

CONFORMED COPY

CREDIT NUMBER 2374 MOZ

(Roads and Coastal Shipping Project)

between

REPUBLIC OF MOZAMBIQUE

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated June 19, 1992

CREDIT NUMBER 2374 MOZ

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated June 19, 1992, 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 Borrower intends to contract from the Swedish International Development Agency (SIDA) a grant (the SIDA Grant) to assist in financing Parts A.1 (b); A.3; A.5; A.2 (a) (ii) (B); B.1 (c) (iv); and B.3 (b) of the Project on the terms and conditions set forth in an agreement (the SIDA Grant Agreement) to be entered into between the Borrower and SIDA;

(C) the Borrower intends to contract from the Norwegian Agency for Development (NORAD) a grant (the NORAD Grant) to assist in financing Parts B.1 (a) (iv); B.1 (b); B.1 (c) (iv); and B.2 of

the Project on the terms and conditions set forth in an agreement (the NORAD Grant Agreement) to be entered into between the Borrower and NORAD;

(D) the Borrower intends to contract from the African Development Bank (AfDB) a grant (the AfDB Grant) to assist in financing Part A.3 of the Project on the terms and conditions set forth in an agreement (the AfDB Grant Agreement) to be entered into between the Borrower and AfDB;

(E) the Borrower intends to contract from Ministry of Cooperation for Development of France (France) a grant (the French Grant) to assist in financing Parts B.1 (a) (iii); B.1 (a) (v); B.1 (b); and B.3 (d) of the Project on the terms and conditions set forth in an agreement (the French Grant Agreement) to be entered into between the Borrower and France;

(F) the Borrower intends to contract from the United States Agency for International Development (USAID) a grant (the USAID Grant) to assist in financing Part A.6 of the Project on the terms and conditions set forth in an agreement (the USAID Grant Agreement) to be entered into between the Borrower and USAID;

(G) the Borrower intends to contract from the United Nations Development Programme (UNDP) a grant (the UNDP Grant) to assist in financing Parts A.5 and D (a) of the Project on the terms and conditions set forth in an agreement (the UNDP Grant Agreement) to be entered into between the Borrower and UNDP;

(H) the Borrower intends to contract from the Gesellschaft fcr Technische Zusammenarbeit/the Kreditanstalt fcr Wiederaufbau (GTZ/KFW) a grant (the GTZ/KFW Grant) to assist in financing Part A.5 of the Project on the terms and conditions set forth in an agreement (the GTZ/KFW Grant Agreement) to be entered into between the Borrower and GTZ/KFW;

(I) the Borrower intends to contract from United Nations Capital Development Fund (UNCDF) a grant (the UNCDF Grant) to assist in financing Part A.5 of the Project on the terms and conditions set forth in an agreement (the UNCDF Grant Agreement) to be entered into between the Borrower and UNCDF;

(J) the Borrower intends to contract from the Arab Bank for Economic Development in Africa (BADEA) a grant and a loan (the BADEA Grant and Loan) to assist in financing Parts A.2 (a), (b), (d), A.3 and B.3 (c) respectively of the Project on the terms and conditions set forth in agreements (the BADEA Grant and Loan Agreements) to be entered into between the Borrower and BADEA;

(K) the Borrower intends to contract from Danish International Development Agency (DANIDA) a grant (the DANIDA Grant) to assist in financing Parts A.5 and B.1 (c) (iv) of the Project on the terms and conditions set forth in an agreement (the DANIDA Grant Agreement) to be entered into between the Borrower and DANIDA;

(L) the Borrower intends to contract from the European Community (EC) a grant (the EC Grant) to assist in financing Parts A.3 and A.5 of the Project on the terms and conditions set forth in an agreement (the EC Grant Agreement) to be entered into between the Borrower and EC; and

(M) the Borrower intends to contract from Switzerland a grant (the Swiss Grant) to assist in financing Part A.5 of the Project on the terms and conditions set forth in an agreement (the Swiss Grant Agreement) to be entered into between the Borrower and Switzerland;

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 Bank of Mozambique, the Central Bank of the Borrower established pursuant to its Statutes as amended by Law No. 1/92, dated January 3, 1992 (Lei Organica) (BM);

(b) "BCM" means Banco Comercial de Mocambique, the new commercial institution of the Borrower established pursuant to its Statutes approved by Decree No. 3/92 dated February 25, 1992;

(c) "BPD" means Banco Popular de Desenvolvimento, the People's Development Bank of the Borrower;

(d) "CFM" means Empresa Nacional de Portos e Caminhos de Ferro de Mocambique, E.E., the state enterprise of the Borrower responsible for ports and railways, established and operating pursuant to its Statutes approved by Decree No. 6/89 dated May 11, 1989, issued by the Council of Ministers of the Borrower;

(e) "CNA" means Comissao Nacional do Ambiente, the Environmental Agency of the Borrower;

(f) "D.N. Alfndegas" means Direccao Nacional das Alfndegas, the National Directorate of Customs of the Borrower under the tutela of the Ministry of Finance;

(g) "DNEP" means Direccao Nacional de Estradas e Pontes, the National Directorate of Roads and Bridges of the Ministry of Construction and Water of the Borrower;

(h) "DNM" means Direccao Nacional da Marinha, the National Directorate of Maritime Affairs of the Ministry of Transport and Communications of the Borrower;

(i) "DNTR" means Direccao Nacional de Transportes Rodoviaros, the National Directorate of Road Transport of the Ministry of Transport and Communications of the Borrower;

(j) "ECMEP" means Empresa de Construcao e Manutencao de Estradas e Pontes, any of the state enterprises for construction and maintenance of roads and bridges operating at the provincial level;

(k) "GAPROMAR" means Gabinete de Coordenacao de Projectos da Marinha, the Bureau of Coordination of Maritime Projects established within the Ministry of Transport and Communications of the Borrower pursuant to Despacho s/n dated March 18, 1992, issued by the Minister of Transport and Communications;

