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CONFORMED COPY

CREDIT NUMBER 4546 - MOZ

Financing Agreement

(Competitiveness and Private Sector Development Project)

between

REPUBLIC OF MOZAMBIQUE

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated April 2, 2009

CREDIT NUMBER 4546 - MOZ

FINANCING AGREEMENT

AGREEMENT dated April 2, 2009, 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 sixteen million eight hundred thousand Special Drawing Rights (SDR 16,800,000) (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 V 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 The Service Charge payable by the Recipient on the Withdrawn Credit Balance shall be equal to three-fourths of one percent (3/4 of 1%) per annum.
- 2.05. The Payment Dates are April 15 and October 15 in each year.

- 2.06. The principal amount of the Credit shall be repaid in accordance with the repayment schedule set forth in Schedule 3 to this Agreement.
- 2.07. The Payment Currency is Dollar.

ARTICLE III — PROJECT

- 3.01. The Recipient declares its commitment to the objectives of the Project. To this end, the Recipient shall carry out the Project, through MIC, with the assistance of the PIU and the NAC, in accordance with the provisions of: (a) Article IV of the General Conditions; (b) this Agreement; (c) the Operational Manual; (d) the ESMF; (e) the RPF; (f) the Environmental Management Plans; (g) the Resettlement Action Plans; and (h) the Annual Action Plans.
- 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 — EFFECTIVENESS; TERMINATION

- 4.01. The Additional Conditions of Effectiveness consist of the following:
 - (a) The Recipient has established the PIU at MIC, with a structure, equipment, functions and responsibilities acceptable to the Association, including a Project coordinator, a financial management specialist and a procurement specialist, all hired with qualifications and experience, and pursuant to terms of reference, satisfactory to the Association, in accordance with the provisions of paragraph C of Section IV of Schedule 2 to this Agreement.
 - (b) The Operational Manual, with financial management, accounting, and procurement annexes, (including a section pertaining to the administration and management of SME Grants and Representative Organization Grants) has been issued and adopted by the Recipient, and approved by the Association.
 - (c) The Recipient has established a procurement filing and record keeping system (including contract monitoring and contract control systems) for use of the PIU, in form and substance acceptable to the Association.

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

ARTICLE V — REPRESENTATIVE; ADDRESSES

- 5.01. The Recipient's Address is:

Ministério de Planificação e Desenvolvimento
Caixa Postal 4087
21 Av. Ahmed Sekou Touré
Maputo
Republic of Mozambique

Cable address:	Telex:	Facsimile:
MEF	257 MEF B1	+258-21492625

- 5.02. 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 improve the business environment and enhance enterprise competitiveness in the Recipient's territory, by: (a) reducing the cost of doing business in the country; (b) building technical capacity at Recipient's public sector agencies; (c) strengthening the ability of local intermediaries to enable them to deliver business services to SMEs; and (d) developing region specific interventions in the tourism and horticulture sectors.

The Project consists of the following parts:

Part A: Improving Enterprise Competitiveness

Grants

1. Provision of grants (the SME Grants) out of the proceeds of the Financing to SMEs, which meet the criteria set forth in paragraph 3(A) of Section II of Schedule 2 to this Agreement, as further elaborated in the Operational Manual, to finance the costs of technical assistance, and Training to maximize the rate of their sales growth.
2. Provision of grants (the Representative Organization Grants) out of the proceeds of the Financing to Recipient's Representative Organizations, that meet the criteria set forth in paragraph 3(B) of Section II of Schedule 2 to this Agreement, as further elaborated in the Operational Manual, to finance the costs of technical assistance and Training to strengthen the Representative Organizations' administrative and technical capacities to, *inter alia*: (a) increase their membership base; (b) raise their subscription income; (c) develop new services for their members; and (d) commission outside expert studies, surveys, and research papers to improve petitions of their members to Recipient's public agencies seeking a better regulatory environment for their business activities.
3. Provision of technical assistance, Operating Costs and goods to the PIU for purposes of: (a) supporting a management program for the grants referred to in Part A.1 and A.2 of the Project; and (b) assisting SMEs to design and implement their sales growth plan.

Promoting the Tourism Sector in the Recipient's Inhambane Province

4. Improvement of public sector service provision in the tourism sector through: (a) the provision of technical assistance, goods and Operating Costs to design and implement a tourism strategy and tourism master and marketing plans for

Inhambane; and (b) the provision of technical assistance, goods and works to strengthen *Inhambane*'s one stop shops' administrative and technical capacities.

5. Expansion of the tourism-related private sector supply chain through: (a) rehabilitation of training facilities in *Inhambane*; (b) provision of equipment to training institutes in this province; (c) recruitment of trainers to provide training in needed areas (languages, tour operations, boat operations, diving, fishing, artisanal and crafts development, vocational hospitality skills, business development, business operations, marketing, catering, construction, carpentry, and maintenance of tourism related facilities); and (d) provision of legal and business advisory services to the private sector to enhance their competitiveness.

Establishing a tropical fruits training center in the Recipient's Nampula Province

6. Provision of technical assistance, goods and works to MIC to establish a national quality training center specialized in tropical fruits' operations and located in *Nampula*.
7. Provision of technical assistance, goods, Training, and works to MIC to establish a banana farm of approximately fifty (50) hectares in *Nampula*, which shall constitute the training grounds of the center referred to in Part A.6 of the Project.
8. Financing of Operating Costs for the first year of operation of the farm referred to in Part A.7 of the Project.

