

CONFORMED COPY

CREDIT NUMBER 3991 MOZ

Development Credit Agreement

(Beira Railway Project)

between

REPUBLIC OF MOZAMBIQUE

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated December 16, 2004

CREDIT NUMBER 3991 MOZ

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated December 16, 2004, 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 (the Project), has requested the Association to assist in the financing of the Project;

(B) Parts A and B of the Project will be carried out by Companhia dos Caminhos de Ferro da Beira, S.A.R.L. (CCFB) and Part C of the Project will be carried out by Portos e Caminhos de Ferro de Moçambique, E.P. (CFM); all with the Borrower's assistance and, as part of such assistance, the Borrower will make available to CCFB and CFM part of the proceeds of the credit provided for in Article II of this Agreement (the Credit), as set forth in this Agreement; and

(C) 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 agreements of even date herewith between the Association and CCFB (the CCFB Project Agreement) and between the Association and CFM (the CFM Project Agreement);

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

General Conditions; Definitions

Section 1.01. The "General Conditions Applicable to Development Credit Agreements" of the Association, dated January 1, 1985 (as amended through May 1, 2004) (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) "Beira Railway System" means the railway system connected to and serving the port of Beira and comprising the Sena and Machipanda Railway Lines (as such terms are hereinafter defined);

(b) “CCFB” means Companhia dos Caminhos de Ferro da Beira, S.A.R.L, a commercial company incorporated on July 29, 2004, and operating under the laws of the Borrower;

(c) “CCFB Project Agreement” means the agreement between the Association and CCFB 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;

(d) “CFM” means Portos e Caminhos de Ferro de Moçambique, E.P., a public company established by Decree No. 40/94 dated on September 13, 1994 and operating under the laws of the Borrower;

(e) “CFM Project Agreement” means the agreement between the Association and CFM 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) “CFM Subsidiary Loan Agreement” means the agreement to be entered into between the Borrower and CFM pursuant to Section 3.01 (c) (ii) of this Agreement, as the same may be amended from time to time, and such term includes all schedules to the CFM Subsidiary Loan Agreement;

(g) “Conceding Authority” means the Borrower, as per the Concession Agreement (as hereinafter defined);

(h) “Concession” means to rehabilitate and the rights to operate and maintain the Beira Railway System, all pursuant to the provisions set forth in the Concession Agreement (as hereafter defined);

(i) “Concession Agreement” means the Agreement dated August 30, 2004 between the Borrower, CFM and the Concessionaire, setting forth the rules and regulations governing the carrying out of the Concession, including the rights and obligations of the parties therein;

(j) “Concessionaire” means CCFB;

(k) “De-Mining Program” means the de-mining scheduled for the Beira Railway System agreed between the Borrower, the Concessionaire and the Association and referred to under paragraph C.1 of Schedule 4 to this Agreement.

(l) “EAMP” or “Environmental Audit and Management Plan” means the Environmental Audit and Management Plan dated June 9, 2004, for Parts A and B of the Project, and referred to in paragraph B.1 of Schedule 4 to this Agreement, describing the environmental planning, review, approval, mitigation, monitoring, and institutional measures under the Project;

(m) “Eligible Categories” means Categories (1), (2), (3), (4) and (5) set forth in the table in Part A.1 of Schedule 1 to this Agreement;

(n) “Eligible Expenditures” means the expenditures for goods, works and consultants’ services and training referred to in Section 2.02 of this Agreement;

(o) “Financial Monitoring Report” or “FMR” means each report prepared in accordance with Section 4.02 of the CFM Project Agreement and CCFB Project Agreement;

(p) “Financial Procedures Manual” means the Manual referred to in Section 6.01 (b) (i) of this Agreement, which details the financial management, administrative and procurement arrangements, organization structure (including internal audit functions), staffing, standard accounting forms, books, and ledgers for the implementation of activities under the Project and as referred to in paragraph A.2 of Schedule 4 to this Agreement;

(q) “Fiscal Year” means the Borrower’s fiscal year, which begins on January 1 and ends on December 31 of each year;

(r) “Investment and Fiscal Agreement” means the Agreement between the Borrower and the Concessionaire referred to under Section 3.02 (a) of this Agreement;

(s) “Machipanda Railway Line” means the railway line, part of the Beira Railway System, starting at the port of Beira and ending at Machipanda in the Borrower’s territory;

(t) “*Metical*” means the Recipient’s currency;

(u) “Procurement Plan” means the Borrower’s procurement plan, dated September 2, 2004 covering the initial 18 month period (or longer) of Project implementation, as the same shall be updated from time to time in accordance with the provisions of Section 3.03 to this Agreement, to cover succeeding 18 month periods (or longer) of Project implementation.

