

CONFORMED COPY

CREDIT NUMBER 1949 MOZ

(Urban Rehabilitation Project)

between

PEOPLE'S REPUBLIC OF MOZAMBIQUE

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated October 19, 1988

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated October 19, 1988, between PEOPLE'S REPUBLIC OF MOZAMBIQUE (the Borrower) and INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association).

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

(B) the Borrower intends to contract from the Government of Finland Development Agency (FINNIDA) a grant (the FINNIDA Grant) in an amount of Fmk 28,800,000 to assist in financing Parts A (b) (iv) and B (d) and (e) of the Project on the terms and conditions set forth in an agreement (the FINNIDA Grant Agreement) to be entered into between the Borrower and FINNIDA; and

(C) the Borrower intends to contract from the Government of Spain a grant (the Spanish Grant) in an amount of Ptas 478,500,000 to assist in financing Parts C (a) (i), (b) and (c) of the Project on the terms and conditions set forth in an agreement (the Spanish Grant Agreement) to be entered into by the Borrower and the

Ministry of Foreign Affairs of Spain;

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

(b) "DEC" means Direccao de Economia e de Construcao, the Economy and Construction Directorate of MCA;

(c) "DNEP" means Direccao Nacional de Estradas e Pontes, the National Roads and Bridges Directorate of MCA;

(d) "DNA" means Direccao Nacional de Aguas, the National Water Directorate of MCA;

(e) "MT" means Ministerio do Trabalho, the Ministry of Labor of the Borrower;

(f) "GPE" means Gabinete de Promocao de Emprego, the Employment Generation Cabinet, an agency established within MT by Decree of the Council of Ministers of the Borrower No. 23/87, dated October 30, 1987, and operating pursuant to statutes approved by Ministerial Order of the Borrower No. 6/88, dated January 13, 1988;

(g) "MAE" means Ministerio da Administracao Estatal, the State Administration Ministry of the Borrower, established pursuant to Presidential Decree of the Borrower No. 66/86, dated October 11, 1986;

(h) "BPD" means Banco Popular de Desenvolvimento, the People's Development Bank of the Borrower established pursuant to Law No. 6/77 of the Borrower, dated December 31, 1977;

(i) "CECM" means Conselho Executivo de Cidade de Maputo, the Executive Council of the City of Maputo;

(j) "CECB" means Conselho Executivo da Cidade da Beira, the Executive Council of the City of Beira;

(k) "DCU" means Direccao de Construcao e Urbanizacao, any of the Directorates of Construction and Urbanization within CECM and CECB;

(l) "DSU" means Direccao de Servicos Urbanos, any of the Directorates of Urban Services within CECM or CECB;

(m) "APIE" means Administracao do Parque Imobiliario do Estado, the State Housing Agency of the Borrower;

(n) "PROHABITA" means Gabinete de Programas de Habitacao, the Housing Planning Department of DEC;

(o) "PIU" means the Project Implementation Unit created within MCA by Ministerial Order, dated June 20, 1988, and referred to in Schedule 5 to this Agreement;

(p) "HABITAR" means the Housing Management and Supervision Unit established within PROHABITA pursuant to Ministerial Order dated June 21, 1988, and referred to in Schedule 5 to this Agreement;

(q) "SME" means: (i) any of the small enterprises operating in the territory of the Borrower, employing about fifty or less employees and restricted to the building materials industry; or (ii) any of the micro-enterprises operating in the territory of the Borrower, in any economic sector other than agriculture, and employing about ten or less employees, through labor-intensive methods;

(r) "A de M" means Agua de Maputo, a public enterprise of the Borrower established and operating in Maputo pursuant to Ministerial Order of the Borrower No. 32/82, dated June 23, 1982;

(s) "A da B" means Companhia das Aguas da Beira, an enterprise of the Borrower established and operating in Beira pursuant to its statutes, dated October 15, 1949;

(t) "Financing Agreements" means the agreements to be entered into by: (i) MCA and BPD; and (ii) MT (GPE) and BPD pursuant to Section 3.01 (c) of this Agreement for Part D of the Project;

(u) "Maputo Implementation Agreement" means the agreement, dated June 13, 1988, entered into between MCA and CECM pursuant to Section 3.01 (b) (i) of this Agreement;

(v) "Beira Implementation Agreement" means the agreement, dated June 13, 1988, entered into between MCA and CECB pursuant to Section 3.01 (b) (ii) of this Agreement;

