

CONFORMED COPY

CREDIT NUMBER 2175 MOZ

(Agricultural Rehabilitation and Development Project)

between

PEOPLE'S REPUBLIC OF MOZAMBIQUE

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated September 24, 1990

CREDIT NUMBER 2175 MOZ

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated September 24, 1990, between PEOPLE'S 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 Development Credit Agreements" of the Association, dated January 1, 1985, with the last sentence of Section 3.02 deleted (the General Conditions) constitute an integral part of this Agreement.

Section 1.02. Unless the context otherwise requires, the several terms defined in the General Conditions and in the Preamble to this Agreement have the respective meanings therein set forth and the following additional terms have the following meanings:

(a) "AERU" means Agricultural Enterprise Restructuring Unit, (Unidade de Reestruturacao de Empresas Agrarias/UREA), a unit of the Ministry of Agriculture, established and operating pursuant to Despacho issued by the Minister of Agriculture of the Borrower dated July 6, 1990 and as set forth in Part C of Schedule 6 to this Agreement;

(b) "BM" means Bank of Mozambique (Banco de Mocambique), the Central Bank of the Borrower established pursuant to its Statutes;

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

(d) "CM" means State Cashew Enterprise (Caju de Mocambique E.E.), established and operating under the tutela of MOA, pursuant to its Statutes approved by Decree No. 8/79 of the Borrower's Council of Ministers, dated June 30, 1979;

(e) "SEC" means State Secretariat for Cashew (Secretaria de Estado do Caju) established and operating within MOA pursuant to its Statutes approved by Decree No. 79/83 of the Borrower dated December 29, 1983;

(f) "DEA" means MOA's Directorate for Agricultural Economics;

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

(h) "PFI" and "Participating Financial Institution" mean each commercial bank, development bank or credit institution acceptable to the Association to which BM 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, for a Subproject;

(i) "Beneficiary" means any: (i) commercial farmer; (ii) trader and/or trucker involved in marketing of agriculture products; or (iii) cashew processing factory operating under CM, which meets the criteria set forth in Part B of Schedule 4 to this Agreement and to, or for which, a PFI has made or proposed to make a Subloan for a Subproject, as hereinafter defined;

(j) "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 under the Subsidiary Administration Agreement;

(k) "Subloan Agreement" means an agreement entered into between each PFI and the respective Beneficiaries in accordance with the procedures and on the terms and conditions set forth in Schedule 4 to this Agreement;

(l) "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;

(m) "PROFORGE" means Program for Economic Training (Projecto de Formacao em Gestao) established pursuant to Despacho of the

Borrower, dated April 8, 1986;

(n) "Project Preparation Advance" means the project preparation advances granted by the Association to the Borrower pursuant to exchanges of letters dated February 19, 1988, and May 13, 1988; and June 21, 1990, and July 17, 1990, between the Borrower and the Association;

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

(p) "metical" and the plural "meticais" mean the currency of the Borrower;

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

(r) "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; and

(s) "Project area" means the districts of Massinga, Morrumbene, Homoine, Maxixe, Jangamo, Inharrime, and Zavala districts in the Inhambane province, and the districts of Manjacaze, Chibuto, Xai-Xai, and Bilene in the Gaza province.

## 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 eleven million nine hundred thousand Special Drawing Rights (SDR 11,900,000).

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 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 June 30, 1999 or such later date as the Association shall establish. The Association shall promptly notify the Borrower of such later date.

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

(b) The commitment charge shall accrue: (i) from the date sixty days after the date of this Agreement (the accrual date) to the respective dates on which amounts shall be withdrawn by the

Borrower from the Credit Account or cancelled; and (ii) at the rate set as of the June 30 immediately preceding the accrual date or at such other rates as may be set from time to time thereafter pursuant to paragraph (a) above. The rate set as of June 30 in each year shall be applied from the next payment date in that year specified in Section 2.06 of this Agreement.

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

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

Section 2.06. Commitment charges and service charges shall be payable semiannually on April 15 and October 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 April 15 and October 15 commencing October 15, 2000 and ending April 15, 2030. Each installment to and including the installment payable on April 15, 2010 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 and accounting practices, and shall provide, promptly as needed, the funds, financial re-

sources, 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 6 to this Agreement.

