

CONFORMED COPY

CREDIT NUMBER 3550 MOZ

Development Credit Agreement

(Roads and Bridges Management and Maintenance Project)

between

REPUBLIC OF MOZAMBIQUE

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated September 21, 2001

CREDIT NUMBER 3550 MOZ

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated September 21, 2001, between REPUBLIC OF MOZAMBIQUE (the Borrower) and INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association).

WHEREAS (A) the Association has received a Letter of Development Program from the Borrower describing a program of actions, objectives, and policies designed to redefine and strengthen its road sector transport with a view to: (i) promoting more efficient and reliable transport services; and (ii) facilitating economic development (the Program), and declaring therein the Borrower's commitment to the execution of the Program;

(C) the Borrower, having satisfied itself as to the feasibility and priority of the Project described in Schedule 2 to this Agreement, which Project forms the first phase of the Program, has requested the Association to assist in the financing of the Project; the Association has received a Letter of Development Program from the Borrower, describing therein a program of actions, objectives, and policies (the Program) designed to redefine and strengthen its road sector transport with a view to (i) promoting more efficient and reliable transport services; and (ii) facilitating economic development and declaring therein the Borrower's commitment to the execution of the Program;

(D) the Borrower intends to contract from various international donors agencies the total amount equivalent to to assist in financing the Project on the

terms and conditions set forth in their respective agreements;

(E) the Borrower has contracted and intends to contract from various international donors agencies a total amount equivalent to \$330,300,000, to assist in financing the Project on the terms and conditions set forth in their respective agreements; and

WHEREAS the Association has agreed, on the basis, inter alia, of the foregoing, to extend the Credit to the Borrower in support of the first phase of the Program 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 (as amended through October 6, 1999), with the modifications set forth below (the General Conditions) constitute an integral part of this Agreement:

(a) A new paragraph (12) is added to Section 2.01 to read as set forth below, and the existing paragraphs (12) through (14) of said Section are accordingly renumbered as paragraphs (13) through (15):

"12. 'Participating Country' means any country that the Association determines meets the requirements set forth in Section 11 of Resolution No. 194 of the Board of Governors of the Association, adopted on April 8, 1999; and 'Participating Countries' means, collectively, all such countries;"

(b) The second sentence of Section 5.01 is modified to read:

"Except as the Borrower and the Association shall otherwise agree, no withdrawals shall be made: (a) on account of expenditures in the territories of any country which is not a Participating Country or for goods produced in, or services supplied from, such territories; or (b) for the purpose of any payment to persons or entities, or for any import of goods, if such payment or import, to the knowledge of the Association, is prohibited by a decision of the United Nations Security Council taken under Chapter VII of the Charter of the United Nations."

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) "ANE" or "Administração Nacional de Estradas" means the National Roads Administration, a financial and administrative autonomous public institution established pursuant to the Borrower's Decree No. 14 dated April 27, 1999 and operating pursuant to the Borrower's Decree No. 15 dated April 27, 1999, for the purposes of planing and implementing the maintenance and development of the Borrower's public roads, as the same may be amended from time to time;

(b) "BM" means "Banco de Moçambique", the Borrower's central bank;

(c) "DEPs" or "Departamento de Estradas e Pontes" means the Borrower's provincial Department of Roads and Bridges;

(d) "Eligible Categories" means the categories set forth in paragraph 4 of Part B of Schedule 1 to this Agreement;

(e) "Eligible Expenditures" means the expenditures for goods and services to be financed out of the proceeds of the Credit allocated from time to time to the Special Account's (as hereinafter defined) respective Eligible Categories;

(f) "Initial Deposit" 3.03 (b) of this Agreement;

(g) "Meticais Project Account" and "Dollar Project Account" mean,

respectively, the accounts referred to in Section 3.04 (a) to this Agreement;

(h) "Metical" means the Borrower's currency;

(i) "MICOA" means the Borrower's Ministry for Coordination of Environmental Affairs;

(j) "MMEMAP" means the Mitigation Measures and Environmental Management Action Plan prepared and approved by the Borrower for the purposes of the Project on February 14, 2001, and satisfactory to the Association;

(k) "MOPWH" means the Borrower's Ministry of Public Works and Housing;

(l) "MPF" means the Borrower's Ministry of Planning and Finance;

