

CONFORMED COPY

CREDIT NUMBER 2337 MOZ

(Agricultural Services Rehabilitation
and Development Project)

between

REPUBLIC OF MOZAMBIQUE

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated March 30, 1992

CREDIT NUMBER 2337 MOZ

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated March 30, 1992, between REPUBLIC OF
MOZAMBIQUE (the Borrower) and INTERNATIONAL DEVELOPMENT ASSOCIATION
(the Association).

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

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 Develop-

ment 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 have the respective meanings therein set forth and the following additional terms have the following meanings:

(a) "BM" means Bank of Mozambique (Banco de Mocambique) acting in its dual capacity of: (i) Central Bank of the Borrower established pursuant to its Statutes (Lei Organica, No. 1/92) dated January 3, 1992 (BM/Central); or (ii) as separate commercial banking institution (BM/Commercial);

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

(c) "DINAGECA" means the National Directorate for Geography and Cadastre of the Borrower's Ministry of Agriculture;

(d) "DNDR" means the National Directorate for Rural Development of the Borrower;

(e) "family subsector" means family-owned agricultural production units;

(f) "FCC" means Field Coordinating Committee as set forth under Part A.5 of Schedule 4 to this Agreement;

(g) "INIA" means the National Agricultural Research Institute of the Borrower's Ministry of Agriculture;

(h) "MOA" means the Ministry of Agriculture of the Borrower;

(i) "PCC" means Project Coordination Committee as set forth under Part A.4 of Schedule 4 to this Agreement;

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

(k) "PFI" or "Participating Financial Institution" means each commercial bank, development bank or credit institution acceptable to the Association to which BM/Central, under an agreement ("Participation Agreement") with such bank or institution, has lent the proceeds of the credit for relending to a Beneficiary, as hereinafter defined;

(l) "Beneficiary" means any: (i) family subsector unit, on an individual basis, or under group credit arrangements; or (ii) rural trader, which meets the criteria set forth in Part B of Schedule 6 to this Agreement and for which a PFI has made or proposed to make a Subloan for a Subproject, as hereinafter defined;

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

(n) "Subloan Agreement" means an agreement entered into between each PFI and the respective Beneficiary in accordance with the procedures, and on the terms and conditions set forth in Schedule 6 to this Agreement;

(o) "Subproject" means a specific project to be carried out by a Beneficiary utilizing the proceeds of a Subloan fulfilling the criteria and following the procedures set forth in Part B of Schedule 4 to this Agreement;

(p) "PRONAR" means National Program for Rural Water Supply of the Borrower;

(q) "UDA" means Unit for Development Activities of MOA, as set forth under Part A.1 of Schedule 4 to this Agreement;

(r) "Project Preparation Advance" means the project preparation advances granted by the Association to the Borrower pursuant to exchange of letters dated June 26, 1989, and August 1, 1989; July 9, 1990, and August 7, 1990; and March 31, 1990, and June 24, 1991; and, between the Borrower and the Association;

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

(t) "Metical" and the plural "meticais" mean the currency of the Borrower;

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

(v) "Project year" means each period of twelve months, beginning the first Project year, on the Effective Date, as defined in Section 6.01 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 twenty-five million nine hundred thousand Special Drawing Rights (SDR 25,900,000).

Section 2.02. (a) The amount of the Credit may be withdrawn from the Credit Account in accordance with the provisions of Schedule 1 to this Agreement for expenditures made (or, if the Association shall so agree, to be made) in respect of the reasonable cost of goods and services required for the Project described in Schedule 2 to this Agreement and to be financed out of the proceeds of the Credit.

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

(c) Promptly after the Effective Date, the Association shall, on behalf of the Borrower, withdraw from the Credit Account and pay to itself the amount required to repay the principal amount of the Project Preparation Advance withdrawn and outstanding as of such date and to pay all unpaid charges thereon. The unwithdrawn balance of the authorized amount of the Project Preparation Advance shall thereupon be cancelled.

