Financing Agreement

(Public Financial Management for Results Program)

between

REPUBLIC OF MOZAMBIQUE

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated August 7, 2014
FINANCING AGREEMENT

AGREEMENT dated [MM/DD/YYYY], 2014, entered into between REPUBLIC OF MOZAMBIQUE ("Recipient") and INTERNATIONAL DEVELOPMENT ASSOCIATION ("Association"). The Recipient and the Association hereby agree as follows:

ARTICLE I — GENERAL CONDITIONS; DEFINITIONS

1.01. The General Conditions (as defined in Appendix 1 to this Agreement) constitute an integral part of this Agreement.

1.02. Unless the context requires otherwise, the capitalized terms used in this 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 grant in an amount equivalent to thirty three million Special Drawing Rights (SDR 33,000,000) (variously, "Grant" and "Financing"), to assist in financing the program described in Schedule I to this Agreement ("Program").

2.02. The Recipient may withdraw the proceeds of the Financing in accordance with Section IV of Schedule 2 to this Agreement. All withdrawals from the Financing Account shall be deposited by the Association into an account specified by the Recipient and acceptable to the Association.

2.03. The Maximum Commitment Charge Rate payable by the Recipient on the Unwithdrawn Financing Balance shall be one-half of one percent (1/2 of 1%) per annum.

2.04. The Payment Dates are May 15 and November 15 in each year.

2.05. The Payment Currency is Dollar.

ARTICLE III — PROGRAM

3.01. The Recipient declares its commitment to the objective of the Program. To this end, the Recipient shall carry out the Program in accordance with the provisions of Article IV of the General Conditions.
3.02. Without limitation upon the provisions of Section 3.01 of this Agreement, and except as the Recipient and the Association shall otherwise agree, the Recipient shall ensure that the Program is carried out in accordance with the provisions of Schedule 2 to this Agreement.

ARTICLE IV — EFFECTIVENESS; TERMINATION

4.01. The Additional Condition of Effectiveness consists of the following, namely that the Program Operations Manual (POM) shall have been adopted by the Recipient in a manner satisfactory to the Association.

4.02. The Effectiveness Deadline is the date ninety (90) days after the date of this Agreement.

4.03. For purposes of Section 8.05(b) of the General Conditions, the date on which the obligations of the Recipient under this Agreement (other than those providing for payment obligations) shall terminate is twenty (20) years after the date of this Agreement.

ARTICLE V— REPRESENTATIVE; ADDRESSES

5.01. The Recipient’s Representative is its minister at the time responsible for planning and development.

5.02. The Recipient’s Address is:

Ministry of Planning and Development
Av. Ahmed S. Toure, 21, 4th floor
Maputo
Republic of Mozambique

Cable: MOBANCO  Telex: (258) 21 492-268  Facsimile: (258) 21 492-625

5.03. The Association’s Address is:

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

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

REPUBLIC OF MOZAMBIQUE

By

[Signature]
Authorized Representative

Name: ________________________
Title: ________________________

INTERNATIONAL DEVELOPMENT ASSOCIATION

By

[Signature]  Mark Lundell
Authorized Representative

Name: MARK LUNDELL
Title: COUNTRY DIRECTOR
SCHEDULE 1

Program Description

The objective of the Program is to improve the transparency and efficiency of expenditures for the storage, distribution and availability of medicines, and for more transparent and accountable management of Complete Primary Schools.

The Program consists of the following activities in support of the Recipient's Programa de Gestao de Financas Publicas Orientado para Resultados ("MZ-PFMforR"):

1. paying operational costs for the medicines supply chain and management of Complete Primary Schools;
2. implementing mechanisms for enhanced cooperation between the MoF, MoE and MoH;
3. using performance based allocations to motivate improved performance of targeted health and education sector institutions to achieve the objective of the Program; and
4. carrying out capacity building activities for sector and PFM institutions to improve their ability to identify and resolve problems that hinder the achievement of results.
SCHEDULE 2

Program Execution

Section I. Implementation Arrangements

A. Program Fiduciary, Environmental and Social Systems

Without limitation on the provisions of Article IV of the General Conditions, the Recipient shall carry out the Program, or cause the Program to be carried out, in accordance with financial management, procurement and environmental and social management systems acceptable to the Association ("Program Fiduciary, Environmental and Social Systems") which are designed to ensure that:

1. the Financing proceeds are used for their intended purposes, with due attention to the principles of economy, efficiency, effectiveness, transparency, and accountability; and

2. the actual and potential adverse environmental and social impacts of the Program are identified, avoided, minimized, or mitigated, as the case may be, all through an informed decision-making process.