- (c) (i) The Borrower shall, out of the proceeds of the Credit for Part A.2 of the Project, relend to BM an amount equivalent to two million three hundred thousand Special Drawing Rights (SDR 2,300,000) under the Subsidiary Administration Agreement to be entered into between the Borrower and BM on terms and conditions which shall have been approved by the Association and as set forth in Schedule 4 to this Agreement;
- (ii) the Subsidiary Administration Agreement shall include, inter alia, the following provisions:
- (A) definition of the functions and responsibilities of BM and the PFIs regarding Part A.2 of the Project;
- (B) the obligation of BM to enter into a Participation Agreement with each PFI under which the equivalent of the proceeds of the Credit allocated under Part A.2 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 4 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 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 A.2 of the Project will be made in accordance with the procedures, terms and conditions set forth in Schedule 4 to this Agreement; and
- (ii) conduct, jointly with the Association, annual reviews of said procedures, terms and conditions.

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 to this Agreement.

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

Section 3.03. The Borrower shall not later than December 31,

1990:

(a) legally establish and thereafter maintain the Sales and Trade Unit within CM in accordance with the provisions of Part D of Schedule 6 to this Agreement;

(b) (i) select a Marketing Economist and an Economist specialized in food processing to be assigned to said Unit; (ii) select a Senior Pricing Policy Analysis Officer within SEC with the functions and responsibilities referred to under Part E of Schedule 6 to this Agreement; and (iii) select AERU's Economist/Agricultural Economist, Management Specialist and Information Systems/Accounting Specialist, with qualifications and experience satisfactory to the Association and in accordance with terms of reference agreed with the Association; and

(c) cause AERU to furnish to the Association for its review and comments the terms of reference for the formulation of the policy and strategic investment plan referred to under Part B.1 of the Project.

Section 3.04. The Borrower shall:

(a) not later than December 31, 1993 carry out and complete the studies and surveys referred to under Parts A.4 and C of the Project in accordance with terms of reference agreed with the Association; and promptly thereafter, furnish to the Association for its review the recommendations of said studies and surveys; and

(b) promptly thereafter, carry out said recommendations, taking into consideration the views provided by the Association.

Section 3.05. The Borrower shall:

(a) not later than March 31, 1995 conduct with the Association a mid-term review to:

(i) monitor progress achieved in Project implementation and meeting Project objectives;

(ii) exchange information among staff responsible for Project implementation and propose solutions to any current problems; and

(iii) update Project timetables and cost estimates; and

(b) promptly thereafter, carry out those recommendations arising out of said review in accordance with an action program and a timetable agreed with the Association.

Section 3.06. The Borrower shall:

(a) not later than March 31, 1991, furnish to the Association for its approval, the respective detailed design and implementation schedule for the systems referred to in Parts A.3 (a) (iv); A.3 (b) (iv); and B.6 of the Project; and

(b) promptly thereafter, implement said systems in accordance with terms and schedules agreed with the Association.

#### ARTICLE IV

##### Financial Covenants

Section 4.01. (a) The Borrower shall maintain or cause to be maintained records and accounts adequate to reflect in accordance with sound accounting practices the operations, resources and expenditures in respect of the Project of the departments or agencies of the Borrower responsible for carrying out the Project or any part thereof.

(b) The Borrower and BM 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 and BM 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 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 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 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, financial and banking sectors that would materially and adversely affect the ability of the Borrower or BM to perform any of their respective obligations under this Agreement; or (ii) for the respective dissolution or disestablishment of SEC, CM, or BM or for the suspension of their respective operations; and

(d) the respective Statutes of BM, SEC or CM shall have been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the ability of BM, SEC or CM 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), (b), (c) 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 event is specified as an additional condition to the effectiveness of the Development Credit Agreement within the meaning of Section 12.01 (b) of the General Conditions, namely that the Borrower has entered into a contract, on terms and conditions agreed with the Association, to employ consultants' services, in accordance with the provisions of Section II of Schedule 3 to this Agreement, to carry out the National Irrigation Development Master Plan referred to under Part C.1 of the Project.

Section 6.02. The following is specified as an additional matter, within the meaning of Section 12.02 (b) of the General Conditions, to be included in the opinion or opinions to be furnished to the Association, namely that this Agreement has been duly ratified by the Borrower's Council of Ministers and is legally binding upon the Borrower in accordance with its terms.