(v) “RAP” or “Resettlement Action Plan” mean the Resettlement Action Plan for Part A and B of the Project dated June 9, 2004, and referred to in paragraph B.2 of Schedule 4 to this Agreement, which set out the principles and procedures governing land use-rights, resettlement, compensation and rehabilitation, as well as administrative, reporting and monitoring arrangements to ensure compliance with said plan, as said plans may be revised from time to time with the agreement of the Association;

(w) “Report-based Disbursements” means the Borrower’s option for withdrawal of funds from the Credit Account referred to in Part A.6 of Schedule 1 to this Agreement;

(x) “Sena Railway Line” means the railway line, part of the Beira Railway System, starting at Dondo and ending at Moatize, including two branch lines from Dona Ana to Vila Nova da Fronteira (where it links with the Malawi Railway System) and from Inhamitanga to Marromeu in the Borrower’s territory;

(y) “Special Account” means the account referred to in Part B of Schedule 1 to this Agreement;

(z) “Tripartite Agreement” means the subsidiary loan agreement to be entered into among the Borrower, CFM and CCFB pursuant to Section 3.01 (c) (i) of this Agreement, as the same may be amended from time to time, and such term includes all schedules to the Tripartite Agreement; and

(aa) “VAT” means Value Added Taxes.

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 seventy five million six hundred thousand Special Drawing Rights (SDR 75,600,000).

Section 2.02. 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, works, and services required for the Project and to be financed out of the proceeds of the Credit.

Section 2.03. The Closing Date shall be June 30, 2010 or such later date as the Association shall establish. The Association shall promptly notify the Borrower of such later date.

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

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

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

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

Section 2.06. Commitment charges and service charges shall be payable semiannually on May 15 and November 15 in each year.

Section 2.07. (a) Subject to paragraphs (b), (c) and (d) below, the Borrower shall repay the principal amount of the Credit in semiannual installments payable on each May 15 and November 15 commencing November 15, 2014 and ending May 15, 2044. Each installment to and including the installment payable on May 15, 2024 shall be one percent (1%) of such principal amount, and each installment thereafter shall be two percent (2%) of such principal amount.

(b) Whenever: (i) the Borrower's per capita gross national product (GNP), as determined by the Association, shall have exceeded for three consecutive years the level established annually by the Association for determining eligibility to access the Association's resources; and (ii) the 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 repayment of installments under paragraph (a) above by:

- (A) requiring the Borrower to repay twice the amount of each such installment not yet due until the principal amount of the Credit shall have been repaid; and
- (B) requiring the Borrower to commence repayment of the principal amount of the Credit as of the first semiannual payment date referred to in paragraph (a) above falling six months or more after the date on which the Association notifies the Borrower that the events set out in this paragraph (b) have occurred, provided, however, that there shall be a grace period of a minimum of five years on such repayment of principal.

(c) If so requested by the Borrower, the Association may revise the modification referred to in paragraph (b) above to include, in lieu of some or all of the increase in the amounts of such installments, the payment of interest at an annual rate

agreed with the Association on the principal amount of the Credit withdrawn and outstanding from time to time, provided that, in the judgment of the Association, such revision shall not change the grant element obtained under the above-mentioned repayment modification.

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

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

ARTICLE III

Execution of the Project

Section 3.01. (a) The Borrower declares its commitment to the objectives of the Project as set forth in Schedule 2 to this Agreement, and, to this end, without any limitation or restriction upon any of its other obligations under this Agreement, shall cause: (i) CCFB to carry out Parts A and B of the Project; and (ii) CFM to carry out Part C of the Project, all with due diligence and efficiency and in conformity with appropriate administrative, financial and public utilities practices, and, in the case of CCFB and CFM to perform in accordance with the provisions of their respective Project Agreement all their obligations therein set forth, take and cause to be taken all action, including the provision of funds, facilities, services and other resources (except for Part B of the Project which shall be financed by CCFB) necessary or appropriate to enable CCFB and CFM, respectively, to perform such obligations, and shall not take or permit to be taken any action which would prevent or interfere with such performance;

(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 cause the Project to be carried out in accordance with the Implementation Program set forth in Schedule 4 to this Agreement.

