

CONFORMED COPY

CREDIT NUMBER 3486 MOZ

Development Credit Agreement

(Mineral Resources Management Capacity Building Project)

between

THE REPUBLIC OF MOZAMBIQUE

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated April 18, 2001

CREDIT NUMBER 3486 MOZ

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated April 18, 2001, between REPUBLIC OF MOZAMBIQUE (the Borrower) and INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association).

WHEREAS 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; 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 (as amended through October 6, 1999), with the modifications set forth below (the General Conditions), constitute an

integral part of this Agreement:

(a) A new paragraph (12) is added to Section 2.01 to read as set forth below, and the existing paragraphs (12) through (14) of said Section are accordingly renumbered as paragraphs (13) through (15):

"12. 'Participating Country' means any country that the Association determines meets the requirements set forth in Section 11 of Resolution No. 194 of the Board of Governors of the Association, adopted on April 8, 1999; and 'Participating Countries' means, collectively, all such countries." ; and

(b) The second sentence of Section 5.01 is modified to read:

"Except as the Borrower and the Association shall otherwise agree, no withdrawals shall be made: (a) on account of expenditures in the territories of any country which is not a Participating Country or for goods produced in, or services supplied from, such territories; or (b) for the purpose of any payment to persons or entities, or for any import of goods, if such payment or import, to the knowledge of the Association, is prohibited by a decision of the United Nations Security Council taken under Chapter VII of the Charter of the United Nations."

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) "Artisanal Miners" or "Garimpeiros" means individuals undertaking independent small-scale mining as defined in the Borrower's Mining Certificate Regulation or "Diploma Ministerial" No. 77 of May 25, 1994;

(b) "BM" means Banco de Moçambique, the Borrower's central bank;

(c) "DNG" means the Borrower's National Directorate of Geology;

(d) "DNM" means the Borrower's National Directorate of Mines within MIREME;

(e) "Eligible Categories" means the categories set forth in paragraph 4 of Part B of Schedule 1 to this Agreement;

(f) "Eligible Expenditures" means the expenditures for works, goods and services referred to in Section 2.02 (a) of this Agreement and to be financed out of the proceeds of the Credit allocated from time to time to the Special Account's respective Eligible Categories;

(g) "Implementation Manual" means the Borrower's Manual dated November 30, 2000, containing detailed arrangements regarding the implementation of the different activities under the Project, including, inter alia, the institutional responsibilities, reporting structure, review and monitoring, procurement, disbursement and financial management for the purposes of the implementation of the Project;

(h) "Initial Deposit" means the deposit specified in Section 3.04 (b) of this Agreement;

(i) "Meticaís" means the Borrower's currency;

(j) "MICOA" means the Borrower's Ministry of Environmental Coordination;

(k) "MIREME" means the Borrower's Ministry of Mineral Resources and Energy;

(l) "MPF" means the Borrower's Ministry of Planning and Finance;

(m) "Project Account" means the Account referred to in Section 3.04 of this Agreement;

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

(o) "Project Preparation Advance" means the project preparation advance

granted by the Association to the Borrower pursuant to a letter signed on behalf of the Association on February 15, 2001 and on behalf of the Borrower on March 26, 2001;

(p) "Special Account" means the account referred to in Section 2.02 (b) of Part B of Schedule 1 to this Agreement; and

(q) "UCPM" means the Project Coordination Unit to be established by the Borrower for the purpose of implementing the Project within MIREME.

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 thirteen million and eight hundred thousand Special Drawing Rights (SDR 13,800,000).

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, works and services required for the Project and to be financed out of the proceeds of the Credit.

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

Section 2.03. The Closing Date shall be June 30, 2006, or such later date as the Association shall establish. The Association shall promptly notify the Borrower of such later date.

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

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

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

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

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

Section 2.07. (a) Subject to paragraphs (b), (c) and (d) below, the Borrower shall repay the principal amount of the Credit in semiannual installments payable on each April 1 and October 1 commencing April 1, 2011, and ending October 1, 2040. Each

installment to and including the installment payable on October 1, 2020, shall be one percent (1%) of such principal amount, and each installment thereafter shall be two percent (2%) of such principal amount.

