

CONFORMED COPY

CREDIT NUMBER 2599 MOZ

Development Credit Agreement

(Second Roads and Coastal Shipping Project)

between

REPUBLIC OF MOZAMBIQUE

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated April 15, 1994

CREDIT NUMBER 2599 MOZ

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated April 15, 1994, between REPUBLIC OF MOZAMBIQUE (the Borrower) and INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association).

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

(B) the Association has received from the Borrower a Letter of Sector Policy (LSP) dated February 10, 1994, describing a program of actions, objectives and policies designed to implement its national road rehabilitation and maintenance program (the Program) and declaring the Borrower's commitment to the execution of said Program;

(C) the Borrower intends to contract from Swedish International Development Agency (SIDA) a grant (the SIDA Grant) to assist in financing the Project on the terms and conditions set forth in an agreement (the SIDA Grant Agreement) to be entered into between the Borrower and SIDA;

(D) the Borrower intends to contract from African Development Bank (AfDB) a credit (the AfDB Credit) to assist in financing the Project on the terms and conditions set forth in an agreement (the AfDB Credit Agreement) to be entered into between the Borrower and AfDB;

(E) the Borrower intends to contract from the United States Agency

for International Development (USAID) a grant (the USAID Grant) to assist in financing the Project on the terms and conditions set forth in an agreement (the USAID Grant Agreement) to be entered into between the Borrower and USAID;

(F) the Borrower intends to contract from the Kreditanstalt fur Wiederaufbau (KfW) a grant (KfW Grant) to assist in financing the Project on the terms and conditions set forth in an agreement (KfW Grant Agreement) to be entered into between the Borrower and KfW;

(G) the Borrower intends to contract from the Arab Bank for Economic Development in Africa (BADEA) a credit (the BADEA Credit) to assist in financing the Project on the terms and conditions set forth in an agreement (the BADEA Grant Agreement) to be entered into between the Borrower and BADEA;

(H) the Borrower intends to contract from the European Community (EC) a grant (the EC Grant) to assist in financing the Project on the terms and conditions set forth in an agreement (the EC Grant Agreement) to be entered into between the Borrower and EC;

(I) the Borrower intends to contract from the Kuwait Development Fund (KDF) a credit (the KDF Credit) to assist in financing the Project on the terms and conditions set forth in an agreement (the Kuwait Credit Agreement) to be entered into between the Borrower and KDF;

(J) the Borrower intends to contract from the Caisse Francaise de Developpement (CFD) a grant (the CFD Grant) to assist in financing the Project on the terms and conditions set forth in an agreement (the CFD Grant Agreement) to be entered into between the Borrower and CFD; and

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

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

General Conditions; Definitions

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

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

(a) "DEP" means Departamento de Estradas e Pontes, the Department of Roads and Bridges of DNEP;

(b) "DNEP" means Direccao Nacional de Estradas e Pontes, the National Directorate of Roads and Bridges of the Ministry of Construction and Water of the Borrower;

(c) "ECMEP" means Empresa de Construcao e Manutencao de Estradas e Pontes, any of the state enterprises for construction and maintenance of roads and bridges operating at the provincial level;

(d) "MCA" means Ministerio da Construcao e Aguas, Ministry of Construction and Water of the Borrower;

(e) "Project Preparation Advance" means the project preparation advance granted by the Association to the Borrower pursuant to exchange of letters dated November 21, 1991 and December 18, 1991;

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

(g) "Project Year" means each period of twelve months, corresponding to the Borrower's FY, beginning the first Project Year on the Effective Date;

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

(i) "Key Project Staff" means the staff responsible for Project implementation referred to under Part A of Schedule 4 to this Agreement;

(j) "Road Fund" means Fundo para a Manutencao de Estradas e Pontes, the Borrower's fund designed to finance the rehabilitation and maintenance works of roads and bridges established and operating pursuant to its Statutes (Estatuto Organico do Fundo para a Manutencao de Estradas e Pontes) approved by Decree No. 45/89, dated December 28, 1989 and by Decree No. 25/93 dated November 16, 1993;

