Financing Agreement

(Water Services and Institutional Support Project II)

between

REPUBLIC OF MOZAMBIQUE

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated October 21, 2016
FINANCING AGREEMENT

AGREEMENT dated October 24, 2016, 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 grant and a credit (collectively, "Financing") in the following amounts to assist in financing the project described in Schedule I to this Agreement ("Project"): 

(a) an amount equivalent to seventeen million one hundred thousand Special Drawing Rights (SDR 17,100,000) ("Grant"); and

(b) an amount equivalent to forty eight million two hundred thousand Special Drawing Rights (SDR 48,200,000) ("Credit").

2.02. The Recipient may withdraw the proceeds of the Financing in accordance with Section IV of Schedule 2 to this Agreement.

2.03. The Maximum Commitment Charge Rate payable by the Recipient on the Unwithdrawn Financing Balance shall be one-half of one percent (1/2 of 1%) per annum.

2.04. The Service Charge payable by the Recipient on the Withdrawn Credit Balance shall be equal to three-fourths of one percent (3/4 of 1%) per annum.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 June 15 and December 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 cause: (a) FIPAG to carry out Parts A, B, C and D as Project Implementing Entity of such parts of the Project; and (b) CRA to carry out Part E as Project Implementing Entity of such part of the Project, to be carried in accordance with the provisions of Article IV of the General Conditions and the respective Project Agreements.

3.02. Without limitation upon the provisions of Section 3.01 of this Agreement, and except as the Recipient and the Association shall otherwise agree, the Recipient shall ensure that the Project is carried out in accordance with the provisions of Schedule 2 to this Agreement.

ARTICLE IV — REMEDIES OF THE ASSOCIATION

4.01. The Additional Event of Suspension consists of the following, namely that any of the Project Implementing Entities’ Legislation has been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the ability of any of the Project Implementing Entities to perform any of their obligations under any of their respective Project Agreements.

4.02. The Additional Event of Acceleration consists of the following, namely that the event specified in Section 4.01 of this Agreement occurs in respect of any of the Project Implementing Entities’ Legislation.

ARTICLE V — EFFECTIVENESS; TERMINATION

5.01. The Additional Conditions of Effectiveness consist of the following:

(a) The Subsidiary Agreement between the Recipient and CRA has been executed on behalf of the Recipient and the Project Implementing Entity in a manner satisfactory to the Association.

(b) The Subsidiary Agreement between the Recipient and FIPAG has been executed on behalf of the Recipient and the Project Implementing Entity in a manner satisfactory to the Association.

(c) The Project Implementation Manual has been adopted in a manner satisfactory to the Association.
5.02. The Additional Legal Matters consist of the following:

(a) The Subsidiary Agreement has been duly authorized or ratified by the Recipient and FIPAG as Project Implementing Entity for Parts A, B, C and D of the Project and is legally binding upon the Recipient and the said Project Implementing Entity in accordance with its terms.

(b) The Subsidiary Agreement has been duly authorized or ratified by the Recipient and CRA as Project Implementing Entity for Part E of the Project and is legally binding upon the Recipient and the said Project Implementing Entity in accordance with its terms.

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

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

6.02. The Recipient’s Address is:

Ministry of Economy and Finance
Praça da Marinha Popular, 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

[Signature]

Authorized Representative

Name: *Adriano Malheiro*

Title: Minister of Economy and Finance

INTERNATIONAL DEVELOPMENT ASSOCIATION

By

[Signature]

Authorized Representative

Name: *Mark Lundell*

Title: Country Director
SCHEDULE 1

Project Description

The objectives of the Project are to: (i) increase water service coverage in key cities of the Recipient’s territory; and (ii) strengthen the institutional and regulatory capacity for water supply services in the northern, central and southern regions of the Recipient’s territory; and (iii) support the Recipient to respond promptly and effectively to an Eligible Crisis or Emergency.

The Project consists of the following parts:

Part A: Rehabilitation and Expansion of Water Supply Production and Distribution

1. Rehabilitation and Expansion of Water Supply Production

   Increase production capacity in the three systems serving the cities of Pemba, Beira and Dondo, and Tete and Moatize including through the expansion and refurbishment of wellfields, refurbishment of an existing intake, expansion and refurbishment of water treatment facilities, rehabilitation and expansion of transmission infrastructure, pump stations, and associated fittings.

2. Rehabilitation and Expansion of Water Distribution

   Increase service coverage in the three water distribution systems serving the cities of Pemba, Beira and Dondo, and Tete and Moatize, including through the: (i) construction of new distribution centers and rehabilitation of existing ones to increase storage with ground reservoirs and pressure through elevated water towers within the existing footprint; (ii) expansion and rehabilitation of water supply networks; (iii) provision of equipment comprising installation of district meters and pressure control valves within existing pipelines and telemetry systems; and (iv) provision of approximately 60,000 new household meters and associated materials for domestic connections.

