

CONFORMED COPY

CREDIT NUMBER 2081 MOZ

Development Credit Agreement
(Industrial Enterprise Restructuring Project)

between

PEOPLE'S REPUBLIC OF MOZAMBIQUE

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated February 7, 1990

CREDIT NUMBER 2081 MOZ

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated February 7, 1990, between PEOPLE'S 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 Borrower intends to contract from the Government of Italy (Italy) a grant (the Italian Grant) to assist in the financing of Part A of the Project on the terms and conditions set forth in an agreement (the Italian Grant Agreement) to be entered into between the Borrower and Italy; and

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

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

1 To be identified after completion of negotiations with the Government of Italy.

the following additional terms have the following meanings:

(a) "MIE" means the Ministry of Industry and Energy of the Borrower;

(b) "MOF" means the Ministry of Finance of the Borrower;

(c) "ERTU" means Enterprise Restructuring Technical Unit (Unidade Tecnica para a Reorganizacao das Empresas), a unit of MOF established and operating pursuant to Despacho issued by the Minister of Finance of the Borrower dated February 19, 1988, and with the functions and staffing set forth in paragraph 2 of Schedule 6 to this Agreement;

(d) "BM" means Bank of Mozambique (Banco de Mocambique), the Central Bank of the Borrower;

(e) "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 term includes all schedules to the Subsidiary Administration Agreement;

(f) "Beneficiary Enterprise" or "BE" means any enterprise constituted under Mozambican law selected by the Borrower in consultation with the Association on the basis of its potential technical, economic and financial viability to which BM: (i) proposes to make or has made a Sub-loan, or (ii) has transferred an investment made by the Borrower;

(g) "Subproject" means a specific project to be carried out by an existing BE utilizing the proceeds of a Sub-loan or Investment, as hereinafter defined, fulfilling the conditions set forth in Part A of Schedule 4 to this Agreement;

(h) "Sub-loan" means a loan or credit made, or proposed to be made, by BM to a BE for a Subproject out of the equivalent of the proceeds of the Credit made available to BM under the Subsidiary Administration Agreement;

(i) "Sub-loan Agreement" means an agreement entered into between BM and a BE, under which BM agrees to provide a Sub-loan to a BE, pursuant to Section 3.01 (e) of this Agreement;

(j) "Investment" means an investment other than a Sub-loan, transferred by BM to a BE on behalf of the Borrower, for a Subproject, out of the equivalent of the proceeds of the Credit made available to BM under the Subsidiary Administration Agreement;

(k) "Investment Agreement" means the agreement entered into between a BE and BM, under which BM agrees, on behalf of the Borrower, to provide funds to assist the BE in undertaking its respective financial restructuring;

(l) "Rehabilitation Plan" means a technical plan prepared by an enterprise applying to BM for a Sub-loan and/or an Investment to finance its rehabilitation and financial restructuring program, in accordance with the provisions of Part C.4 of Schedule 4 to this Agreement;

(m) "CREE" means Comissao de Relacoes Economicas Externas the Commission for External Economic Relations, established and operating pursuant to Presidential Decree No. 19/89 of the Borrower dated April 29, 1989;

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

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

(p) "Project Preparation Advance" means the project preparation advances granted by the Association to the Borrower pursuant to an exchange of letters dated December 12, 1987 and January 19, 1988, and May 30, 1989 and June 23, 1989, between the Borrower and the Association;

(q) "Interministerial Working Group" or "IWG" means the group established by Despacho of the Minister of Finance of the Borrower dated September 20, 1989, as set forth in paragraph 3 of Schedule 6 to this Agreement; and

(r) "Fiscal Year" or "FY" means the Borrower's fiscal year which runs from January 1 to December 31.

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 forty million Special Drawing Rights (SDR 40,000,000).

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. 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. BM is designated as representative of the Borrower for the purposes of taking any action required or permitted to be taken under the provisions of Section 2.02 and Article V of the General Conditions.

Section 2.04. The Closing Date shall be December 31, 1997 or such later date as the Association shall establish. The Association shall promptly notify the Borrower of such later date.