(k) "Performance Indicators" means indicators designed to measure the Borrower's performance in achieving Project objectives, as agreed between the Borrower and the Association and referred to in Section 3.04 (a) (i) of this Agreement;

(l) "Institutional Action Plan" means the monitorable targets to be met by the Borrower, deemed as satisfactory progress in the implementation of the Program, as set forth under Part B of Schedule 4 to this Agreement;

(m) "CETA" means CETA Obras de Engenharia, E.E. the Borrower's enterprise established and operating under its Statutes approved by the Borrower's Decree No. 14/90, dated August 14, 1990;

(n) "MOF" means the Borrower's Ministry of Finance; and

(o) "LOC" or "Letter of Commitment" means the letter referred to in Section 3.03 of this Agreement.

ARTICLE II

The Credit

Section 2.01. The Association agrees to lend to the Borrower, on the terms and conditions set forth or referred to in the Development Credit Agreement, an amount in various currencies equivalent to one hundred thirty-six million two hundred thousand Special Drawing Rights (SDR 136,200,000).

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 expenditures made (or, if the Association shall so agree, to be made) in respect of the reasonable cost of goods and services required for the Project described in Schedule 2 to this Agreement and to be financed out of the proceeds of the Credit.

(b) The Borrower shall, for the purposes of the Project, cause DNEP to open and maintain in Dollars a special deposit account in a commercial bank on terms and conditions satisfactory to the Association, including appropriate protection against setoff, seizure or attachment. Deposits into, and payments out of, the Special Account shall be made in accordance with the provisions of Schedule 5 to this Agreement. DNEP shall have full authority to manage the Special Account.

(c) Promptly after the Effective Date, the Association shall, on behalf of the Borrower, withdraw from the Credit Account and pay to itself the amount required to repay the principal amount of the Project Preparation Advance withdrawn and outstanding as of such date and to pay all unpaid charges thereon. The unwithdrawn balance of the authorized amount of the Project Preparation Advance shall thereupon be cancelled.

Section 2.03. The Closing Date shall be June 30, 2001 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 (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 from the next payment date in that year specified in Section 2.06 of this Agreement.

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

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

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

Section 2.07. (a) Subject to paragraphs (b) and (c) below, the Borrower shall repay the principal amount of the Credit in semi-annual installments payable on each July 1 and January 1 commencing July 1, 2004 and ending January 1, 2034. Each installment to and including the installment payable on January 1, 2014 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 DNEP with due diligence and efficiency and in conformity with appropriate administrative, 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.

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. Without limitation upon the provisions of paragraph (a) of Section 3.01, and except as the Borrower and the Association shall otherwise agree, the Borrower shall take all necessary measures to make available in a timely manner resources required for the Project that are consistent with the mechanisms and funding amounts set forth in the Letter of Commitment of Local Resources (LOC), dated December 30, 1993 to the Association.

Section 3.04. Except as the Association shall otherwise agree, the Borrower shall not undertake any proposed investment in the road sector, estimated to cost more than:

(a) \$4,000,000 (four million dollars) equivalent, unless:

- (i) the Borrower has submitted the proposed investment to the Association for its review and comments; and
- (ii) the investment has an estimated economic rate of return of at least 20% (twenty percent), taking into account socio-economic criteria acceptable to the Association; and

(b) \$1,000,000 (one million dollars) equivalent, unless the Borrower has carried out an environmental assessment and prepared and applied design standards and construction methods aimed at minimizing possible adverse environmental impact, all in accordance with environmental guidelines satisfactory to the Association.

Section 3.05. (a) The Borrower shall, not later than September 1 prior to each succeeding fiscal year, submit to the Association, for its review and comments, annual work plans covering the period of 12 months commencing on the following January 1.

(b) Each work plan shall set out detailed proposals for the carrying out of the Project and shall contain information satisfactory to the Association.