(l) "INAHINA" means Instituto Nacional de Hidrografia e Navegacao, the Borrower's National Institute of Hydrography and Navigation established and operating pursuant to its Statutes approved by Decree No. 40/89 dated December 5, 1989, issued by its Council of Ministers of the Borrower;

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

(n) "MTC" means Ministerio de Transportes e Comunicacoes,

the Ministry of Transport and Communications of the Borrower;

(o) "NAVIQUE" means Empresa Mocambicana de Navegacao, E.E, the state enterprise responsible for navigation and shipping of the Borrower established and operating pursuant to Decree No.3/84 dated May 18, 1984 of the Council of Ministers of the Borrower;

(p) "PFI" and "Participating Financial Institution" mean each commercial bank, development bank, or credit institution acceptable to the Association to which BM, under an agreement (a "Participating Agreement") with such bank or institution, has lent proceeds of the Credit for relending to final beneficiaries for Subprojects;

(q) "FB" or "Final Beneficiary" means an operator of a small port or provider of feeder transport services to and from a port; legally established and operating in the territory of the Borrower under a license issued by the Ministry of Transport and Communications, which meets the criteria set forth in paragraph 1 of Part B of Schedule 8 to this Agreement, and to or for which a PFI has been made or proposed to make a Subloan for a Subproject, as hereinafter defined;

(r) "Subloan" means a loan or credit made or proposed to be made out by a PFI to a Final Beneficiary for a Subproject, as hereinafter defined, out of the equivalent of the proceeds of the Credit made available to BM under the Subsidiary Administration Agreement, as hereinafter defined;

(s) "free-limit Subloan" means a Subloan, as so defined, which qualifies as a free-limit Subloan pursuant to the provisions of paragraph 4 (b) of Part A of Schedule 8 to this Agreement;

(t) "Subsidiary Administration Agreement" means the agreement entered into between the Borrower and BM pursuant to Section 3.01 (c) of this Agreement, as the same may be amended from time to time, and such terms include all schedules to the Subsidiary Administration Agreement;

(u) "Subproject" means: (i) a new specific development project; and (ii) expansion of an existing project, to be carried out by a Final Beneficiary utilizing the proceeds of a Subloan;

(v) "Project Preparation Advance" means the project preparation advances granted by the Association to the Borrower pursuant to exchanges of letters dated June 12, 1990 and June 20, 1991; and July 29, 1991 and August 8, 1991, between the Borrower and the Association;

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

(x) "Special Account" means any of the accounts referred to in Section 2.02 (b) of 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 fifty-four million one hundred thousand Special Drawing Rights SDR 54,100,000.

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 three special deposit accounts in a commercial bank on terms and conditions satisfactory to the Association, including appropriate protection against set-off, seizure or attachment: (i) Special Account A shall be opened for the purposes of Parts A and D (c) of the Project (MCA Account); (ii) Special Account B shall be opened for the purposes of Part B of the Project (MTC Account); and (iii) Special Account C shall be opened for the purposes of Part C of the Project (BM Account). Deposits into, and payments out of, the Special Accounts shall be made in accordance with the provisions of Schedules 5, 6 and 7 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 June 30, 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 April 1 and October 1 in each year.

Section 2.07. (a) Subject to paragraphs (b) and (c) below, the Borrower shall repay the principal amount of the Credit in semi-annual installments payable on each April 1 and October 1 commencing October 1, 2002 and ending April 1, 2032. Each installment to and including the installment payable on April 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:

- (i) shall carry out Parts A, B and D of the Project with due diligence and efficiency and in conformity with appropriate administrative, engineering and transportation practices, and shall provide, promptly as needed, the funds, facilities, services and other resources required for such Parts of the Project; and
- (ii) shall cause BM to carry out Part C of the Project with due diligence and efficiency and in conformity with appropriate banking and financial practices; shall take or cause to be taken all action, including the provision of funds, facilities, services and other resources, necessary or appropriate to enable BM to carry out Part C of the Project, and shall not take or permit to be taken any action which would prevent or interfere with the carrying out of Part C of the Project by BM.

(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: (i) carry out Parts A, B and D of the Project in accordance with the Implementation Program set forth in Schedule 4 to this Agreement; and (ii) shall cause BM to carry out Part C of the Project in accordance with the provisions of Schedule 8 to this Agreement.

(c) The Borrower shall, out of the proceeds of the Credit, transfer to BM an amount equivalent to four million two hundred thousand and twenty-five Special Drawing Rights (SDR 4,225,000) under a Subsidiary Administration Agreement to be entered into between the Borrower and BM on terms and conditions which shall have been approved by the Association and which shall include, inter alia, the following provisions: (i) definition of the functions and responsibilities of BM and the PFIs regarding Part C of the Project; (ii) the criteria PFIs will have to meet and continue to meet in order to be eligible to participate in the implementation of Part C of the Project. These criteria concern, inter alia, lending capability, overall financial and portfolio performance and an audit carried out by an independent external auditor acceptable to the

Association. Alternatively, for PFIs that do not meet all of these criteria, an institutional development plan, acceptable to the Association and to be implemented by the PFI in order to meet all the eligibility criteria may be included. However, aforementioned audit requirement will have to be met in all cases; (iii) the obligation of BM to enter into a Participation Agreement with each PFI under which such amounts will be lent to each PFI as required to refinance the Subloans made to Final Beneficiaries for eligible Subprojects, such Participation Agreement to be satisfactory to the Association and in accordance with the provisions of Part A of Schedule 8 to this Agreement; and (iv) the Borrower, through its Ministry of Finance, shall bear the foreign exchange risk.

(d) The Borrower shall exercise its respective rights under the Subsidiary Administration Agreement, in such manner as to protect the interests of the Borrower and the Association and to accomplish the purposes of the Credit, and except as the Association shall otherwise agree, the Borrower shall not take or concur in any action which should have the effect of assigning, amending, abrogating or waiving the said Agreement or any provisions thereof.

(e) The Borrower shall conduct, jointly with the Association, annual reviews of the terms, conditions, applicable interest rates and margins set forth in Schedule 8 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: (a) Schedule 3 to this Agreement for Parts A, B and D of the Project; and (b) Part A.3 of Schedule 8 to this Agreement, for Part C of the Project.