(c) For the purpose of carrying out:

- (i) Part A of the Project, the Borrower shall, out of the proceeds of the Credit, relend to CCFB an amount equivalent to one hundred and four million five hundred thousand Dollars (\$104,500,000) or such other amount or amounts as shall be allocated to CCFB in Schedule 1 to this Agreement and reflected under a Tripartite Agreement to be entered into among the Borrower, CFM and CCFB (the Tripartite Agreement), under terms and conditions

which shall have been approved by the Association, and which shall include repayment of principal in 25 years (including 10 years of grace).

- (ii) Part C of the Project, the Borrower shall, out of the proceeds of the Credit, relend to CFM an amount equivalent to five million five hundred thousand Dollars (\$5,500,000) or such other amount or amounts as shall be allocated to CFM in Schedule 1 to this Agreement under a subsidiary loan agreement to be entered into between the Borrower and CFM (the CFM Subsidiary Loan Agreement), under terms and conditions which shall have been approved by the Association, and which shall include repayment of principal in 25 years (including 10 years of grace).

(d) The Borrower shall exercise its rights under the CFM Subsidiary Loan Agreement, the Tripartite Agreement and the Concession 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 CFM Subsidiary Loan Agreement, the Tripartite Agreement and the Concession Agreement or any provision thereof.

Section 3.02. (a) The Borrower shall enter into an investment and fiscal agreement (Investment and Fiscal Agreement) with CCFB, under terms and conditions which shall have been approved by the Association, which shall include, *inter alia*, a mechanism for addressing the VAT on works, goods, and services, as well as custom duties for imported goods for Part A and B of the Project.

(b) The Borrower shall exercise its rights under the Investment and Fiscal 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 CFM Subsidiary Loan Agreement, the Tripartite Agreement and the Concession Agreement or any provision thereof.

Section 3.03. (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 to this Agreement, as said provisions may be further elaborated in the Procurement Plan.

(b) The Borrower shall update the Procurement Plan in accordance with guidelines acceptable to the Association, and furnish such update to the Association not later than 12 months after the date of the preceding Procurement Plan, for the Association's approval.

Section 3.04. For the purposes of Section 9.06 of the General Conditions and without limitation thereto, the Borrower shall:

(a) prepare, or cause to be prepared, on the basis of guidelines acceptable to the Association, and furnish to the Association not later than six (6) months after the Closing Date or such later date as may be agreed for this purpose between the Borrower and the Association, a plan for the future operation of the Project; and

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

Section 3.05. 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: (a) Parts A and B of the Project shall be carried out by CCFB; and Part C of the Project shall be carried out by CFM, pursuant to Section 2.03 of the relevant Project Agreement.

ARTICLE IV

Financial Covenants

Section 4.01. (a) The Borrower shall establish and maintain a financial management system, including records and accounts, and prepare project financial statements, all in accordance with consistently applied accounting standards acceptable to the Association, adequate to reflect its operations, resources and expenditures related to the Project.

(b) The Borrower shall, and shall cause CFM to:

(i) have the financial statements referred to in paragraph (a) of this Section for each Fiscal Year (or other period agreed to by the Association) audited, in accordance with consistently applied auditing standards acceptable to the Association, 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 (or such other period agreed to by the Association): (A) audited copies of the financial statements referred to in paragraph (a) of this Section for such year (or such other period agreed to by the Association), as so audited; and (B) an opinion on such statements by said auditors, in scope and detail satisfactory to the Association; and

- (iii) furnish to the Association such other information concerning such records, accounts and the audit of such financial statements, and concerning said auditors, as the Association may 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 reports referred to in Part A.6 of Schedule 1 to this Agreement (Report-based Disbursements) or on the basis of statements of expenditure, the Borrower shall:

- (i) ensure that all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures are retained until at least one year after the Association has received the audit report for, or covering, the Fiscal Year in which the last withdrawal from the Credit Account was made;
- (ii) enable the Association's representatives to examine such records; and
- (iii) ensure that such reports or statements of expenditure are included in any audit that the Association may have requested pursuant to paragraph (b) of this Section.

ARTICLE V

Remedies of the Association

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

(a) CCFB shall have failed to perform any of its obligations under the CCFB Project Agreement.

(b) CFM shall have failed to perform any of its obligations under the CFM Project Agreement.

(c) 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 CCFB or CFM will be able to perform their corresponding obligations under the CCFB Project Agreement or the CFM Project Agreement, respectively.