Part B: Institutional Support

1. Support the decentralization of FIPAG operations by establishing and reinforcing three of the Regional Utilities, namely Águas do Sul, Águas do Centro and Águas do Norte including the purchase and installation of a commercial system with system components focusing on billing and commercial management, customer service policies and procedures (including citizen engagement, gender and disability considerations, and complaints handling/recourse mechanisms), establishment of corporate governance structures, policies and procedures, including human resource issues associated with skills/professional development.
and equal opportunity and gender policies, and asset management systems and indirect NRW-reduction programs.

2. Support project management, supervision for contracts under Part A, audits, training, and various technical studies as needed, as well as technical assistance to FIPAG for the implementation of environmental and social safeguards.

**Part C: Output-Based Payments for Low-Income-Household Connections**

1. Increase access to piped-water connections for low-income households in the cities of the central and northern regions of the Recipient and in the Maputo region by providing Output-Based Payments to the Regional Utilities to support the provision of water services to the poor households by facilitating the uptake of connections for low-income households through grant payments to reimburse the costs of Eligible Connections.

2. Support FIPAG to structure tariffs and establish other mechanisms to improve poverty targeting for low-income customers to ensure sustainability of the proposed interventions, including related studies and hiring of the Independent Verification Agent.

**Part D: Contingent Emergency Response**

Support potential disaster-recovery needs in FIPAG water systems by providing immediate response to an Eligible Crisis or Emergency, as needed.

**Part E: Capacity Building and Operational Support to CRA**

1. Expand quality-of-service and financial regulatory mechanisms for urban water supply in the Recipient’s territory, including through the: (i) carrying out of impact evaluation activities to measure the outcomes of the Project; (ii) scaling up of the information and communication technology (ICT)-based platform for customer complaints and support for recourse mechanisms (RECO) and roll-out thereof within the Recipient’s territory; (iii) creation of local regulatory mechanisms to monitor and enforce parameters of local regulation, including the establishment of CORALs and carrying out of training of community representatives and focal points; and (iv) review of subsidies for low-income customers.

2. Support the Regional Utilities, through CRA, to improve key performance indicators and data management systems by establishing procedures for the Regional Utilities to report information within a country system that is aligned with the IBNET database.
SCHEDULE 2

Project Execution

Section I. Implementation Arrangements

A. Institutional Arrangements

Project Implementing Entities

The Recipient shall ensure that FIPAG and CRA are maintained at all times during the implementation of the Project with functions, staffing, and resources satisfactory to the Association, for the purpose of ensuring the prompt and efficient implementation of the Project.

B. Subsidiary Agreements

1. To facilitate the carrying out of the Project, the Recipient shall make part of the proceeds of the Financing available to FIPAG and CRA under subsidiary agreements (“Subsidiary Agreements”) between the Recipient and each such Project Implementing Entity, under terms and conditions approved by the Association, which shall include the following:

(a) the Recipient’s obligation to provide: (i) to FIPAG: (A) on a reimbursable basis for the purpose of carrying out Part A of the Project the proceeds of the Financing allocated from time to time to Category (1); and (B) on a non-reimbursable basis for the purpose of carrying out Parts B, C and D of the Project the proceeds of the Financing allocated from time to time to Categories (2) and (4) respectively; (ii) to CRA on a non-reimbursable basis for the purpose of carrying out Part E of the Project the proceeds of the Financing allocated from time to time to Category (3); all such Categories of the table set forth in Section IV.A.2 of this Schedule; and (iii) the proceeds referred to under (i) and (ii) of this paragraph (a) in full without any deduction including in respect of Taxes;

(b) the Project Implementing Entities’ obligation to carry out their Respective Parts of the Project with due diligence and efficiency, in conformity with appropriate administrative, financial, technical, environmental and social practices, under the supervision of qualified and experienced management assisted by competent staff in adequate numbers, and in accordance with the provisions of this Agreement, their respective Project Agreements, and the Project Implementation Manual;

(c) the Project Implementing Entities’ obligation to procure goods, works and services required for carrying out their Respective Parts of the Project and to be financed out of the proceeds of the Financing, in accordance with the
provisions of Section III of this Schedule 2, as said provisions may be further elaborated in the Procurement Plan and the Project Implementation Manual;

(d) the Project Implementing Entities’ obligation to implement their Respective Parts of the Project in accordance with the provisions of the Safeguard Instruments;