(w) "Maputo Water Agreement" means the agreement, dated June 15, 1988, entered into between DNA and A de M pursuant to Section 3.01 (b) (iii) of this Agreement;

(x) "Beira Water Agreement" means the agreement, dated June 15, 1988, entered into between DNA and A da B pursuant to Section 3.01 (b) (iv) of this Agreement;

(y) "Loan Agreement" means the agreement to be entered into by BPD and a Beneficiary (as hereinafter defined) under which BPD agrees to provide financial assistance, pursuant to Section 3.01 (c) of this Agreement: (i) to SMEs, through GPE; and (ii) for building materials loans, through DCU;

(z) "Beneficiary" means: (i) any SME; or (ii) individuals or groups of families entering into a Loan Agreement with BPD;

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

(bb) "Project Preparation Advance" means the project preparation advances granted by the Association to the Borrower pursuant to an exchange of letters, dated November 21, 1987, and December 4, 1987; and June 6, 1988 and June 13, 1988, between the Borrower and the Association;

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

(dd) "Metical" and the plural "Meticais" mean the currency of the Borrower.

## ARTICLE II

## The Credit

Section 2.01. The Association agrees to lend to the Borrower, on the terms and conditions set forth or referred to in this Agreement, an amount in various currencies equivalent to forty-four million Special Drawing Rights (SDR 44,000,000).

Section 2.02. (a) The amount of the Credit may be withdrawn from the Credit Account in accordance with the provisions of Schedule 1 to this Agreement for expenditures made (or, if the Association shall so agree, to be made) in respect of the reasonable cost of goods and services required for the Project described in Schedule 2 to this Agreement and to be financed out of the proceeds of the Credit.

(b) The Borrower shall, for the purposes of all Parts of the Project, open and maintain in dollars one special account (the Special Account) in a commercial bank on terms and conditions satisfactory to the Association. Deposits into, and payments out of, the Special Account shall be made in accordance with the provisions of Schedule 4 to this Agreement.

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

Section 2.03. The Closing Date shall be December 31, 1995, or such later date as the Association shall establish. The Association shall promptly notify the Borrower of such later date.

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

(b) The commitment charge shall accrue: (i) from a date sixty 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; (ii) at the rate set as of the June 30 immediately preceding the accrual date or at such other rates as may be set from time to time thereafter pursuant to paragraph (a) above. The rate set as of June 30 in each year shall be applied as of the next payment date in that year specified in Section 2.06 of this Agreement, except that the rate set as of June 30, 1988, shall be applied as of July 1, 1988.

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

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

Section 2.06. Commitment charges and service charges shall be payable semiannually on May 1 and November 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 semiannual installments payable on each May 1 and November 1 commencing November 1, 1998, and ending May 1, 2028. Each install-

ment to and including the installment payable on May 1, 2008, 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 with due diligence and efficiency, and in conformity with appropriate urban rehabilitational, organizational, managerial, architectural, engineering and environmental 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 5 to this Agreement and, to that effect, shall take all necessary measures to enforce: (i) the Maputo Implementation Agreement, for the purposes of carrying out Parts B (a), (b), (c), (f) (i), (f) (ii) and (f) (iii); C (a) (i), (b) and (c); and F (a) (ii) of the Project; (ii) the Beira Implementation Agreement, for the purposes of carrying out Parts B (a), (b), (c), (d), (e), (f) (ii) and (v); C (a) (ii) and (b) of the Project; (iii) the Maputo Water Agreement, for the purposes of carrying out Parts A (b) (i) and (b) (ii) of the Project; and (iv) the Beira Water Agreement, for the purposes of carrying out Parts A (b) (iv) and (b) (v) of the Project.

(c) The Borrower shall extend financial assistance to Beneficiaries on loan terms, conditions and eligibility criteria set forth in the Financing Agreements to be entered into between: (i) MT (GPE) and BPD, for the purposes of Part D (a) of the Project; and (ii) MCA and BPD, for the purposes of Part D (b) of the Project. The Financing Agreements shall include, inter alia, the following provisions:

(i) Currency

All loans made under Part D of the Project shall be denominated in Meticais. The aggregate amount to be made available by BPD to a Beneficiary shall be the equivalent of: (a) the Meticais countervalue of imported goods purchased through GPE's foreign currency account with Banco de Mocambique; and (b) a Meticais loan for the purpose of domestically available resources.