B. Anti-Corruption

Without limitation on the provisions of Part A of this Section, the Recipient shall carry out the Program, or cause the Program to be carried out, in accordance with the provisions of the Anti-Corruption Guidelines.

C. Other Program Institutional and Implementation Arrangements

1. Program Institutions

Without limitation on the generality of Part A of this Section I, the Recipient shall: (a) carry out the Program in accordance with the institutional and administrative arrangements, set forth in the MZ-PFMyorR, under the overall guidance and supervision of the MoF and, except as the Association shall otherwise agree in writing, the Recipient shall not amend or waive any of such arrangements if, in the opinion of the Association, such amendment or waiver may materially and adversely affect the Program's implementation or the achievement of the objective thereof; (b) maintain the agencies, offices, units and branches (including the PMC and PCT) within or under the MoF, MoH and MoE and/or under other relevant national PFM institutions, each assigned with technical, social and environmental safeguards, fiduciary and other responsibilities for implementing the Program, all with powers, functions, capacity, staffing and resources appropriate to fulfill their respective functions.
under the Program; and (c) have the Tribunal Administrativo conduct independent validations and audits of achievement of Sub-targets further to the Verification Protocol.

2. Additional Program Implementation Arrangements

Without limitation on the generality of Part A of this Section I, the Recipient shall: (i) carry out the Program in accordance with the provisions of the POM; and (ii) not amend, revise or waive, nor allow to be amended, revised or waived, the POM, or any provision thereof, without the prior written agreement of the Association. In case of any inconsistency between the provisions of the POM and those of this Agreement, the provisions of this Agreement shall prevail.

Section II. Excluded Activities

The Recipient shall ensure that the Program excludes any activities which:

A. in the opinion of the Association, are likely to have significant adverse impacts that are sensitive, diverse, or unprecedented on the environment and/or affected people; or

B. involve the procurement of: (1) works, estimated to cost USD 50 million equivalent or more per contract; (2) goods, estimated to cost USD 30 million equivalent or more per contract; (3) non-consulting services, estimated to cost USD 20 million equivalent or more per contract; or (4) consultants’ services, estimated to cost USD 15 million equivalent or more per contract.

Section III. Program Monitoring, Reporting and Evaluation; Audits

A. Program Reports

The Recipient shall monitor and evaluate the progress of the Program, and more particularly, the progress in achieving the DLRs and, to that end, shall prepare regular Program Reports in accordance with the provisions of Section 4.08 of the General Conditions and in such scope and in such detail as shall be determined in accordance with the Verification Protocol. The Program Reports shall be furnished to the Association in accordance with the schedule as shall be specified by the Verification Protocol.

B. Program Financial Audits

1. Without limitation on the generality of Section I.A and C of this Schedule 2 and Section 4.09 of the General Conditions, the Recipient shall have the Financial Statements audited in accordance with the provisions of Section 4.09(b) of the General Conditions. Each audit of the Financial Statements shall cover the period
of one Fiscal Year. The audited Financial Statements for each such period shall be furnished to the Association not later than twelve (12) months after the end of such period.

2. For purposes of providing the evidence required under Part B.6 of Section IV of this Schedule, the Recipient shall have its Program Expenditures audited in a manner satisfactory to the Association, based on terms of reference that specify the budget codes referred to in Section I.25 of Appendix 1 to this Agreement.

Section IV. Withdrawal of Financing Proceeds

A. General

1. The Recipient may withdraw the proceeds of the Financing in accordance with the provisions of Article II of the General Conditions, this Section, and such Additional Instructions as the Association may specify by notice to the Recipient to finance the Program Expenditures, on the basis of the results (“Disbursement Linked Results” or “DLRs”) achieved by the Recipient, as measured against specific indicators (“Disbursement Linked Indicators” or “DLIs”); all as set forth in the table in paragraph 2 of this Part A.