(c) The Borrower shall make such revisions to such work plans as may be appropriate having due regard to the comments emanating from said review, and except as the Association shall otherwise agree, carry out the Project in the year in question on the basis of such work plans, as may have been so revised.

Section 3.06. The Borrower shall:

(a) not later than September 30 of each year, until the completion of the Project, carry out with the Association annual Project implementation reviews, including a midterm review, by September 30, 1995 to:

- (i) monitor, in accordance with the Program and Performance Indicators, progress achieved by the Borrower in the implementation, inter alia, of the following: (A) improvements in the policy, legal and regulatory framework for the transport sector; (B) scope and effectiveness of institutional capacity building programs carried out under the Project; (C) measures designed to ensure appropriate transfer of technology to local counterparts and the most efficient utilization of technical assistance financed under the Project; (D) performance achieved during the current Project Year,

pursuant to the terms of the Program, with respect to road maintenance and rehabilitation, and provision of funding to finance road maintenance and rehabilitation works as set forth in the LOC; (E) annual surveys of truckers and contractors; (F) operation of the Special Account; and (G) overall implementation of the Program;

- (ii) review with the Association on proposed budgetary allocations for the upcoming Project Year to: (A) finance Project recurrent expenditures; (B) ensure timely provision of local counterpart funds to the Project pursuant to the terms of the LOC; and (C) bear the cost of the reimbursement of the Borrower's taxes applicable to foreign consultant's contracts under the Project;
- (iii) identify implementation issues and propose appropriate solutions;
- (iv) update Project timetables, the Implementation Program and Performance Indicators; and
- (v) at the midterm review confirm and agree with the Association on: (A) a detailed action program of works to be carried out under Part A.1. (b) of the Project; (B) a long term capacity building program prepared on the basis of the results of a detailed review of all institution building initiatives carried out under Part B of the Project; and (C) an action program prepared on the basis of the results of the study of the operations of the Road Fund.

(b) Not later than four weeks prior to such annual and mid-term reviews, furnish to the Association, for its review and comments, a report in such detail as the Association shall reasonably request, including an evaluation of progress achieved in Project implementation in accordance with the Performance Indicators and the Implementation Program set forth in Schedule 4 to this Agreement; and

(c) Promptly after completing such reviews, carry out those recommendations arising out of said reviews, as agreed between the Borrower and the Association.

Section 3.07. The Borrower shall, until the completion of the Project:

(a) maintain institutional arrangements and Key Project Staff, with such responsibilities for Project implementation, and with qualifications, experience and terms of reference satisfactory to the Association, as specified under Part A of Schedule 4 to this Agreement; and

(b) appoint and maintain qualified local counterpart staff, with qualifications and experience satisfactory to the Association, to closely work with, and receive training from the consultants contracted under the Project in accordance with the provisions of Section 2 of Schedule 3 of this Agreement.

ARTICLE IV

Financial Covenants

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

(b) The Borrower shall:

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

to the Association;

- (ii) furnish to the Association, as soon as available, but in any case not later than nine months after the end of each such year, a certified copy of the report of such audit by said auditors, of such scope and in such detail as the Association shall have reasonably requested; and
- (iii) furnish to the Association such other information concerning said records, accounts and the audit thereof as the Association shall from time to time reasonably request.

(c) For all expenditures with respect to which withdrawals from the Credit Account were made on the basis of statements of expenditure, the Borrower 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 or payment out of the Special Account was made, all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures;
- (iii) enable the Association's representatives to examine such records; and
- (iv) ensure that such records and accounts are included in the annual audit referred to in paragraph (b) of this Section and that the report of such audit contains a separate opinion by said auditors as to whether the statements of expenditure submitted during such fiscal year, together with the procedures and internal controls involved in their preparation, can be relied upon to support the related withdrawals.

