INTERNATIONAL DEVELOPMENT ASSOCIATION

PROGRAM APPRAISAL DOCUMENT

ON A

PROPOSED GRANT

IN THE AMOUNT SDR 33 MILLION
(US$50 MILLION EQUIVALENT)

TO THE

REPUBLIC OF MOZAMBIQUE

FOR THE

PUBLIC FINANCIAL MANAGEMENT FOR RESULTS PROGRAM

May 30, 2014

Financial Management
Core Operations Services
Africa Region

This document is being made publicly available prior to Board consideration. This does not imply a presumed outcome. This document may be updated following Board consideration and the updated document will be made publicly available in accordance with the Bank’s policy on Access to Information.
CURRENCY EQUIVALENTS
(Exchange rate effective date)
US$1 = 29.7 Meticais
(SDR 1 = US$1.515)
Fiscal Year - January 1 – December 31

ABBREVIATIONS AND ACRONYMS

ADE Apoio Directo as Escolas (Direct Support to Schools/School Funds)
ARV Anti-retroviral (medicines for treatment of HIV)
CEDSIF Centro de Desenvolvimento de Sistemas de Informação de Finanças (Development Center of the Financial Information System)
CMAM Central de Medicamentos e Artigos Médico (Central Medicines Warehouse)
CPS Country Partnership Strategy
CUT Conta Única do Tesouro (Single Treasury Account)
DAF Departamento de Administração e Finanças (Department of Administration and Finance)
DFID Department for International Development (United Kingdom)
DHS Demographic and Health Survey
DLI Disbursement-linked indicator
DLR Disbursement-linked result
DNT Direcção Nacional de Tesouro (National Treasury Directorate)
EAC Estudo Ambiental Simplificado (Simplified Environmental Assessment)
E-SISTAFE Eletrónico - Sistema de Administração Financeira do Estado (Electronic - State Financial Administration System)
FASE Fundo de Apoio ao Sector da Educação (Education Sector Support Fund)
FM Financial management
GDP Gross domestic product
GoM Government of Mozambique
IFMIS Integrated Financial Management Information System
IGF Inspeção Geral das Finanças (Inspectorate General of Finance)
M&E Monitoring and evaluation
MICOA Ministério para a Coordenação da Acção Ambiental (Ministry for Coordination of Environmental Action)
MINED Ministério de Educação (Ministry of Education)
MISAU Ministerio de Saúde (Ministry of Health)
MMAS Ministério da Mulher e Acção Social (Ministry of Women and Social Action)
MoF Ministério de Finanças (Ministry of Finance)
MPD Ministério da Planificação e Desenvolvimento (Ministry of Planning and Development)
MTEF Medium-term expenditure framework
NDPFP National Decentralized Planning and Finance Program
OCIIs Orgãos Controlo Interno (Internal Audit Units)
PAD Program Appraisal Document
PARP Plano de Acção para Redução da Pobreza (Poverty Reduction Action Plan)
PCT Program coordination team
PBA Performance Based Allocation
PEFA Public Expenditure and Financial Accountability
PFM Public financial management
PforR Program-for-Results (financial instrument)
PMCC Program Management Committee
PRSC Poverty reduction support credit
SDEJTs Servicos Distritais de Educação Juventude e Tecnologia (District Services for Education, Youth and Technology)
SDI Service Delivery Indicator Survey
SIMAM Sistema Informação de Medicamentos e Artigos Medicos (Logistics and Management Information System for Medicines)
SISTAFE Sistema de Administração Financeira do Estado (State Financial Administration System)
TATech Technical Assistance
ToR Terms of reference
UFSA Unidade Funcional de Supervisão das Aquisições (Functional Unit of Supervision of the Public Procurement)
UGB Unidade Gestão Beneficiaria (Beneficiary Management Unit - for financial authority)
UGEAs Unidade Gestora Executora de Aquisições (Managing and Executing Unit of Acquisitions)
UN United Nations
WHO World Health Organization
ZIP Zona de Implementacao de Programma (School Cluster)

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Sector Director: Edward Olowo-Okere
Sector Manager: Renaud Seligmann
Task Team Leader: Furqan Ahmad Saleem (AFTME)
Ana Ruth Menezes (AFTEE)
Republic of Mozambique

Public Financial Management for Results Program

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*Republic of Mozambique*  
*Public Financial Management for Results Program*  
*PROGRAM APPRAISAL DOCUMENT*  
*AFRICA*  
*AFTME*

### Basic Information

<table>
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<tr>
<th>Date:</th>
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<tbody>
<tr>
<td>Country Director:</td>
<td>Mark R. Lundell</td>
</tr>
<tr>
<td>Sector Manager/Director:</td>
<td>Renaud Seligmann / Patricia Mc Kenzie / Edward Olowo-Okere</td>
</tr>
<tr>
<td>Program ID:</td>
<td>P124615</td>
</tr>
<tr>
<td>Team Leader(s):</td>
<td>Furqan Ahmad Saleem / Ana Ruth Menezes</td>
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<td>Program Implementation Period:</td>
<td>Start Date: June 24, 2014</td>
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<td>Expected Financing Effectiveness Date:</td>
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<td>Expected Financing Closing Date:</td>
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### Program Financing Data (US$ Million)

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<th>[ ] Loan</th>
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**For Loans/Credits/Others (US$M):**

- Total Program Cost: 130.6
- Total Bank Financing: 50
- Total Co-financing: -
- Financing Gap: -

### Financing Source

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Borrower: Republic of Mozambique  
Responsible Agency: Ministry of Finance

<table>
<thead>
<tr>
<th>Contact:</th>
<th>Isaltina Lucas</th>
<th>Title: National Director, Treasury</th>
</tr>
</thead>
<tbody>
<tr>
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<td>Email: <a href="mailto:isaltina.lucas@mf.gov.mz">isaltina.lucas@mf.gov.mz</a></td>
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### Expected Disbursements (in US$ Million)

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<td>Cumulative</td>
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<td>34.5</td>
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### Program Development Objective(s)

The Program Development Objective 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.

### Compliance

**Policy**

Does the program depart from the CAS in content or in other significant respects? | Yes [ ] No [X]

Does the program require any waivers of Bank policies applicable to Program-for-Results operations? | Yes [ ] No [X]

Have these been approved by Bank management? | Yes [ ] No [ ]

Is approval for any policy waiver sought from the Board? | Yes [ ] No [X]

Does the program meet the Regional criteria for readiness for implementation? | Yes [X] No [ ]

### Overall Risk Rating: Substantial

#### Effectiveness Condition

**Name** | Recurrent | Due Date | Frequency
---|---|---|---
Program Operations Manual | No | Effectiveness | Occurs Once

**Description:**
The Additional Condition of Effectiveness consists of the following, namely that the Program Operations Manual shall have been adopted by the Recipient in a manner satisfactory to the Association.

#### Legal Covenants

**Name** | Recurrent | Due Date | Frequency
---|---|---|---
Joint agreement on PFM Capacity Development Activities | Yes | March 31, 2015 | Annual

**Description of Covenant**
The Recipient to provide to the Association a summary report in respect of the capacity building activities for sector and PFM institutions 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.

**Name** | Recurrent | Due Date | Frequency
---|---|---|---
Maintain norms for disposal of pharmaceutical products | Yes | Not applicable | Continuous

**Description of Covenant**
The Recipient to maintain 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.
Name | Recurrent | Due Date | Frequency
--- | --- | --- | ---
Develop pharmaceutical disposal plans | No | Six months after Effective Date | Occurs Once

**Description of Covenant**

The Recipient to develop pharmaceutical disposal plans for each type of facility consistent with the Norms for disposal of pharmaceutical products, and determine the requirements for equipment, training and reporting of pharmaceutical product disposals made (products, volumes and their place and method of disposal).

Name | Recurrent | Due Date | Frequency
--- | --- | --- | ---
Implementation and monitoring of pharmaceutical disposal plans | Yes | September 30, 2015 | Annual

**Description of Covenant**

The Recipient to 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.

Name | Recurrent | Due Date | Frequency
--- | --- | --- | ---
Grass-roots dissemination of complaints handling procedures in the health and education sectors | Yes | Six months after Effective Date | Annual

**Description of Covenant**

The Recipient to 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.

Name | Recurrent | Due Date | Frequency
--- | --- | --- | ---
Quality assurance of medicines purchased with Program funds | Yes | Following each procurement of medicines | Following each procurement of medicines

**Description of Covenant**

The Recipient to 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 set forth in the Program Operations Manual.

**Team Composition**

**Bank Staff**

<table>
<thead>
<tr>
<th>Name</th>
<th>Title</th>
<th>Specialization</th>
<th>Unit</th>
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</thead>
<tbody>
<tr>
<td>Furqan Ahmad Saleem</td>
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<tr>
<td>Jose C. Janeiro</td>
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<tr>
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<td>LEGOP</td>
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<tr>
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<td>Sr. Procurement Specialist</td>
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<tr>
<td>Name</td>
<td>Title</td>
<td>City</td>
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<tr>
<td>Matthew Andrews</td>
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<tr>
<td>Saul Walker</td>
<td>Health Specialist</td>
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<tr>
<td>R. Moses Thompson</td>
<td>Result-based Management Specialist</td>
<td>Washington DC</td>
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<tr>
<td>Tommaso Balbo di Vinadio</td>
<td>Operations Specialist</td>
<td>Washington DC</td>
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<td>Chris Parel</td>
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<td>Ricardo Valderrama Aramayo</td>
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<td>Addis Ababa</td>
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<tr>
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<tr>
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<tr>
<td>Nelia Taimo</td>
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<tr>
<td>Mariam Bibi Umarji</td>
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<tr>
<td>Mohamed El Ashmawy</td>
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<td>Maputo</td>
<td></td>
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</tbody>
</table>

**Non-Bank Staff**

<table>
<thead>
<tr>
<th>Name</th>
<th>Title</th>
<th>City</th>
</tr>
</thead>
<tbody>
<tr>
<td>Elvis Langa</td>
<td>Financial Management Analyst</td>
<td>Financial Management</td>
</tr>
<tr>
<td>Cheikh Sagna</td>
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<tr>
<td>Stephen Ling</td>
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<td>Verena Fritz</td>
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<td>Marcela Alejandra Natalicchio</td>
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<tr>
<td>Emerson Sique</td>
<td>Team Assistant</td>
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</tr>
<tr>
<td>Benjamin Randrianarivelo</td>
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<td>Management Capacity Development</td>
</tr>
<tr>
<td>Manush Hristov</td>
<td>Senior Counsel</td>
<td>Legal Support</td>
</tr>
</tbody>
</table>

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I. PROGRAM OVERVIEW

1. The Government of Mozambique (GoM) has rolled out a comprehensive public financial management (PFM) reform program over the past decade, which has greatly strengthened PFM rules, systems and institutions. Over the past 10 years, Mozambique implemented a series of important public financial management (PFM) reforms. These have contributed very significantly to improved aggregate fiscal discipline, and have laid the foundation for more strategic allocation of resources and efficient service delivery. PFM processes that are centrally controlled by the Ministry of Finance, such as cash management and bank reconciliation, have made considerable progress.

2. However, much remains to be done for these reforms to be reflected in the daily operation of institutions and staff in sector ministries, provinces and districts. These changes in practices are critical to ensure better value for money in public spending and improved service delivery. The authorities acknowledge that there is a gap between the PFM rules on paper and actual practices, especially in terms of compliance with internal controls, financial reporting and oversight arrangements in sectors and decentralized levels of government. Getting officials in sector ministries, provinces and districts to change their day-to-day practices in the management of public resources has proved more challenging. This means that sectors have yet to derive the full benefits, in terms of greater transparency, efficiency and effectiveness of public spending of the investments made in PFM reform at the central level.

3. The government has developed a new PFM for results program\(^1\) (the ‘program’) that aims to deliver improved sector service delivery results by piloting an approach to strengthening the implementation of PFM reforms in sector ministries, provinces, districts and service units. The Bank Program-for-Results operation (the ‘Program’) is supporting the initial rollout of the government PFM for results program, while making innovative use of the Program-for-Results instrument. The efficient allocation, appropriate use, transparency of and accountability for resources can contribute to improved outcomes in sectors and better results for a given level of financial effort. This focus on supporting sector results complements and deepens existing PFM reform efforts. The program approach to deepen PFM reforms combines the use of performance based allocations and capacity development. These two strategies will incentivize change and support key managers to identify challenges, and design and implement solutions to address them. In particular, it serves to engender collaboration between the Ministry of Finance and sector ministries to focus on addressing PFM challenges that hinder service delivery performance. The Program will be an innovative application of the Program for Results (PforR) instrument. The PforR instrument will be used to increase the efficiency and transparency of government expenditures by altering incentives and increasing public sector management capacity. This will also help strengthen the result focus of the authorities and the Bank.

4. The PFM for results program initially focuses on improving results in key programs within two high priority sectors – the storage and distribution of essential medicines in health, and school-based management in education. The Government expects that successful implementation of this approach to essential medicines storage, distribution and availability, and school-based management will be followed by a progressive scale-up in the health and education sectors, as well as more broadly across government. In the medium to longer term, the Government

\(^1\) Government of Mozambique - Programa de Gestão das Finanças Públicas Orientado para Resultados (Fase 1: 2014-2018) [the Government-own Program Document].
of Mozambique expects that performance-driven approaches will be a central component in supporting efficient, transparent and accountable use of public resources to deliver results. Better translation of resources into outcomes will be crucial to a development trajectory of inclusive and durable growth in Mozambique, as natural resource revenues increase dramatically in coming years.

5. In the health sector, poor institutional alignment in the system for the procurement, storage and distribution of essential medicines has resulted in inefficiencies that undermine the delivery of effective healthcare services. Access to appropriate, high-quality medicines is an important component of the health care system needed to address the primary causes of morbidity and mortality in Mozambique, particularly for women and children; malaria, HIV, TB, pneumonia and reproductive and maternal health. In recent years the value and volume of medicines moving through country supply chains has increased dramatically, with government commitment to provide curative care for malaria and long-term treatment for people living with HIV (both highly endemic in Mozambique). However, an assessment of medicines’ procurement and supply chain management system undertaken in February 2011 found shortcomings that included (i) poor information management between the central, provincial and district levels of the supply chain; (ii) ad-hoc distribution of medicines from provinces to districts and health centers; and (iii) fragmented management and accountability structures. These weaknesses stem from a supply-chain that is mapped to decentralized health sector administrative structure that functions poorly. They are exacerbated by poor horizontal coordination of disease focused vertical programs. These weak institutional interactions within the health sector result in a misalignment of incentives and the dislocation of lines of accountability across different levels and units within the supply chain.

6. The Government has acknowledged these weaknesses and defined a medium-term blueprint of medicines supply-chain reform to address them. The national Supply Chain Logistics Plan of Action 2013 and the Pharmaceutical Logistic Strategic Plan 2013 – 2017 both aim to (i) improve the quality and timeliness of information flow between health units, districts, provinces, and the Central Medical Store (CMAM); (ii) move to routine, scheduled delivery of medicines from superior to lower level storage units; and (iii) strengthen supervision and technical audit of the supply chain by CMAM. In addition, the strategic plan proposes to address structural challenges in the supply chain over the mid-to-longer term (e.g. delinking supply chain organization from the regular health administrative structure). A performance indicator framework has been developed to monitor progress, and ensure continuity across annual and longer-term strategic plans. This sector framework provides a coherent platform to coordinate the contributions of development partners on supply chain strengthening, particularly the US government, Global Fund to Fight AIDS, TB and Malaria (GFATM) and Bank financed projects, including this Program. However, unless these plans are supported by appropriate incentive and capacity development mechanisms, it is unlikely that they will succeed in improving behaviors along the supply chain. The program aims to align incentives and develop capacity for the national pharmaceutical supply chain as a whole, thus strengthening the system that is also used by all vertical disease programs.

7. The strong overlaps between core medicines supply chain and PFM functions emphasize the potential contribution of improved PFM to better systems performance. The PFM for Results Program will strengthen fiduciary integrity, information flow and proper monitoring of medicines storage and distribution. The results focus and flexibility of the Program fits well with the Government’s recognition that improving the performance of the supply chain will require better vertical alignment of the incentives of different levels, institutions of the supply chain, and horizontal alignment of national programs that focus on individual diseases (HIV, malaria,
amongst others.). The Government has selected five key supply chain indicators, drawn from its own indicator framework, as Disbursement Linked Indicators (DLIs) against which the Bank will disburse. These cover supply chain performance at central, provincial, district and health facility levels. Underneath these DLIs, the Government has designed its own schedule of performance-based allocations to drive change, complemented by capacity development to strengthen management and PFM practices. Together, these will lead to improved data and inventory management; better alignment of central, provincial and district level activities; and better implementation of audit and control systems. Progress in these areas will contribute to more reliable and predictable management of inventory and stock levels, reduction in expiries, and more routine distribution of essential drugs. Ultimately, the Bank’s support will contribute to a more transparent and efficient supply-chain, and to increased availability of medicines at health unit level.

8. **In the education sector, the government has begun the decentralization of financial and management authority to districts and schools for more efficient management of resources and improved outcomes.** However, these results have not been realized due to (i) lack of planning, financial management and monitoring capacity at district level and school level; (ii) limited capacity and active participation of parents and local communities in school councils; and (iii) deficient supervision and monitoring of school management by *Servicos Distritais de Educação Juventude e Tecnologia* (SDEJTs), and (iv) inadequate transparency in budget allocation and execution due to inadequate expenditure classification at district level. The Government spends 55 percent of its recurrent education budget at district level. Improving the effectiveness of decentralized management mechanisms at district and school level is, therefore, essential to ensuring value for money from education spending. Again, however, without altered incentives and sufficiently targeted capacity development resources, the authorities feel that it would be difficult to implement these reforms.

9. **The PFM for Results Program focuses on transparent and accountable school-based management in the education sector.** It will specifically support (i) the timely disbursement of funds to all 4,348 (2013) ‘complete’ primary schools across the country. ‘Complete’ primary schools are relatively larger schools that teach years 1 – 7 and account for 63 percent of primary school going children. These complete primary schools provide a potential for greater impact through improved management; (ii) improved effectiveness of supervision for these schools by district education management; and (iii) enhanced functioning of school councils; improved community representativeness (including parents, particularly mothers); improved council participation in school planning and a stronger role in ensuring more transparent and accountable utilization of resources. In turn, improved school-based management will contribute to better performance against many key education outcomes, including textbook availability, infrastructure maintenance, student and teacher attendance, student enrolment and retention, and eventually, improved learning outcomes.

A. **Country Context**

10. **Mozambique has experienced sustained economic growth since the mid-1990s, which has continued despite recent global food, fuel, and financial crises.** Gross domestic product (GDP) increase from 1993 to 2013 averaged 7.4 percent. However, the benefits of this rapid economic growth have been uneven, and had little impact on the lives of many of the country’s 22.9
million people. Growth has not been inclusive; the geographical distribution of poverty has remained largely unchanged over the past decade, with moderate and extreme poverty remaining heavily concentrated in rural areas and in the country’s Central and Northern regions.

11. Consequently, despite substantial progress towards the Millennium Development Goals (MDGs), these achievements have been uneven and social indicators remain low. Based on the results of the most recent household survey, Mozambique will need to significantly accelerate poverty reduction in order to halve the population living in absolute poverty by 2015. Reducing hunger and child malnutrition also remain a major challenge; nearly 41 per cent of children under-5 suffering from stunted growth. MDG 3 has been achieved, with almost universal enrolment in primary education, but completion rates remain under 50 percent and learning outcomes are poor.

12. The political environment has been relatively stable, following a 15-year civil conflict. The Frente de Libertação de Moçambique (FRELIMO) has been in power since the first multi-party election in 1992. Recent instances of civil unrest, associated with increases in the cost of staple foods and basic goods in 2008 and 2010, signify an increasing participation by citizens in governance and accountability. This growing demand for social accountability has been bolstered by the advent of an independent media and the emergence of civil society interest groups and think-tanks. The Government’s agenda on decentralization is also opening up possible spaces for increased and more diverse citizens’ voices in development policy choices, as well offering opportunities to demand accountability from the government.

13. Progress on to decentralization is mixed, and continuing uncertainty undermines effective planning, accountability and service delivery. The Constitution of Mozambique includes core principles promoting decentralization, and de-concentration of functions to districts has started. District governments gained the status of ‘budgetary units’ in 2005. The State Financial Administration System (Sistema de Administração Financeira do Estado, SISTAFE) law of 2002 promotes fiscal decentralization. Districts became the recipients of small direct financial transfers to support their recurrent and investment budgets for the first time in 2006, replacing the previous discretionary allocation of funds by provinces. However, the lack of an explicit decentralization framework results in continuing ambiguity in roles and responsibilities, and poor alignment between the center and decentralized administrative levels. This increases risks of sub-optimal allocation and accounting for resources against service outcomes, reduces efficiency, and increases vulnerability to misuse.

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2 The GoM’s official poverty statistics place the poverty rate in both 2003 and 2009 at about 54 percent; however, recent analytical work suggests that in 2003 the poverty rate was in fact marginally higher than the official figures indicate, at 56 percent, and that it subsequently fell to 52 percent in 2009. See “Poverty in Mozambique: New Evidence from Recent Household Surveys” (World Bank, 2012).

3 Mozambique ranks 184th out of 187 countries in the 2011 United Nations Human Development Index. The country is expected to achieve only 13 out of 21 Millennium Development Goals by 2015.

4 Demographic and Health Survey (DHS) Mozambique 2011, Preliminary Results (2012).

5 In early-2010, the newly elected Parliament vowed to pass the Information Act but action is still pending. According to the 2011 Freedom House Report, Mozambique’s media landscape is “partially free”. It operates in a “constrained environment characterized by scenes of intimidation and self-censorship.” Still, the media landscape is diverse with a number of genuinely independent TV, newspaper, and radio outlets.

6 The Law on Local Organs of State (LOLE) of 2003, and its regulations passed in 2005, provide the legal framework for district governments.
14. Mozambique’s changing economic outlook warrants a sound PFM and accountability system to foster inclusive growth and development. Very large coal, gas, and oil reserves have been discovered in the center and north of the country. Fiscal revenues from these resources are likely to increase rapidly over the next decade. The key challenge will be to translate this mineral wealth into durable development outcomes. Institutions will require the capacity to absorb additional resources and scale-up services in an equitable, sustainable and results-orientated manner. A robust PFM and accountability system is critical for transparent and optimal use of these resources and more effective and efficient service delivery – both of which will directly support the Bank’s twin goals of poverty reduction and shared prosperity.

B. Sector and Institutional Contexts

PFM context

15. Reforming PFM has been a cornerstone of good governance and sound macroeconomic management under the country’s poverty reduction strategy during the past decade. Mozambique is among the highest-performing developing countries in Africa in terms of its aggregate Public Expenditure and Financial Accountability (PEFA) score. Between 2006 and 2010 PEFA scores improved markedly (see Annex 10. Table A10.1), particularly in upstream functions including: (i) policy-based budgeting; (ii) comprehensiveness and transparency of budget management; (iii) cash management; (iv) revenue collection and management; and (v) predictability of revenues. A medium-term expenditure framework (MTEF) was introduced to support medium-term financial planning and resource allocations. The reforms also introduced the policies and procedures embedded in the SISTAFE PFM law for improved budgeting practices, tighter internal controls, efficient cash management, more accurate accounting and reporting, and auditing compliant with international standards. Finally, a new procurement system has been introduced modeled on international standards. Annex 10 summarizes on-going support by development partner to PFM reforms in Mozambique.

16. Despite these successful central PFM reforms, gaps remain between laws, policies and systems, and their implementation in sectors, provinces and districts. While aggregate PEFA scores are high for legal and policy frameworks, implementation of these frameworks is weaker. In addition, upstream elements of the PFM cycle (e.g. budget preparation, tax policy) perform better than downstream functions, including budget execution, procurement, internal controls, accounting, and audit follow-up. Unlike changes in PFM laws and Information Technology (IT) systems, which can be driven by a core team of reformers in the Ministry of Finance, improvements in their implementation requires behavioral changes by a large number of dispersed government officials in sector ministries, oversight entities, provinces and districts. So far, effecting that change has proven challenging, leading to uneven implementation of the PFM laws. Such an uneven implementation of PFM reform, in sectors and at lower levels of government is not unusual in large scale reforms, nor should it be taken as a sign of failure. Yet it affects the ability of the Mozambican government to effectively and equitably deliver services, and results in poor value for money in public spending.

17. The very strong emphasis put on IT system development in the PFM reform trajectory largely explains the current implementation challenges facing the authorities. The SISTAFE reforms have been very successful at creating the basic building blocks of an effective PFM system, starting with a PFM law and an integrated financial management information system that reflects it, e-SISTAFE. As is customary in a post-conflict environment, this reform, and in particular the costs
of the e-SISTAFE IT system (estimated at around US$60 million), were mostly donor financed. The institutional clout, staffing and influence of the PFM reform unit, in charge of developing e-SISTAFE and managing the basket fund that financed it, increased significantly as its donor funding increased. At the same time, PFM reforms became increasingly focused on the development of e-SISTAFE modules and their roll-out to provinces and districts. Development partners, including the World Bank, reinforced this trend through the inclusion of e-SISTAFE related milestones in the performance assessment matrix used for development policy lending. While this helped develop a very robust IT system, it took some of the attention away from the challenge of ensuring a proper use and ownership of this system by beneficiaries in sector ministries, provinces and districts, as well as sector specific PFM challenges such as the management of pharmaceutical assets or the quality of financial governance at school level. As a result, today there is evidence that e-SISTAFE is not used to its full potential. The authorities are committed to addressing these weaknesses and realize that this requires a much closer coordination with sector ministries.

18. While sector ministries have been involved in the implementation of PFM reforms, recent discussions with development partners have increased their attention to this issue, particularly in health and education. Despite the use of the e-SISTAFE by sector ministries for supplier payments, their involvement in PFM reform design and implementation was naturally less of a priority than sector specific policy and implementation challenges. Satisfying development partner requirements was vital to sector funding, and at times this has led to poor alignment with the long-term PFM reform agenda. Yet, a series of recent PFM related audit findings and media stories have put a sharp focus on the impact of internal control weaknesses on service delivery in health and education. In health, an audit in 2011 by the Global Fund to Fight AIDS, TB and Malaria (GFATM) identified a number of irregularities in accounting for expenditures financed by the health sector pooled fund. In education, the Government notified donors in March 2013 of payroll irregularities for some central ministry staff. As a result, PFM action plans were designed in health and education. The successful implementation of PFM action plans requires the collaboration of the Ministry of Finance, which, until recently, has been more focused on the development and roll-out of e-SISTAFE and on the day-to-day management of the budget cycle.

19. The PFM for results program (Programa de Gestão das Finanças Públicas Orientado para Resultados) is the GoM’s response to bridging the gaps in PFM implementation and resulting service delivery underperformance. The program, developed with technical support from the Bank, reflects and strengthens the alignment of incentives (see Box 1) between the Ministry of Finance (MoF) and sector ministries, especially health and education. It puts in place mechanisms to facilitate this alignment and for consensus building across ministries. Both health and education ministries have a critical need for MoF’s assistance in order to address PFM challenges in their sectors. The National Director of Treasury at the MoF is leading the Government’s efforts to deepen and institutionalize robust PFM practices in sectors. Consultations with key PFM institutions and sector ministries have identified and analyzed the main implementation challenges, based on experience from the roll out of existing PFM reforms. These consultations have informed the scope and design of the Government PFM for results program. This includes upstream technical assistance for two small pilot exercises that were focused on testing a

7 Currently, commitments are routinely made by sector ministries outside of the system before being entered at the time of payment; sophisticated functional and programmatic budget classifications exist in e-SISTAFE, but remain largely unutilized; some sector ministries (such as the Ministry of Health) developed parallel IT systems in order to meet reporting obligations vis-a-vis development partners rather than using existing reporting functionalities in e-SISTAFE.

sustainable methodology for supporting change at sector level. The key lessons from these pilots were that: (i) the active cooperation of Ministry of Finance directorates (not just the PFM reform unit) and sector ministries is critical to the identification and resolution of PFM bottlenecks to service delivery in sectors; (ii) it was important to have flexible sources of funding in order to undertake diagnostics, mobilize technical assistance and build consensus among diverse sets of government officials on solutions; (iii) supportive follow-up was critical to helping managers address emerging implementation challenges and adapt as needed; and (iv) rewarding performance for solving PFM problems could be a powerful way to align incentives across government (as PFM provides a common ‘language’ across different institutions). These lessons have been incorporated in the design of the program.

20. The Government has started implementing an innovative PFM for results program that combines cross-sector collaboration, performance based funding, and capacity development. The Government has initiated the program, the defining feature of which is that it provides collective financial incentives to the Ministries of Health and Education to achieve well-defined PFM and service delivery system results in their sectors. In addition, it allows them to access flexible resources for diagnostic work, technical assistance and consensus building activities. The PFM for results program supports a flexible and adaptive mix of interventions and intermediate results that are needed to achieve its goals. Annex 1 (Table A1.1.1) provides a more detailed discussion both of the PFM weaknesses in each of the sectors, and the approaches that the Government has developed to address them.

**Box 1: Political Economy and PFM Reform:**
Understanding who and which institutions benefit from a particular market or sector structure is important to identifying incentives and disincentives for behaviors, and potential drivers or hindrances to reform. Formal and informal benefits may relate to power to influence policy or resource decisions, control over resource allocations (including funds, inventory, infrastructure and staff) or working patterns, authority or influence over related fields and ability to charge ‘rents’ (defined as non-productive costs required of third parties to access services or make use of assets).

As PFM focuses on the management and use of resources, and increasing the transparency of decisions and resource utilization, PFM reform intervenes directly in the distribution of power and benefits within a system. Interest groups likely to lose out following reforms, either through loss of access to influence or resources, or reduced opportunity to act self-interestedly (due to improved control mechanisms and transparency), may seek to block reforms or subvert their implementation (particularly where enforcement is weak). Improving the supply and management of essential medicines, and strengthening of school-based management structures, change existing distributions of power and influence. Potential winners and losers of these reforms have been identified in both cases.

The PFM for results program addresses such political economy challenges in several ways. Firstly, the program has strong ownership across the Ministry of Finance and participating sector ministries, particularly at the senior levels. This high-level, joint political buy-in is essential to lead and create the authorizing environment for change. It is related to a shift in the incentives structures of the Ministry of Finance, the Ministries of Health and Education and development partners, which creates much greater benefits to cooperation than in the past. In addition, by focusing on sector level results, and supporting capacity to achieve these, the program focuses on the core challenge of gaining ownership and participation of institutions and people at implementation levels. Secondly, the performance based allocation model that the government is using will reward collective contributions to success, thus encouraging cooperation. Flexibility is important in the design of performance allocations, as changes may have unexpected impacts on incentive structures (particularly where these have been informal in nature). Thirdly, the performance-based approach requires improved availability, quality and use of data; information and transparency can make powerful contributions to shifting power relationships. Fourthly, the results based financing mechanism through which the Bank disburses to government – based on achieving pre-agreed high-level targets for disbursement linked indicators – shares risk between the Bank and the client, and shifts responsibility for access to resources to the latter. Specifics on the links between sub-sector challenges, performance allocations and capacity development feature in Tables A.1.1.1 and A.1.1.2.
21. The PFM for results program will improve the implementation of PFM reforms and contribute to improving the performance of delivery systems in health and education. The health and education sectors have been selected by the government authorities based on their importance under the national poverty reduction strategy (PARP 2011-14), and the need to demonstrate success in tackling PFM challenges. They are also high-spending sectors, with large numbers of public sector employees and significant financial support from development partners. The education sector has received a consistent allocation of 18-19 percent of total state budget in recent years, equivalent to around 5 percent of GDP in 2011. The health sector received 7.2 percent of total state budget in 2011. Both sectors face significant PFM problems, and both have elaborated action plans and indicators sets to address them. The program will support active and sustained engagement by the MoF with sector ministries to support the successful implementation of respective medium-term reform and investment programs, and link these with specific sector results. These results areas are (i) the availability, fiduciary integrity and proper monitoring of medicines storage and distribution and (ii) transparent and accountable school-based management. Performance will be verified by relevant sector internal auditors, and independently validated by the external auditor (Tribunal Administrativo). The structure of the program is outlined in Figure 1, below.