Section 6.03. The date one hundred twenty (120) days after the date of this Agreement is hereby specified for the purposes of Section 12.04 of the General Conditions.

#### ARTICLE VII

##### Representatives of the Borrower; Addresses

Section 7.01. The Governor of Banco de Mocambique of the Borrower is designated as representative of the Borrower for the purposes of Section 11.03 of the General Conditions.

Section 7.02. The following addresses are specified for the purposes of Section 11.01 of the General Conditions.

For the Borrower:

Banco de Mocambique  
Departamento de Relacoes Internacionais  
Avenida 25 de Setembro 1695  
P.O.Box 423  
Maputo, Mozambique

Cable address:

MOBANCO  
Maputo

Telex:

6355/7 BMMO

Facsimile:

29178

For the Association:

International Development  
Association  
1818 H Street, N.W.  
Washington, D.C. 20433



United States of America

Cable address:

Telex:

INDEVAS  
Washington, D.C.

82987 (FTCC),  
248423 (RCA),  
64145 (FUI) 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.

PEOPLE'S REPUBLIC OF MOZAMBIQUE

By /s/ Eneas da Conceicao Comiche  
Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Stephen M. Denning  
Acting Regional Vice President  
Africa

SCHEDULE 1

Withdrawal of the Proceeds of the Credit

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

Category	Amount of the Credit Allocated (Expressed in SDR Equivalent)	% of Expenditures to be Financed
(1) Civil works	160,000	100%
(2) Equipment, materials, and supplies	2,300,000	100%
(3) Consultants' services, training, studies, and audits	3,850,000	100%
(4) Goods and services under Subloans	2,300,000	100% of foreign expenditures and 70% of local expenditures
Category	Amount of the Credit Allocated (Expressed in SDR Equivalent)	% of Expenditures to be Financed
(5) (a) Salaries for incremental Project staff	1,150,000 ) ) )	100% of expenditures incurred between January 1,

(b) Operating Costs	550,000	) 1991 and December 31, 1993; ) ) 80% of expenditures incurred between January 1, 1994 and December 31, 1994; ) ) 60% of expenditures incurred between January 1, 1995 and December 31, 1996; and ) ) 30% of expenditures incurred after January 1, 1997
(6) Refunding of Project Preparation Advance	600,000	) Amount due pursuant to Section 2.02 (c) of this Agreement
(7) Unallocated	990,000	
TOTAL	11,900,000 =====	

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; and

(c) the term "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 of 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 (4) unless:

(i) the Association has received evidence satisfactory to it that the Subsidiary Administration Agreement: (A) has been executed on behalf of the Borrower and BM on terms satisfactory to the Association and in accordance with the provisions of Section 3.01 (c) of this Agreement; and (B) has been duly authorized and is legally binding upon the Borrower and BM, and a legal opinion has been issued to that effect in accordance with Section 12.02 (b) of the General Conditions; and

(ii) in respect of each PFI unless: (A) BM 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) of, and Part A of Schedule 4 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 in Schedule 4 to this Agreement.

## SCHEDULE 2

### Description of the Project

The objectives of the Project are to:

- (a) reverse the decline in production and marketing of cashewnuts and in the medium-term, restore past levels of exportation;
- (b) make small and medium-scale state and commercial agricultural enterprises more efficient and profitable; and
- (c) strengthen the Borrower's capabilities to formulate and implement long-term growth strategies for the irrigation and cashew subsectors.

The Project consists of the following parts, subject to such modifications thereof as the Borrower and the Association may agree upon from time to time to achieve such objectives:

#### Part A: Rehabilitation and Development of the Cashew Subsector

##### 1. Strengthening of Agricultural Services:

- (a) Strengthening of MOA's extension services through:
  - (i) provision of basic training, transportation, technical and administrative support to extension workers;
  - (ii) design and implementation of an extension training program;
  - (iii) setting-up farmer organization teams at the district level; and
  - (iv) integration of extension services established under the Project in Gaza and Inhambane provinces with ongoing extension activities financed by other donors in said provinces.
- (b) Implementation of a National Cashew Research Program, including:
  - (i) provision of support to clonal orchards at the Ricatla research station in Maputo province; and
  - (ii) provision of training for research staff.
- (c) Cashew Nurseries:
  - (i) setting up small-scale cashew nurseries: two in Inhambane province, and one in Gaza province;
  - (ii) strengthening of nursery management and operation capabilities; and
  - (iii) strengthening and rehabilitation of existing buildings and infrastructure at the Nhacoongo experimental station in Inhambane province .