Section 2.05. (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 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 2.06. 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 2.07. Commitment charges and service charges shall be payable semi-annually on May 15 and November 15 in each year.

Section 2.08. (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 May 15 and November 15 commencing May 15, 2000 and ending November 15, 2029. Each installment to and including the installment payable on November 15, 2009 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 2.09. 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:

- (i) Parts A.1 and A.2 of the Project, through BM;
- (ii) Parts B.1; B.2; B.3, B.4 (b) and B.5 of the Project, through MOF; and
- (iii) Parts B.4 (a) of the Project, through MIE.

(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, make available to BM an amount equivalent to thirty-one million nine hundred thousand Special Drawing Rights (SDR 31,900,000) for making Sub-loans to and Investments in eligible BEs, on behalf of the Borrower, under a 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

set forth in Schedule 4 to this Agreement; (ii) the Subsidiary Administration Agreement shall include, inter alia, the following provisions:

- (A) Subproject eligibility criteria, processing and administration procedures and onlending terms and conditions for Sub-loans and Investments;
- (B) definition of BM's functions and responsibilities regarding the implementation of Parts A.1 and A.2 of the Project;
- (C) the obligation of BM to enter into Sub-loan Agreements or Investment Agreements with BEs under terms and conditions which shall have been approved by the Association; and
- (D) the Borrower shall carry:
 - (i) the commercial and foreign exchange risks, in the case of Investments; and
 - (ii) the foreign exchange risk, in the case of Sub-loans.

(d) The Borrower shall exercise and cause BM to exercise their 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) Unless the Association shall otherwise agree, the Borrower shall ensure that Sub-loans and Investments made by BM under Part A of the Project will be made in accordance with the terms and conditions set forth in Schedule 4 to this Agreement.

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. The Borrower shall:

- (a) not later than April 30, 1991, furnish to the Association acceptable terms of reference to carry out the studies referred to in Part B.4 (a);
- (b) not later than December 31, 1991:
 - (i) carry out and complete, under terms of reference satisfactory to the Association, the studies referred to in Part B.4 (a) of the Project; and
 - (ii) submit to the Association the recommendations of said studies;
- (c) not later than June 30, 1992 exchange views with the Association on said recommendations and agree with the Association on an action program and a timetable for the implementation of said recommendations; and
- (d) not later than March 30, 1993, carry out said action program.

Section 3.04. The Borrower shall:

- (a) not later than December 31, 1990, prepare and complete an action plan (the Plan) to determine the legal ownership status of enterprises under government intervention in accordance with the provisions of Decree-Law No. 16/75 of the Borrower, dated February 13, 1975, as amended;
- (b) promptly thereafter, take all legal and administrative measures necessary to implement the Plan; and

(c) not later than June 30, 1993, review jointly with the Association, progress achieved in implementing the Plan.

Section 3.05. The Borrower shall:

(a) not later than June 30, 1991, and not later than June 30 of each year thereafter until the completion of the Project, review jointly with the Association, the following:

- (i) progress achieved in Project implementation and meeting Project objectives, including interest rates applicable to Sub-loans under Part A.1 of the Project;
- (ii) Subproject eligibility criteria and onlending terms and conditions referred to in Schedule 4 to this Agreement; and

(b) promptly thereafter, implement the recommendations of such reviews in accordance with an action plan and timetable as agreed between the Borrower and the Association.

Section 3.06. The Borrower shall maintain ERTU and IWG during the execution of the Project with such responsibilities, powers, facilities and staff whose experience and qualifications are satisfactory to the Association, as are specified in Schedule 6 to this Agreement.

ARTICLE IV

Financial Covenants

Section 4.01. (a) The Borrower shall through ERTU maintain in respect of the Project, records and accounts adequate to reflect in accordance with sound accounting practices the operations, resources and expenditures.

(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 six months after the end of each such year, a certified copy of the report of such audit by said auditors, of such scope and in such detail as the Association shall have reasonably requested; and
- (iii) furnish to the Association such other information concerning said records, accounts and the audit thereof as the Association shall from time to time reasonably request.