![Diagram of World Bank support to the Government of Mozambique's PFM for Results Program](image)

**Health sector context**

22. The health system in Mozambique has delivered improvements in some important health indicators, but persistent system weaknesses and high disease burdens mean that progress on others is slow, and results overall are uneven. While child mortality rates have fallen significantly in recent years – from 219 per 1000 live births in 1990 to 90 in 2012 – progress has
been slower on maternal health and family planning. The maternal mortality ratio remains high at 490 deaths per 100,000 live births. The national average for institutional delivery is 54 percent\(^9\) but falls as low as 26 percent in Zambezi province (DHS 2011). Prevalence of modern contraceptives is over 35 percent in Maputo, but only 7 percent in rural areas (DHS 2011). Both HIV and malaria are hyper-endemic in Mozambique. National HIV prevalence is 11.5 percent (AIS, 2009). In-patient malaria deaths are currently estimated at more than 3300 per annum, and malaria remains the largest killer of children under 5. Mozambique faces particular difficulties with low human resource capacity, insufficient infrastructure to meet the needs of highly dispersed rural populations, and weak information and governance systems.

23. **The high dependence on external funds, including for medicines\(^10\), reduces the predictability of health financing and the ability of the GoM to flexibly allocate resources.** Domestic funds account for approximately 25 percent of public health expenditures. Fourteen donors contribute a further 25 percent through an on-budget pooled sector fund (PROSAÚDE). The remaining 50 percent of public funds are provided outside of PROSAÚDE, with the majority provided off-budget through vertical disease programs (such as HIV, TB and Malaria). Approximately two-thirds of public expenditure on medicines is externally financed.\(^11\) This high-dependence on restricted external financing reduces predictability and the ability of the government to flexibly allocate resources. However, all development partners have identified medicine storage, distribution and availability as important concerns, and progress has been made in strengthening coordination among development partners, and with the Ministry of Health, based on a new plan of action, an associated indicator framework and a draft pharmaceutical logistics plan.

24. **Sufficient and reliable supply, storage and distribution of medicines have been identified by the GoM as a priority area for improvement.** An assessment of medicines procurement and supply chain management system undertaken in February 2011 found shortcomings that included (i) poor information accuracy and flow between the central, provincial and district levels of the supply chain; (ii) ad-hoc distribution of medicines from provinces downwards to districts and health units; (iii) fragmented management responsibility; (iv) weak system capacity aggravated by a poorly aligned supply chain, and; (v) constrained and inflexible financing due to earmarking by vertical disease programs, can lead to financing gaps for specific medicines. Funding constraints and inflexibility are exacerbated by weak PFM processes and system inefficiencies, specifically data and inventory management, internal control mechanisms and audit procedures. The resulting challenges in fully accounting for medicine stock levels, expiries, and delayed and inefficient distribution increases system vulnerability to conflicting interests and misuse of resources, and has been of particular concern among government authorities and health partners. Similarly, stock-outs of medicines, including core consumable commodities, jeopardize health service delivery.\(^12\)

25. **The Ministry of Health has responded to these challenges with Supply Chain Logistics Plans of Action in 2012 and 2013, and a longer term vision in a new Pharmaceutical Logistics Strategic Plan (2013).** A performance indicator framework and associated monitoring plan are providing the basis for the PFM for results program in the health sector. The strategic plan

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\(^9\) Government M&E data recorded a six percent annual growth in institutional deliveries from 2012 to 2013.

\(^10\) Two-thirds of medicines (by value) are procured externally, but all medicines are distributed through same government systems.


\(^12\) Besides appropriate medical staff, availability of needed medicines is crucial for the primary health care system. An important function of health care system is to deliver appropriate health products and services in an equitable, reliable and efficient manner.
and action plans address several key issues: (i) improved quality and timeliness of information flow between districts, provinces, and the Central Medical Store (CMAM), and better use of this information for planning and procurement purposes;\(^{13}\) (ii) better planning for distribution from provincial warehouses to districts; and (iii) stronger supervision and internal audit of province/district stores by CMAM. Development partners – including the US Government and the Global Fund to Fight AIDS, TB and Malaria and the World Bank – are coordinating their support to the medicines supply chain based on these plans, and are using the Government’s own indicator framework to identify complementary areas for support.\(^{14}\) The PFM for results program has selected indicators from this performance framework that focus on better stock management and distribution practices, improved flow and use of information, an enhanced percentage of requisitions from lower levels being met by CMAM, and increased availability of medicines in health units. The program has been designed to improve the effectiveness of Government reforms of the medicines supply chain, and investments by other development partners (see Annex 1 (Table A1.1.2)).

**Education sector context**

26. **Mozambique has made notable progress in the delivery of primary education services; nevertheless, it continues to struggle with poor education outcomes in some areas.** While 5.52 million students in 2013 were enrolled in primary education (gross enrolment rate of 116 percent and net enrollment rate 95 percent), half of students do not complete their primary education (average completion rate of 47 percent in 2012, 44 percent for girls). The quality of educational outcomes is also of increasing concern to both the Government and its development partners (Southern and East Africa Consortium for Monitoring Educational Quality (SACMEQ)\(^{15}\) findings remain poor) (See Annex 1 (Table 1.1.2)).

27. **Decentralization of financial authority to districts and school levels provides an important opportunity for improved management of education services, but successful implementation of the strategy remains a challenge.** The decentralization strategy consists of devolving funds to districts for payment of primary school teacher salaries and for grants to schools, which are to be used for learning materials such as notebooks, teaching aids, refurbishment, etc. School grants constitute an important instrument to address school-specific challenges in the context of Mozambique’s geographic, gender, and ethnic disparities, and to strengthen local management to improve the overall functioning of the school and pupil outcomes. In the education sector, about 57 percent of the government’s recurrent budget is executed at district level (about US$480 million in 2013). A significant part of these funds (95 percent) are for teacher salaries (US$458 million in 2013\(^ {16}\)), the donor-supported Education Sector Support Fund (FASE)\(^ {17}\) provides

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\(^{13}\) At present, Mozambique has two Central Medical Stores, one warehouse for each of the 10 provinces, and one warehouse for each of the 128 districts.

\(^{14}\) The Pharmaceutical Supply Chain Performance Indicator Framework 2013 identifies which development partners are using which indicators as the basis for their financing. The US Government and the GFATM are also funding additional areas within the pharmaceutical sector. These include procurement capacity development at CMAM, support for improved medicines selection and regulation with the Department of Pharmaceuticals (US Government), and strengthening data systems to collect consumption data for selected medicines (GFATM). The World Bank is the current co-chair of the sector working group on medicines (since December 2012), and has played an important role in facilitating this coordination.

\(^{15}\) Southern and East Africa Consortium for Monitoring Educational Quality (see [http://www.sacmeq.org/](http://www.sacmeq.org/)). SACMEQ Reading scores have decreased from 516.7 in 2003 to 476.0 in 2007 and Maths scores have decreased from 530 to 483.8 in the same period. Over the same period, the system witnessed major expansion in access to poorer populations with lower school readiness, which affected the average SACMEQ scores.

\(^{16}\) Overall, 89 percent of the recurrent budget of the education sector is spent on salaries (about US$730 million) and 70 percent of total education budget.
around US$15-20 million for primary school grants and an estimated US$4-6 million per annum is for the supervision of schools by SDEJTs. However, decentralized management is still relatively nascent, and systems and capacity are limited at both district and school levels.\(^\text{18}\) At the district level, the budget does not distinguish between spending on different education sub-sectors, making it difficult to track the expenditure amounts. District authorities also lack financial management and monitoring capacity.

28. Although the criteria for election and composition of school councils encourage participation by parents and local communities, there is little evidence that school councils are effectively engaged in managing school-level activities.\(^\text{19}\) Case studies\(^\text{20}\) and supervision reports indicate high levels of school staff absenteeism as well as lack of maintenance of school buildings, and conservation of books and learning materials. There are risks that school staff and teachers could become engaged in politically motivated activities, resulting potentially in absenteeism, and/or improper use of school premises or funds for such activities. Therefore, it is necessary to ensure effective engagement of school councils, building local ownership and transparency, in order to improve local governance of schools in general. Where active, school councils have focused mostly on the use of school funds, rather than on overall school management, development, and performance. Therefore, despite the decentralization of financial and management authority to district and school levels, the benefits of decentralized management in terms of improved efficiency and schooling outcomes are yet to be realized.

29. The Ministry of Education plans to scale-up the implementation efforts for effective decentralized education and school-based management through the PFM for results program. To improve school-based management, the PFM for results program will specifically support: (i) disbursing funds to schools in a timely manner; (ii) increasing effectiveness of school supervision by SDEJTs; (iii) improving the transparent and accountable functioning of school councils for optimal planning and use of resources; and (iv) creating greater transparency of education budget allocation and spending through the use of a functional budget classification at district level. In turn, improved school-based management will contribute to improved performance against many key education outcomes, including textbook availability, infrastructure maintenance, student and teacher attendance, student enrolment and retention, and eventually, improved learning outcomes.

C. Relationship to the CPS and Rationale for Use of Instrument

Relationship to the CPS

30. The PFM for results program is in line with the Mozambique Country Partnership Strategy (2012-2015). The CPS puts strong emphasis on governance and public sector capacity as a means to enhance service delivery in the selected health and education sectors, as well as others. It also highlights the need to support a third generation of governance reforms by sustainable improvements in the public sector results chain. The PFM for Results Program will support the

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\(^{17}\) Overall external financing is around 20 percent of the overall education budget of which around 70 percent is channeled through the pool fund: FASE. Currently 10 development partners including the Bank have signed up for FASE, which was created in 2002 and has since grown into the principal mechanism to channel external funding for implementation of the sector’s strategic plans.

\(^{18}\) Using POEMA (Planning, Budget, Execution, Monitoring, and Evaluation) approach (initially developed with GIZ assistance), the Ministry of Education is developing management capacity at all levels of the education sector. POEMA is now integrated as part of sector annual plan.

\(^{19}\) Approximately 37 percent of schools do not have complete financial accountability records (ADE evaluation).

\(^{20}\) For example: Opportunities to learn & early grade reading in Cabo Delgado, Aga Khan Foundation, 2011.
cross-cutting pillars, fostering good governance and preserving macroeconomic stability, of the CPS and will build on CPS approach to cross-sectoral reforms.

31. The PFM for results program will establish synergies with the poverty reduction support credit (PRSC). The PRSC X (P146537) will continue to support PFM reforms through policy actions. The World Bank has consistently supported PFM reforms in the country through PRSC-2 to PRSC-8. These included support for strengthening medium-term perspectives in budgeting, supporting roll-out of e-SISTAFE, strengthening internal audit institutions, enhancing coverage of external audit, and strengthening public procurement systems. PFM is being considered as part of the Public Investment Management pillar in the dialogue on the new PRSC. This will include support to improve the effectiveness of audit mechanisms, particularly the role of the Finance General Inspection (IGF) and sector internal audit units (Orgãos Controlo Interno - OCIs). The PRSC’s support for a robust PFM policy and institutional environment in the country will be complemented by the support for specific improvements in sector level results through the PFM for Results Program.

32. The PFM for results program will complement capacity-development activities under the National Decentralized Planning and Finance Program (NDPFP), and other on-going PFM and sector capacity-development activities in health and education. The NDPFP (P107311), co-financed by the World Bank and other development partners, aims to develop capacity of district governments in the areas of participatory planning, budgeting, investment project implementation, general administration, financial management, procurement, and revenue collection. The PFM for Results Program will establish linkages with the on-going capacity-development activities under the NDPFP, to the extent made possible by progress made under the NDPFP, and will build on the existing training modules to support further roll-out.

33. The World Bank is cooperating closely with PFM and sector donor working groups to coordinate its support to the PFM for results program. The Bank and other donors have a harmonized engagement with GoM on PFM reforms through a PFM coordination working group. There are sub-groups on budget analysis, e-SISTAFE, procurement, audit, and decentralization and service delivery. Implementation issues, and links to public service outcomes, at sector level do not currently fit easily within the existing working group structure. However, the arrangements for donor and government coordination on PFM issues are currently under review. The Bank will continue to participate in relevant working groups (including those specific to sectors), and identify the best mechanism to ensure that the PFM for Results Program complements existing PFM reform efforts once coordination arrangements have been revised. Some development partners have indicated an interest in supporting the PFM for results program, and the United Kingdom Department for International Development partially funded its preparation through an Externally Financed Output Agreement. Furthermore, the program is fully consistent with the focus of the IMF’s policy advice and technical assistance in the area of PFM, which supports the authorities to go beyond the focus on the development of e-SISTAFE in order to ensure appropriate use of the system, management of aggregate fiscal risk and efficiency of public spending.

34. The World Bank’s support to the PFM for results program and existing sector portfolios complement each other in many ways. The Program design has benefited from diagnostics and knowledge generated by the existing portfolio of projects in the health and education sectors. The Bank’s portfolio largely uses country financial management systems, and these programs will benefit from improvements in these systems. The Health Commodities Security
Project (P121060) has financed commodity procurement, analytical studies and supply-chain related equipment purchase. In particular, it has financed computers needed to implement the country’s logistics and management information system (LMIS) at district level, and use of this system is a core indicator for the PFM for results program. In education, the Education Sector Support Project (P125127) contributes to the ESSP/FASE pool of funds and finances the Direct Support to School Program. This provides resources to schools to buy teaching and other needed materials, and aims to strengthen the capacity of the community led schools councils in the management of these funds. Annex 1 Table A1.1.2 provides an overview of Bank and development partner support in the medicines supply chain and primary education sector.

Rationale for using the Program for Results (PforR) instrument

35. There are four primary reasons why a PforR instrument is considered the most appropriate to support the Government’s PFM for results program. The PforR instrument is well suited to support the Government’s PFM for results program. Firstly, its focus on results provides a platform to engage and align the Ministry of Finance and sector ministries through joint identification of disbursement-linked indicators (DLIs) that emphasize the link between improved PFM and service delivery outputs. Secondly, the PFM for results program complements existing World Bank and Development Partner investments by strengthening the results orientation and capacity of targeted sector institutions to plan, allocate and use resources effectively and accountably. Thirdly, the flexibility of the PforR instrument has allowed the Government to develop its own schedule of performance based allocations and capacity development program. Crucially, the Government can adapt the mix of performance based allocations and capacity development as implementation experience evolves. This increased government ownership and ability dynamically to manage resources is key to the focus on accountability embedded in the PforR approach (along with the shift in risks from the Bank to the client). Fourthly, the PforR shifts the focus of World Bank engagement from transactions to systems improvement.

36. This will be an innovative application of the PforR instrument. The Program focuses on improving the efficiency and transparency of sector service delivery systems, through improved government coordination, performance based allocations and demand driven capacity building. This combination of incentives and capacity building will motivate and enable change. It will help to embed existing government reforms deeper within sectors, and enhance the ability of government services to translate inputs into results.

II. PROGRAM DESCRIPTION

A. Program Scope

37. The scope of the Government’s PFM for Results program is to improve the transparency and efficiency of spending on public services, with an initial focus on the medicines supply chain and the school based management of complete primary schools. Table 1 (below) (attached to the Financing Agreement as Appendix 2) sets out existing Government expenditures (US$75.6 million), drawn from the Government’s chart of accounts, relating directly

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21 Complete primary schools are relatively larger schools that teach years 1 – 7 and account for 63 percent of primary school going children. These complete primary schools provide a potential for greater impact through improved management.
to the management, operation and supervision of the medicines supply chain, and school based management of complete primary schools. It also includes Government funding of US$5 million and Bank co-financing of US$50 million to supplement existing management, operational and supervision expenditures for improved transparency and efficiency of these two public service delivery systems in health and education. Expenditures relating to teaching staff (such as staff salaries) and assets (e.g. the bulk of medicines procurement costs) that are managed by these systems are not included.

38. **The Bank’s PFM for Results Program (‘the Program’) supports the Government’s PFM for Results program and has the same scope. It consists in the following activities:**

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

39. **The Government’s PFM for Results program expenditures (Table 1) are co-financed by the Bank to the sum of US$50 million.** The total program of expenditures of US$130.6 million does not include any other funding from the Bank or other development partners. Line items from the Government chart of accounts have been identified for existing and incremental Program expenditures.

<table>
<thead>
<tr>
<th>Table 1: Expenditure Framework</th>
<th>FY14</th>
<th>FY15</th>
<th>FY16</th>
<th>Total</th>
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<tr>
<td><strong>1. Storage and Distribution of Medicines</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Operational costs*</td>
<td>1.2</td>
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<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>1.8</td>
<td>2.2</td>
<td>4.0</td>
<td>8.0</td>
<td></td>
</tr>
<tr>
<td><strong>4. Program Coordination and Operational Costs (MoF)</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>0.8</td>
<td>1.5</td>
<td>1.5</td>
<td>3.8</td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>38.9</td>
<td>45.4</td>
<td>60.2</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.
40. The Bank and the Government have agreed on a results framework (Annex 2), and agreed to targets for nine disbursement linked indicators (DLIs) (Annex 3) against achievement of which the Bank will disburse funds. The Tribunal Administrativo (the supreme audit institution in Mozambique) will provide independent validation that DLI targets have been met. For the medicines supply chain, indicators focus on the fiduciary integrity, storage, distribution and availability of medicines. For school based management, indicators focus on accuracy of budget classification, timely disbursement of funds, improved supervisory support for schools, and representative and effective school councils. The results framework and DLIs are based on the Government’s own strategies, plans and indicators for the improvement of PFM and performance of the medicines supply chain, and of school based management. The Tribunal Administrativo provides timely and high-quality financial audits (often of superior quality to private sector auditors) for a number World Bank financed operations in Mozambique, and will do so for the Program. In addition, the Tribunal’s Performance Audit Unit has agreed to conduct independent validation of achievement of annual targets further to the Verification Protocol (which is part of the Program Operations Manual and within the overall institutional mandate and strategy of the Tribunal Administrativo). The Program will allow the Tribunal Administrativo to further strengthen its capacity to audit performance. Annex 3 provides summary information on the verification approach for each DLI.

41. By improving transparency and efficiency of spending, the PFM for Results Program contributes to more efficient allocation and use of related government and development partner funded expenditures on complete primary school education (including teacher salaries, text books etc.), medicines supply and PFM investments. The program does not include these associated expenditures within its scope, as they are not strictly necessary in order to achieve the transparency and efficiency gains that are the primary targets of the program interventions. However, these complementary programs of expenditure will benefit from the greater transparency and efficiency of the sub-sectors. For instance, in the health sector, total government procurement of medicines amounted to US$66 million in 2013. A further US$155 million of medicines were procured by development partners (primarily HIV, TB and malaria medicines). All medicines move through the government supply chain, the efficiency of which will be improved by the program. In addition, the US Government and the Global Fund to Fight AIDS, TB and Malaria invest approximately US$7 million per year in supply chain strengthening (including technical assistance for medicines quality assessment, selection and procurement). Similarly, in the education sector, total government spending on complete primary schools in 2013 was approximately US$172 million. In addition, the education pooled fund (Fundo de Apoio ao Sector da Educação - FASE) will contribute a further US$52.5 million. In total, expenditures on medicines supply and complete primary school education amounted to approximately US$1,370 million (including costs included in table 1 above and related government and partner expenditures). Table A.1.1.2 in Annex 1 sets out where the Program contributes to supply chain and complete primary school performance, and how these complement investments of other development partners.

42. The Program complements significant ongoing development partner investments in PFM reform at central level, totaling US$157 million 2010 – 2014. The Program will build on and help to deepen the implementation of these PFM reforms within sectors, provinces, districts and service delivery units. National PFM institutions will support capacity building to sectors that is

22 The Bank will have the right to make the final decision on the achievement of DLI targets for the purposes of disbursement.
23 CMAM.
consistent with the Government’s PFM vision, and that will use the tools, training modules and approaches supported through existing partner financing. The Program also complements proposed Bank support for PFM through PRSC 9 (currently in preparation), which includes support to increase the effectiveness of audit mechanisms, particularly the role of the Inspector General of Finances (IGF) and sector internal audit units (OCIs). Annex 4 outlines the Government’s overarching PFM reform vision, and Annex 10 lists support to PFM reform by development partners.

43. **The PFM for Results Program uses the economic and functional classification of the Government chart of accounts to budget its expenditures along the respective institutional responsibilities.** The budget for performance-based allocations and existing recurrent expenditures will be available to the selected sector ministries, allocated under the economic and functional classification of the Government chart of accounts. The Ministry of Finance will have budget responsibility for capacity development. The Program Management Committee (comprised of representatives from each of the three ministries) will approve all such activities for implementation and ensure that these are included in the annual budget. The Program expenditures will be budgeted through the Government budget cycle.

**Health sector scope and intervention**

44. **The PFM for Results Program supports improved storage, distribution and availability of medicines by assisting progress against selected indicators from the Ministry of Health’s own pharmaceutical supply-chain performance framework.** The Program supports improved transparency, alignment and performance of central, provincial and district levels of the pharmaceutical supply chain, and contributes to increased availability of medicines at health centers. The Program focuses on results at central, provincial, district and health center levels, and coordination between them. It provides resources to support performance based allocations to motivate change (CMAM has developed a schedule of performance payments in consultation with provincial departments of health and provincial warehouses), and management and PFM capacity development. Specifically;

(a) **At the central level,** the Program will focus on the degree to which the Central Medical Store (CMAM) meets requisitions from lower levels of the system.\(^{25}\) This is dependent on effective communication between levels of the system, and with national, vertical disease programs (e.g. HIV, malaria and TB), to forecast medicines needs and manage supplies. The Program will also support the capacity of CMAM to fulfill its standard setting and supervisory role (through an internal audit unit) for the other levels of the system. The Program also includes performance based allocations to the Department of Pharmacy that will motivate approval and implementation of new regulations for the disposal of pharmaceutical waste, and the development of a new essential medicines list through an improved and evidence based

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\(^{25}\) CMAM manages medicines procurement for the National Health Service. Only medicines included in the national essential medicines list may be procured. This list, most recently updated in 2010, is developed by the Department of Pharmacy, in consultation with clinical experts from relevant fields. Products must be registered for use in Mozambique, and suppliers must provide evidence of adherence to good manufacturing practices. The US government is currently providing support to the Ministry of Health to strengthen selection and regulatory processes. Procurement for HIV, malaria and TB medicines is largely done externally by the US government and the GFATM, and complies with country treatment guidelines, and international agency quality assurance (US Food and Drug Administration or World Health Organization pre-qualification).
process. Support at central level is complementary to funding by the US Government (focused on procurement processes, warehouse management and information systems, medicines quality and selection) and the GFATM (focused on the development of a performance management system for staff).

(b) At the provincial level, the Program focuses on improved inventory management and compliance with standards and procedures by provincial warehouses. CMAM’s mandate for storage and distribution ends at provincial level, and so provinces play a pivotal role in relation to downstream supply of medicines, and the aggregation and communication of stock and order information to CMAM. Warehouse performance will be reviewed through semi-annual assessments to be carried out by the CMAM internal audit unit against a standard audit guide. Each audit round includes the provincial warehouse, two district depositories and four health facility depositories (two in each of the districts visited). The Government’s performance based allocations at this level (which sit underneath and support the achievement of the DLIs) focus on improved inventory management, accurate and timely information flow up, and on scheduled distribution planning to lower levels.

(c) At district level, the Program will support improved timeliness and completeness of information flow from districts to provinces and then to CMAM. This is essential to better alignment in the system, improved accountability, and more efficient procurement and distribution of medicines. The Program complements funding under the Bank’s Health Commodity Security Project (P121060), which is supporting the purchase of computer hardware to install the logistics and management information system (SIMAM) at district level. And, it complements investment by the US Government, GFATM and Clinton Health Action Initiative in distribution of medicine from provinces to districts.

(d) The Program will monitor rates of expired and wasted medicine at central and provincial levels as a proxy indicator for more effective management of inventory in hand.

(e) Lastly, the Program will monitor and contribute to increasing the availability of a set of tracer essential medicines for HIV and for maternal and reproductive health at health center level. The Program will make available performance based funds (up to US$9.6 million) for procurement of essential primary health care medicines at central level (for distribution nationally). These funds will help to overcome funding allocation inefficiencies resulting from restrictive nature of vertical of funding for vertical disease (particularly HIV, TB and malaria).

45. The Program includes capacity development activities and performance based allocations that complement the support of other development partners to the medicines supply chain. In particular, the program will support improved supervision, improved inventory visibility, and stronger internal control systems at each level. Management capacity to identify and resolve implementation challenges will be focused at provincial level, and strengthen the ability of managers at this level to coordinate with districts and the center. Annex 1 Table A1.1.1 provides an overview of the PFM and management challenges currently faced in the medicine supply chain, and capacity development activities and performance based allocations that the Program will support to address them. Annex 1 Table A1.1.2 gives an overview of how this Program support addresses constraints along the medicines supply value chain in coordination with the investment of other development partners.

26 Management Sciences for Health is providing funding for this process, with US Government funding.
27 Standards are defined for 26 indicators in the Ministry of Health’s Guião de auditoria par o nível Provincial (MISAU 2012).
28 Expired and damaged medicines at district warehouses are required to be sent to provincial warehouses for appropriate disposal.
46. The technical risk associated with intervention in the medicines supply chain is moderate. The functioning of the medicines supply involves the coordination of institutional relationships at different levels of government, resulting in complex political economy challenges. The actions of external donors also have significant impact of the supply chain and the availability of medicines. The design of the Program addresses the first of these risks by allowing adaptive approaches to achieving agreed results, and providing resources to both address incentives and develop capacity to deliver. The risks arising from the dependency on external donors are mitigated by coordination around the Government’s own plan of action and indicator framework, close working with development partners through the health sector medicines working group (that the World Bank co-chairs), and by pricing and focusing DLIs so that overall program results are not unduly dependent of external factors. Annex 4 provides a more detailed technical risk assessment.

**Education sector scope and intervention**

47. The PFM for Results Program will strengthen the horizontal and vertical accountability frameworks for more transparent and accountable school-based management in 4,348 complete primary schools. For accountability to communities, effective school-based management requires transparency and accountability in resource allocation and application at the school level. At the same time, engagement of school councils, parents, and communities is needed to achieve this (Figure 2). The normative framework for school management is set out in the REGEB (regulatory document for primary education) and Direct School Grant Procedures Manual. The procedures define the responsibilities for various functions for the management of school funds. These responsibilities are undertaken by provincial sector offices (DPECs); district-level SDEJTs; School Clusters (ZIPs); school staff; and school councils. The Ministry of Education is revising this normative framework to encourage stronger parental and community participation. Greater responsibility will also be given to school councils for overall school management, development, and performance, rather than the current narrow focus on execution of school funds. At the same time, vertical accountability will be improved through streamlined reporting requirements for schools, and enhanced supervision of schools by the SDEJTs. The Program will support enhanced levels of school supervision activity and follow-up on recommendations by both school councils and SDEJTs.

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29 There are 11,164 primary schools in Mozambique and, among those, 4,348 are complete primary schools having classes up to grade 7. Only these complete primary schools have been selected based on their relative readiness for school-based management given their staff strength, state of infrastructure, number of students, accessibility, etc. Complete primary schools have just under 60 percent of total number of students at primary level.

30 ZIPs are clusters of 4-5 schools, with one identified as the lead school.
48. The Ministry of Education will introduce performance-based financing as a key strategy to motivate better school management. Presently, school funds are predominantly allocated based on the number of students per school and number of classes. A social protection index and minimum allocation for small schools are also used to ensure equity. Under the Program, the Ministry of Education will introduce performance-based financing (an additional grant of the school funds as a key strategy to motivate improved school-based management. Schools will receive additional grant if they can demonstrate greater transparency and accountability according to the following three criteria: (i) school council elections conducted according to the revised manual, including gender representation and parental involvement; (ii) approval of school development plan in a transparent and participatory manner; and (iii) public display of information on how resources are allocated, planned, and applied. Depending on success of the performance-based financing in the first two years, the Ministry of Education would include other performance indicators. To ensure efficiency and effectiveness of the program implementation, the ministry will also introduce performance-based incentives for key personnel at provincial and central levels.

49. The PFM for Results Program is also supporting the engagement between the Ministry of Finance and the Ministry of Education to improve the specificity of budget classification. Expenditures at the district level need to be separately reported by each level of education (i.e., primary, secondary and technical and vocational education and adult literacy) for improved transparency in budget allocation and expenditure monitoring, which is not currently the case in e-SISTAFE. Education expenditures also need to be reported separately from expenditures on youth centers and sports facilities, which are currently accounted for under the same budget code. It may appear to be a simple issue to resolve but it has been pending for a long time due to misaligned incentives between the Ministry of Finance and Ministry of Education. The Program provides an opportunity to overcome this issue by building an alliance between the Ministries of Finance and Education.

50. The Program includes capacity development activities and performance based allocations that complement the support of other development partners to the primary education sector. The Ministry of Education has developed a detailed work plan to support the improved performance of school based management that incorporates inputs from the PFM for Results Program, its own investments and those of other development partners. This includes activities to produce and disseminate guidelines, train members of school councils, strengthen supervisory capacity and practices at district level, and to align supervision and oversight at provincial and central levels. These activities each have related milestones against which the Ministry of Education will make performance based allocations to the relevant institution. Management and PFM capacity building will be focused at district and school level, but with some focus on PFM activities required centrally (e.g. development of improved budget classifiers). Annex 1 Table A1.1.1 provides an overview of the PFM and management challenges currently faced in the provision of primary education services, and capacity development activities and performance based allocations that the Program will support to address them. Annex 1 Table A1.1.2 gives an overview of how this Program support addresses broader constraints in the primary education sector in coordination with the investment of other development partners.

31 Targeted capacity development will ensure that performance based payments do not entrench existing disadvantages that may exist between schools (e.g. differential capacity of communities to participate actively in school councils could be addressed through community mobilization and support activities).
51. **Technical risks in the education sector have been assessed as moderate.** Risks relate to dynamics at school level, and within district government departments. At school level, results depend on the recruitment, support and effectiveness of representative community members on school councils, and their ability to engage constructively with school directors. The Ministry of Education is fully committed to the school council model, and the Program supports stronger definition of roles, guidance for composition and capacity development for members. DLIs and performance based allocations are linked to school council performance, thereby providing a strong incentive to school directors to support councils to fulfill their roles. At district level, improved budget classifications will increase transparency of allocation decisions, and reduce vulnerability to diversion of education funds. Strong political support for this measure from the center, and technical engagement by PFM institutions (including DNO and CEDSIF) will help ensure that these changes are implemented. In addition, the Program provides the flexibility to the Ministry of Education to adjust incentives and focus capacity development to address implementation challenges as they arise. Annex 4 provides a more detailed technical risk assessment.

**B. Program Development Objective**

52. **The Program Development Objective 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 will focus on improving the performance of the medicines supply chain, and on contributing to improved availability of medicines in over 1,300 health centers nationally. In addition, it will increase the effectiveness of school based management in 4,348 “complete” primary schools, which are relatively larger schools teaching years 1 – 7 and account for 63 percent of primary school going children in the country. These complete primary schools provide a potential for greater impact through improved management.

