
GRANT NUMBER E351-MZ

Financing Agreement

**(Regional Emergency Preparedness and Access to Inclusive Recovery Project -
Phase 1 under the Multiphase Programmatic Approach)**

between

REPUBLIC OF MOZAMBIQUE

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

GRANT NUMBER E351-MZ

FINANCING AGREEMENT

AGREEMENT dated as of the Signature Date between REPUBLIC OF MOZAMBIQUE (“Recipient”) and INTERNATIONAL DEVELOPMENT ASSOCIATION (“Association”).

WHEREAS:

- (A) The Republic of Mozambique, the Republic of Madagascar, the Union of the Comoros, and ARC Limited (“Project Implementing Entity”) have agreed to participate in the MPA Program, and intend to coordinate among each other for the carrying out of activities under projects and programs to strengthen the financial and operational preparedness of Participating Countries to respond quickly to climate and other shocks.
- (B) To facilitate the implementation of the MPA Program:
 - (1) by a financing agreement to be entered into on or about the date hereof between the Republic of Madagascar (“Madagascar”) and the Association (“Madagascar Financing Agreement”), the Association will extend to Madagascar financing to assist Madagascar in financing activities related to the MPA Program on the terms and conditions set forth in the Madagascar Financing Agreement;
 - (2) by a financing agreement to be entered into on or about the date hereof between Union of Comoros (“Comoros”) and the Association (“Comoros Financing Agreement”), the Association will extend to Comoros financing to assist Comoros in financing activities related to the MPA Program on the terms and conditions set forth in the Comoros Financing Agreement; and
 - (3) by a grant agreement to be entered into on or about the date hereof between the Association, acting as administrator of the Global Shield Financing Facility (“GSFF”) Multi-Donor Trust Fund, and ARC Limited (“GSFF Grant Agreement”), the Association will extend to ARC Limited financing to assist ARC Limited in financing activities related to the MPA Program on the terms and conditions set forth in the GSFF Grant Agreement.
- (C) The Recipient, having satisfied itself as to the feasibility and priority of the project described in Schedule 1 to this Agreement (“Project”), has requested the Association to assist in the financing of the Project.

NOW THEREFORE the Recipient and the Association hereby agree as follows:

ARTICLE I — GENERAL CONDITIONS; DEFINITIONS

- 1.01. The General Conditions (as defined in the Appendix to this Agreement) apply to and form part of this Agreement.
- 1.02. Unless the context requires otherwise, the capitalized terms used in this Agreement have the meanings ascribed to them in the General Conditions or in the Appendix to this Agreement.

ARTICLE II — FINANCING

- 2.01. The Association agrees to extend to the Recipient a grant, which is deemed as Concessional Financing for purposes of the General Conditions, in an amount equivalent to one hundred twenty-eight million and five hundred thousand Special Drawing Rights (SDR 128,500,000) (“Financing”), to assist in financing the Project.
- 2.02. The Recipient may withdraw the proceeds of the Financing in accordance with Section III of Schedule 2 to this Agreement.
- 2.03. The Maximum Commitment Charge Rate is one-half of one percent (1/2 of 1%) per annum on the Unwithdrawn Financing Balance.
- 2.04. The Payment Dates are April 15 and October 15 in each year.
- 2.05. The Payment Currency is Dollar.

ARTICLE III — PROJECT

- 3.01. The Recipient declares its commitment to the objective of the Project and the MPA Program. To this end, the Recipient shall cause the Project to be carried out by the Project Implementing Entity in accordance with the provisions of Article V of the General Conditions, Schedule 2 to this Agreement, the Project Agreement, and the Subsidiary Agreement.

ARTICLE IV — REMEDIES OF THE ASSOCIATION

- 4.01. The Additional Event of Suspension consists of the following, namely, the ARC Limited Bye-Laws have been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the ability of ARC Limited to perform any of its obligations under the Project Agreement or the Subsidiary Agreement.

AGREED as of the Signature Date.

