

CONFORMED COPY

CREDIT NUMBER 3039-MOZ

Development Credit Agreement

(National Water Development Project)

between

REPUBLIC OF MOZAMBIQUE

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated February 18, 1998

CREDIT NUMBER 3039-MOZ

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated February 18, 1998, between REPUBLIC OF MOZAMBIQUE (the Borrower) and INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association).

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

(B) the Association has received a letter dated, September 16, 1997, from the Borrower describing a program of actions, objectives and policies designed to strengthen the Borrower's water sector (the Program) and declaring the Borrower's commitment to the execution of the Program; and

(C) The Borrower intends to obtain from the Canadian International Development Agency (CIDA), the Nordic Development Fund (NDF), the Swedish International Development Agency (SIDA) and the Swiss Development Cooperation (SDC) (the Cofinanciers), loans and grants in an aggregate amount approximately equivalent to eighteen million five hundred thousand Dollars (US\$18,500,000), during the period 1998-2003, to assist in financing the Program on the terms and conditions set forth in the respective loan and grant agreements (the Cofinancing Agreements) to be entered

into between the Borrower and each of the Cofinanciers; and

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

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

General Conditions; Definitions

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

(a) The last sentence of Section 3.02 is deleted.

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

"Except as the Association and the Borrower shall otherwise agree, no withdrawals shall be made: (a) on account of expenditures in the territories of any country which is not a member of the Bank 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."

(c) Section 6.03 is modified to read:

"Section 6.03. Cancellation by the Association. If (a) the right of the Borrower to make withdrawals from the Credit Account shall have been suspended with respect to any amount of the Credit for a continuous period of thirty days, or (b) at any time, the Association determines, after consultation with the Borrower, that an amount of the Credit will not be required to finance the Project's costs to be financed out of the proceeds of the Credit, or (c) at any time, the Association determines, with respect to any contract to be financed out of the proceeds of the Credit, that corrupt or fraudulent practices were engaged in by representatives of the Borrower or of a beneficiary of the Credit during the procurement or the execution of such contract, without the Borrower having taken timely and appropriate action satisfactory to the Association to remedy the situation, and establishes the amount of expenditures in respect of such contract which would otherwise have been eligible for financing out of the proceeds of the Credit, or (d) at any time, the Association determines that the procurement of any contract to be financed out of the proceeds of the Credit is inconsistent with the procedures set forth or referred to in the Development Credit Agreement and establishes the amount of expenditures in respect of such contract which would otherwise have been eligible for financing out of the proceeds of the Credit, or (e) after the Closing Date, an amount of the Credit shall remain unwithdrawn from the Credit Account, the Association may, by notice to the Borrower, terminate the right of the Borrower to make withdrawals with respect to such amount. Upon the giving of such notice, such amount of the Credit shall be canceled."

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

(a) "ARA-Sul" means Administraçao Regional de Aguas do Sul, the Borrower's water resources administration for its southern region;

(b) "Banco de Moçambique" means the Borrower's Central Bank;

(c) "DNA" means Direçao Nacional de Aguas, the National Directorate of Water of MOPH (as hereinafter defined);

(d) "GRI" means Gabinete dos Rios Internacionais, the Borrower's Office of International Rivers;

(e) "MOPH" means Ministerio de Obras Publicas e Habitacao, the Borrower's Ministry of Public Works and Housing;

(f) "Performance Indicators" means the indicators referred to in Schedule 6 to this Agreement;

(g) "Project Implementation Plan" means the plan to be adopted by the Borrower, pursuant to Section 6.01 of this Agreement, for the purposes of carrying out the Project, containing, inter alia, work programs, training programs, to be used for the purposes of implementation of the Project, as the same may be amended from time to time, and such term includes any schedules to the Project Implementation Plan;

(h) "Project Preparation Advance" means the project preparation advances granted by the Association to the Borrower pursuant to the exchange of letters, dated March 11, 1996 and April 10, 1996, and January 30, 1997 and April 17, 1997, between the Borrower and the Association;

(i) "RWSTP" means the rural water supply transition plan prepared by the Borrower on November 24, 1997 and containing inter alia, a demand-driven decentralized approach to sustainable rural water supply and sanitation service delivery within the territory of the Borrower;

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

(k) "Water Supply and Sanitation Scheme" means the scheme consisting of the activities carried out under Part C.3 of the Project which shall have been selected by the Borrower and approved by the Association.