(c) For all expenditures with respect to which withdrawals from the Credit Account were made on the basis of statements of expenditure, the Borrower 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 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 industrial, financial or 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 dissolution or disestablishment of BM or for the suspension of its operations; and

(d) BM's Statutes shall have been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the ability of BM to perform any of its obligations under the Subsidiary Administration 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 events are specified as additional conditions to the effectiveness of the Development Credit Agreement within the meaning of Section 12.01 (b) of the General Conditions:

(a) the Subsidiary Administration Agreement 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) ERTU's Accountant has been employed with experience and qualifications acceptable to the Association and in accordance with the provisions of paragraph 2 (c) (iv) of Schedule 6 to this Agreement.

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 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; and

(b) that the Subsidiary Administration Agreement has been duly authorized and is legally binding upon the Borrower and BM.

Section 6.03. The date one hundred and 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 the Banco de Mocambique 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 Moqambique
Departamento de Relacoes Internacionais
Avenida 25 de Setembro 1695
P.O. Box 423 Maputo, Mozambique

Cable address:	Telex:
MOBANCO Maputo	6355/7 BMMO

Facsimile:
29178

For the Association:

International Development Association
1818 H Street, N.W.
Washington, D.C. 2033
United States of America

Cable address:	Telex:
INDEVAS Washington, D.C.	440098 (ITT) 248423 (RCA) or 64145 (WUI)

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/ Valeriano Ferrao
Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Edward V. K. Jaycox
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) Goods and services under:		
(a) Part A.1 of the Project;	27,900,000	100% of foreign expenditures of each Sub- project
(b) Part A.2 of the Project	4,000,000	
(2) Consultants' services and training under:		100% of foreign expenditures
(a) Part B.1 of the Project;	2,000,000	
(b) Part B.2 of the Project;	2,000,000	
(c) Part B.4 of the Project; and	400,000	
(d) Part B.5 of the Project	200,000	
(3) Vehicles, equipment and office supplies	200,000	100% of foreign expenditures
(4) Operating costs under Part B.1 (a) of the Project	200,000	100%
(5) Goods, services and training under Part B.3 of the Project	1,100,000	100%
(6) Refunding of Project Prepara- tion Advance	1,200,000	Amount due pur- suant to Section 2.02 (c) of this Agreement
(7) Unallocated	800,000	
TOTAL	40,000,000	

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 "operating costs" means cost of operation and maintenance of equipment, vehicles and buildings used in the execution of the Project as described in Schedule 2 to this Agreement; and

(c) the term "training" means costs of fellowships, conferences, courses and study tours.

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

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

(b) Category (1) (a) unless: (i) the Association has approved a model Sub-loan Agreement to be entered into between BM and the respective BEs, in accordance with the procedures and on the terms and conditions set forth in Schedule 4 to this Agreement; and (ii) ERTU's Procurement Advisor has been employed with qualifications and experience satisfactory to the Association, in accordance with the procedures and on the terms and conditions set forth in Schedule 4 to this Agreement;

(c) expenditures under Category (1) (b) in respect of an Investment unless the Association has approved the Investment Agreement entered into between BM on behalf of the Borrower and the respective BE; and

(d) expenditures under Category (5) unless the Association has approved the action plans prepared by the Borrower to carry out Part B.3 of the Project.

SCHEDULE 2

Description of the Project

The objectives of the Project are to:

(a) assist in financing rehabilitation, financial restructuring and operational support to potentially efficient major enterprises in the industrial sector of the Borrower, selected by the Borrower in accordance with the provisions of Schedule 4 to this Agreement;

(b) strengthen the Borrower's capabilities to undertake an enterprise rehabilitation program including the implementation of measures to protect the environment and worker safety; and

(c) support policy reforms and sub-sector studies designed to strengthen enterprise operations.

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

Part A: Enterprise Rehabilitation

1. The financing of specific Subprojects through loans granted to BEs by BM.

2. The provision through BM of financing to BEs to carry out financing restructuring programs jointly agreed between the Borrower and the Association.