(m) "PIP" means the Project Implementation Plan referred to in Section 7.01 (b) of this Agreement, outlining policies, procedures and guidelines to be followed in the implementation of the Project;

(n) "Project Agreement" means the agreement of even date herewith between the Association and ANE, as such agreement may be amended from time to time and such term includes all schedules and agreements supplemental to the Project Agreement;

(o) "Project Management Report" means each report prepared in accordance with Section 4.02 of this Agreement;

(p) "Road Fund" means the Borrower's "Fundo de Estradas" created by the Borrower's Decree No. 15 dated April 27, 1999, with the principal objective to manage the funds for road rehabilitation and maintenance, and to which sources of revenue are determined by the Borrower's Decree No. 22 dated September 24, 1990;

(q) "Special Account" means the account referred to in Part B of Schedule 1 to this Agreement; and

(r) "Subsidiary Agreement" means the agreement to be entered into between the Borrower and ANE pursuant to Section 3.01 (b) of this Agreement, as the same may be amended from time to time, and such term includes all schedules to the Subsidiary 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 one hundred twenty-seven million and four hundred thousand Special Drawing Rights (SDR 127,400,000).

Section 2.02. (a) The amount of the Credit may be withdrawn from the Credit Account in accordance with the provisions of Schedule 1 to this Agreement for expenditures made (or, if the Association shall so agree, to be made) in respect of the reasonable cost of goods and services required for the Project and to be financed out of the proceeds of the Credit.

(b) 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, 2005 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 canceled; 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 March 1 and September 1 in each year.

Section 2.07. (a) Subject to paragraphs (b), (c) and (d) below, the Borrower shall repay the principal amount of the Credit in semiannual installments payable on each March 1 and September 1 commencing September 1, 2011 and ending March 1, 2041. Each installment to and including the installment payable on March 1, 2021 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 per capita gross national product (GNP), as determined by the Association, shall have exceeded for three consecutive years the level established annually by the Association for determining eligibility to access the Association's resources; and (ii) the Association 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 repayment of installments under paragraph (a) above by: (A) 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; and (B) requiring the Borrower to commence repayment of the principal amount of the Credit as of the first semiannual payment date referred to in paragraph (a) above falling six months or more after the date on which the Association notifies the Borrower that the events set out in this paragraph (b) have occurred, provided, however, that there shall be a grace period of a minimum of five years on such repayment of principal.

(c) If so requested by the Borrower, the Association may revise the modification referred to in paragraph (b) above 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.

(d) 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, without any limitation or restriction upon any of its other obligations under the Development Credit Agreement, shall provide promptly as needed, the funds, facilities, services and other resources required for the Project; and shall not take or permit to be taken any action which would prevent or interfere with such performance, and, without any limitation or restriction upon any of its other obligations under this Agreement, shall cause ANE to perform in accordance with the provisions of the Project Agreement all the obligations of ANE therein set forth, shall take or cause to be taken all action, including the provision of funds, facilities, services and other resources, necessary or appropriate to enable ANE to perform such obligations, : (i) carry out the Project with due diligence and efficiency and in conformity with appropriate financial, technical, administrative, engineering and environmental practices; (ii) to perform in accordance with the provisions of the Project Agreement all the obligations of ANE therein set forth; and (iii) to provide promptly as needed, the funds, facilities, services and other resources required for the Project; and shall not take or permit to be taken any action which would prevent or interfere with such performance.

(b) The Borrower shall make the proceeds of the Credit available to ANE under a Subsidiary Agreement to be entered into between the Borrower and ANE, under terms and conditions which shall have been approved by the Association.

(c) The Borrower shall exercise its rights under the Subsidiary Agreement in such manner as to protect the interests of the Borrower and the Association and to accomplish the purposes of the Project and, except as the Association shall otherwise agree, the Borrower shall not assign, amend, abrogate or waive the Subsidiary Agreement or any provision thereof.

(d) 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 cause ANE to carry in carrying out the Project in accordance with the Implementation Program set forth in Schedule 1 to the Project Agreement and the PIP.

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 12 to the Project Agreement.