REPUBLIC OF MOZAMBIQUE

By



Authorized Representative

Name: Adriano Maleiane

Title: Minister of Economy & Finance

Date: 05-Sep-2024

INTERNATIONAL DEVELOPMENT ASSOCIATION

By

Idah Z. Pswarayi-Riddihough

Authorized Representative

Name: Idah Z. Pswarayi-Riddihough

Title: Country Director for Mozambique, Madagascar,

Date: 29-Aug-2024

SCHEDULE 1

Project Description

The objective of the Project is to strengthen the financial and operational preparedness of Participating Countries to respond quickly to climate and other shocks.

The Project constitutes a phase of the MPA Program, and consists of the following parts:

Part 1. Regional Climate Risk Fund

Establishment, capitalization, and management of a Regional Climate Risk Fund (RCRF), to provide Participating Countries with access to pre-arranged financing, in anticipation of climate and other shocks, consisting of three layers: (a) reserves for moderate and frequent shocks; (b) contingent financing for severe and less frequent shocks; and (c) parametric insurance for catastrophic climate events and natural disasters, including the payment of insurance premiums.

Part 2. Technical Assistance and Operationalization of the RCRF

- (a) Provision of technical assistance to support the start-up and operating cost of the RCRF and capacity building to Participating Countries, including:
 - (i) staffing of the RCRF; (ii) preparation and testing of operational processes and procedures to facilitate the fund flows from the Participating Countries' respective ministry of finance, to delivery channels, and to end beneficiaries; (iii) consultancies to help Participating Countries decide the allocation between the instruments based on their risk appetite, and improve the management of disaster-related contingent liabilities; (iv) design of the financial instruments and support for independent third-party review of the cost-effectiveness of insurance policy instruments under the RCRF; and (v) capacity building of officials of Participating Countries on disaster risk finance, of delivery channels on contingency planning, and of women and women-owned small and medium enterprises on financial literacy.
- (b) Contribution to the cost and/or structuring of the financial instruments with a view to reduce the cost and improve the affordability of such instruments for the Participating Countries.

SCHEDULE 2

Project Execution

Section I. Implementation Arrangements

A. Institutional Arrangements

1. Not later than one (1) month after the Effective Date, the Recipient shall designate and thereafter maintain, at all times during Project implementation, a focal point to be the main point of contact of the Project Implementing Entity and a representative or representatives to participate in the ARC Limited RCRF Committee, under terms of reference, qualifications and experience satisfactory to the Association and as further set out in the Operations Manual.
2. The Recipient, through the Ministry of Economy and Finance, shall:
 - (a) not later than one (1) month after the Effective Date: (i) maintain an analytical ledger to record all funds for disaster response from multilateral development banks, including those coming from the pre-arranged financing under the RCRF; and (ii) open and maintain an account into which the funds provided by the pre-arranged financing under the RCRF may be deposited, under terms and conditions acceptable to the Association; and
 - (b) upon receipt of funds pursuant to the activation of an RCRF financial instrument, make such funds available to eligible delivery channels in accordance with the Operations Manual.

B. Subsidiary Agreement

1. To facilitate the carrying out of the Project, the Recipient shall make the proceeds of the Financing available to ARC Limited under a subsidiary agreement between the Recipient and ARC Limited (“Subsidiary Agreement”), under terms and conditions approved by the Association, which shall include the following:
 - (a) Undertakings by ARC Limited to:
 - (i) carry out the Project with due diligence and efficiency and in accordance with sound technical, economic, financial, managerial, environmental and social standards and practices satisfactory to the Association, including in accordance with the provisions of the Anti-Corruption Guidelines applicable to recipients of loan proceeds other than the Recipient (including ensuring application of the Anti-Corruption Guidelines to

insurance providers, re-insurers and insurance intermediaries who benefit from payment of insurance premiums under the Project);

- (ii) provide, promptly as needed, the facilities, services and other resources required for the Project;
- (iii) maintain policies and procedures adequate to enable it to monitor and evaluate in accordance with indicators acceptable to the Association, the progress of the Project and the achievement of its objectives;
- (iv) (A) maintain a financial management system and prepare financial statements in accordance with consistently applied accounting standards acceptable to the Association, both in a manner adequate to reflect the operations, resources and expenditures related to the Project; and
(B) at the Association's or the Recipient's request, have such financial statements audited by independent auditors acceptable to the Association, in accordance with consistently applied auditing standards acceptable to the Association, and promptly furnish the statements as so audited to the Recipient and the Association;
- (v) enable the Recipient and the Association to inspect the Project, its operation and any relevant records and documents; and
- (vi) prepare and furnish to the Recipient and the Association all such information as the Recipient or the Association shall reasonably request relating to the foregoing.