ARTICLE V

Remedies of the Association

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

(a) that as a result of events which have occurred after the date of this Agreement, an extraordinary situation shall have arisen which shall make it improbable that the Program or a significant part thereof will be carried out;

(b) that the Borrower or any authority having jurisdiction shall have taken any action that would materially affect the ability of the DNEP to carry out its obligations under this Agreement;

(c) the following shall have been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the ability of the Borrower to perform any of its obligations under this Agreement, including but not limited to the ability of the Borrower to finance the costs of road maintenance agreed between the Borrower and the Association, in a timely and efficient manner:

- (i) Despacho, dated January 11, 1994 of the Ministry of Construction and Water of the Borrower delegating full management authority to the National Director of DNEP; and
- (ii) Decree No. 45/89, dated December 28, 1989, and Decree No. 25/93, dated November 16, 1993, establishing the Road Fund.

Section 5.02. Pursuant to Section 7.01 (d) of the General Conditions, the following additional events are specified, namely, that any event specified in paragraphs (a), (b) and (c) of Section 5.01 of this Agreement shall occur and shall continue for a period of thirty (30) days after notice thereof shall have been given by the Association to the Borrower.

ARTICLE VI

Termination

Section 6.01. The date one hundred twenty (120) days after the date of this Agreement is hereby specified for the purposes of Section 12.04 of the General Conditions.

ARTICLE VII

Representatives of the Borrower; Addresses

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

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

For the Borrower:

Banco de Mocambique	
Departamento de Relacoes Internacionais	
Avenida 25 de Setembro 1695	
P.O. Box 423	
Maputo, Mozambique	
Cable address:	Telex:
MOBANCO	6576/7
Maputo	

For the Association:

International Development Association	
1818 H Street, N.W.	
Washington, D.C. 20433	
United States of America	
Cable address:	Telex:
INDEVAS	248423 (RCA)
Washington, D.C.	82987 (FTCC)
	64145 (WUI) or

197688 (TRT)

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

REPUBLIC OF MOZAMBIQUE

By /s/ Hipolito Zozimo Patricio

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Stephen M. Denning

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:

Category	Amount of the Credit Allocated (Expressed in SDR Equivalent)	% of Expenditures to be Financed
(1) Civil Works under:		
(a) Part A.1 (a) (ii) of the Project; and	19,820,000	95%
(b) Part A.1 (b) (ii) of the Project	34,510,000	95%
(2) Civil Works under Parts A.1 (a) (i) and A.1 (b) (i) of the Project	28,000,000	90%
(3) Incremental recur- rent costs for maintenance works undertaken:		
(a) in 1994, under Part A.1 (a)(iv) of the Project;	4,350,000	60%
(b) in 1995, under Part A.1 (a)(iv) of the Project;	3,990,000	50%
(c) under Part A.1 (b) (iv) of the Project	14,340,000	90%
(4) Housing under Part B.6 (b) of the Project:		90%
(a) 1,160,000		
(b) 1,740,000		
(5) Consultants' ser- vices under:		
(a) Parts B.1, B.2 and B.3 of the Project; and	2,370,000	100%
(b) Parts A.2, A.3, A.4, B.4, and B.5 of the Project	12,580,000	100%
(6) Vehicles and equipment	3,790,000	100%
(7) Refunding of Project Preparation Advance	1,090,000	Amounts due pursuant to Section 2.02 (c) of this Agreement

(8)	Unallocated	8,460,000
		<hr/>
	TOTAL	136,200,000
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2. For the purposes of this Schedule:

(a) the term "incremental recurrent costs" means the costs of carrying out periodic maintenance works carried out by the Borrower under Parts A.1 (a) (iv) and A.1 (b) (iv) of the Project in accordance with technical, engineering and financial terms agreed between the Borrower and the Association; and

(b) the term "housing" means the costs of rehabilitating existing infrastructures, construction of new buildings or importation of prefabricated units.

