

CONFORMED COPY

CREDIT NUMBER 2479 MOZ

Development Credit Agreement

(Rural Rehabilitation Project)

between

REPUBLIC OF MOZAMBIQUE

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated April 30, 1993

CREDIT NUMBER 2479 MOZ

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated April 30, 1993, between the REPUBLIC OF MOZAMBIQUE (the Borrower) and INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association).

WHEREAS 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; 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) "AgPack" means a package of agricultural inputs containing improved seeds and simple agricultural hand tools;

(b) "CFA" means Centro de Formacao Agraria, the Agricultural Training Center of the Borrower;

(c) "CPP" means Commissao Provincial de Plano, the Provincial Planning Commission;

(d) "DNP" means Direccao Nacional de Plano, the National Planning Directorate of the Borrower;

(e) "DINAGECA" means Direccao Nacional de Geografia e Cadastro, the National Directorate of Geography and Cadaster of the Borrower;

(f) "EPAR" means Estaleiro Provincial de agua Rural, the Provincial Water Supply Workshop;

(g) "Guidelines" means the Guidelines prepared by the Borrower for the purposes of Project accounting;

(h) "INDER" means Instituto de Desenvolvimento Rural, the Institute of Rural Development of the Borrower;

(i) "Implementation Agreement" means any of the agreements referred to in Section 3.03 of this Agreement;

(j) "Land Commission" means the Land Commission of the Ministry of Agriculture of the Borrower;

(k) "Manual" means the Operations Manual referred to in Section 3.04 (a) and Section 5.01 (a) of this Agreement, prepared by the Borrower to describe the procedures to be followed during the subproject cycle including, inter alia, the terms and conditions and the eligibility criteria for processing a subproject;

(l) "PESU" means Programa de Emergencia de Sementes e Utensilios Agricolas, the Emergency Seeds and Tools Program of the Borrower;

(m) "PRONAR" means Programa Nacional de agua Rural, the National Rural Water Supply Program of the Borrower;

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

(o) "Project Preparation Advance" means the project preparation advance granted by the Association to the Borrower pursuant to an exchange of letters dated February 7, 1992 and March 26, 1992 between the Borrower and the Association;

(p) "Project Area" means the districts of Buzi, Dondo, and Nhamatanda in the Province of Sofala, and Alto Molocue, Chinde, Gurue, Mocuba and Nicoadala in the Province of Zambezia, and all such districts that may be included by agreement between the Borrower and the Association; and

(q) "Subproject" means the activities under Part A.2 of the Project.

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 fourteen million five hundred thousand Special Drawing Rights (SDR 14,500,000).

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. The President of INDER shall be responsible for operating the Account.

(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 December 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 and 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 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 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, 2003 and ending December 1, 2032. Each installment to and

including the installment payable on December 1, 2012 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 INDER with due diligence and efficiency and in conformity with appropriate agricultural and rural development 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, 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. For the purposes of the implementation of the Project, the Borrower shall cause INDER to enter into Implementation Agreements with CFA, DINAGECA and PRONAR, under terms and conditions satisfactory to the Association, specifying, inter alia, the rights and obligations of CFA, DINAGECA and PRONAR, respectively, the timetable to be followed and the scope of activities under the Project to be carried out respectively by CFA, DINAGECA and PRONAR.

Section 3.04. The Borrower will take necessary actions to ensure that:

(a) all subprojects shall be processed according to the procedures described by the Manual and that the Manual shall not be modified without prior approval of the Association;

(b) no later than June 30, 1997, a revised Manual incorporating the lessons learned during Project implementation is produced;

(c) no later than December 31, 1996, a report of the Land Study containing a methodology for the demarcation of smallholder land is completed;

(d) no later than June 30, 1994, the study on the Organization and Management of Provincial Water Supply is completed;

(e) no later than June 30, 1994, an Inventory of Rural Water Supply Infrastructure for Sofala and Zambezia is completed; and

(f) the Guidelines, satisfactory to the Association, for project accounting are followed.

Section 3.05. (a) The Borrower shall every year conduct, jointly with the Association, an annual Project implementation review. The review shall, inter alia: (i) assess the progress made in processing and implementing subprojects and in defining policies out of the land study and in producing land use maps; (ii) evaluate the number of wells produced; and (iii) evaluate the progress in the distribution of Agpacks.

(b) No later than one month prior to each review referred to in (a) above, the Borrower shall, through INDER furnish to the Association, for its comments, a report in such detail as the Association shall reasonably request, including an evaluation of the progress achieved in complying with Project implementation.

(c) The Borrower shall, promptly thereafter, carry out the recommendations emanating from each such review.