(ii) Interest Rates

Interest on Loans to: (a) Beneficiaries under Part D (a) of the Project shall be charged on the principal amount thereof outstanding from time to time at the existing interest rate of 18% to 24% per annum; and (b) Beneficiaries under Part D (b) of the Project shall be charged on the principal amount thereof outstanding from time to time at a minimum interest rate of 9% per annum.

(iii) Maturities

(a) Loans under Part D (a) of the Project shall have maturities of up to five years, including grace periods of up to one year.

(b) Loans under Part D (b) of the Project shall have maturities of up to twenty-five years.

(d) The Borrower shall exercise its rights under the Financing Agreements; the Maputo Implementation Agreement; the Beira Implementation Agreement; the Maputo Water Agreement; and the Beira Water Agreement 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 said Agreements or any provisions 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. The Borrower shall: (a) not later than March 31, 1989, prepare and furnish to the Association: (i) the results of the surveys referred to in Part G (b) of the Project; and

(ii) the action plan based on the recommendations of the study to strengthen local government institutions and finances carried out by the Borrower and referred to in Part E (e) of the Project;

(b) not later than June 30, 1989, exchange views with the Association on the recommendations based on the results of said surveys and action plan; and

(c) implement such recommendations, jointly agreed with the Association, including cost-recovery mechanisms, within a timetable agreed with the Association.

Section 3.04. The Borrower shall, not later than June 30, 1989, and, not later than June 30 of each year thereafter, review jointly with the Association, the progress achieved in:

(a) designing and adopting a National Housing Strategy, including policies for rehabilitation and maintenance of the existing public sector housing stock and the achievement of full cost recovery; and

(b) implementing an action plan to strengthen local government agencies agreed with the Association.

Section 3.05. The Borrower shall:

(a) not later than December 31, 1989, carry out and complete, under terms of reference satisfactory to the Association, the water and sanitation tariffs' study referred to in Part G (a)(i) of the Project;

(b) not later than June 30, 1990: (i) review with the Association the recommendations of said study; and (ii) agree with the Association on an action plan to implement said recommendations, including targets for the water and sanitation agencies in Maputo and Beira, to achieve their financial viability by FY 1993; and

(c) promptly thereafter, carry out said action plan according to a timetable agreed with the Association.

Section 3.06. The Borrower shall, not later than June 30 of each year, conduct with the Association annual Project implementation reviews to:

(a) discuss annual Project evaluations carried out by PIU;

(b) monitor progress made in achieving Project objectives; and

(c) exchange information among staff responsible for Project implementation and propose solutions to any current problems.

Section 3.07. The Borrower shall, for the purposes of Part B (f) of the Project, take all necessary measures to implement the resettlement plan for persons to be relocated under the Project on the terms and conditions agreed with the Association.

Section 3.08. The Borrower shall maintain PIU and HABITAR during the execution of the Project with such responsibilities, powers, services, facilities and staff, whose experience and qualifications are satisfactory to the Association, as are specified in Schedule 5 to this Agreement.

Section 3.09. In order to facilitate the carrying out of the Project, the Borrower shall assign qualified staff to work closely with the consultants, to be employed under Section II of Schedule 3 to this Agreement, and to receive training from said consultants.

Section 3.10. The Borrower shall, for the purposes of Part F (c) of the Project, take all necessary measures to provide, during the execution of the Project, housing to lodge the consultants to be employed under 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 the Project, of the departments or agencies of the Borrower responsible for carrying out the Project or any part thereof, including those related to all operations carried out by A de M and A da B in the water and sanitation sector.

(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, 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 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) Subject to the provisions of Section 3.05 of this Agreement, the Borrower shall take all necessary measures to cause A de M and A da B to produce, for each of its fiscal years after its fiscal year ending on December 31, 1992, funds from internal sources equivalent to not less than 25% of the annual average of capital expenditures incurred or expected to be incurred by A de M and A da B, respectively, in the water and sanitation sector for that year, the previous fiscal year and the three next following fiscal years.

(b) Before September 30, in each of its fiscal years, the Borrower shall, on the basis of forecasts prepared by A de M and A da B and satisfactory to the Association, review whether they would meet the requirements set forth in paragraph (a) in respect of such year and the next following fiscal year and shall furnish to the Association a copy of such review upon its completion.