(d) The Concession Agreement shall have been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the ability of CCFB or CFM to perform any of their respective obligations under the CCFB Project Agreement or the CFM Project Agreement, respectively.

Section 5.02. Pursuant to Section 7.01(h) of the General Conditions, the following additional events are specified:

(a) any event specified in paragraphs (a), (b), (c) and (d) of Section 6.01 of this Agreement shall occur and shall continue for a period of 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) The CFM Subsidiary Loan Agreement, the Tripartite Agreement, the Concession Agreement and the Investment and Fiscal Agreement have become effective;

(b) A financial management system, satisfactory to the Association, has been adopted for the Project, including the following: (i) the Financial Procedures Manual has been adopted; (ii) adjusted chart of accounts which is able to identify Project activities and disbursement categories, has been established; and (iii) the request for proposals for selecting a qualified and experienced external auditor for the Project has been issued;

(c) A de-mining certificate has been issued, in form and substance satisfactory to the Association, for 10 meters on either side of the first 180 kms of the Sena Line starting from Dondo;

(d) The takeover of the Beira Railway System by the Concessionaire has been completed; and

(e) The process for hiring an independent supervision engineer with qualifications and under terms of reference satisfactory to the Association has been initiated in a manner 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 CCFB Project Agreement has been duly authorized or ratified by CCFB, and is legally binding upon CCFB in accordance with its terms;

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

(c) that the Tripartite Agreement has been duly authorized or ratified by the Borrower, CFM and CCFB and is legally binding upon the Borrower, CFM and CCFB in accordance with its terms;

(d) that the CFM Subsidiary Loan Agreement has been duly authorized or ratified by the Borrower and CFM and is legally binding upon the Borrower and CFM in accordance with its terms; and

(e) that the Investment and Fiscal Agreement has been duly authorized or ratified by the Borrower and CCFB and is legally binding upon the Borrower and CCFB in accordance with its terms.

Section 6.03. The date ninety (90) days after the date of this Agreement is hereby specified for the purposes of Section 12.04 of the General Conditions.

ARTICLE VII

Representative of the Borrower; Addresses

Section 7.01. The Governor of Banco de Moçambique is designated as the 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:

Governor
Banco de Moçambique
Maputo
Republic of Mozambique

Cable address:	Telex:	Facsimile:
MOBANCO Maputo	6355/7 BMMO	(258) 1 421915

For the Association:

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

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

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

REPUBLIC OF MOZAMBIQUE

By /s/ Michael Baxter
Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Adriano Maleiane
Authorized Representative

SCHEDULE 1

Withdrawal of the Proceeds of the Credit

A. General

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

<u>Category</u>	<u>Amount of the Credit Allocated (Expressed in SDR Equivalent)</u>	<u>% of Expenditures to be Financed</u>
(1) Works, for Part A	21,080,000	100% of foreign expenditures and 86 % of local expenditures
(2) Goods, for Part A		
(a) ballast and concrete sleepers	23,890,000	100%
(b) other than ballast and concrete sleepers	19,580,000	100% of foreign expenditures, 100% of local expenditures (ex-factory cost) and 86 % of local expenditures for other items procured locally
(3) Consultants' Services including Audits		
(a) for Part A	4,190,000	100% of foreign expenditures and 86 % of local expenditures
(b) for Part C	3,300,000	100% of foreign expenditures and 86 % of local expenditures
(4) Training	210,000	100%

<u>Category</u>	Amount of the Credit Allocated (Expressed in <u>SDR Equivalent</u>)	% of Expenditures <u>to be Financed</u>
(5) Operating Costs	280,000	86%
(6) Unallocated	3,070,000	
TOTAL	<u>75,600,000</u>	

2. For the purposes of this Schedule, the term:

(a) “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) “local expenditures” means expenditures in the currency of the Borrower or for goods or services supplied from the territory of the Borrower; provided, however, that, if the currency of the Borrower is also that of another country from the territory of which goods or services are supplied, expenditures in such currency for such goods or services shall be deemed to be “foreign expenditures”;

(c) “Training” includes workshops on Project activities, purchase of training materials, rental of training facilities, health insurance for travel abroad, per diem and travel costs; and

(d) “Operating Costs” means the incremental expenses incurred on account of Project implementation, including office supplies, vehicle operation and maintenance, communication and insurance costs, Special Account banking charges, office equipment maintenance, utilities, documents duplication/printing, consumables, travel cost and per diem for Project staff for travel linked to the implementation of the Project and salaries of contractual staff for the Project, but excluding salaries of officials of the Borrower.