Part B: Institutional Development

1. Assistance to MOF:

(a) Establishment and operation of the Enterprise Restructuring Technical Unit (ERTU);

(b) Development of ERTU's capabilities to:

(i) implement the enterprise rehabilitation program;

(ii) assist the enterprises in the design and implementation of Rehabilitation Plans; and

(iii) appraise Subprojects.

(c) Training of staff of MOF, BM, MIE and BEs in enterprise rehabilitation and restructuring techniques.

2. Assistance to enterprises to:

- (a) develop and implement Rehabilitation Plans; and
- (b) carry out pre-feasibility studies;

3. (a) Training programs for re-deployed staff; and

(b) financing of tools and equipment for re-deployed staff to start up businesses.

4. Carrying out:

(a) studies in the following:

- (i) edible oils sub-sector;
- (ii) textiles sub-sector;
- (iii) metal-fabrication and machinery sub-sector;
- (iv) packaging sub-sector; and
- (v) other sub-sectors jointly identified and agreed between the Borrower and the Association; and

(b) other studies jointly identified and agreed between the Borrower and the Association.

5. Strengthening of the Borrower's Project Implementation capabilities through the provision of assistance and training to:

- (a) BM;
- (b) MIE; and
- (c) MOF.

* * *

The Project is expected to be completed by December 31, 1996.

SCHEDULE 3

Procurement and Consultants' Services

Section I. Procurement of Goods and Works

Part A: International Competitive Bidding

Except as provided in Part D hereof, goods and works estimated to cost the equivalent of \$500,000 or more 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).

Part B: Preference for Domestic Manufacturers

In the procurement of goods in accordance with the procedures described in Part A 1 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 1 hereof, the Borrower may grant a margin of preference to domestic contractors in accordance with, and subject to, the provisions of

paragraphs 2.55 and 2.56 of the Guidelines and paragraph 5 of Appendix 2 thereto.

Part D: Other Procurement Procedures

1. Local Competitive Bidding:

Items or groups of items including civil works estimated to cost less than \$500,000 per contract, may be procured under contracts awarded on the basis of competitive bidding, advertised locally, in accordance with procedures satisfactory to the Association.

2. International or Local Shopping:

Items or groups of items estimated to cost less than the equivalent of \$500,000 per contract, may be procured under contracts awarded on the basis of comparison of price quotations solicited from a list of at least three suppliers eligible under the Guidelines, in accordance with procedures acceptable to the Association.

3. Direct Contracting:

Spare parts and equipment under Parts A and B. 1 of the Project may be procured under direct contracting, in accordance with procedures acceptable to the Association.

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 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.

3. The figure of 15% 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 for Terms and Conditions
of Sub-loans and Investments

Part A. Terms and conditions

1. No expenditures for goods and services required for a Subproject shall be eligible for financing out of the proceeds of the Credit unless the Sub-loan or Investment for such Subproject have been appraised by ERTU and approved by BM and the Association.

2. BM shall relend the Meticais equivalent of the proceeds of the Credit to Beneficiary Enterprises (BEs) for terms of up to fifteen (15) years, including a grace period of up to five (5) years for:

(a) Sub-loans granted for the financing of fixed investments and working capital directly associated with said investments; and

(b) Sub-loans granted for the financing of preparation of a Rehabilitation Plan.

(c) BEs shall repay to BM: (i) Sub-loans under Part A.1 of the Project, on the basis of fixed amortization schedules; and (ii) Investments under Part A.2 of the Project, on the basis of the Investment Agreement entered into between BM on behalf of the Borrower and the respective BE.

3. BM shall retain out of the interest payments due from the BEs in accordance with paragraph 2 (a) of this Schedule:

(a) an annual administration fee at the rate of about one half of one percent (0.5%) per annum on the principal amount of the Sub-loan to cover the cost of credit administration; and

(b) a margin not exceeding forty-five percent (45%) of the nominal interest rate charged on the Sub-loan to the respective BE by BM to cover BM's credit risk.

