

AGREEMENT

between

THE GOVERNMENT OF THE ITALIAN REPUBLIC

and

THE GOVERNMENT OF THE REPUBLIC OF MOZAMBIQUE

concerning the provision of

General Budget Support

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The Government of the Italian Republic and the Government of the Republic of Mozambique,

having regard to the friendly relations between the two countries, desirous of strengthening these relations;

intending to promote further the economic and social development of Mozambique;

and appreciating positively their ongoing cooperation programme;

in the framework of the Agreement between the Government of the Italian Republic and the Government of the Republic of Mozambique on development cooperation signed in Maputo on September the 2nd 2010;

taking in account the Memorandum of Understanding on Provision of General Budget Support signed in March 2009 by the Government of Mozambique and the Partner Countries;

have agreed as follows:

Article 1

Base of the Agreement and Definitions

- 1.1 The present Agreement should be understood in the spirit of the Agreement on development cooperation between the Government of the Italian Republic and the government of the Republic of Mozambique signed in Maputo on September the 2nd 2010.
- 1.2 In this Agreement, unless the context otherwise requires, the following terms shall have the following meanings:
- "Government of Mozambique" means the Government of the Republic of Mozambique;
 - "Italian Government" means the Government of the Italian Republic;
 - "Contracting Parties" means the Government of Mozambique and the Italian Government;
 - "Contribution" means the contribution granted by the Italian Government under this Agreement;
 - "Programme" means the General Budget Support Programme, financed with the Contribution;
 - "Joint Donors Programme" means the joint terms and procedures for macro financial support coordinated with other donors, as defined and described in the annexed Memorandum of Understanding;
 - "MoU" means the Memorandum of Understanding on Provision of General Budget Support signed by the participants to the Programme and the Government of Mozambique in March 2009;
 - "DGCS" means the General Directorate for Development Cooperation of the Ministry of Foreign Affairs – Italy;
 - "BOM" means Bank of Mozambique (Central Bank of Mozambique);
 - "Budget" means the General State Budget of the Government of Mozambique;
 - "Agreement" means the present Agreement, between the Government of Mozambique and the Italian Government, concerning General Budget Support.

Article 2

General Considerations - Objective of the Programme

- 2.1 The overall objective of the Programme aims at contributing to poverty reduction in all its dimensions, by supporting the implementation of sound macroeconomic policies for the development of a dynamic market economy and by providing a financial contribution for increased resource allocations for poverty reduction.
- 2.2 The Italian Government is committed to supporting the economic and social development of Mozambique, subject to the progress achieved by the Government of Mozambique in laying down the framework for an open market economy and implementing structural reforms.
- 2.3 The Italian Government welcomes the development of the Action Plan for the Reduction of Poverty (PARP) of the Government of Mozambique and acknowledges the continued positive trend in the public management of revenues and expenditures. The Italian Government welcomes the commitment of the Government of Mozambique towards improving transparency and accountability in planning, execution and auditing of its budgetary process, as well as in relation to domestic revenue mobilization.
- 2.4 The Contracting Parties recognize the importance of establishing a sound and transparent basis for the development of their partnership. Dialogue on PARP, as well as on key issues such as domestic resource mobilization and public financial management, is essential and will take place in the context of the Joint Donors Program, as described in the annexed Memorandum of Understanding Section 1 and 2.

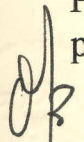

Article 3

Financial commitments of the Italian Government

- 3.1 The Italian Government agrees to grant an amount of € 15.000.000 (fifteen million Euro) in the form of General Budget Support to the Government of Mozambique, for fiscal years 2013, 2014 and 2015. This contribution takes place in the framework of the Joint Donors Program as described in the annexed Memorandum of Understanding, Section 2.
- 3.2 The contribution shall be channelled through the BOM, according to the procedures and rules described in the annexed Memorandum of Understanding

Article 4

Execution of the Programme

- 4.1 The Government of Mozambique shall take or cause to take any action necessary to carry out the Programme, including the provision of required matching funds in local currency, facilities, services and all other measures, necessary or appropriate.
 - 4.2 The Government of Mozambique shall ensure that all activities implemented under the Programme are conducted and coordinated in accordance with sound administrative policies and procedures.
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- 4.3 The Government of Mozambique shall provide the Italian Government or the consultants mandated by the Italian Government all such relevant information concerning the Programme according to the annexed Memorandum of Understanding Section 3.
- 4.4 The Contracting Parties shall exchange views at regular intervals on the progress of the Programme and the performance of their respective obligations under the present Agreement, and on the overall economic situation and the development prospects of the country. This dialogue will take place through the Joint Donors Programme according to the procedure as per the annexed Memorandum of Understanding, Section 3 and 6.
- 4.5 The Contracting Parties share a common concern with corruption, which undermines good governance and mutual confidence, wastes scarce resources and compromises open and transparent competition on the basis of price and quality. They therefore commit to join efforts in fighting corruption and agree to follow, in this respect, procurement procedures based on international standards.
- 4.6 Respect for democratic principles and fundamental human rights as set out, in particular, in the Universal Declaration of Human Rights, inspires the internal and external policies of the two parties and constitutes an essential element, on an equal footing, with the objectives of the present Agreement.

