

CONFORMED COPY

CREDIT NUMBER 2530 MOZ

Development Credit Agreement

(Local Government Reform and Engineering Project)

between

REPUBLIC OF MOZAMBIQUE

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated September 17, 1993

CREDIT NUMBER 2530 MOZ

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated September 17, 1993, 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;

WHEREAS (B) the Association has received from the Borrower a Letter of Local Government Sector Policy (Letter of Sector Policy) dated May 7, 1993 describing a program of actions, objectives and policies designed to achieve its municipal reform and decentralization program, and requesting assistance from the Association in the financing of goods, works and services required during such execution;

WHEREAS (C) the Borrower intends to contract from bilateral and multilateral donors (the "Cofinanciers") grants to assist in financing Part C.2 of the Project on the terms and conditions set forth in the Cofinancing Agreements to be entered into between the Borrower and the Cofinanciers; 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) "CEC" means Conselho Executivo da Cidade, the Executive Council operating at the city-level within the territory of the Borrower;

(b) "CG" means the Coordinating Group established and operating as set forth under Part A.2(b) of Schedule 4 to this Agreement;

(c) "CNA" means the Borrower's National Commission for the Environment, established and operating pursuant to Presidential Decree No. 2/92 dated June 3, 1992;

(d) "IMC" means the Interministerial Committee established and operating as set forth under Part A.1 of Schedule 4 to this Agreement;

(e) "Implementation Agreements" means the agreements referred to in Section 3.01 (c) of this Agreement;

(f) "INPF" means Instituto Nacional de Planejamento Fisico, of CNP established and operating pursuant to Presidential Decree No. 18/83 dated May 25, 1983;

(g) "LSG" means the Local Support Group established and operating as set forth under Part A.2 (e) of Schedule 4 to this Agreement;

(h) "MAE" means Ministerio de Administracao Estatal, the Ministry of State Administration of the Borrower;

(i) "MCA" means Ministerio da Construcao e Aguas, the Ministry of Construction and Water of the Borrower;

(j) "Municipal Development Program" means the series of activities to be prepared for a three to five year period, and updated annually, by the Project Cities and adopted by the CEC in order to strengthen institutional frameworks and organizations and establish public investments within their jurisdictions;

(k) "HABITAR" means the Unit responsible for management and supervision of housing projects within MCA established by Despacho of MCA dated June 21, 1988 and designated by the Borrower to assist in the implementation, monitoring and supervision of Part C of the Project and operating as set forth under Part A.2 (f) of Schedule 4 to this Agreement;

(l) "Project Account" means the Account referred to in Section 3.07 of this Agreement;

(m) "Project Preparation Advance" means the project preparation advance granted by the Association to the Borrower pursuant to an exchange of letters dated July 29, 1991 and October 9, 1991 between the Borrower and the Association;

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

(o) "TSU" means the Technical Support Unit established by MAE as its secretariat for Project implementation as set forth under Part A.2 (c) of Schedule 4 to this Agreement;

(p) "Project Performance Monitoring Indicators" means those indicators designed to measure the Borrower's performance in achieving Project objectives agreed between the Borrower and the Association and referred to in Section 3.03 (a) (i) of this Agreement;

(q) "Project Cities" means the cities of Maputo, Beira, Pemba, Quelimane and Nampula, selected by the Borrower in which to implement its municipal reform and decentralization program;

(r) "Pilot Subproject" means any of the developmental activities referred to under Part C.2 of the Project, selected by the Borrower and approved by the Association, to test cost effective approaches to urban and environmental management;

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

(t) "WG" means any of the Working Groups established and operating as set forth under Part A.2 (d) of Schedule 4 to this Agreement.

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 sixteen million four hundred thousand Special Drawing Rights (SDR 16,400,000).

Section 2.02. (a) The amount of the Credit may be withdrawn from the Credit 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.

(b) The Borrower shall, for the purposes of the Project, open and maintain in dollars a special deposit account in a commercial bank on terms and conditions satisfactory to the Association, including appropriate protection against set-off, seizure or attachment. Deposits into, and payments out of, the Special Account shall be made in accordance with the provisions of Schedule 5 to this Agreement.