2. Provision of Investment Credit:

Financing of specific Subprojects through Subloans to eligible Beneficiaries.

3. Institutional Development:

(a) SEC:

- (i) strengthening of SEC's pricing policy analysis, through the formulation and implementation of a farm-and factory-gate pricing system based on border prices;
- (ii) strengthening of SEC's accounting and cost control systems technical capabilities;
- (iii) provision of foreign and local training for SEC staff in pricing policy, grafting techniques, cashew cloning and cultivation techniques, extension methodology, management and administration; and
- (iv) design and implementation of a monitoring and evaluation system, including the establishment of a management information system and an impact evaluation system.

(b) CM:

- (i) establishment of a Sales and Trade Unit within CM;
- (ii) strengthening of CM's managerial, cashew processing, industrial training, financial accounting, by-product development, procurement procedures and equipment installation capabilities;
- (iii) provision of training for CM's staff in mechanical engineering, commodity trade, business administration, factory operation and maintenance procedures; and
- (iv) design and implementation of a monitoring and evaluation system including, the establishment of a management information system and an impact evaluation system.

4. Surveys:

Carrying out evaluative surveys to:

- (a) review CM's performance, functions and long-term goals; and
- (b) assess the agricultural productivity of female farmers.

Part B: Assistance to Agricultural Enterprises

1. Formulation of a policy and strategic investment plan, for the restructuring of agricultural enterprises.
2. Setting-up and operation of an agricultural enterprise restructuring unit (AERU) in accordance with the provisions referred to in Part C of Schedule 6 to this Agreement.
3. Provision of technical assistance for the implementation of individual enterprise restructuring plans.
4. Carrying out surveys and studies on the agricultural enterprise subsector.

5. Provision of training for agricultural enterprise staff in general management, organizational development, human resource management, accounting, information system planning, investment planning and promotion and business development marketing.

6. Design and implementation of a monitoring and evaluation system including, the establishment of a management information system and an impact evaluation system.

Part C: Studies and Surveys

1. Preparation of a National Irrigation Development Master Plan.
2. Carrying out a National Cashew Tree Population Survey.
3. Preparation of a National Cashew Development Master Plan.

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The Project is expected to be completed by December 31, 1998.

SCHEDULE 3

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 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 vehicles, equipment and machinery shall be grouped into bid packages estimated to cost the equivalent of \$100,000 each.

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. International or Local Shopping:

Items or groups of items estimated to cost less than the equivalent of \$25,000 each, up to an aggregate not to exceed the equivalent of \$100,000 may be procured under contracts awarded on the basis of comparison of price quotations obtained from at least three suppliers in accordance with procedures acceptable to the Association.

2. Direct contracting:

Scientific journals and textbooks may be awarded after direct negotiations with suppliers, in accordance with procedures acceptable to the Association.

3. Force Account:

Civil works referred to in Part A.1 (c) (iii) of the Project may be carried out by force account.

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 A.2 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 shall not apply to contracts on account of which the Association has authorized withdrawals on the basis of statements of expenditures.

2. The figure of 10% is hereby specified for purposes of paragraph 4 of Appendix 1 to the Guidelines.

Section II. Employment of Consultants

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

SCHEDULE 4

Procedures, Terms and Conditions of Sub-loans  
and Participation Agreements  
under Part A.2 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 to Beneficiaries, as follows:

- (i) for Subloans to finance agricultural machinery, equipment, and vehicles, for a term not to exceed seven (7) years, and a period of grace of two (2) years;
- (ii) for Subloans to finance planting, replanting and rehabilitation of cashew plantations, for a term not to exceed twelve (12) years and a period of grace of four (4) years; and
- (iii) for Subloans to finance the rehabilitation of

CM's cashew processing factories, for a term not to exceed ten (10) years, and a period of grace of 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. 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, dated March 1, 1990, as amended from time to time.

(c) PFIs shall repay to BM 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 shall take place even when PFIs have not collected the amount onlent to Beneficiaries.

