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A.I.D. Project Number 690-0247.56

AMENDMENT NO. 4 TO THE PROJECT GRANT AGREEMENT
between
THE REPUBLIC OF MOZAMBIQUE
and the
UNITED STATES OF AMERICA
for
REGIONAL RAIL SYSTEMS SUPPORT

Dated: September 30, 1992

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[Signature]

Project Grant Agreement
 Project Number: 690-0247.56
 Regional Rail Systems Support (RRSS)
 Mozambique Component
 Amendment No. 4

between

The Republic of Mozambique

and

The United States of America, acting through the Agency for
 International Development

dated September 30, 1992

The purpose of this Amendment is to amend several Sections of the Project Grant Agreement entered into on August 23, 1988, as amended on August 15, 1989, July 2, 1990, and February 26, 1991 ("the Agreement"). Section 2.2, Incremental Nature of Project, is amended to reflect an addition of \$25,000,000 to A.I.D.'s anticipated contribution to the project. Section 3.1, The Grant, is amended to provide additional funding in the amount of \$15,000,000, in furtherance of project objectives. Section 3.3., Project Assistance Completion Date, is amended to extend the Project Assistance Completion Date to December 31, 1996. Article 4, Conditions Precedent to Disbursement, is amended to add conditions precedent for disbursement of funds for technical assistance and for severance pay. Article 5, Special Covenants, is amended to add two additional special covenants. These new conditions precedents apply only to the \$25,000,000 increase in A.I.D.'s anticipated contribution to the project. The final purpose of this Amendment is to replace in its entirety Annex 1, Amplified Project Description.

1. Article 2: The Project. Subsection (b) of Section 2.2, Incremental Nature of Project, is hereby amended by deleting "U.S.\$55,500,000" and substituting "U.S.\$80,500,000" in lieu thereof.

2. Article 3: Financing

(a) Section 3.1, The Grant, is hereby deleted in its entirety and the following substituted in lieu thereof:

"SECTION 3.1: The Grant. To assist the Grantee to meet the costs of carrying out the Project, A.I.D., pursuant to the Foreign Assistance Act of 1961, as amended, agrees under the terms of this Agreement to grant the Grantee not to exceed seventy million, five hundred thousand United States ("U.S.") Dollars (\$70,500,000) ("Grant"). The Grant may be used to finance foreign exchange costs, as defined in Section 6.1, and local currency costs, as defined in Section 6.2, of goods and services required for the Project."

(b) Subsection (a) of Section 3.3, Project Assistance Completion Date, is hereby amended by deleting "December 31, 1994" and substituting "December 31, 1996" in lieu thereof.

3. Article 4: Conditions Precedent to Disbursement

The Conditions Precedent set forth in Sections 4.2 and 4.3 of the Agreement have been met. Those Sections are hereby deleted and replaced by the following, which apply only to the additional A.I.D. funds :

"SECTION 4.2: Disbursement for Technical Assistance. Prior to any disbursement under the Grant for labor and asset redeployment technical assistance, except for technical assistance to USAID/Mozambique and CFM for project management, and prior to the issuance of any commitment documents for such activities, except as A.I.D. may otherwise agree in writing, the Grantee shall furnish evidence that the Government has signed an Agreement with the International Bank for Reconstruction and Development, in form and substance satisfactory to A.I.D., for the Maputo Corridor Revitalization Project.

"SECTION 4.3 Disbursement for Severance Pay. Prior to any disbursement under the Grant for severance pay, the Grantee shall furnish, in form and substance satisfactory to A.I.D., evidence that the Grantee has begun the implementation of an institutional restructuring program that, in A.I.D.'s opinion, will make the Maputo Corridor rail and port system profitable in the shortest reasonable time frame. In addition, prior to any disbursement for severance pay, pursuant to Section 7.2 or 7.3 of the Agreement A.I.D. and the Grantee will agree, through a Project Implementation Letter, on the procedures to be followed for acquiring and disbursing local currency."

4. Article 5: Special Covenants

Article 5: Special Covenants is hereby amended by including the following additional special covenants as Sections 5.15 and 5.16:

"SECTION 5.15. The Grantee agrees to enact or promulgate all legislation or regulations, or amendments thereto, necessary to implement Project activities, in particular, labor and asset redeployment, and to do so promptly to ensure project activities are not delayed pending such legislative or regulatory changes.

SECTION 5.16. The Grantee will ensure that water, electricity, sewerage, telephones, and access roads are provided for the houses constructed under the Project."

5. Annex 1: Amplified Project Description

The restated Annex 1 attached hereto replaces in its entirety the original Annex 1, Amplified Project Description, as previously revised and supplemented.

6. Section B.5. of Annex 2, Project Grant Standard Provisions Annex, is deleted in its entirety, and replaced with the following:

Handwritten initials and signature at the bottom left of the page.

"SECTION B.5. Reports, Accounting Records, Inspections, Audits

(a) The Grantee shall furnish A.I.D. such information and reports relating to the Project and to this Agreement as A.I.D. may reasonably request.

(b) The Grantee shall maintain accounting books, records, documents, and other evidence relating to the Project and to this Agreement, adequate to show, without limitation, all costs incurred under the Grant, the receipt and use of goods and services acquired under the Grant, the costs of the Project supplied from other sources, the nature and extent of solicitations of prospective suppliers of goods and services acquired, the basis of award of contracts and orders, and the overall progress of the Project toward completion ("Project Books and Records"). At Grantee's option, with approval by A.I.D., Project Books and Records shall be maintained in accordance with one of the following methods: (1) generally accepted accounting principles prevailing in the United States, (2) generally accepted accounting principles prevailing in the country of the Grantee, (3) accounting principles prescribed by the International Accounting Standards Committee (an affiliate of the International Federation of Accountants), or (4) such other accounting principles as the Parties may agree to in writing. Project Books and Records shall be maintained for at least three years after the date of last disbursement by A.I.D.

(c) If U.S. \$25,000 or more is disbursed directly to the Grantee in any calendar year under the Grant, the Grantee, except as the Parties may otherwise agree in writing, shall have financial audits made of the funds disbursed to the Grantee under the Grant in accordance with the following terms:

(1) The Grantee shall select an independent auditor in accordance with the "Guidelines for Financial Audits Contracted by Foreign Recipients" issued by the A.I.D. Inspector General ("Guidelines"), and the audits shall be performed in accordance with the "Guidelines".

(2) An audit of the funds provided under the Grant shall be conducted for each fiscal year of the Grantee. The audit shall determine whether the receipt and expenditure of the funds provided under the Grant are presented in accordance with the generally accepted accounting principles agreed to in section (b) above and whether the Grantee has complied with the terms of the Agreement. Each audit shall be completed no later than one year after the close of the Grantee's fiscal year.