(c) 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 March 31, 1998 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 15 and December 15 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 15 and December 15 commencing December 15, 2003 and ending June 15, 2033. Each installment to and including the installment payable on June 15, 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 with due diligence and efficiency and in conformity with appropriate administrative, financial, environmental and engineering 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.

(c) For the purpose of implementation of Part C of the Project, the Borrower shall cause MAE to enter into Implementation Agreements with all of the Project Cities, under terms and conditions satisfactory to the Association, specifying, inter alia, the rights and obligations of MAE and of the respective Project City, the timetables to be followed and the scope of activities to be undertaken.

Section 3.02. Except as the Association shall otherwise agree, procurement of the goods, works and consultants' services required for the Project and to be financed out of the proceeds of the Credit shall be governed by the provisions of Schedule 3 to this Agreement.

Section 3.03. The Borrower shall :

(a) not later than September 30 of each year until the completion of the Project, conduct with the Association annual Project implementation reviews, including a mid-term review, by not later than September 30, 1995, to:

- (i) monitor, in accordance with Project Performance Monitoring Indicators, progress achieved in the implementation of the following: (A) enactment of the municipal legal framework and the implementation of the legal, institutional, fiscal and financial reforms; (B) training programs financed under the Project; (C) measures taken to ensure coordination among central, provincial and local government authorities responsible for Project implementation; (D) results of process consultation and user demand and environmental assessments; (E) actions taken to ensure appropriate transfer of technology to local counterparts and the most efficient utilization of technical assistance financed under the Project; (F) preparation and implementation of the resettlement plans referred to under Part C.3 of the Project; and (G) preparation and implementation of the Municipal Development Programs and Pilot-Subprojects referred to under Part C of the Project;
- (ii) discuss and adjust: (A) the proposed budgetary allocations to MAE, MCA, CNA and CECs for the Project Cities to be implemented during the upcoming fiscal year to finance Project recurrent expenditures; and (B) measures taken by the Borrower to ensure timely provision of local counterpart funds to the Project;
- (iii) exchange information among staff and institutions responsible for Project implementation at the central, provincial and local level;
- (iv) identify issues which may delay Project implementation and propose appropriate solutions;

(v) discuss and coordinate all other technical assistance provided by the Cofinanciers; and

(vi) update Project timetables and Project Performance Monitoring Indicators, and approve the action program for the upcoming year;

(b) not later than four weeks prior to such annual and mid-term 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 Project Performance Monitoring Indicators agreed between the Borrower and the Association;

(ii) a draft action program including training plans to be carried out during the upcoming year;

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

Section 3.04. The Borrower shall, during the execution of the Project:

(a) maintain the institutional arrangements and staff responsible for Project implementation, with such responsibilities 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 staff to closely work with and receive training from the consultants contracted under the Project in accordance with the provisions of Section 2 of Schedule 3 of this Agreement.

Section 3.05. The Borrower shall ensure the timely implementation of the Implementation Agreements entered into between MAE and the Project Cities and the Municipal Development Programs prepared by each of such Cities in accordance with all their respective terms, as agreed between the Borrower and the Association and as set forth under Part B of Schedule 4 to this Agreement.

Section 3.06. The Borrower shall take all the necessary measures to prepare and implement the resettlement plans referred to under Part C.3 of the Project, in accordance with terms, criteria and a timetable agreed upon between the Borrower and the Association, and with the objective of restoring the incomes of displaced people to allow them to maintain or improve their standard of living.

Section 3.07. The Borrower shall: (a) open and maintain an account in local currency, in a commercial bank (the Project Account) on terms and conditions satisfactory to the Association; (b) promptly thereafter, make an initial deposit into such account, in local currency, in an amount equivalent to sixty thousand dollars (\$60,000) to finance the Borrower's contribution to the Project; and (c) deposit every four months, into the Project Account, such amount in local currency, as shall be required to timely replenish such Account.

