

CONFORMED COPY

CREDIT NUMBER 3317 MOZ

Development Credit Agreement

(Enterprise Development Project)

between

REPUBLIC OF MOZAMBIQUE

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated March 1, 2000

CREDIT NUMBER 3317-MOZ

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated March 1, 2000, between REPUBLIC OF MOZAMBIQUE (the Borrower) and INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association).

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

(B) Part B of the Project will be carried out by Banco de Moçambique (BM) with the Borrower's assistance, and as part of such assistance, the Borrower will make available to BM part of the proceeds of the Credit as provided in this Agreement;

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

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

General Conditions; Definitions

Section 1.01. (a) The "General Conditions Applicable to Development Credit Agreements" of the Association, dated January 1, 1985 (as amended through December 2, 1997), with the modifications set forth below (the General Conditions) constitute an integral part of this Agreement.

(b) The words "the Association may, by notice to the Borrower, terminate the right of the Borrower to make withdrawals with respect to such amount. Upon the giving of such notice, such amount of the Credit shall be canceled" set forth at the end of Section 6.03 are deleted and the following is substituted therefor:

"or (f) by the date specified in paragraph 7 (c) of Schedule 1 to the Project Agreement, the Association shall, in respect of any portion of the Credit: (i) have received no applications or requests permitted under subparagraphs (a) or (b) of said paragraph 7(c); or (ii) have denied any such applications or requests, the Association may, by notice to the Borrower, terminate the right of the Borrower to submit such applications or requests or to make withdrawals from the Credit Account, as the case may be, with respect to such amount or portion of the Credit. Upon the giving of such notice, such amount or portion of the Credit shall be canceled."

Section 1.02. Unless the context otherwise requires, the several terms defined in the General Conditions have the respective meanings therein set forth and the following additional terms have the following meanings: "BM" means Banco de Moçambique, the Borrower's central bank;

(a) "Credit Administrator" means the Credit Administrator referred to in paragraph 9 of Schedule 1 to the Project Agreement;

(b) "free-limit Subloan" means a Subloan (as hereinafter defined), which qualifies as a free-limit Subloan pursuant to the provisions of paragraph C.6 (b) of Schedule 1 to the Project Agreement;

(c) "Grants" means grants provided by the Borrower under Parts A.1 and A.2 of the Project;

(d) "Grantee" means the recipient of the Grants provided under Part A.2 of the Project;

(e) "Investment Enterprise" means an enterprise legally established and operating in the territory of the Borrower in the sectors which meet the criteria set forth in paragraphs B.1 and B.2 of Schedule 1 to the Project Agreement, and to or for which a PFI (as hereinafter defined) has made or proposes to make a Subloan for an Investment Project;

(f) "Investment Project" means a specific development project to be carried out by an Investment Enterprise utilizing the proceeds of a Subloan;

(g) "IPC" means the Investment Promotion Center, within MICTUR (as hereinafter defined);

(h) "Management Contractor" means the Management Contractor referred to in paragraph 6 of Schedule 4 to this Agreement, employed by the Borrower for the purpose of assisting the Borrower in the carrying out Part A of the Project;

(i) "MICTUR" means the Borrower's Ministry of Trade and Tourism;

(j) "Mozambican Metical" or "Mt" means the currency of the Borrower;

(k) "Performance Indicators" means the indicators specified in Schedule 6 to this Agreement;

(l) "PFI" or "Participating Financial Institution" means a commercial bank, development bank or financial institution, acceptable to the Association to which BM has lent, under an agreement (a "Participating Agreement"), proceeds of the credit for relending to Investment Enterprise for Investment Projects;

(m) "PFI Subsidiary Loan" means a loan made by BM to any PFI for any Subloan, as described in paragraph C of the Schedule 1 to the Project Agreement;

(n) "Project Account" means the Account referred to in Section 3.05 of this Agreement;

(o) "Project Agreement" means the agreement between the Association and BM of even date herewith, as the same may be amended from time to time, and such term includes all schedules and agreements supplemental to the Project Agreement;