(d) The Grantee shall submit an audit report to A.I.D. within 30 days after completion of each audit arranged for by the Grantee in accordance with this section. The A.I.D. Inspector General will review each report to determine whether it complies with the audit requirements of this Agreement. Subject to A.I.D. approval, costs of audits performed in accordance with the terms of this section may be charged to the Grant. In cases of continued inability or unwillingness to have an audit performed in accordance with the terms of this section, A.I.D. will consider appropriate sanctions which include suspension of all or a portion of disbursements until the audit is satisfactorily completed or A.I.D. performs its own audit.



(e) The Grantee shall submit to A.I.D., in form and substance satisfactory to A.I.D., a plan by which the Grantee will ensure that funds made available to subrecipients that receive U.S. \$25,000 or more in any one calendar year under the Grant are audited in accordance with this Agreement. The plan should describe the methodology to be used by the Grantee to satisfy its audit responsibilities with respect to any subrecipient to which this section applies. Such audit responsibilities with respect to subrecipients may be satisfied by relying on independent audits of the subrecipients or on appropriate procedures performed by the internal audit or program staff of the Grantee, by expanding the scope of the independent financial audit of the Grantee to encompass testing of subrecipients' accounts, or by a combination of these procedures. The plan should identify the funds made available to subrecipients that will be covered by audits conducted in accordance with other audit provisions that would satisfy the Grantee's audit responsibilities (a nonprofit organization organized in the United States is required to arrange for its own audits; a for-profit contractor organized in the United States that has a direct contract with A.I.D. is audited by the cognizant U.S. Government agency; a private voluntary organization organized outside the United States with a direct grant from A.I.D. is required to arrange for its own audits; and a host-country contractor should be audited by the cognizant Grantee contracting agency). The Grantee shall ensure that appropriate corrective actions are taken on the recommendations contained in the subrecipients' audit reports; consider whether subrecipients' audits necessitate adjustment of its own records; and require each subrecipient to permit independent auditors to have access to records and financial statements as necessary.

(f) A.I.D. may, at its discretion, perform the audits required under this Agreement on behalf of the Grantee by utilizing funds under the Grant or other resources available to A.I.D. for this purpose. The Grantee shall afford authorized representatives of A.I.D. the opportunity at all reasonable times to audit or inspect the Project, the utilization of goods and services financed by A.I.D., and books, records and other documents relating to the Project and the Grant."

Except as amended herein, all terms and conditions of the subject Project Grant Agreement, as amended, remain in full force and effect.



In witness whereof, the Republic of Mozambique and the United States of America, each acting through its duly authorized representatives, have caused this Amendment No. 4 to the Agreement to be signed in their names and delivered as of the day and year first written above.

United States of America

The Republic of Mozambique

By:

By:


Townsend B. Friedman, Jr.

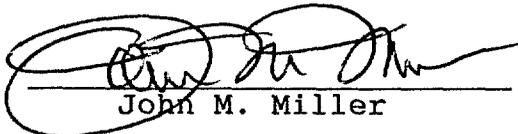

Armando E. Guebuza

Title: American Ambassador

Title: Minister of Transport and Communications

By:

By:


John M. Miller


Mario A. Dimande

Title: Acting Mission Director
USAID/Mozambique

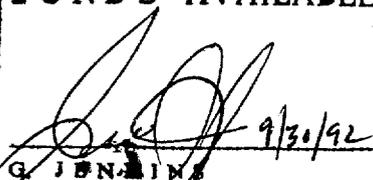
Title: Director General, CFM

Regional Rail Systems Support Project
Mozambique Component
Grant Agreement Amendment No. 4

Fiscal data:

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BDodson, ADD: ~~BW~~ 9/30/92
TRiedler, RLA: Draft, 9/30/92

FUNDS AVAILABLE

9/30/92
G JENKINS
CONTROLLER

Annex 1

Amplified Project Description

Except as specifically provided herein, and within the limits of the definition set forth in Section 2.1. of the Project Grant Agreement, elements of the Amplified Project Description may be changed by written agreement of the authorized representatives of the parties named in section 8.2., without formal amendment of this Agreement. This Annex 1 may be reviewed, modified and updated periodically to reflect the dynamic nature of the project and expected modifications in implementation over time.

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This Amplified Project Description combines the current Amplified Project Description, Annex 1 under Amendment No. 1 to the Project Grant Agreement, dated August 15, 1989, and the Supplement to the Amplified Project Description, Annex 1 under Amendment No. 2 to the Project Grant Agreement, dated July 2, 1990. In addition, it introduces a new project component in support of a major restructuring of Mozambique Railways (CFM).

A. Project Goal and Purpose

The Regional Rail Systems Support Project is a regional umbrella project which comprises three distinct country-specific activities in Mozambique, Swaziland and Malawi. The goal and purpose of the Mozambican component of the project parallel the two complementary components in Swaziland and Malawi. The goal is to support the development of a stronger economic foundation for growth in Southern Africa. The purpose is to strengthen and enhance the capacity and operational efficiency of regional rail transport systems. Under this component, the regional rail transport system is Mozambique Railways, consisting of three major international "corridors" named after their port city -- Maputo, Beira, and Nacala -- and divided into executive directorates -- south, CFM(S); central, CFM(C), and north, CFM(N). The Maputo Corridor has three rail lines, leading to Swaziland (Goba line), South Africa (Ressano Garcia), and Zimbabwe (Limpopo). Beira has one working line and one closed, leading to Zimbabwe (Machipanda) and Malawi (Sena), and Nacala has one line to Malawi. In addition to these major lines, CFM is responsible for three short domestic lines; Quelimane, Inhambane, and Xai-Xai. By the end of the project it is expected that CFM will achieve the following:

- an availability rate of 75 percent for mainline diesel electric locomotives;
- a meantime between failures (MTBF) of 30 days for diesel electric locomotives;
- the capability to provide adequate routine maintenance for the diesel electric locomotive fleet, and to control the performance of the locomotives;
- an improved financial management and accounting system which provides CFM managers with information they need to make planning and operational decisions;
- a work force of reasonable size given present and projected traffic levels;
- a reduced scope of activity, with the elimination of superfluous activities;
- a CFM structured so as to allow for the spinning off of parts or the whole to the private sector.
- senior Government officials and CFM staff taking the lead in promoting an efficient railroad largely, though not necessarily exclusively, managed by the private sector.



