in each Category:

Category	Amount of the Credit Allocated (Expressed in SDR Equivalent)	Amount of the Swiss Contribution Allocated (Expressed in Swiss Franc)	% of Expenditures to be Financed
(1) Consultants' services	4,820,000	1,500,000	100%
(2) Training	950,000		100%
(3) Equipment, materials and supplies	310,000		100%

(4) Refunding of Project Preparation Advance	290,000		Amounts due pursuant to Section 2.02 (c) of this Agreement
(5) Unallocated	230,000		
		<hr/>	
TOTAL	6,600,000	1,500,000	
	=====	=====	

2. For the purposes of this Schedule, the term "training" shall cover the costs of fellowships, conferences, seminars, study-tours and other activities included in the training programs to be financed under the Project, and directly related to Project objectives.

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of payments made for expenditures prior to the date of this Agreement.

4. The Association may require withdrawals from the Credit Account or the Swiss Contribution to be made on the basis of statements of expenditure for expenditures under contracts for goods not exceeding \$25,000 (twenty-five thousand dollars) equivalent and all expenditures for local training, under such terms and conditions as the Association shall specify by notice to the Borrower.

SCHEDULE 2

Description of the Project

The objectives of the Project are to: (a) strengthen the Borrower's capabilities to carry out the Program through training of central and commercial bank staff; and (b) institutional building within the Borrower's financial sector.

The Project consists of the following parts, subject to such modifications thereof as the Borrower and the Association may agree upon from time to time to achieve such objectives:

Part A: Central Bank Training

1. Carrying out of basic level training program for BM staff through the organization of courses in, inter alia, the following: accounting, banking and legal English language and computer skills; and other areas to be selected in agreement between the Borrower and the Association.

2. Carrying out of an intermediate level core program for BM staff through the organization of short courses in, inter alia, the following: macroeconomics, monetary policy, economics of money and finance and commercial banking; and other areas to be selected in agreement between the Borrower and the Association.

3. Carrying out of a senior management development program for BM staff through the organization of seminars in, inter alia, the following: strategies of monetary policy, management and organization of central banks, function of bank supervision, development of financial markets; and other areas to be selected in agreement between the Borrower and the Association.

4. Organization of practical specialized internal courses for BM staff, including inter alia, the following topics: fundamentals of bank supervision, monetary policy and treasury bills.

5. Participation of BM staff in overseas seminars in banking supervision, monetary policy and other priority financial sector reform topics.

6. Short-term attachments of senior BM staff to other central banks.

7. Provision of about nine fellowships to BM staff to undertake postgraduate studies in accounting, banking and finance and macroeconomics.

Part B: Commercial Bank Training

1. Carrying out basic in-house training programs for commercial bank staff.

2. Strengthening of the IFBM.

3. Carrying out training activities for commercial bank staff to develop the following skills: (a) credit analysis; (b) project appraisal; (c) documentary credits; (d) trade finance; and (e) management.

Part C: Strengthening of Legal Capabilities

1. Provision of training for legal staff including: (a) local short-term practical seminars; (b) professional internships abroad; and (c) long-term graduate training in banking and financial law.

2. (a) Strengthening of the Legal Department of BM and the Legal Studies Departments of MOF through: (i) acquisition, printing and translation of financial legal materials and publications; and (ii) acquisition of basic office equipment, materials and legal software.

(b) Establishment and operation of BM's Cartorio Notarial, through: (i) employment and training of local professionals and assistants; and (ii) acquisition of basic office equipment and materials.

3. Dissemination of information on the banking and financial legal and regulatory framework through: (a) publication of laws and financial regulations; (b) design of standard legal documentation and contracts; and (c) publication of MOF's Tax Journal, including strengthening of MOF's National Directorate of Taxation.

Part D: Institutional Development

Provision of technical support to the Borrower's financial institutions to:

(a) carry out banking supervision through: (a) selection and employment of a team of experienced bank supervisors; and (b) strengthening of BM's Bank Supervision Department;

(b) develop and implement BCM's Strategic Plan, including the strengthening of commercial banking and management capabilities of BCM staff;

(c) develop and put into operation a legal and regulatory framework for: (a) insurance, pension and provident fund activities; and (b) money and capital markets;

(d) strengthen the accounting and auditing capabilities within BM; and

(e) strengthen the Human Resource Departments of BM, BCM and BPD.

2. Provision of specialized advisory services to strengthen other priority areas to be identified throughout Project implementation, in agreement between the Borrower and the Association.

Part E: Studies

1. Carrying out studies, in accordance with terms of reference and timetables agreed between the Borrower with the Association in inter alia, the following topics: (a) interest rate developments; (b) ways to change the structure of deposits in the banking system; (c) deposit mobilization; (d) the national social security scheme; (e) evaluation of the impact of existing schemes to provide more long-term credit and alternative mechanisms; (f) enhancement of banking competition; (g) viability of credit unions; (h) housing finance; (i) leasing activities; (j) agricultural credit; and (k) inter-enterprise debt.

2. Carrying out of a review of the large enterprises owned by the Borrower which borrow from the banking system.

* * *

The Project is expected to be completed by December 31, 1999.