Section 3.03. The Borrower shall not undertake any proposed investment in the road sector, estimated to cost more than \$4,000,000 (four million dollars) equivalent, and in the domestic shipping port sector, estimated to cost more than \$2,000,000 (two million dollars) equivalent, unless:

(a) the Borrower has submitted the proposed investment to the Association for its review and comments; and

(b) the investment has an estimated economic rate of return of at least 12% (twelve percent), taking into account socio-economic criteria acceptable to the Association.

In addition, the Borrower shall not undertake any proposed investment in aforementioned sectors estimated to cost more than \$1,000,000 (one million dollars) equivalent, unless it has carried out an environmental assessment and applied design standards and construction methods aimed at minimizing possible adverse environmental impact, in accordance with environmental guidelines satisfactory to the Association.

Section 3.04. The Borrower shall:

(a) not later than October 31, of each year until the completion of the Project, conduct with the Association Project implementation reviews, including a mid-term review by not later than October 31, 1995, to:

- (i) monitor progress achieved in the implementation, inter alia, of the following:
 - (A) improvements in the policy, legal and regulatory framework;
 - (B) the training programs referred to under Parts A.2 and B.2 of the Project, including the number and level of staff receiving training each year under the Project;

- (C) the Line of Credit referred to under Part C and Schedule 8 to this Agreement;
 - (D) the recommendations of the studies carried out by DNEP, under Part A.1 (b) of the Project; by DNTR, under Part A.6 of the Project; and by D.N. Alfcondegas under Part B.4 of the Project;
 - (E) measures designed to ensure appropriate transfer of technology to local counterparts and the most efficient utilization of technical assistance financed under the Project;
- (ii) discuss and agree with the Association on the proposed budgetary allocations of the MTC and MCA to be implemented during the upcoming fiscal year to:
 - (A) finance Project recurrent expenditures;
 - (B) ensure the timely provision of local counterpart funds to the Project; and
 - (C) bear the cost of the Borrower's income tax applicable to foreign consultants employed under the Project;
 - (iii) exchange information among staff responsible for Project implementation;
 - (iv) identify implementation issues and propose appropriate solutions;
 - (v) discuss and coordinate all other related technical assistance financed by other donors agencies and cofinanciers;
 - (vi) update Project timetables and approve the action program for the upcoming year;

(b) not later than four weeks prior to such annual 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 terms of this Agreement; and
- (ii) a draft action program to be carried out during the upcoming year; and

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

Section 3.05. The Borrower shall, during the execution of the Project, maintain the key staff responsible for Project implementation, and their respective counterparts, with such responsibilities, powers and personnel in adequate numbers and with qualifications and experience satisfactory to the Association, as are specified in Part A.2 of Schedule 4 to this Agreement.

ARTICLE IV

Financial Covenants

Section 4.01. (a) The Borrower shall maintain records and accounts adequate to reflect in accordance with sound accounting practices the operations, resources and expenditures in respect of the Project of: (i) the departments or agencies of the Borrower

responsible for carrying out Parts A, B and D; and (ii) BM for carrying out Part C of the Project.

(b) The Borrower shall and shall cause BM to:

- (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) 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;
- (iii) 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
- (iv) 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 and shall cause BM to:

- (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) The Borrower and BM shall have failed to perform any of their respective obligations under the Subsidiary Administration Agreement;

(b) as a result of events which have occurred after the date

of this Agreement, an extraordinary situation shall have arisen which shall make it improbable that BM will be able to perform its obligations under the Subsidiary Administration Agreement;

(c) the Borrower or any authority having jurisdiction shall have taken any action:

- (i) concerning the Borrower's roads, coastal shipping, transport or banking sectors that would materially affect the ability of the Borrower or BM to perform any of their respective obligations under this Agreement; or
- (ii) for the respective dissolution or disestablishment of BCM or BPD or any other PFI, or for the suspension of their respective operations;

(d) The following shall have been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the ability of the Borrower to perform any of its obligations under this Agreement;

- (i) Despacho s/n dated March 18, 1992 of the Ministry of Transport and Communications of the Borrower establishing GAPROMAR;
 - (ii) Despacho s/n dated February 9, 1992 of the Ministry of Construction and Water of the Borrower delegating full authority to the National Director of DNEP;
 - (iii) Despacho s/n dated March 18, 1992 of the Ministry of Transport and Communications of the Borrower delegating full authority to the Director of GAPROMAR;
 - (iv) the legal instrument of the Borrower transferring the administration of small ports from CFM to DNM to be issued in accordance with Schedule 4 Part B under (a) (i);
 - (v) the respective Statutes of BCM, BPD, or any other PFI having entered into a Participation Agreement with BM;
- (e) (i) Subject to subparagraph (ii) of this paragraph:
- (A) the right of the Borrower to withdraw the proceeds of any loan or grant made to the Borrower under the respective loan or grant agreements, for the financing of the Project shall have been suspended, cancelled or terminated in whole or in part, pursuant to the terms thereof; or
 - (B) any such loan shall have become due and payable prior to the agreed maturity thereof.
- (ii) Subparagraph (i) of this paragraph shall not apply if the Borrower establishes to the satisfaction of the Association that:
- (A) such suspension, cancellation, termination or prematuring is not caused by the failure of the Borrower to perform any of its obligations under such agreements; and
 - (B) adequate funds for the Project are available to the Borrower from other sources on terms and conditions consistent with the obligations of the Borrower 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 paragraphs (a), (b) or (c) of Section 5.01 of this Agreement shall occur and shall continue for a period of 30 (thirty) days after notice thereof shall have been given by the Association to the Borrower; and

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

(c) the event specified in paragraph (e) (i) (B) of Section 5.01 of this Agreement shall occur with respect to any grant or loan made to the Borrower for the financing of the Project unless the requirements set forth in Section 5.01 (e) (ii) of this Agreement are satisfied in respect thereof.