B. Outputs

During the project, it is expected that the following outputs will be accomplished, leading to the achievement of the project purpose:

1. Eleven GE mainline diesel electric locomotives will be rehabilitated; six at the CFM(S) workshop in Maputo and five in another workshop in the region.
2. The CFM workshop in Beira will be renovated and put in sound condition to undertake maintenance activities. The CFM workshop in Maputo will be closed and the Maputo diesel shed upgraded to handle regular maintenance and component change-out repairs. A CFM(S) warehouse will be converted to office space to accommodate technical assistance staff and their CFM colleagues.
3. The entire fleet of GE diesel electric mainline locomotives will receive scheduled maintenance at the CFM(S), CFM(C), and CFM(N) workshops. Major repairs of components, electric initially, will take place more cost effectively through contracting out.
4. Following an assessment of their long-term commercial potential and a plan for replacing any essential services they provide, Xai-Xai, Inhambane, and Quelimane rail lines (three short domestic lines) will be closed, and, to the extent possible, their assets and personnel redeployed to other profitable uses.
5. Accounts at CFM(S) will be current. The fixed assets register, cash balances, revenue accounts, inventory, account and procurement procedures will be in a satisfactory condition for audit.
6. Improvements will be made to the income and expense accounts and budgets of CFM(S). A cost accounting system will be initiated and used as a tool to determine appropriate tariff rates.
7. Senior CFM and other Government officials will have participated in seminars intended to improve their understanding of the ways in which the private sector may be harnessed to improve the efficiency of CFM and other parastatals.
8. CFM staff will be trained to manage a computerized accounts system and to perform locomotive repairs.
9. Labor costs will be reduced and efficiency of the work force will be improved by reducing CFM staff to levels consistent with efficient operation, including the contracting out of services better handled externally. Targets: Number to be retired early, 3,300; number to be terminated, up to 12,000.
10. Redeployment package will be prepared and offered to redundant workers: package will support reintegration into the national economy.
11. To the extent possible, and using existing programs available through the Government and other donors, workers will be placed in productive jobs.

12. Several of CFM's operations will be spun off, with staff and assets moved to private sector profit-making enterprises.

C. Inputs

To accomplish the purpose of the Mozambique component of the project, A.I.D. will fund the following:

1. Locomotives: New, Repair and Maintenance

- a. Parts to rehabilitate six GE diesel electric mainline locomotives;
- b. Contract for the rehabilitation of five diesel electric mainline locomotives;
- c. Contract for the repair of major electrical and mechanical components, e.g., traction motors, generators, possibly engines;
- d. Contract for the conversion of the Beira workshop from steam to diesel;
- e. Contract for the redesign and reconstruction of the Maputo diesel shed, so that all maintenance can be performed there rather than at the workshop;
- f. Parts for the maintenance of CFM's fleet of GE diesel electric locomotives, approximately 55 total, until the end of 1994;
- g. Equipment for the Beira, Maputo, and Nacala workshops, including full sets of lab equipment;
- h. On-the-job training for CFM workshop personnel;
- i. Technical assistance to the workshop, as follows:

(1) Long-term:

Position	Start	End	Total (months)
- Railway manager	4/90	6/94	50
- Foreman	5/90	6/94	49
- Mechanical Technician 1	4/90	6/94	50
- Mechanical Technician 2	4/90	6/94	50
- Electrical Technician 1	4/90	10/92	30
- Electrical Technician 2	5/90	10/92	29
- Mechanical Inspector	4/90	6/94	50
- Electrical Inspector	4/90	6/94	50
- Laboratory Expert	4/90	6/94	50
- Mechanical Specialist	7/92	6/94	47
- Blacksmith	10/91	10/92	12
- Diesel Shed Manager	10/92	6/94	20
- Locomotive Engineer	6/90	6/94	37*
- Electrical Specialist	6/90	12/91	16
- Civil Engineer	8/91	6/94	35
TOTAL			575

* Interrupted from 12/91 to 10/92

(2) Short-term technical assistance, approximately 30 months, for specialized training in technical areas, as, for example, injection systems.

j. Possibly, if need can be demonstrated to the satisfaction of USAID, new or rebuilt locomotives, as proposed by CFM.

2. Financial Department

- a. All required hardware and software for an integrated system of finances, accounts, and procurement;
- b. Training, as part of the software contract, for Mozambican professionals, in the use and maintenance of the system;
- c. Short-term training, formal and on-the-job, in country, for 30 financial office staff.
- d. Technical assistance, as follows:

(1) Long-term

Position	Start	End	Total (months)
- Financial Mgt Specialist	7/90	6/94	48
- Financial Analyst	7/91	6/94	35
- General Accountant	8/91	6/94	34
- Cost Accountant	8/91	6/94	34
- Financial Advisor	5/91	6/94	37
- Financial Analyst	11/91	6/94	42
- Finance (audit) Officer	5/91	6/94	36
- Accountant	1/92	6/94	30
- Accountant	11/91	6/94	32
- Systems Analyst	2/91	6/94	38
- Systems Manager	10/92	6/94	20
- Programmer/Analyst	5/91	6/94	37

TOTAL

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(2) Short-term technical assistance in finance and related areas, for a total of 65 months, to include the design of training modules for on-the-job use and the preparation of manuals.

3. Stores and Procurement

- a. Fully computerized purchasing and stores systems, with integrated buying procedures for entire CFM system;
- b. Training for approximately 25 staff in new procedures;
- c. Technical assistance as follows:

Position	Start	End	Total (months)
- Procurement/inventory	5/90	6/94	50
- Procurement Specialist	6/90	6/94	48
- Stores Manager	6/90	6/94	48
TOTAL			146

4. Labor and Assets Redeployment

a. Severance payments made to about 12,000 employees.

b. Long-term technical assistance, as follows:

Position	Start	End	Total (months)
- Personnel/Retrenchment Spec	3/93	3/96	36
- Enterprise Development	3/93	3/96	36
- Employment & Training	3/93	3/96	36
- Financial Specialist	1/94	3/96	27
TOTAL			135

c. Semi-autonomous coordinating office, staffed by a Director, Financial Director, Program Deputy, and four Field Coordinators, and support staff, three years.

d. Approximately 150 person-months short-term assistance for asset redeployment, including the packaging of existing assets for spin-off, and the development of replacements for the functions of those assets closed or modified.

5. Support to Senior Management/Restructuring

a. Training programs in management and privatization in the U.S. for senior staff, five courses of two weeks each, for a total of approximately 20 participants. Long-term training for one or two senior staff in business management.

b. Short-term technical assistance, as follows:

- Up to 12 months, Senior Financial Analyst and Negotiator, to be responsible for preparing CFM positions vis-a-vis private companies negotiating for traffic (e.g., Swazi Sugar) or for the leasing of terminals.

6. Operational Efficiency Improvements

a. Long- and short-term technical assistance in the area of operations, both port and rail, for all three systems; total of approximately 36 months, including one Yard Specialist for one year.

- b. Commodities, such as ties, fastenings, brake blocks, wagon spares, needed to improve CFM's performance on all three systems.

