CONFORMED COPY
CREDIT NUMBER 4256 MOZ

Financing Agreement
(Third Poverty Reduction Support Credit)
between
REPUBLIC OF MOZAMBIQUE
and
INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated January 31, 2007
CREDIT NUMBER 4256 MOZ

FINANCING AGREEMENT

Agreement dated January 31, 2007, entered into between REPUBLIC OF MOZAMBIQUE ("Recipient") and INTERNATIONAL DEVELOPMENT ASSOCIATION ("Association") for the purpose of providing financing in support of the Program (as defined in the Appendix to this Agreement). The Association has decided to provide this financing on the basis, inter alia, of: (a) the actions which the Recipient has already taken under the Program and which are described in Section I of Schedule 1 to this Agreement; and (b) the Recipient’s maintenance of an appropriate macro-economic policy framework. The Recipient and the Association therefore 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 the Financing 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 credit in an amount equivalent to forty six million six hundred thousand Special Drawing Rights (SDR 46,600,000) ("Credit").

2.02. The Recipient may withdraw the proceeds of the Financing in support of the Program in accordance with Section II of Schedule 1 to this Agreement.

2.03. The Maximum Commitment Charge Rate payable by the Recipient on the Un-withdrawn Financing Balance shall be one-half of one percent (1/2 of 1%) per annum.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 The Service Charge payable by the Recipient on the Withdrawn Credit Balance shall be equal to three-fourths of one percent (3/4 of 1%) per annum.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 January 15 and July 15 in each year.

2.06. The principal amount of the Credit shall be repaid in accordance with repayment schedule set forth in Schedule 2 to this Agreement.

2.07. The Payment Currency is Dollars.
ARTICLE III—PROGRAM

3.01 The Recipient declares its commitment to the Program and its implementation. To this end:

(a) the Recipient and the Association shall from time to time, at the request of either party, exchange views on the progress achieved in carrying out the Program;

(b) prior to each such exchange of views, the Recipient shall furnish to the Association for its review and comment a report on the progress achieved in carrying out the Program, in such detail as the Association shall reasonably request; and

(c) without limitation upon the provisions of paragraphs (a) and (b) of this Section, the Recipient shall exchange views with the Association on any proposed action to be taken after the disbursement of the Financing which would have the effect of materially reversing the objectives of the Program, or any action taken under the Program.

ARTICLE IV—REMEDIES OF THE ASSOCIATION

4.01 The Additional Event of Suspension consists of the following, namely that a situation has arisen which shall make it improbable that the Program, or a significant part of it, will be carried out.

4.02 The Additional Event of Acceleration consists of the following, namely that any event specified in paragraph (a) of Section 4.01 of this Agreement occurs.

ARTICLE V—EFFECTIVENESS

5.01 The Effectiveness Deadline is the date 90 days after the date of this Agreement.
ARTICLE VI — REPRESENTATIVE; ADDRESSES

6.01. The Recipient’s Representative is the Minister of Planning and Development.

6.02. The Recipient’s Address is:

Ministério de Planificação e Desenvolvimento
Caixa Postal 4087
21 Av. Ahmed Sekou Touré, 4th Floor
Maputo
Republic of Mozambique

Facsimile:

258 21 492625

6.03. The Association’s Address is:

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

Cable address: Telex: Facsimile:

INDEVAS 248423(MCI) or 1-202-477-6391
Washington, D.C. 64145(MCI)
AGREED at Maputo, Republic of Mozambique, as of the day and year first above written.

REPUBLIC OF MOZAMBIQUE

By /s/ Aiuba Cuereneia
Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Michael Baxter
Authorized Representative

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SCHEDULE 1

Program Actions; Availability of Financing Proceeds

Section I. Actions taken under the Program

The actions taken by the Recipient under the Program include the following:

Macroeconomic Management

1. Budget allocation for the priority sectors, as defined in the Recipient’s action plan for the reduction of absolute poverty, with 65% of total expenditures allocated to priority sectors in the Budget execution for 2005, as evidenced in the Budget Execution Report 2005; and in the Budget planning for 2006, as evidenced in the Budget Law 2006.

2. Increased budget coverage with enlarged Recipient’s revenues included in the 2007 Budget, particularly the own revenues of the Ministries of Education and Culture, Health, Agriculture, Public Works, Tourism, Mineral Resources, and Youth and Sport, as evidenced by the Letter 348/DNO/MF/2006 of the National Budget Director.


4. Creation of the Central Revenue Authority (ATM), as evidenced by Law 1/2006, creating the ATM; Decree 29/2006, approving its bylaws; and Decree 30/2006, approving its staff rules.