ARTICLE VI

Effective Date; Termination

Section 6.01. The following event is specified as an additional condition to the effectiveness of the Development Credit Agreement within the meaning of Section 12.01 (b) of the General Conditions, namely, that the Borrower has contracted the General Consultant to DNEP referred to under Part A.1 (c) of the Project, with qualifications and experience, and in accordance with terms of reference set forth under Part A.2 of Schedule 4 to this Agreement and in accordance with contractual terms satisfactory to the Association.

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 this Agreement has been duly ratified by the Borrower's Council of Ministers and is legally binding upon the Borrower in accordance with its 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:

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:

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/ Edward V. K. Jaycox
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) Goods and Services under Part A of the Project:		
(a) Consultants' services	26,210,000	100%
(b) Training	2,260,000	100% of foreign expenditures and 60% of local expenditures
(c) Civil works under Parts A.1, A.2, A.3 and A.4 of the Project	2,910,000	90%
(2) Goods and services under Parts B.1, B.2 and B.3 of the		

Project:

(a) Consultants' services	4,370,000	100%
	Amount of the Credit Allocated (Expressed in SDR Equivalent)	% of Expenditures to be Financed
(b) Training	440,000	100% of foreign expenditures and 60% of local expenditures
(c) Equipment, vehicles and spare parts	220,000	100%
(d) Civil works under Part B.3 (a) of the Project	1,090,000	90%
(3) Goods and Services under Part B.4 of the Project:		
(a) Consultants' services	510,000	100%
(b) Equipment and spare parts	150,000	100%
(4) Goods and Services under the Line of Credit	4,220,000	90%
(5) Consultants' services under Part D of the Project and audits	1,170,000	100%
	Amount of the Credit Allocated (Expressed in SDR Equivalent)	% of Expenditures to be Financed
(6) Refunding of Project Preparation Advance	1,090,000	Amount due pursuant to Section 2.02 (c) of this Agreement
(7) Unallocated	9,460,000	
TOTAL	54,100,000 =====	

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 and 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 and services supplied from the territory of the Borrower;

(c) the term "training" means foreign or local fellowships, conferences, courses, study tours and other training-related activities undertaken as part of the training programs financed

under the Project; and

(d) the term "civil works" means the cost of rehabilitating existing structures, construction of new buildings, or importation of prefabricated units.

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, except that withdrawals, in an aggregate amount not exceeding the equivalent of SDR 365,000 may be made in respect of Category 1 (a) on account of payments made for expenditures before that date but after April 1, 1992.

(b) Categories 1 (c) and 2 (d), unless the Association has received evidence, satisfactory to it, certifying the Borrower's legal ownership of land where civil works financed under the Credit will be carried out under the Project;

(c) Categories 2 and 4 unless (i) the Association has received within 12 months from the Effective Date memoranda of understanding satisfactory to the Association entered into between the Borrower and France, and the Borrower and NORAD, specifying their respective areas of intervention under the French Grant Agreement and the NORAD Grant Agreement, to assist the Borrower in carrying out Part B of the Project; and (ii) the Borrower has selected regulatory and supervision consultants' services to assist in carrying out Part B.1 (a) of the Project, in accordance with the provisions of Section II of Schedule 3 to this Agreement;

(d) Category (4) unless:

(i) the Association has received evidence, satisfactory to it, that the Subsidiary Administration Agreement:

(A) has been executed on behalf of the Borrower and BM on terms satisfactory to the Association and in accordance with the provisions of Section 3.01 (b) of this Agreement;

(B) has been duly authorized and is legally binding upon the Borrower and the BM, and a legal opinion to that effect has been issued by the Borrower's Procurador Geral da Republica; and

(C) the Borrower has furnished to the Association evidence satisfactory to it confirming the approval of a policy committing the Borrower to award long-term renewable contracts for the management of small ports in accordance with terms satisfactory to the Association; and

(ii) in respect of the PFIs unless:

(A) BM has entered into Participation Agreements with at least two PFIs on terms and conditions agreed with the Association, and in accordance with the provisions of Section 3.01 (c) and Part A of Schedule 8 to this Agreement; and

(B) the Association has been furnished for its approval with the Model Subloan Agreement to be entered into between each PFI and the respective Beneficiary in accordance with the procedures, terms and conditions set forth under Part C of Schedule 8 to this Agreement.

SCHEDULE 2

Description of the Project

The objectives of the Project are to: (a) build the institutional capacity necessary for effective planning and monitoring of the roads and coastal shipping transport subsectors; (b) improve the efficiency of the Borrower's transport services, particularly in the roads and coastal shipping transport subsectors.

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: Improvement of Road Infrastructure and Road Transport

1. Institutional Support to DNEP.

(a) Strengthening of the planning and supervisory capabilities of DNEP and its provincial departments of roads and bridges (DEPs).

(b) Carrying out policy, regulatory, institutional, planning and operational studies.

(c) Provision of General Consultant (GC) services to: (i) coordinate consultants' services employed under this Part of the Project; (ii) assist the Borrower in planning future roads programs and organizational responsibilities; and (iii) provide management and technical support to DNEP and its DEPs.

(d) Design and implementation of guidelines aimed at ensuring appropriate transfer of technology to local counterparts, as a result of technical assistance financed under the Project.

2. Manpower development and training program.

(a) (i) Design and implementation of an initial five-year phase of DNEP's long-term manpower development program for the training, retraining and upgrading of public and private sector road personnel at all levels; (ii) strengthening of the Industrial Institutes of: (A) Maputo; and (B) Beira.

(b) Design and implementation of DNEP's training policy and programs including the establishment and operation of: (i) a Training Division; (ii) a Road Technical Training Center; and (iii) a Road Training Production Unit; and (iv) a Mechanical Training Production Unit.

(c) Carrying out mid- and end-Project training evaluations, including the preparation of future phases of DNEP's long-term manpower development program.

(d) Strengthening of the Department of Civil Engineering of the Eduardo Mondlane University, including the provision of housing for University Professors.

3. Planning and Engineering Services.

(a) Design and preparation of a trunk road rehabilitation program.