**C. Program Key Results and Disbursement-Linked Indicators**

**Program key results**

53. **Intermediate results will be measured through various indicators under the following two results areas** (see the Program Results Framework in Annex 2):

   (a) Fiduciary integrity and monitoring of medicines storage, distribution and availability
   (b) Transparent and accountable school-based management.

**PDO indicators**

54. **The following three indicators will capture the fundamental goals reflected in the PDO:**

   (a) PDO Indicator 1 - Average availability of a tracer set of essential maternal and reproductive health medicines at health facility level;
   (b) PDO Indicator 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; and

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32 Complete Primary Schools are those that teach school years from one – seven.
(c) PDO Indicator 3 - Proportion of complete primary schools that comply with defined standards for transparency and accountability, as defined, agreed and distributed in 2014.

55. Each PDO indicator measures the improvement of PFM performance embedded in the overall performance of the specific sector delivery system. For the health sector, the PDO indicators will measure compliance with supply chain standards at provincial level, and the availability of medicines in health centers, which reflects the intended output of the supply chain. For the education sector, the PDO indicator will measure the improved financial planning, execution, and accountability processes at the school level as part of the overall effectiveness of schools.

Disbursement-linked indicators

56. Disbursement-linked indicators have been identified collaboratively with the Government during Program preparation, and reflect specific areas in need of improvement, particularly in terms of design, capacity, and systems. The Bank has worked closely with the Government to develop a Program Results Framework (Annex 2) to reflect changes in the targeted sub-sectors. The selected indicators either directly measure or are sensitive to improvements in PFM. The disbursement-linked indicators are selected from among the indicators included in the Program Results Framework (Annex 3).

57. Health sector DLIs - Bank support will increase the transparency and monitoring of medicines storage, distribution and availability, in line with the Governments Pharmaceutical Supply Chain Indicator Framework, CMAM Plan of Action 2013 and future implementation of the Pharmaceutical Logistics Strategic Plan. The DLIs have been selected to complement the investments of other development partners (see Annex 1 Table A1.1.2), with a particular focus on improve the transparency and efficiency of the medicines supply chain for all parties. The Program will also provide performance based financing of up to US$9.6 million to fill financing gaps for essential primary health care medicines that are currently not met by funding from vertical disease programs. Annexes 2 and 3 provide additional information on DLI definitions, targets, measurement and summary verification approaches. Detailed information is provided in the technical notes that will be appended to the Program Operations Manual.

(a) DLI 1 (PDO Indicator 1) - Average availability of a tracer set of essential maternal and reproductive health medicines at health facility level [on the day of verification during each calendar year]. Maternal and reproductive health indicators remain poor for Mozambique. UNFPA conducts annual availability surveys for a list of priority maternal and reproductive health commodities.

(b) DLI 2 (PDO Indicator 2) - Number of provinces achieving the minimum acceptable score of compliance with standards for stock management, warehousing, and distribution of medicines, as assessed by CMAM Internal Audit Unit. Audits are undertaken by the Internal Audit Unit of CMAM, and a weighted average score across 26 indicators is awarded to each warehouse. The DLI measures the number of provinces that achieve an average score (un-weighted average) of at least ‘acceptable’ for warehouses assessed during an internal audit survey round. The

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33 This Program Results Framework takes indicators directly from the Governments own Pharmaceutical Supply Chain Performance Indicator Framework 2013. The World Bank has coordinated closely with the US Government and the GFATM to focus on complementary indicators drawn from the Government’s Framework.
province is deemed “acceptable” if the average score across audited sites is at least 50 percent of the total possible score for the assessment, utilizing the 26 indicators included in the Ministry of Health provincial audit guide for medicines warehouses and depositories (including management of expired medicines). Each survey round includes the provincial warehouse, two district depositories and up to four health facility depositories.

(c) DLI 4 - Proportion of treatment sites with a stock-out of key anti-retrovirals (ARVs) at the end of each month. Mozambique is committed to achieving universal coverage of HIV treatment by 2015. Although externally financed, HIV treatment also represents the highest value of commodities moving through the medicines supply chain. Mozambique currently has 345 HIV treatment sites, which provide regular stock level and consumption data.

(d) DLI 5 - Proportion of districts for which CMAM receives logistics information34 through the SIMAM system. SIMAM is the electronic logistics and management information system used in the supply chain. It is currently installed in all provinces, but not yet functional in all districts and data availability from districts is a serious challenge. Improving the visibility and flow of data in the supply chain is essential to improving logistics planning, improving internal controls and management of pharmaceutical assets.

(e) DLI 6 - Fill rate of approved requisitions from CMAM clients for tracer medicines. Fill rates for a standard list of 25 key tracer medicines, adapted from WHO recommendations for the Mozambique context, will provide information on the degree to which supply and demand for medicines is effectively managed at central level. The degree to which CMAM is able to meet client demands reflects how effective the system is at allocating resources (medicines) efficiently.

58. **Education sector DLIs:** The Bank will leverage transparent and accountable school-based management with four disbursement-linked indicators, each of these ensure performance of a critical aspect of the system for all complete primary schools.

(a) DLI 3 (PDO Indicator 3) - Proportion of complete primary schools that comply with defined standards for transparency and accountability, as defined, agreed and distributed in 2014 - measured by inclusiveness in the elections of these councils, based on established criteria that promote gender equity; parental involvement; participatory development and approval of school development plans; and display of information on resources allocated, planned and applied by school councils. Standards will be set out in a revised School Councils’ Manual, which is under preparation through a participative stakeholder process. This disbursement-linked indicator seeks a blend of enhanced public financial accountability and improved education management at the school level. Documentary evidence for each of the criterion will be collected through SDEJTs.

(b) DLI 7 - Proportion of complete primary schools receiving funds on or before February 28 of each year – timely disbursement is an important enabling condition for strengthening the school-based management.

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34 “Logistics information” is defined operationally for this program as a district sending requisitions/balance sheets for at least two product groups in a month.
(c) DLI 8 - Revised district level budget classification by sub-sector, configured and applied – improved budgetary classification – this will strengthen the transparency of financial information by sub-sectors (primary, secondary, adult and vocational education, youth and technology sub-sectors) and efficient execution by appropriate delegation of financial authority to district education management. This will facilitate monitoring of financial expenditure and mitigate the risk of diversion of education funds to sports and youth functions and delays caused due to lack of financial authority with the district education management.

(d) DLI 9 - Proportion of complete primary schools visited for supervision by SDEJTs – this will strengthen the vertical accountability process. The Program is supporting preparation of guidelines for school supervision during the first year and actual supervision activity thereafter.

59. **DLI performance will be reported through Government systems, and will be independently validated by Tribunal Administrativo prior to disbursement.** Primary reporting on DLI performance will draw from government information systems, established annual surveys and sector internal auditors (e.g. the Internal Audit Unit of CMAM will assess and verify the adherence of provincial warehouses to performance standards). The Tribunal Administrativo (Supreme Audit Institution) will provide both a financial audit of program expenditures, and independently validate the quality and accuracy of DLI reporting prior to disbursement. The Tribunal Administrativo has an established track record of providing high-quality and timely financial audits for Bank operations, and has also established a unit to broaden its services to include performance audits, in line with its strategic plan. The Bank is participating in finalizing the validation methodology and will also have the right make the final decision on achievement of DLIs for the purposes of disbursement.

III. PROGRAM IMPLEMENTATION

60. This section describes the institutional and implementation arrangements, results monitoring and evaluation (M&E) framework, and disbursement arrangements for the Program.

A. **Institutional and Implementation Arrangements**

61. **The PFM for Results Program is anchored in the National Treasury, Ministry of Finance with representation of sector ministries and other PFM institutions.** Program coordination arrangements are set out in Figure 3. The PFM for Results Program builds on past and on-going reforms to ensure that PFM systems are functional, relevant, useful, and well utilized in the sectors. Thus, sector ministries are considered the entry point for the use of performance based allocations and targeted capacity development. The PFM for Results Working Teams in the sectors are the main drivers of these reforms at central, provincial, and district levels. At the same time, the Program needs to be centrally coordinated to maintain the uniform blueprint of the PFM system in the country, and to fully utilize the technical capacity of PFM institutions. To facilitate this, the Program is anchored in National Treasury, Ministry of Finance, and a formal representation mechanism has been established to secure the full participation of sector ministries and PFM institutions.

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35 These include: CEDSIF - Centro de Desenvolvimento de Sistemas de Informação de Finanças (Development Center for the Financial Information System); Direçao Nacional de Orçamento (National Budget Directorate), UFSF - Unidade Funcional de Supervisio das Aquisioes (Functional Unit of Supervision of Public Procurement); OGIs - Organos Controlo Interno (Internal Audit Units) and; IGF - Inspeçao Geral das Finanças (Inspectorate General of Finance).
institutions. This mechanism also provides an important platform to collate, analyze and share new knowledge generated by sectors regarding bottlenecks in the provision of public services, and solutions for addressing them. The Program Coordination Team will collate and disseminate an annual report identifying key implementation lessons learned from sectors and decentralized levels of government.

62. The Program coordination arrangements are set out below (Figure 3):

Figure 3: Proposed Program Implementation Arrangements

(a) Program Management Committee (PMC) will be chaired by the National Director of Treasury and its membership represented at the executive level. It provides strategic leadership and oversight for the program (including review of progress and decisions on any necessary course correction), and an important platform to share learning across sectors. The Program Coordinator provides secretariat services to the Committee.

(b) Program Coordination Team (PCT) is anchored at the Ministry of Finance and is responsible for coordinating the PFM for Results Program with sector ministries and PFM institutions. The PCT will manage the disbursement of performance based allocations under the program and requests for and procurement of targeted capacity development support. The PCT will also monitor implementation; prepare consolidated Program progress reports and financial statements; disseminate the reports and financial statements to stakeholders; and collate and share learning from sectors through the development of a knowledge platform. PCT has a full-time Program Coordinator and other staff under recruitment includes: a Procurement Specialist; a Financial Management Specialist; and a Monitoring and Evaluation Specialist. Position holders will be recruited from existing government staff, and have already been identified by DNT. These specialists will focus on: procurements managed by DNT; technical support for the fiduciary aspects relating to procurements under performance based allocations, and; monitoring

36 Concurrence between the sector institution and related PFM institution (e.g. UFSA in case of procurement systems) is a pre-condition for all demand-driven capacity development activities.
of DLIs, performance based indicators and program activities. Approval of the Program Operations Manual will be a Condition of Effectiveness.

(c) *PFM for Results Working teams* have been formed at the central level. Similar teams are being formed at provincial and district levels. They will champion and manage change activities needed to deliver results for areas identified as priorities at each level. At central level, the teams include officials from sector ministries and representatives from the PFM institutions. The PFM for Results Working teams will be provided with targeted PFM and management capacity development support on a needs basis. They will ensure coordination and lesson learning across the different segments of the sector work. They will also ensure the dissemination of the Program Operations Manual (and easy to use guides based on the manual, edited for use at provincial level and below) to ensure efficient Program implementation and achievement of results.

(d) The *Tribunal Administrativo* will undertake annual financial audits of the program of expenditures supported by the PFM for Results Program. The *Tribunal Administrativo* will also provide independent validation of the quality and accuracy of DLI reporting data, prior to disbursement by the World Bank to the Government.

63. **The Program is fully using country procurement and financial management systems.** Besides petty purchases of operational nature, medicines and the capacity development activities are two main procurable items under the Program and managed by two agencies at the central level - CMAM and DNT. The procurement regulator (UFSA - *Unidade Funcional de Supervisão das Aquisições*), internal auditor (IGF - *Inspecção Geral das Finanças*), and external auditor (*Tribunal Administrativo*) will perform their normal statutory oversight functions. Procurement Management Units (UGEAs – *Unidades de Gestão e Aquisições*) have responsibility for managing all aspects of procurement of goods, works, and services under the Program. In terms of financial management, the key entities involved in the implementation of the program will be DNT, CMAM, the Ministries of health and education at central and provincial levels, the SDEJTs at district level and complete primary schools at the local level. Key internal oversight entities will be the General Finance Inspectorate, the General Health and Education Inspectorates. These entities will play their usual inspection roles, and may provide additional support for Program monitoring (e.g. the Inspector General for Education will include Program specific questions within its protocol for annual inspection of a sample of complete primary schools). The PCT procurement and financial management specialists will play important liaison roles between working teams at different levels of the program and the PCT. They will support adherence to government procurement and financial regulations and to Program requirements (as set out in the Operations Manual).

64. **The Program will engage with sector working groups in PFM, health and education to share information and learning, and to facilitate alignment of Program and partner support.** The health sector medicines working group already monitors the quarterly performance of the performance indicator matrix from which the Program DLIs are drawn, and will benefit from the strengthened reporting systems and external validation of Program indicators. Program performance audits will be scheduled to complement joint donor and government annual sector reviews (normally in January to February, and reporting in March). The coordination structure for PFM reforms is currently under revision, with interest in supporting better engagement between central and local implementation of reforms.
B. **Results Monitoring and Evaluation**

65. **The PFM for Results Program will use the existing M&E systems within the health and education sectors to monitor Program results.** These include the Ministry of Health/CMAM’s pharmaceutical logistics performance framework and monitoring plan and the data collection and monitoring system in the education sector. These systems are at various stages of maturity. However, data are available in alternative legacy or paper-based systems where the new systems are yet to achieve countrywide coverage.

66. **The pharmaceutical logistics performance management framework has been agreed by the health sector medicines working group, with joint membership of development partners and Government.** The US Government and GFATM have agreed to use the same indicator set as a basis for their funding to the supply chain, and are focusing on support for progress on other indicators within the framework. The framework provides an important tool to coordinate government and partner efforts (Annex 1 Table A1.1.2 provides an overview of development partner and Bank support to the supply chain). Data sources include logistics management information and warehouse management systems, reports of the CMAM internal audit unit, established annual surveys (such as the UNFPA annual reproductive and maternal health commodities availability survey), and occasional other surveys (e.g. the World Bank is funding Service Delivery Indicator Surveys – that include pharmaceutical availability questions – in 2013 and 2015). Progress reports on the pharmaceutical logistics performance management framework are made to the health sector medicines working group on a quarterly basis.

67. **For the education sector, the Program will build on existing data collection systems at school, district and central levels.** The outputs and outcomes will be mainly captured by the line ministry reports on the basis of data collected through SDEJTs. Schools will provide the SDEJTs with data regarding the school council elections, approved school development plans, and publicly disclosed information on use of resources at school level. Supervision by SDEJTs will verify the data provided by the schools on a sample basis. District information will be aggregated at provincial level before it is sent to the Ministry for reporting progress on DLIs. Verification of district reports will be done by the internal auditors. Qualitative data will also be collected through minutes of school council meetings to be sent to SDEJTs as well as visit reports from SDEJTs.

68. **The Program Coordination Team will collect data on Program implementation progress.** The PCT will collect a variety of monitoring information, including: implementation and performance of the management capacity development program, including progress in identifying and resolving implementation challenges; the number and value of PFM capacity development activities completed with a joint sign-off by sector and related PFM institution and; the design of performance based allocation frameworks, and the subsequent number and value of performance-based allocations made by sector ministries.

69. **An independent evaluation of the PFM for Results Program will be commissioned in its second year.** The evaluation will review program data, other relevant data sets, review costs, and undertake qualitative research with implementing institutions and partners. These sources will be used to make plausibility arguments for the likely contribution of the program to DLI performance, and qualitative assessments of the degree to which the coordinated use of performance based

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37 The World Bank is currently the co-chair of the working group.
allocations and capacity development has been successfully adopted by and embedded in Government systems. The evaluation will be financed from Program coordination and operational costs.

**C. Disbursement Arrangements and Verification Protocols**

70. **Disbursement of Grant funds will be based on achieving agreed incremental results for DLIs.** The Program will disburse against results achieved over a 4-year period up to a maximum of US$50 million. Many of the DLIs are linearly scalable; a proportionate disbursement can be made in accordance with actual performance, with a minimum floor of 60 percent improvement against the specified target. Disbursement-linked indicators for the PFM for Results Program are set out in Annex 3 along with the disbursement amounts for each of the indicators, and the protocols for their verification and independent validation.

71. **The disbursement-linked indicators are realistic, verifiable, and sensitive to Government intervention.** The DLIs relate to the sector-specific results areas identified under the Program. Verification or monitoring protocols clarify and document inclusion/exclusion criteria, data source, systems/instruments to be used, sign-off, and validation frequency of the disbursement-linked indicators (summary verification approaches are set out in Annex 3 – Table A3.2, detailed verification protocols will be set out in technical notes annexed to the Program Operations Manual). The Tribunal Administrativo and the Bank have agreed the protocols to be used to validate disbursement linked results. Bank financing will contribute to the Government program of expenditures (and complement funding by other development partners – see Annex 1 Table A1.1.2) that supports these sector results, and contribute to the attainment of the results targets.

72. **Advance financing will be available each year to the Government, up to a ceiling of US$12.5 million or 25 percent of the total Grant amount.** The Government has expressed interest to avail itself of advances to be disbursed prior to the achievement of disbursement-linked indicators. Advances (with a total up to a ceiling of US$12.5m) will be made against each DLI in agreement with the Government, and as detailed in the Program Disbursement Letter. This would provide fiscal space to finance the Program as an add-on to existing PFM reform activities and sector budgets. The Bank will recover any advances from disbursements due when the respective indicators are actually achieved. Table 2 (above) provides the indicative disbursement schedule for IDA funding. Annex 3 sets out principles for disbursement and a more detailed disbursement schedule (Table A3.1).

**IV. ASSESSMENT SUMMARY**

73. **Assessments covering technical, integrated fiduciary, and environmental and social issues have been undertaken to determine the capacity of the PFM for Results Program’s implementation entities and to identify gaps that may require action.** The following sections present a summary of these assessments. The detailed assessments are captured in Annexes 4, 5 and 6. An integrated-risk matrix is presented in Annex 7. The Program Action Plan and Implementation Support Plan are given in Annex 8 and 9, respectively.
### Table 2: Mozambique PFM for Results Program – Disbursement Schedule

<table>
<thead>
<tr>
<th>Number</th>
<th>Estimated Date</th>
<th>Amount US$ million</th>
<th>Disbursement Basis</th>
</tr>
</thead>
</table>
| 1.     | 15 August, 2014 | 12.5               | • Advance against FY14 DLRs to be met by December 31, 2014 (and validated by March 15, 2015)  
• 25 percent of Grant amount |
| 2.     | 15 March, 2015  | 13                 | • Price of FY14 DLRs (achieved by December 31 2014, validated by March 2015) met netted with August 2014 advance  
• Advance against DLRs to be met by December 31, 2015 (validated by March 2016) |
| 3.     | 15 March, 2016  | 12.5               | • Price of FY14 DLRs met after 15 March 15, 2015  
• Price of FY 15 DLRs met netted with March 2015 advance  
• Advance against FY 16 DLRs to be met by December 31, 2016 (validated March 2017) |
| 4.     | 15 March, 2017  | 12                 | • Price of FY14 and FY15 DLRs met after March 15, 2016  
• Price of FY 16 DLRs met netted with March 2016 advance |
| 5      | 15 March, 2018  | *                  | • Final payment for all DLRs achieved up to December 2017 (validated by March 2018) |
|        |                | 50                 |                    |

### A. Technical (including Program economic evaluation)

74. The PFM for Results Program of the Government aims at instituting a sustainable system for improving service delivery in sectors, and at local levels of government, through the deepening of the mechanisms for public expenditure allocation, management and monitoring. It is fully consistent with Government’s own PFM Vision 2011 – 2025, which recognizes the need to connect reforms in primary and upstream PFM processes, with the associated downstream PFM processes inherent in the efficient planning and delivery of public services. The Program is timely, as it anticipates increases in government revenues from natural resource sectors in coming years and need to translate these resources into broader and durable development outcomes. In this respect, the PFM for Results Program has a high strategic relevance for Mozambique’s development priorities.

75. The Program has identified two well defined areas – the storage, distribution and availability of medicines, and school based management – that have known PFM related constraints to performance, and existing strategies and plans that set out performance improvement objectives. The Program will contribute to the effective implementation of these strategies and plans, both of which require better alignment between central, provincial, district and
local levels of government. Thus, the scope of the Program is well defined, practical and provides a strong starting point for the Government roll out the use of performance based allocations and capacity development to deepen PFM reform and improve public sector service delivery.

76. **The PFM for Results program is technically sound.** The Program: (i) brings together the Ministry of Finance, the Ministry of Health, the Ministry of Education and the CMAM to jointly tackle challenges in the management of public resources in the selected sub-sectors. The program provides strong incentives for the collaboration of these institutions; (ii) combines a mechanism to address institutional incentives at the central, provincial and district levels through performance linked allocations, with the technical assistance needed to overcome capacity limitations in sectors; and (iii) the program gives the authorities the flexibility to address the political economy drivers of change that can help or hinder reform. Intervening in PFM processes inevitably requires changes to formal and informal distributions of power and access to resources. This requires both deep understanding competing interests within systems, and the ability to adjust implementation as these respond to shifting positive or negative incentives.

77. **An economic assessment was undertaken as part of the preparation for the PFM for Results Program to assess the rationale for public sector delivery, the plausibility and likely development impact of the proposed approach, and the Bank’s comparative advantage for engagement.** At this stage, the political reform space and limited non-state service provision for health and education, explain why the option was taken to improve the performance of public sector delivery, rather than replace or complement it with private sector provision. However, strengthened management capacity and information systems in the two target sectors would provide a more robust platform for effective contracting out of selected functions (e.g. distribution services in pharmaceuticals) in the future, should this option become politically acceptable and technically feasible. The Program approach benefits from lessons from school based management programs implemented in a number of countries, many of which have been successful in improving school performance (although reforms take several years to properly bed in and deliver outcomes). Similarly, the focus on supply chain unit alignment, accountability and improved information flow is informed by learning from experience of public sector supply chain reform and integration in other low and middle income countries.

78. **Quantifying benefits for the Program is challenging, but it is plausible that efficiency savings in total expenditures in the two target sub-sectors will be larger than its incremental costs.** Quantification of benefits is challenging due to limited data, the contributory nature of the Program, and long timeframes for results to accrue. However, the US$130.6 million cost of the program is relatively small in comparison to the projected total expenditures of almost US$1.5 billion over three years (including both government and partner expenditures) that will benefit from the transparency and efficiency gains. The Program will also help deepen the implementation of development partner investments in central PFM reform totaling US$157 million from 2010 – 2014 (see Annex 10). Situation analysis reveals numerous existing inefficiencies that could be addressed, and there is evidence from other countries that the proposed approaches can plausibly deliver improved systems performance. To break even, the Program would need to support aggregate efficiencies across the two sectors in the order of 4-5 percent. This is realistic and achievable during the life of the program. This potential for such efficiency gains, and a focus on embedding the PFM for Results approach within government systems, provides a strong basis for the sustainability of the
government’s program, and the potential to expand to other areas and sectors (particularly start-up costs in future sectors will be lower once the core mechanisms are established during initial rollout).

79. **The Bank is well placed to support a multi-sector and systems based approach to deepening PFM reforms and strengthening public service delivery in Mozambique through the use of the Program for Results instrument.** The Program complements existing PFM reform and sector investments by building on the Bank’s capacity to work across sectors and to embed a performance based approach within government systems.

**B. Fiduciary**

80. **In preparation for the PFM for Results Program an integrated Fiduciary Systems Assessment was conducted in three related areas: (i) financial management, (ii) procurement, and (iii) fraud and corruption.** The conclusion of the assessment is that the Program fiduciary systems meet OP9.00 requirements and are performing so as to foster the achievement of the Program's expected results. A detailed fiduciary assessment of the program features in Annex 5 and specific risk-mitigation actions are included in the Program Action Plan - Annex 8.

81. **Five key risks have been identified in the Program fiduciary systems, which could undermine the achievement of the results supported by the Program:** (i) firstly, the operational expenditures of the program could be spent without complying with internal rules and controls governing them; this could lead to inefficient, ineffective, uneconomical or unethical spending; (ii) secondly, there is a risk of poor value for money in the procurement of critical gap-filling medicines, using the performance allocations provided under the program; (iii) thirdly, poor functioning of the supply chain increases risks associated with the theft or diversion of medicines for resale; (iv) fourthly, direct grants made available to primary schools are vulnerable to being used for purposes other than those intended, and; (v) finally, in both sectors, there is a risk that the system for identifying, reporting, investigating and prosecuting cases of fraud and corruption, while formally in place, may not function effectively in practice. This could lead to delays in the treatment of complaints or allegations of fraud and corruption.

82. **A number of these risks are directly addressed as part of the operational design of this Program. In the health sector, improved inventory management, information flow, supervision and reporting of availability of medicines at health centers, will reduce vulnerabilities to diversion of medicines. The risk of sub-optimal procurement through poor selection, or failure to secure competitive prices is being addressed by technical assistance provided by the US government to the Department of Pharmacy (to improve selection and registration processes), and to CMAM to strengthen procurement (through the placement of long-term technical consultants). The Program should also improve the quality of information on which forecasting for procurement is based, thereby improving the opportunity for improved procurement planning and efficiency. Improved information flow, adherence to warehouse standards and monitoring of availability of medicines at health center level are specific DLIs, which will all reduce vulnerability to medicines diversion. In addition, a Quality-Assurance Protocol will be agreed (and detailed in the Program Operations Manual) for the quality assurance of medicines to be procured under the program. In the education sector, the risk of mismanagement of school funds will be mitigated by heightened transparency, improved supervision by SDJETs, and improved school level governance in the complete primary schools targeted by the Program. At Program level, as DLI disbursements are conditional on targets being met, and performance based allocations are an important tool in ensuring that they are, there
is an incentive for both operational units and the PCT to ensure that performance related funds reach their intended targets. In addition, all Bank financed payments will be identified by a source-of-funds code, and will be tracked as part of Program audits.

83. **The implementation framework of the Program also incorporates measures to mitigate specific fiduciary risks.**

(a) The Program will: (i) require implementation of the World Bank’s PforR fraud and anti-corruption guidelines, with support to strengthen existing complaint handling mechanisms in both education and health sectors; (ii) ensure that the Bank’s debarment and temporary suspension lists are used by program implementers, and that firms on these lists do not receive contracts under the Program, and; (iii) that agreements are reached with the Attorney General to ensure INT’s right to launch an independent investigation;

(b) A number of internal oversight bodies, including the internal audit unit of the CMAM, the inspector generals from health and education, and the inspector general of the Ministry of Finance, will be active in the program and will assist in detecting suspected instances of fraud and corruption;

(c) The terms of reference for external audit will include specific tests for areas of considerable fiduciary risk, e.g. an assessment of whether procurement complies with the requirement to adhere to the essential medicines list, benchmark procurement prices secured by CMAM against suitable regional comparisons (e.g. the International Drug Price Indicator Guide, produced annually by Management Sciences for Health), and; that appropriate quality assurance of medicines procured under the program have been completed; and

(d) The program action plan includes specific measures that address the complaints handling mechanism.

84. **The overall fiduciary risk for the PFM for Results Program has been assessed as substantial.** This risk is mitigated by: (i) the past decade of public finance reforms drive; (ii) the focus of the operation itself, which is designed to improve PFM performance of the health and education sector; (iii) specific risk-mitigation measures included in the Program implementation framework through the Program action plan and the terms of reference for external audit; and (iv) ongoing investments by the Government and development partners in PFM systems in general, specific action plans in the sectors concerned, and investments in areas of particular vulnerability (such as medicines procurement) noted above.

C. **Environmental and Social Effects**

85. **The Environmental and Social Systems Assessment (ESSA) confirms consistency of the PFM for Results Program with core principles of OP/BP 9.00, PforR Financing.** An ESSA was carried out during the Program preparation. As the PFM for Results Program primarily concerns activities to strengthen PFM systems, unmanageable direct environmental or social impacts are not anticipated. The draft findings and recommendations of the ESSA were discussed with the Government in a participatory manner and will be publicly disclosed locally through the official government journal and websites, and shared through the normal communication channels.

86. **Environmental and social risk is assessed as Low;** the program involves very few physical activities, those that are envisaged have limited potential environmental and social impacts: overall systems for handling of social and environmental dimensions in development operations are relatively strong and; there is a good recent track record in compliance with both national legislation
and Bank safeguards. No land acquisitions are supported in the health or education sectors. It is not anticipated that the Program will have negative impacts on social conflicts. The key physical activities are largely confined to the health sector, which already benefits from broad-ranging donor support. This requires scrutiny of environmental management standards for routine activities. The probability of non-compliance is higher with small-scale activities that fall below the scope of the formal Environmental Impact Assessment system. However, the scope of potential negative impacts is limited by the nature of the activities, and implementation will be closely monitored through routine program reporting and occasional field verification by Bank missions.

87. **Mismanagement of the disposal of pharmaceutical waste could be a serious issue** due to: the risks posed to garbage pickers (including children) from potential consumption; to the wider public in the event of re-sale of expired medicines, and; by the possibilities for air or groundwater contamination. However, the program will have the beneficial effect of reducing the volume of expired medicines (in addition to actions to be taken to improve disposal of the remainder). Awareness of the issue is already high, and systems are being strengthened under donor-funded programs in the sector (with particular support from the US government). New government guidelines for the disposal of pharmaceutical have been developed and adopted recently and will be implemented during the course of the program.

88. **Potential for social harmful impacts is low in both sectors.** In health, the program supports a national roll-out of efforts to support improved medicines supply chain management, thereby limiting potential for geographical bias. The potential for performance based allocations to reward already better performing areas is mitigated by technical assistance to improve the capacity of implementing bodies to perform effectively, and can be further addressed by allocations that reward level of improvement rather than achievement of static targets. The program will also support the generation of new data that can support analysis of geographic disparities in access to medicines at health center level. In education, the program covers ‘complete’ primary schools that account for 63 percent of primary school pupils. These schools are distributed across all provinces, although there is some concentration close to urban centers. The main objectives of the education intervention are to increase community participation, particularly of mothers, in school management, and to strengthen and make more transparent the allocation of resources to schools. If successful in improving the management of complete primary schools, then the Ministry of Education intends to expand the approach to all primary schools. The program should have positive social impacts by increasing community voice (particularly of mothers), and reducing scope for opaque and politically influenced allocation decisions (potentially reducing cause for social friction).

89. **Inputs for the Program action plan are limited to the proper disposal of expired pharmaceuticals:** Maintain Norms for Disposal of Pharmaceutical Products, including detailed acceptable methods of disposal by category and volume of pharmaceutical, and necessary environmental, health & safety conditions, including requirements for consultation with affected members of the public and involvement of relevant government agencies in decision-making and implementation of pharmaceutical disposal activities.

90. **Development and implementation of pharmaceutical disposal plans:**
   - Develop simple disposal plans / procedures for each major facility consistent with the Norms, and determine the (budgeted) requirements for equipment, training, etc. The plans
would be very simple, but would specific how the Norms would be implemented in each facility – i.e. whether expired pharmaceuticals would be returned up the supply chain or disposed of locally, method of disposal to be used, staff responsibilities, etc.

- Provide training and equipment to appropriate staff, and implement: (i) development and approval of pharmaceutical disposal plans for storage facilities; (ii) routine reporting on volumes and disposal of pharmaceutical waste; and (iii) spot checks for compliance with plans and guidelines.

91. Detailed environmental and social issues identified under the PFM for Results Program (Annex 6) and specific risk-mitigation actions are included in the Program Action Plan (Annex 8).