Part B: Improving the Business Enabling Environment

Support to Recipient's Business Environment Strategy

1. Provision of technical assistance, goods, and Training to MIC to strengthen the Recipient's trade facilitation systems. Such assistance to consist of: (a) updating trade-related legislation and policies; (b) streamlining processing procedures and systems; and (c) building technical and administrative capacity in Recipient's government agencies involved in trade, including, but not limited to, the Recipient's customs agency, and the Recipient's Institute for Export Promotion in order to lower transaction costs, reduce clearance time of imports and exports, and improve governance in the sector.
2. Provision of technical assistance, goods, Training, and works to MIC for purposes of *inter alia*: (a) supporting its efforts to streamline the business licensing processes in the Recipient's territory; (b) supporting the implementation of the Recipient's business environment and SME strategies; and (c) building technical and administrative capacities in the Recipient's one-stop shops.

3. Provision of technical assistance, Training, and goods to MIC to strengthen its systems of public-private business dialogue.

Support to Quality Standards Infrastructure

4. Provision of technical assistance, Training and goods to INNOQ to facilitate the establishment of a twinning arrangement between this entity and a reputable standardization and quality institution to permit INNOQ's private-led provision of standard-related services that at the same time promote increase of exports of key Recipient's goods.

Strengthening the Accounting Profession

5. Provision of technical assistance, Training, and goods to OPAM to facilitate the establishment of a twinning arrangement between this entity and a reputable member institution of the international federation of accountants to modernize and enhance the delivery of OPAM's professional services.

Part C: Project Management, Monitoring and Evaluation

Provision of support for overall Project coordination, evaluation, supervision and implementation, including, *inter alia*:

1. the strengthening of the capacity of MIC, and of other Recipient's entities involved in Project implementation activities to facilitate their compliance with the provisions set forth in Section 3.01 of this Agreement;
2. the provision of training to PIU and MIC staff to enhance their knowledge of the Association's procurement and financial management policies and procedures;
3. the carrying out of the audits referred to in paragraph B of Section III of Schedule 2 to this Agreement;
4. the carrying out of Project studies, including, *inter alia*, performance reviews and impact evaluations;
5. the implementation of a program to monitor and evaluate the carrying out of the Project;
6. the financing of PIU's Operating Costs; and

7. the provision of technical assistance and Training to the PIU's part-time environmental specialist to enhance its technical capacity to facilitate the carrying out of the ESMF and RPF.

SCHEDULE 2

Project Execution

Section I. Institutional Arrangements

1. The NAC

- (a) The Recipient shall maintain a national advisory committee (the NAC), at all times during Project implementation, with a structure, functions and responsibilities acceptable to the Association, for the purpose of overseeing the execution of the Project. The NAC shall be chaired by the Recipient's Minister of Industry and Commerce and include as members the Recipient's: (i) Minister of Agriculture (or her/his delegate); (ii) Minister of Environment (or her/his delegate); (iii) Minister of Finance (or her/his delegate); (iv) Minister of Planning and Development (or her/his delegate); (v) Minister of Tourism (or her/his delegate); (vi) Governor of *Banco de Moçambique* (or her/his delegate); (vii) Executive Director of the Recipient's Small and Medium Enterprises Institute; and (viii) representatives of business associations, financial institutions and SMEs.
- (b) The Recipient shall ensure that the NAC maintains provincial advisory committees, one (1) in *Inhambane* and one (1) in *Nampula*, for purposes of: (i) overseeing regional Project implementation; (ii) promoting local ownership of Project activities in these provinces; and (iii) ensuring that the Project remains responsive to local needs.

2. The PIU

- (a) The Recipient shall establish and thereafter maintain the PIU at MIC, with a structure, equipment, functions and responsibilities acceptable to the Association, including, *inter alia*, the responsibility of the PIU to assist the Recipient and the NAC in the coordination, implementation, monitoring, evaluation and supervision of the Project.
- (b) The Recipient shall ensure that the PIU is headed by a Project coordinator and staffed with a financial management specialist, a procurement specialist, a monitoring and evaluation officer, a part-time environmental specialist, a legal consultant and professional and administrative staff, all hired with terms of reference, through competitive processes, in numbers and with qualifications and experience acceptable to the Association.
- (c) The Recipient shall ensure that the PIU maintains satellite offices, one

(1) in *Inhambane*, and one (1) in *Nampula*, for purposes of coordinating regional Project implementation activities.

- (d) Except as the Recipient and the Association may otherwise agree in writing, the Recipient shall not introduce changes in the number of positions of the PIU or in the professional skills required for occupying such positions, unless said changes have been previously agreed in writing with the Association.