Section 3.03. Without limitation to its obligations under Section 3.01 of this Agreement, the Borrower shall, for the purposes of making available its counterpart contribution for the financing of the Project:

(a) open and thereafter maintain, until the completion of the Project, an account (the Meticaïs Project Account) in Meticaïs and an account (the Dollar Project Account) in Dollars, in one or more commercial banks, on terms and conditions satisfactory to the Association, to be used for the purposes of the Project;

(b) promptly thereafter make: (i) an Initial Deposit (i) in Meticaïs of an amount equivalent to \$400,000 (the Meticaïs Initial Deposit) into the Meticaïs Project Account; and (ii) an Initial Deposit (ii) in Dollars of an amount of \$600,000 (the Dollar Initial Deposit) into the Dollar Project Account, both to finance the Borrower's contribution to the Project;

(c) thereafter deposit into both the Meticaïs and Dollar Project Accounts, respectively, by the first day of each quarter each year, such amounts as shall be required and agreed upon with the Association to timely replenish both Project Accounts back to the amount of the Initial Deposits referred to in paragraph (b) above; and

(d) use the funds in both Project Accounts exclusively to finance expenditures under the Project.

Section 3.04. For the purposes of Section 9.07 of the General Conditions and without limitation thereto, the Borrower shall:

(a) prepare, on the basis of guidelines acceptable to the Association, and furnish to the Association not later than six months after the Closing Date or such later date as may be agreed for this purpose between the Borrower and the Association,

a plan for the future operation of the sustainability of the Project; and

(b) afford the Association a reasonable opportunity to exchange views with the Borrower on said plan.

Section 3.05. The Borrower shall ensure that, at all times during the execution of the Project:

(a) its ANE and the Road Fund shall be maintained under terms and conditions satisfactory to the Association, including the maintenance of its functions, composition and staff with qualifications, experience and performance satisfactory to the Association;

(b) the relevant Ministries and, Agencies and authorities (inter alia, MOPWH, MICOA, MPF and, ANE, DEPs and the Road Fund) shall comply with the provisions of the PIP, in particular, with respect to the appointment of individuals, with qualifications, experience, and functions satisfactory to the Association, who shall assist in ensuring proper implementation of the Project;

(c) all such the measures are taken so as required on the Road Fund to ensure that the level of the road maintenance user fees, satisfactory to the Association, shall to be channeled into the Road Fund and, are from time to time, as need be, adjusted in accordance with the agreed provision under the Letter of Development Program; and

(d) the resources proceeds of the Road Fund from the road user charges shall be used solely for the purposes of defraying the cost of expenditures incurred for road maintenance operations in the territory of the Borrower.

Section 3.06. The Borrower shall take all necessary measures to ensure that ANE shall comply with the provisions set forth in Section 3 of Schedule 2 to the Project Agreement.

Section 3.07. The Borrower and the Association hereby agree that the obligations set forth in Sections 9.03, 9.04, 9.05, 9.06, 9.07 and 9.08 of the General Conditions (relating to insurance, use of goods and services, plans and schedules, records and reports, maintenance and land acquisition, respectively) shall be carried out by ANE pursuant to Section 2.03 of the Project Agreement. (e) except as the Association shall otherwise agree, (i) the criteria, policies, procedures and arrangements are applied in accordance with the PIP and (ii) the PIP or any provision thereof are not amended or waived, or permitted to be amended or waived, in a manner which, in the opinion of the Association, may materially and adversely affect the implementation of the Project.

#### 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 six months after the end of each such year, the report of such audit by said auditors, of such scope and in such detail as the Association shall have reasonably requested; and

(iii) furnish to the Association such other information concerning said records and accounts and the audit thereof as the Association

shall from time to time reasonably request.

(c) For all expenditures with respect to which withdrawals from the Credit Account were made on the basis of Project Management Reports, or statements of expenditure, the Borrower shall:

- (i) maintain or cause to be maintained, in accordance with paragraph (a) of this Section, records and separate 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 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 Project Management Reports or 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.

Section 4.02. (a) Without limitation upon the provisions of Section 4.01 of this Agreement, the Borrower shall carry out a time-bound action plan for the strengthening of a financial management system acceptable to the Association in order to enable the Borrower, not later than eighteen months after the Effective Date, or such later date as the Association shall agree, to prepare quarterly Project Management Reports, acceptable to the Association, consisting of three separate, but coherent reports of which:

- (i) the financial report: (A) sets forth actual sources and applications of funds for the Project, both cumulatively and for the period covered by said report, and projected sources and applications of funds for the Project for the six-month period following the period covered by said report; and (B) shows separately expenditures financed out of the proceeds of the Credit during the period covered by said report and expenditures proposed to be financed out of the proceeds of the Credit during the six-month period following the period covered by said report;
- (ii) the status report describes: (A) physical progress in Project implementation, both cumulatively and for the period covered by said report, and (B) explains variances between the actual and previously forecast implementation targets, as the case may be; and
- (iii) the procurement report sets forth the status of procurement under the Project and expenditures under contracts financed out of the proceeds of the Credit, as at the end of the period covered by said report.