7. Project Management

- a. Project Coordinator, responsible for overall coordination of project activities with CFM and Ministry staff, six years.
- b. Project Manager, redeployment and redundancy component, responsible for the implementation of the assets and labor redeployment activities, four years.
- c. Two Assistant Project Coordinators; one an Engineer with responsibility for liaison with CFM, six years, the other a Project Manager familiar with A.I.D. procurement procedures, four years.
- d. Office costs, including support staff and equipment, for the above.

D. Illustrative Financial Plan

Set forth below is an illustrative summary of A.I.D.'s contribution to the project. In the event that A.I.D.-financed project expenditures are less than estimated below, any savings in project funds resulting therefrom shall be used for project purposes as mutually agreed upon in writing by the parties hereto. Future A.I.D. obligations to meet the projected total below are subject to availability of funds and mutual agreement of the parties to proceed.

1. Summary of A.I.D.'s Contribution (Expenditures, \$000)

a.	Locomotives	\$32,000
b.	Financial & Stores	\$12,280
c.	Labor & Assets Redeployment	22,262
d.	Project Management	3,436
e.	Support to Senior Management	2,740
f.	Operational Improvements	1,510
g.	Commodities not included above	365
h.	Audit and evaluation	665
	SUBTOTAL	\$75,258
	Contingency & Inflation	\$5,242
	GRAND TOTAL	\$80,500

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2. Illustrative Financial Plan (Expenditures, \$000)

	Through	CY	CY	CYs	LOP
	CY1992	1993	1994	1995/96	Total
1. Locomotives					
a. Technical Assistance	2,500	1,200	600		4,300
b. Spare Parts, Diesel, CFM	4,800	750	750		6,300
c. Spare Parts, Steam	650				650
d. Contract for Loco Rehab		3,000			3,000
e. Contract for Component Rebuild		1,250	750		2,000
f. Workshop tools & equipment	2,300	500	300		3,100
g. New or Rebuilt Locomotives			10,000		10,000
h. Maputo Diesel Shed Construction	300	1,000	1,000		2,300
i. Beira Workshop Reconstruction	350				350
SUBTOTAL					32,000
2. Financial & Stores					
a. Technical Assistance	3,000	3,500	2,300		8,800
b. Support for TA	600	50	50		700
c. Maputo House Construction	2,650				2,650
d. Construction supervisor	85	45			130
SUBTOTAL					12,280
3. Labor & Assets Redeployment					
a. LT Technical Assistance		1,250	1,250	1,250	3,750
b. ST Technical Assistance		600	900	900	2,400
c. Management office staff		250	250	250	750
d. Office costs (support staff)		20	20	20	60
e. Office Rental		24	24	24	72
f. Equipment		250	10	10	270
g. Vehicles (10)		150			150
h. Severance Pay			3,050	7,500	10,550
i. Redeployment costs & support			1,580	2,680	4,260
SUBTOTAL					22,262
4. Project Management					
a. Project Coordinator	530	145	150	160	985
b. Project Mgr -- Redundancy	0	170	180	185	535
c. Ass't Project Coordinator (2)	250	130	225	200	805
d. Office Equipment Costs	140	40	40	30	250
e. Office and security staff	150	53	55	58	316

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f. Air Transport (charter)	30	20	20	20	90
g. Office Rent Rehab/Maintenance	115	35	35	35	220
h. Communications, other	50	25	25	25	125
i. Pre-implementation Activities	110	0	0	0	110
SUBTOTAL					3,436
5. Support to Senior Management					
a. Grant to IBRD	450	850	500		1,800
b. U.S. LT Training			45	45	90
c. U.S. ST Training	140	160	150	150	600
d. Central Office Reconstruction		250			250
SUBTOTAL					2,740
6. Operational Improvements					
a. Short-term TA	140	270	50		460
b. Long-term TA	350	300	300		950
c. Commodities		100			100
SUBTOTAL					1,510
7. Commodities not included above					
a. Vehicles (for TA and office)	102	63	10	10	185
b. Computers, copier, etc	100	40	40		180
SUBTOTAL					365
8. Audit and evaluation					
a. Evaluation (BN and Nathan)	100	50	100	50	300
b. Technical Oversight	45	30	30	30	135
c. Audit	30	50	75	75	230
SUBTOTAL					665
TOTAL	20,067	16,620	24,864	13,707	75,258
Contingency & Inflation					5,242
GRAND TOTAL					\$80,500

3. Summary of GRM Contribution

The GRM will make a contribution of in-kind services for the following: salaries of staff associated with the project, office space, supplies, office equipment for technical assistance, international air fares for participants, workshop space and equipment, spare parts, and housing for technical assistance hired under host country contracts. CFM will also provide the access roads, water, electricity and telephone hook-ups for the houses constructed and office rehabilitated under the project. The total contribution of CFM to the project is estimated to be approximately and illustratively \$3.1 million. This is an estimate of the host country in-kind contribution to the project, and is neither binding nor carefully

estimated, although CFM is required to support the project as described elsewhere in the Project Grant Agreement. The requirement for a 25 percent host country contribution is inapplicable to regional projects.

E. Implementation Plan

1. Project Management Roles and Responsibilities

a. CFM

The overall coordination of the project, which covers several fairly discrete elements of CFM's operations as well as overall strategic management, will be the responsibility of the Director General of CFM. He will ensure that staff in the various departments and rail lines are aware of the project and that they provide the USAID management and project-funded technical assistance with all necessary facilities for the proper implementation of the project.

The major responsibility of the Government, and of CFM, will be to ensure that the restructuring program presently under discussion with the IBRD proceeds on schedule. The success of all of the activities funded by the RRSS project depends to some extent on progress in restructuring, but the labor force reduction in particular is an integral part of that process. The Government in general, and CFM in particular, will ensure that the Maputo Revitalization program proceeds on schedule.

(1) Locomotives

CFM has substantial responsibility in the project for planning and carrying out the rehabilitation of locomotives, both the six to be rehabilitated in the workshop and the five to be contracted out. In the case of the six to be rebuilt in the CFM workshop, the project will provide technical assistance to help carry out the major rebuilds. In the case of those to be contracted out, the project will fund the necessary technical expertise to perform both the technical and procurement tasks involved. CFM will ensure that all personnel and equipment needed to carry out the project on schedule are made available for project activities in the workshop. CFM will also promptly pay any taxes and fees levied by the Government on all commodities imported for the use of CFM or for the construction financed by the project. CFM will provide housing for all technical advisors to the workshop as well as to other technical advisors under host country contracts provided by the project.

(2) Finance

In finance, CFM will provide the technical assistance staff with access to all accounts, with qualified counterpart staff (to the extent possible) to assist in the development of new systems of accounts, and with office space.