SCHEDULE 3

Procurement and Consultants' Services

Section I. Procurement of Goods

Part A: Procurement Procedures

1. Local Competitive Bidding: Goods up to an aggregate amount equivalent to \$220,000 may be procured under contracts awarded on the basis of competitive bidding, advertised locally, in accordance with procedures satisfactory to the Association.

2. International Shopping: Equipment, materials and computers, up to an aggregate amount equivalent to \$200,000, may be procured under contracts awarded on the basis of comparison of price quotations obtained from at least three suppliers from at least two different countries eligible under the "Guidelines for Procurement under the IBRD Loans and IDA Credits" published by the Bank in May 1992 (the Guidelines), in accordance with procedures acceptable to the Association.

3. Direct Contracting: Textbooks up to an aggregate amount equivalent to \$25,000 may be procured directly from the supplier, in accordance with procedures acceptable to the Association.

Part B: 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 (one hundred thousand dollars) 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 Accounts, 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 Accounts 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 Accounts, 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 pursuant to said paragraph 3 shall be furnished to the Association as part of the evidence to be furnished pursuant to paragraph 4 of Schedule 5 to this Agreement.

(c) The provisions of the preceding subparagraph (b) shall not apply to contracts on account of which withdrawals from the

Credit Account or the Swiss Contribution Account are to be made on the basis of statements of expenditure.

2. The figure of 10% (ten percent) is hereby specified for purposes of paragraph 4 of Appendix 1 to the Guidelines.

Section II. Employment of Consultants

1. In order to assist the Borrower in carrying out the Project, the Borrower shall employ banking, legal and financial 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 (the Consultant Guidelines). For complex, time-based assignments, the Borrower shall employ such consultants under contracts using the standard form of contract for consultants' services issued by the Bank, with such modifications as shall have been agreed by the Association. Where no relevant standard contract documents have been issued by the Bank, the Borrower shall use other standard forms agreed with the Association.

2. Notwithstanding the provisions of paragraph 1 of this Section, the provisions of the Consultant Guidelines requiring prior Association review or approval of budgets, short lists, selection procedures, letters of invitation, proposals, evaluation reports and contracts shall not apply to contracts estimated to cost less than \$40,000 equivalent each for firms and \$20,000 for individuals. However, this exception to prior Association review shall not apply to the terms of reference for such contracts or to the employment of individuals, to single source selection of firms, to assignments of a critical nature as reasonably determined by the Association or to amendments of contracts raising the contract value to \$400,000 equivalent or above.

SCHEDULE 4

Implementation Program

Part A: Project Administration

(a) Banco de Mocambique (BM) shall be responsible for overall Project coordination.

(b) Component Coordinators. The Governor of BM shall appoint and thereafter maintain, until the completion of the Project, management staff with qualifications and experience satisfactory to the Association to coordinate implementation of the respective Project components as follows: (i) Deputy Director of the Human Resources Department for Part A of the Project; (ii) Chairman of the TCC for Part B of the Project; (iii) General Manager of Legal Department for Part C of the Project; and (iv) General Manager of Monetary Policy and Banking Supervision of BM for Parts D and E of the Project.

(c) Project Coordinator. The General Manager of BM's Human Resources Department shall be the overall Project Coordinator.

(d) Training Coordinating Committee

- (i) A Training Coordinating Committee shall be established by the Governor of BM with the following membership: Chairperson (representative of BM); and representatives of BCM, BPD, the private sector banks.
- (ii) The TCC shall be responsible for overseeing the implementation of Part B of the Project.
- (iii) The TCC shall meet regularly and frequently, and at least four (4) times during the first Project

Year.

Part B: Schedule of actions to be carried out by the Borrower during Project Implementation

Except as the Association and the Borrower shall otherwise agree, the Borrower shall carry out the following actions:

1. During the First Year of the Project:

Not later than December 31, 1994: (i) appoint a banking supervision advisor to assist in the strengthening of BM's Banking Supervision Department; (ii) complete the work assigned to the bank supervision advisory team, including a completed loan portfolio review for all the commercial banks operating in the territory of the Borrower; (iii) appoint a technical expert to assist in the strengthening of BM's Foreign Exchange Departments; (iv) complete BPD's Strategic Plan; (v) commence BM's core training course; (vi) commence BM's senior management development training course; (vii) commence commercial banking training program; (viii) appoint Human Resource experts to strengthen the two banks owned by the Borrower; (ix) complete and submit to the Association final audited accounts for BM, BCM and BPD, for the year ended 1993; and (x) take all necessary technical, financial and administrative measures to fully establish IFBM and make it operational, in a manner satisfactory to the Association.

2. During the Second Year of the Project:

(a) Not later than June 30, 1995: (i) complete and submit to the Association, for its review and comments, a draft Foreign Exchange Control Law; (ii) complete and furnish to the Association, for its review and comments, a comprehensive diagnostic review, action program and timetable for the enactment of a legal and regulatory framework pertaining to insurance, pension and provident fund activities; and (iii) complete the first cycle of BM's core and senior management training courses, in accordance with programs and timetables agreed with the Association.