(b) Upon the completion of the action plan referred to in paragraph (a) of this Section, the Borrower shall prepare, in accordance with guidelines acceptable to the Association, and furnish to the Association not later than 45 days after the end of each calendar quarter a Project Management Report for such period.

#### ARTICLE V

#### Other Covenants

Section 5.01. (a) The Borrower shall cause the management of the Road Fund to maintain a financial management system, including records and accounts, and prepare financial statements, all in accordance with accounting standards acceptable to the Association, consistently applied, adequate to reflect its operations and financial condition.

(b) The Borrower shall cause the management of the Road Fund to:

(i) have the records, accounts and financial statements of the Road Fund (balance sheets, statements of income and expenses and related statements), for each fiscal year audited, and the interim financial situation audited for each semester between fiscal years during the first two fiscal years, all in accordance with auditing standards acceptable to the Association, consistently applied, by independent auditors acceptable to the Association;

(ii) furnish to the Association as soon as available, but in any case not later than six months after the end of each such year: (A) certified copies of the financial statements referred to in paragraph (a) of this Section for such year as so audited, and (B) an opinion on such statements and 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 such records, accounts and financial statements, and the audit thereof, and concerning said auditors, as the Association may from time to time reasonably request;

Section 5.02. The Borrower shall cause the Road Fund to have a technical audit of its operations included in the audit provided for in Section 5.01 (b) of this Agreement, of such scope and in such detail as the Association shall have reasonably requested.

Section 5.03. The Borrower shall ensure that the Road Fund shall maintain its operations under terms and conditions satisfactory to the Association including qualified and experienced management and staff.

## ARTICLE VI

### Remedies of the Association

Section 6.01. Pursuant to Section 6.02 (1) of the General Conditions, the following additional events are specified, namely, that:

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

(b) the Borrower's Decrees No. 22 dated September 24, 1990, No. 1545 dated April 25, 1995, No. 34 and No. 35 both dated August 8, 1995, No. 8 dated April 15, 1997, and No. 15 dated April 27, 1999 of 1989 and Decree No.22 of September 24, 1990, shall have been amended, suspended, abrogated, repealed or waived and any new legislation shall have been enacted so as to affect materially and adversely the operation of the Road Fund;

(c) ANE shall have failed to perform any of its obligations under the Project Agreement;

(d) as a result of events which have occurred after the date of the Development Credit Agreement, an extraordinary situation shall have arisen which shall make it improbable that ANE will be able to perform its obligations under the Project Agreement;

(e) the Borrower's Decree No.15 dated April 27, 1999, establishing ANE shall have been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the ability of ANE to perform any of its obligations under the Project



Agreement; and

(f) the Borrower or any other authority having jurisdiction shall have taken any action for the dissolution of ANE or the suspension of its operations.;

Section 6.02. Pursuant to section 7.01 (h) of the General Conditions, the following additional events are specified:

(a) the event specified in paragraph (c) of Section 6.01 of this Agreement shall occur and shall continue for a period of sixty days after notice thereof shall have been given by the Association to the Borrower; and

(b) the events specified in paragraphs (b) and (e) of Section 6.01 of this Agreement shall occur.and,

## ARTICLE VII

### Effective Date; Termination

Section 7.01. The following events are specified as additional conditions to the effectiveness of this Agreement within the meaning of Section 12.01 (b) of the General Conditions:

(a) the auditors referred to in Section 4.01 (b) (i) , and 5.02 of this Agreement have been appointed in accordance with the provisions of Section II of Schedule 13 to the Project is Agreement;

(b) the Borrower and ANE have adopted the PIP, in form and substance satisfactory to the Association;

(c) the Meticaïs Project Account and the Dollar Project Account have been opened and their respective Initial Deposit has been made;

(d) the Borrower has appointed the Auditors for the Meticaïs Project Account and the Dollar Project Account, on terms and conditions satisfactory to the Association;

(e) ANE has appointed a Chief Financial Officer\_\_\_\_\_ , with qualifications and experience and on terms and conditions satisfactory to the Association;

(f) the Subsidiary Agreement has been executed on behalf of the Borrower and ANE; and

(g) the Borrower and ANE have established a financial management system and adopted the Financial Management Manual of Procedures in form and substance acceptable to the Association.

