DEBT SWAP FOR DEVELOPMENT PROGRAM BETWEEN THE ISLAMIC REPUBLIC OF MAURITANIA AND THE KINGDOM OF SPAIN

The Spanish Ministry of Economy and Finance and the Mauritanian Ministry of Economy and Finance, considering the Spanish Government decision of promoting and fostering the Mauritanian-Spanish cooperative relations and of contributing to the Mauritanian development have convened the following Debt Swap for Development Programme between the Islamic Republic of Mauritania and the Kingdom of Spain.

This agreement stems from the Spanish Law on External Debt Management (thereafter called Debt Law) which foresees within its articulate an additional debt relief for the highly indebted poor countries (HIPC).

Thus, this programme takes further the decision passed by the Spanish Cabinet of Ministers on July 8th, 2005 which granted additional debt relief to HIPC in the completion point of the HIPC Initiative through Debt Swaps for Development that resulted in a debt swap programme signed between Mauritania and Spain in December 2006.

1. Aim of the Agreement and description of the debt swap mechanism

1.1. The goal of this agreement is to contribute to the economic and social development of Mauritania through a Debt Swap for Development Programme. This instrument allows the debt obligations of Mauritania towards Spain to be transformed in investment projects with impact in the economic and human development of Mauritania.

1.2. Based on the articulate of the Spanish Debt Law, the Spanish Authorities agreed on July 13th 2007 to grant an additional debt relief to HIPC. In particular, the decision of the Spanish Cabinet of Ministers foresees the write off of the debt contracted before December 31st 2003. Mauritania is part of these beneficiary countries with eligible debt, so it will benefit from this initiative.

This programme extends the previous agreement, signed in December 2006 where the eligible debt was Official Development Aid (ODA) loans contracted with Spain prior to June 20th 1999 and that were not cancelled in the framework of the Paris Club treatments for Highly Indebted Poor Countries.

1.3. The Debt Swap Mechanism will imply that the service of the debt due by Mauritania to Spain and specified in Annex 1 will be deposited in a Trust Fund. Particularly, the Mauritanian Government will deposit in the Fund a 40% of the debt service affected by the cancellation.

The freed-up resources directed to the Mauritanian-Spanish Fund will be assigned to the finance of projects specified in article 1.1.

1.4. The debt affected by this programme stems from ODA loans granted by Spain, and the total amount of principal adds up to US$ 28,040,542.31.

Considering the interests included in the flows deposited in the Mauritanian-Spanish Fund the total amount of debt relief will be **US$ 29,763,835.38** and this quantity will be considered as the total amount of debt linked to the programme.

This debt is identified and listed in the Annex 1 and 2.

2. Mauritania-Spain Debt for Development Swap Fund

2.1. A **Mauritania-Spain** Debt for Development Swap Fund (the Fund) will be created.

Mauritania will keep servicing the debt obligations specified in Annex **1** following the original schedule and in the local currency until the cumulative amount disbursed reaches 40% of the eligible debt listed in Annex1. The exchange rate used will be the one registered by the Mauritanian Central Bank. The reference exchange rate will be that registered two working days before the date of disbursement.

The Mauritanian Ministry of Economy and Finance will inform punctually the Spanish Official Credit Institute (ICO) and the members of the Bi-national Committee of the disbursements already made.

Spain will write off the total amount of each original disbursement as it is deposited in the Mauritanian-Spanish Fund following the schedule in Annex 2.

When the amount disbursed by Mauritania in the Fund reaches the 40% of the principal of the debt cancelled –as it is clearly explained in Annex 1- the Mauritanian obligation to feed the Fund will finish. As soon as the last payment is made by Mauritania, Spain will cancel all the remaining debt included in Annex 1.

The total amount deposited in the Mauritanian-Spanish Fund will be up to US$**12,954,950.86** (principal and interests). Following the schedule determined in Annex 2 this quantity shall be disbursed on May, 5th 2019.

The resources that form the Mauritanian-Spanish Fund will be deposited in a current account decided by the Bi-national Committee described in article 4. The financial management of these resources will be specified in the Programme Rules passed by the Bi-national Committee.

2.2. The scheduled maturities could be advanced in accordance to article 4.4.

2.3. The Mauritanian Ministry of Economy and Finance and the ICO, as the Spanish financial agent responsible for the management of the eligible debt, will agree on the necessary mechanisms for the transmission of information regarding the disbursements to the Fund and the debt cancelled.

