

CONFORMED COPY

CREDIT NUMBER 4308 MOZ

Financing Agreement

**(Roads and Bridges Management and Maintenance Project
–Adaptable Program Lending II)**

between

REPUBLIC OF MOZAMBIQUE

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated July 9, 2007

CREDIT NUMBER 4308 MOZ

FINANCING AGREEMENT

AGREEMENT dated July 9, 2007, entered into between REPUBLIC OF MOZAMBIQUE (“Recipient”) and INTERNATIONAL DEVELOPMENT ASSOCIATION (“Association”). 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) constitute an integral 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, on the terms and conditions set forth or referred to in this Agreement, a credit in an amount equivalent to sixty six million one hundred thousand Special Drawing Rights (SDR 66,100,000) (variously, “Credit” and “Financing”) to assist in financing the project described in Schedule 1 to this Agreement (“Project”).
- 2.02. The Recipient may withdraw the proceeds of the Financing in accordance with Section IV of Schedule 2 to this Agreement.
- 2.03. The Maximum Commitment Charge Rate payable by the Recipient on the Unwithdrawn Financing Balance shall be one-half of one percent (1/2 of 1%) per annum.
- 2.04. The Payment Dates are April 15 and October 15 in each year.
- 2.05. The principal amount of the Credit shall be repaid in accordance with the repayment schedule set forth in Schedule 3 to this Agreement.
- 2.06. The Payment Currency is dollars.

ARTICLE III — PROJECT

- 3.01. The Recipient declares its commitment to the objectives of the Project. 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 IV of the General Conditions and of the Project Agreement.
- 3.02. Without limitation upon the provisions of Section 3.01 of this Agreement, and except as the Recipient and the Association shall otherwise agree, the Recipient shall ensure that the Project is carried out in accordance with the provisions of Schedule 2 to this Agreement.

ARTICLE IV — REMEDIES OF THE ASSOCIATION

- 4.01. The Additional Event of Suspension consist of the following, namely that the Project Implementing Entity's Legislation has been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the ability of the Project Implementing Entity to perform any of its obligations under the Project Agreement.
- 4.02. The Additional Event of Acceleration consist of the following, namely, that: (a) any event specified in Section 4.01 occurs; and (b) an event has occurred after the date of this Agreement which makes it improbable that the Project, or a material part thereof, can be carried out.

ARTICLE V —EFFECTIVENESS; TERMINATION

- 5.01. The Additional Conditions of Effectiveness consist of the following:
 - (a) The Subsidiary Agreement has been executed on behalf of the Recipient and the Project Implementing Entity.
 - (b) The Project Implementing Entity and ANE have established a financial management system in form and substance satisfactory to the Association.
 - (c) ANE has completed its restructuring in a manner satisfactory to the Association.
 - (d) The Project Implementing Entity has adopted the Project Implementation Manual in form and substance satisfactory to the Association.

- (e) The Project Implementing Entity has issued a request for proposals for the selection of independent auditors for the audit of the proceeds of the Credit, in form and substance satisfactory to the Association.

- 5.02. The Additional Legal Matter consists of the following, namely that the Subsidiary Agreement has been duly authorized or ratified by the Recipient and the Project Implementing Entity and is legally binding upon the Recipient and the Project Implementing Entity in accordance with its terms.

- 5.03. The Effectiveness Deadline is the date ninety (90) days after the date of this Agreement.

- 5.04. For purposes of Section 8.05 (b) of the General Conditions, the date on which the obligations of the Recipient under this Agreement (other than those providing for payment obligations) shall terminate is twenty years after the date of this Agreement.

ARTICLE VI — REPRESENTATIVE; ADDRESSES

6.01. The Recipient’s Representative is the Minister of Planning and Development.

6.02. The Recipient’s Address is:

Ministry of Planning and Development
Av. Ahmed S. Toure, 21 - 4th Floor
Maputo, Mozambique

Cable:	Telex:	Facsimile:
MOBANCO Maputo	(258) 21 492-268	(258) 21 492-625

6.03. The Association’s Address is:

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

Cable:	Telex:	Facsimile:
INDEVAS Washington, D.C.	248423 (MCI)	1-202-477-6391

AGREED at Maputo, Republic of Mozambique, as of the day and year first above written.