D. Integrated Risk Assessment Summary

92. The overall risk rating of the PFM for Results Program is “substantial”. This primarily reflects risks related to the multi-sector and innovative design of the Program in a context of substantial fiduciary risks. The risks of the effective implementation of the Program include (i) inter-governmental and intra-ministerial coordination; (ii) new approach to reforms; (iii) insufficient funds for or poorly targeted incentives; (iv) technical challenges within two target sub-sectors; (v) weak fiduciary, environment, and social safeguards risk management capacity particularly at provincial and district levels; (vi) resistance to change and political economy challenges; and (vii) data verification. Table 3 shows the summary risk ratings and Annex 7 gives detailed risk assessment.

<table>
<thead>
<tr>
<th>Risk</th>
<th>Rating</th>
</tr>
</thead>
<tbody>
<tr>
<td>Technical</td>
<td>Moderate</td>
</tr>
<tr>
<td>Fiduciary</td>
<td>Substantial</td>
</tr>
<tr>
<td>Environmental and social</td>
<td>Low</td>
</tr>
<tr>
<td>Disbursement-linked indicator</td>
<td>Substantial</td>
</tr>
<tr>
<td>Overall risk</td>
<td>Substantial</td>
</tr>
</tbody>
</table>

E. Program Action Plan

93. A number of assessments (technical, integrated fiduciary, environmental and social) have been undertaken to assess the capacity of the Program’s implementation agencies and to identify any gaps that may require action. The actions have been captured in the Program Action Plan in Annex 8.

F. Program Implementation Support

94. Implementation support by the task team will include (i) reviewing implementation progress and achievement of Program results and DLIs; (ii) providing support for implementation issues as well as institutional capacity development; (iii) monitoring systems performance to ensure their continuing adequacy through program monitoring reports, audit reports as well as field visits, and; (iv) monitoring changes and risks for the PFM for Results Program and compliance with the legal agreements and, as needed, the Program Action Plan. Annex 9 elaborates the plan for the Bank team to provide implementation support for the Program.
Annex 1: Detailed Program Description

Program Development Objective

1. The Program Development Objective is to improve the transparency and efficiency of expenditures for the storage, distribution and availability of medicines and for the management of complete primary schools. The Bank PFM for Results Program (the ‘Program’) will support the Government of Mozambique’s PFM for results program (the ‘program’) to deepen the implementation of existing PFM reforms in targeted health and education sub-sectors. Improved PFM will contribute to better allocation, use and accountability for resources, and to more efficient translation of these resources into results. The Government has selected improvements in the supply, storage, distribution and availability of medicines, and more transparent and accountable school-based management for ‘complete’38 primary schools as initial areas of focus. Annex 2 sets out the results to which the Program contributes, in coordination with associated government and development partner expenditures.

2. The Ministries of Finance, Health and Education have established a mechanism for collaborative working. Together, they will roll out an innovative approach to motivate and build capacity for change in targeted sub-sectors, with a focus on provincial, regional and local levels of government. The approach combines the use of performance based allocations within sectors and capacity development to strengthen management and PFM capacity of sector institutions. This approach will increase ownership of the PFM reform agenda at the level of implementing organizations in sectors, and build the motivation and ability for change. It will target specific obstacles to the transparency and efficiency of spending in the selected sub-sectors. Some of these obstacles will be lifted by changing incentives through performance allocations, while others will be tackled through capacity development. Once successful in these two focus areas, the Government intends to expand this approach to other areas of health and education, and across other sectors.

Program Scope

3. The scope of the Government’s PFM for Result’s program is to improve the transparency and efficiency of spending on public services, with an initial focus on the medicines supply chain and the school based management of complete primary schools. The Bank’s PFM for Results Program (‘the Program’) supports the Government program and has the same scope. The expenditure framework for the Program, totaling US$130.6 Million, is set out Table A1. It includes existing Government expenditures relating directly to the management, operation and supervision of the medicines supply chain, and school based management of complete primary schools. In addition, Bank (US$50 Million) and Government (US$5 Million) financing to support inter-ministerial coordination, performance based allocations to motivate institutional change, and capacity development to strengthen PFM and management practices in the target sub-sectors is also included in the program of expenditures. Expenditures relating to the teaching staff (such as staff salaries) and assets (e.g. the bulk of medicines procurement costs) that are managed by these systems are not included.

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38 Complete primary schools teach all years 1 – 7. They account for 63 percent of the primary school student population.
4. The Bank and the Government have agreed a results framework (Annex 2), and targets for nine disbursement linked indicators (DLIs) (Annex 3) against achievement of which the Bank will disburse funds. The Tribunal Administrativo (the supreme audit institution in Mozambique) will provide independent validation that DLI targets have been met.\footnote{The Bank will have the right to make the final decision on the achievement of DLI targets for the purposes of disbursement.} For the medicines supply chain, indicators focus on the fiduciary integrity, storage, distribution and availability of medicines. For school based management, indicators focus on accuracy of budget classification, timely disbursement of funds, improved supervisory support for schools, and representative and effective school councils. The results framework and DLIs are based on the Government’s own strategies, plans and indicators for the improvement of PFM and performance of the medicines supply chain, and of school based management.

Table A1.1: Expenditure Framework

<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>38.9</td>
<td>45.4</td>
<td>60.2</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.

5. By improving transparency and efficiency of spending, the PFM for Results Program will contribute to more efficient allocation and use of related government and development partner funded expenditures on complete primary school education (including teacher salaries, text books etc.), medicines procurement and PFM investments. The program does not include these associated expenditures within its scope, because they are not strictly necessary in order to achieve the transparency and efficiency gains targeted by the program. However, these complementary programs of expenditure will benefit from the greater transparency and efficiency of the sub-sectors. For instance, in the health sector, total government procurement of medicines amounted to US$66 million in 2013. A further US$155 million of medicines were procured by development partners (primarily HIV, TB and malaria medicines).\footnote{CMAM.} All medicines move through the government supply chain, whose efficiency will be improved by the program. In addition, the
US Government and the Global Fund to Fight AIDS, TB and Malaria invest around US$7 million per year in supply chain strengthening (including technical assistance for medicines selection and procurement). Similarly, in the education sector, total government spending on complete primary schools in 2013 was approximately US$172 million. In addition, the education pooled fund (Fundo de Apoio ao Sector da Educação - FASE) contributed a further US$52.5 million.41

6. **The Program also complements significant ongoing development partner investments in PFM reform at central level, totaling US$157 million 2010 – 2014.** The Program will build on and help to deepen the implementation of these PFM reforms within sectors, provinces, districts and service delivery units. National PFM institutions will support capacity building to sectors that is consistent with the Government’s PFM vision.

**Program Activities**

7. **The Ministry of Finance and Ministries of Health and Education are working together to implement an approach to deepen existing PFM reforms and improve performance in the storage, distribution and availability of medicines and for school-based management.** The National Treasury Directorate (Direcção Nacional de Tesouro – DNT) will lead the PFM for Results Program, working in close collaboration with the Ministries of Health and Education. National PFM institutions42 will be active partners, and will ensure that capacity development is consistent with long-term PFM reform goals. The Program will finance the implementation of an innovative approach that will motivate implementation of reforms by sector institutions, and build their capacity to achieve agreed PFM, management practice and delivery results.

8. **The PFM for Results Program supports a new Government approach that helps sector institutions to identify and apply solutions that address PFM and service delivery implementation challenges.** The main components of the approach are set out below:

(a) **Performance based allocations:** Program financing will enable the Government to use a payment for results approach to align the incentives of supply chain and education sector units, and to motivate behavior change. Performance based allocations are flexible and will support a variety of activities and budgetary needs at the level of implementing organizations, including minor refurbishments, improvements to working environments, training, or expenditures that are otherwise difficult to meet due to budget constraints, earmarking or unpredictability (e.g. funds for medicines distribution or gap filling purchases for essential primary health care medicines not covered by vertical disease programs). Sector working teams have outlined initial schedules of performance payments focusing on key steps and tasks needed to implement reforms and achieve Program level results. Table A1.1.1 sets out examples of types of performance based allocations (column three). The performance of recipients will be assessed through government management information systems and/or routine supervision, and monitored by the Program Coordination Team. Allocations will be made through the Treasury financial system. Each sector will review and revise its schedule of payments annually to ensure that incentives are aligned with priority implementation challenges needed to achieve the Program results and

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42 These include: CEDSIF - Centro de Desenvolvimento de Sistemas de Informação de Finanças (Development Center for the Financial Information System); Direcção Nacional de Orçamento (National Budget Directorate), UFSA - Unidade Funcional de Supervisão das Aquisições (Functional Unit of Supervision of Public Procurement); OGIs - Orgãos Controlo Interno (Internal Audit Units) and; IGF- Inspecção Geral das Finanças (Inspectorate General of Finance).
DLIs. This allows a dynamic management approach to program implementation that can respond to emerging challenges and shifting incentives.

(b) **Capacity Development.** The program will combine performance based allocations to shift incentives with capacity development to improve management and PFM capacity.

i. **PFM Capacity Development:** DNT has started to work with national PFM institutions to provide PFM technical assistance and capacity development to support solutions identified by sector working teams. The participation of the national PFM institutions ensures integrity with the Government’s overarching PFM reform strategy. This could include technical assistance, training, workshops, equipment, and data-entry staffing on a just-in-time basis. Sectors and relevant PFM institutions will agree on the terms for reference for proposals under US$50,000. A committee including representatives of DNT, PFM institutions and the health and education sectors must approve proposals costing over US$50,000.

ii. **Public Sector Management Capacity Development:** DNT will manage a capacity development program that will target key managers in implementing organizations in the two sectors (e.g. directors of provincial medicines warehouses, or staff in SDEJTs). These managers will learn to use problem solving and team building techniques to identify performance bottlenecks, and then develop and implement solutions to overcome them. There will be a particular focus on developing the capacity of managers to work effectively with institutions outside of their own units but which are essential for their units to perform well and for the program intended results, including DLIs, to be achieved. Regular follow-up support will encourage managers and staff to monitor progress and to adjust course or approach as practical experience of implementation evolves. DNT will contract international experts to train national staff in management capacity development and problem solving techniques, and to provide ongoing quality assurance during implementation. National staff, once trained, will be located regionally to support their clients through training, mentoring and mechanisms for peer group learning and support. This will include helping managers to identify their PFM technical assistance needs. A knowledge platform will be established to strengthen exchange and dissemination of experiences under the program. This together with a periodic rotation of capacity development staff will reinforce the experience-sharing process within each sector and location. The performance of individual staff and the capacity development program as a whole will be assessed annually.

9. **Table A1.1.1 (see appendix 1.1)** provides a more detailed overview of: (i) PFM, institutional alignment and management challenges in the two sub-sectors; (ii) indicative capacity development activities, and; (c) a breakdown of sector, institutional and individual level performance based allocations that will be used to incentivize change.

10. **The focus of the PFM for Results Program is fully coordinated with and complements sector investments by development partners.** Table A1.1.2 (see appendix 1.1) identifies current weaknesses and bottlenecks in the value chains for the medicines supply chain and primary education services, and notes where and how the Program contributes to improved performance, and where other development partners (including other World Bank programs) are focused.
### Annex 1 – Appendix 1.1

#### Table A.1.1.1: Links between Challenges, Performance Allocations and Capacity Development

<table>
<thead>
<tr>
<th>Challenges</th>
<th>Performance Allocations</th>
<th>Capacity development</th>
</tr>
</thead>
</table>
| **Health sub-sector**                                                      | **Criteria:** Additional expenditures are allocated to provinces and districts based on their performance against specific indicators drawn from the Ministry of Health Logistics Indicator Matrix (2013). This matrix includes all of the DLIs, and an additional 21 indicators that are specific to different levels of the supply chain (e.g. consistency of physical and recorded stock levels in central warehouses, number of provinces that submit complete requisitions on time). Performance Based Allocations (PBAs) in the health sector also include a competitive tranche for best performing provinces. **Incentive form:**  
  - Improving warehousing conditions  
  - Incremental logistics costs including fuel, truck rentals etc.  
  - Mobility costs of managers for effective supervision  
  - Incremental staffing costs  
  - Procurement of additional medicines (note: at central level and distributed according to need)  
  - Note: the Ministry of Health has made a policy decision to focus on collective and institutional incentives and not to include individual incentive payments to staff. | **- Training of users of warehouse inventory management system for full utilization  
- On-job-training of CMAM and provincial warehouse staff to improve distribution planning  
- Technical assistance for improved planning, forecasting, and enhanced coordination on quantification and stock flows  
- Strengthening the internal audit function of CMAM  
- Technical assistance for improved compliance with budget execution and procurement regulations  
- Development of adequate performance/compliance data monitoring system  
- Development of management capacity for use of relevant information coming out of various systems (inventory management, LMIS, e-SISTAFE, e-Folha etc.), effective coordination within various directorates of MISAU, among various levels, and with MoF, and making decisions on the basis of information and analysis.  
- Financial management training for managers in MISAU  
- Training of key personnel in supply chain  
- Annual coordination retreats with provinces for knowledge sharing and learning  
- Strengthening complaint handling mechanisms** |
| - Weak planning, forecasting, as a result of limited logistics information visibility and poor coordination between disease programs and lower levels of the supply chain with CMAM  
- Unpredictable external financing (within and across years)  
- Lack of a comprehensive procurement plan for medicines and medical supplies, including a planned delivery schedule (in part driven by financing uncertainties)  
- Long and cumbersome procurement process due to weak capacity and split roles between CMAM and Department of Administration and Finance (DAF)  
- Stock management and handling does not conform with standard operation procedures  
- Inventory management system not fully utilized leading to suboptimal distribution practices, expiry of medicines on shelf, and wastage  
- Extremely limited room for adaptation and flexibility for budget decisions at lower levels  
- Weak compliance with budget execution and procurement regulations  
- Overall administrative and management functions performed by health professionals with no training or limited management or supply chain qualifications  
- Career progression and professional development of non-health professionals in the Ministry of Health is generally weak and not attractive  
- Few qualified professionals extremely overburdened  
- High turnover of accountants, procurement, supply chain, and financial management specialists. | | |
| **Education Sub-sector**                                                   | **Criteria:** Achievement/ contribution to the achievement of DLIs                      | **- Revision of guidelines for the school councils  
- Dissemination of revised guidelines to district level education staff, school staff, and school councils** |
| - Capacity of school councils is limited, and focus is on the execution of direct grant funds, rather than overall school development and performance | | |
- Financial Management training at the local level (for school staff, community representatives and district staff) has been limited to date
- Limited capacity results in weak financial reporting, accountability and transparency
- Education funds allocated and spent at district level are co-mingled with those for youth and technology functions in one accounting code for SDEJTs
- The SDEJTs (at the district level) are not Budget holding entities (UGBs), leading to inefficient planning, budgeting, budget execution, monitoring and internal control
- Lack of performance-based criteria for allocations of funds among schools
- Inadequate supervision of schools performance
- Large % of education spending is fixed recurrent costs (staff and operating costs), with limited flexibility for performance based approaches
- Poor coordination across infrastructure planning, equipment purchase, and staff recruitment and deployment processes
- Human resources database is not integrated with e-Folha leading to sub-optimal processes and weak internal controls on salaries
- Remote schools do not allow the bank transfer for teacher salaries as teachers’ residence/school is far from the banking network (closest branch)
- Internal and external auditors do not have sufficient coverage of activities in schools due to their dispersed nature and low individual financial exposure (though collectively significant)
- Poor communication between the central, provincial and district levels resulting poor visibility of sector activities and status

<table>
<thead>
<tr>
<th>Incentive form:</th>
</tr>
</thead>
<tbody>
<tr>
<td>- Additional funds allocated to the most improving schools</td>
</tr>
<tr>
<td>- Improved mobility of SDEJTs for enhanced supervision</td>
</tr>
<tr>
<td>- Incremental staffing costs</td>
</tr>
<tr>
<td>- Equipment and operational expenses</td>
</tr>
<tr>
<td>- Performance based salary top-ups</td>
</tr>
</tbody>
</table>

- Revision of school supervision manual
- Implementation of and on-job-training for the school supervision
- Streamlining the data collection and verification processes on school performance, and engagement of school councils in planning and execution of school development plans
- Technical assistance to devise criteria for performance based allocations to reward most improving schools
- POEMA training of SDEJTs
- Development of management capacity for use of relevant information, analysis and decision making
- Training of e-SISTAFE and e-Folha users to ensure full compliance with internal control procedures
- Support CEDSIF for implementation of systems improvement and improved classification in the sector
- Training of internal audit staff for monitoring and verifying performance data
- Training of trainers for preparing an integrated school development plan and roll-out to district/school staff and school councils
- Annual coordination retreats with selected SDEJTs and school councils to share success stories and learn how to overcome challenges
- Strengthening complaint handling mechanisms in the sector
### Table A.1.1.2: Key Challenges, Program and Development Partner in the Medicines Supply Chain and Primary Education

#### Medicines Supply Chain

<table>
<thead>
<tr>
<th>Supply chain functions/steps</th>
<th>Status/Challenges</th>
<th>PFM for Results Program Contributions to Addressing Challenge in Supply Chain</th>
</tr>
</thead>
<tbody>
<tr>
<td>Quality/Regulation</td>
<td>Selection</td>
<td>Forecasting &amp; Quantification</td>
</tr>
<tr>
<td><strong>Status/Challenges</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Regulatory functions carried out by Department of Pharmacy</td>
<td>• Standard treatment guidelines exist and often based on WHO guidance</td>
<td>• LIMS system and information flow weak – poor stock visibility, consumption data only for some products (HIV, vaccines)</td>
</tr>
<tr>
<td>• Weak regulatory capacity and quality control</td>
<td>• Essential medicines list (EML) exists but is outdated, selection process and frequency could be improved</td>
<td>• Quantification processes and capacity vary by disease area</td>
</tr>
<tr>
<td>• Only registered drugs can be imported</td>
<td>• CMAM can only purchase EML drugs (however, there are provisions to allow off-EML procurement in exceptional situations)</td>
<td>• Coordination across disease programs variable and inconsistent</td>
</tr>
<tr>
<td>• Market licenses held by importers</td>
<td>• Poor management of near to expiry and expired meds</td>
<td>• Insufficient and unpredictable financing -varies by disease area (e.g. vertical programs for HIV and TB have experienced 0 – 5% deficits in recent years, resources for essential primary health care kits (push system) are generally sufficient, while deficits of up to 55% have occurred for general medicines supplied through the <em>Via Classica</em> (pull) system.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Limited data on stock-outs at health facility, and limited household survey data on medicine use (DHS, end user survey on malaria)</td>
</tr>
<tr>
<td><strong>Performance Based Allocation (PBA)</strong> for new EML (FY 14)</td>
<td><strong>DLI 2 &amp; 5, PBA &amp; capacity development to improve timeliness, flow and quality of information</strong></td>
<td><strong>DLI 2 &amp; 5, PBA &amp; capacity development to improve timeliness, flow and quality of information</strong></td>
</tr>
<tr>
<td></td>
<td><strong>PBA to Dept of Pharmacy to improve rules, management &amp; reporting of expiries</strong></td>
<td></td>
</tr>
</tbody>
</table>
expenditure for increased supervision capacity
- PBAs and priority expenditures for distribution plan development and implementation

<table>
<thead>
<tr>
<th>Partners (NB: Prosaúde pooled funds may be used across a number of these areas)</th>
</tr>
</thead>
<tbody>
<tr>
<td>• USAID – funding and TA (MSH and USP) to Department of Pharmacy</td>
</tr>
<tr>
<td>• WHO – TA with new national professional officer for pharmaceuticals</td>
</tr>
<tr>
<td>• GFATM (Round 8 HSS)</td>
</tr>
<tr>
<td>• USAID – funding and TA (MSH) to Dept of Pharmacy to improve process</td>
</tr>
<tr>
<td>• USG partner TA and PBAs to incentivize cross-departmental planning and quantification</td>
</tr>
<tr>
<td>• GFATM (Rd 8 HSS)</td>
</tr>
<tr>
<td>• NGO partners (e.g. MSF, CHAI)</td>
</tr>
<tr>
<td>• USG – including warehouse construction, implementing partner (NGO) distribution, and TA</td>
</tr>
<tr>
<td>• PEPAR, PMI etc</td>
</tr>
<tr>
<td>• FORSSAS program TA seconded into CMAM</td>
</tr>
<tr>
<td>• World Bank (HICSP, HSDP)</td>
</tr>
<tr>
<td>• GFATM</td>
</tr>
<tr>
<td>• UNICEF</td>
</tr>
<tr>
<td>• UNFPA</td>
</tr>
<tr>
<td>• World Bank (HSCP, HSDP)</td>
</tr>
<tr>
<td>• UNICEF, UNFPA</td>
</tr>
<tr>
<td>• CHAI/Coke/GFATM/ USG last-mile partnership</td>
</tr>
<tr>
<td>• USG (HIV and malaria data systems, DHS)</td>
</tr>
<tr>
<td>• NGOs – implementing clinical partners</td>
</tr>
<tr>
<td>• DFID – citizen engagement project in health &amp; education</td>
</tr>
<tr>
<td>• UNFPA – maternal and reproductive health medicines availability survey</td>
</tr>
</tbody>
</table>
## School Based Management

### Education Sector Functions

<table>
<thead>
<tr>
<th>Financing</th>
<th>School building, maintenance and equipment (including text books)</th>
<th>HR Training and Deployment</th>
<th>School Management</th>
<th>Teaching Quality (including absenteeism)</th>
<th>Student Enrolment and Retention</th>
</tr>
</thead>
</table>
| **Status** | • 18 – 20% of annual Government budget, accounting for 75% of total budget  
• 75% external funds pooled (FASE)  
• Project financing (including World Bank) primarily for big construction projects and post-primary education | • Annual budget finances around SUSD 2-3 per child (EP) for learning materials and school maintenance | • Anually the sector contracts between 8,000-10,000 new teachers  
• Pupil/teacher ratio (EP1) around 63 (74 in 2006)  
• All newly recruited teachers have pedagogical training  
• POEMA modules in use for capacity building at district level | • Education Strategy (PEE) prioritizes improvement of school management to improve educational quality  
• Existence of school council requirement  
• Development of integrated system to assess and monitor education quality (based on norms and indicators) | • Educational outcomes currently poor, and key focus for PEE  
• Instruments being developed and tested to assess and monitor learning outcomes  
• Teacher training reform in progress | • PEE aims to improve enrolment and retention at all levels  
• Almost universal enrolment (age group 6-10)  
• Gender parity  
• Completion and retention rates of just under 50%  
• High dropout & repetition rates  
• Late entry in rural areas |

### Main challenges

| • External funding to the sector is reducing  
• Increase in internal funding primarily to support salary reform and contracting of new teachers  
• Education system continues to expand  
• Financing gap, affecting primarily non-salary recurrent expenditures (learning materials, books, running costs...) | • High demand for classrooms, desk, books …  
• Capacity (financial and human) not sufficient to increase numbers  
• Particular institutional capacity problems to meet the targets for classroom construction | • Contracting of teachers for post-primary education and non-teaching personal, primarily at district level  
• High levels of mobilization of (trained) staff  
• In-service teacher training programs limited | • Funds available for primary schools limited, arrive later and often diverted  
• No system school performance monitoring system (yet)  
• Narrow focus of school councils – don’t review performance  
• Limited supervision from SDEJTs  
• Limited transparency on use of funds | • Poor control of teacher absenteeism  
• Limited access to teaching materials and teaching environment (weak learning environment)  
• Overcrowded classrooms  
• Limited actual instruction time | • Poverty remains important factor for high dropout rates  
• Improvement of education quality to reduce high repetition rates |

### Contribution of PFM for Results to addressing challenges

| • Additional financing available to implement sector program  
• Introduction/testing concept of performance based financing for | • Additional funding for primary schools available for the development and implementation of school development  
• Incentives for change management | • Contribution to consolidation of capacity building at district level in the area of POEMA  
• Incentives for change management | • DLI 8 and 7 for improved budget categorization and timely disbursement  
• DLI 3 for representative and active school councils  
• Improved supervision of | • The focus on improved school management should contribute to improved teaching quality (DLI 3 and 9 indirect contribution):  
• Improved engagement of | • Improved teaching quality and improved school environment (incl management) should lead to improved |

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42
The Ministry is developing a framework to assess the quality of education at different levels of the system (SAQEM – Sistema de Avaliação de Qualidade da Educação em Moçambique) based on a set of quality standards and indicators. These standards and indicators are organized around three areas:

- Administrative Planning and School Management
- Infrastructure and school environment
- Teaching-Learning process

Data will be collected at institutional level on the indicators and will be used to assess the overall quality of the concerned institution and provide a tool to monitor progress in the different areas.

### Contributions of other development partners (note: the Bank contributes to the pooled sector fund, FASE)

| Increase of participation of non-traditional partners (China, Kuwait) to finance specific interventions |
| Possibility for additional funding through GPE (post 2014) |
| Referred items (books, classrooms, desks, learning materials) currently financed primarily with FASE funds |
| Teacher training financed primarily through FASE |
| Technical assistance provided for capacity building activities |
| Primary school finance primarily through FASE funding (ADE) |
| Provincial and district funding for supervision financed through FASE |
| Project interventions (e.g. USAID, UNICEF, GIZ) focused on improved school management in targeted provinces |
| Learning environment and teacher training primarily supported by FASE |
| Project interventions (e.g. USAID, UNICEF, GIZ, JICA) focusing on improving teacher education in target provinces |
| Project interventions in early childhood education (WB), school feeding (WFP), incentives for girls (DfID) aimed at increasing enrolment and retention |
| As above: partners’ support to the implementation of the PEE should lead to improved enrollment and retention |

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43 The Ministry is developing a framework to assess the quality of education at different levels of the system (SAQEM – Sistema de Avaliação de Qualidade da Educação em Moçambique) based on a set of quality standards and indicators. These standards and indicators are organized around three areas:

- Administrative Planning and School Management
- Infrastructure and school environment
- Teaching-Learning process

Data will be collected at institutional level on the indicators and will be used to assess the overall quality of the concerned institution and provide a tool to monitor progress in the different areas.
Program Implementation

11. The PFM for Results Program is anchored in the Direcção Nacional de Tesouro (DNT – National Treasury Directorate), Ministry of Finance, and implemented in collaboration with sector ministries and national PFM institutions. Deepening the implementation of existing PFM reforms requires the engagement of sector ministries, provinces, districts and local levels of government. Leadership by DNT, and participation by national PFM institutions, ensures coordination and coherence with the Government’s overarching PFM reform program. A Program Management Committee (PMC), comprising of senior officials from each Ministry, will meet at least semi-annually and provide high-level strategic direction. The PMC will provide an important platform for sharing learning from each sector with others as at a senior official level.

12. A Program Coordination Team (PCT) has been established in DNT to lead management of the program, and coordination across sector ministries and PFM institutions. The PCT is responsible for coordinating the PFM for results program, together with sector ministries and PFM institutions. It is managing the capacity development program, including tendering for international expertise, and recruitment, placement and regular performance management of national management capacity development staff. The PCT is facilitating coordination between sectors and national institutions for the on-demand PFM capacity development program. And, it will monitor the implementation of the performance based allocations, including support to ensure timely flow of funds through government systems to recipient institutions. The team is responsible for general implementation monitoring, preparation and dissemination of program progress reports and financial statements. Beyond routine progress reporting, the PCT will also play an active role in knowledge management and dissemination, including across Ministries (e.g working with the PMC), at different levels of government, and with development partners (the Government and Bank Program teams will liaise with relevant sector partner/Government working groups on a regular basis to share information and learning). A knowledge platform will be established to share learning across participating institutions, and to foster a community of practice for managers. The PCT is led by a full-time Program Coordinator. Other staff under recruitment includes: a Procurement Specialist, a Financial Management Specialist, and a Monitoring and Evaluation Specialist.

13. Sector Working Teams have been formed at central level and are being formed at provincial and district level (as appropriate) to champion and manage implementation in the selected results areas. Members of these teams are drawn from different units relevant to achieving the sector results. They may also include representatives from the PFM institutions. National management capacity development staff will support the establishment and effective working of sector working teams. Sector Working Teams will also ensure that learning from the Program is captured and disseminated both within and across sectors.

14. The Program is using country procurement and financial management systems. Besides small purchases of an operational nature, medicines and the capacity development activities are the two main procurable items under the Program and managed by two agencies at the central level - CMAM and DNT. The procurement regulator (UFSA - Unidade Funcional de Supervisão das Aquisições), internal auditor (IGF - Inspecção Geral das Finanças), and external auditor (Tribunal Administrativo) will perform their normal statutory oversight functions. Procurement Management Units (UGEAs – Unidades de Gestão e Aquisições) have responsibility for managing all aspects of procurement of goods, works, and services under the Program. In terms of financial
management, the key entities involved in the implementation of the program will be DNT, CMAM, the Ministries of health and education at central and provincial levels, the SDJT's at district level and complete primary schools at the local level. Key internal oversight entities will be the General Finance Inspectorate, the General Health and Education Inspectorates and the CMAM internal audit unit.

15. **The Tribunal Administrativo (the Supreme Audit Institution) will provide external validation of DLI results, and undertake financial audit of the Program.** Reporting on the results framework and DLI will be based on data from management information systems, supervision and internal auditor reports, and established annual surveys. The Tribunal Administrativo and the Bank have agreed the protocols to be used to validate disbursement linked results and Tribunal Administrativo has shared an initial methodology for performing validation of DLI targets. Bank financing will contribute to the Government program of expenditures that supports these sector results, and contributes to the attainment of the results targets.\textsuperscript{44}

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\textsuperscript{44} The Tribunal Administrativo is the supreme audit institution for the Mozambique. It currently provides timely and good quality financial audits for a number of World Bank programs. The Tribunal has established a performance audit unit, and is building its capacity to undertake such audits.
Annex 2: Results Framework Matrix

The Program Development Objective is to improve the transparency and efficiency of expenditures for the storage, distribution and availability of medicines and for the management of complete primary schools

<table>
<thead>
<tr>
<th>PDO-level results indicators</th>
<th>DLI</th>
<th>Unit of measure</th>
<th>Baseline</th>
<th>Target values</th>
<th>Frequency</th>
<th>Data source/methodology</th>
<th>Responsibility for data collection</th>
</tr>
</thead>
<tbody>
<tr>
<td>Indicator 1: Average availability(^{45}) of a tracer set of essential maternal and reproductive health medicines(^{46}) at health facility level.</td>
<td>DLI 1</td>
<td>%</td>
<td>78.6% (2013)</td>
<td>82%</td>
<td>85%</td>
<td>88%</td>
<td>Annual (Based on report released in the Target Year, utilizing data from previous year)</td>
</tr>
<tr>
<td>Indicator 2: Number of provinces achieving the minimum acceptable(^{47}) score of compliance with standards(^{48}) for stock management, warehousing, and distribution of medicines, as assessed by the CMAM Internal Audit Unit.(^{49})</td>
<td>DLI 2</td>
<td>Number</td>
<td>- (^{50})</td>
<td>2 Provinces</td>
<td>5 Provinces</td>
<td>8 Provinces</td>
<td>Annual (Based on the most recent audit for each province during the year)</td>
</tr>
</tbody>
</table>

\(^{45}\) This is the average across all health facilities surveyed, of the proportion of medicines from a set of tracer medicines (see next footnote) for which at least one dose was available at a health facility on the day of survey.

\(^{46}\) As defined in the annual UNFPA Reproductive and Maternal Health Commodities Survey. Note that this list may be subject to change (e.g. if treatment protocols change). Baseline data from 2012 included: Amoxicillin, Azithromycin, Benzathine penicillin, Cefexima, Clotrimazole, Iron and folic acid, Magnesium Sulphate, Metronidazole, Oxytocin, Ampicillin, Gentamycin, Hydralazine, Nifedipine, Methyldopa, Sodium chloride.

