

CONFORMED COPY

CREDIT NUMBER 3577 MOZ

Development Credit Agreement

(Communication Sector Reform Project)

between

REPUBLIC OF MOZAMBIQUE

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated December 17, 2001

CREDIT NUMBER 3577 MOZ

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated December 17, 2001, between REPUBLIC OF MOZAMBIQUE (the Borrower) and INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association).

WHEREAS (A) the Association has received from the Borrower letters dated August 15, 2001 and October 31, 2001, respectively, describing a program of actions, objectives and policies designed to achieve reforms in the telecommunications, postal and air transport sectors of the Borrower (hereinafter collectively called the Program), and declaring the Borrower's commitment to the execution of the Program;

(B) 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) "ADM" means "Aerportos de Mozambique" created by Decree 3/98 of February 10, 1998;

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

(c) "CDM" means Correios de Moçambique, created by Decree 24/92;

(d) "Eligible Categories" means Categories (1), (2) and (3) set forth in the table in paragraph 1 of Schedule 1 to this Agreement;

(e) "Eligible Expenditures" means the expenditures for 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 (hereinafter defined) respective Eligible Categories;

(f) "ICT" means Communications and Information Technologies;

(g) "INAC" means Instituto Nacional de Aviação Civil, the air transport regulatory authority defined by Decree 39/98 of 26 August 1998;

(h) "INCM" or "Instituto Nacional da Comunicações de Moçambique" means the Borrower's communication sector regulatory agency created by Decree No. 22/92 of September 10, 1992;

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

(j) "LAM" or "Linhas Aéreas de Moçambique" means the Borrower's airlines, a limited liability company created by the Borrower's Decree No. 69 dated December 23, 1998;

(k) "Meticais" means the Borrower's currency;

(l) "MIA" means Maputo International Airport;

(m) "MTC" means the Borrower's Ministry in charge of transport and communications;

(n) "Project Financial Management Manual" or "PFMM" means the Borrower's manual containing detailed arrangements regarding the financial management of the Project;

(o) "Project Implementation Manual" or "PIM" means the Borrower's manual dated November 30, 2001, 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 and disbursement, as may be amended from time to time with the prior consent of the Association;

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

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

(r) "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 January 17, 2001 and on behalf of the Borrower on February 6, 2001;

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

(t) "TDM" or "Telecomunicações de Moçambique" means the Borrower's communication company established pursuant to Decree 23/92;

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 eleven million six hundred thousand Special Drawing Rights (SDR 11,600,000).

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 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 March 15 and September 15 in each year.

Section 2.07. (a) Subject to paragraphs (b), (c) and (d) below, the Borrower shall repay the principal amount of the Credit in semiannual installments payable on each March 15 and September 15 commencing March 15, 2012, and ending September 15, 2041. Each installment to and including the installment payable on September 15, 2021, 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. (a) The Borrower declares its commitment to the objective 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 and environmental practices, and shall provide, promptly as needed, the funds, facilities, services and other resources required for the Project; and

(b) Without limitation upon the provisions of paragraph (a) of this Section

and except as the Borrower and the Association shall otherwise agree, the Borrower shall carry out the Project in accordance with the Implementation Program set forth in Schedule 4 to this Agreement.

Section 3.02. Except as the Association shall otherwise agree, procurement of the goods 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 \$70,000 (the 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; 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 a financial management system, including records and accounts, and prepare financial statements in a format acceptable to the Association, adequate to reflect the operations, resources and expenditures related to the Project.

(b) The Borrower shall:

(i) have the records, accounts and financial statements referred to in paragraph (a) of this Section and the records and accounts for the Special Account for each fiscal year audited, in accordance with auditing standards acceptable to the Association, 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 copies of the financial statements referred to in paragraph (a) of this Section for such year as so audited, and (B) an opinion on such statements, records and accounts and 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 such records and accounts, and the audit thereof, and concerning said auditors, as the Association may 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 or Project Management Reports, 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 statements of expenditure or Project Management Reports 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.