3. For purposes of this Agreement, it is understood between the Borrower and the Association that the percentage of expenditures to be financed under Category (2) (a) (ballast and concrete sleepers) of table set forth in paragraph A.1 of this Schedule has been calculated on the basis of the provisions of a Letter dated August 4, 2004, from the Borrower’s National Director for Infrastructures which provides for a deferral and subsequent write-off of the applicable VAT for such items procured within the territory of the Borrower. In the event of any change made to said letter, which has the effect of

applying VAT on ballast and concrete sleepers, financed under the aforementioned Category (2) (a), the percentage referred to above shall be decreased in accordance with the provisions of Section 5.08 of the General Conditions.

4. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of payments made for expenditures prior to the date of this Agreement, except that withdrawals, in an aggregate amount not exceeding the equivalent of SDR two million (SDR 2,000,000), may be made in respect of Categories (1), (2) and (3)(a) on account of payments made for agreed expenditures before that date but after January 1, 2004.

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

6. The Borrower may request withdrawals from the Credit Account to be made on the basis of reports to be submitted to the Association in form and substance satisfactory to the Association, such reports to include the FMR and any other information as the Association shall specify by notice to the Borrower (Report-based Disbursements). In the case of the first such request submitted to the Association before any withdrawal has been made from the Credit Account, the Borrower shall submit to the Association only a statement with the projected sources and applications of funds for the Project for the [six-month period] following the date of such request.

B. Special Account

1. The Borrower may open and maintain in Dollars a special deposit account, to be managed by CFM, in a commercial Bank, acceptable to the Association, on terms and conditions satisfactory to the Association, including appropriate protection against set-off, seizure and attachment.

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

(a) if the Borrower is not making Report-based Disbursements, withdrawals shall be made in accordance with the provisions of Annex A to this Schedule 1; and

(b) if the Borrower is making Report-based Disbursements, withdrawals shall be made in accordance with the provisions of Annex B to this Schedule 1.

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

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

(a) if the Association, at any time, is not satisfied that the reports referred to in Part A.6 of this Schedule 1 adequately provide the information required for Report-based Disbursements;

(b) if the Association determines at any time that all further withdrawals for payment of Eligible Expenditures should be made by the Borrower directly from the Credit Account; or

(c) if the Borrower shall have failed to furnish to the Association, within the period of time specified in Section 4.01 (b) (ii) of this Agreement, any of the audit reports required to be furnished to the Association pursuant to said Section in respect of the audit of: (A) the records and accounts for the Special Account; or (B) the records and accounts reflecting expenditures with respect to which withdrawals were Report-based Disbursements or were made on the basis of statements of expenditure, as the case may be.

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

6. (a) If the Association determines at any time that any payment out of the Special Account was made for an expenditure which is not an Eligible Expenditure, or was not justified by the evidence furnished to the Association, the Borrower shall, promptly upon notice from the Association, provide such additional evidence as the Association may request, or deposit into the Special Account (or, if the Association shall so request, refund to the Association) an amount equal to the amount of such payment. Unless the Association shall otherwise agree, no further deposit by the Association into the Special Account shall be made until the Borrower has provided such evidence or made such deposit or refund, as the case may be.

(b) If the Association determines at any time that any amount outstanding in the Special Account will not be required to cover payments for Eligible Expenditures during the six-month period following such determination, the Borrower shall, promptly upon notice from the Association, refund to the Association such outstanding amount.

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

(d) Refunds to the Association made pursuant to subparagraph (a), (b) or (c) of this paragraph 6 shall be credited to the Credit Account for subsequent withdrawal or for cancellation in accordance with the provisions of the Credit Agreement.

**Annex A
to
SCHEDULE 1**

**Operation of Special Account
When Withdrawals Are Not
Report-based Disbursements**

1. For the purposes of this Annex, the term “Authorized Allocation” means the amount of \$5,000,000 to be withdrawn from the Credit Account and deposited into the Special Account pursuant to paragraph 2 of this Annex.

2. 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 deposit into the Special Account of an amount or amounts, which in the aggregate do not exceed the Authorized Allocation. On the basis of each such request, the Association shall, on behalf of the Borrower, withdraw from the Credit Account and deposit into the Special Account such amount as the Borrower shall have requested.