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 five million eight hundred thousand Special Drawing Rights (SDR 5,800,000), may be made on account of payments made for expenditures before that date but after August 31, 1993;

(b) Category (1) (b), unless the Association has received evidence, satisfactory to it, confirming that the Borrower has carried out the following: (A) implementation of the Institutional Action Plan, in accordance with terms agreed between the Borrower and the Association and as set forth under Part B of Schedule 4 to this Agreement; (B) preparation of a detailed program of road rehabilitation and maintenance as referred to under Part A.1(b) of the Project, including the Borrower's commitment to make available the necessary local counterpart funds pursuant to the terms of the LOC; and (C) completion of detailed design, surveys and bidding documents for works to be carried out during the Third Project Year;

(c) Category (4) (a), unless the Association has received documentary evidence, satisfactory to it, certifying:

- (i) DNEP's legal right to develop land for the housing units financed under Part B.6 (b) of the Project; and
- (ii) preparation of a plan detailing legal and financial mechanisms for the transfer of said housing units to DNEP and DEP staff and repayment by them;

(d) Category (4) (b), unless the Association has received documentary evidence, satisfactory to it, certifying:

- (i) DNEP's legal right to develop land for the housing units financed under Part B.6 (b) of the Project; and
- (ii) approval of the plan stipulated in (c) (ii) above; and

(e) Category (5) (a), unless the Borrower has submitted to the Association for its approval, a long term capacity building program for the road sector, satisfactory to the Association, prepared on the basis of a detailed review of institution building initiatives described under Part B of the Project.

4. The Association may require withdrawals from the Credit Account to be made on the basis of statements of expenditure for expenditures under contracts for goods and works not exceeding \$50,000 equivalent, 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 assist the Borrower in the restoration of economic growth through the implementation of the Project including: (a) road rehabilitation and maintenance; and (b) strengthening institutional capacity within the Borrower's road sector.

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: Civil Works Programs

1. Carrying out the Borrower's five-year civil works program for road rehabilitation and maintenance in two phases:

(a) First Phase: First and Second Project Years

- (i) implementation of an emergency civil works program through:
(A) rehabilitation and maintenance of paved and gravel roads and bridges leading to key agricultural areas; (B) backlogged maintenance on priority secondary roads; (C) installation of Bailey-type bridges; and (D) road signing;
- (ii) rehabilitation of paved trunk roads;
- (iii) rehabilitation and maintenance of secondary and tertiary feeder roads in forty districts;
- (iv) carrying out periodic maintenance works on paved, gravel and earth roads in good or fair condition; and
- (v) provision of routine basic maintenance on paved, gravel and earth roads in good or fair condition.

(b) Second Phase: Third, Fourth and Fifth Project Years

- (i) Carrying out emergency works and road signing on priority roads and bridges;
- (ii) rehabilitation of priority trunk roads;
- (iii) rehabilitation and maintenance of secondary and tertiary feeder roads;
- (iv) carrying out periodic maintenance works on unpaved and paved roads; and
- (v) provision of routine basic maintenance on paved, gravel and earth roads in good or fair condition.

2. Carrying out of feasibility studies for the rehabilitation of bridges and sections of major roads selected in agreement between the Borrower and the Association.

3. Preparation of detailed engineering design for rehabilitation works to be carried out during the Second Phase of the civil works program referred to under Part A (1) (b) of this Schedule.

4. Supervision of civil works program.

Part B: Institution Building

1. Strengthening of DNEP's managerial and technical capabilities through the provision of general consultants' services.

2. Strengthening of DEP's implementation capabilities through the provision of specialized managerial and technical services.

3. Strengthening of the Borrower's capabilities to elaborate and implement training programs in the transport sector, through the provision of specialized manpower development services.

4. Development and strengthening of the local road contracting industry.

5. Formulation and implementation of an institutional development program through the strengthening of the Borrower's:

(a) managerial capabilities to address, inter alia, the following issues: (i) sustainability of the Road Fund; and (ii) financial and managerial autonomy of DNEP;

(b) engineering capabilities to address, inter alia, bridge engineering;

(c) axle-load control and road safety capacity, including, inter alia, the provision of weigh bridges;

(d) procurement management capabilities;

(e) technical capabilities to define and strengthen the role of the laboratory function; and

(f) environmental analysis and monitoring capabilities.