(p) "Project Implementation Plan" means the plan to be adopted by the Borrower pursuant to paragraph (d) of Section 6.01 of this Agreement;

(q) "Project Management Report" means each report prepared in accordance with Section 4.02 of this Agreement;

(r) "Pode Steering Committee" or "PSC" means the committee established by the Borrower on December 28, 1999, for the purpose of the overall coordination of the Project;

(s) "Recipient firm" means any firm receiving Grant support under Part A.1 of the Project;

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

(u) "Subloan" means a loan, to include either a Special Facility Subloan (as hereinafter defined) or a Traditional Subloan (as hereinafter defined), made or proposed to be made by a PFI to an Investment Enterprise out of the equivalent of the proceeds of the Credit;

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

(w) "Special Facility Subloan" means any Subloan which meets the criteria as detailed in paragraph B.3 of Schedule 1 to the Project Agreement;

(x) "Traditional Subloan" means any Subloan which meets the criteria as detailed in paragraph B.4 of Schedule 1 to the Project Agreement; and

(y) "UASP" means Unidade de Apoio ao Sector Privado, the private sector support unit established within the Pode Steering Committee.

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 nineteen million two hundred thousand Special Drawing Rights (SDR19,200,000).

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: (i) amounts paid (or, if the Association shall so agree, amounts to be paid) by the Borrower on account of withdrawals made by an Investment Enterprise under a Subloan to meet the reasonable cost of goods and services required for the Investment Project in respect of which the withdrawal from the Credit Account is requested; and (ii) 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 and to be financed out of the proceeds of the Credit.

(b) The Borrower may, for the purposes of the Project, open and maintain in Dollars a special deposit account (Special Account) in BM on terms and conditions satisfactory to the Association including appropriate protection against set-off, seizure and attachment. Deposits into, and payments out of, the Special Account shall be made in accordance with the provisions of Schedule 5 to this Agreement.

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

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

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

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

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

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

Section 2.07. (a) Subject to paragraphs (b), (c) and (d) below, the Borrower shall repay the principal amount of the Credit in semiannual installments payable on each February 15 and August 15 commencing February 15, 2010 and ending August 15, 2039. Each installment to and including the installment payable on August 15, 2019 shall be one percent (1%) of such principal amount, and each installment thereafter shall be two percent (2%) of such principal amount.

(b) Whenever: (i) the Borrower's per capita gross national product (GNP), as determined by the Association, shall have exceeded for three consecutive years the level established annually by the Association for determining eligibility to access the Association's resources; and (ii) the Bank shall consider the Borrower creditworthy for Bank lending, the Association may, subsequent to the review and approval thereof by the Executive Directors of the Association and after due consideration by them of the development of the Borrower's economy, modify the repayment of installments under paragraph (a) above by: (A) requiring the Borrower to repay twice the amount of each such installment not yet due until the principal amount of the Credit shall have been repaid; and (B) requiring the Borrower to commence repayment of the principal amount of the Credit as of the first semiannual payment date referred to in paragraph (a) above falling six months or more after the date on which the Association notifies the Borrower that the events set out in this paragraph (b) have occurred, provided, however, that there shall be a grace period of a minimum of five years on such repayment of principal.

(c) If so requested by the Borrower, the Association may revise the modification referred to in paragraph (b) above to include, in lieu of some or all of the increase in the amounts of such installments, the payment of interest at an annual rate agreed with the Association on the principal amount of the Credit withdrawn and outstanding from time to time, provided that, in the judgment of the Association, such revision shall not change the grant element obtained under the above-mentioned repayment modification.

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

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

ARTICLE III

Execution of the Project Use of the Proceeds of the Credit

Section 3.01. (a) The Borrower declares its commitment to the objectives of the Project as set forth in Schedule 2 to this Agreement, and, to this end, shall carry out Parts A and C of the Project through MICTUR, with due diligence and efficiency and in conformity with appropriate administrative, financial, environmental, and technical

practices, and shall provide, promptly as needed, the funds, facilities, services and other resources required for Parts A and C of the Project.