2. The following table specifies each category of withdrawal of the proceeds of the Financing (including the Disbursement Linked Indicators as applicable) (“Category”), the Disbursement Linked Results for each Category (as applicable), and the allocation of the amounts of the Financing to each Category:

<table>
<thead>
<tr>
<th>Category (Disbursement Linked Indicator)</th>
<th>Disbursement Linked Result and Corresponding Value*</th>
<th>Amount of the Financing Allocated (SDR)</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1) Average availability of a tracer set of essential maternal and reproductive health medicines at health facility level (DLI 1)</td>
<td>Increased average availability from 78.6% to 88%</td>
<td>2,635,417</td>
</tr>
<tr>
<td>(2) Number of provinces achieving the minimum acceptable score of compliance with standards for stock management, warehousing, and distribution of medicines, as assessed by the CMAM Internal Audit Unit (DLI 2)</td>
<td>Increased number of compliant provinces to 8</td>
<td>4,468,750</td>
</tr>
<tr>
<td>(3) Proportion of Complete Primary Schools that comply with defined, agreed and disseminated standards for transparency and accountability</td>
<td>- School Councils’ Manual revised, approved and distributed to all Complete Primary Schools</td>
<td>5,940,000</td>
</tr>
<tr>
<td>(DLI 3)</td>
<td>- Increased proportion of Complete Primary Schools meeting standards for council elections, school development plan approval, and display of development plan, budget and expenditures to 60%</td>
<td></td>
</tr>
<tr>
<td>--------</td>
<td>---------------------------------------------------------------------------------------------------------------</td>
<td></td>
</tr>
<tr>
<td>(4) Proportion of treatment sites with a stock-out of key-ARVs at the end of each month (final stock value) (DLI 4)</td>
<td>Decreased stock-outs from 27% to 21%</td>
<td></td>
</tr>
<tr>
<td>(5) Proportion of districts for which CMAM receives logistics information through the SIMAM system (DLI 5)</td>
<td>District reporting increased from 73.5% to 87%</td>
<td></td>
</tr>
<tr>
<td>(6) Fill rate of approved requisitions from CMAM’s clients for tracer medicines (DLI 6)</td>
<td>Fill rates increased from 72% to 84%</td>
<td></td>
</tr>
<tr>
<td>(7) Proportion of Complete Primary Schools which receive Direct School Grant funds on or before February 28 of each Fiscal Year (DLI 7)</td>
<td>Increased proportion of Complete Primary Schools receiving funds before February 28 to 90%</td>
<td></td>
</tr>
</tbody>
</table>
| (8) Revised district-level budget classification by Sub-Sector, configured and applied (DLI 8) | - System configured to classify district education expenditures by Sub-Sectors.  
- Following Fiscal Year’s budget prepared by Sub-Sector classification  
- Current Fiscal Year’s budget executed by Sub-Sector classification |
| (9) Proportion of Complete Primary Schools visited for supervision by SDEJT's (DLI 9) | - School Supervision Manual revised and distributed to all SDEJT's  
- Increased School Supervision to 50% of Complete Primary Schools and 60% of those are paid follow-up visits |

| | 2,215,277 |
| | 4,048,611 |
| | 3,131,945 |
| | 3,960,000 |
| | 3,960,000 |
| | 2,640,000 |
| | 33,000,000 |
*Where no baseline is specified for a Scalable DLR in this column, its value will be deemed to be zero for purposes of carrying out the computations illustrated in Part B.2 of this Section.