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

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

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

Section 2.08. The currency of 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. 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 administrative, financial, engineering, health, environmental and mineral resources sector practices, and shall provide, promptly as needed, the funds, facilities, services and other resources required for the Project.

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

Section 3.03. For the purposes of Section 9.06 of the General Conditions and without limitation thereto, the Borrower shall:

(a) prepare, on the basis of guidelines acceptable to the Association, and furnish to the Association not later than six (6) months after the Closing Date or such later date as may be agreed for this purpose between the Borrower and the Association, a plan for the future operation of the Project; and

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

Section 3.04. Without limitation to its obligations under Section 3.01 of this

Agreement, the Borrower shall:

(a) open and thereafter maintain, until the completion of the Project, an account (the Project Account) in Meticaïs, in a commercial bank, on terms and conditions satisfactory to the Association;

(b) promptly thereafter make an Initial Deposit in Meticaïs of an amount equivalent to \$30,000 (Initial Deposit) into such account to finance the Borrower's contribution to the Project;

(c) thereafter deposit into the Project Account by the first day of each quarter each year during Project implementation such amounts as shall be required and agreed upon with the Association to timely replenish the Project Account back to the amount of the initial deposit referred to in paragraph (b); and

(d) use the funds in the Project Account exclusively to finance expenditures 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.

(b) The Borrower shall:

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

(ii) furnish to the Association as soon as available, but in any case not later than six months after the end of each such year, the report of such audit by said auditors, of such scope and in such detail as the Association shall have reasonably requested; and

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

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

(i) maintain or cause to be maintained, in accordance with paragraph (a) of this Section, records and separate accounts reflecting such expenditures;

(ii) retain, until at least one year after the Association has received the audit report for the fiscal year in which the last withdrawal from the Credit Account was made, all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures;

(iii) enable the Association's representatives to examine such records; and

(iv) ensure that such records and accounts are included in the annual audit referred to in paragraph (b) of this Section and that the report of such audit contains a separate opinion by said auditors as to whether the Project Management Reports or statements of expenditure submitted during such fiscal year, together with the

procedures and internal controls involved in their preparation, can be relied upon to support the related withdrawals.

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

- (i) the financial report: (A) sets forth actual sources and applications of funds for the Project, both cumulatively and for the period covered by said report, and projected sources and applications of funds for the Project for the six-month period following the period covered by said report; and (B) shows separately expenditures financed out of the proceeds of the Credit during the period covered by said report and expenditures proposed to be financed out of the proceeds of the Credit during the six-month period following the period covered by said report;
- (ii) the status report: (A) describes physical progress in Project implementation, both cumulatively and for the period covered by said report; and (B) explains variances between the actual and previously forecast implementation targets, as the case may be; and
- (iii) the procurement report sets forth the status of procurement under the Project and expenditures under contracts financed out of the proceeds of the Credit, as at the end of the period covered by said report.

(b) Upon the completion of the action plan referred to in paragraph (a) of this Section, the Borrower shall prepare, in accordance with guidelines acceptable to the Association, and furnish to the Association not later than 45 days after the end of each calendar quarter a Project Management Report for such period.

ARTICLE V

Effective Date; Termination

Section 5.01. 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 Borrower has established the UCPM;
- (b) the Borrower has appointed to UCPM a full-time Project Coordinator, a Procurement Specialist and a Project Accountant satisfactory to the Association;
- (c) the Borrower has established within UCPM a financial management and accounting system acceptable to the Association, including a manual of procedures and a Financial Management Committee;
- (d) the auditors referred to in Section 4.01 (b) of this Agreement have been retained, as provided in such Section and in accordance with the provisions of Section II of Schedule 3 to this Agreement;
- (e) the Project Account has been opened; and
- (f) the Borrower's new draft Mining Law (Projecto de Lei de Minas) replacing the existing Law No.02 of April 16, 1996, has been approved by the Borrower's Council of Ministers and submitted to the Borrower's Parliament.

