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**CREDIT NUMBER 4660 - MOZ**

# **Financing Agreement**

**(Sixth Poverty Reduction Support Credit)**

**between**

**REPUBLIC OF MOZAMBIQUE**

**and**

**INTERNATIONAL DEVELOPMENT ASSOCIATION**

**Dated November 20, 2009**

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**CREDIT NUMBER 4660 - MOZ**

**FINANCING AGREEMENT**

AGREEMENT dated November 20, 2009, entered into between the REPUBLIC OF MOZAMBIQUE (“Recipient”) and INTERNATIONAL DEVELOPMENT ASSOCIATION (“Association”) for the purpose of providing financing in support of the Program (as defined in the Appendix to this Agreement). The Association has decided to provide this financing on the basis, *inter alia*, of: (a) the actions which the Recipient has already taken under the Program and which are described in Section I of Schedule 1 to this Agreement; and (b) the Recipient’s maintenance of an appropriate macro-economic policy framework. The Recipient and the Association therefore 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-nine million five hundred thousand Special Drawing Rights (SDR 69 500 000) (variously, “Credit” and “Financing”).
- 2.02. The Recipient may withdraw the proceeds of the Financing in support of the Program in accordance with Section II of Schedule 1 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 The Service Charge payable by the Recipient on the Withdrawn Credit Balance shall be equal to three-fourths of one percent (3/4 of 1%) per annum.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 May 15 and November 15 in each year.
- 2.06. The principal amount of the Credit shall be repaid in accordance with repayment schedule set forth in Schedule 2 to this Agreement.
- 2.07. The Payment Currency is Dollars.

**ARTICLE III — PROGRAM**

- 3.01 The Recipient declares its commitment to the Program and its implementation. To this end:
- (a) the Recipient and the Association shall from time to time, at the request of either party, exchange views on the progress achieved in carrying out the Program;
  - (b) prior to each such exchange of views, the Recipient shall furnish to the Association for its review and comment a report on the progress achieved in carrying out the Program, in such detail as the Association shall reasonably request; and
  - (c) without limitation upon the provisions of paragraphs (a) and (b) of this Section, the Recipient shall promptly inform the Association of any situation that would have the effect of materially reversing the objectives of the Program or any action taken under the Program including any action specified in Section I of Schedule 1 to this Agreement.

**ARTICLE IV — REMEDIES OF THE ASSOCIATION**

- 4.01. The Additional Event of Suspension consists of the following, namely that a situation has arisen which shall make it improbable that the Program, or a significant part of it, will be carried out.
- 4.02. The Additional Event of Acceleration consists of the following, namely that the event specified in Section 4.01 of this Agreement occurs.

**ARTICLE V — EFFECTIVENESS**

- 5.01. The Effectiveness Deadline is the date ninety (90) days 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:

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

Facsimile:

+258-21497663

6.03. The Association's Address is:

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

Cable address:

Telex:

Facsimile:

INDEVAS  
Washington, D.C.

248423(MCI)

1-202-477-6391

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

**REPUBLIC OF MOZAMBIQUE**

**By /s/ Aiuba Cuerencia**

**Authorized Representative**

**INTERNATIONAL DEVELOPMENT ASSOCIATION**

**By /s/ Luiz Claudio Martins Tavares**

**Authorized Representative**

## SCHEDULE 1

### Program Actions; Availability of Financing Proceeds

#### Section I. Actions under the Program

The actions taken by the Recipient under the Program include the following:

1. The Recipient's overall budgetary envelope and the amounts allocated to priority sectors, both as reflected in the Recipient's State Budget of 2009 are in line with the first year of the MTEF 2009-2011.
2. At least 90 percent of the total value of budgetary purchases of goods, services and investments for the Recipient's Budget Execution Units during Fiscal Year 2008 has been effected through e-SISTAFE by means of Direct Budget Execution.
3. The operation of the Recipient's procurement has been strengthened as indicated by information available to UFSA demonstrating that: (i) at least 88 percent of public sector contracts (in terms of number) let in Fiscal Year 2008 were subject to public tender in accordance with the Current Mozambican Procurement Legislation; (ii) at least 90 percent of public sector contracts (in terms of number) procured on the basis of direct contracting and single source selection during Fiscal Year 2008 were duly justified; (iii) the process for handling complaints by bidders as defined in the Current Mozambican Procurement Legislation, is operational.
4. The Recipient's Court of Accounts has concluded its audit of at least 30 percent of the Recipient's State Budget of Fiscal Year 2008 according to INTOSAI technical standards and according to Mozambican legislation.
5. The Recipient's Council of Ministers has approved a new Medium Term Pay Policy for State officials and civil servants designed to be consistent with fiscal sustainability.
6. The Recipient's MOF has elaborated the Recipient's transition plan for the adoption of mandatory IFRS.