B. Withdrawal Conditions; Withdrawal Period

1. Notwithstanding the provisions of Part A of this Section:

   (a) withdrawals may be made once yearly, as follows:

      (i) on or shortly after the Effective Date, with respect to the advance referred to in Part B.3 of this Section; and thereafter

      (ii) on or shortly after every March 15, over a period of consecutive years ending with the Closing Date, with respect to DLR achievements attained in the Fiscal Years (starting with those attained during Fiscal Year 2014) immediately prior to each such March 15 withdrawal,

unless the Association determines to allow more frequent withdrawals;

   (b) for each DLI, the corresponding DLR is subdivided into separate yearly achievement levels (e.g., DLR 1.1 for Fiscal Year 2014, DLR 1.2 for Fiscal Year 2015, DLR 1.3 for Fiscal Year 2016), and each such level (alternatively called “Sub-target”) is allocated a Financing amount withdrawable according to such level’s degree of achievement, all as set forth in the Additional Instructions;

   (c) for all DLRs (except DLRs 3.1, 8.1 (a), 8.1 (b), 8.2 and 9.1), withdrawals shall be made in amounts proportional to their degree of achievement as illustrated by the example in Part B.2 of this Section (these are “Scalable DLRs”);

   (d) for each DLI associated with a Scalable DLR, a single baseline level (“Baseline”) is assigned, as set forth in the Additional Instructions, against which to measure progress in the achievement of its corresponding DLR;

   (e) the allowable withdrawal corresponding to achievement of any yearly DLR is capped, as set forth in the Additional Instructions;

   (f) no withdrawal shall be made for any yearly DLR, until and unless the Recipient has furnished evidence, verified according to protocols set forth in the Verification Protocol and thus satisfactory to the Association, that said DLR has been achieved in whole or in part, during the
corresponding calendar year, above a minimum ("Floor"), as set forth in the Additional Instructions;

(g) amounts not withdrawn for a given Fiscal Year, because of a shortfall in achievement of a DLR, can be rolled over into a subsequent year and then withdrawn to the extent the delayed achievement would have justified disbursement had it been attained on time, as also illustrated by the example in Part B.2 of this Section; and

(h) no yearly DLRs are assigned for Fiscal Year 2017, and therefore any withdrawals corresponding to Fiscal Year 2017 can only be for amounts so rolled over from a previous year and withdrawable to the extent the delayed DLR achievement would have justified disbursement had it been attained on time.

2. The scalability and roll-over features of DLRs are illustrated in the following example, based on DLR 1.1:

<table>
<thead>
<tr>
<th>Category (Disbursement Linked Indicator)</th>
<th>Baseline</th>
<th>Disbursement Linked Result</th>
<th>Sub-targets to determine annual disbursement</th>
<th>Floor</th>
<th>Amount of the Financing Allocated (SDR) (and initial date of availability for withdrawal)</th>
<th>Cumulative Cap (expressed in SDR)</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1) Average availability of a tracer set of essential maternal and reproductive health medicines at health facility level (DLR 1)</td>
<td>78.6%</td>
<td>Increased average availability from 78.6% to 88%</td>
<td>DLR 1.1: Increased average availability from 78.6% to 82%</td>
<td>80.64%</td>
<td>DLR 1.1: 572,917 (March 15, 2015)</td>
<td>572,917</td>
</tr>
</tbody>
</table>

(a) Withdrawal of all or part of the Financing amount allocated to DLR 1.1 can only occur on or shortly after the March 15 immediately subsequent to Fiscal Year 2014, and only if DLR 1.1 has been met at a level equal to or above the corresponding Floor. If DLR 1.1 has been fully met or exceeded, the withdrawal shall be for SDR 572,917. If DLR 1.1 has been partially achieved, at a level equal to or above the Floor, disbursement shall be made at a level proportional to such achievement, calculated as follows: disburseable amount attributable to Fiscal Year 2014 = SDR 572,917 x [(achieved level, not to exceed the Fiscal Year 2014 Sub-target – Baseline)/(Fiscal Year 2014 Sub-target – Baseline)].
(b) To the extent part of the Financing amount allocated to DLR 1.1 was not disbursable pursuant to (i) above, it can be withdrawn on or shortly after the March 15 immediately subsequent to Fiscal Year 2015, if achievement of DLR 1.1 has improved over the level previously attained during Fiscal Year 2014. In such case, such remaining amount shall be disbursed at a level proportional to the improvement, calculated as follows: disbursable amount attributable to Fiscal Year 2015 = \{SDR 572,917 x [(improved achieved level, not to exceed the Fiscal Year 2014 Sub-target – Baseline)/(Fiscal Year 2014 Sub-target – Baseline)]\} – Year 1 disbursed amount.