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

(c) Without limitation upon the provisions of paragraph (a) of this Section and except as the Borrower and the Association shall otherwise agree, the Borrower shall carry out Parts A and C of the Project through MICTUR and cause BM to carry out Part B of the Project, all in accordance with the Implementation Program set forth in Schedule 4 to this Agreement.

(d) For the purposes of Part B of the Project, the Borrower shall relend the proceeds of the Credit allocated from time to time to Categories (3) and (4) of the table in paragraph 1 of Schedule 1 to this Agreement to BM under a subsidiary loan agreement to be entered into between the Borrower and BM under terms and conditions which shall have been approved by the Association. Except as the Association shall otherwise agree, such terms and conditions shall include the following:

(i) the principal amount of the subsidiary loan shall be repaid by BM in Metical to the Borrower in full at the end of a 10 year grace period;

(ii) the principal amount of the subsidiary loan repayable by BM shall be the equivalent in Metical (determined as of the date, or respective dates, of withdrawal) of the value of the currency or currencies withdrawn from the Credit Account in respect of the above-mentioned categories;

(iii) interest shall be charged on the outstanding balance of the subsidiary loan at a rate equal to the six month deposit rate prevailing at the date of withdrawal; and

(iv) the requirement that BM employ the proceeds from the repayment of Subloans to finance term-credit needs in accordance with the criteria set forth in Schedule 1 to the Project Agreement.

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

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

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

(a) prepare, on the basis of guidelines acceptable to the Association and furnish to the Association, 30 days after the Closing Date or such later date as may be agreed for this purpose between the Borrower and the Association, a plan for the future operation of Parts A and C of the Project; and

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

Section 3.04. The Borrower and the Association hereby agree that the obligations set forth in Sections 9.03, 9.04, 9.05, 9.06, 9.07 and 9.08 of the General Conditions (relating to insurance, use of goods and services, plans and schedules, records and reports, maintenance and land acquisition, respectively) in respect of Part B of the Project shall be carried out by BM pursuant to Section 2.04 of the Project Agreement.

Section 3.05 The Borrower shall open and maintain an account in Metical (the

Project Account), in BM on terms and conditions acceptable to the Association, and, on a quarterly basis, shall deposit therein its quarterly contribution to the costs of the Project decided jointly by the Borrower and the Association, and all such amounts as may be required for the purpose of the implementation of the Project.

ARTICLE IV

Financial Covenants

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

(b) The Borrower shall:

- (i) have the records and accounts referred to in paragraph (a) of this Section including those for the Special 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, the report of such audit by said auditors, of such scope and in such detail as the Association shall have reasonably requested; and
- (iii) furnish to the Association such other information concerning said records and accounts and the audit thereof as the Association shall from time to time reasonably request.

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

- (i) maintain or cause to be maintained, in accordance with paragraph (a) of this Section, records and accounts reflecting such expenditures;
- (ii) retain, until at least one year after the Association has received the audit report for the fiscal year in which the last withdrawal from the Credit Account was made, all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures;
- (iii) enable the Association's representatives to examine such records; and
- (iv) ensure that such records and accounts are included in the annual audit referred to in paragraph (b) of this Section and that the report of such audit contains a separate opinion by said auditors as to whether the statements of expenditure submitted during such fiscal year, together with the procedures and internal controls involved in their preparation, can be relied upon to support the related withdrawals.

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

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

period covered by said report;

- (ii) (A) describes physical progress in Project implementation, both cumulatively and for the period covered by said report, and (B) explains variances between the actual and previously forecast implementation targets; and
- (iii) sets forth the status of procurement under the Project and expenditures under contracts financed out of the proceeds of the Credit, as at the end of the period covered by said report.

(b) Upon the completion of the action plan referred to in paragraph (a) of this Section, the Borrower shall prepare, in accordance with guidelines acceptable to the Association, and furnish to the Association no later than 45 days after the end of each calendar quarter a Project Management Report for such period.

