

CONFORMED COPY

CREDIT NUMBER 1879 MAI

Development Credit Agreement

(Northern Transport Corridor Project)

between

REPUBLIC OF MALAWI

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated May 6, 1988

CREDIT NUMBER 1879 MAI

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated May 6, 1988, between REPUBLIC OF MALAWI (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 and the United Republic of Tanzania intend to contract from the European Development Fund (hereinafter called EDF) a non-reimbursable contribution (hereinafter called the EDF Grant), and a loan (hereinafter called the EDF Loan) in an aggregate amount approximately equivalent to twenty-two million five hundred thousand European Currency Units (ECU 22,500,000) to assist in the financing of Parts A (i), F (ii) and G (iii) of the Project on the terms and conditions set forth in agreements (hereinafter called the EDF Agreements) to be entered into between the Borrower, the United Republic of Tanzania and EDF;

(C) the Borrower intends to contract from Kreditanstalt fur Wiederaufbau of the Federal Republic of Germany (hereinafter called KfW) a non-reimbursable contribution (hereinafter called the KfW Grant) in an amount approximately equivalent to thirty-one million six hundred thousand deutsche mark (DM 31,600,000) to assist in the financing of Parts A (iii) (a) and A (iii) (b), C and E (i) of the Project on the terms and conditions set forth in an agreement (hereinafter called the KfW Grant Agreement) to be entered into between the Borrower and KfW;

(D) the Borrower intends to contract from the Overseas Development

Administration of the United Kingdom (hereinafter called ODA) a non-reimbursable contribution (hereinafter called the ODA (Malawi) Grant) in an amount approximately equivalent to eleven million eight hundred eighty-one thousand pounds sterling (L11,881,000) to assist in the financing of Parts B (i), B (ii), E (ii), E (iii), E (iv) and G (iii) of the Project on the terms and conditions set forth in an agreement (hereinafter called the ODA (Malawi) Grant Agreement) to be entered into between the Borrower and ODA;

(E) the United Republic of Tanzania intends to contract from the Overseas Development Administration of the United Kingdom (hereinafter called ODA) a non-reimbursable contribution (hereinafter called the ODA (Tanzania) Grant) in an amount approximately equivalent to five hundred thousand pounds sterling (L500,000) to assist in the financing of Parts B (iii) and G (iii) of the Project on the terms and conditions set forth in an agreement (hereinafter called the ODA (Tanzania) Grant Agreement) to be entered into between the United Republic of Tanzania and ODA;

(F) the Borrower intends to contract from the United States Agency for International Development (hereinafter called USAID) a non-reimbursable contribution (hereinafter called the USAID Grant) in an amount of eighteen million dollars (\$18,000,000) to assist in the financing of Parts B (i), B (ii), D, E (ii), E (iii) and E (iv) of the Project on the terms and conditions set forth in an agreement (hereinafter called the USAID Grant Agreement) entered into between the Borrower and USAID on July 24, 1986, as amended on August 26, 1986, and including a supplement to the USAID Grant Agreement to be entered into between the Borrower and USAID;

(G) the Minister for Development Cooperation of The Netherlands (hereinafter called The Netherlands) intends to provide the United Republic of Tanzania with a non-reimbursable contribution (hereinafter called the Dutch Grant) in an amount approximately equivalent to about twenty million Dutch guilders (Dfl 20,000,000) to assist in the financing of Parts A (ii) and G (iii) of the Project on the terms and conditions set forth in an agreement (hereinafter called the Dutch Grant Agreement) to be entered into between the United Republic of Tanzania and The Netherlands.

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

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

General Conditions; Definitions

Section 1.01. The "General Conditions Applicable to Development Credit Agreements" of the Association, dated January 1, 1985, with the last sentence of Section 3.02 deleted (the General Conditions), constitute an integral part of this Agreement.