(c) If any such review shows that A de M and A da B would not meet the requirements set forth in paragraph (a) for the Borrower's fiscal years covered by such review, the Borrower shall promptly take all necessary measures (including, without limitation, adjustments of the structure or levels of its water and sanitation tariffs) in order to meet such requirements.

(d) For the purposes of this Section:

- (i) The term "funds from internal sources" means the difference between:
  - (A) the sum of revenues from all sources related to A de M and A da B operations, consumer deposits and consumer contributions in aid of construction, net non-operating income and any



reduction in working capital other than cash;  
and

- (B) the sum of all expenses related to A de M and A da B operations, including administration, adequate maintenance and taxes, and payments in lieu of taxes (excluding provision for depreciation and other non-cash operating charges), debt service requirements, all cash dividends and other cash distributions of surplus, increase in working capital other than cash and other cash outflows other than capital expenditures.
- (ii) The term "net non-operating income" means the difference between:
    - (A) revenues from all sources other than those related to A de M and A da B operations; and
    - (B) expenses, including taxes and payments in lieu of taxes, incurred in the generation of revenues in (A) above.
  - (iii) The term "working capital other than cash" means the difference between current assets excluding cash and current liabilities at the end of each fiscal year.
  - (iv) The term "current assets excluding cash" means all assets other than cash which could, in the ordinary course of business, be converted into cash within twelve months, including accounts receivable, marketable securities, inventories and prepaid expenses properly chargeable to operating expenses within the next fiscal year.
  - (v) The term "current liabilities" means all liabilities which will become due and payable or could, under circumstances then existing, be called for payment within twelve months by A de M and A da B including accounts payable, customer advances, debt service requirements, taxes and payments in lieu of taxes, and dividends.
  - (vi) The term "debt service requirements" means the aggregate amount of repayments (including sinking fund payments, if any) of, and interest and other charges on, debt.
  - (vii) The term "capital expenditures" means all expenditures incurred on account of fixed assets, including interest charged to construction related to A de M and A da B operations.
  - (viii) Whenever, for the purposes of this Section, it shall be necessary to value debt, payable in another currency, such valuation shall be made on the basis of the prevailing lawful rate of exchange at which such other currency is, at the time of such valuation, obtainable for the purposes of servicing such debt, or, in the absence of such rate, on the basis of a rate of exchange acceptable to the Association.

#### 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) MCA, CECM or CECB shall have failed to perform any of their respective obligations under the Maputo Implementation Agreement or the Beira Implementation Agreement;

(b) DNA, A de M or A da B shall have failed to perform any of their respective obligations under the Maputo Water Agreement or the Beira Water Agreement;

(c) BPD, MCA or MT (GPE) shall have failed to perform any of their respective obligations under the Financing Agreements;

(d) as a result of events which have occurred after the date of the Development Credit Agreement, an extraordinary situation shall have arisen which shall make it improbable that CECM, CECB, A de M or A da B, as the case may be, will be able to perform their respective obligations under the Maputo Implementation Agreement, the Beira Implementation Agreement, the Maputo Water Agreement or the Beira Water Agreement;

(e) Decree of the Council of Ministers No. 23/87, dated October 30, 1987; Presidential Decree No. 66/86, dated October 11, 1986; Law No. 6/77 of December 31, 1977; and Ministerial Order No. 32/82, dated June 23, 1982, of the Borrower shall have been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the ability of the Borrower, A de M and A da B to perform any of their respective obligations under this Agreement; and

(f) The Borrower or any other authority having jurisdiction shall have taken any action concerning the Borrower's housing policies; water and sanitation tariffs; local government's organization and financial autonomy that would materially and adversely affect the objectives of the Project.

Section 5.02. Pursuant to Section 7.01 (d) of the General Conditions, the following additional events are specified:

(a) any of the events specified in paragraphs (a), (b) or (c) of Section 5.01 of this Agreement shall occur and shall continue for a period of 60 days after notice thereof shall have been given by the Association to the Borrower; and

(b) any of the events specified in paragraphs (d), (e) or (f) of Section 5.01 of this Agreement shall occur.

#### 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 Financing Agreements have been executed on behalf of BPD and MCA; and BPD and MT (GPE); and

(b) the following key staff for PIU have been employed:

- (i) Director;
- (ii) Project Coordinator;
- (iii) Financial Controller; and
- (iv) Procurement Advisor.