(b) Carrying out: (i) economic and financial feasibility studies; (ii) preliminary engineering and environmental studies; and (iii) final design and preparation of tender documents for the Borrower's road rehabilitation program.

4. Development of local road contractors (LRC).

(a) Carrying out studies to evaluate the feasibility of and priorities for developing small-to-medium LRCs.

(b) Strengthening of road rehabilitation and maintenance, and of the management and operational capabilities of the LRCs, including the ECMEPs.

5. Feeder Road Program.

Carrying out the first phase of the Borrower's feeder road program, consisting of rehabilitation and maintenance of feeder road networks in about twenty-two priority districts in support of agricultural development.

6. Strengthening of the Trucking Industry.

Carrying out studies to:

(a) develop guidelines to promote private sector participation in the Borrower's trucking industry and establish appropriate implementation mechanisms and procedures;

(b) identify manpower development training and technical assistance needs of: (i) the Borrower's road transport regulatory agencies; and (ii) private sector road transport operators; and

(c) assess: (i) the potential for rehabilitation of existing vehicle fleets; and (ii) mechanical skills at the workshop floor level and improved spare parts distribution channels.

Part B: Small Ports and Coastal Shipping

1. Institutional Support and Policy Reform.

(a) Design and implementation of regulatory reforms of the small ports and coastal shipping industries through:

- (i) reviewing the existing legal and regulatory procedures and arrangements;
- (ii) designing and implementing revised legal and regulatory frameworks to facilitate: (A) economically efficient competition; and (B) involvement of private sector operators in the management of small ports;
- (iii) assisting the Borrower in the planning of, and negotiations for the divestiture of some state-owned enterprises, and the entry of new private sector operators to small ports and coastal shipping through the award of management and or concession contracts;
- (iv) carrying out studies to: (A) refine DNM's organization; and (B) define GAPROMAR's functional relationship with other MTC agencies and departments involved in small ports and coastal shipping; and
- (v) advising the Borrower on the overall structure and efficiency of, and planning for, the small ports and coastal shipping subsectors.

(b) Strengthening of the planning and management capabilities of DNM and GAPROMAR, through:

- (i) supervising implementation of this Part of the Project;
- (ii) establishing planning, budgeting and financial control systems within DNM and GAPROMAR; and
- (iii) strengthening DNM and GAPROMAR facilities and working conditions.

- (c) Provision of assistance to:
 - (i) restructure, commercialize and attract private sector investments to all coastal shipping companies owned by the Borrower or by any of its state owned enterprises;
 - (ii) develop and implement a feeder shipping services strategy;
 - (iii) develop a small-ship repair and building strategy; and
 - (iv) review INAHINA's cost recovery strategy for navigational aids.
- (d) Carrying out engineering and detailed design for:
 - (i) a telecommunications system for coastal shipping;
 - (ii) environmental protection facilities for the ports of Pemba, Nacala and Quelimane; and
 - (iii) civil engineering in the ports of Macuse, Chinde and Mocimboa da Praia.
- (e) Strengthening of ancillary sectors to:
 - (i) enable small ports and coastal shipping operators to have access to credit from the banking sector; and
 - (ii) enable CNA to protect the coastal environment.

2. Manpower Development and Training Program.

Carrying out a training and upgrading program for small port and coastal shipping personnel at all levels, and selected DNM and GAPROMAR staff.

3. Provision of support to port infrastructure investments.

- (a) Rehabilitation of quay structures in the ports of Chinde, Macuse and Mocimboa da Praia.
- (b) Installation of elementary navigational aids for the ports of: Chinde, Angoche, Pebane, Macuse and Mocimboa da Praia.
- (c) Installation of oil reception and separation facilities in the ports of: Quelimane, Pemba, and Nacala.
- (d) Installation of a telecommunications system.

4. Transport and trade facilitation program.

- (a) Strengthening and commercialization of, and attracting private sector participation in: (i) freight-forwarding; (ii) cargo handling; (iii) shipping agencies; and (iv) transport intermediaries.
- (b) Strengthening of customs administration.
- (c) Establishment of an interministerial transport and trade facilitation committee.

Part C: Line of Credit

Provision of credit to eligible small port operators and providers of feeder transport services to and from a port.

Part D: Strengthening of the Borrower's Project Management

Capabilities

(a) Provision of Project coordination services to assist in carrying out overall coordination of Project-related activities financed by the Credit and by other donors' contributions.

(b) Carrying out Project launching and implementation review workshops and annual donor meetings.

* * *

The Project is expected to be completed by December 31, 1997.

SCHEDULE 3

Procurement and Consultants' Services

Section I. Procurement of Goods and Works

Part A: International Competitive Bidding

Except as provided in Part D hereof, works, equipment, vehicles and non-proprietary spare parts 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 1985 (the Guidelines).

Part B: Preference for Domestic Manufacturers

In the procurement of goods in accordance with the procedures described in Part A hereof, goods manufactured in 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: Preference for Domestic Contractors

In the procurement of works in accordance with the procedures described in Part A hereof, the Borrower may grant a margin of preference to domestic contractors in accordance with, and subject to, the provisions of paragraphs 2.55 and 2.56 of the Guidelines and paragraph 5 of Appendix 2 thereto.

Part D: Other Procurement Procedures

1. Force Account. Minor rehabilitation works estimated to cost the equivalent of \$20,000 per work or less, up to an aggregate amount equivalent to \$100,000 may be carried out by force account.
2. Local Competitive Bidding. Civil works estimated to cost the equivalent of \$700,000 or less per contract, up to an aggregate amount equivalent to \$2,900,000, may be procured under contracts awarded on the basis of competitive bidding, advertised locally, in accordance with procedures satisfactory to the Association
3. International or local Shopping. Non-proprietary spare parts and critical spare parts estimated to cost the equivalent of \$50,000 or less per contract, up to an aggregate amount equivalent to \$300,000, 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.
4. Direct contracting. Equipment and spare parts of a proprietary nature for existing equipment estimated to cost the equivalent of \$50,000 or less per contract, up to an aggregate amount equivalent to \$300,000 may be awarded after direct negotiations with suppliers, in accordance with procedures acceptable to the Association.