Section 5.02. The date ninety (90) days after the date of this Agreement is

SCHEDULE 1

Withdrawal of the Proceeds of the Credit

A. General

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) Works	3,450,000	100% of foreign expenditures and 85% of local expenditures
(2) Goods, including field vehicles and computers	1,450,000	100% of foreign expenditures and 85% of local expenditures
(3) Consultants' services	4,800,000	100%
(4) Training and workshops	1,380,000	100%
(5) Publications	120,000	100%
(6) Operating Costs including audits	1,380,000	90% of expenditures for operating costs and 100% of expenditures for audits
(7) Refinancing of Project Preparation Advance	380,000	Amount due pursuant to Section 2.02 (b) of this Agreement
(8) Unallocated	840,000	
TOTAL	13,800,000	

2. For the purposes of this Schedule:

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

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

(c) the term "Operating Costs" means the incremental expenses incurred by the Borrower on account of the Project implementation including management and monitoring, office supplies, vehicle operation, travel, supervision costs and audits, but excluding salaries of officials of the Borrower.

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of payments made for expenditures prior to the date of this Agreement.

4. The Association may require withdrawals from the Credit Account to be made on the basis of statements of expenditure for expenditures under: (a) contracts for goods and works costing less than \$100,000 equivalent; (b) contracts for consultants firms including audits, training, publications and other services performed by firms costing less than \$100,000 equivalent; (c) contracts for individual consultants, training, publications and other services performed by individuals costing less than \$50,000 equivalent; and (d) Operating Costs, excluding audits, all under such terms and

conditions as the Association shall specify by notice to the Borrower.

B. Special Account

1. The Borrower shall, for the purposes of the Project, open and maintain in US Dollars a special deposit account in a commercial bank acceptable to the Association, on terms and conditions satisfactory to the Association, including appropriate protection against set-off, seizure and attachment.

2. After the Association has received evidence satisfactory to it that the Special Account has been opened, withdrawals from the Credit Account of amounts to be deposited into the Special Account shall be made as follows:

(a) until the Association shall have received: (i) the first Project Management Report referred to in Section 4.02 (b) of this Agreement; and (ii) a request from the Borrower for withdrawal on the basis of Project Management Reports, withdrawals shall be made in accordance with the provisions of Annex A to this Schedule 1; and

(b) upon receipt by the Association of a Project Management Report pursuant to Section 4.02 (b) of this Agreement, accompanied by a request from the Borrower for withdrawal on the basis of Project Management Reports, all further withdrawals shall be made in accordance with the provisions of Annex B to this Schedule 1.

3. Payments out of the Special Account shall be made exclusively for Eligible Expenditures in accordance with the provisions of this Schedule. 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.

4. For the purposes of this Schedule, the term "Eligible Categories" means Categories 1 through 6 set forth in the table in paragraph 1 of this Schedule 1.

5. Notwithstanding the provisions of Part B.2 of this Schedule, the Association shall not be required to make further deposits into the Special Account:

(a) if the Association determines at any time that all further withdrawals should be made by the Borrower directly from the Credit Account; or

(b) if the Borrower shall have failed to furnish to the Association within the period of time specified in Section 4.01 (b) (ii) of this Agreement, any of the audit reports required to be furnished to the Association pursuant to said Section in respect of the audit of: (A) the records and accounts for the Special Account; or (B) the records and accounts reflecting expenditures with respect to which withdrawals were made on the basis of Project Management Reports.

6. The Association shall not be required to make further deposits into the Special Account in accordance with the provisions of Part B.2 of this Schedule if, at any time, the Association shall have notified the Borrower of its intention to suspend in whole or in part the right of the Borrower to make withdrawals from the Credit Account pursuant to Section 6.02 of the General Conditions. Upon such notification, the Association shall determine, in its sole discretion, whether further deposits into the Special Account may be made and what procedures should be followed for making such deposits, and shall notify the Borrower of its determination.

7. (a) If the Association determines at any time that any payment out of the Special Account was made for an expenditure which is not an Eligible Expenditure, or was not justified by the evidence furnished to the Association, the Borrower shall, promptly upon notice from the Association, provide such additional evidence as the Association may request, or 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. 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 determines at any time that any amount outstanding in the Special Account will not be required to cover payments for Eligible Expenditures during the six-month period following such determination, 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 sub-paragraph (a), (b) or (c) of this paragraph 7 shall be credited to the Credit Account for subsequent withdrawal or for cancellation in accordance with the provisions of the Development Credit Agreement.