ARTICLE V

Remedies of the Association

Section 5.01. Pursuant to Section 6.02 (1) of the General Conditions, the following additional event is specified namely that BM shall have failed to perform any of its obligations under the Project Agreement.

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 Loan Agreement has been executed on behalf of the Borrower and BM;
- (b) the Participating Agreements with at least two PFIs have been entered into;
- (c) the Borrower has adopted the Project Implementation Plan, in form and substance acceptable to the Association;
- (d) the Borrower has installed an accounting system for the purpose of Section 4.01 of this Agreement, acceptable to the Association;
- (e) the Borrower has adopted a financial procedures manual, in form and substance acceptable to the Association;
- (f) the Borrower has, for the purpose of carrying out auditing under the Project, appointed an external auditor in accordance with the provisions of Section II of Schedule 3 to this Agreement;
- (g) the Borrower has appointed the Management Contractor; and
- (h) the Borrower has opened the Project Account.

Section 6.02. The following are specified as additional matters, within the meaning of Section 12.02 (b) of the General Conditions, to be included in the opinion or opinions to be furnished to the Association: (a) that the Project Agreement has been duly authorized or ratified by BM, and is legally binding upon BM in accordance with its terms; and (b) that the Subsidiary Loan Agreement has been duly authorized or ratified by the Borrower and BM and is legally binding upon the Borrower and BM in accordance with its terms.

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

ARTICLE VII

Representatives of the Borrower; Addresses

Section 7.01. The Governor of the Bank of Moçambique is designated as representative of the Borrower for the purposes of Section 11.03 of the General

(2)	Consultants' services including training and audit	5,400,000	100%
(3)	Subloans	7,230,000	100%
(4)	Grants under Part B.2	150,000	100%
(5)	Incremental operating costs	1,180,000	90%
(6)	Grants under Part A.1 and A.2	2,950,000	50% of costs of consultants services
(7)	Unallocated	1,770,000	
	TOTAL	19,200,000	

2. For the purposes of this Schedule:

(a) the term "foreign expenditures" means expenditures in the currency of any country other than that of the Borrower for goods or services supplied from the territory of any country other than that of the Borrower;

(b) the term "local expenditures" means expenditures in the currency of the Borrower or for goods or services supplied from the territory of the Borrower; and

(c) the term "incremental operating costs" means the incremental expenses incurred on account of Project implementation, including office supplies, vehicle operation, travel and supervision costs but excluding salaries of the Borrower's civil servants.

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, except that withdrawals, in an aggregate amount not exceeding the equivalent of SDR630,000, may be made in respect of Category 2 on account of payments made for expenditures before that date but after October, 1999; and

(b) in respect of a Subloan unless the Subloan has been made in accordance with the procedures and on the terms and conditions set forth or referred to in Schedule 1 to the Project Agreement.

4. The Association may require withdrawals from the Credit Account to be made on the basis of statements of expenditure for expenditures for: (i) goods under contracts costing less than \$200,000 equivalent each; (ii) services of firms under contracts costing less than \$100,000 equivalent each; (iii) services of individual consultants under contracts costing less than \$50,000 equivalent each; (iv) grants and subloans below \$100,000 each; and (v) all Incremental operating costs, under such terms and conditions as the Association shall specify by notice to the Borrower.

SCHEDULE 2

Description of the Project

The objective of the Project is to broaden the base of private participation in economic growth of the Borrower.

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: Technical Learning in Firms

1. Acquisition of equipment and vehicles and provision of grant funds to cover technical advisory services or training on a cost-sharing basis to private business entities to facilitate the production of goods and tradable services within the territory of the Borrower, and trading of goods and services.

2. Acquisition of equipment and vehicles and provision of technical advisory services and training to support the development of an active business and technical training market in the territory of the Borrower, including provision of grants on a cost-sharing basis to trainers for the development of training courses.

3. Provision of technical advisory services and logistical assistance (i) to facilitate the process of re-orienting local supplier firms to the international standards of performance expected by purchaser firms, and (ii) to facilitate supply linkages between national, joint-venture or foreign owned firms.