Part E: 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: (i) goods estimated to cost the equivalent of \$100,000 or more; and (ii) training and civil works estimated to cost the equivalent of \$250,000, 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

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.

SCHEDULE 4

Implementation Program

Part A: Project Management

1. Responsibilities of institutions involved in Project management.

(a) DNEP shall be responsible for the implementation of Parts A.1, A.2, A.3, A.4 and A.5 of the Project.

(b) DNTR shall be responsible for the implementation of Part A.6 of the Project.

(c) GAPROMAR shall be responsible for the implementation of Parts B.1, B.2 and B.3 of the Project.

(d) D.N. Alfandegas shall be responsible for the implementation of Part B.4 of the Project.

(e) BM shall be responsible for the implementation of Part C of the Project.

(f) The National Director of DNEP and the Director of GAPROMAR shall be jointly responsible for carrying out Part D (b) of the Project.

2. Key Project Management Staff.

The following are the Key Project Management Staff:

(a) Project Managers

- (i) The Borrower shall appoint and maintain during Project implementation one Project Manager responsible for the coordination and implementation of Part A of the Project; and one Project Manager for the coordination and implementation of Part B of the Project;
- (ii) The Project Managers shall be responsible, inter alia, for the following:
 - (A) procuring goods and selecting and contracting consultants' services financed under the Credit;
 - (B) keeping Project accounts and documentation and preparing withdrawal applications for disbursement;
 - (C) ensuring the adequate technical quality of the Project activities under their coordination; and
 - (D) preparing monthly and quarterly Project reports and ensuring compliance with audit covenants under this Agreement.

(b) Project Coordinator (PC)

- (i) To assist the Project Managers in the coordination and implementation of the Project components and in the preparation of subsequent roads and coastal shipping projects;
- (ii) The Project Coordinator shall be responsible, inter alia, for the following:
 - (A) advise and assist in the development and implementation of policies and procedures for overall planning and supervision of the coastal shipping, road infrastructure and road transport sub-sectors, including any required organizational improvements; and
 - (B) assist in monitoring of progress being made in the implementation of components of this Project and future roads and coastal shipping being funded by individual donors, and in coordinating the participation of the various donors and in keeping them informed of the overall progress of the key elements of the Project;

(c) General Consultant (GC)

The GC shall be responsible, inter alia, for the following:

- (i) assist DNEP in the overall management of the national road program; and
- (ii) coordinate and monitor the activities of all consultants employed by DNEP.

(d) Regulatory and Supervision Consultants (RSC)

The RSC who shall be responsible, inter alia, for the following:

- (A) Assisting DNM and GAPROMAR in: (a) the revision of the commercial regulatory framework for shipping and small ports to allow private sector participation and cost based tariffs; (b) the negotiation of the privatization of the coastal shipping industry and the negotiation of contracts for management of the small ports; and (c) conducting and transferring the skills required for, the longer-term commercial supervision of and planning for the coastal shipping industry and small ports;
- (B) reviewing DNM organization to (a) recommend a detailed structure and functions for DNM, and (b) clarify roles within MTC for over-all maritime planning and coastal shipping management; and
- (C) reviewing maritime legal framework and make recommendations to adjust it to establish a competitive and efficient coastal shipping industry, focussing on privatization of small ports and shipping operations.

(e) Transport and Trade Facilitation Committee

1. (a) The Borrower shall establish a Transport and Trade Facilitation Committee (TTFC) as a multi-discipline inter-ministerial advisory body.

(b) Representatives of the following agencies shall be appointed as permanent members of the TTFC: Ministry of Finance, Ministry of Transport and Communications, Ministry of Construction and Water, Ministry of Trade, Bank of Mozambique and the Chamber of Commerce.

2. (a) The TTFC shall be chaired by the representative of the Ministry of Finance.

(b) The representative of the Ministry of Trade shall be responsible for the Secretariat of TTFC.

3. The TTFC shall be responsible, inter alia, for the following:

(a) coordinate the work of the consultants executing the facilitation program;

(b) advise the pertinent institutions on recommendations of the facilitation program consultants;

(c) process specific proposals through executive channels to the proper institutional level; and

(d) execute subsequent governmental decisions on transport and trade facilitation.

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:

(a) Prepare action plans and implementation timetables, acceptable to the Association:

- (i) not later than six months after the Effective Date, to transfer the responsibility for administration of the small ports from CFM to

DNM;

- (ii) not later than six months after the Effective Date, to develop guidelines applicable to the negotiation and award of management and/or concession contracts by the Borrower, in accordance with terms and conditions agreed with the Association;
 - (iii) not later than one year after the Effective Date to: (A) develop and adopt revenue-generation measures for the Road Maintenance Fund, applicable to national non-urban roads, taking into account the recommendations of a road financing study carried out by the Borrower; and (B) ensure membership in the International Marine Pollution Convention (MARPOL 73/78); and
 - (iv) not later than one year after the Effective Date and before the first annual Project review, to:
 - (A) ensure that the relevant state-owned enterprises divest themselves of their own-account trucking fleets; (B) restructure all coastal shipping companies owned by the Borrower or by any of its state-owned enterprises; (C) adopt a policy allowing full private sector access to the coastal shipping feeder service market; (D) adopt policy and legal measures necessary to encourage private sector maintenance and repair workshop capacity; and (E) remove mandatory tariff barriers for long-distance road transport freight services and entry barriers into the trucking industry for inter-city long distance road transport, taking into account the recommendations of the trucking studies referred to under Part A.6 of the Project.
- (b) Carry out the following actions:
- (i) not later than one year after the Effective Date, adopt a system of cost-based tariff policies applicable to small ports and coastal shipping, including appropriate mechanisms for periodic updating of such tariffs, in accordance with terms agreed with the Association;
 - (ii) not later than one year after the Effective Date: through DNM, issue coastal shipping training guidelines, stressing career development linkages to training and a system of professional standards and certification;
 - (iii) not later than one year after the Effective Date and before the first annual Project review: (A) initiate action to implement recommendations of an equipment evaluation study carried out by the Borrower, with the objective of transferring the management of most basic heavy equipment for road rehabilitation and maintenance to private or mixed-capital enterprises in accordance with terms and conditions satisfactory to the Association; and (B) adopt a policy commitment conducive to full competitiveness in the coastal shipping transport subsector; and
 - (iv) not later than October 31, 1995 and before the mid-term Project implementation review: (A) complete implementation of policy and regulatory framework reform in the coastal shipping subsector; and (B) adopt and implement improved procurement and materials management guidelines and procedures in accordance with studies carried

out by the Borrower.