#### Section II. Availability of Financing Proceeds

- A. **General.** The Recipient may withdraw the proceeds of the Financing in accordance with the provisions of this Section and such additional instructions as the Association may specify by notice to the Recipient.
- B. **Allocation of Financing Amounts.** The Financing shall be withdrawn in a single tranche. The allocation of the amounts of the Financing to this end is set out in the table below:

<b>Allocations</b>	<b>Amount of the Financing Allocated (expressed in SDR)</b>
Single Tranche	69 500 000
<b>TOTAL AMOUNT</b>	<b>69 500 000</b>

- C. Deposits of Financing Amounts.** Except as the Association may otherwise agree:
1. all withdrawals from the Financing Account shall be deposited by the Association into an account designated by the Recipient and acceptable to the Association; and
  2. the Recipient shall ensure that upon each deposit of an amount of the Financing into this account, an equivalent amount is accounted for in the Recipient's budget management system, in a manner acceptable to the Association.
- D. Audit.** The Recipient shall:
1. have the account and the recording of amounts of the Financing into the Recipient's budget management system referred to in Part C of this Section audited by independent auditors acceptable to the Association, in accordance with consistently applied auditing standards acceptable to the Association;
  2. furnish to the Association as soon as available, but in any case not later than three months after the end of the Recipient's Fiscal Year, a certified copy of the report of such audit, of such scope and in such detail as the Association shall reasonably request; and
  3. furnish to the Association such other information concerning the said account and recording of Credit amounts into the budget management system, and their audit, as the Association shall reasonably request.
- E. Excluded Expenditures.** The Recipient undertakes that the proceeds of the Financing shall not be used to finance Excluded Expenditures. If the Association determines at any time that an amount of the Financing was used to make a payment for an Excluded Expenditure, the Recipient shall, promptly upon notice from the Association, refund an amount equal to the amount of such payment to the Association. Amounts refunded to the Association upon such request shall be cancelled.
- F. Closing Date.** The Closing Date is October 31, 2010.

**SCHEDULE 2****Repayment Schedule**

<b>Date Payment Due</b>	<b>Principal Amount of the Credit repayable (expressed as a percentage)*</b>
On each May 15 and November 15: commencing November 15, 2019 to and including May 15, 2029	<b>1%</b>
commencing November 15, 2029 to and including May 15, 2049	<b>2%</b>

\* 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. “Budget Execution Units” means the Recipient’s *Unidades Gestoras Executoras* as defined by Chapter III of the Recipient’s *Regulamento do Sistema de Administração Financeira do Estado* and approved by the Recipient’s Decree 23/2004 of August 20, 2004 and published in the Recipient’s *Boletim da República* on August 20, 2004.
2. “Council of Ministers” means the Recipient’s *Conselho de Ministros* as defined by Title VIII, Chapter I of the Recipient’s *Constitution of the Republic Mozambique* (1990, as amended 2004).
3. “Court of Accounts” means the *Tribunal Administrativo* of Mozambique, the creation and powers of which are provided for in Title IX, Chapter III, Section III of the Recipient’s *Constitution of the Republic Mozambique* (1990, as amended 2004).
4. “Current Mozambican Procurement Legislation” means the Recipient’s Decree 54/2005 of December 13, 2005 and published in the Recipient’s *Boletim da República* on December 13, 2005.
5. “Direct Budget Execution” means a modality for authorizing expenditures consisting of three phases: the commitment of the expenditures, the liquidation when resources are assigned for payment and the actual payment to the supplier of goods or services.
6. “e-SISTAFE” means the Recipient’s electronic integrated financial management system, as created and mandated by the Recipient’s law *Lei no. 09/2002* of February 12, 2002.
7. “Excluded Expenditure” means any expenditure:
  - (a) for goods or services supplied under a contract which any national or international financing institution or agency other than the Association or the Bank has financed or agreed to finance, or which the Association or the Bank has financed or agreed to finance under another credit, grant or loan;
  - (b) for goods included in the following groups or sub-groups of the Standard International Trade Classification, Revision 3 (SITC, Rev.3), published by the United Nations in Statistical Papers, Series M, No. 34/Rev.3 (1986) (the SITC), or any successor groups or subgroups under future revisions to the SITC, as designated by the Association by notice to the Recipient:

Group	Sub-group	Description of Item
112		Alcoholic beverages
121		Tobacco, un-manufactured, tobacco refuse
122		Tobacco, manufactured (whether or not containing tobacco substitutes)



525		Radioactive and associated materials
667		Pearls, precious and semiprecious stones, unworked or worked
718	718.7	Nuclear reactors, and parts thereof; fuel elements (cartridges), non-irradiated, for nuclear reactors
728	728.43	Tobacco processing machinery
897	897.3	Jewelry of gold, silver or platinum group metals (except watches and watch cases) and goldsmiths' or silversmiths' wares (including set gems)
971		Gold, non-monetary (excluding gold ores and concentrates)