(3) Stores and Procurement

CFM will assign senior personnel to work with the three technical advisors assigned to stores and procurement. CFM will ensure that goods imported with USAID financing clear Mozambican entry points within 45 days of arrival. A detailed report covering all open commodity transactions will be submitted to USAID monthly.

(4) Reduction of Labor Force, Redeployment of Assets

This project component requires the active support of several government entities other than CFM, including the Ministry of Transport, the Ministry of Labor, the Ministry of Finance, and possibly, the Council of Ministers. Its major thrust is the reduction of CFM to a manageable size directed at providing basic port and rail transport services. To this end, CFM will take all necessary legal and administrative steps to make the shedding of assets and staff possible: physical plant will be transferred to other state agencies, sold to the private sector, or abandoned; staff will be paid severance in accordance with applicable labor law and will receive assistance in finding productive alternate employment through other GRM programs. While the project will provide technical assistance to prepare detailed plans, CFM's active support will be required in order to proceed with this component.

In addition, as stated above, the financing of this project component is conditional on the successful implementation of the IBRD-financed Maputo Corridor Revitalization Program.

(5) Project Management

CFM will ensure that project management has free access to all relevant CFM facilities and will assist with arrangements for visits to CFM ports and rail lines outside of Maputo. Appropriate CFM staff will be made available to accompany USAID personnel on such visits.

(6) Support to Senior Management

CFM will make available senior staff for seminars and workshops, both in Mozambique and abroad. When requested by USAID, CFM will provide all necessary facilities for seminars and workshops in Mozambique. The advisors provided under the project grant to the IBRD will be given office space and any assistance required with customs and immigration.

(7) Operational Improvements

This project component was developed to assist CFM to respond immediately and effectively to the drought, although the immediate improvements achieved are expected to lead to longer term performance gains. CFM must grant the technical assistance staff provided under this heading the authority necessary to carry out its tasks.

(8) Audit and evaluation

CFM will provide auditors and evaluators with unrestricted access to facilities and files relating to their areas of inquiry.

(9) Commodities, housing, support to technical assistance

CFM will ensure that all commodities financed by the project clear customs within 45 days.

CFM will ensure that all technical assistance staff (i.e., all personnel except those within USAID's project management unit) are provided with documentation enabling them to work and live in Mozambique and assist with customs and other formalities. CFM will provide housing for expatriate technical assistance serving under host country contracts. Finally, CFM

will ensure that water, telephones, other utilities and access roads are provided for the houses constructed under the project.

b. USAID

USAID/Mozambique will have primary management responsibility on behalf of A.I.D. Overall project management will be the responsibility of the Engineer, USAID/Mozambique with the assistance of the Project Coordinator. In view of the size and complexity of the activities proposed and USAID's current and anticipated capacity to absorb additional implementation responsibilities, a four-person (three U.S. and one third country) PSC project management team will be funded under the project. The project management team will be responsible for the day-to-day management of the project including: inspections; monitoring of implementation progress; review of work plans, parts and equipment lists, technical drawings, and specifications; and the preparation of various project reports. The Project Coordinator should have substantial experience in the implementation of capital projects. The third country national (TCN) Assistant Project Coordinator will be a civil/mechanical engineer, with a detailed understanding of the workings of CFM. The U.S. Assistant Project Coordinator will be responsible for much of the procurement under the project, and will be familiar with A.I.D. procedures. The Project Manager for redundancy and redeployment will be familiar with labor reduction schemes and employment programs in developing economies. USAID/Mozambique staff will be augmented from time to time as needed by A.I.D. staff members and consultants based outside the country such as Legal Advisors, Auditors, and Project, Commodity, and Program Officers.

c. Short-term Technical Assistance

Funds were included in the original project for short-term pre-implementation activities in preparation for the arrival of the long-term team. They were used for such activities as a review of equipment needs, the preparation of a management information system, and technical review of locomotive specifications. Funds remain available outside of the major contracts for specific tasks of a highly technical nature, and for activities outside the scope of the three long-term technical assistance contracts. Short-term technical assistance will provide support in the following areas; 1) operations assistance such as improving the flow of goods in the yards; 2) the valuation of assets in preparation for their sale or conversion; 3) the design of the diesel shed in preparation for its rehabilitation; and 4) others as required by the project.

d. Long-term Technical Assistance

The project will employ up to four companies to provide technical assistance to assist CFM in the areas of locomotive repair and maintenance; financial and accounting management; purchasing and inventory control; strategic management; labor reduction; and assets conversion. Three of these contracts were in place as of September, 1992 and the fourth will be contracted in early 1993.

It should be noted that the project envisaged two major contracts, one at a "foreman/technician" level and the other at the "management" level. The first, a host country contract, was to provide 'floor' personnel in the workshop and accountants to finance, most in line positions. The second, a direct A.I.D. contract, was to provide more senior advisory personnel in the same functional areas. In practice, the distinction was impossible to

maintain, and there arose, particularly in the workshop, some confusion of the lines of authority between the two teams. In the fourth quarter, 1992, both contracts will be amended to eliminate to the extent possible overlapping responsibility.

The responsibilities of the technical assistance staff under each of the four contracts are outlined below:

- (1) Locomotive maintenance and repair, line accountants, effective date, May, 1990.

This contractor's primary task is the provision of 15 specialists to the locomotive workshop and diesel shed and short-term experts for specialized training in technical areas. In this capacity, the contractor will be responsible to CFM for the project outputs related to locomotive performance. In addition, the contractor will continue to provide five accountants to line positions within CFM(S). The contract will terminate in June, 1994. The two positions provided by the contractor in stores and procurement will be assumed by the "management" level contractor.

- (2) Finance, stores, and computerization.

This contractor's primary task is to ensure that the project outputs in finance, computerization, and stores and procurement are met. To this end, the contractor will provide six long-term advisors to finance and three to stores and procurement, most through June, 1994. In addition, the contractor will be called upon to provide short-term railroad experts to assist in the improvement of operations. The computerization of CFM will be done through a sub-contract. The railway expertise will be provided under a sub-contract with a U.S. railway.

- (3) Strategic management

This contract is funded through an A.I.D. grant of project funds to the World Bank, and falls within the IBRD's sub-Saharan Africa Transport Program, which aims to improve the profitability of the railroads, through a series of institutional and management changes. These changes are defined in a set of four plans and lead to a gradual full 'corporatization,' or even privatization of the company.

The main task of the contractor team is to work with CFM's senior management to define the major issues facing CFM as it attempts the transition from government agency to efficient and profitable company. Issues include those arising from a parallel Bank program to 1) define CFM's potential long-term market, and 2) restructure and revitalize CFM to maximize the benefits accruing to Mozambique through the exploitation of that market.

Contractor personnel arrived in country in March, 1992 and the present grant terminates in December, 1993. If CFM makes good progress in its revitalization program, and this grant appears to support the program, then the grant may be extended by one year to the end of 1994. Funds have been budgeted for this extension.