SCHEDULE 5

Special Account A (MCA Account)

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means Categories (1) and (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 Parts A and D of 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 \$3,500,000 to be withdrawn from the Credit Account and deposited in the Special Account A pursuant to paragraph 3 (a) of this Schedule.

2. Payments out of the Special Account A 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 A has been duly opened, withdrawals of the Authorized Allocation and subsequent withdrawals to replenish the Special Account A 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 A such amount or amounts as the Borrower shall have requested.

(b) (i) For replenishment of the Special Account A, the Borrower shall furnish to the Association requests for deposits into the Special Account A 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 A 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 A 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 A, 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:

(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 for Parts A and D of the Project, 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 Parts A and D of 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 for Parts A and D of the Project 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 A 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 A: (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 A (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 A 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 A 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 into the Special Account A.

(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.

SCHEDULE 6

Special Account B (MTC Account)

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means Categories (2) and (3) 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

Part B of 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 B pursuant to paragraph 3 (a) of this Schedule.

2. Payments out of the Special Account B 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 B has been duly opened, withdrawals of the Authorized Allocation and subsequent withdrawals to replenish the Special Account B 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 B such amount or amounts as the Borrower shall have requested.

(b) (i) For replenishment of the Special Account B, the Borrower shall furnish to the Association requests for deposits into the Special Account B 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 B 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 B 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 B, 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 B:

(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 for Part B of the Project, 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 Part B of 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 for Part B of the Project 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 B 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 B: (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 B (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 B 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 B 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 into the Special Account B.

(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.

SCHEDULE 7

Special Account C (BM Account)

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means Category (4) 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 Part C of 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 C pursuant to paragraph 3 (a) of this Schedule.

2. Payments out of the Special Account C 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 C has been duly opened, withdrawals of the Authorized Allocation and subsequent withdrawals to replenish the Special Account C 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 C such amount or amounts as the Borrower shall have requested.

(b) (i) For replenishment of the Special Account C, the Borrower shall furnish to the Association requests for deposits into the Special Account C 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 C 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 C 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 C, 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 for Part C of the Project, 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 Part C of 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 for Part C of the Project 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 C 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 C: (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 C (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 C 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 C 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 into the Special Account C.

(d) Refunds to the Association made pursuant to paragraph 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.

SCHEDULE 8

Terms and Conditions of Participation
and Subloans

Agreements

A. Participation Agreements

1. (a) PFIs shall relend the local currency (Meticais) equivalent to the proceeds of the Credit, allocated to Category (4) of Schedule 1 to this Agreement, to Final Beneficiaries (FBs) for Subprojects, for terms of three (3) to twelve (12) years, including periods of grace of one (1) to four (4) years.

(b) PFIs shall charge a variable interest rate on Subloans to FBs at the Borrower's prevailing interest rate including a margin approved by BM and negotiated within the respective Participation Agreement. For the purposes of this Schedule the term "prevailing interest rate" means the rate determined by the Borrower pursuant to the provisions of a Despacho issued by the Governor of Banco de Mocambique, dated March 31, 1992, as amended from time to time.

2. Each Participation Agreement shall contain provisions pursuant to which each PFI shall:

(a) continue to be duly established and operating under the laws of the Borrower;

(b) appraise the financial, technical and environmental feasibility of Subprojects;

(c) make Subloans to FBs under Part C of the Project on the basis of the criteria, procedures and terms and conditions set forth in this Schedule;

(d) maintain the organization, management staff and other resources required for the efficient carrying out of its activities and for the management of Sub-loans granted to FBs;

(e) provide the apex unit within BM (UGP), GAPROMAR and the Association with such information as they may reasonably request;

(f) bear the lending risk and adhere to terms of lending and repayment of Subloans;

(g) without delay, give full disclosure to the BM and/or the Association of all information requested by the BM and/or the Association, that may be reasonably required by the BM and/or the

Association to assess the financial and portfolio performance and lending capabilities of the PFI in general and Part C of the Project in particular;

(h) annually have an overall audit of its records and accounts carried out applying, mutatis mutandis, Article IV of the Agreement; and

(i) keep separate records and accounts regarding the implementation of Part C of the Project and have these records and accounts audited annually applying, mutatis mutandis, Article IV of the Agreement.

3. Procurement

(a) With respect to the procurement of goods and services to be financed under Subloans made under Part C of the Project, each Participation Agreement shall contain provisions requiring compliance with the following procedures:

- (i) goods and services shall be purchased at a reasonable price, account being taken also of other relevant factors such as time of delivery and efficiency and reliability of the goods and availability of maintenance facilities and spare parts therefor and, in the case of services, of their quality and the competence of the parties rendering them.
- (ii) Goods and services estimated to cost the equivalent of \$500,000 or more 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 1985 (the Guidelines).
- (iii) Goods estimated to cost the equivalent of \$100,000 but less than \$500,000 per contract: (A) may be procured under contracts awarded on the basis of comparison of price quotations solicited from a list of at least three qualified suppliers in accordance with procedures acceptable to the Association; and (B) all contracts for such goods shall be reviewed by the PFIs before submitting them to UGP for their approval and award.
- (iv) Civil works estimated to cost more than the equivalent of \$100,000 per contract may be procured under contracts awarded on the basis of competitive bidding, advertised locally, in accordance with procedures satisfactory to the Association.
- (v) Consultants shall have qualifications, experience, and be employed on terms and conditions 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 Association in August 1981.