(e) the Project Implementing Entities’ obligation to implement the terms of the Anti-Corruption Guidelines;

(f) the Project Implementing Entities’ obligation to: (i) maintain a separate financial management system for implementing their Respective Parts of the Project; (ii) prepare financial statements in accordance with consistently applied accounting standards acceptable to the Association, adequate to reflect their operations and financial condition; and (iii) register separately the operations, resources and expenditures related to their Respective Parts of the Project;

(g) the Project Implementing Entities’ obligation to promptly inform the Recipient and the Association of any condition which interferes or threatens to interfere with the progress of their Respective Parts of the Project and the performance of their obligations under the respective Subsidiary Agreements; and

(h) the Project Implementing Entities’ obligation to neither take nor concur in any action which would have the effect of amending, abrogating, assigning or waiving the respective Subsidiary Agreements.

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

C. **Project Implementation Manual**

1. The Recipient shall ensure that the Project is implemented in accordance with the provisions of a manual satisfactory to the Association ("Project Implementation Manual"), which shall include: (a) institutional coordination and day-to-day execution of the Project; (b) Project budgeting, disbursement and financial management; (c) procurement; (d) environmental and social safeguard guidelines; (e) monitoring, evaluation, reporting and communication; (f) criteria and operational procedures for the implementation of Part C of the Project, and (g)
such other administrative, financial, technical, and organizational arrangements and procedures as shall be required for the Project.

2. The Recipient shall not amend, abrogate, waive or fail to enforce any provision of the Project Implementation Manual without the prior written agreement of the Association; provided, however, that in case of any conflict between the arrangements and procedures set out in the Project Implementation Manual and the provisions of this Agreement and the Project Agreements, the provisions of this Agreement and the Project Agreements shall prevail.

D. Independent Verification Agent

The Recipient shall engage in accordance with the provisions of Section III of this Schedule 2 and thereafter maintain, an Independent Verification Agent whose terms of reference, qualifications and experience shall be satisfactory to the Association, to monitor, evaluate and report on Part C of the Project, and to conduct independent verifications of the completion of Eligible Connections including through inspections of the connections and facilities on a sample basis, and carry-out of surveys in the community.

E. Anti-Corruption

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

F. Safeguards

1. The Recipient shall ensure, or cause to be ensured, that the Project is carried out in accordance with the Safeguard Instruments, including the guidelines, rules and procedures defined in said Safeguard Instruments.

2. The Recipient shall take, or cause to be taken, the following actions in a manner acceptable to the Association:

   (a) Project activities shall be screened in accordance with the ESMF and RPF to determine if any ESIA, ESMP, or RAP is needed.

   (b) Whenever an ESIA and/or ESMP would be required on the basis of the ESMF: (i) each such ESIA and/or ESMP shall be prepared in accordance with the requirements of the ESMF, adopted and disclosed by the Recipient, and subject to prior approval by the Association; and (ii) the Recipient shall refrain, and cause the Project Implementing Entities to refrain, from financing any civil works contract during Project implementation unless and until such ESIA and/or ESMP has been
prepared in accordance with the ESMF, adopted and disclosed by the Recipient, and approved by the Association; and

(c) Whenever a RAP would be required on the basis of the RPF: (i) each such RAP shall be prepared in accordance with the requirements of the RPF, adopted and disclosed by the Recipient, and subject to prior approval by the Association; (ii) the Recipient shall refrain, and cause the Project Implementing Entities to refrain, from financing any civil works contract during Project implementation unless and until such RAP has been prepared in accordance with the RPF, adopted, disclosed and implemented by the Recipient, and approved by the Association; and (iii) no works under the contract in respect of which a RAP is required shall commence until: (A) all measures required to be taken under said RAP prior to the initiation of said works have been taken; (B) the Recipient has prepared and furnished to the Association a report in form and substance satisfactory to the Association, on the status of compliance with the requirements of said RAP; and (C) the Association has confirmed that said works may commence.

3. The Recipient shall take all measures necessary for carrying out the requirements of the Safeguard Instruments in a timely manner.

4. Without limitation to paragraph 1(b) of Section IV.B of this Schedule, no works shall be eligible for financing unless prior to the commencement of such works: (i) an ESIA and/or ESMP was prepared, adopted and disclosed by the Recipient, and approved by the Association; and (ii) in case such works are expected to cause Involuntary Resettlement, a RAP was prepared, adopted, disclosed and implemented by the Recipient, and approved by the Association.