REPUBLIC OF MOZAMBIQUE

By /s/ Aiuba Cuereneia

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Michael Baxter

Authorized Representative

SCHEDULE 1

Project Description

The objective of the Project is to assist the Recipient in: (i) improving the coverage and conditions of roads and bridges in the territory of the Recipient; (ii) strengthening the Recipient's institutional capacity to manage and administer the road sector; (iii) establishing financing mechanisms for road maintenance; (iv) promoting the use of local resources in roads construction and management; and (v) improving road transport safety.

The Project consists of the following parts:

PART A: Overhead Costs

(a) Administrative cost:

Support to the Project Implementing Entity and ANE, at national and provincial levels, to enable them to effectively carry out the Project, including but not limited to provision of salaries, operating costs, equipment, and carrying out of small civil works.

(b) Capacity building:

Strengthening the institutional capacity of the Project Implementing Entity, and ANE and GAS, including the carrying out of studies and provision of training, to selected national and provincial staff and of technical assistance in the areas of financial management control systems information technology, road management and maintenance, environment and Project reporting as identified in the Bi-Annual Work Plan and Budget as financed: (i) by the Credit or (ii) otherwise. The studies to be carried out shall include:

- (A) Development of an integrated road management system.
- (B) Development of engineering design standards taking into account local environmental, geotechnical, availability of local materials and maintenance practices.
- (C) Implementation of an information technology strategy, including the linking of the Project Implementing Entity and ANE headquarters to their respective offices at the provincial level, and the provision of hardware and software.
- (D) Development of road sector provincial strategies, updating of a Project implementation plan and design and implementation of annual work plans.

- (E) Carrying out of a road user charges study.
 - (F) Carrying out of financial, technical, and procurement audits.
 - (G) Carrying out of additional studies for the enhancement of the road sector capacity.
- (c) Additional Programs:
- (i) Road Safety Program:
 - (A) Development of a road safety policy and strategy.
 - (B) Implementation of a road safety action plan for sections of the N1 Road.
 - (C) Carrying out of a financial and management review of INAV .
 - (D) Establishment of a national crash data base.
 - (E) Carrying out of safety related civil works on the Recipient's road network.
 - (ii) Axle Load Control Measures:

Support to ANE for the setting up of institutional implementation frameworks, including: (A) the drafting of the legal framework to ensure effective axle load control; and (B) the carrying out of dissemination campaigns.
 - (iii) Private Sector Support:

Support to the Recipient's Ministry of Public Works and Housing including the carrying out of studies on the establishment of a national contractors' federation and provincial associations.

PART B: Maintenance of Road Network

- (a) Carrying out of urban road maintenance.
- (b) Implementation of the work programs of the provincial offices of ANE, including design, planning, procurement and supervision of civil works.
- (c) Carrying out of emergency works, including emergency civil works and the procurement and placing of bailey bridges.
- (d) Carrying out of civil works for the maintenance of the unpaved road network, including routine and periodic maintenance, and spot improvements.

(e) Carrying out of civil works for the maintenance, both routine and periodic, of:
 (i) Zandamela and Maxixe section of N1 Road; and (ii) all other roads within the Recipient's paved road network

PART C: Investments

(a) Bridge Rehabilitation and Construction:

Carrying out of civil works for the rehabilitation and construction of at least 16 bridges, including the construction of a bridge over the Zambezi river.

(b) Regional and District Road Program:

Carrying out of civil works for the rehabilitation of about 1500 kilometers of selected regional and district roads.

(c) National Road Rehabilitation and Upgrade Program:

Carrying out of civil works (including widening, surfacing, shape correction, strengthening and upgrading of the existing pavement and repairs of minor drainage structures, geometric and structural improvements to enhance traffic capacity and safety for vehicles and pedestrians) for the: (i) rehabilitation of three sections of the N1 Road, namely Jardim-Benfica, Xai-Xai-Chissibuca, and Massinga-Nhachengue; and (ii) rehabilitation of approximately 327 kilometers of other priority roads within the Recipient's road network.