Section II. Implementation Arrangements

1. Operational Manual

- (a) Without limitation upon the provisions of Section 4.01 of the General Conditions, the Recipient shall carry out the Project in accordance with a manual (the Operational Manual), in form and substance acceptable to the Association, said manual to include, *inter alia*:
- (i) an institutional implementation plan of MIC for the management of the Project (including, *inter alia*, allocation of responsibilities among staff, yearly planning of activities and budget and time allocation for those activities);
 - (ii) financial management, accounting and procurement procedures annexes (including a section pertaining to the administration and management of SME Grants and Representative Organization Grants);
 - (iii) detailed arrangements for the overall carrying out of the Project (including, *inter alia*, the procurement, environmental, resettlement and social guidelines to be followed during Project implementation by the Recipient);
 - (iv) the criteria and procedures for:
 - (A) the selection of SMEs to receive SME Grants;
 - (B) the selection of Representative Organizations to receive Representative Organization Grants;
 - (C) the preparation, review, approval, and implementation of SME Subprojects and Representative Organization Subprojects (including, *inter alia*, a suggested list of possible activities to be financed under SME Subprojects and Representative Organization Subprojects and a negative list of activities that can not be carried out

under SME Subprojects and Representative Organization Subprojects);

- (D) Training;
 - (E) technical assistance; and
 - (F) the implementation of the ESMF and the RPF in connection with the carrying out of the Project and corresponding Environmental Management Plans, Resettlement Action Plans (including environmental assessments, resettlement assessments, social assessments, and consequent mitigation measures);
- (v) the guidelines for the preparation of Annual Action Plans;
 - (vi) internal control systems to be followed by MIC during Project implementation;
 - (vii) the guidelines for Project monitoring and evaluation; and
 - (viii) the Model Forms.
- (b) 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 Operational Manual or any provision thereof.
 - (c) In case of any conflict between the terms of the Operational Manual and those of this Agreement, the terms of this Agreement shall prevail.

2. The Annual Action Plan

- (a) The Recipient shall, not later than December 1 of each year during Project implementation, or such later date as the Association may determine, starting in calendar year 2009, furnish to the Association, for approval, an annual action plan (the Annual Action Plan), each said plan to include, *inter alia*: (i) the Project activities to be carried out during the twelve (12) months immediately following the presentation of each said plan; (ii) the procurement plan, and disbursement schedule for each said twelve (12) month period; (iii) the annual budget for SME Grants and Representative Organization Grants; (iv) the annual budget for Operating Costs for the Project; and (v) the annual budget for Training under the Project.

- (b) The Recipient shall thereafter implement each said Annual Action Plan, approved by the Association, in accordance with its terms.
- (c) The Recipient shall carry out the Annual Action Plan for the year 2009, as approved by the Association.

3. Provision of SME Grants and Representative Organization Grants

A. Eligibility Criteria for SME Grants

Without limitation to the provisions of paragraphs 1 and 2 of Section II of Schedule 2 to this Agreement, no SME shall be eligible for an SME Grant, unless MIC, assisted by the PIU and the Matching Grant Manager, shall have determined, on the basis of an appraisal conducted in accordance with the criteria and procedures set forth in the Operational Manual, that the SME concerned satisfies the eligibility criteria specified in the Operational Manual, which shall include the following minimum requirements:

The SME concerned shall:

- (a) have obtained legal personality in accordance with the Recipient's relevant legislation;
- (b) be a commercial enterprise;
- (c) be domiciled in the Recipient's territory; and
- (d) have produced and presented to the Matching Grant Manager a plan for business growth with a set of actions to achieve increased sales.

B. Eligibility Criteria for Representative Organization Grants

Without limitation to the provisions of paragraphs 1 and 2 of Section II of Schedule 2 to this Agreement, no Representative Organization shall be eligible for a Representative Organization Grant, unless MIC, assisted by the PIU and Matching Grant Manager, shall have determined, on the basis of an appraisal conducted in accordance with the criteria and procedures set forth in the Operational Manual, that the Representative Organization concerned satisfies the eligibility criteria specified in the Operational Manual, which shall include the following minimum requirements:

The Representative Organization concerned shall:

- (a) have obtained legal personality in accordance with the Recipient's relevant legislation;
- (b) have a corporate governance structure, including elected officials in accordance with its by-laws;
- (c) be domiciled in the Recipient's territory; and
- (d) have produced and presented to the Matching Grant Manager a plan to, *inter alia*: (i) build capacity in the organization; (ii) develop new services for its members; and (iii) seek technical assistance to improve the business environment facing its members.

C. SME Grant Agreements and Representative Organization Grant Agreements

(a) Upon approval of the corresponding Annual Action Plan by the Association, and compliance with the eligibility criteria set forth in paragraph 3(A), and paragraph 3(B) of Section II of Schedule 2 to this Agreement, the Recipient shall, through MIC: (i) enter into separate agreements or amend existing separate agreements (the SME Grant Agreements), on terms and conditions satisfactory to the Association, with each eligible SME, such agreements to include, *inter alia*:

- (A) the Recipient's obligation to transfer, on a grant basis, to the relevant eligible SME the proceeds of the Financing allocated to the relevant SME Subproject under Part A.1 of the Project for said eligible SME, amount that shall not exceed seventy thousand United States Dollars (US\$70,000) in aggregate;
- (B) the eligible SME's obligation to:
 - (1) provide or cause to be provided, in a timely manner as needed, its share of the funds required for implementing the relevant SME Subproject;
 - (2) carry out the relevant SME Subproject;
 - (3) assist the Recipient to allow full compliance with the obligations set forth in paragraphs 1 and 2 of Section II of Schedule 2 to this Agreement;