Section 7.02. The following are specified as additional matters, 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:

(a) that the Project Agreement has been duly authorized or ratified by ANE, and is legally binding upon ANE in accordance with its terms; and

(b) that the Subsidiary Agreement has been duly authorized or ratified by the Borrower and ANE and is legally binding upon the Borrower and ANE in accordance with its terms.

Section 7.03.The date ninety (90) days after the date of this Agreement, is hereby specified for the purposes of Section 12.04 of the General Conditions.

ARTICLE VIII

Representative of the Borrower; Addresses

Section 8.01. The Governor of the Banco de Moçambique is designated as representative of the Borrower for the purposes of Section 11.03 of the General Conditions.

Section 8.02. The following addresses are specified for the purposes of Section 11.01 of the General Conditions:

For the Borrower:

Banco de Moçambique  
Departamento de Estrangeiro  
Maputo  
Republic of Mozambique

Cable address:	Telex:	Facsimile:
MOBANCO	6355/BMMO	258 1 428565

For the Association:

International Development Association  
1818 H Street, NW  
Washington, D.C. 20433  
United States of America

Cable address:	Telex:	Facsimile:
INDEVAS Washington, D.C.	248423 (MCI) or 64145 (MCI)	(202) 477 6391

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/ Ismael Valigy

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Callisto Madavo

Regional Vice President  
Africa

SCHEDULE 1

Withdrawal of the Proceeds of the Credit

A. General

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. Works		
(i) Periodic Maintenance	28,780,000	75%
(ii) Rehabilitation	41,290,000	80%
(iii) Rural Roads	12,350,000	80%
(iv) Emergency	4,955,000	80%
(v) Road Safety	4,800,000	80%
2. Materials, equipment and vehicles	1,335,000	100% of foreign expenditures and 85% of local expenditures
3. Consultants' services, training and audits		100% of foreign expenditures and 85% of local expenditures
(i) Engineering Services	10,830,000	
(ii) Studies	10,380,000	
(iii) Technical Assistance	3,930,000	
(iv) Training	1,965,000	
4. Unallocated	6,785,000	
TOTAL	127,400,000	

2. For the purposes of this Schedule: (a) the term "foreign expenditures" means expenditures in the currency of any country other than that of the Borrower for goods or services supplied from the territory of any country other than that of the Borrower; and (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.

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of payments made for expenditures prior to the date of this Agreement, except that withdrawals, in an aggregate amount not exceeding the equivalent of SDR 2,350,000 may be made on account of payments made for expenditures under Category 3 (i) before that date but after January 31, 2001.

4. The Association may require withdrawals from the Credit Account to be made on the basis of statements of expenditure for expenditures under: (a) contracts for goods and works costing less than \$1050,000 equivalent each; and contracts for works costing less than \$300,000 equivalent each; (b) contracts for consulting firms costing less than \$100,000 equivalent each; (c) contracts for individual consultants costing less than \$50,000 equivalent each; and (d) all training; all under such terms and conditions as the Association shall specify by notice to the Borrower to determine.

B. Special Account

1. The Borrower shall, for the purposes of the Project, open and maintain in Dollars a special deposit account (the Special Account) in a commercial bank acceptable to the Association, on terms and conditions satisfactory to the

Association, including appropriate protection against set-off, seizure and attachment.

2. After the Association has received evidence satisfactory to it that the Special Account has been opened, withdrawals from the Credit Account of amounts to be deposited into the Special Account shall be made as follows:

(a) until the Association shall have received: (i) the first Project Management Report referred to in Section 4.02 (b) of this Agreement ; and (ii) a request from the Borrower for withdrawal on the basis of Project Management Reports, withdrawals shall be made in accordance with the provisions of Annex A to this Schedule 1; and

(b) upon receipt by the Association of a Project Management Report pursuant to Section 4.02 (b) of this Agreement, accompanied by a request from the Borrower for withdrawal on the basis of Project Management Reports, all further withdrawals shall be made in accordance with the provisions of Annex B to this Schedule 1.