5. Without limitation to its other reporting obligations under this Agreement and under Section 4.08 of the General Conditions, the Recipient shall include in the Project Reports referred to in Section II.A of this Schedule adequate information on the implementation of the Safeguard Instruments, giving details of:

(a) measures taken in furtherance of such Safeguard Instruments;

(b) conditions, if any, which interfere or threaten to interfere with the smooth implementation of such Safeguard Instruments; and

(c) remedial measures taken or required to be taken to address such conditions and to ensure the continued efficient and effective implementation of such Safeguard Instruments.
G. Immediate Response Mechanism

In order to ensure the proper implementation of Part D of the Project ("Contingent Emergency Response") ("IRM Part"), the Recipient shall take the following measures.

1. The Recipient shall:
   
   (a) prepare and furnish to the Association for its review and approval, an operations manual which shall set forth detailed implementation arrangements for the IRM Part, including: (i) designation of, terms of reference for and resources to be allocated to, the entity to be responsible for coordinating and implementing the IRM Part ("Coordinating Authority"); (ii) specific activities which may be included in the IRM Part, Eligible Expenditures required therefor ("Emergency Expenditures"), and any procedures for such inclusion; (iii) financial management arrangements for the IRM Part; (iv) procurement methods and procedures for Emergency Expenditures to be financed under the IRM Part; (v) documentation required for withdrawals of Emergency Expenditures; (vi) environmental and social safeguard management frameworks for the IRM Part, consistent with the Association's policies on the matter; and (vii) any other arrangements necessary to ensure proper coordination and implementation of the IRM Part;
   
   (b) afford the Association a reasonable opportunity to review said proposed operations manual;
   
   (c) promptly adopt such operations manual for the IRM Part as shall have been approved by the Association ("IRM Operations Manual");
   
   (d) ensure that the IRM Part is carried out in accordance with the IRM Operations Manual; provided, however, that in the event of any inconsistency between the provisions of the IRM Operations Manual and this Agreement, the provisions of this Agreement shall prevail; and
   
   (e) not amend, suspend, abrogate, repeal or waive any provision of the IRM Operations Manual without prior approval by the Association.

2. The Recipient shall, throughout the implementation of the IRM Part, maintain the Coordinating Authority, with adequate staff and resources satisfactory to the Association.

3. The Recipient shall undertake no activities under the IRM Part (and no activities shall be included in the IRM Part) unless and until the following conditions have been met in respect of said activities:
the Recipient has determined that an Eligible Crisis or Emergency has occurred, has furnished to the Association a request to include said activities in the IRM Part in order to respond to said Eligible Crisis or Emergency, and the Association has agreed with such determination, accepted said request and notified the Recipient thereof; and

(b) the Recipient has prepared and disclosed all safeguards instruments required for said activities, in accordance with the IRM Operations Manual, the Association has approved all such instruments, and the Recipient has implemented any actions which are required to be taken under said instruments.

Section II. Project Monitoring, Reporting and Evaluation

A. Project Reports

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 indicators acceptable to the Association. Each Project Report shall cover the period of one calendar semester, and shall be furnished to the Association not later than one month after the end of the period covered by such report.

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 not later than forty-five (45) days after the end of each calendar quarter, interim unaudited financial reports for the Project covering the quarter, in form and substance satisfactory to the Association.

3. The Recipient shall: (a) have the Project Implementing Entities' Financial Statements audited in accordance with the provisions of Section 4.09 (b) of the General Conditions. Each audit of the Financial Statements shall cover the period of one fiscal year of the Recipient. The audited Financial Statements for each such period shall be furnished to the Association not later than six months after the end of such period after each Regional Utility is established.

4. After the establishment of the Regional Utilities, have their 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
Section III. Procurement

A. General

1. Goods, Works and Non-consulting Services. All goods, works and non-consulting 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 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 Sections II and III of the Procurement Guidelines, or Sections II, III, IV and V of the Consultant Guidelines, as the case may be.

B. Particular Methods of Procurement of Goods, Works and Non-consulting Services

1. International Competitive Bidding. Except as otherwise provided in paragraph 2 below, goods, works and non-consulting services shall be procured under contracts awarded on the basis of International Competitive Bidding.

2. Other Methods of Procurement of Goods, Works and Non-consulting Services. The following methods, other than International Competitive Bidding, may be used for procurement of goods, works and non-consulting services for those contracts specified in the Procurement Plan: (a) Direct Contracting; (b) Shopping; (c) National Competitive Bidding ("NCB"), subject to the following additional provisions:

(i) General. The procedures to be followed for NCB shall be those set forth in the Regulation, with the modifications described in the following paragraphs.