(d) National Roads Paving

Carrying out of civil works to pave about 15 national roads within the Recipient's road network of a length of approximately 607 kilometers.

(e) Engineering Services

Support for: (i) the supervision of the civil works referred to under Part C (a) (b) (c) (ii) and (d); (ii) the supervision of the civil works referred to under Part C (c) (i); and (iii) the design and preparation of bidding documents for civil works to be carried out by the Recipient after the completion of the Project.

SCHEDULE 2**Project Execution****Section I. Implementation Arrangements****A. Subsidiary Agreement**

1. To facilitate the carrying out of the Project, the Recipient shall make the proceeds of the Financing available to the Project Implementing Entity under a subsidiary agreement between the Recipient and the Project Implementing Entity, under terms and conditions approved by the Association.
2. The Recipient shall exercise its rights under the Subsidiary Agreement in such a 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.

B. Institutional Arrangements

1. The Recipient shall cause the Project to be carried out: (i) under the strategic direction and coordination of the Ministry of Public Works and Housing; and (ii) under the overall responsibility for implementation, coordination and oversight of the Project Implementing Entity.
2. The Recipient shall maintain the Road Fund as the Project Implementing Entity, throughout the implementation of the Project.

C. EAs, RPF and RAP

1. The Recipient shall cause the Project Implementing Entity to: (a) carry out the Project in accordance with the mitigation measures, rules and procedures defined in: (i) the EAs prepared in respect of the civil works under Part C (c) (i) of the Project; and (ii) the RPF and RAP prepared in respect of the Jardim-Benfica section of N1 Road under Part C (c) (i) of the Project, in a manner satisfactory to the Association; and (b) maintain an environmental management officer with responsibility for implementing the EAs, RPF and RAP for all applicable activities undertaken throughout the Project.
2. Except as the Recipient and the Association may otherwise agree in writing, the Recipient shall not abrogate, amend, repeal, suspend, waive or otherwise fail to enforce the EAs, the RPF or the RAP referred to in sub-paragraph (1) of this paragraph or any provision thereof.

3. In case of any conflict between the terms of the EAs, RPF and RAP referred to in sub-paragraph (1) of this paragraph and those of this Agreement, the terms of this Agreement shall prevail.

D. Anti-Corruption

The Recipient shall ensure that the Project is carried out in accordance with the provisions of the Anti-Corruption Guidelines.

Section II. Project Monitoring, Reporting and Evaluation

A. Project Reports

1. The Recipient shall cause the Project Implementing Entity to monitor and evaluate the progress of the Project and prepare Project Reports in accordance with the provisions of Section 4.08 of the General Conditions and on the basis of indicators set forth in Section II.A.1 (a) of the Project Agreement. Each Project Report shall cover the period of one calendar semester, and shall be furnished to the Association not later than forty five days after the end of the period covered by such report.
2. For purposes of Section 4.08 (c) of the General Conditions, the report on the execution of the Project and related plan required pursuant to that Section shall be furnished to the Association not later than six months before the Closing Date.
3. The Recipient shall cause the Project Implementing Entity, not later than April 30 and September 30 of each Fiscal Year during the implementation of the Project or such later date as the Association may agree, to prepare and furnish to the Association for its approval a Bi-Annual Work Plan and Budget.

B. Financial Management, Financial Reports and Audits

1. The Recipient shall cause the Project Implementing Entity to maintain or cause to be maintained a financial management system in accordance with the provisions of Section 4.09 of the General Conditions.
2. The Recipient shall cause the Project Implementing Entity to prepare and furnish to the Association as part of the Project Report not later than one month after the end of each calendar quarter, interim unaudited financial reports for the Project covering the quarter, in form and substance satisfactory to the Association.
3. The Recipient shall cause the Project Implementing Entity to have its Financial Statements audited in accordance with the provisions of Section 4.09 (b) of the General Conditions. Each audit of the Financial Statements shall cover the period of one fiscal year of the Recipient. The audited Financial Statements for each

such period shall be furnished to the Association not later than six months after the end of such period.