3. Payments out of the Special Account shall be made exclusively for Eligible Expenditures in accordance with the provisions of this Schedule. 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.

4. For the purposes of this Schedule, the term "Eligible Categories" means Categories (1), (2), and (3), set forth in the table in paragraph 1 of Part A of this Schedule 1.

5. Notwithstanding the provisions of Part B. 2 of this Schedule, the Association shall not be required to make further deposits into the Special Account:

(a) if the Association determines at any time that all further withdrawals should be made by the Borrower directly from the Credit Account; or

(b) if the Borrower shall have failed to furnish to the Association within the period of time specified in Section 4.01 (b) (ii) of this Agreement, any of the audit reports required to be furnished to the Association pursuant to said Section in respect of the audit of: (A) the records and accounts for the Special Account, or (B) the records and accounts reflecting expenditures with respect to which withdrawals were made on the basis of Project Management Reports.

6. The Association shall not be required to make further deposits into the Special Account in accordance with the provisions of Part B.2 of this Schedule if, at any time, the Association shall have notified the Borrower of its intention to suspend in whole or in part the right of the Borrower to make withdrawals from the Credit Account pursuant to Section 6.02 of the General Conditions. Upon such notification, the Association shall determine, in its sole discretion, whether further deposits into the Special Account may be made and what procedures should be followed for making such deposits, and shall notify the Borrower of its determination.

7. (a) If the Association determines at any time that any payment out of the Special Account was made for an expenditure which is not an Eligible Expenditure, or was not justified by the evidence furnished to the Association, the Borrower shall, promptly upon notice from the Association, provide such additional evidence as the Association may request, or 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. 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 determines at any time that any amount outstanding in the Special Account will not be required to cover payments for Eligible Expenditures during the six-month period following such determination, 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 sub-paragraph (a), (b) or (c) of this paragraph 7 shall be credited to the Credit Account for subsequent withdrawal or for cancellation in accordance with the provisions of the Development Credit Agreement.

#### Annex A to SCHEDULE 1

##### Operation of Special Account When Withdrawals Are Not Made On the Basis of Project Management Reports

1. For the purposes of this Annex:

The term "Authorized Allocation" means an amount of \$8,500,000 equivalent to be withdrawn from the Credit Account and deposited into the Special Account pursuant to paragraph 2 of this Annex; provided, however, that unless the Association shall otherwise agree, the Authorized Allocation shall be limited to an amount of \$4,250,000 equivalent until the aggregate amount of withdrawals from the Credit Account, plus the total amount of all outstanding special commitments entered into by the Association pursuant to Section 5.02 of the General Conditions shall equal or exceed the equivalent of SDR 16,000,000.

2. Withdrawals of the Special Account's Authorized Allocation and subsequent withdrawals to replenish said Special Account shall be made as follows:

(a) For withdrawals of the Special Account's Authorized Allocation, the Borrower shall furnish to the Association a request or requests for deposit into the Special Account of an amount or amounts which in the aggregate do not exceed the Authorized Allocation. 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.

(b) For replenishment of the Special Account, the Borrower shall furnish to the Association requests for deposit into the Special Account at such intervals as the Association shall specify. 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 Part B.3 of Schedule 1 to this Agreement 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 the documents and other evidence to have been paid out of the Special Account for Eligible Expenditures. Each such deposit into the Special Account shall be withdrawn by the Association from the Credit Account under one or more of the Special Account's Eligible Categories.

3. The Association shall not be required to make further deposits into the Special Account, once the total unwithdrawn amount of the Credit minus the total amount of all outstanding special commitments entered into by the Association pursuant to Section 5.02 of the General Conditions, shall equal the equivalent of twice the amount of the Special Account's Authorized Allocation. Thereafter, withdrawal from the Credit Account of the remaining unwithdrawn amount of the Credit 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.

#### Annex B to SCHEDULE 1

##### Operation of Special Account When Withdrawals Are Made On the Basis of Project Management Reports

1. Except as the Association may otherwise specify by notice to the Borrower, all withdrawals from the Credit Account shall be deposited by the Association into the Special Account in accordance with the provisions of Schedule 1 to this Agreement.

Each such deposit into the Special Account shall be withdrawn by the Association from the Credit Account under one or more of the Special Account's Eligible Categories.