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 Account 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 nine 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 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 payment out of the Special 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 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) that a situation has arisen which shall make it improbable that the Program or a significant part thereof will be carried out; and

(b) that the Municipal Reform Legislation or any other legislation governing local government decentralization shall have been amended, suspended, repealed 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 events are specified:

(a) any event specified in paragraph (a) of Section 5.01 of this Agreement shall occur; and

(b) any event specified in paragraph (b) of Section 5.01 of this Agreement shall occur and shall continue for a period of sixty (60) days after notice thereof shall have been given by the Association to the Borrower.

ARTICLE VI

Effective Date; Termination

Section 6.01. The following events are specified as additional conditions to the effectiveness of the Development Credit Agreement within the meaning of Section 12.01 (b) of the General Conditions:

(a) that the Borrower has established TSU and employed its key staff as set forth under Part A.2 (c) of Schedule 4 to this Agreement, in accordance with applicable civil service regulations and contractual terms satisfactory to the Association;

(b) that the Borrower has designated HABITAR to assist in the implementation of Part C of the Project and its Senior Urban Planner has been appointed in accordance with contractual terms satisfactory to the Association;

(c) that the Borrower has contracted independent auditors to assist in complying with the Financial Covenants referred to in Section 4.01 (b) of this Agreement, in accordance with terms of reference and contractual terms satisfactory to the Association;

(d) that the Implementation Agreements have been signed between MAE and the Project Cities;

(e) that the Project Account has been opened and the initial deposit has been made as set forth in Section 3.07 of this Agreement; and

(f) that the Borrower has contracted a consulting firm to assist in carrying out Part B of the Project, in accordance with the provisions of Part II of Schedule 3 to this Agreement.

Section 6.02. The following is specified as additional matter, within the meaning of Section 12.02 (b) of the General Conditions, to be included in the opinion or opinions to be furnished to the Association, namely, that the Implementation Agreements have been duly authorized or ratified and are legally binding upon MAE and the Project Cities in accordance with their respective terms.

Section 6.03. 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.

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 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:

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)	% of Expenditures to be Financed
(1) Studies and Audits	3,140,000	100%
(2) Consultants' Services	4,700,000	100%
(3) Training	1,840,000	100%

(4) Civil Works under Part C.2 of the Project	920,000	100% of foreign expenditures and 70% of local expenditures
(5) Vehicles, Equipment Spare parts and Supplies	1,980,000	100% of foreign expenditures and 70% of local expenditures
(6) Incremental Operating Cost	1,760,000	100% of foreign expenditures and 70% of local expenditures
(7) Services under Part C.3 of the Project	70,000	100%

Category	Amount of the Credit Allocated (Expressed in SDR Equivalent)	% of Expenditures to be Financed
(8) Refunding of Project Preparation Advance	900,000	Amount due pursuant to Section 2.02 (b) of this Agreement
(9) Unallocated	1,090,000	
TOTAL	16,400,000 =====	

2. For the purposes of this Schedule:

(a) the term "foreign expenditures" means expenditures in the currency of any country other than that of the Borrower for goods or services supplied from the territory of any country other than that of the Borrower;

(b) the term "local expenditures" means expenditures in the currency of the Borrower or for goods or services supplied from the territory of the Borrower; and

(c) the term "incremental operating cost" means expenditures incurred by the Borrower to finance operation and maintenance of vehicles, equipment and buildings directly related to the Project general administrative expenses for TSU and HABITAR and directly related to Project implementation; training of TSU and HABITAR staff, including Project staff; and process consultation and user demand assessments.

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

(a) payments made for expenditures prior to the date of this Agreement; and

(b) Category (4) unless the Association has received for each Pilot Subproject: (i) a resettlement plan, prepared in accordance with criteria, terms and timetable agreed upon between the Borrower and the Association as set forth in Section 3.06 of this Agreement; and (ii) evidence, satisfactory to the Association, certifying the Borrower's legal ownership of land where civil works financed under the Credit will be carried out under the Pilot Subproject concerned.

Description of the Project

The objectives of the Project are : (a) to support the Borrower's decentralization and municipal capacity building programs in the Project Cities; and (b) to assist the Borrower to create a suitable municipal investment policy framework, prepare urban investment plans, and carry out Pilot Subprojects.