Section 2.03. The Closing Date shall be December 31, 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 January 15 and July 15 in each year.

Section 2.07. (a) Subject to paragraphs (b) and (c) below, the Borrower shall repay the principal amount of the Credit in semi-annual installments payable on each January 15 and July 15 commencing July 15, 2002, and ending January 15, 2032. Each installment to and including the installment payable on January 15, 2012, shall be one percent (1%) of such principal amount, and each installment thereafter shall be two percent (2%) of such principal amount.

(b) Whenever: (i) the Borrower's gross national product per capita, as determined by the Association, shall have exceeded \$790 in constant 1985 dollars for five consecutive years; and (ii) the Bank shall consider the Borrower creditworthy for Bank lending, the Association may, subsequent to the review and approval thereof by the Executive Directors of the Association and after due consideration by them of the development of the Borrower's economy, modify the terms of repayment of installments under paragraph (a) above by requiring the Borrower to repay twice the amount of each such installment not yet due until the principal amount of the Credit shall have been repaid. If so requested by the Borrower, the Association may revise such modification to include, in lieu of some or all of the increase in the amounts of such installments, the payment of interest at an annual rate agreed with the Association on the principal amount of the Credit withdrawn and outstanding from time to time, provided that, in the judgment of the Association, such revision shall not change the grant element obtained under the above-mentioned repayment modification.

(c) If, at any time after a modification of terms pursuant to paragraph (b) above, the Association determines that the Borrower's economic condition has deteriorated significantly, the Association may, if so requested by the Borrower, further modify the terms of repayment to conform to the schedule of installments as provided in paragraph (a) above.

Section 2.08. The currency of the United States of America is hereby specified for the purposes of Section 4.02 of the General Conditions.

ARTICLE III

Execution of the Project

Section 3.01. (a) The Borrower declares its commitment to the objectives of the Project as set forth in Schedule 2 to this Agreement and, to this end, shall carry out the Project with due diligence and efficiency and in conformity with appropriate agricultural, environmental, managerial, accounting and financial practices, and shall provide, promptly as needed, the funds, facilities, services and other resources required for the Project.

(b) Without limitation upon the provisions of paragraph (a) of this Section and except as the Borrower and the Association shall otherwise agree, the Borrower shall carry out the Project in accordance with the Implementation Program set forth in Schedule 4 to this Agreement.

(c) (i) The Borrower shall, out of the proceeds of the Credit for Part B of the Project, transfer to BM/Central an amount equivalent to five million two hundred thousand Special Drawing Rights (SDR 5,200,000) under a Subsidiary Administration Agreement to be entered into between the Borrower and BM/Central on terms and conditions which shall have been approved by the Association and as set forth in Schedule 6 to this Agreement;

(ii) the Subsidiary Administration Agreement shall include, inter alia, the following provisions:

(A) definition of the functions and responsibilities of BM/Central and the PFIs regarding Part B of the Project;

(B) the obligation of BM/Central to enter into a Participation Agreement with each PFI under which the equivalent of the proceeds of the Credit allocated under Part B of the Project will be lent to such PFI for relending in the form of Subloans to Beneficiaries to finance Subprojects, such Participation Agreement to be satisfactory to the Association and in accordance with the provisions of Part A of Schedule 6 to this Agreement; and

(C) the Borrower, through its Ministry of Finance, shall carry the foreign exchange risk.

(d) The Borrower shall exercise and cause BM/Central to 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:

(i) ensure that Subloans made under Part B of the Project will be made in accordance with the procedures, terms and conditions set forth in Schedule 6 to this Agreement; and

(ii) conduct, jointly with the Association, annual reviews of said procedures, terms, conditions, and applicable interest rates and margins.

Section 3.02. (a) Except as the Association shall otherwise agree, procurement of the goods, works and consultants' services required for the Project and to be financed out of the proceeds of the Credit shall be governed by the provisions of Schedule 3 and Part A.4 of Schedule 6 to this Agreement.