(ii) Eligibility. No restriction based on nationality of bidders and/or origin of goods shall apply. Foreign bidders shall be allowed to participate in NCB without restriction and shall not be subject to any unjustified requirement
which will affect their ability to participate in the bidding process such as, but not limited to, the proof that they are not under bankruptcy proceedings in the Recipient's territory; have a local representative; have an attorney resident and domiciled in the Recipient's territory; form a joint venture with a local firm. In cases of joint ventures, they shall confirm joint and several liability.

Prior registration, obtaining a license or agreement shall not be a requirement for any bidder to participate in the bidding process.

Recipient's government-owned enterprises or institutions shall be eligible to participate in the bidding process only if they can establish that they are legally and financially autonomous, operate under commercial law, and are not dependent agencies of the Recipient.

(iii) **Bidding Documents.** Standard bidding documents acceptable to the Association shall be used for any procurement process under NCB.

(iv) **Preferences.** No domestic preference shall be given to domestic bidders and/or to domestically manufactured goods.

(v) **Applicable Procurement Method under the Regulation.** Subject to these NCB exceptions, procurement under NCB shall be carried out in accordance with the Regulation's public competition ("Concurso Público") method.

(vi) **Bid Preparation Time.** Bidders shall be given at least twenty-eight (28) days from the date of the invitation to bid or the date of availability of bidding documents, whichever is later, to prepare and submit bids.

(vii) **Bid Opening.** Bids shall be opened in public, immediately after the deadline for their submission in accordance with the procedures stated in the bidding documents.

(viii) **Bid Evaluation**

(A) 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. Qualification criteria shall be applied on a pass or fail basis.
(B) Evaluation of bids shall be made in strict adherence to the criteria declared in the bidding documents; criteria other than price shall be quantified in monetary terms.

(C) A contract shall be awarded to the qualified bidder offering the lowest-evaluated and substantially responsive bid.

(D) Bidders shall not be eliminated on the basis of minor, non-substantial deviations.

(ix) **Rejection of All Bids and Re-bidding.** All bids shall not be rejected and new bids solicited without the Association’s prior concurrence.

(x) **Complaints by Bidders and Handling of Complaints.** The Recipient shall establish an effective and independent complaint mechanism allowing bidders to complain and to have their complaint handled in a timely manner.

(xi) **Right to Inspect/Audit.** In accordance with paragraph 1.16(e) of the Procurement Guidelines, each bidding document and contract financed from the proceeds of the Financing shall provide that: (i) the bidders, suppliers, and contractors and their subcontractors, agents, personnel, consultants, service providers or suppliers, shall permit the Association, at its request, to inspect their accounts, records and other documents relating to the submission of bids and contract performance, and to have them audited by auditors appointed by the Association; and (ii) the deliberate and material violation by the bidder, supplier, contractor or subcontractor of such provision may amount to obstructive practice as defined in paragraph 1.16(a)(v) of the Procurement Guidelines.

(xii) **Fraud and Corruption.** Each bidding document and contract financed from the proceeds of the Financing shall include provisions on matters pertaining to fraud and corruption as defined in paragraph 1.16(a) of the Procurement Guidelines. The Association may sanction a firm or individual, at any time, in accordance with prevailing Association sanctions procedures, including by publicly declaring such firm or individual ineligible, either indefinitely or for a stated period of time: (i) to be awarded an Association-financed contract; and (ii) to be a nominated sub-contractor, consultant, supplier or service provider of an otherwise eligible firm being awarded an Association-financed contract.

(xiii) **Debarment under National System.** The Association may recognize, if requested by the Recipient, exclusion from participation as a result of debarment under the national system, provided that the debarment is for offenses involving fraud, corruption or similar misconduct, and further
provided that the Association confirms that the particular debarment procedure afforded due process and the debarment decision is final.

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 methods, other than Quality- and Cost-based Selection, may be used for procurement of consultants' services for those contracts which are specified in the Procurement Plan: (a) Least-Cost Selection; (b) Selection based on Consultants' Qualifications; (c) Single-source Selection of consulting firms; (d) Selection under a Fixed Budget; (e) Procedures set forth in paragraphs 5.2 and 5.3 of the Consultant Guidelines for the Selection of Individual Consultants; and (f) Single-source procedures for the Selection of Individual Consultants.

D. Review by the Association of Procurement Decisions

The Procurement Plan shall set forth those contracts which shall be subject to the Association’s Prior Review. All other contracts shall be subject to Post Review by the Association.

E. Procurement of Emergency Expenditures under the IRM Part of the Project

Notwithstanding any provision to the contrary in this Section, Emergency Expenditures required for the IRM Part of the Project shall be procured in accordance with the procurement methods and procedures set forth in the IRM Operations Manual.