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 to manage Subloans financed under the Project;

(c) perform satisfactory appraisal of the financial, technical, environmental and economic feasibility of Subprojects;

(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 established procedures, and maintain adequate records;

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

(h) provide, from their own resources, short-term credit to Beneficiaries to cover their incremental working capital requirements; and

(i) bear the lending risk and adhere to terms of lending and repayment of Subloans.

3. BM shall retain out of the interest payments due from the PFIs a margin not exceeding: (i) seventy percent (70%), for Subloans for terms up to seven (7) years; and (ii) sixty percent (60%), for Subloans for terms of more than seven (7) years, of the nominal interest rate charged by the PFI on the Subloan to the respective Beneficiary.

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) commercial farmers;
- (ii) traders and/or truckers engaged in marketing of agricultural products; and
- (iii) CM, to rehabilitate the cashew processing factories located in Xai-Xai (Gaza province), Inhambane (Inhambane province), and Machava (Maputo province).

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

- (i) fixed assets, including agricultural machinery and equipment;
- (ii) rehabilitation and replacement of fixed assets;
- (iii) setting up of cashew plantations;
- (iv) vehicles and spare parts; and
- (v) procurement of technical know-how and consultants' services.

(c) Subloans may finance up to ninety percent (90%) of any Subproject. Beneficiaries shall contribute, in cash or kind, 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.

(c) Subprojects for the rehabilitation of the cashew



processing factories and the first three (3) on-farm and marketing development activities shall be submitted to the Association for its review and approval.

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, 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 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.

SCHEDULE 5

Special Account

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means Categories (1) through (6) 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 in 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; (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

### Implementation Program

#### Part A. Component Coordinators

1. The Borrower shall appoint and maintain during the execution of the Project two (2) Component Coordinators (CC): one for Parts A, C.2, and C.3 of the Project, and one for Part B of the Project. Said CCs shall have experience and qualifications satisfactory to the Association. Any material changes to their employment status and terms of reference shall be made in agreement with the Association.

2. (a) The CC for Parts A, C.2 and C.3 of the Project shall be a local economist posted within SEC's Directorate for Economics; (b) the CC for Part B of the Project shall be AERU's Head, as herein-after defined.

3. Each CC shall be responsible, inter alia, for the following:

(a) day-to-day component implementation;

(b) preparing an AWP, as hereinafter defined, for the respective Project component;

(c) preparing and submitting to the Association: (i) not later than three months after the end of each semester, a semi-annual Project implementation progress report describing physical and financial progress of the Project and its impact to date; and (ii) not later than one month after Project completion, a report dealing with all aspects of Project implementation and evaluating the benefits derived from it by the Borrower, in general, and by farmers in particular;

(d) reviewing procurement arrangements carried out by SEC, CM, and AERU, in accordance with the provisions of Schedule 3 to this Agreement;

(e) monitoring all expenditures made under the respective

Part of the Project, keeping financial component accounts and submitting accounts for audits; and

(f) maintaining files and records for the respective Part of the Project.

4. In discharging his/her responsibilities, each CC shall be assisted by the following staff:

(a) local technical staff responsible for procurement, accounting and administrative procedures; and

(b) short and long-term consultants in pertinent technical disciplines.

Part B. Annual Work Programs (AWP)

1. The Borrower shall ensure that:

(a) each CC prepares an AWP in order to organize and monitor progress in Project implementation; and

(b) all AWPs are consolidated by DEA.

2. An AWP shall include, inter alia, the following:

(a) a review of implementation carried out during the previous Project year;

(b) a detailed description of work to be carried out during the forthcoming Project year, including objectives, staff training, monitoring and evaluation activities, construction plans and procurement schedules;

(c) requirements for additional staff and inputs;

(d) requirements and arrangements for technical assistance, and local and foreign training; and

(e) a budget and financing plan, including local and foreign currency requirements.

3. Without limitation upon the provisions of Section 3.03 (d) (i) of this Agreement, the Borrower shall:

(a) not later than May 1, 1991 and May 1, in each year thereafter, until the completion of the Project, prepare a consolidated AWP, on terms set forth in paragraph 2 above, and furnish it to the Association for its review and comments; and

(b) promptly thereafter, implement said AWP taking into consideration the recommendations made by the Association.