(b) The procurement of plant protection materials under Part A.2 (c) of the Project shall be reviewed and previously approved by the Association.

Section 3.03. The Borrower shall: (a) jointly with the Association conduct bi-annual Project implementation reviews, including a mid-term review, to be held not later than July 31, 1996, to monitor: (i) progress achieved in carrying out the Project

and meeting the targets set forth in the Annual Development Program and the actions described under Part C.2 of Schedule 4 to this Agreement; and (ii) assess the impact of the implementation of cotton pricing policies; special agricultural extension activity carried out by the selected joint-venture company; involvement of the communities in the carrying out of operation and maintenance of water supply; and formation of farmer groups and credit intake; and (b) promptly thereafter, carry out those recommendations arising out of said reviews in accordance with an action program and a timetable agreed with the Association.

Section 3.04. The Borrower shall take all necessary measures to gradually increase in real terms the annual budgetary allocations made to finance its contribution to the Project, in order to fully cover all incremental recurrent costs after the completion 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 nine months after the end of each such year, a certified copy of the report of such audit by said auditors, of such scope and in such detail as the Association shall have reasonably requested; and
- (iii) furnish to the Association such other information concerning said records, accounts and the audit thereof as the Association shall from time to time reasonably request.

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

- (i) maintain or cause to be maintained, in accordance with paragraph (a) of this Section, records and accounts reflecting such expenditures;
- (ii) retain, until at least one year after the Association has received the audit report for the fiscal year in which the last withdrawal from the Credit Account or payment out of the Special Account was made, all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures;
- (iii) enable the Association's representatives to examine such records; and

- (iv) ensure that such records and accounts are included in the annual audit referred to in paragraph (b) of this Section and that the report of such audit contains a separate opinion by said auditors as to whether the statements of expenditure submitted during such fiscal year, together with the procedures and internal controls involved in their preparation, can be relied upon to support the related withdrawals.

ARTICLE V

Remedies of the Association

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

(a) The Borrower or BM/Central 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 the Development Credit Agreement, an extraordinary situation shall have arisen which shall make it improbable that BM/Central 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 agricultural services, financial and banking sectors that would materially affect the ability of the Borrower or BM/Central to perform any of their respective obligations under this Agreement; or (ii) for the respective dissolution or disestablishment of BM/Commercial or BPD or any other PFI having entered into a Participation Agreement with BM/Central or for the suspension of their respective operations; and

(d) the respective Statutes of BM/Commercial, BPD or any other PFI having entered into a Participation Agreement with BM/Central shall have been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the ability of BM/Commercial, BPD or any other PFI having entered into a Participation Agreement with BM/Central to perform any of their respective obligations under this Agreement.

Section 5.02. Pursuant to Section 7.01 (d) of the General Conditions, the following additional events are specified, namely, that any of the events specified in paragraphs (a) or (d) of Section 5.01 of this Agreement shall occur and shall continue for a period of sixty (60) days after notice thereof shall have been given by the Association to the Borrower.

ARTICLE VI

Effective Date; Termination

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

(a) that MOA's Unit for Development Activities has been established and the following staff appointed: economist in charge of formulation of pricing policies and economist in charge of project monitoring and evaluation, as set forth under Part A.1 (c) of Schedule 4 to this Agreement; and

(b) (i) Component Coordinators, with qualifications and experience satisfactory to the Association, have been appointed in accordance with terms of reference described under Part A.3 of Schedule 4 to this Agreement; and (ii) that the Project Coordination Committee has been established; as set forth under Part A.4 of Schedule 4 to this Agreement.

Section 6.02. The following is specified as additional matter, within the meaning of Section 12.02 (b) of the General Conditions, to be included in the opinion or opinions to be furnished to the Association, namely, that 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 Bank of Mozambique of the Borrower is designated as representative of the Borrower for the purposes of Section 11.03 of the General Conditions.