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 twenty-six million two hundred thousand Special Drawing Rights (SDR 26,200,000).

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

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

(c) Promptly after the Effective Date, the Association shall, on behalf of the Borrower, withdraw from the Credit Account and pay to itself the amount required to repay the principal amount of the Project Preparation Advances 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 canceled.

Section 2.03. The Closing Date shall be October 31, 2003, or such later date as the Association shall establish. The Association shall promptly notify the Borrower of such later date.

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

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

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

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

Section 2.06. Commitment charges and service charges shall be payable semiannually on February 1 and August 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 February 1 and August 1 commencing August 1, 2008, and ending February 1, 2038. Each installment to and including the installment payable on February 1, 2018 shall be one percent (1%) of such principal amount, and each installment thereafter shall be two percent (2%) of such principal amount.

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

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

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

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

ARTICLE III

Execution of the Project

Section 3.01. (a) The Borrower declares its commitment to the objectives of the Project as set forth in Schedule 2 to this Agreement and, to this end, shall carry out the Project through MOPH with due diligence and efficiency and in conformity with appropriate administrative, financial, engineering and environmental practices, and shall provide, promptly as needed, the funds, facilities, services and other resources required for the Project.

(b) Without limitation upon the provisions of paragraph (a) of this Section and except as the Borrower and the Association shall otherwise agree, the Borrower shall carry out the Project in accordance with the Implementation Program set forth in Schedule 4 to this Agreement.

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

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

(a) prepare, on the basis of guidelines acceptable to the Association, and furnish to the Association 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 designed to ensure the sustainability of the Project; and

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

Section 3.04. The Borrower shall, by not later than November 30, 1998, issue a decree providing the powers and obligations necessary and desirable for the management of water delivery and diversions by private sector irrigators and other water users.

Section 3.05. The Borrower shall implement the acceptable resettlement plans required by paragraph 4 of Schedule 1 to this Agreement for each applicable Water Scheme approved for implementation by the Association.

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 statements of expenditure, the Borrower shall:

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

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

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

(iv) ensure that such records and accounts are included in the annual audit referred to in paragraph (b) of this Section and that the report of such audit contains a separate opinion by said auditors as to whether the statements of expenditure submitted during such fiscal year, together with the procedures and internal controls involved in their preparation, can be relied upon to support the related withdrawals.

ARTICLE V

Remedies of the Association

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

(a) an extraordinary situation shall have arisen which shall make it improbable that the Program or a significant part thereof will be carried out;

(b) The Cofinancing Agreements shall have failed to become effective by January 31, 1999, or such later date as the Association may agree, provided, however, that the provisions of this paragraph shall not apply if the Borrower establishes to the satisfaction of the Association that adequate funds for the Project are available to the Borrower from other sources on terms and conditions consistent with the obligations of the Borrower under this Agreement;

(c) (i) Subject to subparagraph (ii) of this paragraph, the right of the Borrower to withdraw the proceeds of loans and grants made to the Borrower for the financing of the Project shall have been suspended, canceled or terminated in whole or in part, pursuant to the terms of the agreement providing therefor.

(ii) Subparagraph (i) of this paragraph shall not apply if the Borrower establishes to the satisfaction of the Association that: (A) such suspension, cancellation, or termination is not caused by the failure of the Borrower to perform any of its obligations under such agreement; and (B) adequate funds for the Project are available to the Borrower from other sources on terms and conditions consistent with the obligations of the Borrower under this Agreement.

Section 5.02. Pursuant to Section 7.01 (d) of the General Conditions, the following additional event is specified, namely that the event specified in paragraph (c)(i)(B) of Section 5.01 of this Agreement shall occur, subject to the proviso of paragraph (b)(ii) of that Section.

ARTICLE VI

Effective Date; Termination

Section 6.01. The following event is specified as additional condition to the effectiveness of the Development Credit Agreement within the meaning of Section 12.01 (b) of the General Conditions, namely that the Borrower has adopted the Project Implementation Plan, in form and substance acceptable to the Association.