Part B: Credit Line

1. The financing of specific investment projects through loans to private enterprises, including provision of medium-term financing for investment and permanent working capital for private sub-borrowers in all sectors excluding finance and real estate.

2. The financing of specific investment projects through loans and parallel quasi-equity funds, for small, first time bank borrowers and provision of medium-term financing for investment, including permanent working capital for private sub-borrowers in all sectors excluding finance and real estate.

Part C: Capacity Building

1. Provision of technical advisory services, vehicles, equipment and logistical assistance to IPC: (i) to support its core activities and development; (ii) to support the development of export free zones; and (iii) to conduct, in conjunction with the Borrower's Ministry of Environment, environmental impact assessments and carry out activities related to industrial licensing and compliance monitoring and structuring environmental requirements for inclusion in the financial models and in the free zone tender documents.

2. Provision of technical advisory services, vehicles, equipment and logistical assistance to MICTUR to support its role in regulatory reform and in the development and delivery of business facilitation and promotion services.

3. Provision of technical advisory services and logistical assistance to strengthen the Commission of Economic Associations' geographically focused member-based business organizations in the development of their action plans that support local economic strategies.

4. Provision of technical advisory services, vehicles, equipment and logistical assistance to the PSC for Project implementation.

* * *

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

SCHEDULE 3

Procurement and Consultants' Services

Section I. Procurement of Goods and Works

Part A: General

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

Part B: Procurement Procedures

1. National Competitive Bidding

Except as provided in paragraphs 2, 3 and 4 below, goods may be procured under contracts awarded in accordance with the provisions of paragraphs 3.3 and 3.4 of the Guidelines.

2. International Shopping

Equipment and vehicles estimated to cost less than \$50,000 equivalent per contract, up to an aggregate amount not to exceed \$150,000 equivalent, may be procured under contracts awarded on the basis of international shopping procedures in accordance with the provisions of paragraphs 3.5 and 3.6 of the Guidelines.

3. National Shopping

Goods estimated to cost less than \$30,000 equivalent per contract, up to an aggregate amount not to exceed \$100,000 equivalent, may be procured under contracts awarded on the basis of national shopping procedures in accordance with the provisions of paragraphs 3.5 and 3.6 of the Guidelines.

4. Procurement from IAPSO

Goods may be procured from the Inter-Agency Procurement Services of the UNDP in accordance with the provisions of paragraph 3.9 of the Guidelines.

Part C: Review by the Association of Procurement Decisions

1. Procurement Planning

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

2. Prior Review

(a) With respect to each contract estimated to cost the equivalent of \$100,000 or more, excluding contracts entered into under Part B of the Project, the procedures set forth in paragraphs 2 and 3 of Appendix 1 to the Guidelines shall apply.

(b) With respect to each contract estimated to cost the equivalent of \$50,000 or more, the following procedures shall apply:

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

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

3. Post Review

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

Section II. Employment of Consultants

Part A: General

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

Part B: Quality- and Cost-based Selection

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

Part C: Other Procedures for the Selection of Consultants

1. Selection Based on Consultants Qualifications.

Services under Part A of the Project estimated to cost less than \$50,000 equivalent per contract may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 and 3.7 of the Consultant Guidelines.

2. Commercial Practices.

Services to assist Sub-borrowers in carrying out Subprojects under Part B of the Project and estimated to cost less than \$50,000 equivalent may be procured in accordance with commercial practices acceptable to the Association.

3. Individual Consultants.

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

4. Least-cost Selection.

Services for financial audits, estimated to cost less than \$50,000 equivalent per contract may be procured under contracts awarded in accordance with the provision of paragraphs 3.1 and 3.6 of the Consultant Guidelines.