Section 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:	Telex:
MOBANCO Maputo	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:	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 Patricio Zozimo
Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

)	between July 1,
)	1998 and June 30,
)	2000
(6)	Refunding of Project Preparation Advance	750,000	Amount due pursuant to Section 2.02 (c) of this Agreement
(7)	Unallocated	2,800,000	
		<hr/>	
	TOTAL	25,900,000	
		=====	

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;

(c) the term "incremental operating costs" means: (i) office expenses; and (ii) cost of operation and maintenance of equipment, vehicles and buildings used in the execution of the Project as described in Schedule 2 to this Agreement; and

(d) the term "training" means foreign or local fellowships, conferences, courses and study tours.

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) Category (1) 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) Category (1) (c) unless the Association has received evidence of the satisfactory completion by the Borrower of the Study and Review referred to under Part C.3 of the Project; and

(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/Central on terms satisfactory to the Association and in accordance with the provisions of Section 3.01 (c) of this Agreement; and (B) has been duly authorized and is legally binding upon the Borrower and BM/Central, and a legal opinion has been issued to that effect in accordance with Section 12.02 of the General Conditions; and

(ii) in respect of each PFI unless: (A) BM/Central has entered into a Participation Agreement with the respective PFI on terms and conditions agreed with the Association, and in accordance with the provisions of Section 3.01 (c) and Part A of Schedule 6 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 6 to this Agreement.

SCHEDULE 2

Description of the Project

The objective of the Project is to increase production and returns from food crop and cotton cultivation in the family subsector through the development of effective agricultural services in the provinces of Nampula and Cabo Delgado.

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: Upgrading of Agricultural Services

1. Extension:

(a) (i) strengthening of MOA's rural extension network; (ii) on-the-job training for field extension staff and farmers; and (iii) acquisition of office equipment, supplies, and vehicles;

(b) carrying out, through a contractual agreement with a selected joint-venture company, in one or two selected districts, a special extension activity related to the development of all crops grown by farmers, including livestock where relevant;

(c) (i) basic training program for extension staff at all levels; and (ii) rehabilitation and operation of the Namialo Training Center;

(d) provision of technical support and higher level training for extension and training staff; and

(e) establishment and strengthening of farmer organization teams.

2. Applied Research:

(a) carrying out adaptive cotton and food crop research programs, at Nampula and Namialo research stations, including studies on: green manures, rotations, intercropping and the use of fallows as part of soil fertility, alley cropping, vegetative strips and agro-forestry;

(b) carrying out a cotton breeding program;

(c) developing an integrated pest management program adapted to local conditions;

(d) strengthening of INIA's farming systems research program;

(e) local and foreign training for research staff in, inter alia, the following: cotton and foodcrop research, integrated pest management, farming systems research methodology and data analysis;

(f) rehabilitation and operation of the Nampula and Namialo research stations; and

(g) provision of office and laboratory equipment, supplies and vehicles.

Part B: Provision of Credit

1. Financing of specific Subprojects through Subloans to eligible Beneficiaries.

2. Establishment and strengthening of credit groups and credit

group arrangements.

3. Training for PFIs' staff and credit group officials.
4. Strengthening credit delivery and loan servicing through the acquisition of vehicles, supplies and office equipment.
5. Strengthening PFIs' organizational and managerial lending capabilities.

Part C: Upgrading of Rural Water Supply

1. Strengthening a well and borehole construction program in the Nampula province through: (a) rehabilitation of existing and construction of new rural water supply systems; and (b) provision of equipment and technical support for the operation and maintenance of said systems.
2. Carrying out an Inventory of Rural Water Supply Infrastructure.
3. Carrying out: (a) a Rural Water Supply Operation and Maintenance Study; and (b) a Review of community involvement in rural water supply operation and maintenance.
4. Development of a five-year Rural Water Development Plan for the Nampula province.