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: Legal and Institutional Reform

1. Carrying out a legislative and institutional reform, including:

(a) reviewing the existing legal and administrative framework of local government;

(b) specifying the degree of authority and responsibility to be given to government at the central, provincial and local levels under said reform;

(c) defining technical units to be created or restructured;

(d) drafting the legal framework to enable the implementation of the municipal reform on a national basis; and

(e) drafting of specific laws required to facilitate testing of reforms in the Project Cities.

2. Strengthening the Borrower's training and capacity building skills through the:

(a) designing and implementing training programs for key central, provincial and local groups involved in the Reform;

(b) reviewing the structure of the Escola de Estado e Direito and Centro de Formacao em Gestao Publica Local; and

(c) developing basic job-related skills.

Part B: Fiscal Financial and Organizational Reform

1. Strengthening the fiscal transfer system through the review of the taxation and the design and implementation of criteria for central government revenue sharing and fiscal transfers.

2. Mobilizing local resources through the:

(a) undertaking a review of local revenue sources and developing proposals for reform; and

(b) establishment of cost recovery guidelines.

3. Improvement of the system for financing urban services through:

(a) reviewing the financial structure of public utilities and services and the current policy in tariff setting;

(b) reviewing private sector participation in the provision of urban services at the local level and determining the potential for greater involvement;

(c) determining the relationship between tariff levels and corresponding operational and maintenance costs for specific services; and

(e) examining investment planning guidelines.

4. Strengthening accounting, budgeting, financial management and data systems through:

(a) improving accounting, budgeting, financial planning, treasury management, and internal controls;

(b) incorporating capital accounts as part of local government's general budgets;

(c) upgrading the reporting system, including auditing and other control mechanisms; and

(d) introducing electronic data processing and management information systems.

5. Strengthening local government's functions, staffing requirements and training programs through:

(a) defining administrative arrangements relating to accounting, finance and data processing functions, staffing and training needs; and

(b) developing and implementing training programs for finance and accounting staff.

Part C: Urban and Environmental Management

1. Carrying out municipal development programs in the Project Cities through:

the preparation and implementation of a Municipal Development Program for each Project City, including, inter alia, design of institutional development programs; user demand and environmental assessments; identification and preparation of investment programs and plans for priority infrastructure service improvements and environmental rehabilitation and protection work, upgrading and expansion; preparation of ecological zoning and preliminary engineering designs and cost estimates for infrastructure improvements.

2. Preparation and implementation of the following Pilot Subprojects including the participation of private sector entities:

(a) Pemba Urban Upgrading;

(b) Nampula Environmental Planning and Management;

(c) Beira Non-Motorized (Bicycle) Transport;

(d) Five Project Cities Rapid Mapping; and

(e) Maputo Land Information Systems.

3. Designing and carrying out resettlement plans necessary to relocate persons to be displaced through the implementation of the Pilot Subprojects.

Part D: Institutional Capacity Building and Project Management

1. Provision of technical advice and training for the strengthening of and provision of training to MAE and the Project Cities in the application of the municipal legal framework and financial and administrative regulations.

2. Establishment and operation of the Technical Support Unit (TSU).

3. Strengthening and operation of HABITAR.

4. Strengthening of CNA.

* * *

The Project is expected to be completed by September 30, 1997.

SCHEDULE 3

Procurement and Consultants' Services

Section I. Procurement of Goods

Part A: International Competitive Bidding

1. Except as provided in Part B hereof, goods shall be procured under contracts awarded in accordance with procedures consistent with those set forth in Sections I and II of the "Guidelines for Procurement under IBRD Loans and IDA Credits" published by the Bank in May 1992 (the Guidelines).

2. For fixed-price contracts, the invitation to bid referred to in paragraph 2.13 of the Guidelines shall provide that, when contract award is delayed beyond the original bid validity period, the successful bidder's bid price will be increased for each week of delay by two predisclosed correction factors acceptable to the Association, one to be applied to all foreign currency components and the other to the local currency component of the bid price. Such an increase shall not be taken into account in the bid evaluation.