(c) To the extent part of the Financing amount allocated to DLR 1.1 was not disbursable pursuant to (a) and (b) above, it can be withdrawn on or shortly after the March 15 immediately subsequent to Fiscal Year 2016, if achievement of DLR 1.1 has improved over the highest level previously attained during the combined Fiscal Year 2014 plus Fiscal Year 2015 period. In such case, such remaining amount shall be disbursed at a level proportional to the improvement, calculated as follows: disbursable amount attributable to Fiscal Year 2016 = \{SDR 572,917 x [(improved achieved level, not to exceed the Fiscal Year 2014 Sub-target – Baseline)/(Fiscal Year 2014 Sub-target – Baseline)]\} – (Fiscal Year 2014 disbursed amount + Fiscal Year 2015 disbursed amount).

(d) To the extent part of the Financing amount allocated to DLR 1.1 was not disbursable pursuant to (a), (b) and (c) above, it can be withdrawn on or shortly after the March 15 immediately subsequent to Fiscal Year 2017, if achievement of DLR 1.1 has improved over the highest level previously attained during the combined Fiscal Year 2014 plus Fiscal Year 2015 plus Fiscal Year 2016 period. In such case, such remaining amount shall be disbursed at a level proportional to the improvement, calculated as follows: disbursable amount attributable to Fiscal Year 2017 = \{SDR 572,917 x [(improved achieved level, not to exceed the Fiscal Year 2014 Sub-target – Baseline)/(Fiscal Year 2014 Sub-target – Baseline)]\} – (Fiscal Year 2014 disbursed amount + Fiscal Year 2015 disbursed amount + Fiscal Year 2016 disbursed amount).

3. Notwithstanding the provisions of Part B.1 of this Section, the Recipient may withdraw, an advance in an amount equal to 25% of the amount of the Financing, allocated per Category as set forth in the Additional Instructions; provided, however, that if the DLRs for any of said Categories, in the opinion of the Association, are not achieved (or only partially achieved) by the Closing Date, the Recipient shall refund such corresponding advance (or portion of such advance as determined by the Association in accordance with the provisions of the Additional Instructions) to the Association promptly upon notice thereof by
the Association. Except as otherwise agreed with the Recipient, the Association shall cancel the amount so refunded. Any further withdrawals requested as an advance under any Category shall be permitted only on such terms and conditions as the Association shall specify by notice to the Recipient.

4. Notwithstanding the provisions of Part B.1 of this Section, if the Association determines that the DLRs are not being achieved at the annual pace set forth in the Additional Instructions, the Association may, at any time, after consultation with the Recipient, decide, in its sole discretion, to: (a) reallocate all or a portion of the proceeds of the Financing then allocated to said DLR to any other DLR; and/or (b) cancel all or a portion of the proceeds of the Financing then allocated to said DLR.

5. The Closing Date is March 31, 2018.

6. Notwithstanding the foregoing provisions of this Section IV, if at any time after the Closing Date the Recipient has failed to provide evidence satisfactory to the Association that the Withdrawn Financing Balance does not exceed the total amount of Program Expenditures paid by the Recipient, exclusive of any such expenditures financed by any other financier or by the Association under any other loan, credit or grant, the Recipient shall, promptly upon notice from the Association, refund to the Association such excess amount of the Withdrawn Financing Balance. The Association shall cancel the refunded amount of the Withdrawn Financing Balance.

Section V. Other Undertakings

The Recipient shall:

(a) provide to the Association a summary report in respect of the capacity building activities for sector and PFM institutions referred to under paragraph 4 of Schedule 1 to this Agreement to confirm that all proposals have first been jointly agreed by the relevant PFM institution and, as appropriate, by the MoE or MoH as the case may be; on an annual basis, the first such report to be provided by no later than March 31 2015, and by the same date of each subsequent Fiscal Year for the duration of the Program;

(b) maintain the norms for disposal of pharmaceutical products (the Norms), comprising detailed acceptable methods of disposal by category and volume of pharmaceuticals, and necessary environmental, health & safety conditions, including requirements for consultation with affected members of the public and involvement of relevant Recipient’s agencies in decision-making and implementation of pharmaceutical disposal activities;
(c) develop pharmaceutical disposal plans for each type of facility consistent with the Norms, and determine the requirements for equipment, training and reporting of pharmaceutical product disposals made (products, volumes and their place and method of disposal), by no later than six (6) months after the Effective Date;