(b) For replenishment of the Special Account, the Borrower shall furnish to the Association requests for deposit into the Special Account at such intervals as the Association shall specify. Prior to or at the time of each such request, the Borrower shall furnish to the Association the documents and other evidence required pursuant to Part B.3 of Schedule 1 to this Agreement for the payment or payments in respect of which replenishment is requested. On the basis of each such request, the Association shall, on behalf of the Borrower, withdraw from the Credit Account and deposit into the Special Account such amount as the Borrower shall have requested and as shall have been shown by said documents and other evidence to have been paid out of the Special Account for Eligible Expenditures. Each such deposit into the Special Account shall be withdrawn by the Association from the Credit Account under one or more of the Eligible Categories.

3. The Association shall not be required to make further deposits into the Special Account, once the total unwithdrawn amount of the Credit minus the total amount of all outstanding special commitments entered into by the Association pursuant to Section 5.02 of the General Conditions shall equal the equivalent of twice the amount of the Authorized Allocation. Thereafter, withdrawal from the Credit Account of the remaining unwithdrawn amount of the Credit shall follow such procedures as the Association shall specify by notice to the Borrower. Such further withdrawals shall be made only after and to the extent that the Association shall have been satisfied that all such amounts

remaining on deposit in the Special Account as of the date of such notice will be utilized in making payments for Eligible Expenditures.

**Annex B
to
SCHEDULE 1**

**Operation of Special Account
When Withdrawals Are
Report-based Disbursements**

1. Withdrawals from the Credit Account shall be deposited by the Association into the Special Account in accordance with the provisions of Schedule 1 to this Agreement. Each such deposit into the Special Account shall be withdrawn by the Association from the Credit Account under one or more of the Eligible Categories.

2. Upon receipt of each application for withdrawal of an amount of the Credit, the Association shall, on behalf of the Borrower, withdraw from the Credit Account and deposit into the Special Account an amount equal to the lesser of: (a) the amount so requested; and (b) the amount which the Association has determined, based on the reports referred to in Part A.5 of this Schedule 1 applicable to such withdrawal application, is required to be deposited in order to finance Eligible Expenditures during the six-month period following the date of such reports.

SCHEDULE 2

Description of the Project

The objectives of the Project are to: (i) make cost effective and efficient transport available for the freight and passenger traffic in the Zambezi valley to accelerate economic growth and reduce poverty in the sub-region; (ii) increase international traffic through the Beira Railway System; and (iii) ensure the operational, managerial and financial sustainability of the Beira Railway System.

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: Rehabilitation of the Sena Railway

Rehabilitation, maintenance and operation of the Sena Railway Line to be carried out by the Concessionaire under the terms of the Concession Agreement, to enable said railway line to support 18-ton axle loads and 60 km/h train speeds and carry all freight and passenger traffic on offer.

Part B: Improvement of the Machipanda Railway

Improvements of the Machipanda Railway Line including its maintenance and operation.

Part C: Institutional Strengthening

Carrying out the following activities:

(a) Training in, *inter alia*, regulations, safety inspections, contract monitoring, and environmental, financial and Project management.

(b) Provision of independent supervision to certify and report on, *inter alia*, the quantity and quality of the rehabilitation works for the Sena Line, adherence to the agreed procurement procedures and eligibility for disbursement of funds.

(c) Technical and financial audits.

(d) Provision of technical advisory services to the CFM Board for the purposes of advising the Board and its Chairman on all financial and Project management related matters connected with the day-to-day operations of CFM.

(e) Sector studies, including, *inter alia*, planning for new railway and port facilities, review of existing transport systems, and enhancement of competitiveness among different modes of transport.

* * *

The Project is expected to be completed by December 31, 2009.

SCHEDULE 3

Procurement

Section I. General

A. All goods, works and services (other than consultants' services) shall be procured in accordance with the provisions of Section I of the "Guidelines for Procurement under IBRD Loans and IDA Credits" dated May 2004 (the Procurement Guidelines), and with the provisions of this Schedule.

B. All consultants' services shall be procured in accordance with Sections I and IV of the "Guidelines: Selection and Employment of Consultants by World Bank Borrowers" dated May 2004 (the Consultant Guidelines), and with the provisions of this Schedule.

C. The capitalized terms used below in this Schedule to describe particular procurement methods or methods of review by the Association of particular contracts, have the meanings ascribed to them in the Procurement Guidelines, or Consultant Guidelines, as the case may be.

