

CONFORMED COPY

CREDIT NUMBER 3288-MOZ

Development Credit Agreement

(Railways and Ports Restructuring Project)

between

REPUBLIC OF MOZAMBIQUE

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated October 28, 1999

CREDIT NUMBER 3288-MOZ

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated October 28, 1999, between REPUBLIC OF MOZAMBIQUE (the Borrower) and INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association).

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

(B) the Association has received a letter dated April 16, 1999, from the Borrower describing a program of actions, objectives and policies designed to strengthen its transport sector (the Program) and declaring the Borrower's commitment to the execution of the Program;

(C) Parts A, B, and C of the Project will be carried out by Portos e Caminhos de Ferro de Moçambique E. P. (CFM) with the Borrower's assistance, and as part of such assistance, the Borrower will make available to the CFM part of the proceeds of the Credit as provided in this Agreement;

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

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 December 2, 1997) (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) "Banco de Moçambique" means the central bank of the Borrower;
- (b) "CFM" means Portos e Caminhos de Ferro de Moçambique E.P., a company established and operating pursuant to the Borrower's decree No. 40/94 of 1994;
- (c) "INAC" means Instituto Nacional de Aviação Civil, the Borrower's Institute of Civil Aviation;
- (d) "Mozambican Metical" and "Mt" mean the currency of the Borrower;
- (e) "MTC" means the Borrower's Ministry of Transport and Communications;
- (f) "Performance Contract" means the contract to be entered into between the Borrower and CFM pursuant to Section 6.01 (e) of this Agreement, containing inter alia, the corporate restructuring strategy, debt service obligations, investment program and its financing, public service obligations, and flow of funds generated by CFM activities and concessions;
- (g) "Performance Indicators" means the indicators referred to in Schedule 6 to this Agreement;
- (h) "Project Account" means the account referred to in Section 3.05 of this Agreement;
- (i) "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;
- (j) "Project Management Report" means each report prepared in accordance with Section 4.02 of this Agreement;
- (k) "Project Preparation Advance" means the project preparation advance granted by the Association to the Borrower pursuant to an exchange of letters dated March 5, 1998, and March 25, 1998, as amended, between the Borrower and the Association;
- (l) "Regulatory Agency" means the Borrower's regulatory agency for the railway and port sectors to be established under Part E.2 of the Project;
- (m) "Social Mitigation Plan" means the plan to mitigate social consequences of retrenchment, adopted by the Borrower on April 22, 1999;
- (n) "Staff Rationalization Plan" means the staff rationalization and redeployment plan to be adopted by the Borrower pursuant to Section 6.01 (j) of this Agreement;
- (o) "Special Account" means the account referred to in Section 2.02 (b) of this Agreement; and
- (p) "Subsidiary Agreement" means the agreement to be entered into between the Borrower and CFM, pursuant to Section 3.01 (d) of this Agreement, as the same may be

amended from time to time, and such term includes all schedules to the Subsidiary Agreement.

ARTICLE II

The Credit

Section 2.01. The Association agrees to lend to the Borrower, on the terms and conditions set forth or referred to in the Development Credit Agreement, an amount in various currencies equivalent to seventy-three million eight hundred thousand Special Drawing Rights (SDR 73,800,000).

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, works 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 may, for the purposes of the Project, open and maintain in Dollars a special deposit account, in a commercial bank on terms and conditions satisfactory to the Association including appropriate protection against set-off, seizure and 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 canceled.

Section 2.03. The Closing Date shall be June 30, 2005 or such later date as the Association shall establish. The Association shall promptly notify the Borrower of such later date.

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

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

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

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

Section 2.06. Commitment charges and service charges shall be payable semiannually on February 1 and August 1 in each year.

Section 2.07. (a) Subject to paragraphs (b), (c) and (d) below, the Borrower shall repay the principal amount of the Credit in semiannual installments payable on each February 1 and August 1, commencing February 1, 2010, and ending August 1, 2039. Each installment to and including the installment payable on August 1, 2019, 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, shall carry out Parts D, E, and F of the Project through MTC, with due diligence and efficiency and in conformity with appropriate administrative, financial, engineering, environmental, and technical practices, and shall provide, promptly as needed, the funds, facilities, services and other resources required for the Project.