(d) provide to the Association a summary report detailing pharmaceutical products disposed of by facilities, their volumes, and places and methods of disposal in accordance with the Norms; the first such report to be provided by no later than September 30, 2015, and by the same date of each subsequent Fiscal Year for the duration of the Program;

(e) provide to the Association a report detailing activities undertaken at the Recipient’s provincial and district levels to disseminate information to the public regarding the mechanisms and procedures for complaints handling in the health and education sectors; the first such report to be provided by no later than six (6) months after the Effective Date, and by the same date of subsequent years for the duration of the Program; and

(f) provide to the Association a report for each procurement of medicines under the Financing confirming that each such procurement has been carried out in accordance with the Quality-Assurance Protocol.
APPENDIX 1

Section I. Definitions

1. “Additional Instructions” means the disbursement letter, from the Association to the Recipient, of even date herewith, as may be amended by the Association from time to time and referred to under Section IV.A.1 of Schedule 2 to this Agreement.


3. “ARVs” means anti-retroviral which are medicines for HIV treatment.

4. “Baseline” means the starting value from which to measure progress in achieving a DLR.

5. “Category” means a category set forth in the table in Section IV.A.2 of Schedule 2 to this Agreement.

6. “CMAM” means Central de Medicamentos e Artigos Medicos, the central medicines warehouse organization established within the MoH.

7. “Complete Primary School” means a Recipient’s public primary school that provides education for school years one to seven.

8. “Direct School Grant” means an amount made available annually to Complete Primary Schools based on an allocation formula set by the MoE to support the development and implementation of Complete Primary Schools development plans.

9. “Disbursement Linked Indicator” or “DLI” means in respect of a given Category, the indicator related to said Category as set forth in the table in Section IV.A.2 of Schedule 2 to this Agreement.

10. “Disbursement Linked Result” or “DLR” means in respect of a given Category, the result under said Category as set forth in the table in Section IV.A.2 of Schedule 2 to this Agreement, on the basis of the achievement of which, the amount of the Financing allocated to said result may be withdrawn in accordance with the provisions of said Section IV.

11. “Fiscal Year” or “FY” means the Recipient’s fiscal year from January 1 to December 31 of each calendar year.
12. "Floor" means the minimum DLR achievement level necessary to permit disbursement by the Association of the corresponding Financing amount to the Recipient.

13. "General Conditions" means the "International Development Association General Conditions for Credits and Grants", dated July 31, 2010, with the modifications set forth in Section II of this Appendix.


15. "MoE" means Ministry of Education.

16. "MoF" or means Ministry of Finance.


18. "PCT" means the Recipient's Program Coordination Team which shall be responsible for day-to-day management of the Program and shall be based in the MoF.

19. "PMC" means the Recipient's Program Management Committee which shall be responsible for facilitating strategic coordination of, and lesson sharing by, ministries participating in the Program, which PMC shall be comprised of at least the Permanent Secretaries, or their alternates, from MoF, MoH and MoE, and senior officials from national PFM institutions.

20. "PFM" means public financial management.

21. "POM" or "Program Operations Manual" means the document referred to in paragraph 2 of Section I.C of Schedule 2 to this Agreement, which sets forth guidelines, policies, procedures (including but not limited to: (a) the Verification Protocol; (b) the Quality-Assurance Protocol; (c) the list of stakeholders to participate in the development process of the School Councils' Manual and the Supervision Manual; and (d) the budget codes from the Recipient's chart of accounts for the MZ-PFMforR) and requirements for the implementation of the Program including additional measures to strengthen the Recipient's procurement, financial management, anticorruption, environmental and social systems, as the same may be amended from time to time with the prior written agreement of the Association, and such term includes any annexes or schedules to such manual.