- (4) Labor specialists

A fourth contract, also closely linked to the IBRD program described in the preceding paragraph, will be executed in early 1993. The purpose of this contract is to reduce CFM staff to efficient levels, without increasing the ranks of the unemployed any more than is absolutely necessary; and to assist CFM to manage the payment of severance packages to up to 12,000 CFM employees. The main tasks of the team, which will provide five long-term personnel for three years each, will be to: 1) define the workers to be released from CFM; 2) identify alternative employment for as many as possible (including credit, training, and possible CFM facilities that could be spun off); and 3) assist the GRM to implement the program of staff reduction.

2. Reporting Requirements

a. Project Progress

The project monitoring has been performed by a project committee which meets at least quarterly to review ongoing progress, consider future work plans and address implementation problems. The members of the project committee are representatives from CFM, CFM(S), CFM(C) and CFM(N) as required, USAID/Mozambique, and the technical assistance contractors as required. The Director General of CFM or his designee chairs the quarterly meetings.

This system has not performed to expectations, and has been largely replaced by other forms of communication, usually informal, that respond better to USAID and CFM requirements, although an effective forum for the timely resolution of problems facing the technical assistance teams is lacking. Beginning in October, 1992, therefore, USAID, contractor staff, and the head of the concerned CFM department will meet at least monthly to discuss major issues facing each project component. USAID will then present any problems (as well as recommended solutions) that cannot be resolved at the staff level directly to the CFM Director General.

b. Progress Reports

The technical assistance contractors will prepare and present quarterly reports to USAID and CFM. These reports will cover inter alia:

- (1) major activities and general progress against the approved annual work plans;
- (2) problem areas requiring formal resolution by USAID or CFM;
- (3) issues and problems that impinge on the future implementation and direction of the project;
- (4) recommended actions for CFM and/or USAID;
- (5) action to be taken to resolve the problem within the next quarter;
- (6) information on any matter, as requested by CFM or USAID.

By December 1, all technical assistance contractors will submit annual work plans for the following year to CFM and USAID for approval. Except in the case of express disapproval, the contractors will carry out these work plans.

The quarterly reports will be prepared in Portuguese. The annual work plans under direct A.I.D. contracts will be submitted in English and Portuguese. The annual work plans under host country contracts may be submitted in Portuguese only.

c. Financial Reports

The technical assistance contractors will submit to USAID for direct contracts and to CFM for host country contracts monthly vouchers detailing expenditures for the technical assistance efforts. The PSC project coordinator will, on request, provide CFM with detailed reports on all project expenditures.

For technical assistance, these vouchers will detail cumulative and reporting period expenditures by position, and by line item for non-personnel expenses. Any current and anticipated financial problems will be clearly noted and explained in a letter submitted with the voucher. Problems requiring resolution by CFM and/or USAID will be highlighted.

3. Illustrative Implementation Schedule

The following schedule provides actual dates of occurrence of actions taken through September, 1992. From October, 1992, onward, the schedule is illustrative and intended to indicate only major contracting and implementation actions. These illustrative dates are expected to change.

	Action	Date	Agent
a.	Locomotives		
	Workshop TA Arrives	May-90	Contractor
	First spares arrive	Aug-90	CFM
	First of six locos completed	Jun-91	Contractor/CFM
	Contract for component rebuild	Nov-92	CFM/USAID
	Contract for five loco rehab	Nov-92	CFM/USAID
	Last of six locos completed	Jun-93	Contractor/CFM
	Diesel shed construction begins	Mar-93	CFM/USAID
	Five locos completed	Jun-93	Contractor
	Go/No-Go Decision on Loco purchase	Dec-93	USAID/CFM
	Diesel shed completed	Nov-94	Contractor
	Component contract ends	Nov-94	Contractor
	TA contract ends	Jun-94	CFM/USAID
b.	Financial & Stores		
	Contractor Team Arrives	Jun-90	USAID/CFM
	House Construction Begins	Mar-91	Contractor
	Complete Inventory Performed	Mar-91	LBI
	Cost Accounting System Introduced	Feb-92	LBI

	Annual Program Submitted	Nov-92	CFM/USAID
	House Construction Completed	Nov-92	Contractor
	Accounts brought up to date	Jan-93	LBI
	Computerization Introduced	Jan-93	LBI
	TA Leaves	Jun-94	USAID/CFM
c.	Redeployment of Labor & Assets		
	Maputo Revitalization Signed	Nov-92	IBRD/CFM
	Contract Signed	Jan-93	USAID/TA Cont
	Long-term TA team arrives	Mar-93	Contractor
	CFM Selects Restructuring Option	Feb-94	CFM
	Worker Reduction Scheme Begins	Mar-94	CFM/Contractor
	Worker Reduction Completed	Mar-95	CFM/Contractor
	Assistance to workers completed	Dec-95	Contractor
d.	Project Management		
	Project Agreement Signed	Aug-88	MinTran/USAID
	Ass't Project Coordinator Arrives	Mar-89	USAID
	Project Coordinator Arrives	Sep-89	USAID
	Conditions Precedent Met	Oct-89	CFM
	Project Mgr, Redundancy, Arrives	Jan-93	USAID
	APC, Procurement, Arrives	Jan-93	USAID
	Exeunt Omnes	Mar-96	USAID
e.	Support to Senior Management		
	Thunder TA Arrive under IBRD Grant	Feb-92	IBRD/USAID
	Issues Papers Prepared	Sep-92	Contractor
	Strategic Seminar Held	Oct-92	Contractor/CFM
	CFM sent to privatization seminar	Oct-92	CFM/USAID
	Long-term training begins	Sep-93	CFM/USAID
	Strategic Plan Prepared	Oct-93	Contractor/CFM
	IBRD Grant Extended	Oct-93	USAID/IBRD
	Other training quarterly		CFM

f.	Operational Improvements		
	Yard Man Arrives	Jun-92	LBI
	Other specialists arrive	Oct-92	IQC
	Program ends	Jun-94	USAID/CFM
g.	Audit and evaluation		
	IG Audit of Project	Oct-91	IG
	First Evaluation	Oct-91	Contractor
	Follow-up visit	Oct-92	Contractor
	Mid-term Evaluation	Oct-93	Contractor
	Final Evaluation/Workshop	Oct-94	Contractor
	Final Evaluation/Redundancy	Oct-95	TBD

F. Procurement and Contracting Plan

1. Locomotives

a. Spare Parts, Tools and Equipment

The Procurement Unit of CFM, assisted by three project-financed technical advisors, is the primary implementing agency for the procurement of spare parts, and workshop tools and equipment. The contractor team has provided specialized technical assistance in the preparation of these lists, and CFM, with the assistance of long-term technical assistance personnel, has prepared a complete inventory of existing stock.