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 to be furnished to the Association:

(a) that the Maputo Implementation Agreement and the Beira Implementation Agreement have been duly authorized by and are legally binding upon MCA and CECM; and MCA and CECB, respectively;

(b) that the Maputo Water Agreement and the Beira Water Agreement have been duly authorized by and are legally binding upon DNA and A de M; and DNA and A da B, respectively;

(c) that the Financing Agreements have been duly authorized or ratified by and are legally binding upon MCA, MT (GPE) and BPD; and

(d) that this Agreement has been duly ratified by the Borrower's Council of Ministers and is legally binding upon the Borrower in accordance with its terms.

Section 6.03. The date one hundred and twenty (120) days after the date of this Agreement is hereby specified for the purposes of Section 12.04 of the General Conditions.

#### ARTICLE VII

##### Representative of the Borrower; Addresses

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

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

##### For the Borrower:

Banco de Mocambique  
Departamento de Relacões Internacionais  
Avenida 25 de Setembro 1695  
P.O. Box 423  
Maputo  
People's Republic of Mozambique

Cable address:

MOBANCO  
Maputo

Telex:

6355/7 BMMO

##### For the Association:

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

Cable address:

INDEVAS  
Washington, D.C.

Telex:

440098 (ITT)  
248423 (RCA) or  
64145 (WUI)

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

PEOPLE'S REPUBLIC OF MOZAMBIQUE

By /s/ Valeriano Ferrao

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Edward V. K. Jaycox  
Regional Vice President  
Africa

SCHEDULE 1

Withdrawal of the Proceeds of the Credit

1. The table below sets forth the Categories of items to be financed out of the proceeds of the Credit, the allocation of the amounts of the Credit to each Category and the percentage of expenditures for items so to be financed in each Category:

Category	Amount of the Credit Allocated (Expressed in SDR Equivalent)	% of Expenditures to be Financed
(1) Civil works:		
(a) under Part A of the Project	16,050,000	100% of foreign and 70% of local expenditures
(b) under Part B of the Project	11,140,000	
(2) Lines of Credit:		
(a) under Part D (a) of the Project	1,900,000	100% of foreign expenditures
(b) under Part D (b) of the Project	1,320,000	100% of foreign and 70% of local expenditures
(3) Vehicles, equip- ment, office equipment, sup- plies and spare parts	2,050,000	100% of foreign and 70% of local expenditures
Category	Amount of the Credit Allocated (Expressed in SDR Equivalent)	% of Expenditures to be Financed
(4) Consultants' services, training, studies and surveys	4,500,000	100%
(5) Operating costs of PIU, HABITAR, DNEP, GPE and MAE (DFP)	1,540,000	100% of local expenditures
(6) Refunding of Project Prepara- tion Advance	1,100,000	Amount due pur- suant to Section 2.02 (c) of this

Agreement

(7) Unallocated	4,400,000
	<hr/>
TOTAL	44,000,000

2. For the purposes of this Schedule:

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

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

(c) the term "training" means costs of fellowships, conferences, courses, study tours and travel to be undertaken as part of training and other related training costs to be financed under the Project; and

(d) the term "operating costs" means: (i) costs of maintenance of equipment, vehicles and buildings used in the execution of the Project; (ii) Project administration costs; (iii) salary supplements for PIU, HABITAR, DNEP, GPE and MAE (DFP) staff responsible for the implementation of the Project; and (iv) other operating expenditures related to the implementation of the Project, as determined in agreement by the Borrower with the Association.

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; and

(b) expenditures under Category (2), unless the Association has approved the Model Loan Agreement to be entered into by BPD and eligible Beneficiaries, in accordance with the eligibility criteria referred to in the Financing Agreements.

SCHEDULE 2

Description of the Project

The objectives of the Project are to:

(a) rehabilitate key elements of urban infrastructure and shelter (in Maputo and Beira);

(b) provide employment through labor-intensive construction methods and stimulation of small and micro-enterprises;

(c) strengthen the local institutions responsible for provision and maintenance of urban infrastructure and services; and

(d) support the Borrower's efforts towards making said institutions financially independent through the development of cost recovery measures and a long-term resource mobilization strategy at the local level.

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: Rehabilitation of Infrastructure:

Rehabilitation and limited extension of infrastructure

systems:

(a) Roads:

- (i) resurfacing, reconstruction and maintenance of key primary roads in Maputo and Beira;
- (ii) reconstruction of the Costa do Sol bridge in Maputo; and
- (iii) upgrading of the access road to the sites and services area in Maputo.