22. "Program Fiduciary, Environmental and Social Systems" means the Recipient's systems for the Program referred to in Section 1.A of Schedule 2 to this Agreement.
23. "Programa de Gestao de Financas Publicas Orientado para Resultados" or "MZ-PFMforR" means the Recipient’s public financial management for results program (2014 to 2018) endorsed by the MoH and the MoE and approved by the MoF on September 3, 2013, whose objective is to deliver improved sector service delivery results by piloting an approach to strengthening the implementation of PFM reforms, conducive towards improvement of transparency and efficiency of public services spending, in sector ministries, provinces, districts and service units, with initial focus on the medicines supply chain and the school based management of Complete Primary Schools.

24. “Program Expenditures,” as referred to in the General Conditions as modified pursuant to Section II below, means the list of expenditures (identified through budget codes, identified in the POM, from the Recipient’s chart of accounts) for the MZ-PFMforR for an amount equivalent to USD 130.6 million, including those financed by the Credit, as such expenditures are listed in Appendix 2 to this Agreement, and consist of the Recipient’s expenditures relating to: (i) operational costs for the medicines supply chain and management of Complete Primary Schools; (ii) implementation mechanisms for enhanced cooperation between the MoF, MoE and MoH; (iii) the use of performance based allocations to motivate improved performance of targeted health and education sector institutions to achieve the objective of the Program; and (iv) carrying out capacity building activities for sector and PFM institutions to improve their ability to identify and resolve problems that hinder the achievement of results.

25. “Quality-Assurance Protocol” means the Recipient’s protocol, acceptable to the Association, for the quality assurance of medicines to be procured under the Financing.

26. “Scalable DLRs” means DLRs against which Financing withdrawals may be made in amounts proportional to their degree of achievement if it is equal to or above a Floor.

27. “School Councils’ Manual” means the document referred to in the table under paragraph 2 of Section IV.A of Schedule 2 to this Agreement with respect to the DLR for DLI 3 to be prepared by the MoE and which text is to be agreed through a participative process, setting forth the normative framework for the management of Complete Primary Schools, including mechanisms to support stronger parental and community participation, and to provide greater responsibility to school councils for overall school management development and performance, and such term includes any annexes or schedules to such manual.

28. “SDEJT” means Servicos Distritais de Educacao Juventude e Tecnologia, the Recipient’s district services for education, youth and technology.
29. "SIMAM" means Sistema de Informacao de Medicamentos e Artigos Medicos, the Recipient’s logistics and management information system for medicines.

30. "Sub-target" means each separate yearly DLR achievement level, referred to in Part B.1(b) of Section IV of Schedule 2 to this Agreement.

31. "Sub-Sector" means, for the purposes of the DLR for DLI 8 referred to in the table under paragraph 2 of Section IV.A of Schedule 2 to this Agreement, the individual components of the Recipient’s existing budget classification that currently combines primary, secondary, adult, and vocational education, youth and technology at the district level.

32. "Supervision Manual" means the document referred to in the table under paragraph 2 of Section IV.A of Schedule 2 to this Agreement with respect to the DLR for DLI 9 to be prepared by the MoE and which text is to be agreed through a participative process, setting forth the normative framework for the supervision of Complete Primary Schools. And, such term includes any annexes or schedules to such manual.


34. "Verification Protocol" means the Recipient’s protocol entitled “Summary Protocol for Verifying Achievement of DLIs” detailing the means by which the fulfillment of the DLRs will be verified under the Program.

Section II. Modifications to the General Conditions

The modifications to the General Conditions are as follows:

1. Wherever used throughout the General Conditions, the term “the Project” is modified to read “the Program”, the term “the Project Agreement” is modified to read “the Program Agreement”, the term “Project Implementing Entity” is modified to read “Program Implementing Entity”, the term “Project Report” is modified to read “Program Report”; and the term “Eligible Expenditures” is modified to read “Program Expenditures”.

2. In the Table of Contents, the references to Sections, Section names and Section numbers are modified to reflect the amendments set out below.

3. Section 2.02, Special Commitment by the Association, is deleted in its entirety, and the subsequent Sections in Article II are renumbered accordingly.

4. In Section 2.02 (originally numbered as Section 2.03), the heading “Applications for Withdrawal or for Special Commitment” is replaced with “Applications for
Withdrawal”, and the phrase “or to request the Association to enter into a Special Commitment” is deleted.

5. The section originally numbered as Section 2.05, Designated Accounts is deleted in its entirety, and the subsequent Sections in Article II are renumbered accordingly.