Annex A to SCHEDULE 1

Operation of Special Account When Withdrawals Are Not Made On the Basis of Project Management Reports

1. For the purposes of this Annex:

The term "Authorized Allocation" means an amount of \$500,000 to be withdrawn from the Credit Account and deposited into the Special Account pursuant to paragraph 2 of this Annex; provided, however, that unless the Association shall otherwise agree, the Authorized Allocation shall be limited to an amount of \$250,000 until the aggregate amount of withdrawals from the Credit Account, plus the total amount of all outstanding special commitments entered into by the Association pursuant to Section 5.02 of the General Conditions shall equal or exceed the equivalent of SDR 1,000,000.

2. Withdrawals of the Special Account's Authorized Allocation and subsequent withdrawals to replenish said Special Account shall be made as follows:

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

(b) For replenishment of said Special Account, the Borrower shall furnish to the Association requests for deposit into said Special Account at such intervals as the Association shall specify. 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 Part B.3 of Schedule 1 to this Agreement 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 said 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 said Special Account for Eligible Expenditures. Each such deposit into said Special Account shall be withdrawn by the Association from the Credit Account under one or more of said Special Account's Eligible Categories.

3. The Association shall not be required to make further deposits into the Special Account, once the total unwithdrawn amount of the Credit minus the total amount of all outstanding special commitments entered into by the Association pursuant to Section 5.02 of the General Conditions, shall equal the equivalent of twice the amount of said Special Account's Authorized Allocation. Thereafter, withdrawal from the Credit Account of the remaining unwithdrawn amount of the Credit 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 said Special Account as of the date of such notice will be utilized in making payments for Eligible Expenditures.

Annex B to SCHEDULE 1

Operation of Special Account When Withdrawals Are Made On the Basis of Project Management Reports

1. Except as the Association may otherwise specify by notice to the Borrower, all withdrawals from the Credit Account shall be deposited by the Association into the

Special Account in accordance with the provisions of Schedule 1 to this Agreement. Each such deposit into the Special Account shall be withdrawn by the Association from the Credit Account under one or more of said Special Account's Eligible Categories.

2. Each application for withdrawal from the Credit Account for deposit into the Special Account shall be supported by a Project Management Report.

3. Upon receipt of each application for withdrawal of an amount of the Credit, the Association shall, on behalf of the Borrower, withdraw from the Credit Account and deposit into the Special Account an amount equal to the lesser of: (a) the amount so requested; and (b) the amount which the Association has determined, based on the Project Management Report accompanying said application, is required to be deposited in order to finance Eligible Expenditures during the six-month period following the date of such report; provided, however, that the amount so deposited, when added to the amount indicated by said Project Management Report to be remaining in the Special Account, shall not exceed the amount of \$500,000.

SCHEDULE 2

Description of the Project

The objective of the Project is to assist the Borrower in: (i) developing an institutional and regulatory reform designed to promote private investment in the mining sector; (ii) building its capacity for environmental and social management in the mining sector; (iii) improving its geological and mining information system; and (iv) alleviating poverty in small scale and artisanal mining areas.

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: Institutional and Regulatory Reform

1. Legal and Regulatory Reform

(a) Provision of technical advisory services for the revision of the Mining Code aimed at promoting the private mining investments and enterprises, including the preparation of new mining legislation and regulations, environmental legislation and administrative procedures for the mining sector.

(b) The carrying out of consultation events with interested stakeholders in the mining sector and public awareness campaigns for the communication of the new mining legislation and regulations.

2. Institution Reform and Capacity Building

(a) Provision of technical advisory services for the establishment of a new, decentralized and client/results oriented institutional framework for MIREME's mining agencies (DNG and DNM), including the development of new institutional model, its functions, mandates, staffing and estimation of operational budgets.

(b) Strengthening of policy making, regulatory and sector management capabilities of MIREME.

(c) Carrying out the rehabilitation of the existing office facilities in the DNG and DNM, including the acquisition of field vehicles and office equipment.

3. Mining Cadastre

Provision of technical advisory services for the re-organization of the mining cadastre in the DNM and the Provincial Directorates, including: (a) the establishment of their organizational functions and working procedures; and (b) the design and implementation of a computerized system for the administration of the mining titles, including the acquisition of computer (hardware and software), topographical and office equipment, and training of staff.

4. Investment Promotion

Establishment of a promotion unit within DNM, including the provision of technical advisory services for the training of staff, the preparation and publication of promotional material, the provision of technical assistance to MIREME's and DNM's staff for the carrying out of international congresses and promotional events for the Mining Sector.