3. Use of the Fund's Resources. Projects to be financed through the Debt Swap Programme

3.1. The resources deposited in the Fund will be used to finance the projects listed in article 1.1 and that imply the participation of Mauritanian and/or Spanish firms or non government organizations for development.

3.2. The projects to be financed with the Fund resources will have to be economic and technically feasible and must be executed by Mauritanian and/or Spanish firms or non government organizations for development duly qualified and with recognised financial solvency.

3.3. The projects to be financed with the Fund resources should include a public signal showing that they were carried out with funds stemmed from the Spanish debt swap mechanism.

3.4. The projects to be financed and carried out with the Fund resources will be exempted from the TVA, not being applicable this exemption to outsourcing or acquisitions made by contractor firms. Moreover, goods and services imported trough this programme will be exempted from the TVA and/or any other customs tariff.

3.5. When the projects financed through the Fund resources generate or could generate Certified Emissions Reductions created by the so-called Clean Development Mechanism under the Kyoto Protocol, they will belong to Spain.

4. Management of the Program. The Joint Mauritania-Spain Committee

4.1. A Joint Mauritania-Spain Committee (also called Bi-national Committee) will be created to manage the Mauritanian-Spanish Fund.

This Bi-national Committee will be integrated by the Directorate for Economic Cooperation of the Mauritanian Ministry of Economy and Finance, a representative of Directorate General for International Finance of the Spanish Ministry of Economy and Finance and the Economic and Commercial Counsellor of the Spanish Embassy in Mauritania.

4.2. This Bi-national Committee will be in charge of:

- The definition of the Fund resources management policies and the adoption of whatever agreements need to be reached in order to achieve an efficient performance of the programme.
- The establishment of the Mauritanian-Spanish Fund yearly priorities on investment and outlays.
- The approval of the projects to be financed with the Fund, the assessment reports and the independent audits to be held.
- The general monitoring of the programme and the adoption of whatever relevant decision to be taken.
- The approval of the resolution of public tenders launched to sale the projects.
- Any other function to be addressed to the Bi-national Committee by its rules.

4.3. The Joint Committee will take all its decisions by consensus.

4.4. Should the projects payments schedule need to be brought forward, the Bi-national Committee will be allowed to ask the Mauritanian Ministry of Economy and Finance to order payments in advance.

4.5. In order to attend its obligations, the Bi-national Committee will meet whenever it is necessary and, at least, twice a year.

4.6. During its constituent session, the Bi-national Committee will approve a ruling that will specify and fix the functioning of this programme (the so called Programme Rules).

5. Unit of Technical Assistance

5.1. In order to favour a correct selection and performance of the projects to be financed with the Fund, the Bi-national Committee will be supported by a Technical Assistance Unit or Technical Committee that will be defined in the Programme Regulation.

5.2. Among the members of the Technical Committee there will be, on the Mauritanian side by the Directorate for Economic Cooperation of the Mauritanian Ministry of Economy and Finance and on the Spanish side, the Economic and Commercial

Counsellor of the Spanish Embassy in Mauritania, the representative of the Spanish Agency for Cooperation and a Non Governmental Organization.

6. External support for the management of the Programme

In order to improve the functioning of this Programme, the Bi-national Committee will be able to decide the hiring of external support. The costs of this operation could be charged to the Fund. The objective of hiring this external help should be to provide with technical knowledge, with logistic support and with assessing and monitoring capacity.

7. Selection, Financing and Monitoring of the Projects

7.1. First stage: presenting and selecting projects

In this stage, the Technical Committee will present to the Bi-national Committee a set of projects chosen by it on the bases of their suitable characteristics and capacity to fulfil this Programme objectives, being thus the projects appropriate to be finance with the Fund.

The latter notwithstanding, any of the Bi-national Committee members will be able to present projects considered by them in accordance with the objectives of this Programme.

The Bi-national Committee will analyse all these projects and, on the basis of this study, it will decide whether or not these projects are going to be approved.

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7.2. Second stage: public tender

Once one project has been approved, it will be put out to tender, in order to select its executor among Spanish and/or Mauritanian firms and non governmental organizations for development with recognised financial solvency.

This selection will be ruled by the principles of publicity, transparency and concurrence and will follow Mauritanian legal rules.

The Bi-national Committee will have to give its approval to the result of the public tender.