All host country transactions to date have been subject to close scrutiny by USAID, and CFM, with the assistance of contractor staff, has followed competitive procedures and applied Handbook 11, Chapter 3, regulations properly. These procedures were justified in the original project paper and reaffirmed by the 1990 project paper supplement. Based on guidance regarding host country contracting capability, issued since the original project was authorized, USAID will undertake a rigorous assessment of CFM's contracting capability in late CY 1992. This analysis will determine the appropriate degree of USAID involvement in the HCC process. Until then, USAID will perform a staff review before the issuance of financing documents for procurements of \$250,000 or less and the USAID Director will approve each step for procurements over \$250,000.

The procedures are as follows:

(1) CFM submits to USAID a request listing the spares or equipment to be procured. This list is reviewed by RRSS staff and approval is given for the preparation of solicitation documents.

(2) For procurement under \$100,000, CFM publishes complete specifications and a request for offers in the A.I.D. Procurement Information Bulletin (PIB). For procurement greater than \$100,000, CFM publishes a notice of the availability of a Request for Quotations (RFQ) in

the Commerce Business Daily (CBD) and usually in the PIB. The text of the advertisements is transmitted by USAID to A.I.D./W for publication.

(3) The use of informal competitive procedures, that is RFQs rather than Invitations for Bids, has been approved by USAID for all procurement of spares and tools and equipment under the project. The basic RFQ documentation has been reviewed and cleared by USAID.

(4) For procurement over \$250,000, the USAID Director formally approves the RFQ document, after review by the Regional Legal Advisor (RLA) and Regional Commodity Management Officer (RCMO); the CBD and PIB notices, the selection, and the final contract. For procurement under \$250,000, the final selection is submitted to USAID's RRSS office for review and approval.

(5) In all cases, USAID indicates its approval by the issuance of a Direct Letter of Commitment to the supplier, guaranteeing payment on receipt of appropriate documentation.

b. Rehabilitation of Locomotives, contract for components

The project will finance the rehabilitation of five locomotives by a specialized manufacturer, using host country two-step procedures, as follows:

(1) A CBD notice is published, and interested companies are invited to a pre-bid conference in Maputo. The conference took place in late August, 1992.

(2) Those companies attending the conference have about a month to submit technical proposals for review by CFM. CFM will then negotiate separately with each company any changes to the technical proposals. If any changes are made to the specifications as a result of these negotiations, amendments will be issued to all companies submitting technical proposals.

(3) Those companies whose technical proposals have been accepted submit a cost proposal. The low price offeror is awarded the contract.

The procedures for the component rehabilitation are nearly identical, except that unit price per component will be the basis of award. In the case of both the locomotives and the components, no award will be made if the price approaches that of purchasing rebuilt locos or components.

c. Laboratory and steam locomotives

For certain commodities, where a U.S. procurement agency has seemed necessary, because of inspection requirements, or because of complicated technical specifications, CFM has engaged Procurement Services Agents through existing IQC arrangements through REDSO/Nairobi. This practice may be used in the future, using either REDSO or A.I.D./W Commodities Office.

d. Technical assistance

The technical assistance to the workshop component will be provided under the existing host country contract, signed in 1990. Procurement was in accordance with Handbook 11, Chapter 1 procedures. The contract will be

amended to extend some workshop positions, and to remove two positions in stores and procurement. Five existing positions in finance will be retained. The total contract amount is not expected to rise by more than 20 percent as a result of these modifications.

Specialized technical assistance has also been provided, and will continue to be provided, through indefinite quantity contracts (IQCs). To use these IQCs, USAID prepares a PIO/T, which is approved by CFM and sent to AID/W. IQC procedures have been used for the following: information management, diesel shed design, specification review, operations assistance, etc.

e. Construction

The project includes one completed, two ongoing, and one future construction contracts, as well as some minor rehabilitation under the redundancy program. The construction contracting has followed Handbook 11, Chapter 2 procedures, and each contract has been supervised by an A&E firm, usually under direct contract to USAID. The following table provides an overview:

Activity	Contract Type	Value (\$000)	A&E Contract Type
12 Houses	Host Country	2,650	Direct AID
Beira Workshop	Host Country	320	Host Country
CFM Office Rehab	Host Country	250	Direct AID
Diesel Shed	Host Country	2,500	Direct AID
Misc Rehab	Host Country	<100	None*

*USAID also finances a host country personal services contractor to represent CFM, the 'owner' vis-a-vis both the contractor and the A&E firms. This host country PSC will directly oversee small value contracts, although consideration may be given to executing a direct A.I.D. contract with an A&E firm.

In addition to the above, USAID had a contract valued at \$3,000,000 for the reconstruction of the Maputo workshop. The construction company completed approximately \$300,000 of the task and then defaulted. Before a replacement could be found, the project evaluation strongly recommended that project rehab activities be redirected towards the diesel shed. The A&E contractor for the workshop has been retained to design and rehabilitate the diesel shed. A tender is under preparation and a new construction company will be contracted for the diesel shed.

2. Financial & Procurement

In early 1990, A.I.D.'s Regional Contracting Officer (RCO) executed a direct A.I.D. contract for the provision of technical advisors for finance and stores. This contract has recently been amended to cover the expected LOP requirements in these areas and to include, through subcontracts, support to operations and computerization, as well as the procurement of

some commodities. The contract also includes a line item for invitational travel for senior CFM staff to attend seminars and conferences, usually in the U.S. No further major contracting action is required for this component.

3. Reduction of Labor Force and Asset Redeployment

This component, to begin in October, 1992, will include four major procurement elements: (a) a direct A.I.D. technical assistance contract; (b) minor reconstruction of facilities, discussed under 1e above; (c) the payment of severance pay; (d) enhancement of other donor programs in order to make such programs available to departing CFM employees.

a. The technical assistance contract will follow A.I.D. Handbook 14 competitive procedures under the direction of the Regional Contracting Officer based in Swaziland. USAID/Mozambique will prepare a PIO/T instructing the RCO to advertize the requirement. Interested companies will attend a pre-bid conference in Maputo and submit RFPs to the RCO. A USAID/Mozambique technical review panel will rank the technical proposals, and the RCO will negotiate with those in the competitive range. The contract will contain performance indicators specifying that the contractor will identify workers to be shed by CFM, prepare severance packages, and assist CFM to ensure that A.I.D. funds for severance are properly disbursed. The firm, or joint venture of firms, selected will be required to have experience in: workforce reduction, assets valuation and divestiture, business development, and credit schemes.

b. Minor rehabilitation of facilities, to be defined, as discussed above. While the total value of these small projects will not exceed \$1,000,000, and no single project will be over \$100,000, USAID will consult the RCO and determine whether a contract with an A&E firm is advisable.

c. Payment of Severance Pay

At least \$10,000,000, and possibly more, will be used to pay workers' severance pay, through local cost financing. Project funds will not be used to pay pensions, annuities, retirement pay or adjusted service compensation for any person heretofore or hereafter serving in the armed forces. The contractor, in consultation with the USAID Controller, will develop a disbursement mechanism for these funds that meets A.I.D. accountability requirements and is approved by the GRM.

d. Support to other donor programs

While USAID will under no circumstances develop independent employment generation, credit, or training programs under this project, it is expected that the technical assistance team will forge linkages with existing programs in order to ensure access by departing CFM employees. In some cases, this may be furthered by an injection of A.I.D. funds into such programs. Following Handbook 13 rules regarding Grants to Public International Organizations, USAID may provide grants to organizations such as UNDP, UNIDO, or the World Bank to achieve this.