- (4) maintain records and accounts, in a manner acceptable to the Association, (including any other information and/or documentation as the Association may request from time to time) regarding the relevant SME Subproject to enable the Recipient to comply with its obligations under paragraph B of Section III of Schedule 2 to this Agreement;
 - (5) abide by the applicable Project provisions laid out in this Agreement; and
 - (6) procure the services for the Project in accordance with the requirements of this Agreement;
- (C) the requirements for auditing the expenditures under the relevant SME Subproject;
- (D) the Recipient's right to suspend disbursements of proceeds of the Financing allocated to the relevant SME Subproject in the event of non-compliance by the eligible SME with the obligations set forth in the corresponding SME Grant Agreement, this Agreement and/or those of the Operational Manual; and
- (E) the schedule of disbursements of the Financing by the Recipient to the eligible SME for the implementation of the relevant SME Subproject;
- (ii) enter into separate agreements or amend existing separate agreements (the Representative Organization Grant Agreements), on terms and conditions satisfactory to the Association, with each eligible Representative Organization, including, *inter alia*:
- (A) the Recipient's obligation to transfer, on a grant basis, to the relevant eligible Representative Organization the proceeds of the Financing allocated to the relevant Representative Organization Subproject under Part A.2 of the Project for said eligible Representative Organization, amount that shall not exceed in a given fiscal year the amount of actual income received from the Representative Organization's members dues during the previous fiscal year, as verified through audited accounts by the Association;

- (B) the eligible Representative Organization's obligation to:
 - (1) provide or cause to be provided, in a timely manner as needed, its share of the funds required for implementing the relevant Representative Organization Subproject;
 - (2) carry out the relevant Representative Organization Subproject;
 - (3) assist the Recipient to allow full compliance with the obligations set forth in paragraphs 1 and 2 of Section II of Schedule 2 to this Agreement;
 - (4) maintain records and accounts, in a manner acceptable to the Association, (including any other information and/or documentation as the Association may request from time to time) regarding the relevant Representative Organization Subproject to enable the Recipient to comply with its obligations under paragraph B of Section III of Schedule 2 to this Agreement;
 - (5) abide by the applicable Project provisions laid out in this Agreement; and
 - (6) procure the services for the Project in accordance with the requirements of this Agreement;
- (C) the requirements for auditing the expenditures of the relevant Representative Organization Subproject;
- (D) the Recipient's right to suspend disbursements of proceeds of the Financing allocated to the relevant Representative Organization Subproject in the event of non-compliance by the eligible Representative Organization with the obligations set forth in the corresponding Representative Organization Grant Agreement, this Agreement and/or those of the Operational Manual; and
- (E) the schedule of disbursements of the Financing by the Recipient to the eligible Representative Organization for the implementation of the relevant Representative Organization Subproject;

- (b) (i) The Recipient shall exercise its rights and carry out its obligations under each SME Grant Agreement, and each Representative Organization Grant Agreement, in such a manner as to protect the interests of the Recipient and the Association and to accomplish the purposes of the Financing; and
- (ii) except as the Association shall otherwise agree, the Recipient shall not assign, amend, abrogate, terminate, waive or fail to enforce any SME Grant Agreement, and/or any Representative Organization Grant Agreement or any provision thereof.
- (c) In case of any conflict between: (i) the terms of any SME Grant Agreement, and/or any Representative Organization Grant Agreement; and (ii) the terms of this Agreement, the terms of this Agreement shall prevail.

4. Environmental and Social Safeguards

The Recipient shall:

- (a) prior to initiating the implementation of Parts A.4 (b), A.5, A.6, A.7, and B.2 of the Project, provide evidence to the Association, in form and substance satisfactory to the Association, demonstrating that the Recipient has: (i) complied with the provisions of the RPF; and (ii) complied with the environmental mitigation, pest management, monitoring, institutional strengthening and other environmental protection measures set forth in the ESMF;
- (b) without limitation upon the provisions of paragraph 4 (a) of this Section, when applicable, the Recipient shall prepare and implement Resettlement Action Plans in accordance with the RPF, in form and substance acceptable to the Association, defining a program of actions, measures and policies for compensation and resettlement of Affected Persons, as a result of the carrying out of the Project, including the magnitude of displacement, proposed compensation and resettlement arrangements, budget and cost estimates, and sources of funding, together with adequate institutional, monitoring and reporting arrangements capable of ensuring proper implementation of, and regular feedback on compliance with said Resettlement Action Plans;
- (c) without limitation upon the provisions of paragraph 4 (a) of this Section, when applicable, the Recipient shall prepare and implement Environmental Management Plans in accordance with the ESMF, in form

and substance acceptable to the Association, defining a program of actions, measures and policies to avoid, minimize, mitigate, and offset potential adverse environmental and social impacts, as a result of the carrying out of the Project, together with adequate institutional, monitoring and reporting arrangements capable of ensuring proper implementation of, and regular feedback on compliance with said Environmental Management Plans;

- (d) furnish to the Association any revisions proposed to be introduced into the RPF and/or ESMF in order to achieve their objectives and, thereafter, introduce such revisions into such frameworks as shall have been agreed with the Association;
- (e) 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 provisions of the ESMF, and the RPF; and
- (f) In case of any conflict between the terms of the ESMF, the RPF and those of this Agreement, the terms of this Agreement shall prevail.

5. Anti-Corruption

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

6. Mid-Term Review

- (a) No later than June 30, 2011, or such later date as may be agreed upon by the Recipient and the Association, the Recipient shall carry out, in conjunction with the Association, a mid-term review of the Project, covering the progress achieved in the implementation of the Project.
- (b) The Recipient shall prepare, under terms of reference satisfactory to the Association, and shall furnish to the Association approximately three months prior to the beginning of such mid-term review of the Project, a report integrating the results of the monitoring and evaluation activities performed pursuant to this Agreement, on the progress achieved in the carrying out of the Project during the period preceding the date of such report, and setting out the measures recommended to ensure the efficient carrying out of the Project and the achievement of the objective of the Project during the period following such date.