3. In the procurement of goods in accordance with this Part A, the Borrower shall use the relevant standard bidding documents issued by the Bank, with such modifications thereto as the Association shall have agreed to be necessary for the purposes of the Project. Where no relevant standard bidding documents have been issued by the Bank, the Borrower shall use bidding documents based on other internationally recognized standard forms agreed with the Association.

Part B: Other Procurement Procedures

1. Local Competitive Bidding: Works for Part C.2 of the Project not exceeding an aggregate amount equivalent to \$1,100,000 of the Credit may be procured under contracts awarded on the basis of competitive bidding, advertised locally, in accordance with procedures satisfactory to the Association.

2. Force Account: Works for Part C.2 of the Project not exceeding an aggregate amount equivalent to \$300,000 of the Credit may be carried out by force account.

3. International or Local Shopping: Equipment and spare parts estimated to cost the equivalent of \$25,000, or less per contract, may not exceeding an aggregate amount equivalent to \$600,000 of the Credit, may be procured under contracts awarded on the basis of comparison of price quotations obtained from at least three suppliers from two eligible countries under the Guidelines, in accordance with procedures acceptable to the Association.

Part C: Review by the Association of Procurement Decisions

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

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

(b) With respect to each contract not governed by the

preceding paragraph, the procedures set forth in paragraphs 3 and 4 of Appendix 1 to the Guidelines shall apply. Where payments for such contract are to be made out of the Special Account, such procedures shall be modified to ensure that the two conformed copies of the contract together with the other information required to be furnished to the Association 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 are to be made on the basis of statements of expenditure.

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

Section II. Employment of Consultants

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

(b) 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 Consultants' Guidelines requiring prior Association review or approval of budget, short lists, selection procedures, letters of invitation, proposals, evaluation reports and contracts shall not apply to contracts estimated to cost less than \$100,000, equivalent each. However, this exception to prior Bank review shall not apply to the terms of reference for such contracts nor to the employment of individuals, to single source selection of firms, to assignments of a critical nature as reasonably determined by the Association and to amendments of contracts raising the contract value to \$100,000, equivalent or above.

SCHEDULE 4

Implementation Program

Part A: Project Management

1. Interministerial Committee (IMC)

(a) The Council of Ministers of the Borrower shall establish and thereafter maintain IMC during the implementation of the Project, with the membership and responsibilities described hereinafter below. The IMC shall report directly to said Council.

(b) The IMC shall: (i) provide policy guidance; (ii) ensure overall Project coordination; (iii) ensure that the Borrower's competent authorities approve and implement the legal, institutional and financial reforms approved under the Project; and (iv) follow-up any actions required to be undertaken to implement the Program.

(c) The IMC shall be chaired by the Minister of State Administration, and its membership shall comprise the Ministers of Finance, Construction and Water, Justice, Labor and the Vice-Minister of Planning. IMC shall meet at least quarterly during the

first year of Project implementation and half-yearly, thereafter.

2. Implementation responsibilities

(a) Ministry of State Administration (MAE): MAE shall be responsible for overall Project implementation, working in close collaboration with the Ministries of Finance, Construction and Water, Justice, CNA, INPF and the CECs in the Project Cities.

(b) Interministerial Coordinating Group (CG): (i) MAE shall appoint a CG in order to oversee Project implementation; (ii) the CG shall be chaired by the National Director of Local Government of MAE; and (iii) members of the CG shall, inter alia, be high-level staff appointed by the Ministries of Finance, Construction and Water, Justice, CNA and INPF.

(c) Technical Support Unit (TSU): (i) MAE shall establish TSU in order to undertake its technical, supervisory and training responsibilities under the Project; (ii) MAE shall appoint the following key staff, all with qualifications and experience satisfactory to the Association : Project Director; Financial Controller and Manager of Procurement; and (iii) TSU shall prepare and furnish to the Association, on a quarterly basis, consolidated reports, including the reports of consultants employed under the Project, and TSU's comments on said reports.