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

(a) "MTC" means the Borrower's Ministry of Transport and Communications;

(b) "MWS" means the Borrower's Ministry of Works and Supplies;

(c) "Northern Transport Corridor" means the Malawi-Tanzania Corridor Transport System as defined in the Bilateral Agreement, that is, the route linking Blantyre, in southern Malawi, with the Port of Dar es Salaam in Tanzania, and including, inter alia:

(i) the road linking Blantyre with the Port of Chipoka on Lake Malawi;

(ii) the lake route linking the Ports of Chipoka and Chilumba on Lake Malawi;

(iii) the road linking the Port of Chilumba with Mbeya through Uyole in southern Tanzania; and

(iv) the segment of the TAZARA system linking Mbeya, in southern Tanzania, with the Port of Dar es Salaam;

(d) "The Bilateral Agreement" means the Agreement entered into on August 15, 1987, between the Borrower and the United Republic of Tanzania concerning the Malawi-Tanzania Corridor Transport System;

(e) "TAZARA" means the Tanzania-Zambia Railway Authority, established pursuant to Act No. 23 of 1975, Cap 768 of the Laws of the United Republic of Tanzania;

(f) "MR" means Malawi Railways Ltd.;

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

(h) "MCC Company" means the Malawi Cargo Center Company to be established in the Borrower's territory to manage the dry-cargo/fuel transshipment facilities to be set up at Dar es Salaam and at Mbeya in Tanzania under Parts B and C of the Project;

(i) "MRHC" means Malawi Railway Holdings Company, established under Cap 69:04 of the Laws of Malawi; and

(j) "Project Preparation Advance" means the project preparation advance granted by the Association to the Borrower pursuant to an exchange of letters dated:

(i) November 5, 1986 and November 26, 1986; and

(ii) September 3, 1987 and December 15, 1987, respectively, between the Borrower and the Association.

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 this Agreement, an amount in various currencies equivalent to eleven million one hundred thousand Special Drawing Rights (SDR 11,100,000).

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) 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.

(c) The Borrower shall, for the purposes of Part A (iii) (c), Part F (i) and Parts G (i) , G (ii) , G (iv) , G (v) and H 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.

Section 2.03. The Closing Date shall be June 30, 1994, 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 a date sixty (60) days after the date of this Agreement (the accrual date) to the respective dates on which amounts shall be withdrawn by the Borrower from the Credit Account or cancelled; and
 - (ii) at the rate set as of the June 30 immediately preceding the accrual date or at such other rates as may be set from time to time thereafter, pursuant to paragraph (a) above. The rate set as of June 30 in each year shall be applied as of the next payment date in that year specified in Section 2.06 of this Agreement, except that the rate set as of June 30, 1988, shall be applied as of July 1, 1988.
- (c) The commitment charge shall be paid:
 - (i) at such places as the Association shall reasonably request;
 - (ii) without restrictions of any kind imposed by, or in the territory of, the Borrower; and
 - (iii) in the currency specified in this Agreement for the purposes of Section 4.02 of the General Conditions or in such other eligible currency or currencies as may from time to time be designated or selected pursuant to the provisions of that Section.

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

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

Section 2.07. (a) Subject to paragraphs (b) and (c) below, the Borrower shall repay the principal amount of the Credit in semiannual installments payable on each April 15 and October 15, commencing April 15, 1998, and ending October 15, 2027. Each installment .0 and including the installment payable on October 15, 2007, shall be one percent (1%) of such principal amount, and each installment thereafter shall be two percent (2%) of such principal amount.

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

shall not change the grant element obtained under the above-mentioned repayment modification.

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

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

ARTICLE III

Execution of the Project

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

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

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 consult with the Association prior to undertaking any major investments in its transport sector, including investments in vessels and port maintenance facilities on Lake Malawi.

Section 3.04. The Borrower shall:

(a) take all measures necessary for the establishment of the MCC Company by June 30, 1988, or such later date as may be agreed by the Borrower and the Association; and

(b) prior to the formation of the MCC Company, furnish to the Association, for its review, the memorandum and articles of association of the MCC Company.