7.3. Third stage: carrying out and monitoring the projects.

During this step, the Bi-national Committee –advised by the Technical Committee- will have to watch over the correct management of the converted resources and over the monitoring of the execution of the projects.

For the supervision of these projects, the Bi-national Committee will receive reports half-yearly from the Technical Committee. These reports could be based on the work carried out by the external support –in the case it exists- according to article 6.

7.4. Fourth stage: assessing the projects

Once each project is carried out, the Technical Committee will present to the Bi-national Committee reports over its management and its results. The Bi-national Committee will be allowed to hire external assistance for the evaluation of the projects.

7.5 Evaluation of the Debt Swap Mechanism.

The debt swap mechanism will keep a remaining amount. This amount will be devoted to hire an external evaluation narrowly focused on the whole Debt Swap Mechanism just after the end of the program.

8. Expenditures financed by the programme.

8.1. Additionally, the program will also finance:

- The hiring of external support services including the one mentioned in article 6
- The hiring of reports and any other service decided by the Bi-national Committee.

8.2. The amount of expenditures related to the above mentioned special services subsequent to the end of projects will not exceed 4% of the resources of the programme.

9. Use of converted resources. Direct debt relief stage.

Mauritania undertakes to devote the resources released by the direct debt relief of 60% of debt linked to this programme to bolster economic growth and development.

10. Validity of the debt relief programme.

10.1. The present program will come into force once the due internal procedures for its approval will have been accomplished in both countries.

10.2. The present program will stand until the Fund will have been fully provided and its resources will have been completely used.

10.3. In the event that Mauritania will break either totally or partially its payment commitments related to this debt swap mechanism provoking delays in its outlays for periods over three months the previously approved or at progress projects will be either considered finished because of lack of funds or financed by Mauritanian authorities. Moreover, under this scenario, Spain will make no payment using its own financial resources at any event. Therefore, the debt swap mechanism will be cancelled from that moment on, so Mauritania will have to face its payment duties towards Spain up to the amount of debt not cancelled yet as it is reflected on the original payment schedules, including the potential late interests generated.

In Madrid, on January 31st 2008	In Mauritania, on
Secretary of State for the Economy Government of the Kingdom of Spain	Ministry of Economy and Finance Government of the Islamic Republic of Mauritania

ANNEX 1

The debt linked to this programme is:

ODA loans contracted and effective between June 20Th 1999 and December 31st 2003 for the part disbursed as for March 31st 2007.

If there is part of this eligible debt which has been already paid after March 31st 2007 it will be deposited in the Fund or refunded to the Islamic Republic of Mauritania.

Taking all these elements into account, the eligible debt is the following:

LOAN	CURRENCY	LAST MATURITY	AMOUNT OF DEBT
01024006.0	USD	07/09/2029	4.734.612,73
01024007.0	USD	05/11/1931	23.305.929,58
		TOTAL USD	**28.040.542,31**

The principal cancelled due to this programme is US$ 28,040,542.31

It is compulsory to deposit in the Fund the 40% of this total principal (US$**11,216,216.92**) and the corresponding interests (US$1,738,733.94) being the total amount deposited in the Fund **US$12,954,950.86.**

The total write off is therefore **US$29,763,835.38** and the disbursement in the Fund will follow the schedule determined in Annex 2.