(d) Working Groups (WG):

(i) MAE shall establish and maintain during Project implementation WGs staffed with senior officers of MAE, MCA, CNA, INPF, CECs, Ministry of Finance and reporting to the CG, as follows:

(A) WGI for Part A of the Project,

(B) WGII for Part B of the Project;and

(C) WGIII for Part C of the Project.

(ii) The tasks of the WGs shall be coordinated by their respective Chairperson. Each WG shall establish its own internal structure.

(iii) The WGs shall be responsible for assisting MAE on: substantive reform issues, developing terms of reference for consultants, reviewing their outputs and overseeing the implementation of the Program.

(iv) The WGs shall meet, on a monthly basis, during the first two years of Project implementation, and quarterly, thereafter.

(e) Local Support Group(LSG)

(i) A LSG shall be established by MAE and each Project City to ensure effective Project implementation at the local level.

(ii) The LSGs shall be staffed with senior officers of the respective CEC and representatives of MAE, MOF, MCA, CNA and INPF shall meet, at least, monthly.

(f) HABITAR

(i) The Borrower shall designate HABITAR, through an expansion of its current functions, to carry out technical, managerial and supervisory functions with regard to the implementation of Part C of the Project, in accordance with terms of reference, staffing and institutional mandate

satisfactory to the Association, in close coordination with CNA.

(ii) HABITAR shall include the following technical staff: (A) at the central level, Project Manager; Senior Urban Planner (Key staff); and Junior Civil Engineer. (B) At the local level: Urban Planner, Decision Analyst, Junior Planner, Economist/Financial Analyst, Physical Planning and Technicians/Civil Engineers (one for each Project City).

(g) CNA

(i) CNA shall be responsible for assisting the CECs in the preparation and implementation of Part C of the Project, at the local level.

(ii) CNA shall oversee the preparation and implementation of the Pilot Subproject in Nampula included under Part C.2 (b) of the Project and shall closely liaise with HABITAR for this purpose.

(iii) CNA shall be strengthened with the following staff: Environmental Advisor and a local Environmental Technician.

Part B: Implementation Agreements

1. For the purpose of Section 3.01 (e) of this Agreement, each Project City shall, through its CEC, enter into an Implementation Agreement with MAE, in order to be eligible to receive technical support, training, vehicles, equipment and Pilot Subproject works.

2. Under the respective Implementation Agreement, each Project City shall: (A) implement the legal, institutional and fiscal reforms prepared under the Project, in accordance with terms and timetable agreed between the Borrower and the Association; and (B) prepare and adopt a Municipal Development Program as set forth under Part C.1 of the Project, in accordance with terms agreed between the Borrower and the Association.

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

1. During the First Year of the Project:

(a) but not later than June 30, 1994, the Borrower shall take all necessary legal and institutional measures to start its legal and institutional reform, in accordance with the provisions of Paragraphs 11 and 12 of the Letter of Sector Policy; and

(b) but not later than August 31, 1994, the Borrower shall take all necessary legal measures to start its financial reform.

2. During the Second Year of the Project:

(a) but not later than January 31, 1995, the Borrower shall commence the preparation phase of the MDPs in the Project Cities; and

(b) but not later than December 31, 1995, the Borrower shall jointly with the Association agree on a program of actions to be carried out until the completion of the Project, and update the Letter of Sector Policy.

SCHEDULE 5

Special Account

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means Categories (1) through (6) 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 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 an amount equivalent to \$1,000,000 to be withdrawn from the Credit Account and deposited in the Special Account pursuant to paragraph 3 (a) of this Schedule.

2. Payments out of the Special Account 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 Account has been duly opened, withdrawals of the Authorized Allocation and subsequent withdrawals to replenish the Special Account 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 and deposit in the Special Account 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 and deposit into the Special Account 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 Account for eligible expenditures. All such deposits shall be withdrawn by the Association from the Credit Account under the 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 Account, 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 Account:

(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 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 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 of the remaining unwithdrawn amount of the Credit 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 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 the Special Account: (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 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. Unless the Association shall otherwise agree, no further deposit by the Association into the Special Account 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 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.

(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 Account.

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