(b) Without any limitation or restriction upon any of its other obligations under the Development Credit Agreement, the Borrower shall cause CFM to perform in accordance with the provisions of the Project Agreement all the obligations of CFM therein set forth, shall take and cause to be taken all action, including the provision of funds, facilities, services and other resources, necessary or appropriate to enable CFM to perform such obligations, and shall not take or permit to be taken any action which would prevent or interfere with such performance.

(c) 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 Parts D, E, and F of the Project through MTC and cause CFM to carry out Parts A, B, and C of the Project, all in accordance with the Implementation Program set forth in Schedule 4 to this Agreement.

(d) For the purposes of Parts A, B and C of the Project, the Borrower shall: (i) relend the proceeds of the Credit allocated from time to time to Categories 2(a), 3(a), 4(a) and 5(a) of the table in paragraph 1 of Schedule 1 to this Agreement to CFM; and (ii) make available, as grant, the proceeds of the Credit allocated from time to time to Category 5(b) of the table in paragraph 1 of Schedule 1 to this Agreement, both under a subsidiary agreement to be entered into between the Borrower and CFM (the Subsidiary Agreement) under terms and conditions which shall have been approved by the Association.

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

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

Section 3.03. For the purposes of Section 9.07 of the General Conditions and without limitation thereto, the Borrower shall:

(a) prepare, on the basis of guidelines acceptable to the Association and furnish to the Association not later than six (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 3.04. 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 Parts A, B, and C of the Project shall be carried out by CFM pursuant to Section 2.03 of the Project Agreement.

Section 3.05. Without limitation to its obligations under Section 3.01 of this Agreement, the Borrower shall:

(a) open and maintain an account (the Project Account), in dollars equivalent, in a commercial bank on terms and conditions satisfactory to the Association;

(b) promptly thereafter, make an initial deposit into such account, in an amount equivalent to \$50,000, to finance the Borrower's contribution to the Project;

(c) deposit into the Project Account by January 1, April 1, July 1 and October 1, in each year, until the completion of the Project, an amount equivalent to \$50,000, subject to a limit of \$100,000 equivalent in the balance of the Project Account; and

(d) use the Project Account funds exclusively to finance expenditures under the Project.

Section 3.06. Without limitation to its obligations under Sections 3.01 and 3.05 of this Agreement, the Borrower shall open and maintain: (i) a dedicated account in Meticaïs to deposit the Borrower's contribution for severance payments in an amount identified in the Staff Rationalization Plan; and (ii) a dedicated account in Meticaïs to deposit the Association's share from the proceeds of the Credit to be used for the payment of severance under Category 5 of Schedule 1 to this Agreement.

Section 3.07. The Borrower shall: (i) no later than 12 months after the Effective Date, carry out, in accordance with terms of reference satisfactory to the Association, a study on the problems and proposed arrangements relating to the payment of pensions to the workers of public sector enterprises under the Borrower's responsibility, including CFM; (ii) discuss the findings of the said study with the Association; and (iii) thereafter promptly implement the recommendations emanating therefrom.

ARTICLE IV

Financial Covenants

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

(b) The Borrower shall:

(i) have the records and accounts referred to in paragraph (a) of this Section including those for the Special Accounts for each fiscal year audited, in accordance with appropriate auditing principles consistently applied, by independent auditors acceptable to the Association;

(ii) furnish to the Association as soon as available, but in any case not later than six months after the end of each such year, the report of such audit by said auditors, of such scope and in such detail as the Association shall have reasonably requested; and

(iii) furnish to the Association such other information concerning said records and accounts and the audit thereof as the Association shall from time to time reasonably request.

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

(i) maintain or cause to be maintained, in accordance with paragraph (a) of this Section, records and accounts reflecting such expenditures;

(ii) retain, until at least one year after the Association has received the audit report for the fiscal year in which the last withdrawal from the Credit Account 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.