6. Strengthening of DNEP and the DEPs Project implementation capabilities through: (a) acquisition of office equipment, vehicles and basic laboratory equipment; (b) construction, rehabilitation, equipping and furnishing of about forty housing units located in Maputo and in the provincial capitals of the Borrower for DNEP and DEP staff and consultants financed under the Project and selected in agreement between the Borrower and the Association.

* * *

The Project is expected to be completed by December 31, 2000.

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, works estimated to cost the equivalent of \$2,000,000 per contract or more, shall be procured under contracts awarded in accordance with procedures consistent with those set forth in Sections I and II of the "Guidelines for Procurement under IBRD Loans and IDA Credits" published by the Bank in May 1992 (the Guidelines).

(a) For fixed price contracts, the invitation to bid referred to in paragraph 2.13 of the Guidelines shall provide that, when contract award is delayed beyond the original bid validity period, the successful bidder's bid price will be increased for each week of delay by two predisclosed correction factors acceptable to the Association, one to be applied to all foreign currency components and the other to the local currency component of the bid price. Such an increase shall not be taken into account in the bid evaluation.

(b) In the procurement of goods and works in accordance with this Part A, the Borrower shall use the relevant standard bidding documents issued by the Bank, with such modifications thereto as the Association shall have agreed to be necessary for the purposes of the Project. Where no relevant standard bidding documents have been issued by the Bank, the Borrower shall use bidding documents based on other internationally recognized standard forms agreed with the Association.

2. Bidders for civil works estimated to cost more than the equivalent of \$10,000,000 (ten million dollars) shall be pre-qualified as provided in paragraph 2.10 of the Guidelines.

3. To the extent practicable, contracts for civil works shall be grouped into bid packages estimated to cost the equivalent of \$2,000,000 or more.

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

1. Local Competitive Bidding

Civil works estimated to cost the equivalent of \$2,000,000 or less per contract, up to an aggregate contribution of the Association equivalent to \$12,500,000, may be procured under contracts awarded on the basis of competitive bidding, advertised locally, in accordance with procedures satisfactory to the Association.

2. International Shopping

Goods estimated to cost the equivalent of \$200,000 or less per contract, up to an aggregate contribution of the Association equivalent to \$1,300,000, may be procured under contracts awarded on the basis of comparison of price quotations obtained from at least three suppliers from at least two different countries eligible under the Guidelines, in accordance with procedures acceptable to the Association.

3. Local Shopping

Goods estimated to cost the equivalent of \$100,000 or less per contract, up to an aggregate contribution of the Association equivalent to \$240,000, may be procured under contracts awarded on the basis of comparison of price quotations obtained from at least three suppliers eligible under the Guidelines, in accordance with procedures acceptable to the Association.

4. Direct Contracting

Civil works may be awarded after direct negotiations with contractors, in accordance with procedures acceptable to the Association, on the basis of prices established by an independent consultant in the case of: (i) emergency works estimated to cost the equivalent of \$250,000 or less per contract up to an aggregate contribution of the Association not to exceed \$2,500,000; (ii) works part of a local contractor development scheme estimated to cost the equivalent of \$100,000 or less per contract up to an aggregate contribution of the Association not to exceed \$2,000,000; and (iii) periodic maintenance contracts with ECMEP prior to their registration, estimated to cost the equivalent of \$400,000 or less per contract up to an aggregate contribution of the Association not to exceed \$1,200,000.

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) (1) (b) hereof, the procedures set forth in paragraph 1 of Appendix 1 to the Guidelines shall apply.