(b) Rights of the Recipient adequate to protect its interests and those of the Association, including the right to: (i) suspend or terminate the right of ARC Limited to use the proceeds of the Financing, or (ii) obtain a refund of all or any part of the amount of the Financing then withdrawn, upon ARC Limited's failure to perform any of its obligations under the Subsidiary Agreement.

2. The Recipient shall exercise its rights under the Subsidiary Agreement in such manner as to protect the interests of the Recipient and the Association and to accomplish the purposes of the Financing. Except as the Association shall otherwise agree, the Recipient shall not assign, amend, abrogate or waive the Subsidiary Agreement or any of its provisions.

C. Operations Manual

The Recipient shall:

- (a) prepare, in accordance with terms of reference acceptable to the Association and in coordination with the other Participating Countries and ARC Limited, and furnish to the Association for review, an operations manual containing:
 - (i) the objectives, disbursement conditions and/or type of trigger of each financial instrument under the RCRF;
 - (ii) a governance framework to ensure the rapid flow of funds from the Ministry of Economy and Finance to national delivery channels, including, *inter alia*: (A) eligibility criteria for shocks; (B) eligibility criteria for delivery channels, including procedures to screen, verify and monitor delivery channels; (C) eligibility criteria of activities for disaster response, including exclusion lists; (D) roles and responsibilities of ARC Limited, the Ministry of Economy and Finance, and national delivery channels; (E) the decision-making process in the event of a shock, institutional coordination mechanisms, and process for the flow of funds; (F) accountability mechanisms, and reporting and audit requirements, including independent third-party monitoring; and (G) Environmental and Social Standards requirements for activities to be financed by the RCRF, including occupational health and safety, sexual exploitation and abuse / sexual harassment and other ESS requirements;
 - (iii) the description of the technical assistance program available to Participating Countries; and
 - (iv) the arrangements and procedures for the coordination and day-to-day execution of the Project;
- (b) not later than one (1) month after the Effective Date or such other date as the Association may establish by notice to the Recipient, adopt, and cause ARC Limited to adopt, such operations manual, as shall have been approved by the Association (“Operations Manual”);
- (c) ensure that, in the event of an eligible shock, RCRF resources are delivered and utilized in accordance with the Operations Manual; and
- (d) except as the Association shall otherwise agree, not amend, abrogate or waive any provision of the Operations Manual.

D. Environmental and Social Standards

1. The Recipient shall, and shall cause ARC Limited to, ensure that the Project is carried out in accordance with the Environmental and Social Standards, in a manner acceptable to the Association.
2. Without limitation upon paragraph 1 above, the Recipient shall ensure that the Project is implemented in accordance with the Environmental and Social Commitment Plan (“ESCP”), in a manner acceptable to the Association. To this end, the Recipient shall ensure that:
 - (a) the measures and actions specified in the ESCP are implemented with due diligence and efficiency, as provided in the ESCP;
 - (b) sufficient funds are available to cover the costs of implementing the ESCP;
 - (c) policies and procedures are maintained, and qualified and experienced staff in adequate numbers are retained to implement the ESCP, as provided in the ESCP; and
 - (d) the ESCP, or any provision thereof, is not amended, repealed, suspended or waived, except as the Association shall otherwise agree in writing, as specified in the ESCP, and ensure that the revised ESCP is disclosed promptly thereafter.
3. In case of any inconsistencies between the ESCP and the provisions of this Agreement, the provisions of this Agreement shall prevail.
4. The Recipient shall ensure that:
 - (a) all measures necessary are taken to collect, compile, and furnish to the Association through regular reports, with the frequency specified in the ESCP, and promptly in a separate report or reports, if so requested by the Association, information on the status of compliance with the ESCP and the environmental and social instruments referred to therein, all such reports in form and substance acceptable to the Association, setting out, *inter alia*: (i) the status of implementation of the ESCP; (ii) conditions, if any, which interfere or threaten to interfere with the implementation of the ESCP; and (iii) corrective and preventive measures taken or required to be taken to address such conditions; and
 - (b) the Association is promptly notified of any incident or accident related to or having an impact on the Project which has, or is likely to have, a significant adverse effect on the environment, the affected communities, the public or workers, in accordance with the ESCP, the environmental

and social instruments referenced therein and the Environmental and Social Standards.