Section II. Particular Methods of Procurement of Goods, Works and Services (other than Consultants' Services)

A. International Competitive Bidding. Except as otherwise provided in Part B of this Section, contracts shall be awarded on the basis of International Competitive Bidding. The provisions of paragraphs 2.55 and 2.56 of the Procurement Guidelines, providing for domestic preference in the evaluation of bids, shall apply to goods manufactured in the territory of the Borrower and works to be carried out by domestic contractors.

B. Other Procurement Procedures

BOT Procurement. As per Part A of the Project, Sena Line shall be rehabilitated, operated and subsequently transferred to the Conceding Authority in accordance with the terms of the Concession Agreement awarded to the Concessionaire on the basis of International Competitive Bidding procedures, subject to the provisions of paragraph 3.13 (a) of the Procurement Guidelines. The goods, works, and services required for the rehabilitation of the Sena Line shall be procured in accordance with the procurement procedures of the Concessionaire, agreed in advance with the Association and the Conceding Authority.

Section III. Particular Methods of Procurement of Consultants' Services

A. Quality- and Cost-based Selection. Except as otherwise provided in Part B of this Section, consultants' services shall be procured under contracts awarded on the basis

of Quality- and Cost-based Selection. For purposes of paragraph 2.7 of the Consultant Guidelines, the short list of consultants for services estimated to cost less than \$200,000 equivalent per contract may comprise entirely national consultants.

B. Other Procedures

1. Least-cost Selection. Services for assignments which the Association agrees meet the requirements of paragraph 3.6 of the Consultant Guidelines may be procured under contracts awarded on the basis of Least-cost Selection in accordance with the provisions of paragraphs 3.1 and 3.6 of the Consultant Guidelines.

2. Selection Based on Consultants' Qualifications. Services estimated to cost less than \$200,000 equivalent per contract may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1, 3.7 and 3.8 of the Consultant Guidelines.

3. Single Source Selection. Services for tasks in circumstances which meet the requirements of paragraph 3.10 of the Consultant Guidelines for Single Source Selection, may, with the Association's prior agreement, be procured in accordance with the provisions of paragraphs 3.9 through 3.13 of the Consultant Guidelines.

4. Individual Consultants. Services for assignments that meet the requirements set forth in the first sentence of paragraph 5.1 of the Consultant Guidelines may be procured under contracts awarded to individual consultants in accordance with the provisions of paragraphs 5.2 through 5.3 of the Consultant Guidelines. Under the circumstances described in paragraph 5.4 of the Consultant Guidelines, such contracts may be awarded to individual consultants on a sole-source basis, subject to prior approval of the Association.

Section IV. Review by the Association of Procurement Decisions

The Procurement Plan shall set forth those contracts which shall be subject to the Association's Prior Review. If the Procurement Plan provides for prior review of contracts for the employment of individual consultants, the record of justification for such contracts, referred to in paragraph 5 of Appendix 1 to the Consultant Guidelines, shall be subject to Prior Review by the Association. All other contracts shall be subject to Post Review by the Association.

SCHEDULE 4

Implementation Program

A. Overall Project Implementation

1. (a) CCFB shall maintain a Project Implementation Unit, throughout the period of implementation of the Project, with structure, functions and responsibilities, and with competent staff in adequate numbers and qualifications, for the purpose of assisting in the carrying out of Parts A and B of the Project.

(b) CFM shall employ, throughout the period required for the rehabilitation of the Sena Railway Line, the independent supervision engineer referred to in Section 6.01 (e), or a similar professional or group of professionals, always with qualifications and under terms of reference satisfactory to the Association.

2. Except as the Association shall otherwise agree, the Borrower, CCFB and CFM shall: (a) apply the criteria, policies, requirements and procedures set out in the Financial Management Manual; and (b) not amend or waive, or permit to be amended or waived, the Financial Management Manual, or any provisions thereof, in a manner which, in the opinion of the Association may materially and adversely affect the implementation of the Project.

B. Environmental Audit and Management Plan (EAMP) and Resettlement Action Plan (RAP)

1. Except as the Association shall otherwise agree, CCFB shall:

(a) carry out Parts A and B of the Project in accordance with the environmental and social guidelines, rules and procedures defined in the EAMP;

(b) not amend or waive, or permit to be amended or waived, the EAMP, or any provisions thereof, in a manner, which, in the opinion of the Association may materially and adversely affect the implementation of Parts A and B of the Project; and

(c) ensure that: (i) all measures necessary for the carrying out of the EAMP are taken in a timely manner; and (ii) the progress reports referred to in paragraphs D.1(b) and E.2 of this Schedule shall include adequate information on monitoring the measures defined in the EAMP.

