

CONFORMED COPY

CREDIT NUMBER 2629 MOZ

Development Credit Agreement

(Gas Engineering Project)

between

REPUBLIC OF MOZAMBIQUE

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated June 17, 1994

CREDIT NUMBER 2629 MOZ

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated June 17, 1994, between REPUBLIC OF MOZAMBIQUE (the Borrower) and INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association).

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

(B) Part B of the Project will be carried out by Empresa Nacional de Hidrocarbonetos (ENH), with the Borrower's assistance and, as part of such assistance, the Borrower will make available to ENH a portion of the proceeds of the Credit as provided in this Agreement; and

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

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) "ENH Decree" means the Borrower's Decreto No. 18/81 establishing ENH, dated October 3, 1981;

(b) "MMR" means the Borrower's Ministry of Mineral Resources;

(c) "Joint-Venture Agreement" means the agreement or agreements, to be entered into between ENH and one or several private firm or firms (the Joint-Venture Partners), for the exploitation, production, management and/or commercialization of gas from the Pande field;

(d) "Pande Gas" means the natural gas to be developed in the Pande field located near the coast in the central part of the territory of the Borrower;

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

(f) "Project Preparation Advance" means the project preparation advance granted by the Association to the Borrower pursuant to an exchange of letters, dated February 2, 1993, September 20, 1993 and February 8, 1994, between the Borrower and the Association;

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

(h) "Subsidiary Loan Agreement" means the agreement to be entered into between the Borrower and ENH pursuant to Section 3.01 (b) of this Agreement, as the same may be amended from time to time, and such term includes any schedules to the Subsidiary Loan 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 this Agreement, an amount in various currencies equivalent to twenty-one million three hundred thousand Special Drawing Rights (SDR 21,300,000).

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) The Borrower shall, for the purposes of the Project, open and maintain in dollars a special deposit account in a commercial bank acceptable to the Association, on terms and conditions satisfactory to the Association, including appropriate protection against set-off, seizure or attachment. Deposits into, and payments out of, the Special Account shall be made in accordance with the provisions of Schedule 4 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, 2000 or such later date as the Association shall establish. The Association shall promptly notify the Borrower of such later date.

Section 2.04. (a) The Borrower shall pay to the Association a commitment charge on the principal amount of the Credit not withdrawn from time to time at a rate to be set by the Association as of June 30 of each year, but not to exceed the rate of one-half of one percent (1/2 of 1%) per annum.

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

(c) The commitment charge shall be paid: (i) at such places as the Association shall reasonably request; (ii) without restrictions of any kind imposed by, or in the territory of, the Borrower; and (iii) in the currency specified in this Agreement for the purposes of Section 4.02 of the General Conditions or in such other eligible currency or currencies as may from time to time be designated or selected pursuant to the provisions of that Section.

Section 2.05. The Borrower shall pay to the Association a service charge at the rate of three-fourths of one percent (3/4 of 1%) per annum on the principal amount of the Credit withdrawn and outstanding from time to time.

Section 2.06. Commitment charges and service charges shall be payable semiannually on March 1 and September 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 March 1 and September 1 commencing September 1, 2004 and ending March 1, 2034. Each installment to and including the installment payable on March 1, 2014 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.

Section 2.09. ENH is designated as representative of the Borrower in respect of Part B of the Project for the purposes of taking any action required or permitted to be taken under the provisions of Section 2.02 of this Agreement and Article V 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, Part A of the Project, through MMR, with due diligence and efficiency and in conformity with appropriate administrative, financial, environmental and engineering practices and shall provide, promptly as needed, the funds, facilities, services and other resources required for such Part A of the Project; and
- (ii) without limitation or restriction upon any of its other obligations under this Agreement, the Borrower shall cause ENH to perform all its obligations set forth in the Project Agreement, shall take or cause to be taken all action, including the provision of funds, facilities, services and other resources, necessary or appropriate to enable ENH to perform such obligations, and shall not take or permit to be taken any action which would prevent or interfere with such performance.