(b) Not later than December 31, 1995:

- (i) design and implement a pilot Treasury Bill auction system, in accordance with terms and conditions satisfactory to the Association;
- (ii) complete and furnish to the Association, for its review and comments, draft Exchange Control regulations for the commercial banks;
- (iii) complete and furnish to the Association, for its review and comments, a comprehensive review of existing legislation and a proposal for the enactment of the legal and regulatory framework aimed at assisting the development of money and capital markets;
- (iv) complete the second cycle of BM's training courses; and
- (v) complete the second cycle of commercial banking training courses.

Part C: Cost Recovery System

The Borrower shall, until the completion of the Project, implement a cost recovery system, in connection with the commercial banking training courses described under Part B of the Project, including:

- (a) recovery of 40% (forty percent) in the first Project Year;

- (b) recovery of 60% (sixty percent) in the second Project Year;
- (c) recovery of 80% (eighty percent) in the third Project Year;
- (d) recovery of 90% (ninety percent) in the fourth Project Year; and
- (e) full recovery of total cost in the fifth Project Year.

SCHEDULE 5

Special Accounts

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means: for Special Account A, Categories (1) through (3), and for Special Account B, Category (1) set forth in the table in paragraph 1 of Schedule 1 to this Agreement;

(b) the term "eligible expenditures" means expenditures in respect of the reasonable cost of goods and services required for the Project and to be financed out of the proceeds of the Credit or the Swiss Contribution allocated from time to time to the eligible Categories in accordance with the provisions of Schedule 1 to this Agreement; and

(c) the term "Authorized Allocation" means: (i) for Special Account A, an amount equivalent to \$500,000; and (ii) for Special Account B, an amount equivalent to \$100,000 to be withdrawn from the Credit Account and the Swiss Contribution Account and deposited into the Special Accounts pursuant to paragraph 3 (a) of this Schedule.

2. 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 the Special Accounts have been duly opened, withdrawals of the Authorized Allocation and subsequent withdrawals to replenish the Special Accounts shall be made as follows:

(a) For withdrawals of the Authorized Allocation, the Borrower shall furnish to the Association a request or requests for a deposit or deposits which do not exceed the aggregate amount of the Authorized Allocation. On the basis of such request or requests, the Association shall, on behalf of the Borrower, withdraw from the Credit Account or the Swiss Contribution Account and deposit into the Special Accounts such amount or amounts as the Borrower shall have requested.

(b) (i) For replenishment of the Special Account, the Borrower shall furnish to the Association requests for deposits into the Special Account at such intervals as the Association shall specify.

(ii) Prior to or at the time of each such request, the Borrower shall furnish to the Association the documents and other evidence required pursuant to paragraph 4 of this Schedule for the payment or payments in respect of which replenishment is requested. On the basis of each such request, the Association shall, on behalf of the Borrower, withdraw from the Credit Account or the Swiss Contribution Account and deposit into the Special Accounts such amount as the Borrower shall have requested and as shall have been shown by said documents and other

evidence to have been paid out of the Special Accounts for eligible expenditures.

All such deposits shall be withdrawn by the Association from the Credit Account or the Swiss Contribution Account under their respective eligible Categories, and in the respective equivalent amounts, as shall have been justified by said documents and other evidence.

4. For each payment made by the Borrower out of the Special Accounts, the Borrower shall, at such time as the Association shall reasonably request, furnish to the Association such documents and other evidence showing that such payment was made exclusively for eligible expenditures.

5. Notwithstanding the provisions of paragraph 3 of this Schedule, the Association shall not be required to make further deposits into the Special Accounts:

(a) if, at any time, the Association shall have determined that all further withdrawals should 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

(b) once the total unwithdrawn amount of the Credit or the Swiss Contribution allocated to the eligible Categories, less 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 Project, shall equal the equivalent of twice the amount of the Authorized Allocation.

Thereafter, withdrawal from the Credit Account or the Swiss Contribution Account of the remaining unwithdrawn amount of the Credit or the Swiss Contribution allocated to the eligible Categories 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 the Special Accounts 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 the Special Accounts: (i) was made for an expenditure or in an amount not eligible pursuant to paragraph 2 of this Schedule; or (ii) was not justified by the evidence furnished to the Association, the Borrower shall, promptly upon notice from the Association: (A) provide such additional evidence as the Association may request; or (B) deposit into the Special Accounts (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. Unless the Association shall otherwise agree, no further deposit by the Association into the Special Accounts shall be made until the Borrower has provided such evidence or made such deposit or refund, as the case may be.

(b) If the Association shall have determined at any time that any amount outstanding in the Special Accounts 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.

(c) The Borrower may, upon notice to the Association, refund to the Association all or any portion of the funds on deposit in the Special Accounts.

(d) Refunds to the Association made pursuant to paragraphs 6 (a), (b) and (c) of this Schedule shall be credited to the Credit Account or the Swiss Contribution Account for subsequent withdrawal or for cancellation in accordance with the relevant provisions of this Agreement, including the General Conditions.