ARTICLE IV

Financial Covenants

Section 4.01. (a) The Borrower shall maintain and cause MRHC, MR and the MCC Company to maintain, records and accounts adequate to reflect, in accordance with sound accounting practices, the operations, resources and expenditures of MTC, MWS, MRHC, MR and the MCC Company in respect of the Project.

(b) The Borrower shall, and shall cause MRHC, MR and the MCC Company to:

(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, for MRHC, MR and the MCC Company, and nine

months after the end of each such year for MTC and MWS, a certified copy of the report of such audit by said auditors, of such scope and in such detail as the Association shall have reasonably requested; and

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

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

- (i) maintain or cause to be maintained, in accordance with paragraph (a) of this Section, records and accounts reflecting such expenditures;
- (ii) retain, until at least one year after the completion of 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) as evidence of 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) Except as the Association shall otherwise agree, the Borrower shall cause MR to:

- (i) maintain, in respect of its lake service operations, a ratio of total operating expenses to total operating revenues of not higher than:
 - (A) 100% for the fiscal year 1988/89;
 - (B) 95% for the fiscal year 1989/90; and
 - (C) 90% for each of its subsequent fiscal years until completion of the Project; and
- (ii) restructure its lake passenger-service operations with a view to progressively eliminating, in respect of such operations, all losses by no later than June 30, 1991.

(b) before December 31 in each of its fiscal years, the Borrower shall cause MR, on the basis of forecasts prepared by MR and satisfactory to the Association, to review whether it would meet the requirements set forth in paragraph (a) above in respect of such year and the following fiscal year, and shall furnish to the Association the results of such review upon its completion.

(c) If any such review shows that MR would not meet the requirements set forth in paragraph (a) above for MR's fiscal years covered by such review, the Borrower shall promptly take, or as appropriate, cause MR to take, all necessary measures (including, without limitation, adjustments of the structure or levels of its rates and the frequency of its services) in order to meet such requirements.

(d) For the purposes of this Section:

- (i) The term "total operating expenses" means all expenses related to operations, including administration, adequate

maintenance, taxes and payments in lieu of taxes, but excluding interest, depreciation and other charges on debt.

- (ii) The term "total operating revenues" means revenues from all sources related to operations.

ARTICLE V

Other Covenants

Section 5.01. The Borrower shall cause MRHC and MR:

- (a) to take out and maintain with responsible insurers, or to make other provisions satisfactory to the Association for, insurance against such risks and in such amounts as shall be consistent with appropriate practices;

- (b) to carry on its operations and conduct its affairs in accordance with sound administrative, financial and transportation practices under the supervision of qualified and experienced management assisted by competent staff in adequate numbers; and

- (c) at all times, to operate and maintain its plants, machinery, equipment and other property, and from time to time, promptly as needed, to make all necessary repairs and renewals thereof, all in accordance with sound engineering, financial and transportation practices.

ARTICLE VI

Remedies of the Association

Section 6.01. Pursuant to Section 6.02 (h) of the General Conditions, the following additional events are specified:

- (a) The Bilateral Agreement shall have been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the ability of the Borrower to carry out its obligations under this Agreement.

- (b) The Borrower or any other authority having jurisdiction shall have taken any action for the dissolution or disestablishment of the MCC Company or for the suspension of its operations.

- (c) The EDF Agreements, the KfW Grant Agreement, the ODA (Malawi) Grant Agreement, the USAID Grant Agreement and the Dutch Grant Agreement shall have failed to become effective by September 30, 1988, or such later date as the Association may agree; provided, however, that the provisions of this paragraph shall not apply if the Borrower establishes, to the satisfaction of the Association, that adequate funds for the Project are available to the Borrower from other sources on terms and conditions consistent with the obligations of the Borrower under this Agreement.

- (d) (i) Subject to subparagraph (ii) of this paragraph, the right of the Borrower to withdraw the proceeds of any grant made to the Borrower for the financing of the Project shall have been suspended, cancelled or terminated in whole or in part, pursuant to the terms of the agreement providing therefor.