Part D: Land Use and Management

1. Carrying out aerial photography, ground verification and cadastral mapping of Project area.
2. Collection of socio-economic, agronomic and land tenure data.
3. Assessment of soil conservation needs and formulation of soil conservation packages.
4. Monitoring of impact of soil conservation and land management practices.
5. Carrying out a comparative land titling study.
6. Strengthening DINAGECA and INIA through the provision of: staff training and acquisition of office equipment, supplies and vehicles.

Part E: Institutional Development

1. Setting-up, and operation of the Unit for Development Activities (UDA) and strengthening of its managerial and technical capabilities.
2. Local and foreign training for MOA staff in management pricing analysis, marketing, and rural survey design.
3. Strengthening of the capabilities of staff responsible for Project coordination and implementation in management, planning and programming, accounting, budgeting, procurement, monitoring and evaluation techniques.
4. Implementation of a monitoring and evaluation system, including the establishment of a management information system and an impact evaluation system.

* * *

The Project is expected to be completed by June 30, 2000.

Procurement and Consultants' Services

Section I. Procurement of Goods and Works

Part A: International Competitive Bidding

1. Except as provided in Part D hereof, goods and works estimated to cost the equivalent of more than \$150,000 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).
2. To the extent practicable, contracts for goods and works shall be grouped into bid packages estimated to cost the equivalent of \$100,000 or more.
3. Goods shall be exempted from pre-shipment price inspection by a third-party inspection firm.

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. Local Competitive Bidding:

Works estimated to cost the equivalent of \$150,000 or less per contract, up to an aggregate amount equivalent to \$300,000, including those to be financed under Part B of the Project, may be procured under contracts awarded on the basis of competitive bidding, advertised locally, in accordance with procedures satisfactory to the Association.

2. International or Local Shopping:

Items or groups of items, including those to be financed under the line of credit referred to under Part B.1 of the Project, estimated to cost the equivalent of \$25,000 or less per contract, up to an aggregate amount equivalent to \$250,000, 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.

3. Direct Contracting:

Training materials and spare parts for vehicles which may be awarded after direct negotiations with suppliers, in accordance with procedures acceptable to the Association.

4. Force Account:

(a) Civil works referred to under Part C of the Project may be carried out by force account.

(b) Costs of said civil works will be based on actual expenditures incurred by the Borrower and are estimated to cost the equivalent of \$1500 or less per well and \$3500 or less per borehole.

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 vehicles and equipment not included under Part B of the Project 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 10% is hereby specified for purposes of paragraph 4 of Appendix 1 to the Guidelines.

Section II. Employment of Consultants

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

(b) A standard contract, satisfactory to the Association, for the employment of all consultants financed under the Credit shall be approved by the Borrower's Ministry of Finance not later than thirty (30) days after its submission by the Project Coordinator.

SCHEDULE 4

Implementation Program

Part A: Project Coordination

1. Unit for Development Activities (UDA):

(a) The Borrower shall, during the implementation of the Project, establish and thereafter maintain UDA with the staffing and responsibilities described here below. UDA shall report directly to the Vice Minister of Agriculture.

(b) UDA shall, in addition to the coordination of Project implementation activities, be responsible for annual planning, programming and budgeting of agricultural development activities.

(c) UDA shall have the following: (i) key staff: Project Coordinator, as hereinafter defined; economist in charge of formulation of pricing policies; economist in charge of Project monitoring and evaluation; and (ii) other technical staff including,

a technical advisor to the Vice Minister of Agriculture; pricing and marketing expert; two general economists; expatriate experts in agricultural pricing policy, agricultural marketing and rural surveys design, agro-industry, and cotton grading; and a senior agricultural economist.

2. Project Coordinator (PC):

(a) A Project Coordinator with qualifications and experience satisfactory to the Association shall be appointed by the Minister of Agriculture.