(b) The Borrower shall relend a portion of the proceeds of the Credit to ENH under a subsidiary loan agreement to be entered into between the Borrower and ENH, under terms and conditions which shall have been approved by the Association.

(c) The Borrower shall exercise its rights under the Subsidiary Loan 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 assign, amend, abrogate or waive the Subsidiary Loan Agreement or any provision thereof.

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

Section 3.03. The Borrower 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) in respect of Part B of the Project shall be carried out by ENH pursuant to Section 2.03 of the Project Agreement.

Section 3.04. Without limitation to the provisions of Section 9.01 of the General Conditions, the Borrower shall, every three months, submit to the Association, progress reports on the implementation of Part A of the Project, and all such information related thereto as the Association shall reasonably request.

Section 3.05. (a) The Borrower shall, prior to the implementation of Part B.4, B.5 and B.6 of the Project, and in any case, no later than December 31, 1995, carry out and cause ENH to carry out, jointly with the Association, a mid-term review of the progress made in the carrying out of the Project.

(b) The review shall cover, inter alia, the preparation for the second phase of the Project, including the terms of reference and the implementation of measures designed to strengthen the financial reporting, monitoring, accounting and auditing capabilities of ENH.

(c) No later than one month prior to such mid-term review, the Borrower shall, through MMR, and jointly with ENH, furnish to the Association, for its review and comments, a report in such detail as the Association shall reasonably request, including an evaluation of the progress achieved in complying with Project implementation pursuant to the terms of this Agreement, and recommendations resulting from the studies conducted under the Project.

(d) Promptly after completing such review, the Borrower shall carry out, and cause ENH to carry out, the recommendations emanating from the said review, as agreed between the Borrower and the Association.

ARTICLE IV

Financial Covenants

Section 4.01. (a) The Borrower shall maintain, or cause to be maintained, records and accounts adequate to reflect in accordance with sound accounting practices the operations, resources and expenditures in respect of Part A 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, a certified copy of the report of such audit by said auditors, of such scope and in such detail as the Association shall have reasonably requested; and
- (iii) furnish to the Association such other information concerning said records, accounts and the audit thereof as the Association shall from time to time reasonably request.

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

- (i) maintain, or cause to be maintained, in accordance with paragraph (a) of this Section, records and accounts reflecting such expenditures;
- (ii) retain, until at least one year after the Association has received the audit report for the fiscal year in which the last withdrawal from the Credit Account or payment out of the Special Account was made, all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures;
- (iii) enable the Association's representatives to examine such records; and
- (iv) ensure that such records and accounts are included in the annual audit referred to in paragraph (b) of this Section and that the report of such audit contains a separate opinion by said auditors as to whether the statements of expenditure submitted during such fiscal year, together with the procedures and internal controls involved in their preparation, can be relied upon to support the related withdrawals.

ARTICLE V

Remedies of the Association

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

(a) ENH shall have failed to perform any of its obligations under the Project 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 ENH will be able to perform its obligations under the Project Agreement;

(c) ENH Decree shall have been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the ability of ENH to perform any of its obligations under the Project Agreement; and

(d) the Borrower or any other authority having jurisdiction shall have taken any action for the dissolution or disestablishment of ENH or for the suspension of its operations.

Section 5.02. Pursuant to Section 7.01 (d) of the General Conditions, the following additional event is specified, namely that any event specified in paragraphs (a), (b), (c), and (d) of Section 5.01 of this Agreement shall occur and shall continue for a period of thirty days after notice thereof shall have been given by the Association to the Borrower.

ARTICLE VI

Effective Date; Termination

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

(a) the Subsidiary Loan Agreement has been executed on behalf of the Borrower and ENH; and

(b) the Borrower has authorized, for ENH, procedures for procurement management, satisfactory to the Association.

Section 6.02. 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 ENH, and is legally binding upon ENH in accordance with its terms; and

(b) that the Subsidiary Loan Agreement has been duly authorized or ratified by the Borrower and ENH and is legally binding upon the Borrower and ENH 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. Except as provided in Section 2.09 of this Agreement, 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
P.O. Box 423

Cable address:

Telex:

MOBANCO
Maputo

6355/7 BMMO

For the Association:

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

Cable address:

Telex:

INDEVAS
Washington, D.C.