- (ii) Subparagraph (i) of this paragraph shall not apply if the Borrower establishes to the satisfaction of the Association that:

- (A) such suspension, cancellation or termination is not caused by the failure of the Borrower to perform any of its obligations under such agreement; and

- (B) adequate funds for the Project are available to the Borrower from other sources on terms and conditions consistent with the obligations of the Borrower under this Agreement.

ARTICLE VII

Effective Date; Termination

Section 7.01. The following event is specified as an additional condition to the effectiveness of this Agreement within the meaning of Section 12.01 (b) of the General Conditions, namely, that all conditions precedent to the effectiveness of the ODA (Tanzania) Grant Agreement, other than the effectiveness of this Agreement, have been fulfilled.

Section 7.02. 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 VIII

Representative of the Borrower; Addresses

Section 8.01. The Minister of Finance of the Borrower is designated as representative of the Borrower for the purposes of Section 11.03 of the General Conditions.

Section 8.02. The following addresses are specified for the purposes of Section 11.01 of the General Conditions:

For the Borrower:

Ministry of Finance
P. O. Box 30049
Capital City
Lilongwe 3
Malawi

Cable address:

FINANCE
Lilongwe

Telex:

4407

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:

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 MALAWI

By /s/ Timon S. Mangwazu

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Sven Sandstrom

Acting Regional Vice President

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:

Amount of the Credit Allocated (Expressed in CategorySDR Equivalent)	% of Expenditures to be Financed	
(1) Civil works:		
(a) under Part A (iii) (c) of the Project	4,950,000	85%
(b) under Part F (i) of the Project	330,000	85%
(2) Consultants' services under Parts G (i), G (ii), G (iv) and G (v) of the Project:	2,740,000	
(a) Foreign consultants		100% of foreign expenditures and 50% of local expenditures
(b) Local consultants		90%
(3) Training under Part H of the Project	250,000	100%
(4) Refunding of Project Prepara- tion Advance	1,240,000	Amount due under Section 2.02 (b) of this Agreement
(5) Unallocated	1,590,000	
TOTAL	11,100,000	

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; and

(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.

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.

SCHEDULE 2

Description of the Project

The objectives of the Project are to assist the Borrower in improving the Northern Transport Corridor in order to:

(a) increase its capacity to carry a substantial proportion of the Borrower's transit traffic; and

(b) enable the Borrower to derive savings in transport costs compared to those on existing alternate routes.

The Project consists of the following parts:

Part A: Improvement of Roads:

- (i) construction of a two-lane bituminous-paved road between Karonga in northern Malawi and Ibanda in Tanzania, including:
 - (A) the Karonga-Songwe River segment; and
 - (B) the Songwe River-Ibanda segment;
- (ii) rehabilitation of the Ibanda-Uyole road in Tanzania; and
- (iii) rehabilitation of the bituminous-paved Salima-Balaka road in Malawi consisting of:
 - (A) the Salima-Junction M18 segment;
 - (B) the Chipoka access road; and
 - (C) the Junction M18-Balaka segment.

Part B: Construction and Equipping of Dry-cargo Transshipment Facilities in Tanzania:

- (i) a port-road-rail transshipment terminal in the vicinity of the Port of Dar es Salaam;
- (ii) a road-rail transshipment terminal at Mbeya; and
- (iii) infrastructure improvements in the area chosen for the resettlement of inhabitants of the site selected for the terminal referred to in subparagraph B (i) above.

Part C: Construction and Equipping of Fuel Storage and Transshipment Facilities in Tanzania:

- (i) fuel storage and handling facilities for petroleum products in the vicinity of the Port of Dar es Salaam; and
- (ii) fuel storage and handling facilities for petroleum products at Mbeya.

Part D: Acquisition of Fuel Tank Wagons for Use on the TAZARA System and Tank Containers for Transport of Jet Fuel.