(b) The PC shall be responsible, inter alia, for the following:

- (i) review and approval of annual development plans for the respective Project components and programs and budgets submitted by participating institutions;
- (ii) consolidation of component plans into the Annual Development Program;
- (iii) carrying out economic analysis and long-term planning of the cotton subsector, including the definition of cotton pricing policy;
- (iv) monitoring and evaluation of Project implementation;
- (v) inter-institutional coordination; and
- (vi) supervising procurement and disbursement procedures.

(c) In discharging his/her responsibilities, the PC shall be assisted by a full-time Assistant Project Coordinator and the following technical staff: (i) coordination and management consultant who will assist in setting up systems and procedures for the coordination, monitoring and financial control of the Project; (ii) planning and organization procedures consultant who will work closely with the consultant described in (i) above in developing the tools necessary for Project management and in the selection of software suitable for the Project; (iii) financial control consultant who will develop and implement a financial control and accounting system for the Project; and (iv) the procurement consultant who will develop simple procedures for the procurement of goods and services, in accordance with the provisions of Schedule 3 to this Agreement.

(d) The PC shall ensure that each Component Coordinator submits a consolidated annual development plan for the respective Project component.

(e) The PC, assisted by the Component Coordinators shall prepare semiannual progress reports describing the physical and financial progress of the Project and its impact. These reports shall be submitted to the Association not later than three months after the end of each semester.

3. Component Coordinators (CC):

(a) Each participating institution: DNDR, INIA, DINAGECA, PRONAR, BPD and BM/Commercial, shall appoint a Component Coordinator with qualifications and experience satisfactory to the Association.

(b) Each CC shall, inter alia, have the following responsibilities:

- (i) facilitating the implementation of the respective Project component; and
- (ii) ensuring that all agreements are carried out.

4. Project Coordinating Committee (PCC):

(a) A Project Coordinating Committee to coordinate the implementation of Project activities shall be established by the Ministry of Agriculture.

(b) The PCC shall be chaired by the Minister of Agriculture, or any other official nominated by him.

(c) All six CCs shall participate in the PCC as members, and the PC shall serve as Secretary.

(d) The PCC shall meet at least once every quarter.

5. Field Coordinating Committee (FCC):

(a) Each province shall have a Field Coordinating Committee headed by the respective Provincial Governor and consisting of the provincial Field Project Coordinator, as hereinafter defined, a monitoring and evaluation officer and a secretary.

(b) The FCC shall meet at least every two months.

(c) A provincial Field Project Coordinator shall be appointed by the respective Provincial Governor to deal with the day-to-day affairs of the Project.

Part B: Annual Development Program

An Annual Development Program setting up the implementation targets shall be reviewed and approved annually in a session of PCC which shall be attended by all CCs.

Part C: Project Implementation Program

1. Responsibilities of institutions involved in Project implementation:

(a) MOA shall have responsibility for the overall Project implementation;

(b) Part A of the Project:

(i) the Provincial Governors shall be responsible for overseeing the upgrading of agricultural services financed under the Project;

(ii) Part A.1 (b) shall be coordinated by DNDR's Head of Extension in Maputo through the respective CC and the Provincial Directorate for Agriculture PDAs;

(iii) Part A.1 (c) (i) shall be carried out by the respective PDAs;

(iv) The PDA, Nampula province, shall be responsible for the rehabilitation works referred to under Part A.1 (c) (ii) of the Project; and

(v) Part A.2 of the Project shall be carried out by INIA.

(c) Part B of the Project:

Part B shall be carried out in accordance with the provisions of Schedule 6 to this Agreement.

(d) Part C of the Project:

(i) Part C.1 shall be coordinated by PRONAR;

(ii) Part C.1 (a) of the Project shall be carried out by GEOMOG; and

(iii) Parts C.2, C.3 and C.4 of the Project shall be carried out by PRONAR.

(e) Part D of the Project:

Part D of the Project shall be carried out by DINAGECA, INIA and UDA.