2. Review of invitations to bid and of proposed awards and final contracts:

(a) With respect to each contract for: (i) civil works estimated to cost the equivalent of \$300,000 or more; and (ii) goods estimated to cost the equivalent of \$100,000 or more, the procedures set forth in paragraphs 2 and 4 of Appendix 1 to the Guidelines shall apply. Where payments for such contract are to be made out of the Special Account, such procedures shall be modified to ensure that the two conformed copies of the contract required to be furnished to the Association pursuant to said paragraph 2 (d) shall be furnished to the Association prior to the making of the first payment out of the Special Account in respect of such contract.

(b) With respect to each contract not governed by the preceding paragraph, the procedures set forth in paragraphs 3 and 4 of Appendix 1 to the Guidelines shall apply. Where payments for such contract are to be made out of the Special Account, such procedures shall be modified to ensure that

the two conformed copies of the contract together with the other information required to be furnished to the Association pursuant to said paragraph 3 shall be furnished to the Association as part of the evidence to be furnished pursuant to paragraph 4 of Schedule 5 to this Agreement.

(c) The provisions of the preceding subparagraph (b) shall not apply to contracts on account of which withdrawals from the Credit Account are to be made on the basis of statements of expenditure.

3. The figure of 15% is hereby specified for purposes of paragraph 4 of Appendix 1 to the Guidelines.

Section II. Employment of Consultants

In order to assist the Borrower in carrying out the Project, the Borrower shall employ consultants whose qualifications, experience and terms and conditions of employment shall be satisfactory to the Association. Such consultants shall be selected in accordance with principles and procedures satisfactory to the Association on the basis of the "Guidelines for the Use of Consultants by World Bank Borrowers and by the World Bank as Executing Agency" published by the Bank in August 1981 (the Consultant Guidelines). For complex, time-based assignments, the Borrower shall employ such consultants under contracts using the standard form of contract for consultants' services issued by the Bank, with such modifications as shall have been agreed by the Association. Where no relevant standard contract documents have been issued by the Bank, the Borrower shall use other standard forms agreed with the Association.

SCHEDULE 4

Implementation Program

Part A: Project Implementation

1. The Ministry of Construction and Water (MCA) through its National Directorate of Roads and Bridges (DNEP) shall be responsible for overall Project implementation.

2. Key Project Staff

MCA shall designate the National Director of DNEP as the staff responsible for Project implementation, and shall maintain the following key staff: deputy national director(s) and the heads of each department.

Part B: Institutional Action Plan

1. Road Rehabilitation and Maintenance Program

Except as the Association and the Borrower shall otherwise agree, the Borrower shall, prior to commencement of Part A.1 (b) (ii) of the Project:

- (a) Complete the rehabilitation of about 6500 km of primary, secondary and tertiary rural roads under Part A.1 (a) (i) of the Project.
- (b) Complete the rehabilitation of 275 km of paved trunk roads under Part A.1 (a) (ii) of the Project, with contracts signed for 1000 km.
- (c) Complete periodic maintenance works on at least 500 km of paved roads and 1500 km of unpaved roads under Part A.1 (a) (iv) of the Project.
- (d) Carry out annual routine maintenance works on at least 2500 km of paved roads and at least 3500 km of unpaved roads under Part A.1 (a)(v) of the Project.

2. Implementation of the LOC

Except as the Association and the Borrower shall otherwise agree, the Borrower shall, prior to commencement of Part A.1 (b) (ii) of the Project:

- (a) Allocate sufficient local financial resources to the Program from

the Borrower's national budget and the Road Fund as follows: at least \$45,000,000 (forty-five million dollars), to Part A.1 (a) of the Project; of which at least \$25,000,000 (twenty-five million dollars), through the Road Fund, to Parts A.1 (a)(i), A.1 (a)(iv) and A.1 (a)(v) of the Project.

- (b) Complete a study on the operations of the Road Fund, in accordance with terms of reference agreed with the Association.