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

1. Selection Planning

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

2. Prior Review

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

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

3. Post Review

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

SCHEDULE 4

Implementation Program

1. The Borrower shall implement Parts A and C of the Project, and cause BM to implement Part B of the Project, in accordance with the Project Implementation Plan, and except as the Association shall otherwise agree, the Borrower shall not amend or waive any provision thereof if, in the opinion of the Association, such amendment or waiver may materially and adversely affect the overall implementation of the Project. PODE Steering Committee (PSC) and UASP

2. (a) The PSC shall consist of four representatives each from the public and private sectors and shall be responsible for the overall coordination of the Project. In addition, the PSC shall be responsible, inter alia, for:

(i) appointing the Management Contractor for the carrying out of Part A of the Project;

- (ii) assisting the Management Contractor in resolving ambiguities and uncertainties associated with initial start-up of the Grant support scheme;
- (iii) providing strategic direction of the Project and ensuring that the patterns of support for the private sector (by region, size and sector) are consistent with the Project objectives;
- (iv) authorizing, in consultations with the Association, the reallocation of resources across the various parts of the Project taking into account the patterns of demand and developmental impact;
- (v) reviewing and approving all matching grants requests;
- (vi) costing over \$100,000; and
- (vii) from the Recipient firms and the Grantees that have reached a cumulative threshold of \$100,000 on prior grant support;
- (viii) reviewing quarterly reports to ensure that the decisions and processes of the Management Contractor are consistent with the eligibility and monitoring criteria specified in the Project Implementation Plan, and in the event of poor performance on the part of the Management Contractor, in consultation with the Association, taking appropriate remedies;
- (ix) ensuring proper procurement, disbursement, accounting and financial auditing of the Project;
- (x) revoking an approval already granted in the event that fraudulent information has been provided within an application;
- (xi) reviewing appeals for a reversal of the Management Contractor's decision made by any applicant and bringing these appeals to the attention of the Association for their review;
- (xii) delegating all approvals for grants below \$100,000 to the Management Contractor;
- (xiii) following operational reviews, at intervals no shorter than six months, preparing proposals justifying changes to the operating directives of the Management Contractor for the Association's consideration, and upon approval of the Association, sending written recommendations to the Management Contractor as to the ways (if any) in which the contractor should redirect its efforts; and
- (xiv) carry out technical audit, every six months for the first eighteen months, and annually thereafter.

(b) UASP shall provide adequate financial and administrative support to the agencies involved in the implementation of the Project and shall coordinate, and be responsible for, all procurement carried out under the Project. UASP, shall be headed by a Director and supported by staff needed to effectively implement the Project. UASP shall: (i) provide procurement support to the PSC in the appointment of the Management Contractor and execute the function of Credit Administrator as specified in paragraph 9 of Schedule 1 to the Project Agreement; (ii) obtain the procurement and disbursement plans from the implementing agencies to ensure sufficient funding in the Project; (iii) promptly disburse funds for eligible expenditures; (iv) process the request of replenishment of the special account based on the presentation of the required documentation under the Project; (v) review and transmit all requests for approval to the Association; and (vi) receive from the implementing agencies, and review, and transmit to the PSC, the Borrower and the Association all quarterly progress, audit, mid-term, and implementation completion reports.

Annual Review:

3. (a) The Borrower shall carry out, in conjunction with BM, and jointly with the Association, a comprehensive annual project implementation review aimed at: (i) documenting progress toward objectives; (ii) identifying and resolving obstacles to project implementation; and (iii) adjusting, in agreement with the Association,

targets and corresponding programs to reflect progress achieved in the implementation of the Project as of the date of the review, and ensuring responsiveness to changes to effectively achieve the objectives of the Project.

(b) The Borrower shall, not later than four weeks prior to the review referred to in (a) above, furnish to the Association a report, in such detail as the Association shall reasonably request, including an evaluation of the progress achieved in Project implementation.

(c) Promptly after completing such reviews, the Borrower shall carry out recommendations arising out of said reviews, with due diligence and efficiency and in accordance with appropriate practices, taking into account the Association's comments thereon.