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ANNEX 2

SCHEDULE OF PAYMENTS TO THE MAURITANIA-SPAIN FUND

LOAN	CURRENCY	MATURITY.	PRINCIPAL	INTERESTS	DISBURSMENT TO THE FUND
01024006.0	USD	ARREARS	0,00	15.440,87	15.440,87
01024007.0	USD	05/05/2007	0,00	64.447,37	64.447,37
01024006.0	USD	07/09/2007	0,00	15.678,14	15.678,14
01024007.0	USD	05/11/2007	0,00	65.515,56	65.515,56
				YEARLY TOTAL	**161.081,94**
01024006.0	USD	07/03/2008	0,00	15.507,72	15.507,72
01024007.0	USD	05/05/2008	0,00	64.803,43	64.803,43
01024006.0	USD	07/09/2008	0,00	15.678,14	15.678,14
01024007.0	USD	05/11/2008	0,00	65.515,56	65.515,56
				YEARLY TOTAL	**161.504,85**
01024006.0	USD	07/03/2009	0,00	15.422,52	15.422,52
01024007.0	USD	05/05/2009	0,00	64.447,37	64.447,37
01024006.0	USD	07/09/2009	115.101,75	15.678,14	130.779,89
01024007.0	USD	05/11/2009	0,00	65.515,56	65.515,56
				YEARLY TOTAL	**276.165,34**
01024006.0	USD	07/03/2010	115.101,75	15.046,36	130.148,11
01024007.0	USD	05/05/2010	0,00	64.447,37	64.447,37
01024006.0	USD	07/09/2010	115.101,75	14.913,35	130.015,10
01024007.0	USD	05/11/2010	0,00	65.515,56	65.515,56
				YEARLY TOTAL	**390.126,14**
01024006.0	USD	07/03/2011	115.101,75	14.294,04	129.395,79
01024007.0	USD	05/05/2011	0,00	64.447,37	64.447,37
01024006.0	USD	07/09/2011	115.101,75	14.148,56	129.250,31
01024007.0	USD	05/11/2011	568.437,30	65.515,56	633.952,86
				YEARLY TOTAL	**957.046,33**
01024006.0	USD	07/03/2012	115.101,75	13.616,54	128.718,29
01024007.0	USD	05/05/2012	568.437,30	63.222,86	631.660,16
01024006.0	USD	07/09/2012	115.101,75	13.383,78	128.485,53
01024007.0	USD	05/11/2012	568.437,30	62.319,68	630.756,98
				YEARLY TOTAL	**1.519.620,96**
01024006.0	USD	07/03/2013	115.101,75	12.789,40	127.891,15
01024007.0	USD	05/05/2013	568.437,30	59.731,71	628.169,01
01024006.0	USD	07/09/2013	115.101,75	12.618,99	127.720,74
01024007.0	USD	05/11/2013	568.437,30	59.123,80	627.561,10
				YEARLY TOTAL	**1.511.342,00**
01024006.0	USD	07/03/2014	115.101,75	12.037,09	127.138,84
01024007.0	USD	05/05/2014	568.437,30	56.587,93	625.025,23
01024006.0	USD	07/09/2014	115.101,75	11.854,20	126.955,95
01024007.0	USD	05/11/2014	568.437,30	55.927,92	624.365,22
				YEARLY TOTAL	**1.503.485,24**
01024006.0	USD	07/03/2015	115.101,75	11.284,77	126.386,52
01024007.0	USD	05/05/2015	568.437,30	53.444,16	621.881,46
01024006.0	USD	07/09/2015	115.101,75	11.089,41	126.191,16
01024007.0	USD	05/11/2015	568.437,30	52.732,03	621.169,33
				YEARLY TOTAL	**1.495.628,47**
01024006.0	USD	07/03/2016	115.101,75	10.590,64	125.692,39
01024007.0	USD	05/05/2016	568.437,30	50.578,29	619.015,59
01024006.0	USD	07/09/2016	115.101,75	10.324,63	125.426,38
01024007.0	USD	05/11/2016	568.437,30	49.536,15	617.973,45
				YEARLY TOTAL	**1.488.107,81**

01024006.0	USD	07/03/2017	115.101,75	9.780,13	124.881,88
01024007.0	USD	05/05/2017	568.437,30	47.156,61	615.593,91
01024006.0	USD	07/09/2017	115.101,75	9.559,84	124.661,59
01024007.0	USD	05/11/2017	568.437,30	46.340,27	614.777,57
				YEARLY TOTAL	**1.479.914,95**
01024006.0	USD	07/03/2018	115.101,75	9.027,81	124.129,56
01024007.0	USD	05/05/2018	568.437,30	44.012,84	612.450,14
01024006.0	USD	07/09/2018	115.101,75	8.795,05	123.896,80
01024007.0	USD	05/11/2018	568.437,30	43.144,39	611.581,69
				YEARLY TOTAL	**1.472.058,19**
01024006.0	USD	07/03/2019	115.101,75	8.275,50	123.377,25
01024007.0	USD	05/05/2019[1]	387.622,42	27.868,97	415.491,**39**
		TOTAL	**11.216.216,9**	**1.738.733,94**	**12.954.950,86**

[1] This last maturity will exceed the total amount of debt assigned to the Fund, so it will be only necessary to disburse to the Fund a 68.19% of that total maturity. This final amount to disburse is US$415.491,39 (US$ 387.622,42 of principal and US$27.868,97 of interests)