

**The World Bank**INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT  
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May 16, 2016

H. E. Adriano Maleiane  
Minister of Economy and Finance  
Ministry of Economy & Finance  
Maputo  
Republic of Mozambique

**Republic of Mozambique: Proposed Power Efficiency and Reliability Improvement Project  
Project Preparation Advance No. V025-MZ**

Excellency:

In response to the request for financial assistance made on behalf of the Republic of Mozambique ("Recipient"), I am pleased to inform you that the International Development Association ("World Bank") proposes to extend to the Recipient an advance out of the World Bank's Project Preparation Facility in an amount not to exceed two million Dollars (\$2,000,000) ("Advance") on the terms and conditions set forth or referred to in this letter agreement ("Agreement"), which includes the attached Annex, to assist in financing the activities described in the Annex ("Activities"). The objective of the Activities is to improve reliability and operational efficiency in the electricity sector in Mozambique, in support of which the Recipient has requested the World Bank's financial assistance (the "Project").

The Recipient represents, by confirming its agreement below, that: (a) it understands that the provision of the Advance does not constitute or imply any commitment on the part of IBRD or IDA to assist in financing the Project; and (b) it is authorized to enter into this Agreement and to carry out the Activities, repay the Advance and perform its other obligations under this Agreement, all in accordance with the provisions of this Agreement.

Please confirm the Recipient's agreement to the foregoing by having an authorized official of the Recipient sign and date the enclosed copy of this Agreement, and returning it to the World Bank. Upon receipt by the World Bank of this countersigned copy, this Agreement shall become effective as of the date specified by the World Bank in accordance with the provisions of Section 5.02 of the Annex to this Agreement; provided, however, that the offer extended by this Agreement shall be deemed withdrawn if the World Bank has not received the countersigned copy of this Agreement within thirty (30) days after the date of signature of this Agreement by the World Bank, unless the World Bank shall have established a later date for such purpose.

Very truly yours

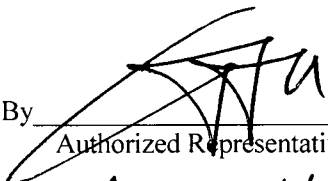
INTERNATIONAL DEVELOPMENT ASSOCIATION

By:   
Cristina P. Santos

Acting Country Director for Republic of Mozambique  
Africa Region

AGREED:

REPUBLIC OF MOZAMBIQUE

By:   
Authorized Representative

Name Adriano Maleique

Title Minister of Econ. finance

Date: 19.05.2015

Enclosures:

- (1) “Standard Conditions for Advances Made by the World Bank under its Project Preparation Facility”, dated July 31, 2010;
- (2) Disbursement Letter for the Advance of the same date as this Agreement, together with “World Bank Disbursement Guidelines for Projects”, dated May 1, 2006;
- (3) Guidelines for “Procurement of Goods, Works and Non-consulting Services under IBRD Loans and IDA Credits and Grants by World Bank Borrowers”, dated January 2011 and revised in July 2014;
- (4) Guidelines: “Selection and Employment of Consultants under IBRD Loans and IDA Credits and Grants by World Bank Borrowers”, dated January 2011 and revised in July 2014; and
- (5) Guidelines on “Preventing and Combating Fraud and Corruption in Projects Financed by IBRD Loans and IDA Credits and Grants”, dated October 15, 2006 and revised in January 2011.

**Article I**  
**Standard Conditions; Definitions**

1.01. **Standard Conditions.** The Standard Conditions for Advances Made by the World Bank under its Project Preparation Facility dated July 31, 2010 (“Standard Conditions”), constitute an integral part of this Agreement.

1.02. **Definitions.** Unless the context requires otherwise, the capitalized terms used in this Agreement have the meanings ascribed to them in the Standard Conditions or in this Agreement or in this Agreement and the following additional terms shall have the following meanings:

(a) “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 and revised in January 2011.

(b) “Consultants’ Guidelines” means the “Guidelines: Selection and Employment of Consultants under IBRD Loans and IDA Credits and Grants by World Bank Borrowers” dated January 2011 and revised in July 2014.