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

IN WITNESS WHEREOF, the parties hereto, acting through their duly authorized representatives, have caused this Agreement to be signed in their respective names in the District of Columbia, United States of America, as of the day and year first above written.

REPUBLIC OF MOZAMBIQUE

By /s/ Hipolito Zozimo Patricio
Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Stephen Denning
Acting Regional Vice President
Africa

SCHEDULE 1

Withdrawal of the Proceeds of the Credit

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

Category	Amount of the Credit Allocated (Expressed in SDR Equivalent)	% of Expenditures to be Financed
(1) Drilling and seismic	6,720,000	100% of Foreign Expenditures
(2) Equipment:	350,000	100% of Foreign Expenditures and 90% of Local Expenditures
(a) For Part A and Parts B.1, B.2 and B.3 of the Project	350,000	
(b) For Parts B.4, B.5 and B.6 of the Project	140,000	

(3)	Consultants' Services:		100%
(a)	For Part A and Parts B.1, B.2 and B.3 of the Project	4,590,000	
(b)	For Parts B.4, B.5 and B.6 of the Project	4,150,000	
(4)	Training:		100% of foreign expenditures and 90% of local expenditures
(a)	For Part A and Parts B.1, B.2 and B.3 of the Project	310,000	
(b)	For Parts B.4, B.5 and B.6 of the Project	280,000	
(5)	Operating Costs:		100% of Foreign Expenditures and 90% of Local Expenditures
(a)	For Part A and Parts B.1, B.2 and B.3 of the Project	280,000	
(b)	For Parts B.4, B.5 and B.6 of the Project	350,000	
(6)	Refunding of Project Preparation Advance	1,060,000	Amounts due pursuant to Section 2.02 (c) of this Agreement
(7)	Unallocated	3,070,000	
	TOTAL	21,300,000	=====

2. For the purposes of this Schedule:

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

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

(c) the term "operating costs" means expenditures for office supplies, insurance and maintenance of aircraft and vehicles including spare parts and fuel, and allowances for travel undertaken under the Project.

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

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

(b) payments made for expenditures under Category (1), until: (i) ENH has submitted details on the location and objectives of the wells,

satisfactory to the Association; and (ii) ENH has adopted an environmental action plan, satisfactory to the Association;

(c) payments made for expenditures under Categories (2)(b), (3)(b), (4)(b), and (5)(b) until: (i) the Association has received evidence that ENH has entered into joint-venture agreement(s), with terms and conditions satisfactory to the Association, including a provision for the private firms to provide for full credit or reimbursement of all common account expenditures under the Project and provide a premium to ENH for its pioneer role; (ii) the Borrower, through ENH, has submitted evidence that gas reserves are proven to a level satisfactory for a gas development project; and (iii) the Borrower has approved a legal and regulatory framework for gas development, satisfactory to the Association; and

(d) notwithstanding the provision of sub-paragraph (c) above, and without limitation to the provisions of Section 6.03 of the General Conditions, if the Borrower shall not have been able to fulfill the condition as stipulated in the said sub-paragraph within a period of 30 months after the Effective Date, the Association may, by notice to the Borrower, cancel the unwithdrawn amount of the Credit or any part thereof.

4. The Association may require withdrawals from the Credit Account to be made on the basis of statements of expenditure for expenditures under contracts for goods, and works not exceeding \$100,000 equivalent, services not exceeding \$100,000 for consulting firm contracts and not exceeding \$50,000 for individual contracts, and operating costs, under such terms and conditions as the Association shall specify by notice to the Borrower.

SCHEDULE 2

Description of the Project

The objectives of the Project are to: (i) enable the Borrower, together with ENH and the private sector investors, to make a firm decision to develop Pande gas; and (ii) strengthen the Borrower's relevant institutions to prepare for a substantial role in future gas operations.