4. The Borrower shall:

(a) maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with the indicators set forth in Schedule 6 to this Agreement, the carrying out of the Project and the achievement of the objectives thereof;

(b) prepare, under terms of reference satisfactory to the Association, and furnish to the Association, on or about May 31, 2002, a mid-term evaluation report integrating the results of the monitoring and evaluation activities performed pursuant to paragraph (a) of this Section, on the progress achieved in the carrying out of the Project during the period preceding the date of said report and setting out the measures recommended to ensure the efficient carrying out of the Project and the achievement of the objectives thereof during the period following such date; and

(c) in conjunction with BM, review with the Association, by May 31, 2002, or such later date as the Association shall request, the report referred to in subparagraph (b) of this paragraph, and, thereafter, take all measures required to ensure the efficient completion of the Project and the achievement of the objectives thereof, based on the conclusions and recommendations of the said report and the Association views on the matter.

5. Implementation and eligibility criteria for Grants under Part A of the Project

The Borrower shall implement the Grants under Part A.1 and A.2 of the Project in accordance with the operating procedures for grants described in the Project Implementation Plan.

(a) Eligibility Criteria for Grant support under Part A.1

All majority private Mozambican firms, which fulfill the following requirements (the Recipient Firms), shall be eligible for Grant support under Part A.1 of the Project:

- (i) The Recipient firm should have a written "competitiveness improvement plan," to demonstrate the planning, technical and financial capacity required to make good use of counseling services and marketing trips.
- (ii) The plan referred to in (i) above shall be realistic, and feasible and shall demonstrate that the Recipient firm has properly considered key planning issues, including inter alia: (A) the reasons why one particular development direction was chosen; (B) the assumptions on which the direction depends; (C) the reasons for considering such development direction realistic and achievable; (D) the steps that are required for that development; (E) the resources that are likely to be needed within the steps, and their source; (F) the length of the process; (G) the benefits expected; and (H) defined deliverable and monitorable targets.

(iii) The amount of the Grant shall not be less than \$2000 and shall not exceed \$200,000.

(b) Eligibility Criteria for the Grant under Part A.2 of the Project
All private or not-for-profit training firms and trainers which fulfill the following requirements shall be eligible to apply for Grant support for relevant training courses under Part A.2 of the Project:

- (i) Training firms and trainers are pre-qualified as registered training organizations, and approved by the Technical Advisory Office (TAO). To pre-qualify, training firms and trainers shall have relevant experience in business and/or technical training, and shall demonstrate their level of experience to the TAO through presentation of resumes of trainers, list of past training activities, and samples of course materials.
- (ii) A training proposal for Grant support shall, inter alia, document that: (i) training course shall be advertised and made publicly available; (ii) training course fee for participants is in line with current market rates; (iii) course materials and delivery methodology are appropriate to the target group; (iv) course design includes registration and feedback forms to facilitate monitoring and impact assessment; (v) proposed trainers have suitable experience in delivering the proposed course content.
- (iii) Registered training organizations shall be allowed to submit single proposals for Grant support for training courses.
- (iv) The amount of the Grant shall not exceed \$200,000.

6. Management Contractor

The Borrower shall carry out Part A of the Project through a Management Contractor. The Management Contractor shall be responsible for:

- (i) advising firms in preparing programs designed to meet the technical capacity building for firm's objective based on the specific focus of each sub-component; ensuring that services are geared towards what firms actually need, are focused on firms which can make the most effective use of the services, and are offered in a "private sector friendly" way;
- (ii) based on the defined eligibility criteria for the Recipient firms and Grantees, approving grant applications equal to or below \$100,000;
- (iii) reviewing and recommending for PSC's approval all matching grant requests: (i) for contracts costing over \$100,000; (ii) from Recipient firms and Grantees that have reached a cumulative threshold of \$100,000 on prior grant support under the Project;
- (iv) reviewing and ensuring that the Association's procurement rules have been followed, and making recommendations for approval to the Association for contracts costing over (i) \$50,000 or more when the service provider is an individual consultant, or (ii) \$100,000 or more when the service provider is a consulting firm;
- (v) ensuring prompt payments to Recipient firms and Grantees applying strict reimbursement standards, including a turnaround time of no more than 5 days;
- (vi) ensuring that the strategic direction and necessary recommendations made to the PSC are consistent with Project objectives;
- (vii) submitting quarterly reports pertaining to Part A of the Project, including all Grant approvals, to the PSC for their consideration at quarterly meetings;
- (viii) ensuring proper procurement, disbursement, accounting and financial reporting; and
- (ix) promoting the technical learning component of the Project to firms, associations and sub-sectoral business groupings.