\(^{47}\) Based on the Guião de auditoria para o Nível Provincial (MISAU 2012), the Internal Audit Unit (IAU) of CMAM scores medicines warehouses and depositories at all levels within each of the 11 provinces on 26 indicators. For each warehouse/depository, an ‘acceptable’ standard of performance is defined as a weighted score in the range of 50% - 65% of the total possible score against the 26 indicators. The provincial score is the simple average of the scores of the facilities surveyed during a single audit round (normally assessing the provincial warehouse, two district medicines depositories and up to four health facility depositories).

\(^{48}\) Standards are defined for 26 indicators in the Ministry of Health’s the Guião de Auditoria para o Nível Provincial (MISAU 2012).

\(^{49}\) The provincial score during the most recent internal audit assessment will be utilized.

\(^{50}\) 2014 will be the first year in which medicines warehouses and depositories in all provinces will be assessed by CMAM’s Internal Audit Unit in accordance with the Ministry of Health Audit Guidelines for Provincial Warehouses (Guião de auditoria para o Nível Provincial, MISAU 2012). The baseline for this indicator will be taken as zero for the purposes of calculating disbursements for results achieved.
**Indicator 3:** Proportion of complete primary schools that comply with standards for transparency and accountability, as defined, agreed and distributed in 2014 (school councils elected according to revised criteria, approved school development plan, and displayed information on resources allocated, planned, and applied).

<table>
<thead>
<tr>
<th>DLI 3</th>
<th>%</th>
<th>53</th>
<th>School councils’ manual revised, approved and distributed to all complete primary schools</th>
<th>50% of schools meet standards for all three dimensions of transparency and accountability</th>
<th>60% of schools meet standards for all three dimensions of transparen cy and accountabi lity</th>
<th>Annual</th>
<th>Election notification, school development plans, and receipts and payments statements collected via SDEJT s which will then be collated into a central report by MINED Inspector General for independent validation by the Tribunal Administrativo</th>
</tr>
</thead>
</table>

**INTERMEDIATE RESULTS**

**Results Area 1: Fiduciary integrity and proper monitoring of medicines storage and distribution**

**Indicator 4:** Proportion of treatment sites with a stock-out of key Anti-retroviral drugs at the end of each month

<table>
<thead>
<tr>
<th>DLI 4</th>
<th>%</th>
<th>27% (June 2013)</th>
<th>25%</th>
<th>23%</th>
<th>21%</th>
<th>Annual (average of 12 months of the calendar year)</th>
<th>CMAM Monitoring Reports</th>
<th>CMAM</th>
</tr>
</thead>
</table>

51 Standards for school council election and composition, school development plans and display of information on school plan resource allocation to be defined and agreed as part of the school councils’ manual revised and distributed in year 1. Standards will include: procedures for election; minimum requirements for council size, composition and community representation (e.g. number of mothers); minimum requirements for valid school development plans and approval of plans by school councils, and; minimum requirements for type, form and visibility of information displayed.

52 These three criteria together constitute transparent and accountable school councils. All three need to be met for the DLI to be achieved.

53 The DLI will measure compliance with the new Schools Councils’ Manual, with first measure of compliance in year 2. The baseline for this indicator will be taken as zero for the purposes of calculating disbursements for results achieved in subsequent years.

54 The manual will be developed through a participative process that includes an agreed list of stakeholders. Approval of the manual will be by MINED’s Ministerial Advisory Council (Conselho Consultivo do Ministro). The list of participants in the process will be agreed with the World Bank and included in the operations manual.

55 Tracer ARVs (including fixed dosed combinations) are formulations required for ARV treatment regimes that comply with national HIV treatment guidelines and are used to treat more than 5000 patients at time of measurement. In January 2013, these included: TDF+3TC+EFV (following implementation of new national treatment guidelines), AZT+3TC+NVP, d4T 30+3TC+NVP, AZT+3TC, EFV, d4T+3TC+NVP (3FDC pediatric).
**Indicator 5:** Proportion of districts for which CMAM receives logistics information through the SIMAM system

<table>
<thead>
<tr>
<th>Indicator 5: Proportion of districts for which CMAM receives logistics information through the SIMAM system</th>
<th>DLI</th>
<th>%</th>
<th>73.5% (2012)</th>
<th>77%</th>
<th>82%</th>
<th>87%</th>
<th>Semi-Annual [annual target and payment; performance for 1st and 2nd semester assessed and paid out upon independently (50% of total annual value per semester)]</th>
<th>CMAM Monitoring Reports. Validated by Tribunal Administrativo</th>
<th>CMAM</th>
</tr>
</thead>
</table>

**Indicator 6:** Fill rate of approved requisitions from CMAM’s clients for tracer medicines

<table>
<thead>
<tr>
<th>Indicator 6: Fill rate of approved requisitions from CMAM’s clients for tracer medicines</th>
<th>DLI</th>
<th>%</th>
<th>72% (2013)</th>
<th>74%</th>
<th>79%</th>
<th>84%</th>
<th>Annual (Average of all approved requisitions from clients for tracer medicines)</th>
<th>CMAM Report, using CMAM Monitoring Plan Indicator definition but with expanded list of sentinel medicines</th>
<th>CMAM</th>
</tr>
</thead>
</table>

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56 “Logistics information” is defined operationally for this program as a district sending requisitions/balance sheets for at least 2 product groups in a month.

57 The baseline for this indicator is FY2012. The next validation by TA will be available by March 2015 and will form the basis for assessing the FY2014 performance.

58 CMAM adjusts and approves requisitions received from each of its 18 direct clients. In the approval process, CMAM’s Distribution Sector reviews each requisition and uses a standardized formula to verify that the correct quantity was requested based on the client’s available stock and historical consumption. When historical trends do not support the quantity requested, and other justification (e.g., disease trends) for the quantity are not provided, the quantity is revised downward to match historical consumption. The approval process is totally independent of existing available stock at CMAM, which is taken into account in the next step of the distribution planning process.

59 CMAM has 18 direct clients, comprising of provincial warehouses, central and major hospitals.

The Ministry of Education allocates an annual grant directly to schools (Apoio Directo as Escolas) each fiscal year to support the implementation of school development plans. The amount granted to each school is calculated by a formula set by the Ministry (and which is a focus of policy dialogue in the sector, as funds are, in part, supported by development partners). The formula takes into account variables such as type of school and number of pupils. For the achievement of targets under this DLI, to be counted a school must have received at least 20 percent of the annual direct school grant allocation before February 28.

At district level education, youth and technology services expenditures are currently (2013) combined under a single budget classification. DLRs progressively require a revised budget allocation to be developed, applied and executed.

The eSISTAFE Integrated Financial Management system will be configured to allow disaggregation at district level among primary, secondary, adult, and vocational education expenditures, and expenditures on youth and technology services. And, the budget for 2015 will prepared using the revised budget classification at district level. For this DLR to be met, both revised classification and use for 2015 budget preparation are required.

The DLI measures supervision of complete primary schools in accordance with new supervision guidelines, revised, agreed and distributed in year one, and used first in year two. The baseline for this indicator will be taken as zero for the purposes of calculating disbursements for results achieved in subsequent years.

The School Supervision Manual will be developed through a participative process that includes an agreed list of stakeholders (note: different stakeholders to the process for the School Councils’ Manual – see DLI 3). Approval of the School Supervision Manual will be by MINED’s Ministerial Advisory Council (Conselho Consultivo do Ministro). The list of participants in the process will be agreed with the World Bank and included in the Program Operations Manual.

### Table: Indicators

<table>
<thead>
<tr>
<th>Indicator 7: Proportion of complete primary schools which receive direct school grant funds</th>
<th>DLI 7</th>
<th>%</th>
<th>0</th>
<th>50%</th>
<th>75%</th>
<th>90%</th>
<th>Annual</th>
<th>Accounting data</th>
<th>MINED</th>
</tr>
</thead>
</table>
| Indicate 8: Revised district level budget classification by sub-sector, configured and applied | DLI 8 | Y/N | Dis-aggregated classification does not exist | (a) System configured to classify expenditures by sub-sectors at district level
(b) Budget prepared by sub-sector classification | Budget prepared in previous year executed by sub-sector classification | Verified annually with respect to specific DLR | Budget prepared and executed on enhanced classification verified via budget and accounts documents | MINED |
| Indicate 9: Proportion of complete primary schools visited for supervision by SDEJTs | DLI 9 | % | 64 | School supervision manual revised and distributed to all SDEJTs | 25% visited and 40% follow-up visits | 50% of Complete Primary Schools visited 60% follow-up visits | Annual | MINED Inspector General collected data on supervision visits substantiated by supervision reports and verified by Tribunal Administrativo. | MINED |

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61 The Ministry of Education allocates an annual grant directly to schools (Apoio Directo as Escolas) each fiscal year to support the implementation of school development plans. The amount granted to each school is calculated by a formula set by the Ministry (and which is a focus of policy dialogue in the sector, as funds are, in part, supported by development partners). The formula takes into account variables such as type of school and number of pupils. For the achievement of targets under this DLI, to be counted a school must have received at least 20 percent of the annual direct school grant allocation before February 28.

62 At district level education, youth and technology services expenditures are currently (2013) combined under a single budget classification. DLRs progressively require a revised budget allocation to be developed, applied and executed.

63 The eSISTAFE Integrated Financial Management system will be configured to allow disaggregation at district level among primary, secondary, adult, and vocational education expenditures, and expenditures on youth and technology services. And, the budget for 2015 will prepared using the revised budget classification at district level. For this DLR to be met, both revised classification and use for 2015 budget preparation are required.

64 The baseline for this indicator will be taken as zero for the purposes of calculating disbursements for results achieved in subsequent years.

65 The School Supervision Manual will be developed through a participative process that includes an agreed list of stakeholders (note: different stakeholders to the process for the School Councils’ Manual – see DLI 3). Approval of the School Supervision Manual will be by MINED’s Ministerial Advisory Council (Conselho Consultivo do Ministro). The list of participants in the process will be agreed with the World Bank and included in the Program Operations Manual.
Annex 3: Disbursement Linked Indicators, Disbursement Arrangements, and Verification Protocols

Table A3.1 Disbursement-Linked Indicator Matrix

<table>
<thead>
<tr>
<th>Disbursement-linked indicator</th>
<th>Indicative timeline for DLI achievement and validation*</th>
<th>Total financing allocated to DLI</th>
<th>As percentage of total financing amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>DLI 1: Average availability of a tracer set of essential maternal and reproductive health medicines at health facility level</td>
<td>82%</td>
<td>85%</td>
<td>88%</td>
</tr>
<tr>
<td>DLI 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</td>
<td>2 provinces</td>
<td>5 provinces</td>
<td>8 provinces</td>
</tr>
<tr>
<td>DLI 3: Proportion of complete primary school that comply with standards for transparency and accountability defined, as agreed and distributed in 2014 (school councils elected according to revised criteria, approved school development plan, and displayed information on resources allocated, planned, and applied)</td>
<td>School councils’ manual revised, approved and distributed to all complete primary schools</td>
<td>50%</td>
<td>60%</td>
</tr>
<tr>
<td>DLI 4: Proportion of treatment sites</td>
<td>25%</td>
<td>23%</td>
<td>21%</td>
</tr>
</tbody>
</table>
with a stock-out of key ARVs at the end of each month

<table>
<thead>
<tr>
<th></th>
<th>US$1.04 million</th>
<th>US$1.16 million</th>
<th>US$1.16 million</th>
<th>US$3.36 million</th>
<th>7%</th>
</tr>
</thead>
</table>

**DLI 5:** Proportion of districts for which CMAM receives logistics information through the SIMAM system

<table>
<thead>
<tr>
<th></th>
<th>77%</th>
<th>82%</th>
<th>87%</th>
<th></th>
<th></th>
</tr>
</thead>
</table>

**DLI 6:** Fill rate of approved requisitions from CMAM clients for tracer medicines

|------------------------|-----------------|-----------------|-----------------|-----------------|----|

**DLI 7:** Proportion of complete primary schools which receive direct school grant funds on or before February 28 of each year

<table>
<thead>
<tr>
<th></th>
<th>50%</th>
<th>75%</th>
<th>90%</th>
<th></th>
<th></th>
</tr>
</thead>
</table>

**DLI 8:** Revised district-level budget classification by sub-sector, configured, and applied

<table>
<thead>
<tr>
<th></th>
<th>US$2 million</th>
<th>US$2 million</th>
<th>US$2 million</th>
<th>US$6 million</th>
<th>12%</th>
</tr>
</thead>
</table>

**DLI 9:** Proportion of complete primary schools visited for supervision by SDEJT's

<table>
<thead>
<tr>
<th></th>
<th>US$1 million</th>
<th>US$1.5 million</th>
<th>US$1.5 million</th>
<th>US$4 million</th>
<th>8%</th>
</tr>
</thead>
</table>

**Total**


*Note:* A final potential disbursement will be made in March 2018. This will allow verification of final program results achieved during the period ending December 2017, and payment of any funds carried over from previous years. There will be an annual cumulative disbursement limit for each DLI set under the disbursement letter.
Disbursement Principles

- Overall improvement targets are agreed at the start of the program - targets set out a reasonable trajectory for performance improvement over three years. If targets are achieved then the Bank will disburse to the government. If there is over performance in some years, then some reduction in following years is acceptable provided that corresponding targets are still achieved. The ideal situation is that performance improvement is sustainable.

- A single annual disbursement to the government will be made and timed to coincide with the government budget cycle. Achievements against DLRs will be verified by March 15 each year.

- Disbursement limits for each year - no additional disbursement will be made for exceeding the yearly sub-targets. However, undisbursed funds from previous year(s) will be carried forward so that a partially unachieved target will be rolled over to the next year for reassessment and disbursement.

- Scalability – for scalable DLRs (all except DLR 3.1, 8.1, 8.2, 8.3, and 9.1), disbursements will be made in proportion to the level of achievement above a floor of 60% of the program improvement targeted up to a given year. The 60% floor will be rounded up to the nearest integer where necessary for the unit of measurement – e.g. DLI#2 - the number of provinces achieving a target must be a whole number.

- Fourth year will be the final possibility to claim any unclaimed DLR prices and all disbursements will have to be settled by the Program closing date of March 31, 2018.

- Detailed breakdown of DLRs into annual targets and respective prices is given in the Program disbursement letter.
<table>
<thead>
<tr>
<th>Disbursement-linked indicator</th>
<th>Definition/ description of achievement</th>
<th>Scalability of indicator</th>
<th>Protocol to evaluate achievement of the DLI and data/result verification</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td>Data source/ agency</td>
</tr>
<tr>
<td>DL1 1: Average availability of a tracer set of essential maternal and reproductive health medicines at health facility level</td>
<td>Average availability of a list of tracer maternal and reproductive health medicines at health facilities on the day of survey</td>
<td>Yes</td>
<td>Research group contracted by UNFPA</td>
</tr>
<tr>
<td>DL1 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</td>
<td>Number of provinces achieving minimum acceptable score from internal audit of compliance with standards for stock management, warehousing, and distribution of medicines</td>
<td>Yes</td>
<td>CMAM Internal Audit Reports and Monitoring Reports</td>
</tr>
<tr>
<td>DL1 3: Proportion of complete school that comply with standards for transparency and accountability, as defined, agreed and distributed in 2014 (school councils elected according to revised criteria, approved school development plan,</td>
<td>Election of school councils, preparation of participatory plans, and display of list of receipts and payments</td>
<td>Yes</td>
<td>Election notification, school development plans, and receipts and payments statements collected through SDEJTs</td>
</tr>
</tbody>
</table>
and displayed information on resources allocated, planned, and applied)

| DLI 4: Proportion of treatment sites with a stock-out of key ARVs at the end of each month | The proportion of designated HIV treatment centers out of the total number of designated HIV treatment centers that report stock-out of one or more first line antiretroviral medicines (adult or paediatric) | Yes | CMAM monitoring reports | Tribunal Administrativo | HIV treatment centers (currently 345) report consumption data and medicines stock levels on a monthly basis through a dedicated management information system. Data will be extracted semi-annually to calculate the proportion of treatment centers out of the total number that reported stock-outs of first line adult or pediatric HIV medicines.

Verification methodology can include:

- Review and analyze reports, reported data and calculations
- Review original data from SIMAM database
- To the extent possible, confirm data through comparison with other data sources (e.g., USAID and CDC implementing partners, CMAM Internal Audit reports) or by reviewing stock cards and other registers at TARV sites.

| DLI 5: Proportion of districts for which CMAM receives logistics information through the SIMAM system | Proportion of districts out of total number of districts that report logistics information to CMAM through the SIMAM logistics and management information system | Yes | CMAM monitoring reports | Tribunal Administrativo | SIMAM is the computerized logistics and management information system used in the medicines supply chain. Provinces utilize the SIMAM system to report digitized commodities requisitions and balance sheets to CMAM. Receipt of such data from districts on a monthly basis can be tracked.

Verification methodology can include:

- Review and analyze reports, reported data and calculations
- Review original data from the SIMAM system
- Verify with requisitions and balance sheets of districts received by provinces.

| DLI 6: Fill Rate of approved requisitions from CMAM clients for tracer medicines | Average fill rate for requisitions for a defined list of vital tracer received from CMAM clients | Yes | CMAM Report, using CMAM Monitoring Plan Indicator definition but with expanded list of sentinel | Tribunal Administrativo | Average annual fill rate (% of requisitions quantities that are met) data generated from the MACS Warehouse Management system and SIMAM logistics management information system.

Verification methodology can include:

- Review and analyze reports, reported data and calculations |
<table>
<thead>
<tr>
<th>DLI 7: Proportion of complete primary schools which receive direct school grant funds on or before February 28 each year</th>
<th>Information collected from a sample of schools on date of receipt of funds</th>
<th>Yes</th>
<th>Accounting data</th>
<th>Tribunal Administrativo</th>
<th>Visit reports from SDEJT's to be test audited by the Tribunal Administrativo</th>
</tr>
</thead>
<tbody>
<tr>
<td>DLI 8: Revised district-level budget classification by sub-sector, configured and applied</td>
<td>Joint certificate of MoF and MINED on successful system configuration; State budget and budget execution reports for FY15</td>
<td>No</td>
<td>MoF notifications and State budget for for year 1, and Budget execution report for year 2</td>
<td>Tribunal Administrativo</td>
<td>Tribunal Administrativo to certify completion of actions</td>
</tr>
<tr>
<td>DLI 9: Proportion of complete primary schools visited for supervision by SDEJTs</td>
<td>SDEJT's school supervision reports</td>
<td>Yes</td>
<td>Ministry of Education to provide SDEJT's school supervision reports on a sample basis for verification</td>
<td>Tribunal Administrativo</td>
<td>Tribunal Administrativo would verify that schools manual was developed through a process that included participation of agreed list of stakeholders, and then approved by MinEd Ministerial Advisory Committee. Based on the actual school supervision report compiled by MINED Inspector General, Tribunal Administrativo will validate data on sample basis</td>
</tr>
</tbody>
</table>
Annex 4: Technical Assessment

Strategic Relevance of the PFM for Results program

1. The discovery of large natural resource reserves in Mozambique has raised expectations of increased economic growth, improved public services and poverty reduction. However, the majority of the population has benefited little from growth in recent years, and may be skeptical that the potential for increased government revenues will translate into improved services. The development potential of future natural resource revenues will partially depend on stronger PFM systems, as well as political commitment to broad based social and economic development. A gap between political rhetoric and improvements in the everyday lives of the population may fuel potential for social unrest. Similarly, changing development partner circumstances (both funding constraints and changing modalities) and perceptions of Mozambique’s development trajectory may lead to a drop in the levels of assistance, in advance of actual increases in revenue (it is still some years before natural resources will reach market). The Government needs to respond to both popular expectations and a changing partner environment. This creates a window of opportunity to increase government focus on the effective management of public resources and improved service delivery.

2. While Mozambique has undertaken a successful program of PFM reforms at the central level, its implementation in sector ministries, provinces and districts has lagged behind. Mozambique is among the highest-performing developing countries in Africa in terms of its aggregate Public Expenditure and Financial Accountability (PEFA) score. Between 2006 and 2010 PEFA scores improved markedly, particularly in upstream functions. While aggregate PEFA scores are high for legal and policy frameworks, implementation is weaker. In addition, upstream elements of the PFM cycle (e.g. budget preparation, tax policy) perform better than downstream functions, including budget execution, procurement, internal controls, accounting, and audit follow-up. This affects the ability of the Mozambican Government to effectively and equitably deliver services, and it results in poor value for money in public spending.

3. In health and education, these lags in PFM reform implementation are affecting service delivery. Health and education sectors are necessary contributors to Mozambique’s development pathway, and account for high levels of both domestic and external public expenditure. Education has typically accounted for 18 – 19 percent of government spending in recent years. Government health expenditure has varied between 7 and 10 percent (2008 – 2012), and the sector is also heavily dependent on external financing; approximately 50 percent of total health expenditure is off-budget external assistance. Important progress has been made against some Millennium Development Goal targets; primary school enrolment is over 98 percent with gender parity, and child mortality rates have fallen from 219 per 1,000 live births in 1990 to 97 in 2011. However, progress has been far more limited in other areas. Primary school completion rates for boys and girls are under 50 percent, and learning outcomes are poor. Maternal mortality rates remain high at 490 per 100,000 live births. The contraceptive prevalence rate in rural areas is 7 percent. There are 3,300 in-patient malaria deaths each year, and the disease remains the largest cause of child mortality. Efficient budgeting, allocation, use and accountability for resources in these sectors are necessary if these challenges are to be addressed. As well as improving the

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67 Southern and East Africa Consortium for Monitoring Educational Quality (see http://www.sacmeq.org/)

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efficiency of government spending, stronger PFM processes may increase the confidence of development partners to bring more external financing on-budget, and to use government systems.

4. **In the health sector, the reliable availability of appropriate and high-quality medicines is a necessary component for effective healthcare delivery, and essential to addressing the primary causes of morbidity and mortality in Mozambique.** Specific PFM related weaknesses have been identified, and the Government has developed proposals to improve performance. There are many inter-connected system and external challenges to improved healthcare delivery and health outcomes in Mozambique. These require long-term strategic investment both within the sector and more broadly across government (e.g. human resource constraints are particularly challenging, slow moving and linked to broader education, labor force and public sector reform agendas). The medicines supply chain provides a relatively discrete sub-system within the health sector, and one in which PFM weaknesses have measurable impact on performance (e.g. poor medicines procurement practices and diversion are common efficiency problems in developing countries). Medicines are also a very visible indicator to the public of the basic functioning of the health system, and often constitute the major part of out-of-pocket health expenditures. Recent analysis of the medicines supply chain identified specific weaknesses in financing, demand forecasting, procurement, storage and distribution of medicines to health facilities, resulting in inefficient deployment and use of existing resources. This is clearly an area where improved management of public resources, including stocks of pharmaceuticals, would contribute to more efficient public spending and improved service delivery.

5. **In the education sector, Mozambique has been successful increasing enrolment but retention and learning outcomes remain poor.** What happens in schools, and how teaching resources are translated into learning outcomes are now the primary concerns of the Ministry of Education and development partners. School based management aims to strengthen the accountability of schools to their local communities, and to build improved oversight of how education inputs are used. It is an approach that has been used in a wide variety of country settings to improve school performance. The third Strategic Plan for Education (2012-2016), approved by the Council of Ministers on June 12, 2012, identifies school based management as an important mechanism to support better outcomes, and particularly to ensure that resources (such as teachers, premises, learning materials, funds) are used for their intended purposes. However, school councils currently lack the capacity to contribute effectively to school management and performance monitoring. Therefore, improving school based management and accountability is highly relevant to the education sector agenda in Mozambique.

**Technical Soundness**

6. **The PFM for Results program is technically sound** for the following reasons: (i) it brings together the Ministry of Finance, the Ministry of health, the Ministry of Education and the CMAM (Central de Medicamentos e Artigos Médico – the Central Medicines Store) to jointly tackle challenges in the management of public resources in the selected sub-sectors. The program provides strong incentives for the collaboration of these institutions, which had not hitherto worked together, on addressing public financial management challenges in sectors; (ii) it combines changed incentives at the central, provincial and district level through performance linked allocations, with the technical assistance needed to overcome capacity limitations in sectors to meet objectives; and

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69 Plano Estratégico da Logística Farmacêutica: Rascunho Final (Durão, J. December 2012).

(iii) the program gives the authorities the flexibility to address the political economy drivers of change that can help or hinder reform. Intervening in PFM processes inevitably involves changes to formal and informal distributions of power and access to resources. This requires both deep understanding competing interests within systems, and the ability to adjust implementation as incentive structures and institutional relationships change.

7. **Financing constraints and inefficiency of spending on medicines in Mozambique contribute to poor outcomes.** External financing for vertical disease programs constitutes significant proportion of funding for medicines in Mozambique (an estimated US$120 – 130 million per annum). This funding is essential to meet the high-burdens of HIV, malaria and TB that are prevalent in the country. As this funding is restricted, it reduces the ability of the Ministry of Health to allocate resources across all health needs. The funds available for essential primary health care medicines are often insufficient. While the volume and flexibility of funding are constraints, the inefficiency of spending due to system weakness constitutes a serious cause of poor health outcomes. System weaknesses, leading to unreliable storage, distribution and availability of medicines, reduce the efficiency of existing and potential future expenditures. Better system performance would provide an important and durable means to increase the coverage of medicines within the existing resource envelope, and to maximize the impact of any additional funding in the future. Improved transparency and PFM in the medicine supply chain would also provide a stronger basis for costing medicines and supply chain needs, and can contribute to the development of a sustainable health financing strategy.  

8. **The Program will primarily focus on improving the transparency and efficiency of the medicines supply chain.** It will strengthen institutional incentives for alignment along the length of the medicines supply chain, improve the quality and use of information, and reduce vulnerability to waste or diversion of stock. This focus will complement the large scale funding for medicines procurement provided by vertical funds (such as PEPFAR and the GFATM). The current reform space in the medicines supply chain to drive improved efficiency requires that the Program works within the existing organizational structure, while building a foundation for more profound reforms in the future. The focus on improving accountability, information flow and alignment of supply chain units can deliver performance improvements in the short term, while building a performance culture and information base that can support longer term changes. The multi-layered structure of the supply-chain in Mozambique amplifies inefficiencies in the timeliness and quality of information communicated between supply chain units; small delays and inaccuracies at lower levels are aggregated at superior levels, leading to poor communication of demand and supply information, poor visibility of inventory and lack of clarity regarding pipeline and delivery scheduling. Weak alignment of supply and demand can also lead to gaming behaviors (such as tactical over-ordering by delivery units in anticipation of incomplete order filling) that further undermine performance, and increased vulnerability to inventory diversion and wastage. Similarly, inaccurate and irregular provision of order information undermines scheduled distribution, resulting in sub-optimal route planning, multiple \textit{ad hoc} collections and deliveries, more complex inventory management and monitoring, and poor staff utilization at stocking points.

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71 The Bank and development partners are supporting the Government of Mozambique to develop a road map for a comprehensive health financing strategy. This will include improved costing and prioritization of health programs in Mozambique, including prioritized medicines and system investment needs.

72 The pooled sector fund (Prosaúde) also contributes to medicines procurement, primarily primary health care kits. The Bank has also supported medicines procurement through the Health Commodities Security Project (P121060) and the Heath Service Delivery Project (P099930).

9. **Performance allocations and technical assistance to provincial and district warehouses** will incentivize and support more timely and accurate provision of data up and down the supply chain, and reward increased adherence with standard operating procedures for inventory and warehouse management.\(^{74}\) Increased supervision complements these positive incentives. These improvements, combined with better reporting of medicines availability at health centers, should increase the quality of information available for procurement and distribution planning, and reduce vulnerability to diversion of medicines from the public sector for private sale.\(^{75}\) Institutional incentives, such as improvements in working conditions and access to training, will help reduce the resistance to such changes, although careful monitoring will be required to assess if these are sufficient to facilitate shifts in behavior. In addition, the Program allows for some performance based allocation to be used to support gap-filling purchases for essential primary care medicines. This will help overcome inefficiencies associated with the restrictions that come with resources available through vertical funds.\(^{76}\)

10. **In the education sector, the Program will change accountability relationships between communities, school councils, school directors, SDJETs and district government administrations.** The focus of the education DLIs combines an improved financial management environment (DLIs 7 and 8), with strengthened community accountability (DLI 3) and management oversight (DLI 9). Better definition of budget classifications will reduce the flexibility currently available to district government administrations in the reallocating and use of education budgets for other sub-sectors, and increase predictability of resourcing to schools. Consequently, there may be resistance to this change at district administration level, and strong commitment from the center to implement these reforms is required. While discussions with Government counterparts suggest such commitment exists, DLI8 will also provide central authorities with a financial incentive to ensure this change takes place. Similarly, strengthening the performance and accountability of school councils, particularly the participation and oversight of school development plans, will limit the scope available to school directors for the utilization of school resources for other activities, such as political campaigning. This shift in power is a primary focus for the education intervention. The Program design and approach support this shift through complementary mechanisms: guidelines for the composition of school councils that increase community voice, particularly of mothers; technical assistance to strengthen the performance of school councils; increased supervision to reinforce the role of school councils; and performance allocations to compensate for this rebalancing of roles and strengthened accountability. School based management approaches have been successful in driving such re-balancing of accountabilities in a number of countries\(^{77}\) and

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\(^{74}\) All procurement currently takes place at central levels of the system, and vulnerabilities to rent seek behaviors are consequently concentrated here. While improved information and inventory visibility will underpin better procurement, the results framework does not specifically focus on procurement processes, although procurement benchmarking will be included in audit terms of reference. Other development partners are addressing procurement directly. USAID is funding placement of two long-term, and three short-term, procurement advisors in the CMAM procurement department. They will support identification and implementation of improvements across core procurement functions, including tendering/contracts, order delivery tracking, spend management, and supplier management. The team will embed organizational redesign (structure, functions, and roles & responsibilities), procedural changes (new processes and SOPs) and technological tools (forms, database, trackers) across these functions, and support their integration with warehouse and finance systems.

\(^{75}\) While highly likely that some diversion of medicines out of the supply chain for private sale takes place, firm data on such practices is limited. A 2011 report indicated comparatively limited (when compared to other developing country systems) proportions of stock unaccounted for (based on a tracer list of medicines followed from the center down to health facilities). Average Estimated losses varied by level: 0 percent at central level, 1.13% at provincial level, 7.49% at district level and 8.21% at sub-district level. (USAID. *Supply Chain Logistics and Internal Controls Evaluation: Mozambique Country Assessment*. February 2012.)

\(^{76}\) Up to US$9.6 million will be available through the Program for the purchase of essential primary health care medicines. Although inexpensive, these medicines are often neglected due to the restricted nature of vertical funding programs for HIV, TB and malaria.

experience suggests that such shifts take time to become properly established. The degree to which central political leadership prioritizes school performance as a popular issue may also be an important influence on how successful these reforms will be.

Ownership and Sustainability

11. The Government’s own PFM Vision 2011 – 2025 recognizes the need to connect reforms in primary, upstream processes, with associated downstream PFM processes inherent in the efficient planning and delivery of public services (Figure A4.1). In this respect, the PFM for Results Program is fully consistent with existing PFM reforms, and the Government’s own commitment to deepen their implementation to have real impact on service delivery outcomes.