2. Each application for withdrawal from the Credit Account for deposit into the Special Account shall be supported by a Project Management Report.

3. Upon receipt of each application for withdrawal of an amount of the Credit, the Association shall, on behalf of the Borrower, withdraw from the Credit Account and deposit into the Special Account an amount equal to the lesser of: (a) the amount so requested; and (b) the amount which the Association has determined, based on the Project Management Report accompanying said application, is required to be deposited in order to finance Eligible Expenditures during the six-month period following the date of such report; provided, however, that the amount so deposited, when added to the amount indicated by said Project Management Report to be remaining in the Special Account, shall not exceed the amount of twenty million dollars (\$20,000,000).

## SCHEDULE 2

### Description of the Project

The objective of the Project is to assist the Borrower in: (i) improving the coverage and conditions of roads and bridges in the territory of the Borrower; (ii) strengthening the Borrower's institutional capacity to manage and administer the road sector; (iii) establishing financing mechanisms for roads maintenance; (iv) promoting the use of local resources in roads construction and management; and (v) improving road transport safety.

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: Roads and Bridges

1. Carrying out periodic maintenance on about 525 km of primary roads (Estrada Nacional No.1 or hereinafter "EN1") in the Borrower's provinces of Maputo, Gaza, Inhambane, Sofala and Manica, through, inter alia: (i) earthworks, including patch works, pothole repair, local reinforcement, single layer or double layer pavement, resurfacing of gravel roads, and resealing; (ii) maintenance and repair of road shoulders and drainage works; (iii) maintenance of the roadsides, including clearing of drainage structures and cleaning and reshaping ditches; (iv) drainage improvement, including rehabilitation of drains and ditches and masonry works; and (v) maintenance and repair of bridges, for the eligible activities and sites listed in Annex 1 to Schedule 2 to this Agreement.

2. Carrying out rehabilitation of about 313 km of EN1 primary roads in the Borrower's provinces of Maputo and Inhambane, through, inter alia: (i) full base reconstruction, asphalt strengthening overlays, selective deep patching and overlays, granular base overlay and surfacing, surface treatment with major shape correction, recycling of one or more pavement layers, vegetation control, repainting road markings, repairing and replacing road signs and weigh bridge facilities; (ii) reconstruction of the roadsides, including clearing of drainage structures and cleaning and reshaping ditches; (iii) drainage improvement, including rehabilitation of drains and ditches and masonry works; (iv) maintenance, repair and rehabilitation of bridges, for the eligible activities and sites listed in Annex 1 to Schedule 2 to this Agreement.

3. Carrying out rehabilitation of about 412 km of rural roads in the Borrower's provinces of Gaza, Nampula and Tete, through, inter alia: (i) improvement of structural strength, shape, drainage, ride quality and performance; (ii) minor improvement to geometric and structural standards; and (iii) maintenance, repair and rehabilitation of bridges, for the eligible activities and sites listed in Annex 1 to Schedule 2 to this Agreement.

4. Carrying out emergency repairs, design, tender documents and supervision of works of roads and bridges due to floods or other natural disasters.

5. Carrying out civil works and installation of traffic signs to improve road

safety.

6. Carrying out design, tender documents and supervision of works activities for the road sector, through the provision of technical advisory services for the eligible activities and sites listed in Annex 1 to Schedule 2 to this Agreement.

Part B: Institutional Strengthening and Policy Reforms

1. Establishment of an institutional framework for the Borrower's road sector through the provision of technical advisory services.
2. Capacity building of ANE and Road Fund for management, technical and financial auditing, procurement, disbursement, accounting, financial management and project management, through the provision of technical advisory services.
3. Establishment of a financial management framework for ANE and the Road Fund through the provision of technical advisory services.
4. Carrying out of the identification and implementation of road safety measures through the provision of technical advisory services.
5. Strengthening of the ANE's social unit responsible for addressing HIV/AIDS prevention measures, social and labor impact of roads activities, through the provision of technical advisory services.
6. Capacity building for carrying out training programs for environmental assessment, management and monitoring of the MMEMAP, through the provision of technical advisory services.
7. Raising awareness of communities about the environmental issues regarding the Project including the publication of overviews regarding Project operations, and carrying out communication campaigns regarding environmental issues, through the provision of technical advisory services.
8. Raising road user awareness, including consultation of road users regarding road maintenance, road sector strategy, decisions on Project issues, and needs of adjustment of the road user fees by carrying out communication campaigns including workshops, through the provision of technical advisory services.