Remedies of the Association

Section 5.01. Pursuant to Section 6.02 (1) of the General Conditions, the following additional event are specified:

(a) the Borrowers' Telecommunications and Air Transport Letters of Sector Policies, adopted on August 15, 2001, have been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the Project; and

(b) the Borrower has enacted any new legislation or regulation that may affect materially and adversely the Project.

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 Borrower has adopted the PIM, in form and substance satisfactory to the Association;

(b) the Borrower has appointed to MTC a Project Manager and a Project Accountant, with qualifications and experience satisfactory to the Association;

(c) the Borrower has established within MTC a financial management and accounting system acceptable to the Association, including the PFMM;

(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; and

(e) the Project Account has been opened.

Section 6.02. The date ninety (90) days after the date of this Agreement is hereby specified for the purposes of Section 12.04 of the General Conditions.

ARTICLE VII

Representative of the Borrower; Addresses

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

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

For the Borrower:

Governor
Banco de Moçambique
Departamento de Relações Internacionais
Avenida 25 de Setembro, 1679, P.O. Box 423
Maputo
Republic of Mozambique

Cable address:	Telex:	Facsimile:
MOBANCO	6355/BMMO	258 1 42 19 12

For the Association:

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

Cable address:	Telex:	Facsimile:
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INDEVAS
Washington, D.C.

248423 (MCI) or
64145 (MCI)

(202) 477-6391

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

REPUBLIC OF MOZAMBIQUE

By /s/ Ismael Valigy

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Pamela Cox

Acting Regional Vice President
Africa

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) Goods	3,750,000	100% of foreign expenditures and 80% of local expenditures
(2) Consultants' services and training, including audits	5,300,000	100%
(3) Operating costs	200,000	70% of local expenditures
(4) Refinancing of Project Preparation Advance	950,000	Amount due pursuant to Section 2.02 (b) of this Agreement
(5) Unallocated	1,400,000	
TOTAL	11,600,000	

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 under the Project on account of salaries and allowances of local contractual staff, travel costs and allowances, operation and maintenance of vehicles and equipment, Special Account banking charges, office rental, supplies and utilities, but excluding salaries of officials of the Borrower's civil service.

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 costing less than \$100,000 equivalent each; (b) contracts for consultants firms costing less than \$100,000 equivalent each; (c) contracts for individual consultants costing less than \$50,000 equivalent; (d) training; and (e) operating costs, 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 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. 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 or statements of expenditures, as the case may be.

5. 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.

6. (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 6 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 \$800,000 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 \$400,000 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 2,500,000.

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

(a) For withdrawals of the Authorized Allocation, the Borrower shall furnish to the Association a request or requests for deposit into the Special Account of an amount or amounts which 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 the Special Account such amount as the Borrower shall have requested.

(b) For replenishment of the Special Account, the Borrower shall furnish to the Association requests for deposit into the 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 the Special Account shall be withdrawn by the Association from the Credit Account under one or more of the 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 the 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 the 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 the 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 \$2,000,000.

SCHEDULE 2

Description of the Project

The objective of the Project is to assist the Borrower in: (i) reforming and restructuring its telecommunication, postal and air transport sectors to attract private management, know how and capital; (ii) developing an institutional and regulatory framework designed to promote competition and private investment in the telecommunication, postal and air transport sectors; and (iii) develop a strategy for increasing access to communication services in rural 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 objective:

Part A. Telecommunications and Postal Sector Reform

1. Legal and Regulatory Reform

Development of a legal and regulatory framework for the telecommunications and postal sector including the revision and preparation of: (i) a new Law on Telecommunications; (ii) a set of telecommunications economic and technical regulations including on numbering, radio-spectrum management, price regulation, universal service, dispute resolution, competition and ICT development enabling; (iii) a tender to award two mobile licenses to private operators; (iv) model licenses and authorizations for the provision of telecommunications services; (v) an offer to the World Trade Organization on a list of commitments pertaining to telecommunications services; and (vi) a new sector policy and related economic and technical regulations on the postal sector; all through the provision of technical advisory services.