(b) Water, Sewerage and Storm Drainage:

- (i) leak detection and emergency repairs of the secondary water distribution system in Maputo;
- (ii) extension of a water main to Mahotas and the sites and services area, including the associated distribution network in Maputo;
- (iii) construction of storm drainage for the traffic circle of Praca 16 Junho in Maputo;
- (iv) rehabilitation of the water distribution network in Beira; and
- (v) rehabilitation of the main sewage collector and the secondary sewage system in Beira.

(c) Coastal Protection:

- (i) priority repairs to erosion control groynes and sea walls; and
- (ii) construction of groynes and sea walls in Maputo and Beira.

Part B: Housing Rehabilitation:

(a) completion of three unfinished highrise buildings in Maputo and one in Beira including about 249 apartments and about 26,000 m<sup>2</sup> of office space;

(b) rehabilitation of about seven apartment complexes in Maputo (about 775 apartments) and eleven in Beira (about 220 apartments);

(c) preparation of new sites and services areas and infrastructure upgrading for about 2,285 plots in Maputo and about 1,500 plots in Beira;

(d) preparation of about 1,150 serviced plots on the Inhamizua I site in Beira;

(e) extension of infrastructure in the existing Macurungo housing project; and

(f) relocation, resettlement and integration of existing occupants from:

- (i) about 300 households in Maputo to be relocated to Polana Canico and Bairro Ferroviario infill plots provided with core houses;
- (ii) about 80 households in Beira to be relocated to Macurungo infill plots provided with core houses;
- (iii) about 25 households to be displaced by the rehabilitation of the traffic circle of Praca 16 de Junho in Maputo, to be resettled on sites and services

plots developed under the Project;

(iv) about 90 existing dwellings on two of the town sites in Maputo; and

(v) about 300 existing households on the Beira site.

Part C: Solid Waste Management:

Upgrading of the solid waste management services of Maputo and Beira (DSU):

(a) acquisition of vehicles, equipment and spare parts:

(i) for Maputo; and

(ii) for Beira;

(b) strengthening DSU's garbage collection capabilities; and

(c) training for DSU staff on garbage collection systems and municipal vehicle and equipment maintenance workshops.

Part D: Lines of Credit:

Making loans to:

(a) eligible small and micro enterprises (SMEs) for financing equipment, spare parts, operating capital and consultants' services; and

(b) eligible individuals or groups of families for financing the acquisition of building materials for the rehabilitation of dwellings and construction of core units and/or pit latrines.

Part E: Institutional Development:

Development of:

(a) MCA's capabilities to develop investment planning capacity and for Project execution;

(b) MAE's capabilities to train local government officials;

(c) GPE's capabilities to design and implement employment-generation initiatives;

(d) CECM and CECB's institutional and organizational capabilities, including: (i) land registration techniques (DCU); and (ii) self-help construction and housing management techniques (PROHABITA); and

(e) an action plan to strengthen local government institutions and finances.

Part F: Project Administration:

(a) establishment, furnishing, equipping and operation of:

(i) PIU; and

(ii) HABITAR; and

(b) training of PIU and HABITAR's staff; and

(c) provision of housing to lodge the consultants to be employed under the Project.

Part G: Studies and Surveys:

(a) carrying out studies on:

- (i) water and sanitation tariffs;
  - (ii) expansion of water sources for Maputo; and
  - (iii) design and preparation of future projects for the infrastructure sector; and
- (b) carrying out socio-economic sample surveys to assess the impact of price increases on the affordability of Project components.

\* \* \* \*

The Project is expected to be completed by December 31, 1994.

### SCHEDULE 3

#### Procurement and Consultants' Services

##### Section I. Procurement of Goods and Works

###### Part A: International Competitive Bidding

Except as provided in Part D hereof, goods and works shall be procured under contracts awarded in accordance with procedures consistent with those set forth in Sections I and II of the "Guidelines for Procurement under IBRD Loans and IDA Credits" published by the Bank in May 1985 (the Guidelines).

###### Part B: Preference for Domestic Manufacturers

In the procurement of goods in accordance with the procedures described in Part A hereof, goods manufactured in Mozambique may be granted a margin of preference in accordance with, and subject to, the provisions of paragraphs 2.55 and 2.56 of the Guidelines and paragraphs 1 through 4 of Appendix 2 thereto.