3. Operations

Except as the Association and the Borrower shall otherwise agree, the Borrower shall, prior to commencement of Part A.1 (b) (ii) of the Project:

- (a) Carry out at least 60% (sixty percent) of periodic and 15% (fifteen percent) of routine maintenance works through contractors, including registered ECMEPs.
- (b) Implement, in accordance with technical, legal and financial terms agreed with the Association the following: (i) privatization of CETA; and (ii) registration of at least four (4) construction and maintenance companies (ECMEPs).
- (c) Develop the Borrower's local road construction industry through: (i) the approval of a local road construction industry strategy and commencement of a training program for the local road construction industry, in accordance with terms agreed between the Borrower and the Association; (ii) completion of procurement procedures in accordance with the provisions of Schedule 3 to this Agreement, to contract civil works as follows: (A) at least ten (10) packages each estimated to cost the equivalent of \$500,000 (five hundred thousand dollars) or less; and (B) at least ten (10) contracts have been awarded to Domestic Contractors, as part of a training program agreed between the Borrower and the Association.
- (d) Restructure DNEP's equipment operations procedures through the creation of commercial plant hire pools, in accordance with an action plan agreed with the Association.
- (e) Design and implement DNEP's programming procedures satisfactory to the Association, including the establishment of a road condition and traffic data base, the development of a programming manual, and the operation of a Road Maintenance Management System (RMMS).

4. Capacity Building

Except as the Association and the Borrower shall otherwise agree, the Borrower shall, prior to commencement of Part A.1 (b) (ii) of the Project:

- (a) Strengthen DNEP's information and technology systems, management, accounting and financial procedures in accordance with an action plan satisfactory to the Association.
- (b) Appoint within DNEP the following: (i) at least eleven (11) additional staff with university degrees in civil engineering; (ii) at least five (5) A-level technical trainers; (iii) at least four (4) additional staff with tertiary-level training in accounting, economics, planning or computer systems; (iv) at least fifteen (15) technicians.
- (c) Implement the Borrower's roads training program in accordance with an action plan agreed between the Borrower and the Association.
- (d) Monitor the performance of consultants' services financed under the Project, in accordance with evaluation criteria agreed between the Borrower and the Association.
- (e) Establish and operate an advisory board to DNEP, comprising representatives of public and private sector road users.

5. Other policy measures

Except as the Association and the Borrower shall otherwise agree, the Borrower shall prior to commencement of Part A.1 (b) (ii) of the Project:

- (a) Design and start to implement a road-safety program, a weigh-bridge and an axle-load control program in accordance with an action plan agreed between the Borrower and the Association.
- (b) Implement the Borrower's trucking sector privatization and liberalization action plan, in accordance with terms and a timetable agreed between the Borrower and the Association.
- (c) Implement the capacity building program to strengthen MOF's contract approval capabilities, in accordance with an action plan agreed between the Borrower and the Association.
- (d) Design and implement guidelines for environmental analysis and monitoring in the roads sector, in accordance with an action plan agreed between the Borrower and the Association.

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 \$14,000,000 to be withdrawn from the Credit Account and deposited in the Special Account pursuant to paragraph 3 (a) of this Schedule.

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

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

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

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

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

All such deposits shall be withdrawn by the Association from the Credit Account under the respective eligible Categories, and in the respective equivalent amounts, as shall have been justified by said documents and other evidence.

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

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

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

(b) once the total unwithdrawn amount of the Credit allocated to the eligible Categories, less the amount of any outstanding special commitment entered into by the Association pursuant to Section 5.02 of the General Conditions with respect to the Project, shall equal the equivalent of twice the amount of the Authorized Allocation.

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

6. (a) If the Association shall have determined at any time that any payment out of the Special Account: (i) was made for an expenditure or in an amount not eligible pursuant to paragraph 2 of this Schedule; 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 paragraphs 6 (a), (b) and (c) of this Schedule shall be credited to the Credit Account for subsequent withdrawal or for cancellation in accordance with the relevant provisions of this Agreement, including the General Conditions.