5. The Recipient shall establish, publicize, maintain and operate an accessible grievance mechanism, to receive and facilitate resolution of concerns and grievances of Project-affected people, and take all measures necessary and appropriate to resolve, or facilitate the resolution of, such concerns and grievances, in a manner acceptable to the Association.

Section II. Project Monitoring, Reporting and Evaluation

The Recipient shall cause ARC Limited to furnish to the Association each Project Report not later than forty-five (45) days after the end of each calendar semester, covering the calendar semester.

Section III. Withdrawal of the Proceeds of the Financing

A. General

Without limitation upon the provisions of Article II of the General Conditions and in accordance with the Disbursement and Financial Information Letter, the Recipient may withdraw the proceeds of the Financing to finance Eligible Expenditures, in the amount allocated and, if applicable, up to the percentage set forth against each Category of the following table:

Category	Amount of the Financing Allocated (expressed in SDR)	Percentage of Expenditures to be Financed (inclusive of Taxes)
(1) RCRF Reserve Layer and Premia Payment under Part 1 of the Project	22,675,000	100%
(2) RCRF Contingent Backstop of the Reserve under Part 1 of the Project	105,825,000	100%
TOTAL AMOUNT	128,500,000	

B. Withdrawal Conditions; Withdrawal Period

1. Notwithstanding the provisions of Part A of this Section, no withdrawal shall be made:
 - (a) for payments made prior to the Signature Date; or
 - (b) under Category (2) unless and until the Recipient has provided evidence satisfactory to the Association that the following event has occurred prior to the Closing Date, namely, the RCRF Reserve Layer has been depleted by at least fifty percent (50%) from the Initial Allocation.
2. The Closing Date is June 30, 2031.

APPENDIX

Definitions

1. “African Risk Capacity Agency” or “ARC Agency” means the specialized agency of the African Union, established pursuant to the Agreement for the Establishment of the African Risk Capacity (ARC) Agency.
2. “African Risk Capacity Limited” or “ARC Limited” means a hybrid mutual insurer and the financial affiliate of ARC Agency, established to carry out commercial insurance functions of risk pooling and risk transfer in accordance with national regulations for parametric weather insurance in Bermuda (where it is located until such time that an equally favorable legal and regulatory regime exists in an African Union Member State).
3. “African Union” means the union established by the Constitutive Act of the African Union adopted on July 11, 2000.
4. “Annual Work Plan and Budget” or “AWPB” means an annual work plan and budget referred to in Section I.C of the Schedule to the Project Agreement, as amended from time to time with the approval of the Association.
5. “Anti-Corruption Guidelines” means, for purposes of paragraph 5 of the Appendix to the General Conditions, the “Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by IBRD Loans and IDA Credits and Grants”, dated October 15, 2006 and revised in January 2011 and as of July 1, 2016.
6. “ARC Limited Bye-Laws” means the Bye-Laws of ARC Limited dated January 15, 2023.
7. “ARC Limited ESCP” means ARC Limited’s environmental and social commitment plan for the Project, dated June 10, 2024, as the same may be amended from time to time in accordance with the provisions thereof.
8. “ARC Limited RCRF Committee” means the committee to be established by ARC Limited that shall: (a) be responsible for coordination of Project implementation among the Participating Countries; (b) meet at least once a year; and (c) include representatives of all Participating Countries, as further described in the Operations Manual.
9. “Category” means a category set forth in the table in Section III.A of Schedule 2 to this Agreement.
10. “Contribution to Financial Instruments” means the financial contribution towards the cost and/or structuring of the financial instruments referred to in Part 2(b) of Schedule 1 to this Agreement.