Section IV. Withdrawal of the Proceeds of the Financing

A. General

1. The Recipient may withdraw the proceeds of the Financing in accordance with the provisions of Article II of the General Conditions, this Section, and such additional instructions as the Association shall specify by notice to the Recipient (including the “World Bank Disbursement Guidelines for Projects” dated May 2006, as revised from time to time by the Association and as made applicable to this Agreement pursuant to such instructions), to finance Eligible Expenditures as set forth in the table 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 Credit and the Grant to each Category, and the percentage of expenditures to be financed for Eligible Expenditures in each Category:

<table>
<thead>
<tr>
<th>Category</th>
<th>Amount of the Credit Allocated (expressed in SDR)</th>
<th>Amount of the Grant Allocated (expressed in SDR)</th>
<th>Percentage of Expenditures to be Financed (inclusive of Taxes)</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1) Goods and works for the Part A of the Project</td>
<td>48,200,000</td>
<td></td>
<td>100%</td>
</tr>
<tr>
<td>(2) (a) Goods, non-consulting services, and consultants’ services for Parts B and C of the Project</td>
<td></td>
<td>10,200,000</td>
<td>100%</td>
</tr>
<tr>
<td>(b) Output-Based Payments</td>
<td></td>
<td>3,300,000</td>
<td></td>
</tr>
<tr>
<td>(3) Goods, non-consulting services, consultants’ services and Operating Costs for Part E of the Project</td>
<td></td>
<td>3,600,000</td>
<td>100%</td>
</tr>
<tr>
<td>(4) Emergency Expenditures under Part D of the Project</td>
<td></td>
<td></td>
<td>100%</td>
</tr>
<tr>
<td><strong>TOTAL AMOUNT</strong></td>
<td><strong>48,200,000</strong></td>
<td><strong>17,100,000</strong></td>
<td></td>
</tr>
</tbody>
</table>

**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;
   (b) under Category 2.(b): (i) until the IVA has been engaged in a manner satisfactory to the Association, as provided under Section 1.D of this
Schedule; and (ii) upon submission to the Association to its satisfaction of the evidence mentioned the PIM;

(c) under Category (4), for Emergency Expenditures under Part D of the Project, unless and until the Association is satisfied, and notified the Recipient of its satisfaction, that all of the following conditions have been met in respect of said activities:

(i) the Recipient has determined that an Eligible Crisis or Emergency has occurred, has furnished to the Association a request to include said activities in the IRM Part in order to respond to said Eligible Crisis or Emergency, and the Association has agreed with such determination, accepted said request and notified the Recipient thereof;

(ii) the Recipient has prepared and disclosed all Safeguards Instruments required for said activities, and the Recipient has implemented any actions which are required to be taken under said instruments, all in accordance with the provisions of Section I.F of Schedule 2 to this Agreement;

(iii) the Recipient’s Coordinating Authority has adequate staff and resources, in accordance with the provisions of Section LG of this Schedule 2 to this Agreement, for the purposes of said activities; and

(iv) the Recipient has adopted an IRM Operations Manual in form, substance and manner acceptable to the Association and the provisions of the IRM Operations Manual remain - or have been updated in accordance with the provisions of Section LG of this Schedule 2 so as to be appropriate for the inclusion and implementation of said activities under the IRM Part.

2. The Closing Date is October 31, 2022.

Section V. Other Undertakings

A. The Recipient shall ensure that:

(a) the tariffs for the water systems under the responsibility of FIPAG shall reflect the principle of full cost recovery and shall be sufficient to cover operating expenses, depreciation, and cost of capital in a reasonable time horizon for all said systems. These tariffs shall be assessed yearly to ensure that they satisfy these requirements;
within twelve months following the end of the mid-term review, measures shall be taken to cover the financing needs referred to in (a) as necessary;

the Regional Utilities have been incorporated as corporations under the laws of the Recipient by no later than November 1, 2016;

FIPAG maintains at all times during the Project, contracts with the Regional Utilities to operate the water supply assets under FIPAG’s responsibility; the said contracts to address the financial obligations undertaken by FIPAG under various loans and credits extended to FIPAG and the sustainability of the future investments in the water supply systems, including any applicable lease fees payable to FIPAG;

an escrow account has been established for each Regional Utility, into which all revenues from the provision of services shall be deposited, for the purpose of payment of applicable lease fees and operator tariff.

FIPAG submits to CRA, by August 31 of each year, a proposal for tariff revision based on the audited expenses of the prior Financial Year, with reasonable projections of the cost of service, including operating expenses, applicable depreciation, and cost of capital, for the following three Financial Years for each of the Regional Utilities.