Part E: Improvements in Facilities of MR's Lake Service on Lake Malawi:

- (i) acquisition of one container/fuel carrying vessel;
- (ii) construction of dry cargo storage facilities and improvement of fuel storage and handling facilities at the Port of Chipoka, including the acquisition of cargo handling equipment;
- (iii) construction of dry cargo storage and berthing facilities and improvement of fuel storage and handling facilities at the Port of Chilumba, including the acquisition of cargo handling equipment; and
- (iv) improvement of ship maintenance facilities at Monkey Bay, including construction of a repair jetty and acquisition of equipment for the maintenance workshop and rehabilitation of the existing slipway.

- Part F: (i) Construction of a Border Post; and
(ii) Provision of a Weighbridge at the Malawi/Tanzania Border Crossing.

Part G: Consultants' Services for:

- (i) assistance to MTC in Project coordination, Project financial control, facilitation of the flow of traffic in the Northern Transport Corridor and establishment of the MCC Company;
- (ii) assisting MR's Lake Service in cargo operations;
- (iii) supervision of Parts A (i), A (ii), B and F (ii) of the Project;
- (iv) supervision and assistance in equipment procurement for Parts A (iii), C, D, E and F (i) of the Project; and
- (v) preparation of supplementary detailed engineering for Parts B, C, D, E (ii), E (iii) and E (iv) of the Project.

Part H: Training of Transport Sector Personnel.

* * *

The Project is expected to be completed by December 31, 1993.

SCHEDULE 3

Procurement and Consultants' Services

Section I. Procurement of Goods and Works

Part A: International Competitive Bidding:

1. Except as provided in Part C hereof, goods and works shall be procured under contracts awarded in accordance with procedures consistent with those set forth in Sections I and II of the "Guidelines for Procurement under IBRD Loans and IDA Credits", published by the Bank in May 1985 (the Guidelines).
2. Bidders for the rehabilitation works on the Junction M18-Balaka segment of the Salima-Balaka Road under Part A (iii) (c) of the Project shall be prequalified as described in paragraph 2.10 of the Guidelines.

Part B: 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 C: Other Procurement Procedures:

Civil works under Part F (i) of the Project may be procured under contracts awarded on the basis of competitive bidding, advertised locally, in accordance with procedures satisfactory to the Association.

Part D: Review by the Association of Procurement Decisions:

1. Review of prequalification:

With respect to the prequalification of bidders as provided in Part A.2 hereof, the procedures set forth in paragraph 1 of Appendix 1 to the Guidelines shall apply.

2. (a) With respect to the review of invitations to bid and of proposed awards and final contracts, the procedures set forth in paragraphs 2 and 4 of Appendix 1 to the Guidelines shall apply.

Where payments for such contracts 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) of Appendix 1 to the Guidelines 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) The provisions of subparagraph (a) above shall not apply to contracts on account of which the Association has authorized withdrawals from the Credit Account on the basis of statements of expenditure. Such contracts shall be retained in accordance with Section 4.01 (c) (ii) of this Agreement.

3. The figure of 15% is hereby specified for purposes of paragraph 4 of Appendix I to the Guidelines.

Section II. Employment of Consultants

In order to carry out Part G of 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

Implementation Program

1. The Borrower shall carry out the Project in accordance with an implementation schedule acceptable to the Association and, subject to the provisions of this Agreement, provide guidance, overall coordination, monitoring and supervision of all activities under the Project, with the exception of the road improvements outlined under Part A of the Project, through MTC. To this end, MTC shall, at all times during the implementation of the Project, employ a project coordinator whose qualifications and terms and conditions of employment shall be satisfactory to the Association.

2. Part A of the Project:

(a) All road construction and rehabilitation works to be implemented within the Borrower's territories shall be carried out through MWS.

(b) The Borrower shall, in the spirit of The Bilateral Agreement, obtain assurances that activities under Part A (i) and Part A (ii) of the Project, to be implemented in Tanzania, shall be carried out through the Ministry of Communications and Works of the United Republic of Tanzania.