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 Banco de Moçambique is designated as representative of the Borrower for the purposes of Section 11.03 of the General Conditions.

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

For the Borrower:

Banco de Mocambique
Departamento de Relacoes Internacionais
Avenida 25 de Setembro
P. O. Box 423
Maputo
Mozambique

Cable address:

MOBANCO
Maputo

Telex:

6355/7 BMMO

For the Association:

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

Cable address:

INDEVAS
Washington, D.C.

Telex:

248423 (MCI) or
64145 (MCI)

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/ Marcus Namashulua

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Callisto Madavo

Regional Vice President
Africa

SCHEDULE 1

Withdrawal of the Proceeds of the Credit

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

Category	Amount of the Credit Allocated (Expressed in SDR Equivalent)	% of Expenditures to be Financed
(1) Civil works	6,030,000	100% of foreign expenditures and 85% of local expenditures
(2) Vehicles, equipment, materials and furniture	1,900,000	100% of foreign expenditures and 85% of local expenditures
(3) Consultants' services	9,150,000	100%
(4) Training	1,320,000	100%
(5) Operating costs	660,000	90%
(6) Goods & works for water supply and sanitation schemes under Part C.3 of the Project	2,770,000	100% of foreign expenditures and and 85% of local expenditures
(7) Refunding of Project Preparation Advance	1,460,000	Amount due pursuant to Section 2.02 (c) of this Agreement
(8) Unallocated	2,910,000	
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TOTAL	26,200,000 =====	

2. For the purposes of this Schedule:

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

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

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

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of:

(a) payments made for expenditures prior to the date of this Agreement; and

(b) payments made for expenditures under Category 4, unless the Borrower has appointed a Human Resources Manager in DNA with terms of reference and qualifications acceptable to the Association for the purpose of carrying out Parts E.1 and E.2 of the Project.

4. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made for payments made for expenditures under Category 6 in respect of each Water Supply and Sanitation Schemes where the Scheme involves the displacement of people, unless the Borrower has furnished to the Association a resettlement plan, in form and substance acceptable to the Association.

5. The Association may require withdrawals from the Credit Account to be made on the basis of statements of expenditure for expenditures for

(a) goods and works under contracts costing less than \$250,000 equivalent each;

(b) services of consulting firms under contracts costing less than \$100,000 equivalent each;

(c) services of individual consultants under contracts costing less than \$50,000 equivalent each; and

(d) training and operating costs, under such terms and conditions as the Association shall specify by notice to the Borrower.

SCHEDULE 2

Description of the Project

The objectives of the Project are:

(a) to increase the capacity of the institutions in the Borrower's water sector;

(b) to prepare the urban water supply and sanitation systems of five cities for private sector management in order to ensure the provision of sustainable water supply and sanitation services for a larger proportion of the population in such areas;

(c) to reorient and to reform the management and implementation of rural water supply and sanitation and to improve availability of such services to rural communities; and

(d) to ensure the sustainable management of water resources.

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: Institution Building and Policy Development

Strengthening the capacities of organizations in the water sector through:

(a) the provision of technical advisory services for the development of a regulatory framework and regulatory and monitoring capacity;

(b) the provision of technical advisory services and acquisition of equipment and vehicles for capacity building in planning, general and financial management, and general operations;

(c) the construction and refurbishment and furnishing of staff housing and office buildings; and

(d) the carrying out of policy studies in the water sector.

Part B: Preparation for Private Sector Management of Urban Water Supply

1. Strengthening the Borrower's capacity to prepare for the management by the private sector of urban water supply systems in Maputo, Beira, Quelimane, Nampula and Pemba, and in the selection and award of contracts to management contractors, through the provision of technical advisory services and the carrying out of studies.

2. Carrying out studies and rehabilitation and construction works to ensure secure operation of the headworks systems for the Beira, Nampula, Pemba and Quelimane water supply systems.

3. Preparation of feasibility studies and plans for sanitation and drainage for Maputo, Beira, Quelimane, Nampula and Pemba, including cleaning, inspection and repairs of sewerage systems.