(c) “EDM” means *Electricidade de Mocambique, EP*, established and operating pursuant to the Recipient’s Decree No. 28/95 dated July 17, 1995 and includes any successors thereto.

(d) “Operating Costs” means the expenditures incurred by the Recipient under Advance to finance: (i) allowances of the staff; (ii) travel expenditures and other travel-related allowances of staff required to perform their responsibilities under Advance and Project; (iii) vehicle rental, operation, maintenance, repair and insurance; (iv) media information campaigns and communications’ expenses (including, without limitation, internet and telephone service); (v) advertisement fee for procurement; (vi) translation services, photocopies and publications; (vii) materials and office supplies; (viii) utilities; and (ix) bank charges.

(e) “Procurement Guidelines” means the “Guidelines: Procurement of Goods, Works and Non-consulting Services under IBRD Loans and IDA Credits and Grants by World Bank Borrowers” dated January 2011 and revised in July 2014.

(f) “Standard Conditions” means the “Standard Conditions for Advances Made by the World Bank under its Project Preparation Facility” dated July 31, 2010.

(g) “Subsidiary Agreement” means the agreement to be entered into between the Recipient and EDM for the purpose of Section 2.03 of this Annex to this Agreement.

## **Article II** **Execution of the Activities**

2.01 **Description of the Activities.** The Activities for which the Advance is provided consist of the following parts:

- (a) Provision of support to: (i) the organizational restructuring at EDM; (ii) technical assistance and provision of goods for implementing EDM's Integrated Management System (SIGEM), for assessing its current status, for identifying the needs for further support to complement existing modules, namely: (A) the commercial management system; (B) the incident recording and management system; (C) the corporate resources management information system; and (D) the revenue protection program, and for preparing the procurement documentation for such support. Such support to include, *inter alia*, capacity building activities, customization of processes and additional actions to ensure proper use of the functionalities of the information systems incorporated under the SIGEM; incorporation of new software modules such as a geographic information system, an asset management system, and a package to optimize management purchases by prepaid customers; as well as purchase of information technology equipment necessary to run these systems; (iii) technical assistance for design and procurement support for reinforcements in EDM's generation, transmission and distribution network; and (iv) carry out studies, including, *inter alia*, the development of maintenance guidelines for EDM's network, a technical review of the current status of EDM's transmission system and other social and environmental studies.
- (b) Preparation of key technical studies including, *inter alia*, Project implementation manual, environment and social safeguard documents, and social impact assessments.
- (c) Establishing a project implementation unit for the proposed Project through the provision of goods, technical assistance, and Operating Costs.

2.02. **Execution of the Activities Generally.** The Recipient declares its commitment to the objectives of the Activities. To this end, the Recipient shall carry out the Activities through EDM, in accordance with the provisions of: (a) Article II of the Standard Conditions; (b) this Article II; and (c) the "Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by IBRD Loans and IDA Credits and Grants", dated October 15, 2006 and revised in January 2011.

2.03. **Subsidiary Agreement.** To facilitate the carrying out of the Activities, the Recipient shall: (a) make the proceeds of the Advance available to EDM under a subsidiary agreement ("Subsidiary Agreement") between the Recipient and EDM, under terms and conditions approved by the World Bank; (b) cause EDM: (i) to perform in accordance with the provisions of the Subsidiary Agreement all of the obligations of EDM therein set forth; (ii) to take all action, including the provision of funds, facilities, services and other resources, necessary or appropriate for the carrying out of the Activities; and (iii) not to take or permit to be taken any action which would prevent or interfere with the carrying out of the Activities; and (c) exercise its rights under the Subsidiary Agreement in such manner as to protect the interests of the Recipient and the World Bank and to accomplish the purposes of the Advance. Except as the World Bank shall otherwise agree, the Recipient shall not assign, amend, abrogate or waive the Subsidiary Agreement or any of its provisions.

2.04. **Monitoring, Reporting and Evaluation of the Activities.** The Recipient shall monitor and evaluate the progress of the Activities in accordance with the provisions of Section 2.08 of the Standard Conditions.

2.05. **Financial Management.** (a) The Recipient shall ensure that a financial management system is maintained in accordance with the provisions of Section 2.09 of the Standard Conditions.