- (c) The Recipient shall, during the mid-term review, prepare an action program, acceptable to the Association for the further implementation of the Project having regard to the findings of the mid-term review, and thereafter implement such a program.

7. Other Undertakings

- (a) The Recipient shall, not later than three (3) months following the Effective Date, hire external auditors for the Project, with qualifications and experience, and pursuant to terms of reference, satisfactory to the Association, in accordance with the provisions of paragraph C of Section IV of Schedule 2 to this Agreement.
- (b) The Recipient shall, not later than six (6) months following the Effective Date, hire a monitoring and evaluation officer, a part-time environmental specialist, a legal consultant, and essential administrative staff, to work in the PIU at MIC, all with qualifications and experience, and pursuant to terms of reference, satisfactory to the Association, in accordance with the provisions of paragraph C of Section IV of Schedule 2 to this Agreement.

Section III. Project Monitoring, Reporting and Evaluation

A. Project Reports

- 1. The Recipient shall 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 the indicators set forth below in sub-paragraph (b) of this paragraph agreed with the Association. Each Project Report shall cover the period of January 1 to December 31 of each year, and shall be furnished to the Association not later than sixty (60) days after the end of the period covered by such report.
- 2. The performance indicators referred to above in sub-paragraph (a) consist of the following:

Outcome Indicators	End of Project Targets
The average number of days to issue the industrial and commercial licenses	50% reduction in the number of days
Rate of annual sales growth for SMEs	20% for

benefiting from the grant program compared to that in control group	SMEs supported in Years One to Five
Value of incremental exports generated in businesses benefits from Nampula Training centre over the life of the project	\$4 million
Intermediate Outcome Indicators	
In SME representative organizations supported under the project, increase in revenue from members after project support	10% for organizations supported in Years One to Five
Number of linkage contracts between SMEs and tourism establishments	50
Number of project supported trainees using the acquired skills in tourism related businesses (cumulative)	800
Number of trainees using the acquired techniques and quality standards to improve horticultural products (cumulative)	800
Number of days required to clear exports	13
Number of days required to clear imports	16
Number of standards introduced for products for which standard-setting has been initiated by the private sector	9
Number of quality financial statements prepared by a randomly selected sample of corporate entities and SMEs.	200

B. Financial Management, Financial Reports and Audits

1. The Recipient shall maintain or cause to be maintained a financial management system in accordance with the provisions of Section 4.09 of the General Conditions.
2. Without limitation on the provisions of Part A of this Section, the Recipient shall prepare and furnish to the Association as part of the Project Reports, not later than forty-five (45) days after the end of each calendar quarter, interim unaudited

financial reports for the Project covering the current quarter and cumulative, in form and substance satisfactory to the Association.

3. The Recipient shall 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 (1) fiscal year of the Recipient, commencing with the fiscal year in which the first withdrawal was made under the Preparation Advance for the Project. The audited Financial Statements for each such period shall be furnished to the Association not later than six (6) months after the end of such period.

Section IV. Procurement

A. General

1. **Goods and Works.** All goods and works required for the Project and to be financed out of the proceeds of the Financing 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.
2. **Consultants' Services.** All consultants' services required for the Project and to be financed out of the proceeds of the Financing 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.
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 and Works

1. **International Competitive Bidding.** Except as otherwise provided in paragraph 2 below, goods and works shall be procured under contracts awarded on the basis of International Competitive Bidding.
2. **Other Methods of Procurement of Goods and Works.** The following table specifies the methods of procurement, other than International Competitive Bidding, which may be used for goods and works. The Procurement Plan shall specify the circumstances under which such methods may be used:

<u>Procurement Method</u>
(a) National Competitive Bidding, subject to the following additional provisions:

- (i) Eligibility. No bidder, foreign or domestic, shall be precluded from participating in the bidding process for reasons unrelated to their eligibility or capability to perform the contract. Examples of reasons that may not be used to preclude a bidder from so participating include the following: proof that the bidder is not under bankruptcy proceedings in the territory of the Recipient; appointment by the bidder of a local representative in the territory of the Recipient; prior registration by the bidder in the territory of the Recipient; or license or agreement allowing the bidder to operate in the territory of Recipient.
- (ii) Qualification. Bidders shall be post-qualified unless the Procurement Plan explicitly provides otherwise. Irrespective of whether post qualification or prequalification is used, both national and foreign bidders who meet the qualification requirements stated in the bidding documents shall be allowed to participate in the bidding process.
- (iii) Bidding Documents. Bidders shall use standard bidding documents for the procurement of goods, works and services, consistent with the provisions of the Procurement Guidelines.
- (iv) Preferences. No preference for domestically manufactured goods or for domestic contractors shall be allowed.
- (v) Bid evaluation. The qualification criteria shall be clearly specified in the bidding documents, and all criteria so specified, and only such criteria so specified shall be used to determine whether a bidder is qualified; the evaluation of the bidder's qualifications should be conducted separately from the technical and commercial evaluation of the bid. Evaluation of bids shall be made in strict adherence to the criteria set forth in the bidding documents; criteria other than price should be quantified in monetary terms. A contract shall be awarded to the qualified bidder offering the lowest technically responsive evaluated bid. Bidders shall not be eliminated from detailed evaluation on the basis of minor, non-substantial deviations.
- (vi) Rejection of All Bids and Re-bidding. In cases where the Recipient rejects all bids and solicits new bids for a contract, it shall, as soon as possible, notify the Association of such decision.
- (vii) Complaints by Bidders. Complaints by bidders shall be