5. First phase in the implementation of a new procurement system, consisting of the creation of the Central Procurement Supervision Unit (UFSA) by Diploma Ministerial 141/2006; the appointment of its Director, as evidenced by Appointment issued by the Finance Minister of June 30, 2006 and UFSA Director Note 28/UFSA-DNPE/MF/2006; and the publication of standard bidding documents, as evidenced by the Diplomas Ministeriae 145-151/2006.

Governance


Economic Development

6. Simplification of the procedure to open a business, as evidenced by the Decree 41/2006, enabling publication concerning company registration also through publication on the official website of the Government of the Republic of Mozambique.
Section II. Availability of Financing Proceeds

A. General. The Recipient may withdraw the proceeds of the Financing in accordance with the provisions of this Section and such additional instructions as the Association may specify by notice to the Recipient.

B. Allocation of Financing Amounts. The Financing shall be withdrawn in a single tranche. The allocation of the amounts of the Financing to this end is set out in the table below:

<table>
<thead>
<tr>
<th>Allocations</th>
<th>Amount of the Financing Allocated (expressed in SDR)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Single Tranche</td>
<td>46,600,000</td>
</tr>
<tr>
<td>TOTAL AMOUNT</td>
<td>46,600,000</td>
</tr>
</tbody>
</table>

C. Deposits of Financing Amounts. Except as the Association may otherwise agree:

1. all withdrawals from the Financing Account shall be deposited by the Association into an account designated by the Recipient and acceptable to the Association; and

2. the Recipient shall ensure that upon each deposit of an amount of the Financing into this account, an equivalent amount is accounted for in the Recipient’s budget management system, in a manner acceptable to the Association.

D. Audit. The Recipient shall:

1. have the account and the recording of amounts of the Financing into the Recipient’s budget management system referred to in Part C of this Section audited by independent auditors acceptable to the Association, in accordance with consistently applied auditing standards acceptable to the Association;

2. furnish to the Association as soon as available, but in any case not later than three months after the end of the Recipient’s Fiscal Year, a certified copy of the report of such audit, of such scope and in such detail as the Association shall reasonably request; and

3. furnish to the Association such other information concerning the said account and recording of Credit amounts into the budget management system, and their audit, as the Association shall reasonably request.

E. Excluded Expenditures. The Recipient undertakes that the proceeds of the Credit shall not be used to finance Excluded Expenditures. If the Association determines at any time that an amount of the Financing was used to make a payment for an Excluded Expenditure, the Recipient shall, promptly upon notice from the Association, refund an amount equal to the amount of such payment to the Association. Amounts refunded to the Association upon such request shall be cancelled.
F. **Closing Date.** The Closing Date is September 30, 2007.
SCHEDULE 2

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 January 15 and July 15:</td>
<td></td>
</tr>
<tr>
<td>commencing July 15, 2017 to and including January 15, 2027</td>
<td>1%</td>
</tr>
<tr>
<td>commencing July 15, 2027 to and including January 15, 2047</td>
<td>2%</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.
Section I. Definitions


4. “Central Revenue Authority” and “ATM” mean the Recipient’s Autoridade Tributária de Mozambique.

5. “Central Procurement Supervision Unit” and “UFSA” mean the Recipient’s Unidade Funcional de Supervisão das Aquisições.


10. “Excluded Expenditure” means any expenditure:

   (a) for goods or services supplied under a contract which any national or international financing institution or agency other than the Association or the Bank has financed or agreed to finance, or which the Association or the Bank has financed or agreed to finance under another Financing, credit, grant or loan;

   (b) for goods included in the following groups or sub-groups of the Standard International Trade Classification, Revision 3 (SITC, Rev.3), published by the United Nations in Statistical Papers, Series M, No. 34/Rev.3 (1986) (the SITC), or any successor groups or subgroups under future revisions to the SITC, as designated by the Association by notice to the Recipient:

<table>
<thead>
<tr>
<th>Group</th>
<th>Sub-group</th>
<th>Description of Item</th>
</tr>
</thead>
<tbody>
<tr>
<td>112</td>
<td></td>
<td>Alcoholic beverages</td>
</tr>
<tr>
<td>121</td>
<td></td>
<td>Tobacco, un-manufactured, tobacco refuse</td>
</tr>
<tr>
<td>122</td>
<td></td>
<td>Tobacco, manufactured</td>
</tr>
<tr>
<td>Code</td>
<td>Description</td>
<td></td>
</tr>
<tr>
<td>------</td>
<td>-------------</td>
<td></td>
</tr>
<tr>
<td>525</td>
<td>Radioactive and associated materials</td>
<td></td>
</tr>
<tr>
<td>667</td>
<td>Pearls, precious and semiprecious stones, unworked or worked</td>
<td></td>
</tr>
<tr>
<td>718</td>
<td>Nuclear reactors, and parts thereof; fuel elements (cartridges), non-irradiated, for nuclear reactors</td>
<td></td>
</tr>
<tr>
<td>728</td>
<td>Tobacco processing machinery</td>
<td></td>
</tr>
<tr>
<td>897</td>
<td>Jewelry of gold, silver or platinum group metals (except watches and watch cases) and goldsmiths’ or silversmiths’ wares (including set gems)</td>
<td></td>
</tr>
<tr>
<td>971</td>
<td>Gold, non-monetary (excluding gold ores and concentrates)</td>
<td></td>
</tr>
</tbody>
</table>