Section III. Procurement

A. General

1. **Works.** All works required for Part C of the Project and to be financed out of the proceeds of the Credit shall be procured in accordance with the requirements set forth or referred to in Section I of the Procurement Guidelines, and with the provisions of this Section.

Goods, Works and Services (other than Consultants' Services). All goods, works and Services (other than Consultants' Services) required for Parts A, B and those parts of Part C not financed out of the proceeds of the Credit, shall be procured in accordance with the Procurement Regulations and the procurement rules and procedures of the relevant financial institutions identified in the Bi-Annual Work Plan and Budget, as applicable and the provisions of this Section.

2. **Consultants' Services.** (a) All consultants' services required for Part C of the Project and to be financed out of the proceeds of the Credit shall be procured in accordance with the requirements set forth or referred to in Sections I and IV of the Consultant Guidelines, and with the provisions of this Section.

(b) All consultants' services required for Parts A, B and those parts of Part C not financed out of the proceeds of the Credit shall be procured in accordance with the Procurement Regulation and the procurement rules and procedures of the relevant financial institutions identified in the Bi-Annual Work Plan and Budget, as applicable and with the provisions of this Section.

3. **Definitions.** The capitalized terms used below in this Section to describe particular procurement methods or methods of review by the Association of particular contracts, refer to the corresponding method described in the Procurement Guidelines, or Consultant Guidelines, as the case may be.

B. Particular Methods of Procurement of Goods, Works, Services (other than Consultants' Services)

1. **International Competitive Bidding.** (a) Except as otherwise provided in paragraph 2 below, works under Part C of the Project and to be financed out of the proceeds of the Credit, shall be procured under contracts awarded on the basis of International Competitive Bidding. Domestic preference may be applied as provided under section 2.55 (b) of the Procurement Guidelines.

(b) Except as otherwise provided in paragraph 2 below, goods, works and services (other than Consultants’ Services) under Parts A, B and those parts of Part C not financed out of the Credit, shall be procured under contracts awarded on the basis of the international competitive bidding procurement rules and procedures of the Procurement Regulation and of those of the relevant financial institutions identified in the Bi-Annual Work Plan and Budget, as applicable. Domestic preference for locally manufactured goods shall be applied without limitation to the nationality of the good’s manufacturer.

- 2. Other Methods of Procurement of Goods, Works and Services (other than Consultants’ Services).** The following table specifies the methods of procurement, other than International Competitive Bidding, which may be used for goods, works and services (other than consultants’ services) under Parts A, B and those parts of Part C not financed out of the Credit, of the Project. The Procurement Plan shall specify the circumstances under which such methods may be used:

<u>Procurement Method</u>	
(a)	Request for Quotation from at least three qualified contractors or suppliers.
(b)	National Competitive Bidding. Foreign bidders shall not be excluded from participating in NCB.

C. Particular Methods of Procurement of Consultants’ Services

- 1. Quality- and Cost-based Selection.** (a) Consultants’ services under Part C of the Project and to be financed out of the proceeds of the Credit shall be procured under contracts awarded on the basis of Quality and Cost-based Selection.

(b) Consultants’ services under Parts A, B and those parts of Part C not financed out of the Credit, shall be procured under contracts awarded on the basis of the quality-and cost-based procurement rules and procedures of the Procurement Regulations and on of those of those of the relevant financial institutions identified in the Bi-Annual Work Plan and Budget, as applicable.

- 2. Other Methods of Procurement of Consultants’ Services.** The following table specifies methods of procurement, other than Quality and Cost-based Selection, which may be used for consultants’ services under Parts A and B and those parts of Part C not financed out of the Credit, of the Project. The Procurement Plan shall specify the circumstances under which such methods may be used.