11. “Environmental and Social Commitment Plan” or “ESCP” means the environmental and social commitment plan for the Project, dated June 7, 2024, as the same may be amended from time to time in accordance with the provisions thereof, which sets out the material measures and actions that the Recipient shall carry out or cause to be carried out to address the potential environmental and social risks and impacts of the Project, including the timeframes of the actions and measures, institutional, staffing, training, monitoring and reporting arrangements, and any environmental and social instruments to be prepared thereunder.
12. “Environmental and Social Standards” or “ESSs” means, collectively: (i) “Environmental and Social Standard 1: Assessment and Management of Environmental and Social Risks and Impacts”; (ii) “Environmental and Social Standard 2: Labor and Working Conditions”; (iii) “Environmental and Social Standard 3: Resource Efficiency and Pollution Prevention and Management”; (iv) “Environmental and Social Standard 4: Community Health and Safety”; (v) “Environmental and Social Standard 5: Land Acquisition, Restrictions on Land Use and Involuntary Resettlement”; (vi) “Environmental and Social Standard 6: Biodiversity Conservation and Sustainable Management of Living Natural Resources”; (vii) “Environmental and Social Standard 7: Indigenous Peoples/Sub-Saharan African Historically Underserved Traditional Local Communities”; (viii) “Environmental and Social Standard 8: Cultural Heritage”; (ix) “Environmental and Social Standard 9: Financial Intermediaries”; (x) “Environmental and Social Standard 10: Stakeholder Engagement and Information Disclosure”; effective on October 1, 2018, as published by the Association.
13. “General Conditions” means the “International Development Association General Conditions for IDA Financing, Investment Project Financing”, dated December 14, 2018 (Last revised on July 15, 2023).
14. “Initial Allocation” means the part of the proceeds of the Financing disbursed in a single tranche upon effectiveness of the Financing Agreement to the Trust Account set up by ARC Limited for the purpose of financing the Recipient’s portion of the RCRF Reserve Layer.
15. “Ministry of Economy and Finance” means the Recipient’s Ministry of Economy and Finance, or any successor thereto.
16. “MPA Program” means the multiphase programmatic approach program designed to strengthen the financial and operational preparedness of Participating Countries to respond quickly to climate and other shocks.
17. “Operations Manual” means the manual referred to under Section I.C of Schedule 2 to this Agreement, as the same may be amended from time to time with the approval of the Association.

18. “Participating Countries” means the Republic of Madagascar, the Union of the Comoros, the Republic of Mozambique, and those countries that will participate in future phases under the MPA Program.
19. “Premia Payment” means the amount of the sovereign parametric insurance premia to be paid using the proceeds of the Financing and which satisfies the eligibility criteria and other requirements set out in the Operations Manual.
20. “Procurement Regulations” means, for purposes of paragraph 85 of the Appendix to the General Conditions, the “World Bank Procurement Regulations for IPF Borrowers”, dated September 2023.
21. “Project Implementing Entity” means ARC Limited, a hybrid mutual insurer and financial affiliate of the African Risk Capacity Agency, established pursuant to the ARC Limited Bye-Laws.
22. “RCRF Contingent Backstop of the Reserve” means the contingent financing available to replenish the RCRF Reserve Layer after the latter has been depleted to respond to one or multiple shocks.
23. “RCRF Reserve Layer” means the part of the proceeds of the Financing placed in reserves in the RCRF which are invested by ARC Limited with a view to provide returns and immediate liquidity to the Recipient to respond to climate and other shocks.
24. “Signature Date” means the later of the two dates on which the Recipient and the Association signed this Agreement and such definition applies to all references to “the date of the Financing Agreement” in the General Conditions.
25. “Subsidiary Agreement” means the subsidiary agreement referred to in Section I.B of Schedule 2 to this Agreement, as the same may be amended from time to time with the approval of the Association.
26. “Training” means the costs incurred for purposes of training persons under the Project, based on an Annual Work Plan and Budget approved by the Association, including seminars, workshops, knowledge sharing activities and study tours, and covers the following costs associated with such activity: travel and subsistence costs for training participants, costs associated with securing the services of trainers, rental of training facilities, preparation and reproduction of training materials, and other costs directly related to training preparation and implementation.
27. “Trust Account” means the account set up by ARC Limited for the benefit of Participating Countries to hold the reserves of the latter.