12. The Program ensures sustainable improvement in practices, with high levels of ownership by the stakeholders. The Program engenders a strong results focused approach to driving change, both at the level of agreed disbursements linked indicators between the Government and the Bank, and the use for performance based payments within sectors. It strengthens information reporting and verification systems as essential corollaries to such results based approaches. It supports experience of cross-sector working, establishes a mechanism to improve management capacity, and builds a cadre of more effective public sector managers. These latter will be better equipped to analyze implementation challenges in their organizations, convene teams to devise solutions, and dynamically manage implementation with due consideration to the importance of understanding inter- and intra-organizational incentives. The Program is fully aligned with strategies and current action plans in both sectors, which set out short and medium term goals and approaches for performance improvement.78

Figure A4.1: Mozambique PFM Vision 2011 - 2025

78 In the health sector: (a) CMAM Program for Action 2013, and accompanying Results Framework and (b) Pharmaceutical Logistics Strategic Plan (draft, awaiting approval). In the education sector: The Third Strategic Plan for Education, 2012 – 2016.
13. **PFM support will be demand driven, with PFM institutions working closely with sector and local agencies as needed.** While PFM technical assistance can draw on external consultants where necessary, PFM institutions will be closely involved with the implementation of the Program. This will ensure that capacity development activities are consistent with the directions and approaches of overarching PFM reform. PFM institutions will also be able to learn from and incorporate lessons from sectors into national programs and strategies, and to share experiences across and up and down government.

14. **DNT will coordinate the management capacity development program.** The Program supports the Government to build a cadre of management training staff. International experts will be appointed to train national staff, build management training expertise within ministries, and to provide ongoing guidance and quality assurance. Once trained, national staff will be allocated to support strategically relevant managers and their teams to identify implementation problems, and then to develop and implement solutions. Regular follow-up will encourage managers to remain focused on results, and to adapt implementation activities as needed.

15. **Knowledge capture and sharing will be an integral part of the Program. Effective use of annual and mid-term reviews, and an end of Program evaluation, will ensure that implementation lessons are learned, disseminated and inform ongoing and future practice.** The Program will generate multiple channels for information capture and practical learning, including data provided for DLI and performance base allocation assessments, and reports from management and PFM capacity development activities. The PCT will play an important role in develop a knowledge platform to share learning across the Program (particularly with PFM Working Teams) and externally. The PMC will also provide an inter-departmental platform for knowledge sharing at senior policy maker level. The end of Program evaluation will review performance against DLIs, sector performance allocation frameworks, and other data sets relevant to the intended outputs and outcomes of the Program. It will also undertake qualitative work to understand how management, inter-sectoral, and institutional processes and relationships have changed during the program, and to assess the degree to which results based and problem solving approaches will have been embedded. Results of the evaluation would feed in the design of follow-on phase of the Program and help authorities to make key decisions of whether to scale-up the Program horizontally by including more sectors, or vertically by identifying more subsystems/themes within same sectors or both. The costs of the evaluation will be met from Program financing.

16. **The Program approach will be embedded as part of routine government PFM, information and management systems. Efficiencies achieved in government expenditures through the implementation of the Program will be sufficient to sustain improved functioning of these systems over the longer term.** Bank financing will support the initial roll out of the Government’s program, including initial start-up costs as staff are trained and become familiar with the Program approach. The Program will support capacity development of public sector managers, and improvement the functioning of existing government systems. These gains will persist, and continue to add value beyond the end of the Program. In addition to these internal bases for

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79 For example, the Bank (with co-funding from the UK Department for International Development) is supporting Service Delivery Indicator surveys in the health and education sectors in 2013 and 2015. These include a number of indicators that are highly relevant to the focus of the Program in the health and education sectors, including availability of medicines in health units and rates of teacher absenteeism.
sustainability, there is already interest from other bilateral donors to support the expansion of the Program approach additional sectors.

**Institutional and Implementation Arrangements**

17. The setup and effective operation of the interdepartmental institutional arrangements, and communication between central ministries, provinces, districts and service units, are critical for the Program success. The Government has drafted an operations manual that defines roles, responsibilities, procedures and financial flow arrangements to manage and ensure smooth implementation of the Program. Despite clearly defining the roles and responsibilities of key stakeholders, setting-up the Program as a multi-sector facility will be challenging. The Program Coordination Team will need to be established quickly (a program coordinator has already been identified). The Bank will provide intensive technical and supervisory support, especially during the first year of the Program.

18. **Program design incorporates practical elements that support implementation.** Firstly, the authorities recognize that managing a sector-wide, results-based program would be very challenging for any of the sectors. Therefore, the Program has initially identified well defined sub-systems on which to focus. Secondly, the Program supports existing sector priorities, utilizes performance targets aligned with these, and has ensured that the Program focus is complementary to support provided by other development partners (see Annex 1: Table A1.1.2). Thirdly, the Program would use the country financial management & procurement systems. Increases to capacity in these areas are incremental to, rather than in competition to government systems. Fourthly, the focus on developing public sector management capacity, the flexibility of demand-driven technical assistance, and the flexibility of performance incentives, comprise an inherently adaptive program approach that can respond to changing circumstances, while maintaining focus on the achieving high-level goals, as embodied in the DLIs.

**Program expenditure framework**

16. The scope of the Government’s PFM for Result’s program is to improve the transparency and efficiency of spending on public services, with an initial focus on the medicines supply chain and the school based management of complete primary schools. The Bank’s PFM for Results Program (‘the Program’) supports the Government program and has the same scope. The expenditure framework for the Program, totaling US$130.6 million, is set out in Table 1 (page 14 above). It includes Bank (US$50 million) and Government (US$5 million) financing to support inter-ministerial coordination, performance based allocations to motivate institutional change, and capacity development to strengthen PFM and management practices in the target sub-sectors. Existing Government recurrent expenditures relating directly to the management, operation and supervision of the medicines supply chain, and school based management of complete primary schools are also included (and are clearly identified by line items from the budget chart of accounts). Expenditures relating directly to resources (such as teaching staff and medicines) that are managed by these systems are not included.

17. By improving transparency and efficiency, the PFM for Results Program will contribute to more efficient allocation and use of related government expenditures on complete primary school education (including teacher salaries, text books etc.), and medicines
procurement. There will also be spillover benefits for the management and use of similar externally financed expenditures. In the health sector, total government procurement of medicines amounted to US$66 million in 2013. A further US$155 million of medicines were procured by development partners (primarily HIV, TB and malaria medicines). All medicines move through the government supply chain. In addition, the US Government and the Global Fund to Fight AIDS, TB and Malaria invest about US$7 million per year in supply chain strengthening (including technical assistance for medicines selection and procurement). In the education sector, total government spending on complete primary schools in 2013 was approximately US$172 million. In addition, the education pooled fund (Fundo de Apoio ao Sector da Educação - FASE) contributed a further US$52.5 million.

**Desired Results, Technical Risks & Mitigations**

19. **The Government’s draft program document** provides a comprehensive results framework, from which DLIs are identified. The program development objective (PDO) is to improve the transparency and efficiency of expenditures for the storage, distribution and availability of medicines and for the management of complete primary schools. In coordination with Government, and support from other development partners, improved performance of these systems will contribute to the better service delivery, further down the causal chain (see Figures A4.2a and A4.2b below). The Program is designed to be accountable for the first-level results in terms of improved performance of these systems including: (i) fiduciary integrity and proper monitoring of medicines storage distribution, and availability; and (ii) transparent and accountable school-based management.

20. **Each PDO indicator measures the improvement of PFM performance embedded in the overall performance of the specific sector delivery system. The following three indicators will capture the fundamental goals reflected in the PDO:**

- Availability of essential maternal and reproductive health medicines at health facility level.
- Increased 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; and
- Increased number of schools with more transparent and accountable school councils.

21. **The results framework primarily captures direct benefits associated with the Program, such as improved PFM accountability and management processes efficiency.** If successful, these benefits will contribute to significant downstream benefits related to service delivery outcomes (such as increased medicines coverage and more teacher time on task). In addition, once established, the Program will facilitate, through effective knowledge management and dissemination activities, a wider adoption of results based and problem solving methodologies to improve PFM and service delivery performance in other sectors.

22. **The results indicators are designed to be SMART (specific, measurable, achievable, relevant, and time bound).** Indicators are realistic and reflect a coherent theory of change for the two focus areas based on improvements in both client and intra-system accountability, alignment of delivery system units and improved timeliness and quality of information and financial resource

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81 CMAM annual medicines quantification projections, January 2013.
flows (see Figures A4.2a and A4.2b). The Program is embedded within and complements a broader context of Government and development partner support for PFM, education, and medicines supply chain reform (see Annex 1. Table A1.1.2 and Figures A4.2a and A4.2b below).

Figure A4.2a: The results chain and supporting interventions for medicines supply

![Diagram of the results chain and supporting interventions for medicines supply](image_url)

**Performance based allocations:**
- Sector Level: gap-filling funds for essential primary health care medicines, CMAM internal audit unit capacity
- Provincial Level: funds for distribution, refurbishment, equipment, staff training
- District level: Level: funds for distribution, refurbishment, equipment, staff training

**Capacity Development:**
- Management practices (CMAM and Provincial level) – leadership, problem solving, team management, implementation practice
- PFM – e.g. audit and supervision capacity, data management and systems use, strengthened complaints handling mechanism

**Complementary Medicines Supply Chain Investments**
- Medicines Procurement – USG, GFATM, Prosaude, Unicef, UNFPA
- Medicines Selection, Quality and Procurement Processes – USG, GFATM, Prosaude
- Medicines Storage (facilities and processes): USG, GFATM, Prosaude
- Distribution: CHAI/Coke Cola/GFATM/MISAU partnership, USG implementing partners

Figure A4.2b: The results chain and supporting interventions for school based management

![Diagram of the results chain and supporting interventions for school based management](image_url)

**Performance based allocations:**
- Accurate budget classification for direct grants for schools
- Timely disbursement of funds for direct grants
- Supportive supervision of school and council performance
- School-councils meet standards for transparency and accountability

**Capacity Development:**
- Management practices – leadership, problem solving, team management, implementation practice
- PFM – (e.g.) revision, dissemination and training in new school council guidelines, supervision training, strengthened complaints handling mechanism

**Complementary Primary Education Investments**
- Pooled Fund (Education): School and teacher housing construction, teacher training and salaries, text books, curriculum development, system administration
- Various bilateral support: e.g. POEMA management training (Germany)
**Technical Risk Assessment**

**Table A4.1: Technical risks and mitigation strategies**

<table>
<thead>
<tr>
<th>Issue</th>
<th>Approach</th>
<th>Impact</th>
<th>Probability</th>
<th>Risk</th>
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</thead>
<tbody>
<tr>
<td>General</td>
<td>• Selection of issues that both MoF and line ministries have an incentive to solve as the basis for program design;</td>
<td>Moderate</td>
<td>Moderate</td>
<td>Moderate</td>
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<td></td>
<td>• Reinforcement of collective incentives through the choice of DLIs;</td>
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<td></td>
<td>• Bank support for timely recruitment of PCT</td>
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<td></td>
<td>• Ongoing Bank support across sectors to facilitate dialogue</td>
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<tr>
<td>Difficulties of inter-ministerial coordination, and management of performance based allocations (particularly flow of funds to implementing units)</td>
<td>remain unchanged</td>
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<tr>
<td>Challenges in recruiting, training and deploying national staff to provide ongoing public sector management capacity development and support</td>
<td>• Bank supports DNT to develop ToRs, identify and recruit high-quality international TA for training and ongoing QA of national staff</td>
<td>Moderate</td>
<td>Moderate</td>
<td>Moderate</td>
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<td></td>
<td>• Staff identified within public sector institutions centrally and provincially (deployment issue)</td>
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<tr>
<td>Incentives insufficient or poorly targeted to offset potential shifts required in formal/informal benefits of existing institutional arrangements</td>
<td>• Annual review of performance allocations, and capacity development</td>
<td>Substantial</td>
<td>Moderate</td>
<td>Substantial</td>
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<td></td>
<td>• Annual discussion of supporting interventions in sector dialogue</td>
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<tr>
<td>Medicines Supply Chain</td>
<td>remain unchanged</td>
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<td></td>
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<tr>
<td>Funding constraints for medicines purchase impact on tracer medicines availability (DLI# 1 and 4)</td>
<td>• Two availability indicators focus on medicines with different financing streams</td>
<td>Moderate</td>
<td>Moderate</td>
<td>Moderate</td>
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<tr>
<td></td>
<td>• DLI medicines (HIV and maternal and reproductive health) are high-priorities for both GoM and health partners (particularly, US Government and GFATM)</td>
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<td></td>
<td>• DLI pricing commensurate with level of government control</td>
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<td></td>
<td>• Sector level performance based allocations support gap-filling purchase of low cost essential primary health care medicines (which are often neglected by vertical funding sources). Allocations of up to US$9.6 million are available over the period of the Program, representing approximately 20% of costs for medicines included in primary health care kits.</td>
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<td></td>
<td>• Improved forecasting, stock position visibility and reduced losses may mitigate against short-term funding variability</td>
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</table>
Changes in physical or accountability structure of the supply chain alter relevance of approach/indicators

- Indicators relevant to short term Pharmaceutical Logistics Strategic Plan\(^{84}\) proposals.
- Flexibility of approach can support implementation of supply chain reform proposals

Associated development partner investments focusing on procurement, infrastructure, and last-mile delivery do not materialize

- Extensive preparation phase dialogue with primary supply chain partners to agree focus of support.
- Availability DLIs most at risk, and priced accordingly.

Quality of medicines purchased using Program funds is poor

- A protocol for sampling, quarantining, testing (in laboratories meeting international standards (e.g. ISO 17025)), releasing or withdrawing consignments of medicines purchased with Program funds to be agreed and incorporated in the Program Operations Manual (completion of which will be a condition of effectiveness).

Education sector

Difficulties in engaging, training and retaining community members sufficient for effective and representative school councils

- DLIs focus: on council composition and activity and; role of SDEJTs in providing supportive supervision
- Bank support to MinEd and SDEJTs to ensure capacity development and performance based allocation well defined, targeted and reviewed on annual basis for adjustment if required

Lack of cooperation and support of school director for effective school council management engagement

- Supervision by SDEJTs, and targeting of performance based allocations

Implementation challenges in implementation of program classification at district level

- Coalition between MoF, Ministry of Health, Ministry of Education and Public works to overcome challenges at various levels

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<tr>
<th>Economic Assessment</th>
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**Rationale for Public Sector Delivery - Health and Education Public Sector Service Provision**

23. **Education and health services in Mozambique are both overwhelmingly financed and provided through the public sector, with significant external donor assistance in both sectors.** In both instances, sector administrative structures are mapped to the political structure of government, with central, provincial, municipal and district entities. An on-going, although somewhat ambivalent, commitment to and process of decentralization is underway. In the education

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\(^{84}\) These are: CMAM autonomy, extended CMAM mandate for delivery to health facilities, and contracting out of distribution. Longer-term objective for supply chain network redesign is unlikely to be implemented during program implementation.
sector, the majority of funds are already budgeted and spent at district level, and an established system of direct grants to school is in operation. For the health sector, decentralization is less well advanced, with the central Ministry of Health retaining decision making powers on investment financing, and provinces playing the leading role with respect to budgeting for recurrent spending. Districts currently play a relatively passive role in planning and budgeting health services. The medicines supply chain currently has the same concentration of budget holding and responsibility at central and provincial levels, and is mapped to the center-province-district structure, with stock holding points at each level. All medicines procured centrally, and all medicines – including those procured by partners – move through the government supply chain (with some contracting out of distribution between warehouses in some provinces).

Public Sector Performance

24. The education sector has achieved almost universal primary school enrolment rates for girls and boys in Mozambique. However, just under half of the children who enroll complete their primary school education. In addition, learning outcomes continue to be poor, and have struggled as pupil numbers have increased rapidly. Thus, while an increase in entry to education has been achieved, translation into increased learning outcomes has lagged behind.

25. All medicines used in the National Health Service total value of US$221 million in 2013,85 including the significant proportion procured by partners (US$155 million), move through the government supply chain. The supply chain currently faces a number of constraints and exhibits several inefficiencies typical of developing country settings.86 Key challenges include: (i) insufficient resources for procurement and delivery of medicines (and lack of information on costing of supply chain); (ii) weak alignment and accountability between supply chain units; (iii) poor information flow (inconsistent, variable timing, incomplete) regarding consumption, stock-levels and requisitions; (iv) poor inventory management and variable quality of storage facilities (v) ad-hoc and inconsistent distribution; (vi) inefficient distribution network design (multiple levels of stock-holding points) and; (vii) staff have limited logistics expertise. As a result of these inefficiencies the availability of medicines in the public sector in Mozambique is often precarious, and efficiency of spending is an issue (e.g. due to frequent smaller scale or emergency procurement, sub-optimal delivery planning, wastage and leakage of medicines).

Options for Non-State Delivery of Health and Education Services

26. The options for non-state delivery of health and primary education services are currently limited. In general, the markets for health and education services in Mozambique are immature, and largely focused on the elites in large urban centers. The NGO and mission sectors are much more limited than in other countries in the region. The private sector, as with the public sector, faces labor market constraints for medical, teaching and specialist skills (such as logistics). Government officials have limited experience in contracting modalities and supplier management, although a number of partners are now supporting capacity development in these areas, or acting as intermediaries. For example, a partnership between Coca Cola, the Clinton Health Access Initiative (CHAI) and MISAU is supporting four provinces to contract out the distribution of medicines to district level. Despite some challenges at the interface between public

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85 US$66 million funded from the state budget, US$13 million funded from the health pooled fund and US$142 million procured by partners.
86 Plano Estratégico da Logística Farmacêutica: Rascunho Final (Durão, J. December 2012).
and private sector entities, early results have been promising. Timely and scheduled deliveries have been implemented, warehouse staff workloads are more predictable (due to fewer ad hoc stock requests), and reductions of 15 – 20 percent have been achieved in distribution costs. By improving the data collection and information flows across the medicines logistics chain, the program will pave the way for a possible scale-up of this pilot initiative, subject to private sector interest and capacity (initial discussions have already taken place regarding how the CHAI/Coke/MISAU project can assist data collection relevant to the PFM for Results Program in provinces also participating in the CHAI/Coke/MISAU pilot. Provinces receiving performance based allocations through the Program may also utilize these funds to support the CHAI/Coke/MISAU project at local level).

27. A draft Strategic Plan for Pharmaceutical Logistics has been developed and provides a basis for significant reforms over the mid- to long-term. The strategy proposes four main reforms: (a) the central medical store (CMAM) becomes a semi-autonomous entity; (b) that its mandate is expanded to cover delivery to health units (it currently stops at provinces); (c) selective contracting out of supply chain functions (starting with distribution) and; (d) in the longer term, the distribution network is redesigned. Once approved, the strategic plan will provide a potential platform to extend contracting out of services further. However, development of an operational plan and its implementation is likely to take several years. In the meantime, the program will build CMAM capacity and improve the system functioning.

28. The Education Strategy 2012 – 2016 commits to improved quality of primary education through public sector provision. However, options for non-state provision are in consideration to help meet the growing demand for secondary education, and for technical and vocational training. The Government recognizes an urgent need to rapidly improve the skills base for an existing cohort of young people if Mozambique is to take advantage of economic growth potential in the coming years, particularly to grow local economies and supply chain around natural resources hubs and transport corridors. Innovation in these post-primary sectors may provide a useful learning platform for future consideration of similar approaches in the primary school sector.

29. By improving transparency, efficiency and management practices, the Program can support a stronger public sector management base that would be more able to contract and interface effectively with non-state providers in the future. Public sector delivery is currently the most practical delivery channel for primary education and the medicines supply chain due to prevailing Government policies, weak government capacity to manage contracting processes, and the relative immaturity of private sector markets in Mozambique in the short term. However, this operation will help create the building blocks for successful cooperation with the private sector for service delivery in the future.

87 Performance based allocations to provinces can be used to contract out distribution, including through the CHAI/Coca Cola partnership. Discussions with CHAI and Coca Cola have identified opportunities for collaboration in provinces currently participating in the initiative, and funds available through the Program can be used to expand the initiatives to addition provinces. 88 Until 2008 central medicines purchasing, customs clearance, storage and distribution was contracted out to a semi-autonomous state enterprise called Medimoc. CMAM was responsible for quantification, planning and oversight. Provinces and districts were responsible for storage and distribution to lower levels. Medimoc still exists, and is contracted by CMAM to manage customs clearance.
Program Development Impact - *Program approach and anticipated benefits*

30. The incremental program funding, in addition to existing budget lines that will come under the scope of the program, will be US$55 million (US$50 million Bank financing, US$5 million GoM), which will be used to improve the transparency and efficiency of expenditures for the management of the medicines supply chain and complete primary schools. Table A4.2 (below) outlines the potential direct and indirect economic benefits that may result.

**Plausibility of Approach - Education**

31. A recent World Bank review\(^89\) of approaches to strengthening management and accountability in education service notes that reforms must address institutional complexity of the sector. The authors note that: (a) education systems are managerially, technically and financially complex and demanding; (b) most incentives that affect learning outcomes are institutional, and; (c) this complexity makes central planning, management and long-route accountability impractical and inefficient. Hence, local decision making and fiscal decentralization can be important to improving system performance and educational outcomes by making service providers accountable to parents and students (short-route accountability).\(^90\)

32. School-based management (SBM) approaches have been developed and implemented in a number of settings to strengthen local decision making and accountability. In general, SBM approaches aim to:\(^91\) (a) increase voice and participation by communities in decisions on education service provision; (b) make information on school budgets and performance widely available, and; (c) strengthen the rewards to schools for the delivery of effective services to target communities. These improvements in participation, transparency, accountability and incentives are intended to drive: (a) higher quality education through more efficient and transparent use of resources; (b) more welcoming and improved school environment; (c) increased participation by local stakeholders in decision-making and; (d) improved student performance (lower repetition and drop-out rates, higher test scores).

33. The design of the PFM for Results Program is consistent with the findings of this review. In particular, the Program focuses on improving the implementation of an existing SBM program. Firstly, it strengthens the PFM environment for SBM, with a focus on the more transparent and timely flow of funds to schools (DLIs 7 and 8). Secondly, the Program improves the representativeness and participation of school councils (DLI3) in managing and reporting on the use of school resources, and increases community voice, particularly for mothers. This focus on representativeness addresses the issue of elite capture that is identified as a key risk associated with SBM by the review authors. Thirdly, institutional incentives at central, provincial and local levels are addressed through performance based allocations that support the achievement of clearly defined results targets. Lastly, the capacity of school-councils and management at local level is supported through focused capacity development.

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\(^{90}\) “Long-route” accountability refers to the accountability of public sector service providers to the population mediated through national or local political processes. “Short-route” accountability refers to a direct relationship between services providers and populations that they serve (or should serve). See World Bank. (2004). World Development Report: Making Services Work for the Poor.

<table>
<thead>
<tr>
<th>DLIs</th>
<th>Economic Benefits</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Health Sector – Medicines Supply Chain</strong></td>
<td><strong>Direct (PFM service delivery systems)</strong>                                                                emente a decreased availability of inventory (essential reproductive health medicines) at service unit level.</td>
</tr>
<tr>
<td>DLI#1: Availability of essential maternal and reproductive health medicines at health facility level</td>
<td>• Increased and more consistent availability of inventory (essential reproductive health medicines) at service unit level.</td>
</tr>
<tr>
<td><strong>Year 3: At least 9.4 percent increase over baseline if DLI met</strong></td>
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<tr>
<td>DLI#2: Number of provinces achieving minimum acceptable score from internal audit of compliance with standards for stock management, warehousing, and distribution of medicines</td>
<td>• Improved control system adherence and inventory management - including better visibility of stock-in-hand, more accurate recording of receipt and dispatch of goods, better management of near expiry and expired drugs, improved storage conditions – resulting in reduced wastage and lower vulnerability to pilfering and diversion.</td>
</tr>
<tr>
<td><strong>Year 3: At least 8 provinces meeting acceptable standard</strong></td>
<td></td>
</tr>
<tr>
<td>DLI#4: Proportion of treatment sites with a stock-out of key ARVs at the end of each month</td>
<td>• Increased and more consistent availability of inventory (high-value anti-retroviral medicines) at service unit level.</td>
</tr>
<tr>
<td><strong>Year 3: At least 6 percent reduction in number of stock-outs at health facilities if DLI met</strong></td>
<td></td>
</tr>
<tr>
<td>DLI#5: Proportion of districts for which CMAM receives logistics information through the SIMAM system</td>
<td>• More accurate and timely information leading to more robust requisitioning and better quantification for procurement.</td>
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<tr>
<td><strong>Year 3: At least 13.5% increase in number of districts (to 78%)</strong></td>
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<tr>
<td>DLI#6: Fill rate of approved requisitions from CMAM clients for tracer medicines</td>
<td>• Improved alignment of supply with demand, resulting in less unmet need and less waste. • Better availability of medicines.</td>
</tr>
<tr>
<td><strong>Year 3: At least 12% increase in fill rate for tracer essential medicines</strong></td>
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<tr>
<td>DLI</td>
<td>Economic Benefits</td>
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<tr>
<td></td>
<td>Direct (PFM service delivery systems)</td>
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<tr>
<td><strong>Education Sector – School Based Management of Complete Primary Schools</strong></td>
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</table>
| DLI #3: Proportion of school-councils that comply with defined standards for transparency and accountability (school councils elected according to revised criteria, approved school development plan, and displayed information on resources allocated, planned, and applied) | • Increased transparency of the budget.  
• Possibly increases in the level of execution  
• Better application of internal control mechanisms resulting in reduction in the misuse of funds. | • De-concentration of competences and actual decentralization to the service provider units – the schools.  
• Better services provided by the schools.  
• Effective performance of school councils leading to better availability of school resources.  
• Monitoring of teachers and student attendance in the classroom.  
• Better learning outcomes to be substantiated by examination results. |
| DLI #7: Proportion of complete primary schools receive funds on or before February 28 | • Improved budget execution rate. | • Timely availability of schools materials |
| DLI #8: Revised budget classification by sub-sector, configured, and applied | • Increased transparency of the budget.  
• Possibly increases in the level of execution.  
• Better application of internal control mechanisms resulting in reduction in the misuse of funds. | • Effective performance of school councils leading to better availability of school resources.  
• Monitoring of teachers and student attendance in the classroom.  
• Better learning outcomes to be substantiated by examination results.  
• Educated and productive human resource entering the labor market of the country. |
| DLI #9: Proportion of schools visited for supervision by SDEJTs | • Better application of internal control mechanisms.  
• Reduction in the misuse of funds. | |


Medicines Supply-Chain

34. Medicines supply chain performance is a common challenge in many developing countries. Medicines are often the second largest expenditure category in the health sector, with poor procurement and supply chain performance resulting in wasted resources and poorer health outcomes. Insufficient financing, poor selection, variable quality, diversion, low availability and irrational prescribing of medicines are often key factors driving levels of public sector service utilization and service outcomes. The diagnostic of the medicines supply chain (paragraph A4.25 above) confirms that such challenges are prevalent in Mozambique.

35. A wide variety of approaches have been utilized to support improved medicines supply chain performance in developing countries. These include contracting out functions or the whole supply chain, distribution network re-design, a variety of financing and payment, social franchising or accreditation of private sector retailers, coordinated or pooled procurement, improved information systems, and increased transparency in medicines procurement and supply. The effectiveness of these reforms has varied considerably, with no single reform being guaranteed to succeed in all settings. The political economy of pharmaceutical sector and medicines supply chain reform are complex. Medicines are vulnerable to a variety rent seeking behaviors, and medicines policy may fall across multiple government departments with competing policy aims (e.g. Ministries of Trade may favor domestic manufacturers).92

36. The PFM for Results Program works, at least initially, within the existing public sector supply chain structure. These justifications for this are: (a) a draft pharmaceutical logistics supply strategy exists, and proposes a semi-autonomous and unified supply chain organization and functional contracting out (b) private sector logistics and supply chain capacity is limited and; (c) major external funders are investing significantly in the existing public sector system, and have agreed to coordinate around the government’s own Supply Chain Plan of Action 2013, and strategic plan (once approved). The current reform space is therefore already relatively well defined.

37. Poor alignment of supply chain units, and weak accountability for performance, have been identified important contributors to poor supply chain functioning in Mozambique. The PFM for Results Program focuses on improving the coordination and accountability of supply chain units, strengthening information flows between them, improved control mechanisms and better adherence to standard operating procedures. These improvements will be driven by performance based allocations targeting key tasks and steps that support integration (e.g. providing information on time), and management and PFM capacity building that clarifies roles, improves abilities to fulfill them, and strengthens supervision.

38. Experience from a number of countries has demonstrated that public sector supply chain performance can be significantly improved through variety of structural, management and accountability interventions. In Zambia, the semi-autonomous Medical Stores Limited (MSL) is responsible for central receipt of medicines and distribution to district warehouses (there is no intermediary level). Districts are then responsible for storage and distribution to health units. A World Bank financed program increased logistics planning capacity at lower levels (district) of the supply chain, and tested this in combination with two different network structures. In both instances, performance improved and the availability of tracer medicines at health centers increased.

significantly when compared to control districts. Logistics capacity combined with a structure where districts act only as cross-docking stations, rather than stock-holding and order packing units, saw the availability of pediatric anti-malarials and amoxicillin increased from 51 percent and 63 percent in the controls, to 88 percent and 92 percent respectively. The addition of a commodity planner role at district level improved performance in both intervention arms of the Zambia pilot. This was in part due to the additional technical capacity these staff provided, but also because commodity planners helped strengthen the coordination and alignment between central and district levels, in an environment where the government had ruled out formal integration of districts under MSL control.

39. A recent review of medicines supply-chain integration projects in Nicaragua, Ethiopia and Tanzania by the USAID Deliver Project identifies key components for successful integration that are consistent with the Program approach. The review identifies the following components: clarity of roles and responsibilities; visibility of information; clear and streamlined processes (improved Standard Operating Procedures at each level); trust and collaboration; and alignment of objectives. In Nicaragua, addressing these issues included: the development of new SOPs; targets and performance based incentives for different levels of the system and; effective use of the logistics and management information system. The combined result of these interventions was a reduction in the number of facilities experiencing stock-outs of contraceptives from 76 percent of facilities to 6 percent. Progress in Ethiopia and Tanzania has been more mixed, but the authors note that reform processes are still in progress.

40. In both the education and health sectors, the Program sets out a plausible approach to driving improvements in system functioning and efficiency. In both instances, the Program works within the existing sector structures, and focuses on improving institutional alignments, transparency and accountability through clear objectives (represented in the DLI), performance based allocations, and capacity development specifically prioritizing management and PFM practices.

Cost-Effectiveness of the Program

41. The Program specifically aims to improve the efficiency of the management and supervision of the medicines supply chain and complete primary school education in Mozambique. Program financing of US$55 million (including Bank financing of US$50 million), primarily contributes to strengthening fiduciary, logistical, and management functions. The estimated cost of Program financing and existing expenditures on these functions totals US$130.6 million. Experience from similar public sector reforms in other countries suggests that this Program goal is plausible, particularly when implemented alongside complementary programs that are investing in commodities, human resources and infrastructure (see Annex 1 Table A1.1.2 and Figures A4.2.1a and b above).

42. Program success in strengthening fiduciary, logistical and management functions would result in efficiency benefits realized across the expenditures and assets managed in the two target sub-sectors. Relatively small aggregate gains in efficiency savings (4 – 5%) would result in the Program breaking even in terms of costs. Table A4.2 (above) sets out potential

94 Personal communication with Prof. Prashant Yadev, May 22 2013. Prof Yadev was a member of the design team for the Zambia project.
95 USAID Deliver Project. Supply Chain Integration: Case Studies from Nicaragua, Ethiopia and Tanzania. USAID 2011
96 USAID Deliver Project. Nicaragua: Integrating Logistics Functions at the Ministry of Health, USAID 2008
direct and indirect economic benefits for the Program. Thus, in assessing the potential cost effectiveness of the Program, it is justified to include benefits that may accrue to the performance of the two target sub-systems in general. Table A4.3 outlines the broader government and partner expenditures for complete primary schools and the medicines supply chain, including teacher salaries and the cost of medicines. Improved PFM accountability and management of the sector should result in efficiencies across all of these expenditure areas. In table A4.4, potential cost savings are set out for plausible aggregate improvements in efficiency. Aggregate efficiency will be dependent on how efficiencies fall across different expenditure areas (e.g. small improvements in efficiency related to teacher salaries – such as more time on task – will result in relatively large cost savings due to the high proportion of total education expenditures for which they account).