Section 4.02. (a) Without limitation upon the provisions of Section 4.01 of this Agreement, the Borrower shall carry out or, in the case of Parts A, B and C of the Project, cause CFM to carry out, a time-bound action plan acceptable to the Association for the strengthening of its financial management system for the Project in order to enable the Borrower, not later than 18 months after the Effective Date, or such later date as the Association shall agree, to prepare quarterly Project management reports, acceptable to the Association, each of which:

(i) (A) sets forth actual sources and applications of funds for the Project, both cumulatively and for the period covered by said report, and projected sources and applications of funds for the Project for the six-month period following the period covered by said report; and (B) shows separately expenditures financed out of the proceeds of the Credit during the period covered by said report and expenditures proposed to be financed out of the proceeds of the Credit during the six-month period following the period covered by said report;

(ii) (A) describes physical progress in Project implementation, both cumulatively and for the period covered by said report; and (B) explains variances between the actual and previously forecast implementation targets; and

(iii) sets forth the status of procurement under the Project and expenditures under contracts financed out of the proceeds of the Credit, as at the end of the period covered by said report.

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

ARTICLE V

Remedies of the Association

Section 5.01. Pursuant to Section 6.02 (1) of the General Conditions, the following additional events are specified:

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

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

Section 5.02. Pursuant to Section 7.01 (h) of the General Conditions, the following additional event is specified, namely that the events specified in paragraphs (b) and (c) of Section 5.01 of this Agreement shall occur and shall continue for a period of 30 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) CFM has appointed a financial management committee for CFM with terms of reference acceptable to the Association;

(b) the Borrower has appointed a financial management committee for MTC, with terms of reference acceptable to the Association;

(c) the Borrower has established a project accounting system within MTC for the purpose of Section 4.01 of this Agreement, satisfactory to the Association;

(d) CFM has established a project accounting system for the purpose of Section 4.01 of the Project Agreement, satisfactory to the Association;

(e) CFM has appointed a financial manager, in accordance with the provisions of Section II of Schedule 3 to this Agreement;

(f) the Performance Contract between the Borrower and CFM, in form and substance satisfactory to the Association, has been executed;

(g) the Subsidiary Agreement has been executed on behalf of the Borrower and CFM;

(h) the Borrower has, in accordance with Section 3.05 (b) of this Agreement, made the initial deposit into the Project Account;

(i) CFM has appointed an independent external auditor, in accordance with the

provisions of Section II of Schedule 3 to this Agreement; and

(j) the Borrower has adopted a Staff Rationalization Plan, in form and substance satisfactory to the Association.

Section 6.02. The following are specified as additional matters, within the meaning of Section 12.02 (b) of the General Conditions, to be included in the opinion or opinions to be furnished to the Association:

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

(b) that the Subsidiary 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.

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 the Banco de Moçambique 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:

Governor
Banco de Moçambique
Departamento de Relações Internacionais
Maputo
Republic of Mozambique

For the Association:

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

Cable address:

INDEVAS
Washington, D.C.

Telex:

248423 (MCI) or
64145 (MCI)

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

REPUBLIC OF MOZAMBIQUE

By /s/ Marcos Namashulua

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Callisto Madavo

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	6,080,000	100% of foreign expenditures and 90% of local expenditures
(2) Goods		100% of foreign expenditures and 90% of local expenditures
(a) CFM	1,110,000	
(b) MTC	590,000	
(3) Consultants' services		100%
(a) CFM	4,870,000	
(b) MTC	5,310,000	
(4) Training		100%
(a) CFM	3,690,000	
(b) MTC	300,000	
(5) Severance payments and social mitigation		100% of local expenditures
(a) For loans under Part B.1 (a)	25,060,000	
(b) For grants under Part B.1 (b)	22,120,000	
(6) Refunding of Project Preparation Advance	740,000	Amounts due pursuant to Section 2.02 (c) of this Agreement
(7) Unallocated	3,930,000	
TOTAL	73,800,000	

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 "severance payments and social mitigation" means payments made by CFM, under Part B of the Project, to its employees separated pursuant to the Staff Rationalization Plan.

