

**FOR
AGENDA**

EBS/01/156
Supplement 1

CONFIDENTIAL

September 19, 2001

To: Members of the Executive Board

From: The Secretary

Subject: **Republic of Mozambique—Enhanced Initiative for Heavily Indebted
Poor Countries—Completion Point Document**

The attached draft decision relating to the completion point document for the enhanced Initiative for Heavily Indebted Poor Countries for the Republic of Mozambique (EBS/01/156, 9/6/01) are scheduled for discussion tomorrow, Thursday, September 20, 2001.

Questions may be referred to Mr. D. Andrews (ext. 38318) and Mr. Laryea (ext. 37794).

Att: (1)

Other Distribution:
Department Heads

PROPOSED DECISION

The following draft decision is proposed for adoption by the Executive Board:

1. The Republic of Mozambique has consulted with the Fund in accordance with paragraph 2(e) of the three-year arrangement for the Republic of Mozambique under the Poverty Reduction and Growth Facility (PRGF) (EBS/99/96, Supplement 1, 07/02/99) and paragraph 4 of the letter dated December 1, 2000 from the Minister of Planning and Finance and the Governor of the Bank of Mozambique, in order to review program implementation and reach understandings regarding the phasing and conditions for the fifth disbursement under the arrangement.

2. The letter dated September 5, 2001 from the Minister of Planning and Finance and the Governor of the Bank of Mozambique, together with its Technical Memorandum of Understanding (the “Technical Memorandum”), shall be attached to the three-year PRGF arrangement for the Republic of Mozambique, and the letter dated June 10, 1999, as modified, from the Minister of Planning and Finance and the Governor of the Bank of Mozambique, together with its Memorandum of Economic and Financial Policies and Technical Memorandum of Understanding, shall be read as supplemented and modified by the letter dated September 5, 2001 from the Minister of Planning and Finance and the Governor of the Bank of Mozambique, together with its Technical Memorandum.

3. Accordingly, the three-year PRGF arrangement for the Republic of Mozambique shall be modified as follows:

a. paragraph 1(ccc)(ii) shall be amended to read as follows:

“(ccc)(ii) the fifth disbursement under the arrangement, in an amount equivalent to SDR 8.4 million, will be made available on or after April 15, 2002 at the request of the Republic of Mozambique and subject to paragraph 2, below;”

b. a new paragraph 1(dddd) shall be added to read as follows:

“(dddd) The phasing of, and the conditions for, further disbursements during the arrangement shall be established in the context of a review of the Republic of Mozambique’s program with the Trustee scheduled to be completed no later than April 30, 2002”;

c. a new paragraph 2(aaa)(ii) shall be amended to read as follows:

“The Republic of Mozambique shall not request the disbursement of the fifth loan referred to in paragraph 1(ccc)(ii) above, if the Managing Director of the Trustee finds that the data as of December 31, 2001 indicate that the ceilings

and floor referred to in paragraph 2(a)(i) to (v) of this arrangement, as specified in Table 2 of the letter dated September 5, 2001, were not observed.”

- d. a new paragraph 2(cccc) shall be added to read as follows:

“(cccc) if, with respect to the fifth disbursement, the Managing Director of the Trustee finds that, by December 31, 2001, the Republic of Mozambique has not carried out its intentions in regard to the following structural performance criterion:

(a) the submission to the National Assembly of a new income tax law to overhaul corporate, personal and complementary taxes and increase tax yields by simplifying procedures for calculation and payment and increasing the bases for these taxes;”

- e. a new paragraph 2(ee) shall be added to read as follows:

“The Republic of Mozambique shall not request the disbursement of the fifth loan referred to in paragraph 1(ccc)(ii) above until the Trustee has determined that the fourth review scheduled to be completed by April 30, 2002, as referred to in paragraph 24 of the letter dated September 5, 2001, has been completed.”

4. The Fund has reviewed the Poverty Reduction Strategy Paper submitted by the Republic of Mozambique and determines that it provides a sound basis for Fund concessional financial assistance.

5. The Fund adopts the following decision in principle, which shall become effective on the date on which the Fund decides that the World Bank has concluded that the Poverty Reduction Strategy Paper submitted by the Republic of Mozambique provides a sound basis for World Bank concessional financial assistance:

(a) the third review contemplated in paragraph 2(e) of the three-year PRGF arrangement for the Republic of Mozambique is completed, and

(b) The Republic of Mozambique may request the disbursement of the fourth loan referred to in paragraph 1(ccc)(i) of the three-year PRGF arrangement for the Republic of Mozambique, notwithstanding the non-observance of the March 31, 2001 structural performance criterion on the submission to the National Assembly of a new public accounting law, and the non-observance of the March 31, 2001 structural performance criterion on the completion of the recapitalization of BCM and BA, as specified in paragraphs 2(ccc)(i) and 2(ccc)(ii), of the arrangement, on the condition that the information provided by the Republic of Mozambique on performance under these criteria and on the implementation of the measures specified in Table 1 of the letter dated September 5, 2001 is accurate.