###### Part C: Preference for Domestic Contractors

In the procurement of works in accordance with the procedures described in Part A hereof, the Borrower may grant a margin of preference to domestic contractors in accordance with, and subject to, the provisions of paragraphs 2.55 and 2.56 of the Guidelines and paragraph 5 of Appendix 2 thereto.

###### Part D: Other Procurement Procedures

###### 1. Local Competitive Bidding:

Civil works and materials under Part B of the Project may be procured under contracts awarded on the basis of competitive bidding, advertised locally, in accordance with procedures satisfactory to the Association.

###### 2. International or Local Shopping:

Works and items or groups of items estimated to cost less than the equivalent of \$50,000 per contract, up to an aggregate amount not to exceed the equivalent of \$1,500,000, except for Part D of the Project, which shall not exceed the equivalent of \$5,000,000, may be procured under contracts awarded on the basis of comparison of price quotations solicited from a list of at least three suppliers eligible under the Guidelines, in accordance with procedures acceptable to the Association.

###### Part E: Review by the Association of Procurement Decisions

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



(a) With respect to each contract for works and goods estimated to cost the equivalent of \$750,000 or more, the procedures set forth in paragraphs 2 and 4 of Appendix 1 to the Guidelines shall apply. Where payments for such contracts are to be made out of the Special Account, such procedures shall be modified to ensure that the two conformed copies of the contract required to be furnished to the Association pursuant to said paragraph 2 (d) shall be furnished to the Association prior to the making of the first payment out of the Special Account in respect of such contracts.

(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 contracts are to be made out of the Special Account, such procedures shall be modified to ensure that the two conformed copies of the contract, 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 subparagraphs (a) and (b) shall not apply to contracts on account of which the Association has authorized withdrawals from the Credit Account on the basis of statements of expenditure. Such contracts shall be retained in accordance with Section 4.01 (c) (ii) of this Agreement.

3. The figure of 15% is hereby specified for purposes of paragraph 4 of Appendix 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 and local counterparts whose qualifications, experience, and terms and conditions of employment shall be satisfactory to the Association. Such consultants shall be selected in accordance with principles and procedures satisfactory to the Association on the basis of the "Guidelines for the Use of Consultants by World Bank Borrowers and by The World Bank as Executing Agency" published by the Bank in August 1981.

#### SCHEDULE 4

##### Special Account

1. For the purposes of this Schedule:

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

(b) the term "eligible expenditures" means expenditures in respect of the reasonable cost of goods 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 \$7,000,000 to be withdrawn from the Credit Account and deposited into the Special Account pursuant to paragraph 3 (a) of this Schedule.

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

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

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

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

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

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

(b) once the total unwithdrawn amount of the Credit allocated to the eligible Categories, 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 be 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 and with the Association's consent, 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 cancellation or subsequent withdrawal as the Association may determine.

## SCHEDULE 5

### Implementation Program

#### 1. Project Implementation Unit (PIU):

(a) The PIU, established within MCA, shall be responsible for the overall coordination and supervision of Project implementation.

(b) The PIU shall be headed by a full-time director with qualifications and managerial experience acceptable to the Association. The PIU's Director shall report directly to the Minister of Construction and Water, under the advice of MCA's Steering Committee, which is made up of the respective National Directors of DEC (Chairman), DNEP and DNA.

(c) The PIU's Director shall be responsible, inter alia, for the following:

- (i) coordination of all Project activities within MCA, including with DEC, DNA, DNEP, and with CECM, CECB, MAE, MT, Banco de Mocambique, the Ministry of Finance, other government agencies, official entities and the Association;
- (ii) ensuring appropriate compilation and maintenance of Project documentation or files;
- (iii) overall supervision of the PIU and its staff;
- (iv) preparation of Project evaluation and progress reports, and phasing of major Project components; and
- (v) meeting regularly with operating agencies to oversee Project implementation activities.

(d) the PIU shall include, in addition to its Director, the following key staff:

- (i) Project Coordinator, who shall assist the Director in discharging his responsibilities, and shall be responsible, inter alia, for: supervising the overall implementation of the Project; preparing systems of cost control and critical path monitoring of the physical progress of each component of the Project; establishing an appropriate communication

network with the field supervision staff for Maputo and Beira; participating in the selection and appointment of engineering, planning and architectural consultants; and reviewing technical studies.