6. Paragraph (a) of Section 2.03 (originally numbered as Section 2.05), Eligible Expenditures (renamed “Program Expenditures” in accordance with paragraph 1 of this Section II), is modified to read: “(a) the payment is for the financing of the reasonable cost of expenditures required for the Program and to be financed out of the proceeds of the Financing in accordance with the provisions of the Legal Agreements;”.

7. The last sentence of Section 2.04 (originally numbered as Section 2.06), Financing Taxes, is modified to read: “To that end, if the Association at any time determines that the amount of any such Tax is excessive, or that such Tax is discriminatory or otherwise unreasonable, the Association may, by notice to the Recipient, exclude such amount or such Tax from the Program Expenditures to be financed out of the proceeds of the Financing, as required to ensure consistency with such policy of the Association.”

8. Section 2.06 (originally numbered as Section 2.08), Reallocation, is modified to read: “Notwithstanding any allocation of an amount of the Financing to a withdrawal category under the Financing Agreement, the Association may, by notice to the Recipient, reallocate any other amount of the Financing to such category if the Association reasonably determines at any time that such reallocation is appropriate for the purposes of the Program.

9. Section 6.01, Cancellation by the Recipient, is modified to read: “The Recipient may, by notice to the Association, cancel any amount of the Unwithdrawn Financing Balance.”

10. Paragraph (d) of Section 6.03, Cancellation by the Association, is deleted, and subsequent paragraphs are re-lettered accordingly.

11. Section 6.04, Amounts Subject to Special Commitment not Affected by Cancellation or Suspension by the Association, is deleted in its entirety, and subsequent Sections in Article VI and references to such Sections are renumbered accordingly.

12. In the Appendix, Definitions, all references to Section numbers are modified, as necessary, to reflect the modifications set forth above. In addition, the definition of the term “Special Commitment” is deleted in its entirety, and all subsequent paragraphs are renumbered accordingly.
## Appendix 2

### Program Expenditure

<table>
<thead>
<tr>
<th>Description</th>
<th>FY14</th>
<th>FY15</th>
<th>FY16</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>1. Storage and distribution of medicines</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Operational costs*</td>
<td>1.2</td>
<td>1.3</td>
<td>1.4</td>
<td>3.9</td>
</tr>
<tr>
<td>Performance based allocations - purchase of critical medicines</td>
<td>4.0</td>
<td>4.0</td>
<td>3.0</td>
<td>11.0</td>
</tr>
<tr>
<td>Other performance based allocations at central, provincial and district levels</td>
<td>1.5</td>
<td>3.3</td>
<td>5.8</td>
<td>10.6</td>
</tr>
<tr>
<td><strong>2. District Education Management</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Operational costs**</td>
<td>22.9</td>
<td>23.8</td>
<td>25.0</td>
<td>71.7</td>
</tr>
<tr>
<td>Performance based allocations - school funds</td>
<td>-</td>
<td>1.2</td>
<td>12.1</td>
<td>13.3</td>
</tr>
<tr>
<td>Other performance based allocations at central, provincial, and district levels</td>
<td>2.5</td>
<td>3.5</td>
<td>2.3</td>
<td>8.3</td>
</tr>
<tr>
<td><strong>3. Capacity development and Systems Strengthening (Health, education, MoF)</strong></td>
<td>1.8</td>
<td>2.2</td>
<td>4.0</td>
<td>8.0</td>
</tr>
<tr>
<td><strong>4. Program coordination and operational costs (MoF)</strong></td>
<td>0.8</td>
<td>1.5</td>
<td>1.5</td>
<td>3.8</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>34.7</td>
<td>40.8</td>
<td>55.1</td>
<td>130.6</td>
</tr>
</tbody>
</table>

*Storage and distribution costs only cover cost from the Recipient’s central to provincial levels. Spending at provincial level and below is currently co-mingled with other expenditures in the chart of accounts. The costs of personnel working directly on storage and distribution that are not covered by the Recipient’s health sector common funds are included.

** Recurrent costs of District Services for Education, Youth and Technology (SDEJT), including, but not limited to, personnel costs, office supplies, mission travel, fuel and workshops.