

OFFICIAL
DOCUMENTS

CREDIT NUMBER 5757-MZ
GRANT NUMBER D099-MZ

Financing Agreement

(Eleventh Poverty Reduction Support Development Policy Financing)

between

REPUBLIC OF MOZAMBIQUE

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated DECEMBER 23, 2015

**CREDIT NUMBER 5757-MZ
GRANT NUMBER D099-MZ**

FINANCING AGREEMENT

AGREEMENT dated DECEMBER 23, 2015, entered into between 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 adequate macroeconomic 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 grant and a credit (collectively "Financing") in the following amounts:
 - (a) an amount equivalent to twenty five million one hundred thousand Special Drawing Rights (SDR 25,100,000) ("Grant"); and
 - (b) an amount equivalent to twenty five million one hundred thousand Special Drawing Rights (SDR 25,100,000) ("Credit").
 - 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 The Service Charge payable by the Recipient on the Withdrawn Credit Balance shall be equal to three-fourths of one percent (3/4 of 1%).
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- 2.05. The Payment Dates are February 15 and August 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 2 to this Agreement.
- 2.07. The Payment Currency is Dollar.
- 2.08. Without limitation upon the provisions of Section 4.08 of the General Conditions (renumbered as such pursuant to paragraph 3 of Section II of the Appendix to this Agreement and relating to *Cooperation and Consultation*), the Recipient shall promptly furnish to the Association such information relating to the provisions of this Article II as the Association may, from time to time, reasonably request

ARTICLE III — PROGRAM

- 3.01. The Recipient declares its commitment to the Program and its implementation. To this end and further to Section 4.08 of the General Conditions:
 - (a) the Recipient and the Association shall from time to time, at the request of either party, exchange views on the Recipient's macroeconomic policy framework and 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.
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ARTICLE V—EFFECTIVENESS; TERMINATION

- 5.01. The Additional Condition of Effectiveness consists of the following, namely that the Association is satisfied with the progress achieved by the Recipient in carrying out the Program and with the adequacy of the Recipient's macroeconomic policy framework.
- 5.02. The Effectiveness Deadline is the date ninety (90) days after the date of this Agreement.
- 5.03. 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 (20) years after the date of this Agreement.

ARTICLE VI — REPRESENTATIVE; ADDRESSES

- 6.01. The Recipient's Representative is its minister responsible for economy and finance.
- 6.02. The Recipient's Address is:

Ministry of Economy and Finance
Praça da Marinha, 929
Maputo, Mozambique

Facsimile: +258-21-306261, 420137
- 6.03. The Association's Address is:

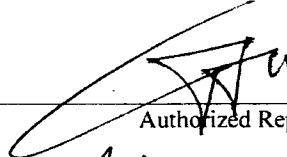
International Development Association
1818 H Street, N.W.
Washington, D.C. 20433
United States of America

Telex:	Facsimile:
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


Authorized Representative
Name: Adriano Malelane
Title: Minister

INTERNATIONAL DEVELOPMENT ASSOCIATION

By


Authorized Representative
Name: Mark R. Lundell
Title: Country Director for
Mozambique, Comoros, Madagascar,
Mauritius and Seychelles

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:

- (i) The Ministry of Trade and Industry has introduced the e-BAU to further streamline business start-up procedures as evidenced by the letter No. 0204/DASP/MIC/592/2015 from the Ministry of Trade and Industry dated October 29, 2015.
 - (ii) The Recipient has achieved compliance with the new and revised standards of the Extractive Industries Transparency Initiative as evidenced by the fifth report of the Extractive Industry Transparency Initiative in Mozambique dated December 2014, published in www.eiti.org.
 - (iii) The Council of Ministers has approved the implementing regulations for Law No. 20/2014 dated August 18, 2014, published in the *Boletim da República* No. 66 Serie I on August 18, 2014, (the Mining Law) as evidenced by the communication of the Secretariat of the Council of Ministers dated October 13, 2015.
 - (iv) The Council of Ministers has approved the implementing regulations for Law No. 21/2014 dated August 18, 2014, published in the *Boletim da República* No. 66 Serie I on August 18, 2014, (the Hydrocarbon Law) as evidenced by the communication of the Secretariat of the Council of Ministers dated November 12, 2015.
 - (v) The Ministry of Economy and Finance (MEF) has revised the system by which it transfers a share of the production taxes generated by mining and petroleum projects to communities in affected areas by budgeting a share of the royalties collected during calendar year 2014 as evidenced by letter No. 106/DNAPO/GAB/15.
 - (vi) INAS has registered 50% of PASP beneficiaries in the single registry of beneficiaries, as evidenced by letter No. 1002/200/DINAS/2015.
 - (vii) MEF has mandated that all projects above fifty million United States Dollars (50,000,000) be submitted to MEF including a viability study as evidenced by Circular No. 1/DNO-MEF/2015 dated May 20, 2015.
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- (viii) MEF has prepared the Recipient's medium term debt management strategy for 2015-2018 as evidenced by the Medium Term Debt Management Strategy dated September 2015.
- (ix) MEF has created a fiscal risks' department within its Directorate for Financial and Economic Studies to better manage fiscal risks as evidenced by the Ministerial Diploma No. 01/2015 from the Ministry of Economy and Finance dated September 23, 2015.

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 is allocated in a single withdrawal tranche, from which the Recipient may make withdrawals of the Financing. The allocation of the amounts of the Financing to this end is set out in the table below:

Allocations	Amount of the Financing Allocated (expressed in SDR)
Single Withdrawal Tranche	50,200,000
TOTAL AMOUNT	50,200,000

- C. Withdrawal Tranche Release Conditions**
No withdrawal shall be made of the Single Withdrawal Tranche unless the Association is satisfied: (a) with the Program being carried out by the Recipient; and (b) with the adequacy of the Recipient's macroeconomic policy framework.
 - D. 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;
 - 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; and
 - 3. within thirty (30) days of such deposit, the Recipient shall provide a written report to the Association of the amounts deposited in the dedicated account and credited
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to the Recipient's budget management system, in a manner satisfactory to the Association.

- E. Audit.** Upon request from the Association, the Recipient shall:
1. have the account and the recording of the amounts of the Financing into the Recipient's budget management system referred to in Part D 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 four (4) months after the date of the Association's request for such audit, 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 the amounts of the Financing into the budget management system, and their audit, as the Association shall reasonably request.
- F. 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.
- G. Closing Date.** The Closing Date is December 31, 2016.
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SCHEDULE 2

Repayment Schedule

Date Payment Due	Principal Amount of the Credit repayable (expressed as a percentage)*
On each February 15 and August 15 commencing February 15, 2022, to and including August 15, 2053	1.5625%

* 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. "Boletim da Republica" means the Recipient's Official Gazette.
2. "Council of Ministers" means the Recipient's council of ministers.
3. "e-BAU" means *Balcão de Atendimento Único Eletrônico*, the Recipient's integrated IT platform automating business startup procedures.
4. "Extractive Industries Transparency Initiative" and "EITI" means the global standard to promote open and accountable management of natural resources (www.eiti.org).
5. "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)
97		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.
6. "General Conditions" means the "International Development Association General Conditions for Credits and Grants", dated July 31, 2010, with the modifications set forth in Section II of this Appendix.
 7. "INAS" means *Instituto Nacional de Acção Social*, the Recipient's national institute for social action established further to Decree-Law 28/97 and published in the *Boletim da Republica* Nr. 37-Serie I, or any successor thereto.
 8. "Ministry of Economy and Finance" and "MEF" means the Recipient's ministry responsible for economy and finance or any successor thereto.
 9. "Ministry of Trade and Industry" means the Recipient's ministry responsible for trade and industry or any successor thereto.
 10. "PASP" means *Programa de Acção Social Produtiva*, the Recipient's program for productive social action.
 11. "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 November 4, 2015, 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.
 12. "Single Withdrawal Tranche" means the amount of the Financing allocated to the category entitled "Single Withdrawal Tranche" in the table set forth in Part B of Section II of Schedule I to this Agreement.
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Section II. Modifications to the General Conditions

The modifications to the General Conditions 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 subsequent 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. Paragraph (c) of 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".