4. (a) When presenting a Subproject to the Association for approval, ERTU shall furnish to the Association an application, in a form satisfactory to the Association together with: (i) a copy of the Rehabilitation Plan submitted by the BE; (ii) an appraisal report of the Subproject prepared by ERTU, including an analysis of the economic, financial and technical viability of the Subproject, including a description of the environmental measures designed to minimize the discharge of pollutants and to provide for a better and safer working environment; (iii) a description of the goods and services proposed to be financed out of the proceeds of the Credit and respective method of procurement; (iv) the proposed terms and conditions of the Sub-loan or Investment, including the schedule of amortization for repayment; (v) evidence of efforts undertaken by the BE to obtain cofinancing; and (vi) such other information as the Association shall reasonably request.

(b) The Borrower shall review jointly with the Association the Subproject approval procedures referred to in paragraph (a) above after the first three Subprojects have been approved by the Association.

5. Applications made pursuant to the provisions of paragraph 4 of this Schedule shall be presented to the Association on or before December 31, 1996.

6. Sub-loans and Investments shall be made on terms whereby BM shall obtain, by written contract with the respective BEs, rights adequate to protect the interests of the Borrower, the Association and BM, including the right to:

(a) require the BE 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) require that: (i) the goods and services to be financed out of the proceeds of the Credit shall be procured in accordance with the provisions of Schedule 3 to this Agreement; and (ii) such goods and services shall be used exclusively in the carrying out of the Subproject;

(c) inspect, by itself or jointly with representatives of the Borrower, (ERTU) 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;

(d) require that: (i) the BE 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 BE to replace or repair such goods;

(e) 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 BEs and to the benefits to be derived to it from the Subproject;

(f) suspend or terminate the right of the BE to the use of the proceeds of the Credit upon failure by such BE to perform its obligations under its Sub-loan or Investment Agreement, as the case may be, with the respective BEs; and

(g) require that BE present to BM and ERTU semi-annual financial statements and externally audited annual financial statements.

Part B. Eligibility Criteria for Beneficiary Enterprises and Subprojects - General Procedures

1. Enterprises (a) engaged inter alia in agro-related industries, light manufacturing and heavy industry; and (b) with financial, economic, technical and environmental viability confirmed by ERTU are eligible to receive Sub-loans and Investments from BM to carry out Subprojects.

2. Sub-loans and Investments shall be used by BEs to finance rehabilitation, expansion and restructuring of existing enterprises, excluding repayment of BEs' outstanding obligations.

(a) Sub-loans shall be used to finance: (i) fixed assets (including machinery, equipment, factory buildings and related civil works) rehabilitation and replacement; (ii) incremental working capital (including increases in stocks of imported raw materials required to sustain production for the initial period following rehabilitation); (iii) spare parts; and (iv) technical know-how, consultancy services and training.

(b) Investments shall be used for enterprise financial restructuring (including recapitalization, conversions of debt into equity or quasi-equity, and injection of fresh equity through joint-venture or partnership arrangements with local or foreign investors and improved financial and accounting practices. Proceeds of the Investment shall be used to finance the categories of items described in paragraph 2 (a) above.

(c) Unless the Association shall otherwise authorize, the maximum amount that any single BE shall receive through a Sub-loan or Investment, or any combination thereof, shall be the equivalent of eight million dollars (\$8,000,000).

Part C. Specific Procedures

1. BM shall be assisted by ERTU in ensuring that the Subprojects meet the eligibility criteria referred to in Parts B and C of this Schedule. BM shall assign qualified staff to work jointly with ERTU in the appraisal of Subprojects.

2. During implementation, the BEs shall be required:

(a) to achieve and maintain a total debt-equity ratio of not more than 3:1; a liquidity ratio of at least 1.2; and a debt service coverage of at least 1.5;

(b) to obtain BM's prior approval to amend its By-laws; and

(c) not to provide loans, advances or deposits out of the proceeds of the Sub-loan to subsidiaries or other entities whose ownership is in any way connected to the respective BEs.