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of payments made for expenditures prior to the date of this Agreement.

4. Notwithstanding the provision of paragraph 1 above, each withdrawal in respect of payments made for expenditures under Category (5), shall be made only after the Borrower has furnished to the Association, a report of an independent auditor certifying: (i) that the computation of the severance payment is in accordance with the Staff Rationalization Plan; (ii) that the corresponding share of the Borrower for the statutory severance payment has been deposited in the name of CFM in an account opened for such purpose; and (iii) that the invoice for the negotiated severance payment is submitted in conjunction with the invoice for the statutory severance payment.

5. The Association may require withdrawals from the Credit Account to be made on the basis of statements of expenditure for expenditures for: (i) works under contracts costing less than \$500,000 equivalent each; (ii) goods under contracts costing less than \$100,000 equivalent each; (iii) for services of firms under contracts costing less than \$100,000 equivalent each; (iv) for services of individual consultants under contracts costing less than \$50,000 equivalent each, and (v) severance payments and social mitigation, under such terms and conditions as the Association shall specify by notice to the Borrower.

SCHEDULE 2

Description of the Project

The objectives of the Project are to: (i) increase the operating efficiency of the Borrower's three major port-rail systems thus enabling the Borrower to increase their share of the international freight traffic from the neighboring countries; and (ii) strengthen the transport sector policy, the regulatory framework, and the institutional capacity of MTC.

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: Concession of CFM Ports and Railways

Strengthening of the operational capabilities of CFM, through technical advisory services, to:

(a) prepare, design, negotiate, implement and monitor concession agreements, and carry out its responsibilities as equity shareholder in concession companies; and

(b) enter into concession agreements in respect of: (i) the Nacala port system including the port terminals, the sea and land-side port services, and the Nacala railway systems; (ii) the Beira port system, including the port terminals, the sea and land-side port services, and the Beira railway systems; and (iii) the Maputo port system including the port terminals, the sea and land-side port services, and the Maputo railway systems.

Part B: Staff Rationalization

1. Assisting CFM to carry out a program for the retrenchment of staff of CFM declared redundant as a result of the restructuring of CFM, including the provision of: (a) negotiated severance payments, and (b) statutory severance payments.

2. Assisting CFM to carry out a program of redeployment of said redundant CFM Staff, including:

(a) provision to such staff of counseling services: (i) relating to available retrenchment packages and how best to utilize such packages; and (ii) enabling redundant staff to deal with job loss and to be better informed of available job options, and providing psychological counseling and support services; and

(b) development of retraining programs to assist redundant staff to enhance their chances of: (i) reemployment and integration into the labor market; or (ii) setting up businesses of their own.

3. Assisting CFM in the carrying out of a program to mitigate the adverse social impact of staff redundancy and rationalization, consistent with the Social Mitigation Plan.

4. Assisting CFM in the establishment and operation of a pension fund.

5. Assisting CFM in the development of a system for the dissemination of information on a regular basis regarding the issues pertaining to the restructuring of CFM in general and staff rationalization program in particular.

6. Provision of technical advisory services and acquisition of equipment in connection with this Part B.

Part C: Corporate Restructuring

1. The carrying out of a study to: (i) review the legal framework for creating holding and subsidiary companies to take over some of the functions of CFM; (ii) formulate such changes as may be necessary in the statutes of CFM; (iii) prepare the Articles of Association for the holding and the subsidiary companies; (iv) design the internal organization, structure and regulations for the new holding and subsidiary companies; and (v) design and establish a technical regulatory unit within CFM.

2. Provision of technical advisory services and acquisition of equipment in connection with this Part C.

Part D: Strengthening of MTC

1. The carrying out of a study to: (i) review the Borrower's transport policy framework; (ii) review the framework for concessions; (iii) define the new functions of MTC and assess MTC's organizational structure in the framework of its evolving role; and (iv) determine staffing requirements, taking into account the Borrower's civil service reform program.