(b) Each PFI shall undertake that such goods and services shall be used exclusively in the carrying out of the Subproject and shall maintain appropriate records of the procurement procedures followed.

4. No expenditures for goods or services required for a Subproject shall be eligible for financing out of the proceeds of

the Credit unless the Subloan for such Subproject shall have been:

(a) approved by the Association and such expenditures shall have been made not earlier than ninety (90) days prior to the date on which the Association shall have received the application and information required under paragraph 5 (a) of this Schedule in respect of such Subloan; or

(b) a free-limit Subloan for which the Association has authorized withdrawals from the Credit Account and such expenditures shall have been made not earlier than ninety (90) days prior to the date on which the Association shall have received the request and information required under paragraph 5 (b) of this Schedule in respect of such free-limit Subloan. For the purposes of this Agreement, a free-limit Subloan shall be a Subloan for a Subproject in an amount to be financed out of the proceeds of Category (3) of Schedule 1 to this Agreement which shall not exceed the sum of two hundred thousand dollars (\$200,000) equivalent, the foregoing amount being subject to change from time to time as determined by the Association at the request of the Borrower.

5. (a) When presenting a Subloan (other than a free-limit Subloan) to the Association for approval, UGP shall furnish to the Association an application, in form satisfactory to the Association, together with: (i) a description of the FB; (ii) a financial appraisal of the Subproject, including procurement procedures and a description of the expenditures proposed to be financed out of the proceeds of the Credit; (iii) the proposed terms and conditions of the Subloan including the schedule of amortization of the Subloan; and (iv) such other information as GAPROMAR and the Association shall reasonably request.

(b) Each request by BM for authorization to make withdrawals from the Credit Account in respect of a free-limit Subloan shall contain: (i) a summary description of the FB and the Subproject, including procurement procedures and a description of the expenditures proposed to be financed out of the proceeds of the Credit; and (ii) the terms and conditions of the Subloan, including the schedule of amortization therefor.

(c) Applications and requests made pursuant to the provisions of sub-paragraphs (a) and (b) of this paragraph shall be presented to the Association on or before December 31, 1996.

6. Subloans shall be made on terms whereby BM shall cause each PFI to obtain, by written contract with the FB or by other appropriate legal means, rights adequate to protect the interests of the Borrower, the Association and BM, including, for any Subloan, the right to:

(a) require the FB to carry out and operate the Subproject with due diligence and efficiency and in accordance with sound technical, financial, environmental and managerial standards and to maintain adequate records;

(b) require that: (i) the goods and services to be financed out of the proceeds of the Credit shall be procured in accordance with the provisions of Part A.3 of this Schedule; and (ii) such goods and services shall be used exclusively in the carrying out of the Subproject;

(c) inspect, by itself or jointly with representatives of the Association if the Association shall so request, such goods, works, facilities and construction included in the Subproject, the operation thereof, and any relevant records and documents;

(d) require that: (i) the FB shall take out and maintain with responsible insurers such insurance, against such risks and in such amounts, as shall be consistent with sound business practice; and (ii) without any limitation upon the foregoing, such insurance shall cover hazards incident to the acquisition, transportation and delivery of goods financed out of the proceeds of the Credit to the

place of use or installation, any indemnity thereunder to be made payable in a currency freely usable by the FB to replace or repair such goods;

(e) obtain all such information as the Association, GAPROMAR or BM shall reasonably request relating to the foregoing and to the administration, operations and financial condition of the FB and to the benefits to be derived from the Subproject; and

(f) suspend or terminate the right of the FB to the use of the proceeds of the Credit upon failure by such FB to perform its obligations under its contract with the PFIs.

7. Subloans for any Subproject for rehabilitation or expansion of the facilities of existing small ports or provider of feeder transport services to and from a port may not exceed ninety percent (90%) of the total cost of the proposed Subproject nor a total equivalent to one million five hundred thousand dollars (\$1,500,000.)

8. PFIs may cofinance the cost of Subprojects from their own resources.

9. No Subloan granted by any PFI shall be eligible for refinancing by BM out of the proceeds of the Credit without the prior verification of UGP as to its eligibility and without the approval of the Association; once the first subloan for any port shall have been so approved, however, the approval of the Association shall no longer be required for the subsequent free-limit Subloans granted by such PFI.

B. Eligibility Criteria for Final Beneficiaries and Investment Projects - General Procedures

1. (a) Individuals or Enterprises engaged in: (i) the management of small ports of the Borrower and holding a legally binding contract for the management of such small ports, awarded in accordance with terms satisfactory to the Association; or (ii) the provision of feeder transport services to and from a port under the contractual arrangements referred to in (a) above ; and (b) legally constituted under Mozambican law.

2. Subloans shall be used by FBs to have financing of: (a) fixed assets (including machinery, equipment, buildings and related civil works) rehabilitation and replacement; (b) spare parts; and (c) technical know-how consultancy services.

3. During implementation of the Subproject, the FB shall be required: (a) to maintain a total debt service coverage ratio of not less than 1.5; and (b) in the case of an existing enterprise to maintain its equity at an equivalent of not less than ten (10%) percent of total enterprise assets. For the purpose of this Schedule, the term "total debt service coverage ratio" means net revenues (revenue less associated cost, excluding provision for depreciation and debt service payments) divided by debt service payments (including interest and principal, but excluding interest during construction).

4. Appraisal of Subprojects:

(a) UGP shall review the appraisal reports prepared by the PFI concerned in accordance with procedures acceptable to the Association; and

(b) appraisal reports shall include, inter alia, the following: (i) analysis of the proposed Subproject, including its technical soundness, financial viability, and managerial capability; (ii) calculation of the incremental financial rate of return (FRR) which shall be at least twelve (12%) percent; (iii) assessment of the environmental impact of the proposed Subproject, in particular in cases of Subprojects: (A) involving the construction or rehabilitation of seaside civil structures; or (B) facilitating the

evacuation of scarce natural resources, such as hardwoods.