Table. Mozambique: Delivery of IMF Assistance under the HIPC Initiative 1/
(In millions of SDRs, unless otherwise indicated)

	Actual										2001 Est. Total	2002	2003	2004	2005	2006	2007	2008	2009
	2001				2001														
	2000	Jan.-Mar.	Apr.-Aug.	Sep.-Dec.	2001	Est. Total													
Profile of total assistance under the HIPC(original and enhanced, in percent)	19.4	2.1	5.6	8.0	15.7	10.6	7.0	7.5	9.5	9.7	6.7	3.6	0.6						
Delivery schedule of IMF assistance: original HIPC Initiative (in percent)	20.2	2.1	6.3	6.5	14.9	10.0	7.0	7.6	9.7	10.0	6.5	3.1	--						
Delivery schedule of IMF assistance: enhanced HIPC Initiative (in percent)	13.9	2.2	0.7	18.1	21.1	15.0	7.0	7.0	8.0	8.0	8.0	7.0	5.0						
Debt Service due on current IMF obligations 2/	23.0	3.1	9.5	9.1	21.7	17.6	15.2	15.6	17.0	15.7	11.8	8.0	2.9						
Principal - as of second decision point	22.2	3.1	9.1	8.8	21.0	17.1	14.8	15.3	16.8	15.5	11.8	8.0	2.9						
Interest	0.8	--	0.4	0.3	0.7	0.5	0.4	0.3	0.2	0.2	0.1	0.0	0.0						
IMF assistance--deposits into member's account	93.2																		
Completion point assistance - Original HIPC 3/	2.3				11.4														
Interim assistance - Enhanced HIPC																			
Completion point assistance - Enhanced HIPC 4/																			
IMF assistance under original HIPC Initiative	21.0	2.7	8.6	6.0	17.4	12.3	8.9	9.1	10.7	10.5	6.8	3.2	0.1						
IMF assistance without interest	18.9	2.0	5.8	6.0	13.8	9.3	6.5	7.1	9.0	9.3	6.1	2.9	--						
Interest earnings	2.1	0.8	2.8	--	3.6	3.0	2.4	2.0	1.6	1.2	0.7	0.3	0.1						
IMF assistance under enhanced HIPC Initiative 5/	2.0	0.3	0.2	2.5	3.0	2.5	1.7	1.6	1.4	1.3	1.3	1.1	0.8						
IMF assistance without interest	1.9	0.3	0.1	2.5	2.9	2.1	1.0	1.0	1.1	1.1	1.0	0.7	0.1						
Estimated interest earnings	0.1	0.0	0.1	--	0.1	0.4	0.7	0.6	0.3	0.2	0.2	0.1	0.1						
Total IMF assistance under the HIPC initiative	23.0	3.1	8.8	8.5	20.4	14.8	10.6	10.6	12.0	11.8	8.0	4.3	0.8						
IMF assistance without interest	20.8	2.3	5.9	8.5	16.7	11.4	7.5	8.0	10.1	10.4	7.2	3.8	0.7						
Estimated interest earnings	2.2	0.8	2.9	--	3.6	3.4	3.1	2.6	1.9	1.4	0.9	0.4	0.1						
Debt service due on current IMF obligations after IMF assistance 5/	--	--	0.7	0.6	1.3	2.8	4.6	5.0	5.0	3.9	3.8	3.7	2.1						
Share of debt service due on current IMF obligations covered by IMF assistance (in percent) 5/	100.0	100.0	92.6	93.8	94.1	84.1	69.5	68.0	70.6	75.4	67.8	53.3	28.1						
Memorandum items:																			
Proportion (in percent) of each repayment falling due during the period to be paid by IMF HIPC Initiative assistance from the principal deposited in member's account of which: under the original HIPC Initiative	93.8	74.2	65.3	96.7	79.8	66.4	50.5	52.5	60.3	67.0	60.8	48.2	23.4						
	85.1	64.2	64.2	68.5	66.0	54.4	44.0	46.2	53.8	60.0	51.5	36.2	--						
Total debt service due (millions of U.S. dollars) 6/	118.7	42.6	71.0	56.8	170.5	185.7	187.4	187.9	193.2	193.5	177.3	178.7	176.9						
of which: debt service due on IMF obligations (millions of U.S. dollars)	29.5	3.9	12.2	11.7	27.8	22.6	19.5	20.1	21.9	20.1	15.2	10.3	3.8						
Debt service due on current IMF obligations after IMF assistance 5/	--	--	0.9	0.8	1.7	3.5	5.8	6.3	6.3	4.8	4.8	4.7	2.6						
In millions of U.S. dollars	--	--	0.2	0.2	0.2	0.3	0.5	0.3	0.2	0.2	0.2	0.1	0.1						
In percent of exports																			
Share of total debt service covered by IMF assistance (in percent) 5/	24.8	9.2	15.9	19.2	15.3	10.3	7.3	7.4	8.1	7.9	5.9	3.1	0.7						

Source: Member authorities; and Fund staff estimates.

1/ Total IMF assistance under the HIPC Initiative is SDR 106.9 million calculated on the basis of data available at the enhanced HIPC decision point, excluding interest earned on member's account and on committed but undischarged amounts as described in footnotes 4 and 5. Please note, the monthly breakdown for 2001 is presented to show the delivery of 100 percent of debt service coverage through early 2001, and the delivery prior to and after the proposed completion point in September 2001.

2/ Forfeiting obligations estimated based on rates and principal schedules in effect as of March 31, 2000 (excluding debt service due on the PRGF disbursement of SDR 36.8 million approved on March 27, 2000). Interest obligations include SDR Department charges and fees.

3/ Amount of assistance actually disbursed into member's account at original HIPC completion point in June 1999.

4/ A final disbursement of SDR 11,415,709 assumed to be disbursed into member's account at the enhanced HIPC completion point in September 2001.

5/ Includes estimated interest earnings on: (1) amounts held in member's account, and (2) amounts committed but not yet disbursed up to the second completion point. It is assumed that these amounts earn a rate of return of 5 percent in SDR terms; actual interest earnings may be higher or lower. Interest accrued on (1) during a calendar year will be used toward the first repayment obligation(s) falling due in the following calendar year except in the final year, when it will be used toward payment of the final obligation(s) falling due in that year. Interest accrued on (2) during the interim period will be used toward the repayment of obligations falling due during the three years after the completion point.

6/ After traditional debt relief mechanisms.