- (ii) Financial Controller, who shall be responsible, inter alia, for: keeping financial accounts for all Project components, preparing withdrawal credit applications for signature of the authorized representative of Banco de Mocambique and reconciling Special Account bank statements in accordance with the Association disbursement instructions; liaising with the appropriate Department in the Ministry of Finance; approving payment on bills with field supervision certifications; preparing expenditure accounts, quarterly reports, annual financial plans and submission of accounts for audit. He shall also, provide other necessary financial assistance.
- (iii) Procurement Advisor, who shall be responsible, inter alia, for: reviewing procurement arrangements for Project implementation; packaging procurement lots for: civil works, equipment and furnishing; reviewing bids for international and local competitive bidding, and international or local shopping; reviewing certification of contract awards; maintaining quarterly updating of unit costs of materials and equipment; liaising with field supervision in Maputo and Beira; and maintaining weekly procurement schedules.

2. HABITAR (Housing Management Supervision Unit):

(a) HABITAR, to be established under DEC, shall be responsible for:

- (i) coordinating the implementation of all housing related Project components; and
- (ii) the overall management of the resettlement plan under Part B (f) of the Project.

(b) HABITAR shall be staffed as follows:

- (i) Full-time Director with qualifications and experience acceptable to the Association, and who shall report directly to PROHABITA's Director. The Director shall be responsible, inter alia, for: coordination of the resettlement plan and all other housing related Project activities, overall supervision of HABITAR, preparation of all Project evaluation and progress reports, and ensuring appropriate compilation and maintenance of Project files;
- (ii) Project Coordinator (Engineer) who shall report to the Director and be responsible, inter alia, for: supervising (including contracting supervision of) the construction and technical aspects of the housing related Project components and the resettlement plan; preparing cost control and critical path systems; reviewing procurement arrangements; calling for international and local competitive bidding; international or local shopping and certifying of contract awards;
- (iii) Financial Controller (Economist) who shall report to the Director and be responsible, inter alia, for: keeping financial accounts for all the housing related Project components and the resettlement plan, preparing expenditure accounts, quarterly

reports, annual financial plans and submission of accounts for audit, submitting for approval to PIU and processing all payments on bills with field supervision certifications. He shall also review socio-economic and affordability aspects of housing related Project components and the resettlement plan; and

- (iv) Field Implementation Teams (one for Beira, consisting of a civil engineer and an architect, and one for Maputo, consisting of a civil engineer) who shall be responsible, inter alia, for: monitoring physical progress of all the housing related Project components and the resettlement plan, coordinating the activities of APIE and DCU of the CECB and CECM, reviewing the field supervision reports, maintaining weekly progress charts, coordinating the civil works with those of the road, water and storm drainage rehabilitation Project components, as necessary.

### 3. Part A of the Project

(a) DNEP shall be responsible for the implementation of the road rehabilitation component referred to in Parts A (a) (i), (ii) and (iii) of the Project, in accordance with the Maputo and Beira Implementation Agreements;

(b) DNA shall be responsible for:

- (i) the implementation of the drainage rehabilitation component referred to in Part A (b) (iii) of the Project;
- (ii) causing A de M to carry out the water supply component in Maputo referred to in Parts A (b) (i) and (ii) of the Project; and
- (iii) causing A da B to carry out the water and sewerage rehabilitation components in Beira referred to in Parts A (b) (iv) and (v) of the Project; and

(c) DNEP shall be responsible for the implementation of Part A (c) of the Project, in accordance with the Maputo and Beira Implementation Agreements.

### 4. Part B of the Project

DEC shall be responsible for the implementation of Part B of the Project.

### 5. Part C of the Project

DSU shall be responsible for the implementation of Part C of the Project.

### 6. Part D of the Project

(a) GPE shall be responsible for the implementation of Part D (a) of the Project.

(b) DEC shall be responsible for the implementation of Part D (b) of the Project.

### 7. Part E of the Project

(a) MCA shall be responsible for the implementation of Parts E (a) and (d) of the Project;

(b) MAE shall be responsible for the implementation of Parts E (b) and (e) of the Project; and

(c) MT (GPE) shall be responsible for the implementation of Part E (c) of the Project.

8. Part F of the Project

MCA shall be responsible for the implementation of Part F of the Project.

9. Part G of the Project

MCA shall be responsible for the implementation of Part G of the Project.