Section 3.06. The Borrower shall cause the CPPs of Sofala and Zambezia to open and thereafter maintain Project Accounts (Sofala Project Account and Zambezia Project Account, respectively) in commercial banks acceptable to the Association. The Borrower shall deposit into each of the Project Accounts an amount equivalent to \$50,000, as the Borrower's contribution.

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 for the fiscal year in which the last withdrawal from the Credit 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

Effective Date; Termination

Section 5.01. 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) the Borrower has adopted the Operations Manual acceptable to the Association;
- (b) the implementation agreements between INDER and CFA and INDER and DINAGECA referred to in Section 3.03 of this Agreement have been signed by the parties thereto;
- (c) the Borrower has prepared, for the Project, standard bidding documents for the procurement of goods and works and standard package for the selection of consultants, acceptable to the Association;
- (d) the Borrower has adopted an Annual Plan of Operations for the implementation of the Project, acceptable to the Association; and
- (e) the Borrower has appointed an Auditing Firm, for the purpose of the Project, acceptable to the Association.

Section 5.02. 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 specified in Section 5.01 (b) above have been executed and are binding upon the parties in accordance with their terms.

Section 5.03. The date one hundred and twenty (120) days after the date of this Agreement is hereby specified for the purposes of Section 12.04 of the General Conditions.

ARTICLE VI

Representatives of the Borrower; Addresses

Section 6.01. The Governor of the Bank of Mozambique of the

Borrower 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
Departamento de Relacoes Internacionais
Avenida da 25 de Setembro 1695
Maputo

Cable address:

MOBANCO
Maputo

Telex:

6355/7 BMMO

Facsimile:

29178

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:

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

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/ Eneas da Conceicao Comiche
Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Stephen Denning M.
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 to be financed in each Category:

Category	Amount of the Credit Allocated (Expressed in SDR Equivalent)	% of Expenditures to be Financed
(1) Works for:		
(a) Part D of the Project	1,090,000	100% of foreign expenditures and 70% of local expenditures
(b) Other	70,000	100% of foreign expenditures and 70% of local expenditures
(2) Subprojects under Part A.2 of the Project	1,660,000	100% of foreign expenditures and 90% of local expenditures
(3) Goods:		
(a) vehicles and equipment	1,440,000	100%
(b) seeds and tools	3,250,000	100%

Category	Amount of the Credit Allocated (Expressed in SDR Equivalent)	% of Expenditures to be Financed
(4) Consultants' services:		
(a) Mapping	720,000	100%
(b) Technical Assistance	1,800,000	100%
(c) Training	360,000	100%
(d) NGO Services	580,000	100%
(5) Operating Costs	800,000	100% for Year 1; 80% for Years 2 and 3; and 50% for Years 4 and 5
(6) Refunding of Project Prepara- tion Advance	410,000	Amount due pur- suant to Section 2.02 (c) of this Agreement
(7) Unallocated	2,320,000	
	14,500,000	
TOTAL	14,500,000	=====

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 "operating costs" means incremental Project-related operating costs including office supplies, maintenance of vehicles, equipment and computers procured under the Project, cost of fuel for said vehicles, Project staff allowances, and field trips, Project-related communication expenses, and office rentals.

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; (b) payments made for Category (2), unless the amounts specified in Section 3.06 of this Agreement have been deposited; and (c) payments made for Category (1) (a), unless the Implementation Agreement between INDER and PRONAR has been signed.

SCHEDULE 2

Description of the Project

The objectives of the Project are: (i) to strengthen the capabilities of institutions responsible for post-war reconstruction and to develop procedures for decentralized rural development; (ii) to provide land use information and to develop policies for tenure security for smallholders; (iii) to help households displaced due to war to restart agricultural production on their traditional lands; and (iv) to improve the health and quality of life of rural households by increasing the coverage of the rural drinking water supply/infrastructure.

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: Support for Decentralization

1. Provision of technical assistance and equipment to INDER and to the key institutions.
2. Carrying out of pilot activities on the provinces of Sofala and Zambezia to identify, appraise and implement small- and medium-scale investments.
3. Organization of training courses and seminars.

Part B: Land Study and Land Use Mapping

1. Assisting the Land Commission in developing policies and in designing and testing procedures for demarcating smallholder lands.
2. Revising the national topographic map and estimating the land use pattern.
3. Developing instruments and detailed maps for priority districts in Sofala and Zambezia.
4. Preparation of GIS data, software programs and manuals.

Part C: Distribution of Agpacks

Providing Agpacks for about 200,000 households in the Project area.

Part D: Rural Water Supply

1. Rehabilitating and improving capacity for supplying water, including: (i) development of additional capacity; (ii) increasing use of existing capacity; and (iii) construction of wells, boreholes or other water sources.
2. Strengthening of EPAR's capability to coordinate

administrative, logistical and technical assistance activities, including: (i) development of procurement procedures for the use of private contractors for the implementation of civil works; (ii) establishment of a monitoring and programming system; and (iii) updating of cost structures.