(c) for goods intended for a military or paramilitary purpose or for luxury consumption;

(d) for environmentally hazardous goods, the manufacture, use or import of which is prohibited under the laws of the Recipient or international agreements to which the Recipient is a party;

(e) on account of any payment prohibited by a decision of the United Nations Security Council taken under Chapter VII of the Charter of the United Nations; and

(f) under a contract with respect to which the Association determines that corrupt, fraudulent, collusive or coercive practices were engaged in by representatives of the Recipient or other recipient of the Financing proceeds during the procurement or execution of such contract, without the Recipient (or other such recipient) having taken timely and appropriate action satisfactory to the Association to remedy the situation.

11. “General Conditions” means the “International Development Association General Conditions for Credits and Grants”, dated July 1, 2005 with the modifications set forth in Section II of this Appendix.


“Program” means the program of actions, objectives and policies designed to promote growth and achieve sustainable reductions in poverty and set forth or referred to in the letter dated December 12, 2006, from the Recipient to the Association and in the Recipient’s Strategy for the Reduction of Absolute Poverty (PARPA), declaring the Recipient’s commitment to the execution of the Program, and requesting assistance from the Association in support of the Program during its execution.

“Recipient’s Fiscal Year” means the yearly period from January 1 to December 31.

“Single Tranche” means the amount of the Financing allocated to the category entitled “Single Tranche” in the table set forth in Part B of Section II of Schedule 1 to this Agreement.


“UFSA Director Note 28/UFSA-DNPE/MF/2006” means the Note from the Recipient’s UFSA Director, dated September 12, 2006.

Section II. Modifications to the General Conditions

The modifications to the “International Development Association General Conditions for Credits and Grants”, dated July 1, 2005 are as follows:

1. The last sentence of paragraph (a) of Section 2.03 (relating to Applications for Withdrawal) is deleted in its entirety.

2. Sections 2.04 (Designated Accounts) and 2.05 (Eligible Expenditures) are deleted in their entirety, and the remaining Sections in Article II are renumbered accordingly.
3. Sections 4.01 (Project Execution Generally), and 4.09 (Financial Management; Financial Statements; Audits) are deleted in their entirety, and the remaining Sections in Article IV are renumbered accordingly.

4. Paragraph (a) of Section 4.05 (renumbered as such pursuant to paragraph 3 above and relating to Use of Goods, Works and Services) is deleted in its entirety.

5. Paragraph (c) of Section 4.06 (renumbered as such pursuant to paragraph 3 above) is modified to read as follows:

   “Section 4.06. Plans; Documents; Records

   … (c) The Recipient shall retain all records (contracts, orders, invoices, bills, receipts and other documents) evidencing expenditures under the Financing until two years after the Closing Date. The Recipient shall enable the Association’s representatives to examine such records.”

6. Section 4.07 (renumbered as such pursuant to paragraph 3 above) is modified to read as follows:

   Section 4.07. Program Monitoring and Evaluation

   … (c) The Recipient shall prepare, or cause to be prepared, and furnish to the Association not later than six months after the Closing Date, a report of such scope and in such detail as the Association shall reasonably request, on the execution of the Program, the performance by the Recipient and the Association of their respective obligations under the Legal Agreements and the accomplishment of the purposes of the Financing.

7. The following terms and definitions set forth in the Appendix are modified or deleted as follows, and the following new terms and definitions are added in alphabetical order to the Appendix as follows, with the terms being renumbered accordingly:

   (a) The definition of the term “Eligible Expenditure” is modified to read as follows:

   “‘Eligible Expenditure’ means any use to which the Financing is put in support of the Program, other than to finance expenditures excluded pursuant to the Financing Agreement.”

   (b) The term “Financial Statements” and its definition as set forth in the Appendix are deleted in their entirety.

   (c) The term “Project” is modified to read “Program” and its definition is modified to read as follows:

   “‘Program’ means the program referred to in the Financing Agreement in support of which the Financing is made.” All references to “Project” throughout these General Conditions are deemed to be references to “Program”.