Procurement Method
(a) Consultant qualification based selection (CQS)
(b) Least cost selection (LCS)

D. Review by the Association of Procurement Decisions

(a) Except as the Association shall otherwise determine by notice to the Recipient, the following contracts under Part C of the Project and to be financed out of the proceeds of the Credit shall be subject to Prior Review by the Association: (i) each contract for works estimated to cost the equivalent of \$5,000,000 or more; (ii) each contract for goods estimated to cost the equivalent of \$250,000 or more; and (iii) each contract for consultants' services provided by a firm estimated to cost the equivalent of \$ 200,000 or more.

(b) All other contracts under Part C of the Project and to be financed out of the proceeds of the Credit shall be subject to Post Review by the Association, including the mandatory Post Review of contracts for works to cost between \$2,000,000 and \$5,000,000; contracts for goods to cost between \$100,000 and \$250 000; and contracts for consultants' services to cost between \$100,000 and \$200,000.

Section IV. Withdrawal of the Proceeds of the Financing

A. General

1. The Recipient may withdraw the proceeds of the Financing in accordance with the provisions of Article II of the General Conditions, this Section, and such additional instructions as the Association shall specify by notice to the Recipient (including the "World Bank Disbursement Guidelines for Projects" dated May 2006, as revised from time to time by the Association and as made applicable to this Agreement pursuant to such instructions).
2. The following table specifies the categories of Eligible Expenditures that may be financed out of the proceeds of the Financing ("Category"), the allocations of the amounts of the Financing to each Category, and the percentage of expenditures to be financed for Eligible Expenditures in each Category:

Category	Amount of the Credit Allocated (expressed in SDR)	Percentage of Expenditure to be Financed (inclusive of Taxes)
(1) Goods, Works, Services (other than Consultants' Services), Consultants' services, Training and Operating Costs under Part A (except for A (b) (ii), and A(c) (i) (E)) and Part B (except for B (a) and B (e) (i)) of the Project	23,100,000	Such percentage as the Association may determine for each semester of the Fiscal Year
(2) Works under Part C (c) (i) of the Project	34,300,000	100%
(3) Consultants' services under Part C (e) (ii) and (iii) of the Project	2,100,000	100%
(4) Unallocated	6,600,000	
TOTAL AMOUNT	66,100,000	

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 date of this Agreement; or
 - (b) in respect of Category 1, unless the Bi-Annual Work Plan and Budget for each semester of the Fiscal Year has been approved by the Association in accordance with paragraph A.3 under Section II of the Schedule to the Project Agreement
2. The Closing Date is June 30, 2011.

Section V. Other Undertakings

1. The Recipient's contribution to Part A and B of the Project shall be no less than the total amount equivalent to \$195,000,000 (one hundred and ninety five million Dollars).

2. The Recipient shall ensure that the independent auditors referred to in Section 5.01 (e) of this Agreement for the audit of the proceeds of the Credit, have been hired by no later than September 30, 2007, in form and substance satisfactory to the Association.

SCHEDULE 3**Repayment Schedule**

Date Payment Due	Principal Amount of the Credit repayable (expressed as a percentage)*
On each April 15 and October 15:	
commencing October 15, 2017 to and including April 15, 2027	1%
commencing October 15, 2027 to and including April 15, 2047	2%

* The percentages represent the percentage of the principal amount of the Credit to be repaid, except as the Association may otherwise specify pursuant to Section 3.03 (b) of the General Conditions.