Table A4.3: Complete Primary Schools and Medicines Supply Chain Costs. US$ Million

<table>
<thead>
<tr>
<th>Description</th>
<th>FY14</th>
<th>FY15</th>
<th>FY16</th>
<th>Total*</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Cost of medicines – government procured</td>
<td>57.1</td>
<td>60.2</td>
<td>64.1</td>
<td>181.4</td>
</tr>
<tr>
<td>2. Cost of medicines – partner procured (distributed through the government supply chain)</td>
<td>142.0</td>
<td>149.1</td>
<td>156.6</td>
<td>447.7</td>
</tr>
<tr>
<td>3. Warehousing and distribution costs for medicines</td>
<td>12.4</td>
<td>13.2</td>
<td>14.2</td>
<td>39.9</td>
</tr>
<tr>
<td>4. Education – government expenditures on complete primary schools</td>
<td>168.2</td>
<td>176.6</td>
<td>185.4</td>
<td>530.2</td>
</tr>
<tr>
<td>5. Education – development partner expenditures on complete primary schools (FASE pooled fund)</td>
<td>52.5</td>
<td>55.1</td>
<td>58.9</td>
<td>166.5</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>1,365.7</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Table A4.4: Estimated Value of Efficiency Savings

<table>
<thead>
<tr>
<th>Aggregate Efficiency Saving (3 years)</th>
<th>Value of Efficiency Saving (based on total medicines and primary education expenditures of US$1365.7 million)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1%</td>
<td>US$13.7 million</td>
</tr>
<tr>
<td>5%</td>
<td>US$68.3 million</td>
</tr>
<tr>
<td>10%</td>
<td>US$136.6 million</td>
</tr>
<tr>
<td>15%</td>
<td>US$204.9 million</td>
</tr>
</tbody>
</table>

**Added value of World Bank Intervention**

43. The World Bank is well placed to support the Government’s intention to improve the efficiency of expenditure and performance of public services, starting with the medicines supply chain and complete primary schools. The Bank has a number of comparative advantages in this respect:

- Long-standing support for, understanding of and engagement with PFM reforms;
- Established and strong working relationships with the Ministries of Financing, Health and Education;
• Established and strong working relationships with development partners in the two target sub-sectors: the Bank is currently the Focal Partner of the Education SWAp partners group; and the co-chair of the health sector working group on medicines; 
• Technical capacity to support the Government to implement the Program, and to facilitate lesson learning and knowledge sharing.

44. **The Program for Results instrument provides a financing mechanism that is fit for purpose for the proposed Program.** Its results focus, and implementation flexibility can support the Government to introduce more effective inter-departmental working and performance based management in the delivery of public services. This will require the ability to address institutional incentives, and adapt implementation as these shift during implementation.

45. **Development partners are exploring performance based financing approaches, but largely on a project basis.** The Bank Program is able to build on existing strong cross-sector engagement with Ministries of Finance, Health and Education to support the Government to implement results based approaches at a system level.

46. **The Program has been designed to add value to the support of other development partners to PFM reform, primary education and medicines supply in the public health sector.** The specific focus on deepening PFM reform and strengthening management performance at sector, provincial, district and service unit level are gaps in existing programs. In the absence of Bank engagement, it is unlikely that such interventions would be taken forward, at least in the short term.
Annex 5: Integrated Fiduciary Systems Assessment

1. **In preparation for the PFM for Results Program, a Fiduciary Systems Assessment (FSA) covering financial management (FM), procurement, and fraud and corruption was conducted.** The principles governing fiduciary management for Program-for-Results are set out in OP 9.00. In line with the PforR Guidance Note, the FSA reviews the adequacy of the applicable rules, procedures, and oversight mechanisms for the Program and the effectiveness of their implementation by the concerned agencies (including both the capacity and the performance). **The conclusion of the assessment is that the Program fiduciary systems meet OP 9.00 requirements, and provide a reasonable basis for this PforR operation.** However, the current risk-rating is “substantial”, which requires specific mitigation measures (see summary Table 1).

2. **The Program Technical Assessment sets out the scope of the Program.** The key features relevant to the integrated Fiduciary Systems Assessment are:

   (a) *The Program uses the Government’s financial and fiduciary systems*; and
   (b) *The program itself has been designed to improve the fiduciary performance of selected sub-sectors in health and education.*

3. **Five key risks have been identified in the Program fiduciary systems, which could undermine the achievement of the results supported by the Program:**

   (a) Firstly, the operational expenditures of the program could be spent without complying with internal rules and controls governing them; this could lead to inefficient, ineffective, uneconomical or unethical spending;
   (b) Secondly, there is a risk of poor value for money in the procurement of critical gap-filling medicines, using the performance allocations provided under the program;
   (c) Thirdly, poor supply chain functioning increases risks associated with the theft or diversion of medicines for resale;
   (d) Fourthly, direct grants made available to primary schools are vulnerable to being used for purposes other than those intended;
   (e) Finally, in both sectors, there is a risk that the system for identifying, reporting, investigating and prosecuting cases of fraud and corruption, while formally in place, may not function effectively in practice. This could lead to: under-detection of potential F&C cases, delays in the treatment of complaints or allegations of fraud and corruption, and limited prosecutions.

**Specific Risks and Mitigation Measures**

4. **Program financing and expenditure framework.** Financing for the Program will be provided through the Government’s annual budget. Most budget lines included in the expenditure framework will be identified and monitored through the Government financial management information system (e-SISTAFE). However, expenditures on education, youth and technology services are currently combined under as single budget code, of which around 85 percent are education expenditures. DLI 7 requires the creation of a classification of education expenditures at district level that that distinguishes between primary schools, secondary schools, and other services. This will improve the transparency, relevance and effectiveness of budget classification.
Financing Framework

5. **Assessment of the Financing Framework:** Bank financing will contribute to the Government’s PFM for results program budget and funds. These will be disbursed to sector ministries and agencies through the treasury system. High budget execution levels in health and education sectors indicate that this system of releases is functioning well. Given the Treasury’s role in managing the program, as well as the political costs associated with the essential activities in two social sectors, the availability of financial resources to meet most of the program’s operational requirements is not seen as a significant risk.

6. Procedures for routing funds from the Ministry of Finance to the respective sector ministry to support Program financed activities (performance allocations and capacity development) have been detailed in the program operations manual. Clear steps and timeframes will ensure funds are directed appropriately and in a timely manner.

Expenditure Framework

7. Table A5.1 presents the program expenditure framework:

Table A5.1 Expenditure Framework

<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></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1.8</td>
<td>2.2</td>
<td>4.0</td>
<td>8.0</td>
<td></td>
</tr>
<tr>
<td><strong>4. Program coordination and operational costs (MoF)</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>0.8</td>
<td>1.5</td>
<td>1.5</td>
<td>3.8</td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>38.9</td>
<td>45.4</td>
<td>60.2</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.

8. **Assessment of the Expenditure Framework:** The Government has a well-developed budgeting process which includes a medium-term outlook and program expenditures largely comprised of existing budget lines on the recurrent budget of health and education ministries.
However, weaknesses in its implementation create a risk that spending will not be efficient. In the case of the PFM for results program, two main issues are at stake.

(a) **Poor targeting of performance allocations and capacity development provided under the program to achieve results.** The operations manual and implementation arrangements mitigate this risk as they require that a clear link is made between the results pursued by the Program, and the performance allocations and capacity development activities that would be supported (Annex 1 Table A1.1.1 gives an overview of performance allocations and capacity development). The focus and structure of the performance allocations as well as the effectiveness and continuing relevance of capacity development activities will be reviewed annually and adjusted as needed. An early mid-term review will take place, during which the relevance and connection to program results of the capacity development activities will be a particular area of focus. In addition, performance allocations and capacity development activities will be made public and disseminated in the relevant sectors, in order to further incentivize change and encourage stakeholders to report any abuse through the complaint handling mechanisms described later in this Annex.

(b) **Inefficient use of operating expenses.** The program expenditures include significant amounts allocated for operational costs, which are essential for the smooth delivery of pharmaceuticals to points of service delivery, as well as for the proper functioning of schools. Evidence from other contexts as well as from Mozambique points to the risk that these operating expenses will be spent inefficiently or misappropriated. This is why one of the core objectives of the program is to increase the efficiency of operating expenditures. All DLIs will contribute to this overall objective, some directly by increasing outputs for a given level of inputs, others indirectly by strengthening transparency, voice and accountability mechanisms. The program will strengthen the institutional capacity of respective internal auditors in health and education sectors to increase compliance with internal controls.

**Program implementation framework**

9. **Program implementation framework:** Implementation of the PFM for Results Program at the central level will involve the Ministry of Finance, the Ministry of Education, the Ministry of Health, and CMAM. At the local level, it will involve the provincial medicines warehouses, district directorates of planning and finance, other district level offices, such as SDJETs, as well as school councils and health centers. Capacity development activities to strengthen public sector management will be provided through the Program, and will help ensure effective team working within sectors, and learning across sectors.

**Financial Management Framework**

10. **Assessment of Financial Management Framework:** The “SISTAFE” PFM law and the combination of the e-SISTAFE information system and well-established manual procedures in districts where e-SISTAFE cannot be rolled out due to lack of power and commercial bank branches provides a solid overall basis for the financial management of the program. However, weaknesses remain in the implementation of this financial management framework, some of which could affect the achievement of results under the program. In turn, the PFM for results program provides an opportunity to address critical system weaknesses. This section summarizes key financial
management strengths and weaknesses, their potential impact on program results and proposed mitigating measures.

(a) **Budgeting and accounting:** The government’s budgeting and accounting systems are appropriate for purposes of planning, monitoring and reporting on the financial execution of the program. The government’s budgeting and accounting classification allows the proper recording of transactions and their presentation in financial statements. Nevertheless, a specific issue is the limited number of classifiers used at the district level for the education sector. The Program has a DLI to enable the classification of education expenditures separately by various levels of schools and other sub-sectors included in the *Servicos Distritais de Educação Juventude e Tecnologia* (SDEJT). In addition, around one third of districts do not currently have on-line access to e-SISTAFE. This presents a relatively modest constraint, in that such districts are unable to access real-time budgetary information. Instead, they must rely on paper based systems, with entry of information into the electronic system at the nearest institution with access. This causes some delays and raises risks data integrity. However, the procedures for reconciling manual and electronic records are well-established and reasonably sound. This should not significantly affect the budgeting, monitoring or reporting of program spending.

(b) **Treasury and funds flow:** This is an area where the e-SISTAFE controls are robust and operating efficiently. The only significant weakness relates to cash transfers for the payment of salaries for education personnel and school funds in districts that are not connected to e-SISTAFE and do not have commercial banks. Spot checks will be included in the terms of reference of the Program audit in order to verify funds flow integrity.

(c) **Internal controls:** The Government’s e-SISTAFE, to be used for Program transactions, has built-in controls to ensure segregation of duties, where different personnel are responsible for entering the commitments, verifying their validity, and approving payments and funds are electronically transferred to the recipients’ bank accounts. *e-Folha* is the payroll system linked to e-SISTAFE and e-CAF is the census of human resource data. Although these systems have certain limitations in terms of their roll-out, maintenance, and consistent use to capture data, the potential impact of these weaknesses on the program will vary depending on the sector.

i. In the health sector, audits undertaken for the ProSaúde common fund have identified fiduciary risks, including discrepancies in procurement processes, missing or incomplete supporting documentation, and unauthorized expenditures. However, follow-up investigations have not found proven acts of fraud or corruption. The main impact of these internal control weaknesses on the program would pertain to the **diversion of essential medicines due to poor supply-chain management.** Reasonable inventory management and logistics management systems and standard operating procedures are in place for storage and distribution of medicines in the health sector, but adherence to these systems and procedures is inconsistent. In terms of mitigation measures, a series of partner driven PFM action plans have been put in place over the past two years, with variable levels of implementation. In April 2013, the Ministry of Health presented its own PFM action plan demonstrating an increased willingness to take ownership of PFM issues and to identify more realistic priorities for action. The Government health sector action plan includes critical actions on the medicine supply chain that are supported by the Program, including through the six health sector DLIs.
ii. The assessment has determined that financial management capacity and internal controls are stronger in the education than in the health sector. Nevertheless, fiduciary challenges remain due to the decentralization of financial authority to district governments and schools, where financial management capacity is weaker. This could lead to the unaccountable use of school funds, identified as a significant issue for the program. The possibility also exists that system-level controls, particularly over payroll, could be circumvented by collusion among staff. In November 2012, the Ministry identified the fraudulent duplicate payments of salaries for three relatively junior staff working at the Central level in the Ministry. The total amount involved was estimated to be $185,000. While payroll controls could not prevent the collusion and falsification of documents, detection controls played their role and the Ministry identified the discrepancy through third party confirmation, with the commercial bank in charge of payroll disbursement. The three civil servants involved have been suspended and would remain so until the conclusion of the investigation. Detection controls were effective in this case, for a problem occurring and managed at the central level. However, limited controls exist over teacher absenteeism, which goes undetected at school and district level and does not result in salary deductions.

(d) **Internal audit**: Four internal audit entities will have oversight over program implementation: the General Inspectorate of Finance (IGF), the General Inspectorate of Education (IGE), the General Inspectorate of Health (IGS) and the CMAM internal audit unit. Overall, the internal oversight system, which is coordinated by IGF, has made very significant progress in recent years. It has developed its staffing, operational independence and exposure to professional risk-based internal audit techniques. While it retains a focus on compliance with administrative and financial procedures and a strong investigative orientation, it has also started to produce audits on operational and value-for-money issues. The program will leverage the existing strengths of the internal oversight system and contribute to continue strengthening capacity where needed, including on staffing and the auditing of performance information.

i. **The capacity of IGF has increased substantially since 2005, both in terms of numbers of auditors (it now has 115) and in terms of their professionalism.** Its operational independence is strong, both formally and in practice, and it produces around 80 audits per annum. The IGF has received World Bank training on risk-based internal auditing techniques, and has shared this approach with a number of sector internal audit units. IGF audits follow procedures defined in a well-designed audit manual. It has put in place a systematized database to track audit recommendations and their follow-up, throughout government. While more progress could be made to continue shifting the IGF audit focus from compliance with administrative and financial procedures to operational performance, the IGF has become a robust public sector internal audit entity.

ii. **The Education General Inspectorate** is a smaller entity than the IGF (15 inspectors at central level and a further 105 at provincial level); it is mostly focused on administrative and financial matters. It has also benefited from World Bank provided training on risk based internal audit, and follows adequate planning and audit execution procedures.

iii. **The Health General Inspectorate** has 21 inspectors at the center and a further 62 based in provinces. It has suffered from changes in leadership over recent years and did not benefit
from the training in risk-based internal audit techniques. In 2012, the Health Inspectorate conducted 27 audits, most of which focused on compliance with financial and administrative matters.

iv. The IGS is complemented by the CMAM Internal Audit Unit, which is of recent creation. While it only comprises two staff, they are highly specialized in pharmaceuticals logistics and administration. The Program will contribute to the strengthening of the CMAM internal audit unit by providing resources for the recruitment of additional auditors. It will also help the health and education internal audit entities to focus their audit work-plan on key Program risks.

(e) External audit: Tribunal Administrativo has the constitutional mandate to audit the general government accounts. The Tribunal Administrativo has been auditing various Bank-financed projects for last three years and the timeliness and quality of audit reports has been improved to a satisfactory level (and often superior to the performance of private sector audit firms in Mozambique). Based on this existing relationship, no challenges are foreseen in the Tribunal Administrativo rendering a separate audit opinion on the Program financial statements. Specific tests for high fiduciary-risk will be agreed as part of the audit terms of reference. The Tribunal Administrativo also has experience of performance auditing, reflecting their ability to audit the performance data to validate achievement of DLIs under the Program. The Tribunal Administrativo is receiving substantial capacity development support through: (i) a common fund to support their Corporate Plan of Action; (ii) strengthening of districts audits under National Decentralized Planning and Finance Program, and; (iii) an IDF grant by the Bank to support their certification program.

11. The weaknesses in the FM systems’ performance could have a material impact on the intended program results in the following three areas:

(a) Irregular use of operating expenses at central, provincial and district levels. The program expenditures include a significant amount of operating expenses relating to: (a) the storage and distribution of medicines; (b) district education management; (c) performance-based allocations spent to improve staff mobility, operating conditions, and supplies; (d) capacity development activities (hiring of consultants, travel and workshops) and; (e) program coordination. These expenses will include payment of utilities bills, travel tickets, per diems, fuel, maintenance of offices and vehicles, general office supplies, hiring of consultants, etc. Given the weaknesses in internal controls identified above, there is a risk that these expenses will be incurred without complying with Government regulations. In some cases, this could lead to fraudulent or corrupt use of these resources. The program will address this risk directly through DLI 3 on school based councils (to create the mechanisms for greater social accountability), DLI 8 on budget classification (to increase the transparency of operating expenditures in the education sector) and DLI 9 on inspections (to increase vertical accountability). In addition, the program will build the capacity of the finance, health and education general inspectorates, and mobilize them to verify compliance with internal controls throughout the program scope. The terms of reference of the external auditor of the program, the Tribunal Administrativo, will include a second degree review of the work of internal audit on the quality of internal controls in the program. Should the risk of fraudulent or corrupt use of these expenses materialize, the complaints handling mechanisms described in the section below will come into play.
(b) **Unaccountable use of school funds:** Approximately 37 percent of schools do not have complete financial records, in part, due to lack of clear communication on documentation requirements, and inadequate orientation of school councils and staff. As FM capacity is weak at district and school levels, there is a risk of unaccountable use of school funds. The Program will directly address this through a number of DLIs, including enhanced accountability to school councils for the use of school funds. Capacity development and improved representation on school councils will improve their ability to monitor use of funds and hold school directors and staff to account and strengthened school supervision; (iii) revision of school council guidelines to simplify financial documentation needs; (iv) internal audit units in the Ministry of Finance and Ministry of Education will also be strengthened, and enforce adherence to revised regulations; and (v) finally, the Program will also mitigate these risks by deepening the coverage of external audit ToRs. These will include review of expenditure documentation and lists of payments (with recipients disclosed) for a sample of primary schools visited. For schools that carry cash on the premises, the auditors will perform spot cash counts to assess the level of controls and verify the physical safety of cash.

(c) **Diversion of essential medicines due to poor supply-chain management.** An assessment of medicines procurement and supply chain management system undertaken in February 2011 found shortcomings that included: (i) poor information accuracy and flow between the central, provincial and district levels of the supply chain; (ii) ad-hoc distribution of medicines from provinces downwards to districts and health units; (iii) fragmented management responsibility; and (iv) weak capacity in a system that does not function as a unified supply chain. Program DLIs specifically target improved information accuracy and flow, and better inventory management and storage. CMAM has recently re-established an internal audit unit, and disseminated audit standards to for provinces, districts and health units. The internal audit unit will undertake semi-annual supervisions of all provinces, and selected districts and health units as part of the program. Poor supply chain functioning increases risks associated with the theft or diversion of medicines for resale on the black market. The Program DLIs all contribute to the improved integrity of the supply chain, and directly mitigate against such risks. The Program will also support increased capacity of internal auditors to supervise supply chain units against audit guidelines and standards. The internal audit units will undertake initial assessment of progress against DLIs. These assessments will be verified by the *Tribunal Administrativo.*

**Procurement Framework**

12. **Assessment of Procurement Framework:** The program has a relatively modest procurement profile compared to the total estimate of expenditures. Besides petty purchases of operational nature, the program will undertake procurements of: (a) critical medicines amounting to a maximum of US$9.2 million; (b) consultants and equipment for the capacity development and systems strengthening,97 and; (c) small works and equipment supported by performance based allocations. The bulk of these procurements including (a) and (b) will be managed by two agencies at the central level - CMAM and DNT. Small works and equipment under the performance-based allocations will be managed by respective agencies at central, provincial, and district levels, but the individual

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97 Out of US$8 million for the capacity development and systems strengthening, a significant proportion is expected to be spent on non-procurable items such as incremental staff salaries, logistics of training workshops including travel and accommodation of participants etc.
procurements involved are likely to be very small. None of the planned procurements, based on their estimated value at this time, will require review or approval by the Operational Procurement Review Committee.\footnote{High value medicines procurements – such as those for HIV, TB and malaria – are currently undertaken by external agencies and then delivered to CMAM for distribution. CMAM has confirmed that single medicines procurements by the Ministry of Health do not breach OPRC review thresholds.}

13. **Poor selection of, failure to secure competitive prices for, or poor quality of medicines could reduce the efficiency of pharmaceutical procurement.** The Department of Pharmacy is responsible for developing an essential medicines list (EML) that includes cost-effective medicines that are relevant to the treatment and prevention needs of Mozambique. The current list was last revised in 2010. CMAM may only procure medicines that are included on the EML. USAID is currently supporting the Department of Pharmacy to revise the process for producing the EML, and to update the current list. The table of performance based allocations developed by MISAU currently includes allocations to the Department of Pharmacy conditional on the revision and publication of a new EML during the period of the Program. USAID is also providing technical assistance to improve procurement practices in the Ministry of Health and in CMAM (two long-term and three short-term technical assistance placements to support procedure strengthening and monitoring). This will help to ensure that procurement is well targeted, relevant and effective. The National Medicines Quality Control Laboratory (*Laboratorio Nacional de Controle de Qualidade de Medicamentos* (LNCQM) under the Department of Pharmacy) is responsible for ensuring the quality of medicines. The LNCQM is receiving technical support from the US Government to achieve accreditation to international standards (e.g. ISO 17025). A protocol will be agreed between the Bank and the Government to ensure that all consignments of medicines financed with Program funds will be sampled for quality testing by a laboratory that meets international standards.\footnote{The LNCQM, with support from the US government, aims to achieve accreditation in 2016. The Department of Pharmacy currently works with accredited laboratories in Vietnam and Portugal for quality assurance testing. The GFATM Procurement and Supply-chain Management Plan for Round 9 Phase 2 Funding (15 March 2013) has similarly agreed a protocol for the quality testing of medicines procured directly by MISAU.}

14. **The Program will improve the quality, timeliness and flow of information in the pharmaceutical supply chain.** This will support improved procurement forecasting and supply planning. The ToRs of the Program external audit will include specific audit tests to prevent and detect the key procurement practice risks (e.g. verifying that products procured are listed on the Essential Medicines List and benchmarking procurement prices against relevant international comparisons).

15. **The Program Coordination Team under DNT will engage a Procurement Specialist for the program.** The Procurement Specialist will coordinate the procurement of consultants and necessary equipment for capacity building and systems strengthening activities under the program. In addition, s/he will collaborate with respective UGEAs to provide advice for all other procurements done under the program by health and education entities or PFM institutions.

16. **Procurements under the program are following government procedures.** These procedures were introduced in 2005 and updated in 2010, and are generally in accordance with international standards. However, while the procurement framework is relatively robust, implementation and enforcement remain weak, particularly at provincial and municipal levels.\footnote{Global Integrity Report, 2007; cited in Transparency International, 2007.}
The **Unidade Funcional de Supervisão das Acquisições** (UFSA) was created as the central procurement institution. It is responsible for capacity-development, supervision, collecting and disseminating public procurement information. The capacity of UFSA is low, and it has difficulty delivering on its mandate. Decentralized **Unidades Gestoras Executoras de Acquisições** (UGEA) were established in 2007, and are responsible for the management and execution of procurements at central, provincial and district levels. They also generally struggle with quantitative and qualitative capacity issues. In Mozambique, the procurement market is well developed although there is a perception that a substantial part of the private sector shies away from public procurement because of perceived corruption and/or cumbersome procedures.

17. **Competitive bidding and direct contracting (single-source) are commonly used procurement methods for goods and works and World Bank standard bidding documents are commonly used.** A domestic margin of preference of 10 per cent for works, and 15 per cent for goods, is mandatory. Given the likely size of any individual works or goods procurement under the program, almost all will go through the national bidding and therefore, the domestic preference will not be a concern.

18. **The 2008 CPAR update found several procurement areas in need of improvement, which remain relevant:** (i) a more robust management information system is needed that allows UGEAs to systematically report procurement information; (ii) an effective complaint-handling mechanism to disclose abuse of the systems and allow for effective remedies, while maintaining the efficiency of the process; and (iii) the adoption of a more strategic/sustainable approach to capacity development, including strategic plans and development of a specific professional career and certification procedure within the public service for procurement specialists. In 2008 the Government rejected a proposal for an independent complaint-handling mechanism, and to date no progress has been made.

19. **The UGEA in the Ministry of Health has overall responsibility for procurement, and reports to the deputy national director of logistic services.** The UGEA receives specialized support from the Department of Infrastructure and Equipment and from the Central Warehouse for Medicines and Medical Supplies (**Central de Medicamentos e Artigos Medico** - CMAM). The UGEA senior management team and procurement staff have only recently assumed their positions and have limited experience. Procurement delays are common due to poor management and poor quality of technical inputs. UN agencies are commonly used for procuring pharmaceuticals, vaccines, and consumable health goods. There are no known cases of mis-procurement or incidents for breach of procurement integrity. There is a risk of diversion of medicines along the supply chain, although there is some evidence from central warehouse survey data to suggest that rates are low in comparison to other countries in sub-Saharan Africa. General weaknesses in the performance of the supply chain are being addressed directly through the Program DLIs (better information flow, improved inventory management and increased supervision), and support from a number of other development partners is also in place (particularly from the US Government and the GFATM).

20. **Procurement in the Ministry of Education is well organized at central level, but to a much lesser extent at decentralized levels.** Procurement issues at these levels are encountered across the entire procurement process, including poor technical support for writing specifications, doing bid evaluations and contract management. Issues can be summarized as general poor procurement process management, poor transparency, and poor quality outputs. These risks will be
mitigated by supervision, capacity development activities and hand-holding support at appropriate decentralized levels.

21. **The Procurement Decree 15/2010 has a complaints-handling mechanism against proposed selections or contract awards.** This allows complainants to file against the purchasing authority. This mechanism is rarely used because of a perceived lack of legitimacy: (i) it is not independent; (ii) it is not transparent, as there are no dedicated institutional arrangements, protocols, or procedures; and (iii) it has no enforcement mechanism. To date the Ministry of Education has reported three contract award complaints over the last two years, and none have been successful. The new Procurement Decree (2010) establishes an anti-corruption framework, as well as rules for debarment of companies found guilty of violating procurement regulations. To date, only a few fraud cases have been reported, and no cases of corruption, collusion or coercion under this new regime. The team will ensure that reporting on allegations of fraud and corruption related to procurement are also collated with other allegations of fraud and corruption pertaining to the program, and shared with the Bank on a biannually.

22. **The PFM for Results Program provides an opportunity to further strengthen procurement practices in the health and education sectors, and to complement activities supported by other partners.** The Program Coordination Team (PCT), with support from the Bank, will ensure that the Program Operational Manual includes good practice guidelines for procurement. The PCT procurement specialist and support team will work with sectors to: (i) identify weaknesses and capacity needs of all implementing agencies; (ii) advise PFM Working Teams on developing procurement capacity development and systems reform packages for their sector, that complement and build on existing support; (iii) assist each implementing sector to implement capacity-development packages; (iv) support development of procurement plans, monitor procurement plan implementation and delays, and provide timely feedback to address delays and improve planning; (v) provide feedback to emerging problems and coach on improved practices; and (vi) supervise capacity-development activities, assess progress, and report back to PFM Working Teams for corrective measures if needed. The results of these actions are meant to support the design, implementation and monitoring of a basic program procurement performance mechanism as well as the design, implementation, monitoring and auditing of an appeals and complaints-handling mechanism.\textsuperscript{101}

<table>
<thead>
<tr>
<th>Table A5.2: Procurement Support Services to be provided under the Program</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Client</strong></td>
</tr>
<tr>
<td>Program Management Committee</td>
</tr>
<tr>
<td>Program Coordination Team and its procurement specialist and support team</td>
</tr>
<tr>
<td>UFSA &amp; staff responsible for design, supervision, and training of the UGEAs</td>
</tr>
<tr>
<td>UGEAs at all levels</td>
</tr>
</tbody>
</table>

23. According to Transparency International, public procurement is one of the areas most affected by corruption in Mozambique. Procurement laws are not fully enforced, creating many

\textsuperscript{101} Procurement performance is defined by the service delivery aspects: time, place, price, quality and satisfaction of the beneficiary.
opportunities for abuse. 102 Common corruption schemes in public procurement include kickbacks, collusion bidding, false or duplicate invoices by contractors, manipulation of bidding process by public officials, and purchase for personal use. 103 These issues are addressed in the next section.

**Anti-fraud and corruption laws and institutions**

24. **This fiduciary assessment has identified a number of financial management and procurement weaknesses, which may have implications for fraud and corruption.** For financial management these weaknesses include: (1) limited staff and capacity in FM, especially in the health sector and at local level; (2) low level of compliance with regulations, especially at lower levels of government; (3) potential diversion of program resources reserved for incentivizing performance to routine activities; (4) weak record-keeping for school funds; and (5) inconsistent adherence to procedures for storage and distribution of medicines increasing the risks of theft or diversion of medicines for resale on the black market. For procurement, the risks identified are the following: (1) violation of payment controls for procurement contracts in the health sector; (2) weaker implementation of procurement framework, especially at lower levels; and (3) weak complaints handling mechanism.

25. **The PforR program will address these weaknesses and potential risks through a number of mitigation measures, which are either embedded in the DLIs; in the Plan of Action (Annex 8); included in the TOR of the external audit which will be carried out by the Tribunal Administrativo; or listed in Tables 5.2 and 5.3 of the fiduciary assessment (Integrated Fiduciary Risk Mitigation Strategy; and Recommended Fiduciary Performance Indicators respectively).** Through the DLIs and planned inputs, the program focuses on strengthening several mechanisms that will contribute to the reduction of some of the cited fiduciary risks, and consequently the fraud and corruption risks.

26. **Anti-fraud and corruption measures in Mozambique are established through various laws and regulations (including an outdated penal code; more recent anti-corruption laws; and a Defense of the Economy Law from 1982).** The Anti-Corruption Law, adopted in 2004 (Law No. 6/2004 dated June 17 and Decree No. 22/2005) and limited to corruption involving bribes, is being revised and strengthened. The Anti-Corruption Package, adopted by the Council of Ministers in July 2011, and submitted to Parliament for approval in December 2011, is yet to be approved in its entirety. Nonetheless, some important anti-corruption legislative pieces have been recently been approved, including (i) Whistle-blower and Witness Protection Law, which came into effect December 13, 2012; (ii) Public Probity Law, which includes conflict of interest and asset declaration requirements; (iii) Organic Law of Prosecution Service, which allows the Anti-Corruption Agency (Gabinete Central de Luta contra a Corrupção - GCCC) to investigate and prosecute corruption crimes, including embezzlement, illicit enrichment, and conflict of interest. The amendment of Anti-Corruption Agency competences is already in effect, but whistle-blower and witness protection legislation will take time and resources to be fully implemented. If fully implemented, then new legislation would provide Mozambique a strong anti-corruption framework consistent with best practices.