2. 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:

(a) during the first Project year: (i) but not later than nine months after the Effective Date, identify and select the required local and expatriate staff for the Namialo and Nampula research stations; (ii) but not later than August 30, 1993, enter into a contract satisfactory to the Association with a selected joint-venture company to provide extension services in one or two selected districts; (iii) but not later than one year after the Effective Date, review further detail and agree with the Association, on the carrying out of the cotton and foodcrops research programs, including the cotton breeding program; (iv) carry out the Rural Water Supply System Inventory and the Review of Community involvement in rural water supply operation and maintenance; and promptly thereafter, implement those recommendations agreed with the Association; (v) design and review jointly with the Association, a farm and factory-gate pricing system for cotton, based on border prices, promptly thereafter implement said system taking into consideration the views provided by the Association, and update it annually; (vi) but not later than six months after the Effective Date, appoint the monitoring and evaluation core team; (vii) but not later than six months after the Effective Date, take all necessary measures to appoint the Field Coordinating Committee and the Field Project Coordinator as described in Part A.5 of this Schedule; and (viii) but not later than six months after the Effective Date, fully detail the methodology for data collection and analysis, the working arrangements for the carrying out of the land use and management component and the contracts to be signed with the various sub-contractors.

(b) During the second Project year: (i) carry out the Operation and Maintenance for Rural Water Supply Study and the Five-Year Rural Water Development Plan; (ii) submit to the Association for its review and comment, the recommendations of the above-mentioned study and plan; and promptly thereafter carry out said recommendations taking into consideration the views provided by the Association.

(c) During the third Project year: (i) evaluate the services provided by the joint-venture company under the contract entered into between said company and the Borrower; and (ii) carry out the study on titling impact, in accordance with terms of reference agreed with the Association.

(d) During the fourth Project year: decide whether the program carried out with the selected joint-venture company would be expanded under the Project.

(e) During Project implementation, the Borrower shall ensure that new facilities will be built only in localities where legal representatives of said localities have entered into satisfactory agreements with GEOMOC to operate and maintain said facilities.

SCHEDULE 5

Special Account

1. For the purposes of this Schedule:

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

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

(c) the term "Authorized Allocation" means an amount equivalent to \$1,000,000 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.

SCHEDULE 6

Procedures, Terms and Conditions of Sub-loans and Participation Agreements under Part B of the Project

Part A: Participation Agreements

1. (a) PFIs shall lend the metical equivalent of the proceeds of the Credit, onlent to them by BM/Central, through Subloans to Beneficiaries to finance the following:

- (i) the purchase of farm inputs, including improved seed, fertilizers, insecticides, farm tools, spraying equipment and other agricultural imple-ments; for a term not to exceed one (1) year;
- (ii) the cost of production costs, hire charges for machinery services, aerial or mechanized spraying and purchase of fertilizers, for a term not to exceed one (1) year; and
- (iii) working capital needed to purchase inputs and outputs, for a term not to exceed two (2) years.

(b) PFIs shall charge a variable interest rate on Subloans to Beneficiaries at the Borrower's prevailing interest rate including a margin negotiated within the respective Participation Agreement. Margins shall be reviewed simultaneously with the annual review of the interest rate structure carried out by the Borrower and the Association. For the purposes of this Schedule the term "prevailing interest rate" means the rate determined by the Borrower pursuant to the provisions of a joint Despacho issued by the Minister of Finance of the Borrower and the Governor of BM/Central, dated September 20, 1991, as amended from time to time.

(c) PFIs shall repay to BM/Central the amounts onlent to them through the respective Participation Agreements, on the basis of the repayment schedules established for the individual Subloans made to Beneficiaries. Repayment to BM/Central shall take place even when PFIs have not collected the amount onlent to Beneficiaries.

(d) No individual subloan should exceed the aggregate amount of \$250,000 each.