SCHEDULE 5

Special Account

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means Categories (1) through (6) set forth in the table in paragraph 1 of Schedule 1 to this Agreement;

(b) the term "eligible expenditures" means expenditures in respect of the reasonable cost of goods and services required for the Project and to be financed out of the proceeds of the Credit allocated from time to time to the eligible Categories in accordance with the provisions of Schedule 1 to this Agreement; and

(c) the term "Authorized Allocation" means an amount equivalent to \$1,500,000 to be withdrawn from the Credit Account and deposited into the Special Account pursuant to paragraph 3 (a) of this Schedule.

2. Payments out of the Special Account shall be made exclusively for eligible expenditures in accordance with the provisions of this Schedule.

3. After the Association has received evidence satisfactory to it that the Special Account has been duly opened, withdrawals of the Authorized Allocation and subsequent withdrawals to replenish the Special Account shall be made as follows:

(a) For withdrawals of the Authorized Allocation, the Borrower shall furnish to the Association a request or requests for deposit into the Special Account of an amount or amounts which do not exceed the aggregate amount of the Authorized Allocation. On the basis of such request or requests, the Association shall, on behalf of the Borrower, withdraw from the Credit Account and deposit into the Special Account such amount or amounts as the Borrower shall have requested.

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

(ii) Prior to or at the time of each such request, the Borrower shall furnish to the Association the documents and other evidence required pursuant to paragraph 4 of this Schedule for the payment or payments in respect of which replenishment is requested. On the basis of each such request, the Association shall, on behalf of the Borrower, withdraw from the Credit Account and deposit into the Special Account such amount as the Borrower shall have requested and as shall have been shown by said documents and other evidence to have been paid out of the Special Account for eligible expenditures. All such deposits shall be withdrawn by the Association from the Credit Account under the respective eligible Categories, and in the respective equivalent amounts, as shall have been justified by said documents and other evidence.

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

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

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

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

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

(d) once the total unwithdrawn amount of the Credit allocated to the eligible Categories, minus the total amount of all outstanding special commitments entered into by the Association pursuant to Section 5.02 of the General Conditions with respect to

the Project, shall equal the equivalent of twice the amount of the Authorized Allocation. Thereafter, withdrawal from the Credit Account of the remaining unwithdrawn amount of the Credit allocated to the eligible Categories shall follow such procedures as the Association shall specify by notice to the Borrower. Such further withdrawals shall be made only after and to the extent that the Association shall have been satisfied that all such amounts remaining on deposit in the Special Account as of the date of such notice will be utilized in making payments for eligible expenditures.

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

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

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

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

SCHEDULE 6

Performance Indicators

1. Annual GDP growth rate in excess of 5 percent per annum over the life of the Project;
 2. at least 20 percent of participating firms were established in 1995 or later;
 3. at least 30 percent of participating firms operate outside Maputo;
 4. increased production, investments, sales, exports, and new jobs created within participating firms under the Firm Competitiveness Office (FCO) sub-component;
 5. increase in expenditure for technical training and consulting services within Mozambican firms as indicated by demonstrated willingness to pay for technical and training services accessed under the FCO, Technical Advisory Office (TAO), sector specific initiatives (SSI), and Linkage Program Office (LPO);
 6. at least 30 linkages formed with joint-venture or foreign-owned firms engaged in exporting locally produced products or serving the local market as a result of the assistance extended under the LCO;
 7. three roundtable discussions held between Government and private sector resulting in a friendlier business environment;
 8. establishment of one FZ in Maputo and consensus on future strategy with respect to EPZs and FZs;
 9. adequate environmental safeguards in EPZs; and
 10. collection rate of PFIs at least 85 percent reflecting changed repayment culture and subsequent increase in profitability in participating banks.
- 