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:

1. Strengthening of the Hydrocarbons Directorate of MMR, including in the defining of environmental standards, formulating of relevant institutional and regulatory framework, tax and incentive systems, and organizing of appropriate training.
2. Strengthening of the Hydrocarbons Directorate of MMR, inter alia, in the finalizing of the institutional, tax and incentive systems.

Part B:

Phase 1

1. Enhancement of gas reserves including, inter alia, drilling of about three wells and shooting and processing of about 1200 km of seismic, and carrying out of a preliminary study on financing options for the development of Pande gas.
2. General strengthening of ENH, inter alia, through the development of accounting and management systems, a structured training program, work related to gas supplies to towns near to Pande field, and environmental support.

3. Strengthening of ENH's specific role to become a joint-venture partner including, inter alia, establishment of a project management team (PMT), negotiations assistance and carrying out of a range of studies to better define ENH's position.

Phase 2

4. Provision of support to ENH as a joint-venture partner, inter alia, in

negotiating its participation in, and benefits from, the Project, in clarifying issues related to its specific role in the Project.

5. Further strengthening of ENH, inter alia, in carrying out detailed work relating to gas supplies to Maputo and other towns, and in the implementation of a new accounting system related to its joint-venture role.

6. Preparation, inter alia, of a detailed financing plan, arranging of the financing, restructuring of the project management team (PMT), carrying out of engineering work and operational training, and preparation of an environmental assessment and mitigation plan.

* * *

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

SCHEDULE 3

Procurement and Consultants' Services

Section I. Procurement of Goods and Works

Part A: International Competitive Bidding

1. Except as provided in Part B hereof, procurement for rig hire and operating crew estimated to cost the equivalent of \$4,000,000 shall be done under a contract awarded in accordance with procedures consistent with those set forth in Sections I and II of the "Guidelines on Procurement under IBRD Loans and IDA Credits published in May 1992" (the Guidelines).

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

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

Part B: Other Procurement Procedures

Limited International Bidding:

1. Drilling support services up to an aggregate amount equivalent to \$5,000,000, may be procured under contracts awarded through limited international bidding procedures on the basis of evaluation and comparison of bids obtained from qualified suppliers eligible under the Guidelines (excluding paragraphs 2.8, 2.9, 2.55, 2.56 thereof).
International Shopping:

2. Equipments, vehicles and small items or groups of items estimated to cost the equivalent of \$100,000 or less per contract, up to an aggregate amount equivalent to \$750,000, may be procured under contracts awarded on the basis of comparison of price quotations obtained from at least three suppliers from at least two different countries eligible under the Guidelines, in accordance with procedures acceptable to the Association.

3. Notwithstanding the provision of paragraph 2 above, as an alternative, and with prior approval of the Association, procurement may be made from the Inter-Agency Procurement Services Office of the United Nations Development Program (IAPSO), in accordance with procedures acceptable to the Association.

4. Proprietary spare parts and emergency items up to an aggregate amount not to exceed \$100,000, may be procured under direct contracting in

accordance with procedures acceptable to the Association.

5. To the extent practicable, all contracts for goods shall be grouped into bid packages estimated to cost the equivalent of \$100,000 or more.

Part C: Review by the Association of Procurement Decisions

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

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

(b) With respect to each contract not governed by the preceding paragraph, the procedures set forth in paragraphs 3 and 4 of Appendix 1 to the Guidelines shall apply. Where payments for such contract are to be made out of the Special Account, such procedures shall be modified to ensure that the two conformed copies of the contract together with the other information required to be furnished to the Association pursuant to said paragraph 3 shall be furnished to the Association as part of the evidence to be furnished pursuant to paragraph 4 of Schedule 5 to this Agreement.

(c) The provisions of the preceding subparagraph (b) shall not apply to contracts on account of which withdrawals from the Credit Account are to be made on the basis of statements of expenditure.