- (c) for goods intended for a military or paramilitary purpose or for luxury consumption;
- (d) for environmentally hazardous goods, the manufacture, use or import of which is prohibited under the laws of the Recipient or international agreements to which the Recipient is a party;
- (e) on account of any payment prohibited by a decision of the United Nations Security Council taken under Chapter VII of the Charter of the United Nations; and
- (f) with respect to which the Association determines that corrupt, fraudulent, collusive or coercive practices were engaged in by representatives of the Recipient or other recipient of the Financing proceeds, without the Recipient (or other such recipient) having taken timely and appropriate action satisfactory to the Association to address such practices when they occur.
8. "Fiscal Year" means January 1 to December 31.
9. "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.
10. "IFRS" means International Financial Reporting Standards, a set of international financial reporting standards for general purpose financial statements set by the International Accounting Standards Board, the independent standard-setting body of the International Accounting Standards Committee Foundation.

11. “INTOSAI” means the International Organization of Supreme Audit Institutions, an autonomous and independent, non-government organization, with headquarters in Vienna Austria.
12. “Medium Term Pay Policy for State” means the Recipient’s *Política Salarial de Médio Prazo*, the Recipient’s *Medium Term Pay Policy for State* as approved by the Recipient’s Council of Ministers on September 9, 2008.
13. “Ministry of Finance” or “MOF” means the Recipient’s Ministry of Finance or any successor thereto.
14. “MTEF 2009-11” means the Recipient’s *Cenário Fiscal de Médio Prazo 2009-2011*, the Recipient’s *Medium-Term Expenditure Framework* as approved by the Recipient’s Council of Ministers on September 2, 2008.
15. “Program” means the program of actions, objectives and policies designed to promote growth and achieve sustainable reductions in poverty and set forth or referred to in the letter dated September 24, 2009 from the Recipient to the Association declaring the Recipient’s commitment to the execution of the Program, and requesting assistance from the Association in support of the Program during its execution.
16. “Single Tranche” means the amount of the Financing allocated to the category entitled “Single Tranche” in the table set forth in Part B of Section II of Schedule 1 to this Agreement.
17. “State Budget” means the Recipient’s *Orçamento do Estado*, the Recipient’s State Budget as defined by Article 130 of the Recipient’s *Constitution of the Republic Mozambique* (1990, as amended 2004).
18. “State Budget of 2009” means the Recipient’s *Orçamento do Estado de 2009*, the Recipient’s State Budget of 2009 as approved by the Recipient’s law *Lei n.º 1/2009* of January 8, 2009 and published in the Recipient’s *Boletim da República* on January 8, 2009.
19. “UFSA” means *Unidade Funcional de Supervisão das Aquisições*, the Recipient’s Procurement Supervision Unit in the MOF created by the Recipient’s Decree 54/2005 of December 13, 2005 and published in the Recipient’s *Boletim da República* on December 13, 2005.

## **Section II. Modifications to the General Conditions**

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

1. The last sentence of paragraph (a) of Section 2.03 (relating to Applications for Withdrawal) is deleted in its entirety.

2. Sections 2.04 (*Designated Accounts*) and 2.05 (*Eligible Expenditures*) are deleted in their entirety, and the remaining Sections in Article II are renumbered accordingly.
3. Sections 4.01 (*Project Execution Generally*), and 4.09 (*Financial Management; Financial Statements; Audits*) are deleted in their entirety, and the remaining Sections in Article IV are renumbered accordingly.
4. Paragraph (a) of Section 4.05 (renumbered as such pursuant to paragraph 3 above and relating to *Use of Goods, Works and Services*) is deleted in its entirety.
5. Paragraph (c) of Section 4.06 (renumbered as such pursuant to paragraph 3 above) is modified to read as follows:

“Section 4.06. *Plans; Documents; Records*

... (c) The Recipient shall retain all records (contracts, orders, invoices, bills, receipts and other documents) evidencing expenditures under the Financing until two years after the Closing Date. The Recipient shall enable the Association’s representatives to examine such records.”

6. Section 4.07 (renumbered as such pursuant to paragraph 3 above) is modified to read as follows:

“Section 4.07. *Program Monitoring and Evaluation*

... (c) The Recipient shall prepare, or cause to be prepared, and furnish to the Association not later than six months after the Closing Date, a report of such scope and in such detail as the Association shall reasonably request, on the execution of the Program, the performance by the Recipient and the Association of their respective obligations under the Legal Agreements and the accomplishment of the purposes of the Financing.”

7. 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 definition of the term “Eligible Expenditure” is modified to read as follows:

“‘Eligible Expenditure’ means any use to which the Financing is put in support of the Program, other than to finance expenditures excluded pursuant to the Financing Agreement.”

- (b) The term “Financial Statements” and its definition as set forth in the Appendix are deleted in their entirety.

- (c) The term “Project” is modified to read “Program” and its definition is modified to read as follows:

“‘Program’ means the program referred to in the Financing Agreement in support of which the Financing is made.” All references to “Project” throughout these General Conditions are deemed to be references to “Program”.