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

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

(b) designate qualified staff, including an adequate number of credit technicians, to manage Subloans under the Project;

(c) perform satisfactory appraisal of the financial, technical, environmental and economic feasibility of Subprojects, in accordance with procedures prescribed in lending manuals prepared by the Borrower and submit appraisal reports to BM/Central and the Association when the loan exceeds one hundred thousand dollars (\$100,000);

(d) make Subloans to eligible Beneficiaries on the basis of procedures, terms, conditions and eligibility criteria set forth in this Schedule;

(e) ensure that Subloan funds are used by Beneficiaries for the purposes intended;

(f) supervise Subprojects according to procedures agreed between the Borrower and the Association, and maintain adequate records;

(g) provide to BM/Central, MOA and the Association periodic reports on the status of Subprojects and Subloans and any such information as said institutions may reasonably request;

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

(i) be eligible to receive Credit funds to finance investments in vehicles, supplies, office equipment, and incremental administrative expenditures in respect of group credit organization and administration.

3. The PFIs shall retain out of the interest payments due from the Beneficiaries a margin not exceeding thirty-two percent (32%) of the accrued interest on Subloans made to traders, or of the fixed finance charges, on Subloans made to credit groups.

4. Procurement:

(a) With respect to the procurement of goods and services to be financed under Subloans, each Participation Agreement shall contain provisions requiring each PFI to ensure that said goods and services be procured in accordance with commercial practices acceptable to the Association and after comparing price quotations

obtained from at least three suppliers selected from a wide geographic spread of firms;

(b) each PFI shall ensure that such goods and services shall be exclusively used in the carrying out of the Subproject, maintaining appropriate records of the procurement procedures followed; and

(c) 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.

Part B: Eligibility Criteria for Beneficiaries and Subprojects

1. General Procedures

(a) The following Beneficiaries are eligible to receive Subloans from PFIs:

- (i) family subsectors, on an individual basis or through credit groups;
- (ii) small-scale private commercial farmers;
- (iii) rural traders engaged in input supply and marketing of agricultural products in rural areas; and

(b) Subloans shall be used by Beneficiaries to finance:

- (i) farm inputs and outputs;
- (ii) cost of hire charges for machinery and equipment;
- (iii) agricultural machinery;
- (iv) vehicles and spare parts; and
- (v) procurement of technical know-how and consultants' services.

(c) Subloans may finance: (i) up to one hundred percent (100%) of cost of purchased inputs under a Subproject proposed by a credit group; and (ii) up to ninety percent (90%) of any Subproject proposed by individual beneficiaries who shall contribute in cash, with a minimum amount equivalent to ten percent (10%) of the Subproject.

2. Appraisal of Subprojects - Eligibility Criteria

(a) Each PFI shall prepare an appraisal report of each Subproject submitted to them, in accordance with procedures acceptable to the Association.

(b) Appraisal reports shall include, inter alia, the following:

- (i) analysis of the proposed Subproject, including its technical soundness, financial, environmental and economic viability;
- (ii) assessment of the creditworthiness of the prospective borrower;
- (iii) calculation of the financial rate of return (FRR) based on a cash flow analysis and a balance sheet analysis, for Subloans above one hundred thousand dollars (\$100,000);
- (iv) calculation of the economic rate of return (ERR)

for Subloans above two hundred and fifty thousand dollars (\$250,000); and

(v) assessment of loan security provided.

Part C: Subloan Agreements

1. Subloans shall be made on terms whereby the respective PFI shall obtain, by written contract with the respective Beneficiary, rights adequate to protect the interests of the Borrower, the Association and BM/Central, including the right to:

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

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

(c) require that:

(i) the Beneficiary 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 Beneficiary to replace or repair such goods;

(d) obtain all such information as BM/Central or the Association shall reasonably request relating to the foregoing and to the administration, operations and financial condition of the respective Beneficiaries and to the benefits derived to them from the Subproject;

(e) require that procurement of goods and services is carried out in accordance with the provisions referred to in Part A.4 of this Schedule; and

(f) suspend or terminate the right of the Beneficiary to the use of the proceeds of the Credit upon failure by such Beneficiary to perform its obligations under its Subloan Agreement with the PFI.