4. Project Management

All project management and support staff will be hired under direct A.I.D. contracts, executed by the Regional Contracting Officer or USAID/Mozambique Executive Officer as appropriate. While one of the office vehicles was

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procured by CFM, all future purchases of equipment and supplies will be made directly by USAID.

5. Support to Senior Management

a. Invitational Travel and Participant Training

The project has provided participant training to two CFM staff members through PIO/Ps issued by the USAID/Mozambique training office. This method will be used to finance long-term training beginning in 1993. In addition, CFM and other Government senior staff will be sent to management, railroad, and privatization seminars and conferences abroad through the technical assistance contract, under invitational travel arrangements.

b. Strategic Planning

In early 1991, USAID executed a grant to the IBRD to support a series of senior staff seminars directed at defining CFM's mission and its relationship to government and its customers. This program is intended to promote major institutional change as CFM reduces its scope of activities, engages the private sector in the management of its operations, and moves towards profitability. Before the grant expires in late 1994, USAID will consult with the IBRD and CFM to determine whether it should be continued. Whether it is will depend on the progress under the Maputo Revitalization Program and the degree to which the grant supports that Program.

6. Operational Improvements

USAID will finance immediate operational improvements through a technical assistance contract, which provides for 24 person months for this purpose, and through appropriate IQCs.

7. Commodities

For small value commodities, or for GSA schedule purchases (e.g., computers), USAID project management staff may arrange direct procurement by the USAID Executive Office through purchase orders or other A.I.D. direct contracts, or, if the commodities are for CFM, procurement may take place following small value host country procurement rules. USAID may also request the assistance of the A.I.D./W commodities office for procurement actions that pose sourcing or specification difficulties to CFM.

8. Audit and evaluation

A direct A.I.D. contract is in place with Robert Nathan/Burlington Northern for the three major project evaluations -- initial, mid-term, and final -- and for annual monitoring visits. This contract also covers the RRSS project's Malawi and Swaziland components. An adjustment will be made to the terms of the evaluation to provide the expertise needed to review the Labor and Assets Redeployment component and possibly to add an evaluation of that component in 1995. USAID also draws on the Department of Transportation through PASAs for occasional reviews of specific project components, and will continue to do so.

One major project audit by A.I.D.'s Regional Inspector General took place in late 1991, and it is not expected that there will be any further overall

A.I.D. audits. Annual audits will be undertaken of the GRM agency responsible for the disbursement of A.I.D. funds for severance.

Audits of host country contracts will be contracted as necessary by the RCO through existing IQCs with international firms. The scopes of work for these audits will be prepared by the Regional Inspector General's office in Nairobi.

9. Other Requirements

a. Authorized Geographic Code

All goods financed by the project shall have their source and origin in the Special Free World, A.I.D. Geographic Code 935. Providers of services shall be of Code 935 nationality. To the extent possible, goods and services will be procured from Code 000, the United States.

b. Receipt and Utilization

CFM will track all goods, except those procured by USAID for the project management unit, from purchase to clearance from the port of entry. A detailed report of all open transactions will be submitted to USAID monthly. As a rule, all goods will be cleared from the port within 45 days of arrival. CFM reports will provide a detailed explanation of any delays beyond this limit, and if such delays are frequent, USAID may suspend financing of commodities for any or all of the three usual entry points (Maputo, Beira, Nacala).

c. Marking

A.I.D. marking requirements will be stipulated in all requests for quotations. A descriptive brochure on marking requirements is included in an annex to all Letters of Commitment. Suppliers are required to certify that marking requirements have been met on the documentation for payment.

d. Title to Property

Except as otherwise provided herein or agreed to in writing by the Parties hereto, title to all property financed by A.I.D. under this Agreement shall vest in the Grantee subject to the condition that said property be used effectively for the purposes of the Project in accordance with this Agreement, and upon completion of the Project, will be used so as to further the objectives sought in carrying out the Project.

G. Evaluation Plan

The Mozambique Railways component of the Regional Rail Systems Support Project (RRSS) has evolved considerably since 1988, and it now is part of a multi-donor effort to address the fundamental systemic problems that CFM suffers, rather than simply a program to improve CFM's operational capacity, financial management, and workshop. The reason for the change is that the original project simply did not identify the extent of the problems facing the railroad and port. The first evaluation took place in late 1991, and the present amendment, as well as the overall direction the project is now taking, owes much to the work of the evaluators.

The major finding of the first evaluation was that CFM as presently structured is unmanageable, and that therefore the most urgent challenge

facing the railroad and its donor supporters is to reduce the scope of activities to the essential task of transporting goods for profit. This requires reducing staff dramatically, closing small lines operating at a loss, and contracting or leasing out some operations. The evaluation also made specific recommendations regarding the workshop, computerization, and finance.

A monitoring visit by the evaluators will take place in October, 1992, to assess progress against the recommendations made in 1991.

A mid-term evaluation will take place in late 1993. This evaluation will examine the following:

- a. Percentage of SADCC external trade using Mozambique ports and railways;
- b. Locomotive availability increases (anticipated to rise from 58% at project inception to 75% by project completion);
- c. Progress in reducing mean time between failures for locomotives;
- d. CFM(S) ongoing capacity to perform regularly scheduled maintenance up to R4 (performed every four years) on locomotives;
- e. Six locomotives rehabilitated in the CFM(S) workshop, five others rehabilitated under contract to another regional plant;
- f. CFM ongoing capacity to contract out major repairs and component rebuilds;
- g. CFM workforce and assets reduced to a manageable, potentially profitable, size;
- h. CFM finances, stores and procurement computerized and up-to-date;
- i. CFM finances and stores accurate and providing regular reliable information to management;
- j. CFM senior management and other senior government officials able to articulate a coherent medium- and long-term policy for the railroad, one that has a good chance of leading to profitability as quickly as possible.

A final evaluation will take place in late 1995 after the completion of the severance program.