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

Section II. Employment of Consultants

1. In order to assist the Borrower in carrying out the Project, the Borrower shall employ experts and consultants whose qualifications, experience and terms and conditions of employment shall be satisfactory to the Association. Such consultants shall be selected in accordance with principles and procedures satisfactory to the Association on the basis of the "Guidelines for the Use of Consultants by World Bank Borrowers and by the World Bank as Executing Agency" published by the Bank in August 1981 (the Consultant Guidelines). For complex, time-based assignments, the Borrower shall employ such consultants under contracts using the standard form of contract for consultants' services issued by the Bank, with such modifications as shall have been agreed by the Association. Where no relevant standard contract documents have been issued by the Bank, the Borrower shall use other standard forms agreed with the Association.

2. Notwithstanding the provisions of paragraph 1 of this Section, the provisions of the Consultant Guidelines requiring prior Association review or approval of budgets, short lists, selection procedures, letters of invitation, proposals, evaluation reports and contracts shall not apply to contracts with firms estimated to cost less than \$100,000 equivalent each, and with individuals, estimated to cost less than \$50,000 each. However, this exception to prior Association review shall not apply to the terms of reference for such contracts, to single source selection of firms, to assignments of a critical nature as reasonably determined by the Association or to amendments of contracts raising the contract value to \$100,000 equivalent or above for contracts with firms and \$50,000 equivalent or above for contracts with individuals.

SCHEDULE 4

Special Account

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means Categories (1) through (5) set forth in the table in paragraph 1 of Schedule 1 to this Agreement;

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

(c) the term "Authorized Allocation" means an amount equivalent to \$500,000 to be withdrawn from the Credit Account and deposited into the Special Account pursuant to paragraph 3 (a) of this Schedule.

2. Payments out of the Special Account shall be made exclusively for eligible expenditures in accordance with the provisions of this Schedule.

3. After the Association has received evidence satisfactory to it that the Special Account has been duly opened, withdrawals of the Authorized Allocation and subsequent withdrawals to replenish the Special Account shall be made as follows:

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

- (b) (i) For replenishment of the Special Account, the Borrower shall furnish to the Association requests for deposits into the Special Account at such intervals as the Association shall specify.
- (ii) Prior to or at the time of each such request, the Borrower shall furnish to the Association the documents and other evidence required pursuant to paragraph 4 of this Schedule for the payment or payments in respect of which replenishment is requested. On the basis of each such request, the Association shall, on behalf of the Borrower, withdraw from the Credit Account and deposit into the Special Account such amount as the Borrower shall have requested and as shall have been shown by said documents and other evidence to have been paid out of the Special Account for eligible expenditures.

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

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

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

(a) if, at any time, the Association shall have determined that all further withdrawals should be made by the Borrower directly from the Credit Account in accordance with the provisions of Article V of the General Conditions and paragraph (a) of Section 2.02 of this Agreement; or

(b) once the total unwithdrawn amount of the Credit allocated to the eligible Categories, less the amount of any outstanding special commitment entered into by the Association pursuant to Section 5.02 of the General Conditions with respect to the Project, shall equal the equivalent of twice the amount of the Authorized Allocation.

Thereafter, withdrawal from the Credit Account of the remaining unwithdrawn amount of the Credit allocated to the eligible Categories shall follow such procedures as the Association shall specify by notice to the Borrower. Such further withdrawals shall be made only after and to the extent that the Association shall have been satisfied that all such amounts remaining on deposit in the Special Account as of the date of such notice will be

utilized in making payments for eligible expenditures.

6. (a) If the Association shall have determined at any time that any payment out of the Special Account: (i) was made for an expenditure or in an amount not eligible pursuant to paragraph 2 of this Schedule; or (ii) was not justified by the evidence furnished to the Association, the Borrower shall, promptly upon notice from the Association: (A) provide such additional evidence as the Association may request; or (B) deposit into the Special Account (or, if the Association shall so request, refund to the Association) an amount equal to the amount of such payment or the portion thereof not so eligible or justified. Unless the Association shall otherwise agree, no further deposit by the Association into the Special Account shall be made until the Borrower has provided such evidence or made such deposit or refund, as the case may be.

(b) If the Association shall have determined at any time that any amount outstanding in the Special Account will not be required to cover further payments for eligible expenditures, the Borrower shall, promptly upon notice from the Association, refund to the Association such outstanding amount.

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

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