(b) The Recipient shall ensure that interim un-audited financial reports for the Activities are prepared and furnished to the World Bank not later than forty-five (45) days after the end of each calendar quarter, covering the quarter, in form and substance satisfactory to the World Bank.

(c) The Recipient shall have its Financial Statements audited in accordance with the provisions of Sections 2.09(b) of the Standard Conditions. Each audit of the Financial Statements shall cover the period of one fiscal year of the Recipient, commencing with the fiscal year in which the first withdrawal under the Advance was made. The audited Financial Statements for such period shall be furnished to the World Bank not later than six (6) months after the end of such period.

2.06. **Procurement**

(a) General. All goods, non-consulting services and consultants' services required for the Activities and to be financed out of the proceeds of the Advance shall be procured in accordance with the requirements set forth or referred to in:

(i) Section I of the "Guidelines: Procurement of Goods, Works and Non-consulting Services under IBRD Loans and IDA Credits and Grants by World Bank Borrowers" dated January 2011 and revised in July 2014 ("Procurement Guidelines"), in the case of goods and non-consulting services;

(ii) Sections I and IV of the "Guidelines: Selection and Employment of Consultants under IBRD Loans and IDA Credits and Grants by World Bank Borrowers" dated January 2011 and revised in July 2014 ("Consultant Guidelines") in the case of consultants' services; and

(iii) the provisions of this Section, as the same shall be elaborated in the procurement plan prepared and updated from time to time by the Recipient for the Activities in accordance with paragraph 1.18 of the Procurement Guidelines and paragraph 1.25 of the Consultant Guidelines ("Procurement Plan");

(b) Definitions. The capitalized terms used in the following paragraphs of this Section to describe particular procurement methods or methods of review by the World Bank 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;

(c) Particular Methods of Procurement of Goods and Non-consulting Services

(i) Except as otherwise provided in sub-paragraph (ii) below, goods and non-consulting services shall be procured under contracts awarded on the basis of International Competitive Bidding.

(ii) The following methods, other than International Competitive Bidding, may be used for procurement of goods and non-consulting services for those contracts specified in the Procurement Plan: (A) Shopping; and (B) Direct Contracting.

(d) Particular Methods of Procurement of Consultants' Services

(i) Except as otherwise provided in item (ii) below, consultants' services shall be procured under contracts awarded on the basis of Quality- and Cost-based Selection.

(ii) The following methods may be used for the procurement of consultants' services for those assignments 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 of Individual Consultants; and (E) Single-source procedures for the Selection of Individual Consultants.

(e) Review by the World Bank of Procurement Decisions. The Procurement Plan shall set forth those contracts which shall be subject to the World Bank's Prior Review. All other contracts shall be subject to Post Review by the World Bank.

**Article III  
Withdrawal of the Advance**

3.01. **Eligible Expenditures.** The Recipient may withdraw the proceeds of the Advance in accordance with the provisions of: (a) Article III of the Standard Conditions; (b) this Section; and (c) such additional instructions as the World Bank may 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 World Bank and as made applicable to this Agreement pursuant to such instructions), to finance Eligible Expenditures as set forth in the following table. The table specifies each category of Eligible Expenditures that may be financed out of the proceeds of the Advance ("Category"), the amount of the Advance allocated to each Category, and the percentage of expenditures to be financed for Eligible Expenditures in each Category:

Category	Amount of the Advance Allocated (in U.S. Dollars)	% of Expenditures to be Financed
(1) Goods, non-consulting services, Consultants' services, and Operating Costs	2,000,000	100%
TOTAL	2,000,000	100%

3.02. **Withdrawal Conditions.** Notwithstanding the provisions of Section 3.01 of this Agreement, no withdrawal shall be made for payments made prior to the date of countersignature of this Agreement by the Recipient.

3.03. **Refinancing Date.** The Refinancing Date is October 31, 2017.

**Article IV**  
**Terms of the Advance**

4.01. **Service Charge.** The Recipient shall pay a service charge on the Withdrawn Advance Balance at the rate of three-fourths of one percent (3/4 of 1%) per annum. The service charge shall accrue from the respective dates on which amounts of the Advance are withdrawn and shall be paid in arrears in accordance with the provisions of Section 4.02 of this Agreement. Service charges shall be computed on the basis of a 360-day year of twelve 30-day months.