Part C: Strategy and Preparatory Activities for further investments

1. Carrying out revisions and updating of the Borrower's integrated road sector strategy to incorporate priorities identified during stakeholders consultations, through the provision of technical advisory services.
2. Carrying out environmental, socioeconomic and social impact assessment of roads works for further investments, through the provision of technical advisory services.
3. Preparation of engineering designs and tender documents for the construction and rehabilitation of roads for further investments, through the provision of technical advisory services.

\* \* \*

The Project is expected to be completed by December 31, 2004.

ANNEX TO SCHEDULE 2

Roads and Bridges financed under Part A of the Project

1. Roads Periodic Maintenance Works under Part A.1

Works will involve: full-width resurfacing or treatment of the existing pavement or roadway (inclusive of minor shape correction, surface patching or restoration of

skid resistance) to maintain surface characteristics and structural integrity for continued serviceability; localized repairs and reconstruction (typically less than 10% of total length in sections of less than 250m in continuous length); limited geometric improvements related enhancement of traffic capacity speed and safety but not structural strengthening; maintenance and/or provision of vehicle load control facilities. Specific actions will include slurry seals, fog sprays, enrichment treatments, surface treatments (double or single); friction courses; thin asphalt surfacing typically 30mm or less in thickness and localized base reconstruction, vegetation control, repainting road markings, repairing and replacing road signs; and construction of weigh bridge facilities on all the following roads sections:.

(a) Road 3 EN1 Muxungue-Inchope: about 145 kilometer section of EN1 reaching at Inchope, the Beira corridor, which connects the city and port of Beira to Zimbabwe.

(b) Road 43 EN1 Marracuene-Manhiça: maintenance of about 48 kilometers.

(c) Road 1 EN1 Incoluane-Zandamela: about 159 kilometer section of EN1 starting approximately 140 kilometers north of Maputo, and crossing the flood plains of both the Incomati and Limpopo rivers.

(d) Road 2 EN1 Zandamela-Maxixe: about 173 kilometer section of the EN1 passing through both Gaza and Inhambane provinces and providing access to Inhambane, the provincial capital and only port along the 1,200 kilometer coastline between Maputo and Beira.

## 2. Roads Rehabilitation Works under Part A.2

Full-width, full-length surfacing with strengthening and shape correction of existing pavement, or roadways (inclusive of repair of minor drainage structures) to provide improved structural strength and integrity required for continued serviceability; geometric improvements related to width, curvature of gradient of roadway, pavement, shoulders or structures, to enhance traffic capacity, speed or safety; maintenance and/or provision of vehicle load control facilities. Specific actions including full base reconstruction, asphalt strengthening overlays, selective deep patching and overlays, granular base overlay and surfacing, surface treatment with major shape correction, recycling of one or more pavement layers, vegetation control, repainting road markings, repairing and replacing road signs; weigh bridge facilities.

(a) Road 42 EN1 Maputo-Marracuene: about 29.7 kilometer section carrying the heaviest traffic in the Borrower's road network.

(b) Road 15 EN1 Maxixe-Cr. ER520/EN1: about 123 kilometer section.

(c) Road 29.1 EN1 Cr. ER520/EN1-Vilanculos: about 109 kilometer section between the Borrower's province of Inhambane and the Borrower's village of Vilanculos.

(d) Road 44 EN1 Manhiça-Incoluane: about 52 kilometers up to the edge of the Incomati river flood plain.

## 3. Rural Roads Rehabilitation Works under Part A.3

Major re-gravelling and ripping, re-compaction and drainage, including localized geometric improvement, and upgrading earth roads to a gravel standard.

(a) Road 10 ER 405 Fr. Maputo-Chokwe: about 31 kilometers long and 6 meters wide.

(b) Road 37 EN221 Bene-Fíngoè: about 114 kilometers long and 6 meters wide.

(c) Road 41 ER 572 Meconta-Corrane: about 68 kilometers long and 6-7 meters



wide.

(d) Road 8 EN 239 Nametil-Cr EN 236/260: about 76 kilometers long and 6 meters wide.

(e) Road 14 ER 555 Estigma-Magoë: about 123 kilometers long and 6 meters wide.