2. Except as the Association shall otherwise agree, CFM shall:

(a) for purposes of Parts A and B of the Project, carry out the RAP in accordance with the social guidelines, rules and procedures defined therein;

(b) not amend or waive, or permit to be amended or waived, the RAP, or any provisions thereof, in a manner, which, in the opinion of the Association may materially and adversely affect the implementation of Parts A and B of the Project; and

(c) ensure that: (i) all measures necessary for the carrying out of the RAP are taken in a timely manner; and (ii) the progress reports referred to in paragraphs D.1 (b) and E.2 of this Schedule shall include adequate information on monitoring the measures defined in the RAP.

C. De-Mining Program

1. The Borrower, as the Conceding Authority, shall carry out the De-mining Program referred to in Section 6.01 (c) of this Agreement, in form and substance satisfactory to the Association.

D. Monitoring and Reporting

1. The Borrower, with the assistance of CFM and CCFB, pursuant to the relevant Project Agreement, shall:

(a) maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with the indicators set forth in Schedule 5 to this Agreement, the carrying out of the Project and the achievement of the objectives thereof;

(b) prepare, or cause to be prepared, under terms of reference satisfactory to the Association, and furnish to the Association, on or about January 30 of each year, a report integrating the results of the monitoring and evaluation activities performed pursuant to paragraph D.1 (a) of this Schedule, on the progress achieved in the carrying out of the Project during the period preceding the date of said report and setting out the measures recommended to ensure the efficient carrying out of the Project and the achievement of the objectives thereof during the period following such date; and

(c) review with the Association, by February 28 of each year, or such later date as the Association shall request, the report referred to in paragraph D.1(b) of this Section, and thereafter act promptly and diligently in order to take, or cause to be taken, any corrective action deemed necessary to remedy any shortcoming identified in the implementation of the Project, or to implement such measures as may have been agreed between the Borrower and the Association in furtherance of the objectives of the Project.

E. Midterm Review

1. The Borrower shall, with the assistance of CFM and CCFB, pursuant to the relevant Project Agreement, carry out, jointly with the Association, not later than June 30, 2007 a comprehensive midterm review aimed at: (i) documenting progress toward achieving the Project objectives; (ii) identifying and resolving obstacles to Project

implementation; (iii) adjusting, in agreement with the Association, targets and corresponding programs to reflect progress achieved in the implementation of the Project as of the date of the review; and (iv) an overall evaluation of the Project against the indicators set forth in Schedule 5 to this Agreement.

2. The Borrower shall, not later than four weeks prior to the midterm review, referred to in paragraph E.1 above, with the assistance of CCFB and CFM, pursuant to the relevant Project Agreement, furnish to the Association a midterm report, in such detail as the Association shall reasonably request, including an evaluation of the progress achieved in the Project implementation.

3. Promptly after completing the midterm review, the Borrower shall take, or cause to be taken, all measures required to fulfill the recommendations arising out of said review for the efficient completion of the Project and the achievement of the objectives thereof, with due diligence and efficiency and in accordance with appropriate practices, taking into account the Association's comments thereon.

SCHEDULE 5

Project Indicators

For the purposes of this Agreement, the Project indicators to be used for assessing Project implementation are as follows:

1. Sena Line progressively opened to freight and passenger traffic with freight traffic reaching at least 1.0 million tons per annum by the end of Project.
2. Link to Malawi Railways established by end of the Project.
3. An alternative multi-modal (road/rail) route for international traffic from Zambia to the port of Beira opened by end of the Project.
4. International traffic from the Republic of Zimbabwe on the Machipanda line increased by 30% by end of the Project.
5. Beira Railway system operates as a reliable, efficient, and commercially viable system, the indicator for this, at end of the Project, being as follows:
 - (a) Reliability: (i) track under temporary speed restrictions decreased from 10% to 2% (ii) locomotive failure rate decreased from an average of 10,000 kilometers between failures to not less than an average of 100,000 kilometers between failures; and (iii) time lag between wagon demand and supply decreased from 4 days to not more than 2 days;
 - (b) Staff productivity: traffic units (net annual ton-kilometers plus passenger kilometers) per staff employed per year increased nearly four fold, from 0.35 million to 1.3 million; and
 - (c) Commercial viability: working ratio (cost excluding depreciation and interest) decreased from more than 100% to less than 70%.