5. Information Network

Provision of technical advisory services for the establishment of a computerized information network through the intranet, including the establishment, the strengthening and the compatibility of the mining cadastre system, the mineral information system and the environmental management system.

Part B: Geologic Infrastructure

(a) Provision of technical advisory services for the supervision, coordination and evaluation of the activities, consultants and results related to the geophysical airborne survey, the geological mapping, the geo-chemical sampling, the seismological network, the documentation center, the mineral information system and industrial minerals survey.

(b) Rehabilitation of buildings for the National Museum of Geology and the geophysical airborne survey.

Part C: Environmental Management System

(a) Carrying out of environmental baseline studies over selected mining and potential mining districts, including the development of a methodology and capacity to assess and monitor environmental and social impacts of mining.

(b) Development of sector specific environmental regulations and standards, including the mitigative and rehabilitating measures for areas where mines are closed.

(c) Implementation of procedures and guidelines for the preparation of environmental impact studies in mining.

(d) Strengthening the MIREME's Mining Environmental Unit to monitor and enforce environmental regulations, including: (i) the creation of an Environmental Affairs Unit within the DNM; (ii) the establishment of procedures for environmental licensing of mining activities; (iii) the establishment of cooperation mechanism between the mining administration and MICOA; (iv) the development of consultation and participatory procedures; and (v) the establishment of an environmental management and information system.

Part D: Sustainability of Small Scale and Artisanal Mining

Strengthening of small scale and artisanal mining through the provision of technical advisory services for: (i) small-scale mining enterprise organization, management and accounting, including the provision of assistance to encourage the formation of cooperatives, improve access to micro-finance and identify possible joint-venture operations; (ii) legal and fiscal support, including the promotion of the legal formalization of operations; (iii) capacity building on mining methodology, geology, metallurgy (mineral processing), infrastructure, mining economics and environmental safeguards; (iv) the design and implementation of an environmental awareness campaign for the small-scale and artisanal miners; (v) the investigation and identification of health hazards related to mining activities and the development of remediation measures, including HIV/AIDS awareness and prevention campaigns; and (vi) the promotion and implementation of projects aiming at the diversification of economic activities through the development of an information and assistance network.

Part E: Project Coordination and Management

The establishment of a Mining Project Coordination Unit (UCPM) to coordinate project implementation and management, including: (i) procurement; (ii) project monitoring, reporting and evaluation; (iii) financial management; and (iv) coordination with other institutions and agencies.

* * *

The Project is expected to be completed by December 31, 2005.

SCHEDULE 3

Procurement and Consultants' Services

Section I. Procurement of Good and Works

Part A: General

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

2. In paragraphs 1.6 and 1.8 of the Guidelines, the references to "Bank member countries" and "member country" shall be deemed to be references, respectively, to "Participating Countries" and "Participating Country".

Part B: International Competitive Bidding

1. Except as otherwise provided in Part C of this Section, goods and works shall be procured under contracts awarded in accordance with the provisions of Section II of the Guidelines and paragraph 5 of Appendix 1 thereto.

2. The following provisions shall apply to goods and works to be procured under contracts awarded in accordance with the provisions of paragraph 1 of this Part B.

(a) Grouping of contracts

To the extent practicable, contracts for vehicles and computers shall be grouped in bid packages estimated to cost \$350,000 equivalent or more each.

(b) Notification and Advertising

The invitation to prequalify or bid for each contract estimated to cost \$10,000,000 equivalent or more shall be advertised in accordance with the procedures applicable to large contracts under paragraph 2.8 of the Guidelines.

Part C: Other Procurement Procedures

1. National Competitive Bidding

Works estimated to cost less than \$100,000 equivalent per contract, up to an aggregate amount not to exceed \$2,000,000 equivalent, and goods estimated to cost less than \$100,000, up to an aggregate amount not to exceed \$120,000, may be procured under contracts awarded in accordance with the provisions of paragraphs 3.3 and 3.4 of the Guidelines.

2. International or National Shopping

(a) Goods estimated to cost less than \$50,000 equivalent per contract, up to an aggregate amount not to exceed \$200,000 equivalent, may be procured under contracts awarded on the basis of national shopping procedures in accordance with the provisions of paragraphs 3.5 and 3.6 of the Guidelines.