CRA reviews and issues a resolution annually on the proposed tariff revision and reasonable projections of tariffs for the following three Financial Years by November 30 of each year, even if the adjustment of tariffs approved by CRA is zero. Should there be an increase in tariffs; CRA shall publish a resolution in the Official Gazette no later than December 31 of each year, with implementation of the new tariff by March 1 of the following year; and

the terms and conditions of the Subsidiary Agreement between FIPAG and the Recipient with regard to financing shall have the same terms and conditions as this Agreement, and the respective amounts shall be converted to Meticais at disbursement rates applicable at the time of disbursement of the relevant proceeds of the financing to FIPAG.
### SCHEDULE 3

**Repayment Schedule**

<table>
<thead>
<tr>
<th>Date Payment Due</th>
<th>Principal Amount of the Credit repayable (expressed as a percentage)*</th>
</tr>
</thead>
<tbody>
<tr>
<td>On each June 15 and December 15, commencing June 15, 2022, to and including December 15, 2053</td>
<td>1.5625%</td>
</tr>
</tbody>
</table>

* 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 Person" means a person who as a result of: (a) the involuntary taking of land under the Project is affected in any of the following ways: (i) relocation or loss of shelter; (ii) loss of assets or access to assets; or (iii) loss of income sources or means of livelihood, whether or not the affected person must move to another location; or (b) the involuntary restriction of access to legally designated parks and protected areas suffers adverse impacts on his or her livelihood; and "Affected Persons" means more than one Affected Person.


3. "Category" means a category set forth in the table in Section IV of Schedule 2 to this Agreement; and "Categories" means collectively all such categories.


5. "Coordinating Authority" means the entity or entities designated by the Recipient in the IRM Operations Manual and approved by the Association pursuant to Section I.G of Schedule 2 to this Agreement, to be responsible for coordinating the IRM Part of the Project.

6. "CORALs" means Comissões Reguladoras Locais, the Recipient’s local commissions composed of community representatives and focal points, referred to under Part E of the Project.

7. "CRA" means Conselho de Regulação de Águas, the Recipient’s Council for Regulation of Water Supply established by the Recipient and operating under the legislation of the Recipient defined under paragraph 28 (b) below, and the term includes any successor thereto.

8. "Eligible Connections" mean the connections financed through the amounts allocated to FIPAG under Part C of the Project through a grant payment for low-income households whose eligibility has been verified by the Independent Verification Agent.

9. "Eligible Crisis or Emergency" means an event that has caused, or is likely to imminently cause, a major adverse economic and/or social impact to the Recipient, associated with a natural or man-made crisis or disaster.
10. “Emergency Expenditure” means any of the Eligible Expenditures, including goods, works, non-consulting services, consultants’ services, Training, and Operating Costs set forth in the IRM Operations Manual in accordance with the provisions of Section 1.G of Schedule 2 to this Agreement and required for the activities included in the IRM Part of the Project.

11. “Environmental and Social Impact Assessment” or “ESIA” means each site-specific environmental and social impact assessment to be prepared, adopted, consulted upon and disclosed by the Recipient, and acceptable to the Association, in each case identifying and assessing the potential environmental and social impacts of a proposed Project activity, evaluating alternatives, and designing appropriate mitigation, management, and monitoring measures, as the same may be amended from time to time with the prior written agreement of the Association.

12. “Environmental and Social Management Framework” or “ESMF” means the environmental and social management framework prepared, adopted and disclosed by the Recipient on February 16, 2016, and at the InfoShop on February 10, 2016, and approved by the Association, describing, inter alia, the modalities to be followed in screening Project activities in order to assess and determine the need to prepare an ESIA and/or ESMP, including the measures to be taken to offset, reduce, or mitigate adverse environmental and social impact, procedures for the management of chance finds of physical cultural resources and procedures to ensure protection, maintenance, and rehabilitation of natural habitats, as the same may be amended from time to time with the prior written agreement of the Association.

13. “Environmental and Social Management Plan” or “ESMP” means an environmental and social management plan, to be prepared, adopted and disclosed by the Recipient, and acceptable to the Association, and giving details of the magnitude of the environmental and social impacts, including procedures for the management of chance finds of physical cultural resources and procedures to ensure protection, maintenance, and rehabilitation of natural habitats, as well as the specific actions, measures and policies designed to facilitate the achievement of the objective of the ESMF, including the budget and cost estimates, and sources of funding, along with the institutional and procedural measures needed to implement such actions, measures and policies, as the same may be amended from time to time with the prior written agreement of the Association.

14. “Fiscal Year” means the Recipient’s fiscal year from January 1 to December 31.

15. “FIPAG” means the Fundo deInvestimento e Patrimônio do Abastecimento de Água, an asset holding company established by the Recipient and operating under the legislation of the Recipient defined under paragraph 28 (a) below, and the term includes any successor thereto.