Article 5

Disbursements - Accounts

- 5.1 The operational modalities for the disbursement and management of the contribution are specified in the annexed Memorandum of Understanding. The BOM shall ensure due diligence in the administration of the Forex Account, in accordance with the annexed Memorandum of Understanding Section 7 and 8.
- 5.2 The Italian Government shall disburse the first tranche of the Contribution, amounting to € 5.000.000,00 (five million euro), in the Mozambican fiscal year of 2013, after the positive evaluation of the Annual Review meeting of 2012 as described in the Memorandum of Understanding and on the base of the achievements reached in relation to the established performance criteria, as listed in comma 5.5, 5.6 and 5.7 hereunder.
- 5.3 After a positive evaluation in each one of the Annual Review meetings, to be held by the end of April 2013 and by the end of April 2014, based on the achievements reached for the established performance criteria as listed in comma 5.5, 5.6 and 5.7 hereunder, the funds of the second tranche and the third tranche, amounting each to € 5.000.000,00 (five million euro), shall be disbursed, in the following fiscal years (2014 and 2015).
- 5.4 At the end of the Agreement, the Italian Government will undertake a final evaluation of the three-year Programme implementation, based on the conclusions of the Annual Review meetings of the Joint Donors Programme, as reported in the Aide Memoires agreed after each review.
- 5.5 As detailed in the annexed Memorandum of Understanding, an Annual Review takes place every year to assess the progresses in respect of the Performance Assessment Framework agreed upon. Therefore, the tranches of the Contribution, amounting to € 5.000.000,00 (five million euro) each, shall be disbursed following continued satisfactory performance in the implementation of the PARP and the economic reform process.
- 5.6 This satisfactory performance is demonstrated, in particular, by two assessments:

- (i) measurable progress in the implementation of the Policy Support Instrument (PSI) of the Government of Mozambique with the International Monetary Fund (IMF) and or any other programme and evaluation performed by the same multilateral institution;
- (ii) a positive evaluation of the Annual Review process, as reported in the Aide Memoire agreed after each review.

Following the evaluation of the Annual Review, in case that none of the above criteria has been met in year (n), the Italian contribution for year (n+1) shall not be disbursed, unless a different common solution among all donors is accepted, after accurate analysis and evaluation of the issues arise.

5.7 For the purpose of releasing the tranches of the Contribution, the evaluation of the Programme shall be based on:

- (i) The documents indicated in the annexed Memorandum of Understanding, Section 4 article 28.
- (ii) An evaluation document by the DGCS based on the results of the Annual Review.

Article 6

Verification

- 6.1 The Italian Government, or any independent consultant acting on its behalf, is entitled to monitor and review all activities and procedures related to the implementation of the Programme financed by the Contribution, as deemed appropriate by the Italian Government.
- 6.2 Monitoring and control processes are described in the Annexed Memorandum of Understanding Section 6 and 9.

Article 7

Disputes, Denunciation and Non-Execution

- 7.1 Any possible dispute arising during the activities ruled by the present Agreement shall be jointly evaluated for a diplomatic solution.
- 7.2 In the event of conflict, natural disaster or riots that will impede the implementation of the Programme, the activities will be suspended till the conditions to continue the Programme are re-established.
- 7.3 When, and if, any dispute should arise and no solution has been found out according to the previous point 7.1, the Italian Government retains the right to suspend, unilaterally, the present Agreement.
- 7.4 Once the circumstance for the correct implementation of the Programme is agreed, the Italian Government will consider the possibility to remove the suspension. In the event that the hindrance, after a reasonable time lap, could not be removed, the Italian Government may denounce the present Agreement. The denounce will enter in force thirty days after notification in writing.

7.5 The Government of Mozambique shall guarantee that the funds will be used solely in fulfilment of the objectives of the present Agreement, taking any possible action to assure the transparent and efficient use of the funds. Furthermore, the Government of Mozambique shall undertake any step deemed necessary to prevent any abuse and illicit use of the Italian contribution. In the event that the funds have been misused and at variance with the scope of the present Agreement, the Government of Mozambique will refund the amount incorrectly spent.

Article 8

Amendments to the Agreement

Amendments to the present Agreement will be effected by way of exchange of Notes Verbales between the Contracting Parties.

Article 9

The Memorandum of Understanding

9.1 The annexed Memorandum of Understanding, with all its Annexes, constitutes integral part of this Agreement.

9.2 Should the annexed Memorandum of Understanding be reviewed, the new version will automatically become the reference document for the Programme and, consequently, for this Agreement.

Article 10

Coming into Force, Duration and Closing date

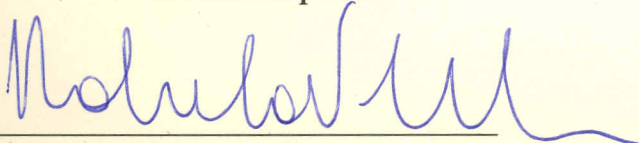
10.1 The present Agreement shall come into force on the date of the receipt of the last of the two notifications by which the two Contracting Parties shall formally have communicated each other that their respective internal procedures have been completed.

10.2 The closing date of the present Agreement shall be six months after the closing date of the last Programme year: presumably December 2015, or such later date as shall be agreed upon by the Contracting Parties.

In witness thereof the undersigned Representatives, duly authorised by their respective Governments, have signed the present Agreement.

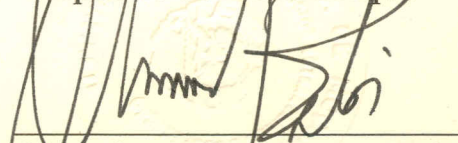
Done in Maputo, on 5TH APRIL 2013.....in two originals in the English language.

For the Government of the
Italian Republic



Roberto Vellano
Ambassador of Extraordinary
and Plenipotentiary

For the Government of the
Républic of Mozambique



Oldemiro Júlio Marques Baloi
Minister of Foreign Affairs and Cooperation