Part C: Rural Water Supply and Sanitation

1. Provision of technical advisory services and acquisition of equipment in support of the implementation of RWSTP.

2. Provision of technical advisory services, carrying out of studies and acquisition of equipment necessary to identify candidate communities for the upgrading or provision of small piped systems and point source water supplies, to mobilize the communities and undertake designs.

3. Preparation and implementation of Water Supply and Sanitation Schemes consisting, inter alia, of construction of new water supply facilities or rehabilitation of existing water supply facilities for rural communities, and monitoring performance thereof.

4. Design and implementation of resettlement plans necessary to relocate persons to be displaced through the carrying out of activities under Part C.3 above.

Part D: Water Resources Management

1. Carrying out of water control and measurement works, and acquisition of equipment and technical advisory services including surveys for the strengthening of the ARA-Sul and GRI.

2. Carrying out of studies on the water resources of the international rivers, including the Umbeluzi, Incomati, Limpopo, Pungue and Save, and on options for the development and management of such water resources, including site surveys and works for flow measurement.

3. Carrying out of safety-related rehabilitation works at the Corumana Dam and carrying out of feasibility and design work for the future addition to the Corumana Dam.

Part E: Human Resources Development

1. Carrying out of training programs for staff in the water sector organizations and provision of technical advisory services to organizations providing training services.

2. Strengthening the capacity of MOPH in the development of personnel policies through the provision of technical advisory services including the carrying out of studies.

3. Acquisition of equipment and provision of technical advisory services to MOPH for Project management and procurement.

* * *

The Project is expected to be completed by April 30, 2003.

SCHEDULE 3

Procurement and Consultants' Services

Section I. Procurement of Good and Works

Part A: General

Goods and works shall be procured in accordance with 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 (the Guidelines) and the following provisions of Section I of this Schedule.

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 goods and works shall be grouped in bid packages estimated to cost \$250,000 and \$500,000 equivalent or more each respectively.

(b) Preference for domestically manufactured goods

The provisions of paragraphs 2.54 and 2.55 of the Guidelines and Appendix 2 thereto shall apply to goods manufactured in the territory of the Borrower.

(c) 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 and goods estimated to cost less than \$500,000 and \$250,000 equivalent per contract, respectively, up to aggregate amounts not to exceed \$1,100,000 and \$2,200,000 equivalent, respectively, may be procured under contracts awarded in accordance with the provisions of paragraphs 3.3 and 3.4 of the Guidelines.

2. National Shopping

Small consumable items estimated to cost less than \$50,000 equivalent per contract, up to an aggregate amount not to exceed \$400,000 equivalent, may be procured under contracts awarded on the basis of national shopping procedures in accordance with the provisions of paragraph 3.5 of the Guidelines.

3. International Shopping

Goods estimated to cost less than \$50,000 equivalent per contract, up to an aggregate amount not to exceed \$400,000 equivalent, may be procured under contracts awarded on the basis of international shopping procedures in accordance with the provisions of paragraph 3.6 of the Guidelines.

4. Procurement from United Nations Agencies

Goods estimated to cost less than \$50,000 equivalent per contract, up to an aggregate amount not to exceed \$400,000 equivalent, may be procured from the Inter-Agency Procurement Services Organization of the UN (IAPSO) in accordance with the provisions of paragraph 3.9 of the Guidelines.

Part D: Review by the Association of Procurement Decisions

1. Procurement Planning

Prior to the issuance of any invitations to prequalify for bidding or to bid for contracts, the proposed procurement plan for the Project shall be furnished to the Association for its review and approval, in accordance with the provisions of

paragraph 1 of Appendix 1 to the Guidelines. Procurement of all goods and works shall be undertaken in accordance with such procurement plan as shall have been approved by the Association, and with the provisions of said paragraph 1.

2. Prior Review

With respect to each contract for goods and works estimated to cost the equivalent of \$250,000 or more, the procedures set forth in paragraphs 2 and 3 of Appendix 1 to the Guidelines shall apply.

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

Section II. Employment of Consultants

Part A: General

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

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 for services 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, unless international eligible consultants have expressed their interest.