2. Institutional Reform and Capacity Building

Strengthening of: (i) telecommunications and postal policy making and sector analysis capabilities of MTC, (ii) telecommunications and postal regulatory, monitoring and licensing capacity of INCM, and (iii) MTC's project management, procurement and financial management capacity; through the provision of technical advisory services, training and equipment, including for frequency management and monitoring.

3. Public Enterprise Restructuring and Privatization

(i) Privatization of TDM, including the preparation and issuance of its licenses; and (ii) preparation of a modernization strategy for CDM, through the

provision of technical advisory services.

4. Rural and Universal Access Strategy

Carrying out of the design and implementation of a rural and universal access strategy, including: (i) drafting of a rural strategy; (ii) regulation on universal access establishing a universal service fund; and (iii) support of rural network build-out and service provision through the provision of technical advisory services, training and equipment.

Part B: Air Transport Sector Reform

1. Legal and Regulatory Reform

Development of a legal and regulatory framework for the air transport sector including: (i) INAC technical and economic regulation supervision powers; (ii) revising ADM statutes; (iii) enacting air transport economic regulation; and (iv) provision of free licensing for scheduled domestic flights and for multi-designation of carriers for international scheduled operations; all through the provision of technical advisory services.

2. Institutional Reform and Capacity Building

Strengthening of: (i) air transport policy and legal formulation capabilities of MTC; (ii) air transport regulatory and monitoring capacity of INAC; and (iii) preparation of an open sky policy, through the provision of technical advisory services, training and equipment, including management information systems.

3. Public Enterprise Restructuring and Privatization

(i) Concessioning of the Maputo International Airport with private sector participation; (ii) developing a master plan to invite private participation in other airports in the Maputo development corridor to upgrade the infrastructure; and (iii) restructuring and privatization of LAM, through the provision of technical advisory services.

* * *

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

SCHEDULE 3

Procurement and Consultants' Services

Section I. Procurement of Goods

Part A: General

1. Goods shall be procured in accordance with: (a) the provisions of Section I of the "Guidelines for Procurement under IBRD Loans and IDA Credits" published by the Bank in January 1995 and revised in January and August 1996, September 1997 and January 1999 (the Guidelines); and (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 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 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 equipment shall be grouped in bid packages estimated to cost \$350,000 equivalent or more each.

(b) Notification and Advertising

The invitation to bid for each contract estimated to cost \$100,000 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. Limited International Bidding

Goods which the Association agrees can only be purchased from a limited number of suppliers, regardless of the cost thereof, may be procured under contracts awarded in accordance with the provisions of paragraph 3.2 of the Guidelines.

2. National Competitive Bidding

Goods estimated to cost less than \$100,000 equivalent per contract, up to an aggregate amount not to exceed \$500,000 equivalent may be procured under contracts awarded in accordance with the provisions of paragraphs 3.3 and 3.4 of the Guidelines.

3. International or National Shopping

(a) Goods estimated to cost less than \$50,000 equivalent per contract, up to an aggregate amount not to exceed \$300,000 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 less than \$50,000 equivalent per contract, up to an aggregate amount not to exceed \$300,000 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.

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 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 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 estimated to cost the equivalent of \$50,000 or less, up to an aggregate amount not to exceed \$300,000 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 \$100,000 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 auditors and other audits or standard assignments estimated to cost less than \$200,000 equivalent may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 and 3.6 of the Consultant Guidelines.

2. Selection Based on Consultants' Qualifications

Consultants services estimated to cost less than the equivalent of \$100,000 equivalent per contract may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 and 3.7 of the Consultant Guidelines.

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 MTC.

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 as approved by the Association, 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, in accordance with the indicators set forth in Schedule 5 to this Agreement, the carrying out of the Project and the achievement of the objective 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 PIM 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 MTC 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:

PLEASE SEE ORIGINAL FOR TABLE, INCORRECT FORMAT