APPENDIX**Section I. Definitions**

1. “All-Season Roads” means a classified or un-classified road which will not be closed for more than two consecutive days and not more than two weeks per year in total.
2. “Anti-Corruption Guidelines” means the “Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by IBRD Loans and IDA Credits and Grants”, dated October 15, 2006.
3. ANE” or “*Administração Nacional de Estradas*” means the Recipient’s National Road Administration, a financial and administrative autonomous public institution established pursuant to the Recipient’s Decree nr. 20 dated May 2003, as amended in April 3, 2007, to be published in the Recipient’s Official Gazette by no later than June 30, 2007.
4. “Bi-Annual Work Plan and Budget” means the plan referred to in Section I. 2 (a) (vi) and Section II A.3. of the Schedule to the Project Agreement and Section IV.B.1 (b) of Schedule 2 to the Financing Agreement.
5. “Category” means a category set forth in the table in Section IV of Schedule 2 to this Agreement.
6. “Classified Roads” or “*Estradas Classificadas*” means roads classified as primary, secondary, tertiary and vicinal roads as defined in the Decree 50/2000 of December 21, 2000 and for which ANE has managerial responsibility. The Classified Roads belong to the Ministry of Public Works and Housing and are listed in the Ministerial Diploma 103/2005.
7. “Consultant Guidelines” means the “Guidelines: Selection and Employment of Consultants by World Bank Borrowers” published by the Bank in May 2004 as amended in October 2006.
8. “EAs” means “Environmental Assessments”, the Recipient’s assessments referred to in Section I.C.1 (a) (i) of the Schedule 2 to this Agreement and in Section I.4 of the Schedule to the Project Agreement.
9. “Fiscal Year” means the period from January 1 through December 31 of each year.
10. “GAS” means *Gabinete de Asesoria e Supervisao*, a unit under the Recipient’s Ministry of Public Works and Housing.

11. “General Conditions” means the “International Development Association General Conditions for Credits and Grants”, dated July 1, 2005 (amended through October 15, 2006) .
12. “INAV” means *Instituto Nacional de Viação*, the Recipient’s National Institute of Traffic established pursuant to the Recipient’s Decree nr. 3/2006 dated February 28, 2006, published in the Recipient’s Official Gazette on February 28, 2006.
13. “Municipalities” means all of the Recipient’s urban local government authorities.
14. “N1 Road” means the Recipient’s national road numbered one which runs from Maputo to Pemba within the Recipient’s territory.
15. “Operating Costs” means the incremental expenditures which would not exist absent the Project, incurred on account of office supplies, vehicle operation and maintenance, communication and insurance costs, bank charges on the Designated Accounts, rental expenses, office maintenance costs, utilities, domestic travel cost for Project staff for Project supervision, and salaries.
16. “Procurement Guidelines” means the “Guidelines: Procurement under IBRD Loans and IDA Credits” published by the Bank in May 2004 and amended in October 2006.
17. “Procurement Plan” means the Recipient’s procurement plan for the Project, dated April 1, 2007 and referred to in paragraph 1.16 of the Procurement Guidelines and paragraph 1.24 of the Consultant Guidelines, as the same shall be updated from time to time in accordance with the provisions of said paragraphs.
18. “Procurement Regulations” means Procurement Regulations of the Republic of Mozambique adopted by the Recipient through Decree 54/2005 of December 13, 2005 and published in the Official Gazette on December 13, 2005.
19. “Program” means the Recipient’s Road Sector Policy and Strategy 2002 – 2012 as set forth or referred to in the letter dated May 2, 2001, from the Recipient to the Association.
20. “Project Implementing Entity” means the Road Fund as defined herebelow.
21. “Project Implementing Entity’s Legislation” means the Recipient’s Decree 22/2003 of May 20, 2003, published in the Recipient’s Official Gazette on May 28, 2003 which govern the Project Implementing Entity.
22. “Project Implementation Manual” means the manual referred to in Section I.2 of the Annex to the Project Agreement.

23. “RAP” means “Resettlement Action Plan”, the Recipient’s plan referred to in Section I.C.1 (a) (ii) of this Agreement and Section I.4 of the Schedule to the Project Agreement.
24. “RPF” means “Resettlement Policy Framework” referred to in Section I.C.1 (a) (ii) of Schedule 2 to this Agreement and Section I.4 of the Schedule to the Project Agreement.
25. “Road Fund” means the Recipient’s entity responsible for road sector finance and monitoring established pursuant to Decree 22/2003 of May 20, 2003 published in the Official Gazette on May 28, 2003.
26. “Subsidiary Agreement” means the agreement referred to in Section 5.01 (a) and I.A of Schedule 2 to this Agreement and the Schedule to the Project Agreement pursuant to which the Recipient shall make the proceeds of the Financing available to the Project Implementing Entity.
27. “Training” means expenditures to be incurred for the purchase of training materials, rental of training facilities, per diem and related travel.