17. "Immediate Response Mechanism Operations Manual" or "IRM Operations Manual" means the operations manual referred to in Section 1.G of Schedule 2 of this Agreement, to be adopted by the Recipient for the IRM Part of the Project in accordance with the provisions of said Section.

18. "IBNET" means International Benchmarking Network for Water and Sanitation Utilities supported by the World Bank and the Department for International Development of the United Kingdom (DfID).

19. "IVA" means "Independent Verification Agent" which has the meaning given to such term under Section 1.D of Schedule 2 to this Agreement.

20. "IRM Part of the Project" and "IRM Part" each means Part D of the Project.


22. "NRW" means non-revenue water.

23. "Operating Costs" means the incremental expenditures incurred on account of the Project which would not exist absent the Project required for the day-to-day implementation of the Project including maintenance of vehicles and equipment, fuel, office supplies, utilities, consumables, office rental and maintenance, bank charges, notary charges, advertising expenses, travel, per diems, accommodation but excluding salaries of the Recipient’s civil service.

24. "Output Based Payments" means payments made under Part C of the Project to the Regional Utilities to install Eligible Connections on low-income households premises selected in accordance to criteria provided in the PIM.


26. "Procurement Plan" means the Recipient’s procurement plan for the Project, dated February 18, 2016, and referred to in paragraph 1.18 of the Procurement Guidelines and paragraph 1.25 of the Consultant Guidelines, as the same shall be updated from time to time in accordance with the provisions of said paragraphs.

27. "Project Agreement" means, any of the CRA Project Agreement and the FIPAG Project Agreement; and "Project Agreements" means collectively all such agreements.
28. “Project Implementation Manual” and “PIM” have the meaning ascribed to it under Section I.C. of Schedule 2 to this Agreement.

29. “Project Implementing Entity” means any of CRA or FIPAG, and “Project Implementing Entities” means, collectively, all such entities.

30. “Project Implementing Entity’s Legislation” means: (a) with respect to FIPAG, the laws, any implementation decrees, resolutions and/or decisions of the Recipient that have been adopted and approved for the purposes of creating, registering and making FIPAG operational, including the Recipient’s Decree number: 73/98 published in the Recipient’s Official Gazette dated December 28, 1998; and Recipient’s Decree 48/2012, published in the Recipient’s Official Gazette on December 28, 2012; as such decrees may be amended from time to time; and (b) with respect to CRA, the laws, any implementation decrees, resolutions and/or decisions of the Recipient that have been adopted and approved for the purposes of creating, registering and making CRA operational, including Decree 23/11 published in the Recipient’s Official Gazette on June 8, 2011, and establishing CRA, as such decrees may be amended from time to time.

31. “Regional Utilities” means Águas da Região de Maputo, Águas do Sul, Águas do Centro and Águas do Norte established and operating under the laws of the Recipient.


33. “Resettlement Action Plan” or “RAP” means in respect of any activity involving resettlement, a resettlement plan for such activity prepared, adopted, disclosed and implemented by the Recipient, and acceptable to the Association, such resettlement plan to include a program of actions, measures and policies for compensation and resettlement of Affected Persons, and setting forth 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 designed to ensure proper implementation of, and regular feedback on, compliance with such RAP, as the same may be amended from time to time with the prior written agreement of the Association.

34. “Resettlement Policy Framework” or “RPF” means the resettlement policy framework prepared, adopted, and disclosed by the Recipient on September 21, 2015, and on the InfoShop on February 10, 2016, and approved by the Association, setting forth the modalities for resettlement and compensation of Affected Persons
under the Project, as the same may be amended from time to time with the prior written agreement of the Association.

35. “Respective Parts of the Project” means: (a) in the case of CRA, Part E of the Project; and (b) in the case of FIPAG, Parts A, B, C and D of the Project.

36. “Safeguard Instruments” means the ESMF, the RPF, related ESMPs, RAPs, and ESIA for the Project; “Safeguard Instrument” means any one of such instruments.

37. “Subsidiary Agreement” means each of the agreements referred to in Section IA of Schedule 2 to this Agreement pursuant to which the Recipient shall make part of the proceeds of the Financing available to each Project Implementing Entity; and “Subsidiary Agreements” means, collectively, both such agreements.

38. “Training” means the reasonable costs of goods and services required for the participation of personnel involved in training activities, workshops and study tours under the Project, including travel and subsistence costs for training, workshops and study tour participants, costs associated with securing the services of trainers, rental of training and workshop facilities, preparation and reproduction of training and workshop materials, and other costs directly related to training courses, workshops or study tour preparation and implementation.