3. Parts B, C and D of the Project

In carrying out Parts B, C and D of the Project, and unless otherwise agreed by the Association, the Borrower shall by June 30, 1988:

(a) take all measures necessary to ensure that MRHC shall be empowered to acquire fixed assets;

(b) vest in MRHC all assets, comprising the terminals, storage and handling facilities to be constructed at the Port of Dar es Salaam and at Mbeya, and the fuel tank wagons and tank containers, under an agreement whose terms and conditions shall be drawn up in consultation with the Association; and

(c) cause MRHC to lease all assets referred to in paragraph (b) above to the MCC Company, under terms and conditions drawn up in consultation with the Association including:

(i) delegation to the MCC Company of responsibility for the management of the terminals and for the employment, as required, of experienced terminal operators to be selected on the basis of competitive bidding;

- (ii) the institution of a profit-sharing arrangement between MRHC and the MCC Company to become effective from the date of commencement of operations; and
- (iii) the payment by the MCC Company to MRHC of such fees as shall be necessary to enable MRHC to earn returns on the assessed life of the leased assets of at least five percent (5%) per annum beginning three years after the date of commencement of operations.

4. Part E of the Project

In carrying out Part E of the Project, the Borrower shall transfer to MR, for use by its lake service department, the proceeds of all grants made to the Borrower for the financing of all activities under Part E, except immovable assets, including gantry cranes in the Ports of Chipoka and Chilumba. The terms and conditions of transfer shall be drawn up in consultation with the Association. MR shall be responsible for the maintenance and upkeep of the immovable assets referred to above.

SCHEDULE 5

Special Account

1. For the purposes of this Schedule:

(a) the term "Eligible Categories" means Categories (1), (2) and (3) 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 Parts A (iii) (c), F (i), G (i), G (ii), G (iv), G (v) and H of 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. Except as the Association shall otherwise agree, 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 satisfactory evidence that the Special Account has been duly opened, withdrawals of the Authorized Allocation and subsequent withdrawals to replenish the Special Account may be made as follows:

(a) On the basis of a request or requests by the Borrower for a deposit or deposits which add up to the aggregate amount of the Authorized Allocation, 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) The Borrower shall furnish to the Association requests for replenishment of the Special Account at such intervals as the Association shall specify. On the basis of such requests, the Association shall withdraw from the Credit Account and deposit into the Special Account such amounts as shall be required to replenish the Special Account with amounts not exceeding the amount of payments 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 the evidence supporting the request for such deposit furnished pursuant to paragraph 4 of this Schedule.

4. For each payment made by the Borrower out of the Special Account for which the Borrower requests replenishment pursuant to paragraph 3 (b) of this Schedule, the Borrower shall furnish to the Association, prior to or at the time of such request, such documents and other evidence as the

Association shall reasonably request, showing that such payment was made for Eligible Expenditures.

5. (a) Notwithstanding the provisions of paragraph 3 of this Schedule, no further deposit into the Special Account shall be made by the Association when either of the following situations first arises:

- (i) 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
- (ii) the total unwithdrawn amount of the Credit allocated to the Eligible Categories for Parts A (iii) (c), F (i), G (i), G (ii), G (iv), G (v), and H of the Project, minus the amount of any outstanding special commitment entered into by the Association pursuant to Section 5.02 of the General Conditions with respect to Parts A (iii) (c), F (i), G (i), G (ii), G (iv), G (v) and H of the Project, shall be equal to the equivalent of twice the amount of the Authorized Allocation.

(b) Thereafter, withdrawal from the Credit Account of the remaining unwithdrawn amount of the Credit allocated to the Eligible Categories for Parts A (iii) (c), F (i), G (i), G (ii), G (iv), G (v) and H of the Project 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 any expenditure or in any amount not eligible pursuant to paragraph 2 of this Schedule; or
- (ii) was not justified by the evidence furnished pursuant to paragraph 4 of this Schedule, the Borrower shall, promptly upon notice from the Association 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. No further deposit by the Association into the Special Account shall be made until the Borrower has made such deposit or refund.

(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 for crediting to the Credit Account.