<p>handled by the Recipient, who shall inform the Association of any such complaint.</p> <p>(viii) <u>Right to Inspect/Audit.</u> Each bidding document and contract financed out of the proceeds of the Financing shall provide that the bidder, supplier or contractor, and any subcontractor, shall permit the Association, at its request, to inspect their accounts and records relating to the bid submission and performance of the contract, and to have these accounts and records audited by auditors appointed by the Association. An act by the bidder, supplier, contractor or subcontractor intended to materially impede the Association’s exercise of its inspection and audit right constitutes an Obstructive Practice.</p>
<p>(b) Shopping</p> <p>(c) Direct Contracting</p>

C. Particular Methods of Procurement of Consultants’ Services

1. **Quality- and Cost-Based Selection.** Except as otherwise provided in paragraph 2 below, consultants’ services shall be procured under contracts awarded on the basis of Quality and Cost-Based Selection.
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. The Procurement Plan shall specify the circumstances under which such methods may be used.

Procurement Method
(a) Least Cost Selection
(b) Selection Based on Consultants’ Qualifications
(c) Single Source Selection
(d) Quality-Based Selection
(e) Selection Under a Fixed-Budget
(f) Individual Consultants

D. Review by the Association of Procurement Decisions

1. Except as the Association shall otherwise determine by notice to the Recipient, the following contracts shall be subject to Prior Review by the Association:
 - (a) each contract for works estimated to cost the equivalent of US\$2,000,000 or more, procured on the basis of International Competitive Bidding;

- (b) the first two (2) contracts for works procured on the basis of National Competitive Bidding, regardless of the cost thereof;
- (c) each contract for works estimated to cost the equivalent of US\$500,000 or more, procured on the basis of National Competitive Bidding;
- (d) each contract for goods estimated to cost the equivalent of US\$300,000 or more, procured on the basis of International Competitive Bidding;
- (e) the first two (2) contracts for goods procured on the basis of National Competitive Bidding, regardless of the cost thereof;
- (f) each contract for goods estimated to cost the equivalent of US\$200,000 or more, procured on the basis of National Competitive Bidding;
- (g) each contract for goods procured on the basis of Direct Contracting, regardless of the cost thereof;
- (h) each contract for consultants' services estimated to cost the equivalent of US\$200,000 or more, procured on the basis of Quality and Cost-Based Selection;
- (i) the first two (2) contracts for consultants' services procured on the basis of Quality-Based Selection, regardless of the cost thereof;
- (j) each contract for consultants' services estimated to cost the equivalent of US\$100,000 or more, procured on the basis of Quality-Based Selection;
- (k) the first two (2) contracts for consultants' services procured on the basis of Least Cost Selection, regardless of the cost thereof;
- (l) each contract for consultants' services estimated to cost the equivalent of US\$100,000 or more, procured on the basis of Least Cost Selection;
- (m) the first two (2) contracts for consultants' services procured on the basis of Selection Based on the Consultants' Qualifications, regardless of the cost thereof;
- (n) each contract for consultants' services estimated to cost the equivalent of US\$100,000 or more, procured on the basis of Selection Based on the Consultants' Qualifications;
- (o) each contract for consultants' services provided by a firm or an individual, procured on the basis of Single Source Selection, regardless of the cost thereof;

- (p) each contract for consultants' services procured on the basis of Selection Under a Fixed-Budget, regardless of the cost thereof;
 - (q) the first two (2) contracts for individual consultants, regardless of the cost thereof;
 - (r) each contract for individual consultants estimated to cost the equivalent of US\$75,000 or more; and
 - (s) each contract for goods procured for the Preparation Advance, regardless of the cost thereof.
2. The following Prior Review procedures shall apply to each contract for the employment of individual consultants to be selected on a sole source basis: (a) the qualifications, experience, terms of reference and conditions of employment of the consultants shall be furnished to the Association for its prior review and approval; (b) the contract shall be awarded only after the Association's approval shall have been given; and (c) the provisions of paragraph 3 of Appendix 1 to the Consultant Guidelines shall apply to the contract.

Section V. 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), to: (a) repay the Preparation Advance in accordance with Section 2.07 of the General Conditions; and (b) finance Eligible Expenditures, as set forth in paragraph 2 below.
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 Financing Allocated (expressed in SDR)	Percentage of Expenditures to be Financed (Inclusive of Taxes)
(1) Consultant's Services, Goods, Operating Costs, Works, and Training under Parts A.3, A.6, B and C of the Project	8,600,000	100%
(2) Consultants' Services and Training for SME Subprojects under Part A.1 of the Project		
(a) for micro-enterprises	700,000	70%
(b) for small and medium enterprises	2,000,000	50%
(3) Consultants' Services and Training for Representative Organization Subprojects under Part A.2 of the Project	300,000	75%
(4) Consultants' Services, Goods, Operating Costs, Training, and Works under Parts A.4 and A.5 of the Project	3,400,000	100%
(5) Consultants' Services, Goods, Operating Costs, Training, and Works under Parts A.7 and A.8 of the Project	700,000	100%
(6) Refund of Preparation Advance	400,000	Amount payable pursuant to Section 2.07 of the General Conditions
(7) Unallocated	700,000	
TOTAL AMOUNT	16,800,000	