3. Appraisal of Subprojects

ERTU shall carry out the appraisal of Subprojects in accordance with

procedures acceptable to the Association which shall include the following:

(a) incremental internal financial rate of return (after tax) of at least twelve percent (12%) calculated in constant prices; and

(b) incremental economic rate of return of at least twelve (12%) percent, calculated using border prices or any other method acceptable to the Association.

4. An enterprise applying for a Sub-loan or an Investment shall furnish ERTU with the following:

(a) a Rehabilitation Plan, including inter alia: a marketing plan, a production rehabilitation plan, a management plan, a restructuring plan to restore the enterprise's financial viability and a financing plan;

(b) a legal opinion, confirming that the enterprise is a legal entity and defining its current legal ownership status;

(c) financial statements satisfactory to ERTU; and

(d) all other relevant information and documentation necessary for Subproject appraisal.

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 I to this Agreement; and

(c) the term "Authorized Allocation" means an amount equivalent to \$2,000,000 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 made 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 for the Project, 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 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; and (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

1. Ministry of Finance (MOF)

MOF shall be responsible, through ERTU, for the overall coordination, management and supervision of Project implementation.

2. Enterprise Restructuring Technical Unit (ERTU)

A. Functions

(a) ERTU, established within MOF, shall be responsible for planning, managing and supervising Project implementation, particularly the implementation of the Enterprise Restructuring component referred to in Part A of the Project.

(b) ERTU shall:

- (i) Assist Beneficiary Enterprises (BEs) to identify and select consultants' services to carry out prefeasibility, feasibility and design studies in accordance with the provisions of Section II of Schedule 3 to this Agreement;
- (ii) assist BEs in the design and implementation of the Rehabilitation Plans;
- (iii) in collaboration with the Bank of Mozambique, carry out appraisals of Subprojects to be financed under the Project;
- (iv) jointly with the BEs, develop and implement co-financing plans;
- (v) strengthen the capabilities of local staff through training, especially in Subproject appraisal and enterprise restructuring;
- (vi) provide policy advice to the Borrower through analysis of the impact of specific policies on the performance of enterprises, inter alia, taxation, prices and price controls, production quotas, credit and foreign exchange allocation, industrial licensing, trade (import, export and domestic) policies and policies relating to asset revaluation;
- (vii) ensure completion of the studies referred to in Part B.4 of the Project in accordance with the provisions of Section 3.03 of this Agreement; and
- (viii) ensure effective implementation of the Project.

B. Staffing

(a) ERTU shall be headed by a Project Director who shall report directly to the Minister of Finance. The Project Director shall be responsible inter alia for:

- (i) overall efficient coordination management and supervision of Project Implementation, including interfacing with government agencies and other institutions;
- (ii) day-to-day management and supervision of ERTU and its staff in accordance with the provisions of paragraphs 2.A and 2.B. (b) of this Schedule; and
- (iii) serve as Chairman of the Interministerial Working Group (IWG).

(b) ERTU shall have inter alia the following qualified and experienced technical and support staff:

Technical full-time staff:

- (i) Project Advisor

The Project Advisor, who shall report directly to the Project Director, shall be responsible for assisting the Project Director in inter alia:

- (A) planning and coordinating the work of all other technical staff and consultants employed by ERTU;
- (B) providing advice to the Borrower on the design and implementation of a strategy for enterprise rehabilitation and restructuring financial issues;
- (C) overseeing the undertaking of enterprise reviews, which shall focus on the determination of technically, financially and economically justified rehabilitation and restructuring plans and elaboration of these plans into implementable action programs;
- (D) assisting the Borrower to identify and attract potential private investors to participate in the rehabilitation of specific enterprises as joint venture partners or under management contracts;
- (E) contributing to the efficient implementation of the Project;
- (F) ensuring accurate maintenance of Project records;
- (G) supervising Project financial aspects and preparing records and accounts for Project evaluation, progress reports, action plans and audits related to the Project;
- (H) assisting the Project Director with the recruitment of competent staff for ERTU and the training of local professional staff;
- (I) reviewing and proposing to the Project Director for approval: Project objectives, detailed work program and a budget for the efficient performance of ERTU;
- (J) coordinating and supervising policy or sectoral studies undertaken by ERTU on behalf of the Borrower;
- (K) advising on the regulatory framework as it affects enterprises under the Project; and
- (L) the Project Advisor shall also undertake any other duties, relevant to the operations of ERTU, as may be assigned to him/her from time to time by the Project Director.