Part C: Other Procedures for the Selection of Consultants

1. Single Source Selection

Services which are estimated to cost less than \$100,000 equivalent per contract, 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.

2. Individual Consultants

Services for tasks that meet the requirements set forth in Section V 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, or for contracts following a single-source selection or for activities of a critical nature, the procedures set forth in paragraphs 1, 2 and (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, or for assignments of a critical nature or following a single-source selection, 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. Except as the Association shall otherwise agree, the Borrower shall, in carrying out the Project, apply the guidelines and procedures specified in the Project Implementation Plan and shall not amend such Project Implementation Plan or waive any provision thereof which, in the opinion of the Association, will materially or adversely affect the implementation of the Project.

2. The Project shall be implemented by DNA.

3. The Director of DNA shall coordinate all the activities under the Project. There shall be within DNA: (a) a Project Leader, reporting to the Director of DNA, who will be responsible for planning and coordinating Project activities and who will be assisted by a team of administrative staff, including a Project accountant, a Project engineer and, for the first two years, a procurement specialist; and (b) a financial management specialist with responsibilities for the establishment and development of financial management functions. The Minister of MOPH shall chair a Project Steering Committee, inter alia, consisting of senior representatives of the ministries of Finance, Foreign Affairs, Health, Agriculture, Local Administration and Environment, and the Banco de Mozambique.

Annual Review

4. (a) The Borrower shall, not later than March 31 each year, carry out jointly with the Association, a comprehensive annual project implementation review aimed at: (i) documenting progress toward objectives; (ii) identifying and resolving obstacles to Project implementation; and (iii) adjusting, in agreement with the Association, targets and corresponding programs to reflect progress achieved in the implementation of the Project in the prior years and ensuring responsiveness to changes to effectively achieve the objectives of the Project.

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

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

Mid-Term Review

5. The Borrower shall:

(a) maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with Performance Indicators, referred to

in Schedule 6 to this Agreement, the carrying out of the Project and the achievement of the objectives thereof;

(b) prepare under terms of reference, satisfactory to the Association, and furnish to the Association, on or about November 30, 2000, 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, 2000, 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.

SCHEDULE 5

Special Account

1. For the purposes of this Schedule:

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

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

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

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

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

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

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

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

4. For each payment made by the Borrower out of the Special Account, the Borrower

shall, at such time as the Association shall reasonably request, furnish to the Association such documents and other evidence showing that such payment was made exclusively for eligible expenditures.

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

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

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

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

(d) once the total unwithdrawn amount of the Credit allocated to the eligible Categories, minus the total amount of all outstanding special commitments entered into by the Association pursuant to Section 5.02 of the General Conditions with respect to the Project, shall equal the equivalent of twice the amount of the Authorized Allocation. Thereafter, withdrawal from the Credit Account of the remaining unwithdrawn amount of the Credit allocated to the eligible Categories shall follow such procedures as the Association shall specify by notice to the Borrower. Such further withdrawals shall be made only after and to the extent that the Association shall have been satisfied that all such amounts remaining on deposit in the Special Account as of the date of such notice will be utilized in making payments for eligible expenditures.

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

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

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

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

SCHEDULE 6

Performance Indicators

Indicator By Development of sectoral database, including February 2000 information on percentage of population with access to safe, reliable water supplies

Plan for development of finance function December 1998 within DNA is agreed, and

implementation underway

Strategy for human resource development, February 1999 agreed upon action plan developed, and implementation under way

Bids invited and evaluated for private sector November 1998 management of five water companies

Central regulating body established November 1998 and staffed in preparation for private sector management of urban water supply systems

Works to secure water supply reliability July 2001 for Beira and Pemba designed, constructed and in operation

Sanitation strategy, designs and January 2001 documentation completed

First small piped water system in December 2001 Inhambane rehabilitated/improved under autonomous management, with full stakeholder participation

Indicator By

Appointment of RWTP steering June 1998 committee and directorate body

Approval of DAR-PRONAR institutional June 1999 strengthening plan and RWTP national communication strategy

Business plan for ARA-Sul approved May 1999

River basin studies started March 1999