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, except that withdrawals, up to an aggregate amount not to exceed SDR300,000, equivalent may be made for payments prior to this date but on or after October 1, 2008, for Preparation Advance Eligible Expenditures, procured in strict compliance with the provisions of the Procurement Guidelines, and subject to Prior Review by the Association;
 - (b) under Categories 2 and 3 set forth in the table of disbursements in paragraph 2 of Part A of this Section unless and until the Recipient has: (i) established a grant accounting system, in form and substance acceptable to the Association; (ii) hired the Matching Grant Manager; and (iii) hired an accountant to assist in the administration of SME Grants and Representative Organization Grants, all hired with qualifications and experience, and pursuant to terms of reference, satisfactory to the Association, in accordance with the provisions of paragraph C of Section IV of Schedule 2 to this Agreement;
 - (c) under Category 4 set forth in the table of disbursements in paragraph 2 of Part A of this Section unless and until the Recipient has hired a Project coordinator and a financial management specialist for the *Inhambane* satellite PIU, with qualifications and experience, and pursuant to terms of reference, satisfactory to the Association, in accordance with the provisions of paragraph C of Section IV of Schedule 2 to this Agreement; and
 - (d) under Category 5 set forth in the table of disbursements in paragraph 2 of Part A of this Section unless and until the Recipient has: (i) hired a financial management specialist for the center referred to in Part A.6 of the Project, with qualifications and experience, and pursuant to terms of reference, satisfactory to the Association, in accordance with the provisions of paragraph C of Section IV of Schedule 2 to this Agreement; and (ii) established an accounting system for the operation of the center referred to in Part A.6 of the Project, in form and substance acceptable to the Association.
2. The Closing Date is November 30, 2014.

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 on April 15, 2019 to and including October 15, 2028	1%
commencing April 15, 2029 to and including October 15, 2048	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. “Affected Persons” means persons who, on account of an involuntary taking of land under the Project, had or would have their: (a) standard of living adversely affected; or (b) right, title or interest in any house, land (including premises, agricultural and grazing land) or any other fixed or movable asset acquired or possessed, temporarily or permanently; or (c) access to productive assets adversely affected, temporarily or permanently; or (d) business, occupation, work or place of residence or habitat adversely affected, temporarily or permanently; and “Affected Person” means any of the Affected Persons.
2. “Annual Action Plan” means any of the plans referred to in paragraphs 2 (a) and/or (c) of Section II of Schedule 2 to this Agreement.
3. “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.
4. “Category” means a category set forth in the table in paragraph A. 2 of Section V of Schedule 2 to this Agreement.
5. “Consultant Guidelines” means the “Guidelines: Selection and Employment of Consultants by World Bank Borrowers” published by the Bank in May 2004 and revised in October 2006.
6. “Environmental Management Plan” means each plan to be prepared and adopted by the Recipient pursuant to the ESMF (as hereinafter defined), as may be required, setting out the measures to be taken for the avoidance, minimization, mitigation and offsetting of potential adverse environmental and social impacts of the activities to be implemented under the Project, as each said plan may be amended and/or supplemented from time to time with the prior written concurrence of the Association.
7. “Environmental and Social Management Framework” and the acronym “ESMF” mean the plans of action, satisfactory to the Association, prepared by MIC (as hereinafter defined), dated October 27, 2008 and published on that same date, which set out the objectives, policies, monitoring procedures, time schedules and other environmental protection provisions to: (a) prevent and mitigate potential environmental effects; (b) provide pest management procedures; and (c) prevent and mitigate potential adverse effects to forests; in the carrying out of Parts A.4 (b), A.5, A.6, A.7, and B.2 of the Project.
8. “General Conditions” means the “International Development Association

General Conditions for Credits and Grants”, dated July 1, 2005 (as amended through October 15, 2006), with the modifications set forth in Section II of this Appendix.

9. “INNOQ” means the Recipient’s national institute of standardization and quality.
10. “Matching Grant Manager” means the consultant that shall assist MIC (as hereinafter defined) and the PIU (as hereinafter defined), at all times during Project implementation, in the management, administration and provision of SME Grants (as hereinafter defined) and Representative Organization Grants (as hereinafter defined), that shall be hired with qualifications and experience, and pursuant to terms of reference, satisfactory to the Association, in accordance with the provisions of paragraph C of Section IV of Schedule 2 to this Agreement.
11. “MIC” means the Recipient’s Ministry of Industry and Commerce.
12. “Model Forms” means the set of model draft agreements satisfactory to the Association, including standard drafts of SME Grant Agreements (as hereinafter defined), Representative Organization Grant Agreements (as hereinafter defined), set forth in the Operational Manual (as hereinafter defined).
13. “NAC” means the Recipient’s national advisory committee referred to in paragraph 1 of Section I of Schedule 2 to this Agreement.
14. “OPAM” means the Recipient’s recently created order of professional accountants.
15. “Operating Costs” means reasonable recurrent Project expenditures, based on an annual budget previously approved by the Association, that would not have been incurred by the Recipient absent the Project, on the account of: (a) office utilities and reasonable communications expenses (including Project’s web-site hosting fees); (b) office rental expenses; (c) Project’s vehicles maintenance costs, fuel and spare parts; (d) travel expenses and per diems for official Project staff (excluding salaries of Recipient’s civil servants); (e) operation and maintenance of office equipment; (f) insurance costs; (g) bank charges pertaining to the Designated Account for the Project; (h) routine translation of Project related documentation; and (i) local advertising costs pertaining to Project related matters, financed with the proceeds of the Financing, all needed for the implementation and supervision of the Project.
16. “Operational Manual” means the manual referred to in paragraph 1 of Section II of Schedule 2 to this Agreement, as the same may be amended from time to time with the prior written agreement of the Association, and such term includes any annexes and schedules to the Operational Manual.