(b) Goods estimated to cost more than \$50,000 but less than \$100,000 equivalent per contract, up to an aggregate amount not to exceed \$1,200,000 equivalent, may be procured under contracts awarded on the basis of international shopping procedures in accordance with the provisions of paragraphs 3.5 and 3.6 of the Guidelines.

3. Procurement of Small Works

Works estimated to cost less than \$50,000 equivalent per contract, up to an aggregate amount not to exceed \$120,000 equivalent, may be procured under lump-sum,

fixed-price contracts awarded on the basis of quotations obtained from three (3) qualified domestic contractors in response to a written invitation. The invitation shall include a detailed description of the works, including basic specifications, the required completion date, a basic form of agreement acceptable to the Association, and relevant drawings, where applicable. The award shall be made to the contractor who offers the lowest price quotation for the required work, and who has the experience and resources to complete the contract successfully.

Part D: Review by the Association of Procurement Decisions

1. Procurement Planning

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

2. Prior Review

(a) With respect to each contract for goods and works estimated to cost the equivalent of \$100,000 or more, the procedures set forth in paragraphs 2 and 3 of Appendix 1 to the Guidelines shall apply.

(b) With respect to each contract for goods estimated to cost the equivalent of \$50,000 or more but less than \$100,000 and smaller items of office equipment, furniture, training materials, office supplies and documentation estimated to cost the equivalent of \$50,000 or less up to an aggregate amount not to exceed \$200,000 equivalent, the following procedures shall apply:

- (i) prior to the selection of any supplier or the execution of any contract under shopping procedures, the Borrower shall provide to the Association a report on the comparison and evaluation of quotations received;
- (ii) prior to the execution of any contract procured under shopping procedures, the Borrower shall provide to the Association a copy of the specifications and the draft contract; and
- (iii) the procedures set forth in paragraphs 2 (f), 2 (g) and 3 of Appendix 1 to the Guidelines shall apply.

3. Post Review

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

Section II. Employment of Consultants

Part A: General

1. Consultants' services shall be procured in accordance with: (a) the provisions of the Introduction and Section IV of the "Guidelines: Selection and Employment of Consultants by World Bank Borrowers" published by the Association in January 1997 and revised in September 1997 and January 1999, subject to the modifications thereto set forth in paragraph 2 of this Part A (the Consultant Guidelines); and (b) the provisions of the following Parts of this Section II.

2. In paragraph 1.10 of the Consultant Guidelines, the references to "Bank member countries" and "member country" shall be deemed to be references, respectively, to "Participating Countries" and "Participating Country".

Part B: Quality- and Cost-based Selection

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

2. The following provisions shall apply to consultants' services to be procured under contracts awarded in accordance with the provisions of the preceding paragraph. The short list of consultants estimated to cost less than \$50,000 equivalent per contract, may comprise entirely national consultants in accordance with the provisions of paragraph 2.7 of the Consultant Guidelines.

Part C: Other Procedures for the Selection of Consultants

1. Least-cost Selection

Services for the Project's auditors may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 and 3.6 of the Consultant Guidelines.

2. Single Source Selection

Services for technical supervision of larger geological and geophysical contracts for an estimated aggregate amount of \$1,100,000 equivalent, may, with the Association's prior agreement, be procured in accordance with the provisions of paragraphs 3.8 through 3.11 of the Consultant Guidelines.

3. Individual Consultants

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

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

1. Selection Planning

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

2. Prior Review

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

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

3. Post Review

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

SCHEDULE 4

Implementation Program

1. The Project shall be coordinated by the MIREME.
2. (a) Except as the Association shall otherwise agree, the Borrower shall, in carrying out the Project, apply the annual work programs satisfactory to the Association;

(b) the Borrower shall: (i) not later than three months before the beginning of each year, furnish to the Association for approval the draft annual work plan for the Project; (ii) by January 1 of each year, furnish to the Association the final annual work plan, and carry out the activities for the year in question on the basis of such work plan; and

(c) the Borrower shall, commencing six months after the Effective Date, furnish to the Association semiannual reports on Project implementation including financial information, not later than one month after the end of each semester.
3. The Borrower shall:

(a) maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, the carrying out of the Project and the achievement of the objectives thereof;

(b) prepare, under terms of reference satisfactory to the Association, and furnish to the Association, on or about November 30 in each year, a report integrating the results of the monitoring and evaluation activities performed pursuant to paragraph (a) of this Section, on the progress achieved in the carrying out of the Project during the period preceding the date of said report and setting out the measures recommended to ensure the efficient carrying out of the Project and the achievement of the objectives thereof during the period following such date; and

(c) review with the Association, by December 31 in each year, or such later date as the Association shall request, the report referred to in paragraph (b) of this Section, and, thereafter, take all measures required to ensure the efficient completion of the Project and the achievement of the objectives thereof, based on the conclusions and recommendations of the said report and the Association's views on the matter.
4. The Borrower shall: (i) maintain the Implementation Manual for the Project in a form and substance satisfactory to the Association; and (ii) shall not amend it, suspend it, abrogate it, repeal it or waive it so as to affect materially and adversely the ability of the Borrower or UCPM to perform any of their respective obligations under the Project.

SCHEDULE 5

Performance Indicators

The Borrower agrees that Project performance will be measured by the Indicators below, unless otherwise agreed by the Association:

- 1) Increase Private Investment, exports and fiscal revenues:
 - (a) Increase in the number of private operators involved in mining.
 - (b) Increase in average annual investments in mining.
 - (c) Increase in average annual minerals exports.
 - (d) Increase fiscal revenues from mining.

Principal output indicators:

The number of private operators actively involved in exploration, is expected to increase from the current 10 to about 20-30 over the next five years, resulting in an

increase of annual investment expenditures from about US\$ 10 million today to US\$ 40-50 million. On the other hand, mineral exports could go from US\$ 7 million per year to about US\$ 100-150 million per year over the next ten years. The project will also help strengthen tax assessment and collection procedures for statutory royalties, license fees, income, dividend, and other direct and indirect taxes. The objective would be to increase fiscal revenues from mining to US\$ 30-45 million per year by 2010.

2) Set-up of a competitive legal and regulatory framework for mining:

(a) Number of investment agreements signed at the end of the project.

Principal output indicators:

- New mining code and its regulations fully enacted 6 months after project effectiveness.

- At least two new mining investment agreements signed at the end of the project.

3) Set-up of a modern and efficient public mining institutions:

(a) Average number of days to issue a mining title.

(b) Number of staff trained by the project.

Principal output indicators:

- Computerized mining cadastre fully operational by mid-term review.

- At least 3 Provincial delegations of the Mining Directorate fully operational at the end of the project.

4) Set the base for the creation of an Environmental and Social Management for Mining:

(a) Interministerial coordination arrangements - namely with the Ministry of Environmental Coordination (MICOA) and Ministry of Agriculture and Fisheries - for the environmental management of the sector.

(b) Number of baseline studies and environmental audits available at the end of the project.

(c) Average number of days to treat environmental applications for exploration and mining permits.

(d) Application of consultative processes by the mid-term review.

Principal output indicators:

- Environmental regulations and detailed procedures for Environmental Impact Assessments in mining jointly issued with MICOA 6 months after effectiveness.

- Environmental baseline database fully operational at the end of the project.

- Interface of the sector's databases with the corresponding databases available in other ministries (MICOA, DINAGECA. etc.).

- 2 investment projects having adopted consultative procedures at the end of the Project.

5) Improve Geological and Mining Information System:

(a) Number of linear kilometers covered by new geophysics airborne survey.

(b) Number of geological maps published.

(c) Number of geochemical analysis done.

Principal output indicators:

- Complete coverage of the areas with strong mineral potential with geophysics

maps.

- Complete coverage of the areas with strong mineral potential with geological maps at the 1:250,000 scale.

- Geoscientific database fully operational at the end of the project.

6) Poverty alleviation in small-scale and artisanal mining areas:

- (a) Number of artisanal miners legally registered.

- (b) Increase in the declared production in legally-established artisanal mining areas.

- (c) Decrease in the number of declared diseases among the affected population.

Principal output indicators:

- At least 3 social assessments produced on artisanal mining areas.

- At least 3 environmental audits produced on artisanal mining areas.

- HIV/AIDS awareness campaigns conducted in at least 3 artisanal mining areas.