4.02. **Repayment.** The Withdrawn Advance Balance shall be repaid by the Recipient to the World Bank (together with any service charges accrued thereon) in accordance with the provisions of Article IV of the Standard Conditions and the following provisions:

(a) *Refinancing under the Refinancing Agreement:* If, on or before the Refinancing Date, a Refinancing Agreement has been executed by all of its parties, then the full amount of the Withdrawn Advance Balance shall be repaid to the World Bank (together with any service charges accrued on the Advance to the date of repayment) as soon as the Refinancing Agreement becomes effective, by means of a withdrawal by the World Bank of an amount of the Refinancing Proceeds equivalent to the Withdrawn Advance Balance plus such service charges, in accordance with the provisions of the Refinancing Agreement.

(b) *Repayment in the absence of a Refinancing Agreement:* If, on or before the Refinancing Date, no Refinancing Agreement has been executed by all of its parties, or if, by such date or at any time thereafter, it has been so executed but terminates without becoming effective, then:

- (i) if the amount of the Withdrawn Advance Balance does not exceed \$50,000, it shall be repaid by the Recipient to the World Bank (together with service charges accrued on the Withdrawn Advance Balance to the date of repayment) on such date as the World Bank shall specify in a notice to the Recipient, which shall in no event be earlier than 60 days following the date of dispatch of such notice; and
- (ii) if the amount of the Withdrawn Advance Balance exceeds \$50,000, it (together with service charges accrued on the Withdrawn Advance Balance to the Notice Date) (the "Aggregate Balance") shall be paid by the Recipient to the World Bank in ten approximately equal semiannual installments, in the amounts and on the dates ("Payment Dates") which the World Bank shall specify in a notice to the Recipient. In no event shall the first Payment Date be set earlier than 60 days following the date ("Notice Date") of dispatch of such notice. The Recipient shall pay a service charge on the Aggregate Balance at the rate of three-fourths of one percent (3/4 of 1%) per annum, payable in arrears on each Payment Date. The service charge shall be computed on the basis of a 360-day year of twelve 30-day months.

**Article V**  
**Effectiveness; Termination**

5.01. This Agreement shall not become effective until evidence satisfactory to the World Bank has been furnished to the World Bank that the conditions specified below have been satisfied,



namely that the Subsidiary Agreement referred to in Section 2.03 of this Annex has been executed on behalf of the Recipient and the EDM.

5.02. Except as the Recipient and the World Bank shall otherwise agree, this Agreement shall enter into effect on the date upon which the World Bank dispatches to the Recipient notice of its acceptance of the evidence required pursuant to Section 5.01 ("Effective Date"). If, before the Effective Date, any event has occurred which would have entitled the World Bank to suspend the right of the Recipient to make withdrawals from the Advance Account if this Agreement had been effective, the World Bank may postpone the dispatch of the notice referred to in this Section until such event (or events) has (or have) ceased to exist.

5.03. *Termination for Failure to Become Effective.* This Agreement and all obligations of the parties under it shall terminate if it has not entered into effect by the date 90 days after the date of this Agreement, unless the World Bank, after consideration of the reasons for the delay, establishes a later date for the purpose of this Section. The World Bank shall promptly notify the Recipient of such later date.

#### **Article VI Recipient's Representative; Addresses**

6.01. *Recipient's Representative.* The Recipient's Representative referred to in Section 9.02 of the Standard Conditions is its minister of finance.

6.02. *Recipient's Address.* The Recipient's Address referred to in Section 9.01 of the Standard Conditions is:

Ministry of Economy and Finance  
Praça da Marinha, 292, 1<sup>st</sup> floor, N.5  
Maputo, Mozambique

Facsimile:

(258) 21 315-021

6.03. *World Bank's Address.* The World Bank's Address referred to in Section 9.01 of the Standard Conditions is:

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

Telex:

248423 (MCI) or  
64145 (MCI)

Facsimile:

1-202-477-6391