17. "PIU" means the Project Implementation Unit within MIC, referred to in paragraph 2 of Section I of Schedule 2 to this Agreement.
18. "Preparation Advance" means the advance referred to in Section 2.07 of the General Conditions, granted by the Association to the Recipient pursuant to the letter agreement signed on behalf of the Association on June 16, 2008 and on behalf of the Recipient on June 23, 2008.
19. "Procurement Guidelines" means the "Guidelines: Procurement under IBRD Loans and IDA Credits" published by the Bank in May 2004 and revised in October, 2006.
20. "Procurement Plan" means the Recipient's procurement plan for the Project, dated November 13, 2008, 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.
21. "Representative Organization" means Recipient's chambers of commerce, trade and industry associations, and business professional bodies, vested with legal personality in accordance with the Recipient's relevant legislation, and eligible to receive Representative Organization Grants (as hereinafter defined).
22. "Representative Organization Grant Agreement" means any of the agreements referred to in paragraph 3 (C) (a) (ii) of Section II of Schedule 2 to this Agreement.
23. "Representative Organization Grant" means any of the grants to be awarded to any eligible Representative Organization under the relevant Representative Organization Grant Agreement and included in Part A.2 of the Project.
24. "Representative Organization Subproject" means a set of investments to be carried out by an eligible Representative Organization under a Representative Organization Grant Agreement and included in Part A.2 of the Project.
25. "Resettlement Action Plan" means each plan to be prepared pursuant to the RPF (as hereinafter defined) as may be required, setting out the principles, procedures, the time schedule governing acquisition of rights to land, resettlement and compensation of Affected Persons, as well as reporting and monitoring arrangements to ensure compliance with said plan.
26. "Resettlement Policy Framework" and the acronym "RPF" mean the resettlement policy framework, prepared by MIC, dated October 27, 2008, and published on that same date, satisfactory to the Association setting forth the guidelines and procedures for preparation of Resettlement Action Plans, in the likely event of acquisition of rights of land, resettlement procedures and compensation of

Affected Persons, institutional arrangements, including valuation procedures, budget, public consultation and participation, monitoring and evaluation, and disclosure, as the same may be amended from time to time with the agreement of the Association.

27. “SME” means collectively Recipient’s micro, small and medium enterprises:
- (a) micro, enterprises that have at least two (2) of the following three (3) characteristics: (i) less than twenty-five (25) employees; (ii) less than twenty-five thousand United States Dollars (US\$25,000) of initial capital investment; and (iii) less than ten (10) kilowatts of installed electricity power for their operations, as defined in the Recipient’s decree number 39/2003, dated November 26, 2003, and eligible to receive SME Grants (as hereinafter defined); and
 - (b) small and medium, enterprises that have at least two (2) of the following three (3) characteristics: (i) between twenty-six (26) and two hundred fifty (250) employees; (ii) initial capital investment of twenty-five thousand United States Dollars (US\$25,000) to ten million United States Dollars (US\$10,000,000); and (iii) ten (10) to one thousand (1,000) kilowatts of installed electricity power for their operations, as defined in the Recipient’s decree number 39/2003, dated November 26, 2003, and eligible to receive SME Grants (as hereinafter defined).
28. “SME Grant Agreement” means any of the agreements referred to in paragraph 3 (C) (a) (i) of Section II of Schedule 2 to this Agreement.
29. “SME Grant” means any of the grants to be awarded to any eligible SME under the relevant SME Grant Agreement and included in Part A.1 of the Project.
30. “SME Subproject” means a set of investments to be carried out by an eligible SME under an SME Grant Agreement and included in part A.1 of the Project.
31. “Training” means reasonable expenditures, based on an annual budget previously approved by the Association, (other than those for consultants’ services) incurred by the Recipient, to finance transportation costs and per diem of trainers and trainees, workshops, rental of training facilities, study tours, and acquisition of training material needed for the implementation of the Project.

Section II. Modifications to the General Conditions

The modifications to the General Conditions for Credits and Grants of the Association, dated July 1, 2005 (as amended through October 15, 2006) are as follows:

1. Section 2.07 is modified to read as follows:

“Section 2.07. *Refinancing Preparation Advance*

If the Financing Agreement provides for the repayment out of the proceeds of the Financing of an advance made by the Association or the Bank (“Preparation Advance”), the Association shall, on behalf of the Recipient, withdraw from the Financing Account on or after the Effective Date the amount required to repay the withdrawn and outstanding balance of the advance as at the date of such withdrawal from the Financing Account and to pay all accrued and unpaid charges, if any, on the advance as at such date. The Association shall pay the amount so withdrawn to itself or the Bank, as the case may be, and shall cancel the remaining unwithdrawn amount of the advance.”

2. The following terms and definitions set forth in the Appendix are modified or deleted as follows, and the following new terms and definitions are added in alphabetical order to the Appendix as follows, with the terms being renumbered accordingly:

- (a) The term “Project Preparation Advance” is modified to read “Preparation Advance” and its definition is modified to read as follows:

“‘Preparation Advance’ means the advance referred to in the Financing Agreement and repayable in accordance with Section 2.07.”