2. The provision of technical advisory services in connection with this Part D.

Part E: Regulatory Framework

1. The carrying out of a study to (i) identify the scope, functions, and instruments for the economic regulatory framework for the transport sector; (ii) recommend the sectoral coverage and accountability relationships for the regulatory institution; (iii) define the staffing, internal organization, operating costs and financing mechanisms for a new regulatory agency; and (iv) prepare the necessary draft legislation.

2. The acquisition of equipment and provision of technical advisory services to (i) enable the launching of the Borrower's new regulatory agency and the preparation of its staff in the carrying out of the agency's functions; (ii) support the functioning of the agency for an initial period of 3-5 years; and (iii) strengthen INAC's capabilities in the technical regulation of the civil aviation subsector.

Part F: Tertiary Ports

1. Assisting MTC in the carrying out of a program of rehabilitation of the small ports of Angoche, Macuse, Mocimboa da Praia, and Pebane.

2. The provision of technical advisory services for: (i) the supervision of the civil works in the said four ports, and (ii) the preparation of a study on the revitalization of the Inhambane Port.

* * *

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

SCHEDULE 3

Procurement and Consultants' Services

Section I. Procurement of Goods and Works

Part A: General

Goods and works shall be procured in accordance with: (a) the provisions of Section I of the "Guidelines for Procurement under IBRD Loans and IDA Credits" published by the Bank in January 1995 and revised in January and August 1996 and September 1997, and January 1999, (the Guidelines); and (b) the provisions of the following Parts of this Section I.

Part B: International Competitive Bidding

1. Except as otherwise provided in Part C of this Section, goods and works shall be procured under contracts awarded in accordance with the provisions of Section II of the Guidelines and paragraph 5 of Appendix 1 thereto.

2. The following provisions shall apply to goods and works to be procured under contracts awarded in accordance with the provisions of paragraph 1 of this Part B.

(a) Grouping of contracts

To the extent practicable, contracts for goods and works shall be grouped in bid packages estimated to cost \$100,000 equivalent or more each.

(b) Preference for domestically manufactured goods and domestic contractors

The provisions of paragraphs 2.54 and 2.55 of the Guidelines and Appendix 2 thereto shall apply to goods manufactured in the territory of the Borrower and works to be carried out by domestic contractors.

(c) Notification and Advertising

The invitation to prequalify or bid for each contract estimated to cost \$10,000,000 equivalent or more shall be advertised in accordance with the procedures applicable to large contracts under paragraph 2.8 of the Guidelines.

Part C: Other Procurement Procedures

1. National Competitive Bidding

Goods and works estimated to cost less than \$500,000 equivalent per contract, up to an aggregate amount not to exceed \$2,000,000 equivalent, may be procured under contracts awarded in accordance with the provisions of paragraphs 3.3 and 3.4 of the Guidelines.

2. International Shopping

Goods estimated to cost less than \$30,000 equivalent per contract, up to an aggregate amount not to exceed \$1,000,000 equivalent, may be procured under contracts awarded on the basis of international shopping procedures in accordance with the provisions of paragraphs 3.5 and 3.6 of the Guidelines.

3. National Shopping

Goods estimated to cost less than \$10,000 equivalent per contract, up to an

aggregate amount not to exceed \$200,000 equivalent, may be procured under contracts awarded on the basis of national shopping procedures in accordance with the provisions of paragraphs 3.5 and 3.6 of the Guidelines.

Part D: Review by the Association of Procurement Decisions

1. Procurement Planning

Prior to the issuance of any invitations to prequalify for bidding or to bid for contracts, the proposed procurement plan for the Project shall be furnished to the Association for its review and approval, in accordance with the provisions of paragraph 1 of Appendix 1 to the Guidelines. Procurement of all goods and works shall be undertaken in accordance with such procurement plan as shall have been approved by the Association, and with the provisions of said paragraph 1.

2. Prior Review

(a) With respect to each contract estimated to cost the equivalent of \$30,000 or more, the procedures set forth in paragraphs 2 and 3 of Appendix 1 to the Guidelines shall apply.