3. Developing a scheme for operating and maintaining water supply systems, based on community participation and technological changes, including: (i) the replacement of handpumps for easy-to-maintain equipment; and (ii) preparation of an inventory of infrastructure to indicate the location, condition and operation and maintenance requirements of existing water supply facilities in the Project area.

* * *

The Project is expected to be completed by June 30, 1998.

SCHEDULE 3

Procurement and Consultants' Services

Section I. Procurement of Goods and Works

Part A: International Competitive Bidding

1. Except as provided in Part C 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). 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 Bank, 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 bid evaluation.

2. To the extent practicable, contracts for equipment and vehicles shall be grouped in bid packages estimated to cost the equivalent of \$100,000 or more each.

3. Goods shall be exempted from the preshipment price inspection.

Part B: Preference for Domestic Manufacturers

In the procurement of goods in accordance with the procedures described in Part A 1 hereof, goods manufactured in the Republic of Mozambique may be granted a margin of preference in accordance with, and subject to, the provisions of paragraphs 2.55 and 2.56 of the Guidelines and paragraphs 1 through 4 of Appendix 2 thereto.

Part C: Other Procurement Procedures

1. Office supplies estimated to cost less than \$20,000 equivalent per contract, up to an aggregate amount not to exceed \$200,000, may be procured under contracts awarded on the basis of comparison of price quotations obtained from at least three suppliers eligible under the Guidelines, in accordance with procedures acceptable to the Association.

2. Proprietary spare parts up to an aggregate amount not to exceed \$200,000 may be procured directly from the supplier, in accordance with procedures acceptable to the Association.

3. Items or groups of items estimated to cost the equivalent of \$1,000, up to an aggregate amount not to exceed \$50,000, may be procured off the shelf, in accordance with procedures acceptable to the Association.

4. Works for subprojects estimated to cost the equivalent of \$25,000 or more, up to an aggregate amount not to exceed \$700,000, may be procured under contracts awarded on the basis of competitive bidding, advertised locally, in accordance with procedures satisfactory to the Bank.

5. Works for subprojects under Part A.2 of the Project estimated to cost less than \$25,000, up to an aggregate amount not to exceed \$700,000 and works for building renovation up to an aggregate not to exceed \$200,000, may be procured on the basis of price quotations obtained from at least three contractors, in accordance with procedures satisfactory to the Association.

6. Works for rural water supply and building renovation, up to an aggregate amount not to exceed \$1,900,000, may be procured on the basis of force account.

Part D: 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 for work estimated to cost the equivalent of \$50,000 or more, and for goods 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. In order to assist the Borrower in the Project, the Borrower shall employ experts and 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).

2. Notwithstanding the provisions of paragraph 1 of this Section, the provisions of the Consultant Guidelines requiring prior Bank 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 \$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

Bank and to amendments of contracts raising the contract value to \$100,000 equivalent or above.

SCHEDULE 4

Implementation Program

1. Under the general guidance of the Steering Committee, INDER shall coordinate the implementation of the Project and manage all Project funds.
2. INDER through the CPPs of Sofala and Zambezia and the CFA shall implement Parts A and C of the Project, DINAGECA shall implement Part B of the Project, and PRONAR shall implement Part D of the Project.
3. The Borrower shall establish a Project Steering Committee which shall include, inter alia, the directors of DINAGECA, CFA, PESU, PRONAR, DNP, the Land Commission and the Directors of CPPs of Sofala and Zambezia. The Steering Committee shall be chaired by the President of INDER.
4. The Steering Committee shall meet at least twice a year, inter alia, to (i) provide guidance on Project implementation, (ii) approve the annual operations plan and recommend project investments for the next year, and (iii) approve semiannual project monitoring and evaluation report.
5. INDER and the Provincial governments of Sofala and Zambezia shall maintain separate Project Accounts. These accounts shall be consolidated into Annual Financial Statements by INDER. The statements shall contain a summary of the sources and use of funds, a summary of Special Account, and a recapitulation of reimbursements replenishment claimed under statements of expenditures.
6. The Directors of CPPs of Sofala and Zambezia shall open and manage project accounts. INDER shall replenish the accounts against statements of expenditures presented by the Directors of the CPPs.
7. The Borrower shall ensure that civil works for Part D of the Project are only executed in sites where communities have signed agreements with the CPPs.

SCHEDULE 5

Special Account

1. For the purposes of this Schedule:
 - (a) the term "eligible Categories" means Categories (1) through (5) 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 \$750,000 to be withdrawn from the Credit Account and deposited into 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.