(ii) Engineer

The Engineer shall work under the supervision of the Project Advisor. The Engineer shall ensure that all technical aspects of Project implementation are well integrated into the general work of ERTU.

The Engineer shall be responsible inter alia for:

- (A) coordinating ERTU's technical activities, reviewing rehabilitation and restructuring plans for soundness of their technical design. During project implementation assisting the BEs to ensure that the implementation schedules are adhered to and, when necessary, identify any technical or production bottlenecks and suggest appropriate solutions;
- (B) evaluating rehabilitation needs and corresponding design activities and assessing the technical and production implications of capital expenditures to determine their consistency with Subproject objectives and eligibility criteria;
- (C) reviewing and assisting the BEs in establishing

technical specifications for design, construction, and equipment procurement to be undertaken under the respective Rehabilitation Plan;

- (D) reviewing technical proposals and recommending eligible suppliers for contracts to be awarded under the Project; and
- (E) undertaking any other technical duties, relevant to other operations of ERTU, as may be assigned to him/her from time to time by the Project Advisor.

(iii) Economist

The Economist shall work under the supervision of the Project Advisor.

The Economist shall be responsible for developing ERTU's capabilities in economic analysis and Sub-project appraisal.

The Economist shall be responsible inter alia for:

- (A) planning, coordinating and supervising the economic activities of ERTU; undertaking Sub-project appraisal to determine their financial and economic viability; reviewing the economic and financial aspects of enterprise Rehabilitation Plans;
- (B) providing training to local counterparts in the economic and financial aspects of Sub-project appraisal and enterprise restructuring; and
- (C) the Economist shall undertake any other financial and economic arrangement that may be assigned to him/her by the Project Advisor.

(iv) Accountant

The Accountant shall work under the supervision of the Project Advisor, the Accountant and shall be responsible inter alia for: keeping financial records and accounts for all Project components; preparing withdrawal applications for signature by the authorized representative of BM; reconciliation of the Special Account in coordination with BM and in accordance with the Association's disbursement procedures and instructions; preparing statements of expenditures, quarterly reports, and ERTU's annual financial plans; and preparing Project accounts for audit; and

(v) Procurement Advisor

The Procurement Advisor shall be responsible inter alia for:

- (A) providing training; monitoring and supervising all relevant procurement procedures for the acquisition of equipment, vehicles, supplies and services, including the preparation of tender documents; and
- (B) reviewing bids and contract awards in accordance with the Association's Guidelines and other parallel cofinancing agencies.

(vi) Each of the above-mentioned Advisors shall provide training to their respective local counterparts.

Other technical staff

To complement its full-time staff, ERTU shall employ, in accordance with the provisions referred to in Section II of

Schedule 3 to this Agreement, consultants to provide technical assistance to BEs and the Borrower.

3. Interministerial Working Group (IWG)

(a) In discharging his/her responsibilities, the Project Director shall seek the advice of an interministerial working group composed of senior-level officials representing, inter alia:

- (i) Ministry of Industry and Energy;
- (ii) Ministry of Construction and Water;
- (iii) Ministry of Agriculture;
- (iv) Ministry of Transport and Communications; and
- (v) Bank of Mozambique.

(b) The IWG may, at its discretion, request the participation of representatives of the BEs involved in Project implementation to discuss issues of relevance to the respective BEs.

(c) The IWG shall ensure that:

- (i) the relevant sector ministries, BM and the BE enterprises have an opportunity to participate in the design and implementation of Rehabilitation Plans; and
 - (ii) and interministerial agreement is reached with reference to policy issues before Sub-loan and Investment proposals are submitted to the Minister of Finance for approval.
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