(b) With respect to each contract estimated to cost the equivalent of \$30,000 or more, the following procedures shall apply:

(i) prior to the selection of any supplier under shopping procedures the Borrower shall provide to the Association a report on the comparison and evaluation of quotations received;

(ii) prior to the execution of any contract procured under direct contracting or shopping procedures, the Borrower shall provide to the Association a copy of the specifications and the draft contract; and

(iii) the procedures set forth in paragraphs 2 (f) and 2 (g) and 3 of Appendix 1 to the Guidelines shall apply.

3. Post Review

With respect to each contract not governed by paragraph 2 of this Part, the procedures set forth in paragraph 4 of Appendix 1 to the Guidelines shall apply.

Section II. Employment of Consultants

Part A: General

1. Consultants' services shall be procured in accordance with: (a) the provisions of the Introduction and Section IV of the "Guidelines: Selection and Employment of Consultants by World Bank Borrowers" published by the Bank in January 1997 and revised in September 1997, and January 1999 (the Consultant Guidelines), and (b) the provisions of the following Parts of this Section II.

Part B: Quality- and Cost-based Selection

1. Except as otherwise provided in Part C of this Section, consultants' services shall be procured under contracts awarded in accordance with the provisions of Section II of the Consultant Guidelines, paragraph 3 of Appendix 1 thereto, Appendix 2 thereto, and the provisions of paragraphs 3.13 through 3.18 thereof applicable to quality- and cost-based selection of consultants.

2. The following provisions shall apply to consultants services to be procured under contracts awarded in accordance with the provisions of the preceding paragraph. The short list of consultants for services estimated to cost less than \$100,000 equivalent per contract, may comprise entirely national consultants in accordance with the provisions of paragraph 2.7 of the Consultant Guidelines.

Part C: Other Procedures for the Selection of Consultants

1. Individual Consultants

Services for tasks that meet the requirements set forth in paragraph 5.01 of the Consultant Guidelines shall be procured under contracts awarded to individual consultants in accordance with the provisions of paragraphs 5.1 through 5.3 of the Consultant Guidelines.

Part D: Review by the Association of the Selection of Consultants

1. Selection Planning

Prior to the issuance to consultants of any requests for proposals, the proposed plan for the selection of consultants under the Project shall be furnished to the Association for its review and approval, in accordance with the provisions of paragraph 1 of Appendix 1 to the Consultant Guidelines. Selection of all consultants' services shall be undertaken in accordance with such selection plan as shall have been approved by the Association, and with the provisions of said paragraph 1.

2. Prior Review

(a) With respect to each contract for the employment of consulting firms estimated to cost the equivalent of \$200,000 or more, the procedures set forth in paragraphs 1, 2 (other than the third subparagraph of paragraph 2 (a)) and 5 of Appendix 1 to the Consultant Guidelines shall apply.

(b) With respect to each contract for the employment of consulting firms estimated to cost the equivalent of \$100,000 or more, but less than the equivalent of \$200,000, the procedures set forth in paragraphs 1, 2 (other than the second subparagraph of paragraph 2 (a)) and 5 of Appendix 1 to the Consultant Guidelines shall apply.

(c) With respect to each contract for the employment of individual consultants estimated to cost the equivalent of \$50,000 or more, the qualifications, experience, terms of reference and terms of employment of the consultants shall be furnished to the Association for its prior review and approval. The contract shall be awarded only after said approval shall have been given.

3. Post Review

With respect to each contract not governed by paragraph 2 of this Part, the procedures set forth in paragraph 4 of Appendix 1 to the Consultant Guidelines shall apply.