Part C. Agricultural Enterprise Restructuring Unit (AERU)

1. The Borrower shall establish and thereafter maintain AERU within MOA. AERU shall report directly to the Minister for Agriculture or his/her designate. A local economist/agricultural economist, with experience and qualifications satisfactory to the Association shall be appointed as AERU's Head.

2. AERU's Head shall be responsible, inter alia, for:

(a) serving as CC for Part B of the Project;

(b) formulation of a policy and strategic investment plan for the agriculture enterprise subsector; and

(c) preparing AERU's yearly program for surveys and studies and assistance plans to individual agricultural enterprises to be included into the AWP.

3. The Borrower shall during the execution of the Project maintain AERU with the staffing and functions agreed with the Association.

#### Part D. Sales and Trade Unit

1. The Sales and Trade Unit established within CM shall be headed by a Marketing Economist.

2. In discharging his/her responsibilities, the Marketing Economist shall be assisted by a General Economist with experience in agroprocessing.

3. The Sales and Trade Unit shall be responsible, inter alia, for the following:

(a) monitoring foreign markets and industry price trends;

(b) rebuilding trading ties and selecting the most lucrative markets for cashew; and

(c) formulation and provision of advice on marketing policies and strategies.

#### Part E. Strengthening of the Borrower's Pricing Analysis Capabilities

1. A Senior Pricing Policy Analysis Officer with experience and qualifications satisfactory to the Association shall be appointed within SEC's Directorate of Economics.

2. The Senior Pricing Policy Officer shall be responsible, inter alia, for the following :

(a) formulating a long-term pricing policy; and

(b) setting-up and supervising the implementation of a farm- and factory-gate pricing system.

#### Part F. 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) SEC's Secretary in coordination with the Director Geral of CM - shall have overall responsibility for the implementation of Part A of the Project; (ii) SEC's Directorate for Economics shall be responsible for the implementation of Part A.3 (a) of the Project; (iii) SEC's Technical Directorate shall be responsible for the coordination of Parts A.1 (a) and A.1 (b) of the Project. The National Cashew Research Program shall be implemented by the National Agricultural Research Institute (INIA); (iv) SEC's Department of Administration and Finance shall be responsible for employing incremental local Project staff in accordance with terms and conditions agreed with the Association; (v) SEC's Department of Human Resources shall be responsible for setting-up and implementing training programs for local staff; and (vi) the Director Geral of CM shall be responsible for the supervision and implementation of Part A.2 (c) of the Project, including the rehabilitation of cashew processing factories;

(c) AERU'S Head shall be responsible for the implementation of Part B of the Project;

(d) Part C of the Project: (i) The State Secretariat for Agricultural Hydraulics within MOA shall supervise the implementation of Part C.1 of the Project, in coordination with the National Water Directorate and the Ministry of Industry and Energy of the Borrower; (ii) SEC's Technical Directorate shall coordinate the

implementation of Part C.2 of the Project; and (iii) SEC's Directorate for Economics shall coordinate the implementation of Part C.3 of the Project.

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) formulate the National Cashew Research Program referred to in Part A.1(b) of the Project;
- (ii) design a farm-and factory-gate pricing system based on border prices referred to in Part A.3 (a)(ii), in accordance with the recommendations made by the Association;
- (iii) but not later than October 31, 1991, initiate the study to evaluate CM's performance, referred to in Part A.4 (a) of the Project, in accordance with terms of reference agreed with the Association;
- (iv) but not later than July 31, 1991, complete the Master Plan referred to in Part C.1 of the Project; and
- (v) but not later than December 31, 1991, complete the survey referred to in Part C.2 of the Project, in accordance with terms and schedule agreed with the Association; and
- (vi) but not later than March 31, 1991, employ: (A) the staff described in Section 3.03 (b) of this Agreement; and (B) all other local counterpart staff and consultants' services necessary to carry out first Project year activities.

(b) during the second Project year:

- (i) implement the Program referred to in Part A.1 (b) of the Project, in accordance with an action plan and schedule agreed with the Association;
  - (ii) initiate the survey referred to in Part A.4 (b) of the Project, in accordance with terms of reference agreed with the Association;
  - (iii) but not later than July 31, 1992, initiate the Master Plan referred to in Part C.3 of the Project, in accordance with terms of reference agreed with the Association; and
  - (iv) but not later than October 31, 1991, formulate the policy and strategic investment plan referred to in Part B.1 of the Project.
- 