SCHEDULE 4

Implementation Program

1. The Borrower shall:

(a) not later than May 31 each year, commencing May 31, 2000, undertake, in conjunction with CFM, and jointly with the Association, an annual review on all matters relating to the progress of the Project and, in particular the progress achieved in the implementation of the Project during the previous Fiscal Year, having regard to the Performance Indicators; and

(b) furnish to the Association:

(i) semiannual financial statements indicating all revenues and expenditures for the rail and port sector, according to the source of funds, the budget items; and

(ii) not later than one month prior to the annual review referred to in paragraph (a) above, or such later date as the Association may agree, a report, in such detail as the Association shall reasonably request, integrating the results of the monitoring and evaluation activities performed during the previous Fiscal Year and setting out the measures proposed to ensure the efficient carrying out of the Project and the

achievement of the objectives thereof during the period following such date, and the report of actual expenditures against the budget for the previous Fiscal Year.

2. The Borrower 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 6 to this Agreement, the carrying out of the Project and the achievement of the objectives thereof;

(b) prepare, under terms of reference satisfactory to the Association, and furnish to the Association, on or about March 31, 2001, a report integrating the results of the monitoring and evaluation activities performed pursuant to paragraph (a) of this Section, 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) in conjunction with CFM, review with the Association, by May 31, 2001, or such later date as the Association shall request, the report referred to in subparagraph (b) of this paragraph, and, thereafter, take all measures required to ensure the efficient completion of the Project and the achievement of the objectives thereof, based on the conclusions and recommendations of the said report and the Association views on the matter.

SCHEDULE 5

Special Account

1. For the purposes of this Schedule:

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

(b) the term "eligible expenditures" means expenditures in respect of the reasonable cost of goods, work 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 deposit into the Special Account of an amount or amounts which do not exceed the aggregate amount of the Authorized Allocation. On the basis of such request or requests, the Association shall, on behalf of the Borrower, withdraw from the Credit Account and deposit into the Special Account such amount or amounts as the Borrower shall have requested.

(b) (i) For replenishment of the Special Account, the Borrower shall furnish to the Association requests for deposits into the Special Account at such intervals as the Association shall specify.

(ii) Prior to or at the time of each such request, the Borrower shall furnish to the Association the documents and other evidence required pursuant to paragraph 4 of this Schedule for the payment or payments in respect of which replenishment is requested. On the basis of each such request, the Association shall, on behalf of the Borrower,

withdraw from the Credit Account and deposit into the Special Account such amount as the Borrower shall have requested and as shall have been shown by said documents and other evidence to have been paid out of the Special Account for eligible expenditures. All such deposits shall be withdrawn by the Association from the Credit Account under the respective eligible Categories, and in the respective equivalent amounts, as shall have been justified by said documents and other evidence.

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

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

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

(b) if the Borrower shall have failed to furnish to the Association, within the period of time specified in Section 4.01 (b) (ii) of this Agreement, any of the audit reports required to be furnished to the Association pursuant to said Section in respect of the audit of the records and accounts for the Special Account;

(c) if, at any time, the Association shall have notified the Borrower of its intention to suspend in whole or in part the right of the Borrower to make withdrawals from the Credit Account pursuant to the provisions of Section 6.02 of the General Conditions; or

(d) once the total unwithdrawn amount of the Credit allocated to the eligible Categories, minus the total amount of all outstanding special commitments entered into by the Association pursuant to Section 5.02 of the General Conditions with respect to the Project, shall equal the equivalent of twice the amount of the Authorized Allocation. Thereafter, withdrawal from the Credit Account of the remaining unwithdrawn amount of the Credit allocated to the eligible Categories shall follow such procedures as the Association shall specify by notice to the Borrower. Such further withdrawals shall be made only after and to the extent that the Association shall have been satisfied that all such amounts remaining on deposit in the Special Account as of the date of such notice will be utilized in making payments for eligible expenditures.

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

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

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

(d) Refunds to the Association made pursuant to paragraph 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

Performance Indicators

1. Capital or operating subsidy from the Borrower to CFM.
 2. Dividends from CFM to the Borrower.
 3. Implementation of the Staff Rationalization Plan, in particular: (i) the rate of retrenchment of surplus staff; (ii) the rate of training, retraining, and counseling of retrenched staff; and (iii) the rate of redeployment of retrenched staff.
 4. The freight traffic from the neighboring countries.
 5. Signing and operationalization of sea port and rail concessions.
- 