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27. **There are multiple avenues available to citizens to launch a complaint with respect to a suspected case of corruption (see Figure A5.1).** According to the Anti-Corruption Law (Law No 6/2004), complaints can be received by any administrative authority and the police, and not just the Attorney General or the GCCC. The complaints received by GCCC or Attorney General may come in writing, either anonymously or signed; in person, or through a hotline (*linha verde*). In addition, dedicated staff within GCCC takes note of all corruption allegations published by the media, and document these for potential investigation. The GCCC is mandated to document actions taken in regards to these complaints, and proceed to their investigation if appropriate. The *Tribunal Administrativo* (which will be in charge of external auditing of the program) is also required to inform GCCC of any activity suspected of fraud and corruption they may have encountered during the course of an audit. Public officials can present complaints on fraud and corruption to the internal audit’s offices in their respective ministries, or to their superiors who must, in turn, submit it to the GCCC.

28. **The GCCC, established in 2005, has the primary responsibility for the Government’s effort to fight corruption.** GCCC is located in the Office of the Attorney General in the Ministry
of Justice. The GCCC investigates complaints through its offices located in Maputo (capital city, southern region), Beira (central region), and Nampula (northern region). The Secretaria Permanente Distrital collects complaints at district level (directly and from various administrative offices). S/he addresses those within his/her purview. Others are sent for action to Secretaria Permanente Provincial, from where fraud and corruption related complaints are sent to GCCC. The GCCC keeps track of complaints received, actions taken on each of them, as well as their conclusion. An annual report is submitted to parliament summarizing all anti-corruption activities, including status of corruption investigations by province and by type. Key challenges faced by GCCC include: (i) capacity constraints (personnel, equipment, training, lack of software for analysis); and (ii) coordination issues with other agencies on which they depend for their investigations, such as financial auditing.

29. In 2011, the GCCC handled 677 cases of corruption or theft of state property, a slight increase over the previous year. Of these, further investigation led to 214 charges and 81 prosecutions. Complaints related to fraud and corruption are broken down in to the following categories: illicit payments; misappropriation of funds; theft of goods, medicines and fuel and other infractions. The Public Prosecution Service is in charge of prosecutions, but their performance in successfully prosecuting cases of alleged corruption among government officials has been weak. There is no specific information for conviction rates in 2011, as court proceedings are very slow. However, for the 5-year period, 2006-2011, 163 individuals were convicted for corruption offences or theft of state property.

30. This fiduciary assessment has also looked into the existing complaint handling mechanisms in place at Program level in both health and education sectors in order to detect possible cases of fraud and corruption. Public institutions collect information thorough the complaints’ books and complaint boxes (livros de reclamações e caixas de reclamações) placed in their premises. Other complaints are registered through whistleblowing mechanisms by stakeholders (employees, recipients of services delivered by public institutions, commercial banks, contractors, media, and oversight agencies) in the form of verbal information in public domain or press reports etc. The Central Office for Combating Corruption (GCCC) follows up these complaints based on whistleblowing information. In general, the principle followed is that service complaints are managed at the administrative levels, but notified upwards, directly or through superiors, to GCCC where there are suspicions of criminal activity. The processes for opening, recording, classifying and routing different kinds of complaints are set out in laws and regulations. All complaints are supposed to be recorded, and a semi-annual report is made to the Council of Ministers by the Ministry of Public Administration, broken down by type of complaint and sector. The report also summarizes how complaints were followed up. For example, the report for second semester of 2012 identifies that 873,583 petitions (775,167 at the central level) were received in total (across all sectors), out of which 754,036 (659,468 at the central level) were treated and concluded. Nevertheless, the existing complaint handling mechanisms, in practice, do not ensure that all complaints are followed-up and that in each case the complainant is informed of the outcome of those actions, including possible investigations of fraud and corruption allegations.

31. The health and education sectors have established protest mechanisms available at all layers of management, including the facility level. However, there is need for greater dissemination of information on the existence of complaint books and boxes at health and education

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105 The Bank team has reports for 4 years up to 2010 on file.
facilities, their importance, and the guarantee of confidentiality for the information provided. The users can also utilize free telephone lines (*linhas verde*) especially dedicated to complaints for health and education sectors, respectively. These telephone lines are advertised through the radio and the press. In addition to the complaint boxes and telephone lines, health service users can also refer to the 117 Users’ Desks located in health organizations to register complaints. In the education sector, the Program will support strengthening the School Councils’ Guidelines in this particular respect, and encourage opening of complaint box by a sub-committee of the school council (under oath of confidentiality with respect to fraud and corruption). Complaints books will also be maintained, with separate columns to record complaint redress actions and communication with the complainant in the end. The dissemination of improved guidelines for school councils under the Program will emphasize the practical aspects of the complaint handling at the school level. Supervision by SDEJTs will confirm compliance with the new guidelines in this respect. When a complaint related to fraud and corruption is made, the school council will send all the relevant information to *Secretaria Permanente Distrital* for necessary action/investigation.

32. **Corruption related complaints are collected by the Provincial Inspectorates, and in turn, collated by the General Inspectorates (IGS and IGE) at central level.** For example, the IGS publishes an annual report of the complaints received, broken down by category and provinces. Actions taken are also recorded. In addition to the complaints system, IGS audits also serve as another means of detecting cases of fraud and corruption. The 2012 IGS report indicates that a total of 314 infractions were detected through all channels, of which, 302 were sanctioned, leading in some cases to suspension of civil servants.

33. **The following areas will be strengthened by the Program to ensure that the system improves its efficacy:** (i) ensure that all administrative offices have complaints boxes and books available and that the process for handling complaints is transparent; (ii) support to the government to improve functioning of the *linhas verde*; (iii) provide support to inspectors, ensuring they have enough resources to conduct audits and collect complaints timely and adequately; (iv) support dissemination of information on the complaints handling system.

34. **The Bank has agreed the following measures with the Government:** (i) sharing information on material and credible allegations of fraud and corruption, and the related process of investigation, with the Bank. Complaints collected by the respective Inspectorates will be aggregated with the complaints handled by GCCC. The PCT (DNT) will share all compiled material and credible allegations, coming from GCCC and the Inspectorates, with the World Bank on a semi-annual basis. The Program will also work with the Government to ensure that the anti-corruption and governance regulations for PforR financing are met, including strengthening complaint handling and reporting procedures, particularly in sectors; (ii) excluding companies that have been debarred by the Bank or on the temporary suspension list for any contracts financed by the PforR Program. The Program procurement is coordinated primarily by two agencies: CMAM for medicines and PCT (DNT) for systems strengthening and capacity development. Both of these agencies will have the list of debarred companies by the Bank and the temporary suspension list to ensure these are excluded. They will be responsible for sharing the list with any entity responsible for procurement in the Program and for updating it every six months. In addition, the PFM for results sector working groups will also be provided the list of debarred firms and the temporary suspension list to ensure that contracts under performance-based allocations or operational expenses do not go to any of the firms on these lists; (iii) ensuring the right of the
Bank’s Integrity Vice Presidency (INT) to launch an independent investigation of any fraud and corruption complaint received regarding this operation; and (iv) receiving necessary cooperation from government authorities and appropriate institutions to conduct such an investigation.

Program Management

35. A number of cross-cutting issues related to program management have been introduced:

(a) **Program coordination and capacity development:** The Program, through the Program Coordination Team, will recruit an adequately qualified FM Manager to assist and coordinate with the respective Departments of Administration and Finance (DAFs) of the sector ministries as well as to further train government staff as necessary. The Program financial reports will be prepared by PCT on a cash-basis in accordance with the Government requirements. Use of the e-SISTAFE will help obtain real-time information on the networked institutions, while the cash advances will provide an indication of the expenditures made by other entities not connected to the system. The documentation of advanced funds will be incorporated in e-SISTAFE, before generation of the quarterly and annual financial reports.

The program also includes significant resources for systems strengthening and capacity development which will be available to all entities involved in program implementation in the areas of financial management, procurement and transparency. They will be complemented by other Bank and development partner operations that support capacity development in the health and education sector.

(b) **Disbursements:** Program disbursements by the Bank will be based on achievement of agreed results. Each DLI is taken as a withdrawal category, for the purposes of disbursement, as set out in Table A5.3 below:

**Table A5.3: Withdrawal Categories**

<table>
<thead>
<tr>
<th>Category (Disbursement Linked Indicator)</th>
<th>Disbursement Linked Result and Corresponding Value*</th>
<th>Amount of the Financing Allocated (US$)</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>3,993,056</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>6,770,833</td>
</tr>
<tr>
<td>(3) Proportion of Complete Primary Schools that comply with defined, agreed and disseminated standards for transparency and accountability (DLI 3)</td>
<td>- School Councils’ Manual revised, approved and distributed to all Complete Primary Schools - Increased proportion of Complete Primary Schools meeting standards for council</td>
<td>9,000,000</td>
</tr>
</tbody>
</table>
(c) **Program auditing:** The auditing arrangements for the program will comprise internal and external auditing. The external audit process will place reliance on the work of the internal auditors, to the extent allowed by their assessment of the quality of the work undertaken. The internal auditors of the program will include the General Inspectorates of Finance, Health and Education, as well as the CMAM internal audit unit. They will ensure compliance with government rules and regulations, and assess whether the Program operations manual is followed. In addition, internal audit institutions will carry-out detailed data verification on achievement of DLIs and prepare a report for independent validation by external auditors. The Supreme Audit Institution of Mozambique, the *Tribunal Administrativo*, has the constitutional mandate to audit the general government accounts. In addition, the *Tribunal Administrativo* will render a separate audit opinion on the Program financial statements within 12 months after the close of each fiscal year. The Tribunal has also agreed to carry-out an independent validation of achievement of DLIs as a pre-condition for disbursement of Bank funds for the Program.
Program Coordination Team and respective Departments of Administration and Finance will be obligated to respond to audit observations within 30 days.

**Table A5.4 Recommended Fiduciary Performance Indicators**

<table>
<thead>
<tr>
<th>No</th>
<th>Fiduciary risk</th>
<th>Performance indicator</th>
<th>Baseline</th>
<th>Recommended standard</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Budget allocation and authorization to spend</td>
<td>Annual budget allocations for the PFM for Results Program made in accordance with agreed work plans and authorization to spend given in a timely manner</td>
<td>Authorization to spend does not follow any time schedule</td>
<td>Authorization to spend against approved budget allocations following country’s budget cycle or within a month of approval</td>
</tr>
<tr>
<td>2</td>
<td>Compliance of Internal Control Procedures</td>
<td>All observations in the program internal audit addressed in an effective and efficient manner</td>
<td>Inconsistent follow-up of internal audit observations</td>
<td>Response to audit observation within 30 days after the receipt of the draft audit report</td>
</tr>
<tr>
<td>3</td>
<td>Procurement planning</td>
<td>Publication: procurement planning, plan monitoring and reporting on Program and UFSA websites.</td>
<td>Baseline to be determined at program start-up</td>
<td>100% by the end of Program</td>
</tr>
<tr>
<td>4</td>
<td>Procurement competition and equal opportunity</td>
<td>Publication: Procurement opportunities and contract awards on Program and UFSA websites.</td>
<td>Baseline to be determined at program start-up</td>
<td>100% by the end of Program</td>
</tr>
<tr>
<td>5</td>
<td>Complaints mechanism</td>
<td>All procurement complaints satisfactorily closed</td>
<td>Baseline to be determined at program start-up</td>
<td>100% by the end of Program</td>
</tr>
<tr>
<td>6</td>
<td>Timely program financial reporting</td>
<td>Program financial statements are prepared on time</td>
<td>4 months</td>
<td>Interim program financial statements prepared within 2 months after the close of fiscal quarter</td>
</tr>
<tr>
<td>7</td>
<td>Timely external audits</td>
<td>Program external audits carried out in a timely manner</td>
<td>12 months</td>
<td>Program audit reports to be available within 12 months after close of the financial year</td>
</tr>
<tr>
<td>8</td>
<td>Audit Follow up</td>
<td>Audit observations addressed expeditiously</td>
<td>Audit observations not resolved in a timely manner</td>
<td>All audit observations are monitored and satisfactorily resolved to the extent possible (preferably within 30 days of receipt of audit report but not later than 3 months)</td>
</tr>
<tr>
<td>9</td>
<td>F&amp;C transparency</td>
<td>F&amp;C cases reported on a semi-annual basis by the Anti-Corruption Commission (GCCC)</td>
<td>Baseline to be determined at program start-up</td>
<td>100% by the end of Program</td>
</tr>
</tbody>
</table>
Annex 6: Environmental and Social Systems Assessment

**Summary assessment**

1. **Environmental and social risk is assessed as Low.** The program involves very few physical activities, and those that are envisaged have limited potential environmental and social impacts. Overall systems for handling of social and environmental dimensions in development operations are relatively strong and there is a good recent track record in compliance with both national legislation and Bank safeguards. There are no land acquisitions related to the Program, and no anticipated issues related to social conflicts. The key physical activities are largely confined to the health sector, which already benefits from broad-ranging donor support that requires scrutiny of environmental management standards for routine activities. The scope of potential negative impacts is limited by the nature of the activities, and implementation will be closely monitored through routine program reporting and occasional field verification by Bank missions.

2. **Disposal of pharmaceutical waste is a serious issue** due to the risks posed to garbage pickers (including children) from potential consumption, or to the wider public in the event of resale of expired medicines, and due to the possibilities for air or groundwater contamination. However, the program will improve stock monitoring and therefore have the beneficial effect of reducing the volume of expired medicines (in addition to actions to be taken to improve disposal of the remainder). Awareness of the issue is already high, and systems are being strengthened under donor-funded programs in the sector (with particular support from the US government).

3. New government guidelines for the disposal of pharmaceutical have been developed and adopted recently and will be implemented during the course of the program.

4. **Potential for harmful social impacts, including in terms of exacerbating inequality, is low in both sectors.** In health, the program supports a national roll-out of efforts to support improved medicines supply chain management, thereby limiting potential for geographical bias. The potential for performance based allocations to reward already better performing areas is mitigated by technical assistance to improve the capacity of implementing bodies to perform effectively, and can be further address by allocations that improve level of improvement rather than achievement of static targets. The program will also generate new data that can support analysis of geographic disparities in access to medicines at health center level. In education, the program covers ‘complete’ primary schools, which cover 56 percent of all primary school pupils. These schools are distributed across all provinces, although there is some concentration close to urban centers. The main objectives of the education intervention are to increase community participation, particularly of mothers, in school management, and to strengthen and make more transparent the allocation of resources to schools. The program should have positive social impacts by increasing community voice and reducing scope for opaque and politically influenced allocation decisions. If successful in improving the management of complete primary schools, then the Ministry of Education intends to expand the approach to all primary schools. There are no land acquisitions supported by the Program in either sector.
Background and General Approach:

5. As the Public Financial Management (PFM) for Results Program mainly concerns changing incentives and providing technical assistance to strengthen PFM systems for results in target sectors, direct environmental and/or social impacts are not anticipated for the most part. The program aims to improve PFM performance in order to increase the efficiency of service delivery in sectors that involve multiple environmental and social effects. In certain cases, Disbursement Linked Indicators (DLIs) specify specific activity targets associated with physical impacts. Similarly, incentive frameworks include provision for expenditures which would involve modest environmental or social effects. In summary, the potential issues identified, which will be the focus of the following assessment are:

(a) DLIs and indicators for the health sector directly refer to management of the procurement and supply of pharmaceuticals. Therefore, the appropriate disposal of expired pharmaceuticals is a concern, although a reduction in the rate of expired or otherwise unusable medicines is a specific program objective. Incentive payments to provinces and districts may be used to undertake minor refurbishments of warehouses. These do not include construction, and will not result in significant environmental effects.

(b) DLIs and indicators for the education sector focus on improvement of oversight for primary schools through strong and representative school councils, disseminating improvement plans and increasing the number of inspection visits. Incentive expenditures involve increasing the budget availability to strongly-performing schools. As this involves operational budgets, it would be restricted to purchase of basic school equipment and very minor refurbishment, and would not involve any construction activities or significant environmental effects.

6. According to recent reviews and opinions of specialists, environmental and social management in Mozambique is characterized by a relatively well-developed policy framework, and is steadily improving as staffing and practical work processes are developed in response to increasing awareness of these issues.

7. The Ministry for the Coordination of Environmental Affairs (MICOA) is the key government agency responsible for coordination of government actions related to environment and social safeguards (particularly the new Involuntary Resettlement Regulation-Decree 31/2012). It has the mandate to direct the implementation of environmental and social safeguards policies and to coordinate the sustainable planning and use of natural resources of the country. Funding to the environment sector has risen six-fold in the last six years. However, a 2012 Environment Sector Institutional Performance Study found many areas of remaining weakness, particularly in relation to human resources management and provision of appropriate work systems and tools. MICOA’s ability to monitor implementation and performance of the Environmental and Social Impacts Assessment (ESIA) systems is being improved through development of an ESIA database. There have been implementation issues with safeguards processes under some Bank projects, though the picture is one of improving awareness and implementation over time.

8. At the provincial level, MICOA is represented by the Provincial Directorates for the Coordination of Environmental Affairs (DPCAs). At district level, MICOA’s representation is through the District Planning and Infrastructure Services (SDPI) under the Ministry of Public Works. This department is responsible for handling issue related to land use planning, as well as any issue related to environmental protection. However, staff typically have limited training on
environmental matters, which places a constraint on effective environmental and social management at the district level. Most sector ministries have designated human resources and/or a unit responsible for environmental and social affairs. These environmental and social units often comprise of only a single person, who acts as a focal point, and who typically has other responsibilities. Only the Ministry of Mineral Resources has a reasonably large environmental and social unit. The Strategic Plan for this Environmental Sector recognizes this limited capacity and calls for such units to be strengthened.

9. Assessments for each of the specific environmental and social issues identified under the PFM for Results Program are presented in turn below.

**Disposal of Expired Pharmaceuticals**

*Description of Program Environmental and Social Management System:*

10. **The first principle of waste management is to reduce the volume of waste that is produced, and the PFM for Results Program aims to support this approach** through improved planning and coordination of pharmaceutical procurement and supply, improved management of stock levels, more systematic and effective distribution of medicines, and improved tracking of near-expiry and expired medicines. Improved data systems will allow more active management and distribution of products close to expiring, including distribution across multiple sub-units. DLIs have been established around more timely processing of requisitions from the provinces, more complete reporting of stock levels from the district and provincial levels, and reductions in the percentage of unusable (i.e. expired or damaged) stock amassed in warehouses at central and provincial levels. The program will develop a methodology and establish a baseline to measure the quantity of expired medicines at the provincial level for the first time (data is currently only collated for central warehouses). Hence the overall effect of the Program should be to reduce the volumes of waste pharmaceuticals produced within the supply chain, rather than to increase them, and its performance in this regard will be closely monitored.

11. Nevertheless, some degree of wastage is inevitable, and therefore systems are required for the proper disposal of this pharmaceutical waste. The need to strengthen these systems in Mozambique was recognized in the 2005-2015 Strategic Plan for the Environmental Sector. These are still under development, but a number of key policy documents exist.

12. The *Regulations on the Management of Biomedical Waste* (Decree no 8/2003) establish that:
   a. MICOA is responsible for policy development and licensing, whilst MISAU is responsible for management of waste within healthcare facilities, including training and capacity development for this.
   b. Medicines must be stored in a secure area, especially cyto-toxic medicines.
   c. Medicines may be disposed of via the waste water system, or a controlled pit within a sanitary landfill. Unused antibiotics can be buried or preferably incinerated.
   d. For cyto-toxic medicines, MISAU should be contacted for guidance on safe disposal.
   e. Bio-medical waste can only be transported off-site by operators licensed by MICOA (which will coordinate with MISAU on licensing decisions).

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106 Rather than a current first-in-first-out system that bunches near-expiry products for the first next delivery destination.
13. The Standards & Procedures for Bio-medical Waste Management in Health Facilities (2010) further stipulate that:
(a) Large quantities of waste pharmaceuticals should be returned to suppliers.
(b) Transport outside of facilities should be documented.
(c) Pharmaceutical waste may be incinerated (temperatures are not specified, and this is not allowed for small quantities for cyto-toxic), disposed of in a sanitary landfill, burnt on an open fire (only for small quantities of non-cyto-toxic medicines), or buried (only in facilities in rural areas and under supervision).\(^{107}\)
(d) In larger facilities, pharmaceutical waste may be encapsulated or incinerated at high temperature (temperatures not specified, but this would normally refer to incineration above 1200 °C). In health centers or posts, disposal may be through encapsulation, or burning for small quantities.\(^{108}\)
(e) Municipal pits can be used for healthcare waste disposal after pre-treatment of waste, but not open air or uncovered pits (there is no specification on the use of pit lining), and waste-pickers must be excluded.

14. For the management of pharmaceutical waste within the supply chain more specifically, Standard Operating Procedures for Management, Control and Dispensing of Medicines have recently been updated and state that:
(a) Regular inventory checks must be conducted within all storage facilities, and all expired and damaged stock should be removed to a separate quarantine area and documented.
(b) Quarantined stocks should be dealt with routinely (at least 2 or 3 times a year, depending on the size of the facility) to prevent accumulation of waste stocks.
(c) Pharmaceuticals may be disposed of by incineration, burial or crushing\(^{109}\).
(d) Disposal may be carried at health centers, district stores, hospital stores, provincial stores or central stores, but only in the event that adherence with guidelines can be guaranteed. Facilities that have not been authorized to conduct disposal on site should return stocks to their supplying store.
(e) Disposal must take place in a location approved by competent authorities.
(f) Records must be kept of the inventory of stocks disposed of or returned.

15. Within MISAU, the *Central Medicamentos e Artigos Medicas* (CMAM) is responsible for procurement, management of the central medical stores, and distribution to provincial warehouses. CMAM is also responsible for setting and monitoring adherence to standard operating procedures for the ordering, storage and management of medicines within the public health supply chain. An Internal Audit Unit is tasked with assessing each province semi-annually (and within each province at least two districts, and then two health centers within each district). Provincial and district stores are under the responsibility of local health departments. They may report activities to CMAM, but are not directly supervised by it. The Environmental Health Department is responsible for internal policy related to environmental issues, and supports training and implementation of healthcare waste management processes, but is focused on end-user healthcare facilities where the great majority of healthcare waste is generated. The Pharmaceutical Department is also involved in setting policies specifically related to the use and handling of pharmaceuticals.

\(^{107}\) Table 3 in document.
\(^{108}\) Table 4 in document – doesn’t include separate guidelines for cyto-toxic medicines.
\(^{109}\) Although not stated explicitly, this is intended to imply crushing for inertization.
16. Although some policy guidance is in place (as summarized above), gaps and some inconsistencies remain:
(a) Detailed procedures and requirements for disposal methods were not provided until recently, although international guidelines were available (for example through WHO and MSF). Specifications were needed to be established to define e.g. high-temperature incinerators and sanitary landfills, especially given that the availability of both is very limited in Mozambique.
(b) There is also some inconsistency in that the Regulations mention that disposal into the waste water system is acceptable, but this is not mentioned elsewhere, and conversely, encapsulation is mentioned under the Standards & Procedures, but not under the SOPs. According to international norms, the main recommended disposal methods for pharmaceutical storage facilities would be high temperature incineration and encapsulation / inertization, with burning and dilution allowable for some substances.
(c) Apart from some limited references to cyto-toxic substances, no mention is made of differential treatment of various pharmaceuticals according to the specific risks they involve.
(d) It is not clearly stated who authorizes facilities to dispose of pharmaceuticals themselves, as opposed to returning them, or who the competent authorities are who should approve the final disposal location. Within the framework established in Decree 8/2003 and Decree # 13/2006 of 15 June – Waste Management Regulations, it is likely that MISAU would authorize internal activities, but that MICOA would need to license any involvement of external parties (i.e. disposal to municipal land-fills or use of industrial furnaces for incineration), but this is not made clear in the SOPs.
(e) The current SOPs are unclear as to whether provincial medical stores are required to dispose of pharmaceutical waste themselves, or may return it to CMAM in the event that they do not have the appropriate facilities.

17. Some of these gaps (at least those relating to the specification of acceptable methods of disposal) have been filled through the establishment of new Norms for Disposal of Pharmaceutical Products, which are recently developed by the Pharmaceutical Department and approved by the Minister of Health under the ambit of the Program. The approved procedures require that:

(a) For solids, semi-solids & powders:
- Antibiotics, narcotics, psycho-tropics and cyto-toxics should be disposed of through inertization, if equipment for incineration or encapsulation is not available, and this must be under supervision of a pharmacist for narcotics and psycho-tropics.
- If no other solution is available, small quantities of other medicines can be disposed of within the municipal waste stream (1 percent of total stream), or 5-10 percent in emergency cases for limited periods, as long as the total is not more than 50t per day and the waste site is well-managed. Pharmaceuticals disposed of at rubbish tips should be placed at the base of pits, immediately covered and protected from waste pickers.
- The best solution for large quantities is high-temperature incineration.

(b) For liquids:
- Non-toxics and bio-degradable liquids can be diluted and flushed into drains; others can be diluted and flushed in small quantities (excluding antibiotics, narcotics, psycho-tropics and cyto-toxics). Encapsulation and high temperature incineration are also acceptable techniques.
- Vaccines are best incinerated, but may otherwise be encapsulated or inertized.
Liquid antibiotics can be diluted and then flushed into drains after two weeks.

Controlled substances (narcotics and psycho-tropics) should be disposed of via high-temperature incineration, encapsulation or inertization, under supervision of a pharmacist.

Cyto-toxics are best incinerated in a high-temperature, 2-chamber incinerator. They can also be disposed of in rubbish tips after inertization or encapsulation. Dilution and flushing into drains is only allowed if they are first degraded chemically.\(^\text{110}\)

**Program Capacity and Performance Assessment:**

18. Mozambique has recent experience of dealing with pharmaceutical waste within the supply chain. Following a visit by journalists to CMAM stores last year, public attention was drawn to the fact that a large volume of expired medicines had been stockpiled in the central stores, and there was political pressure to resolve this.

19. In response, a task force was established that involved MISAU, UNICEF, MSF and the Supply-Chain Management System project (SCMS – supported by USAID). UNICEF and SCMS carried out an inventory of the expired stock, MSF provided input on categorization of the pharmaceuticals to ensure that they were not inappropriately mixed, and potential disposal options were reviewed.

20. In total, US$8.7 million worth of pharmaceuticals (roughly 4,000 m\(^3\) by volume) were involved, but this stock had built up over 5-6 years, representing slightly under two percent of the total supply during that period\(^\text{111}\). Returning the medicines to suppliers was not possible due to legal restrictions on the export of hazardous waste. The availability of high-temperature industrial furnaces was investigated, and following some testing, some pharmaceuticals were disposed of in the kilns of ceramics and cement factories, but capacity was insufficient to deal with the full backlog. Some pharmaceuticals were disposed of via encapsulation, but this was also found to be time-consuming and problematic for the volumes involved. The remainder was burnt at an old borrow pit some 70km outside of Maputo. This site was chosen because its remoteness would reduce the risk of impacts from fumes or of people entering the site\(^\text{112}\). CMAM received an environmental license from MICOA for the disposal of the pharmaceuticals at this site, and the police were also involved to ensure security, but no formal EIA was carried out.

21. The events caused some embarrassment as they created the impression that there was a large amount of wastage in the pharmaceuticals supply chain (which represents a major expenditure for GoM and donors), and the outcome was not entirely satisfactory given that open burning is not a recommended means of disposal, due to the risks of incompletely-burnt substances remaining, as well as the fumes that can be produced. Nevertheless, a number of positives can be drawn from the experience:

\(^{110}\) This is unlikely to be available in Mozambique.

\(^{111}\) International guidelines cite around 3% as a reasonable target for maximum wastage, so performance may not be too bad within Mozambique. However, these figures are for expiries accumulated at central warehouse level. While this is likely to have included some products that had been returned from lower levels of the system, it is probably an underestimate of the total volume of expired/unused medicines within the systems as a whole. The program aims to improve reporting, at least to provincial level (with the methodology used possibly applicable at district level)

\(^{112}\) Nevertheless, the site was being used by locals to collect water, and a bore-hole was provided in compensation for the loss of access once it began to be used as a disposal site.
(a) GoM, donors and NGOs worked together in a coordinated team to find solutions, and gained practical experience in how to manage the issue along the way, including the use of private sector incinerators.

(b) The detailed inventory actually revealed that the rate of waste accumulation was not particularly high, but the issue was it had been allowed to go on over several years without being addressed.

(c) A lesson has therefore been learnt about the need to address disposal on a regular basis, particularly as the available options to dispose of small amounts of pharmaceutical waste are wider than when very large volumes are involved.

22. Improvements have already been brought in as a result, in the form of the guidelines in the revised SOPs, and development of the national Norms. All central warehouses now generate expiry date profiles for stock expiring in the next 180 days. These reports are used by CMAM to decide strategically whether to distribute the short shelf life stock or earmark it for quarantining.

23. However, systems are new and untested, and although disposal of pharmaceutical waste is now being dealt with on a more regular basis, policy gaps and less than ideal disposal methods (at both central and provincial level) will remain until the effective implementation of recently issued Norms. Completion and full institutionalization will require additional coordination, planning, resources and oversight.

Summary Assessment of Program Systems for Pharmaceutical Disposal:

<table>
<thead>
<tr>
<th>Core Principle</th>
<th>Key Elements</th>
<th>Assessment of consistency</th>
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<tbody>
<tr>
<td>1) Environmental and social management procedures and processes are designed to (a) promote environmental and social sustainability in the program design; (b) avoid, minimize, or mitigate against adverse impacts; and (c) promote informed decision-making relating to a program’s environmental and social effects.</td>
<td>Operate within an adequate legal and regulatory framework to guide environmental and social impact assessments at the program level. Incorporate recognized elements of environmental and social assessment good practice, including (a) early screening of potential effects; (b) consideration of strategic, technical, and site alternatives (including the “no action” alternative); (c) explicit assessment of potential induced, cumulative, and trans-boundary impacts; (d) identification of measures to mitigate adverse environmental or social impacts that cannot be otherwise avoided or minimized; (e) clear articulation of institutional responsibilities and resources to support implementation of plans; and (f) responsiveness and accountability through stakeholder consultation, timely dissemination of program information, and responsive grievance redress measures.</td>
<td>The environmental policy framework recognizes the need to treat pharmaceutical waste as a particular case of hazardous waste, and to ensure specialized procedures are followed for its disposal. However, there is some inconsistency and lack of detail in the guidelines presented in different policy documents, and little discussion of categorization of pharmaceutical waste. Responsibilities for ensuring that relevant facilities have appropriate equipment, training and budget, and for verification of proper disposal are also unclear.</td>
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<tr>
<td>2) Environmental and social management procedures and processes are designed to protect public and worker safety against the potential risks associated with (a) Promotes community, individual, and worker safety through the safe design, construction, operation, and maintenance of physical infrastructure, or in carrying out activities that may be dependent on such infrastructure with safety measures, inspections, or remedial works incorporated as needed. Promotes use of recognized good practice in the production, management, storage,</td>
<td>National guidelines are not fully consistent with international good practice (i.e. WHO or MSF guidelines) as they allow for disposal of pharmaceutical waste via burial, landfills, waste water systems and incineration, without stating sufficient conditions or safeguards for these practices. Encapsulation and inertization are recommended practices for disposing of</td>
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construction and/or operations of facilities or other operational practices developed or promoted under the program; (b) exposure to toxic chemicals, hazardous wastes, and otherwise dangerous materials; and (c) reconstruction or rehabilitation of infrastructure located in areas prone to natural hazards.

transport, and disposal of hazardous materials generated through program construction or operations; and promotes use of integrated pest management practices to manage or reduce pests or disease vectors; and provides training for workers involved in the production, procurement, storage, transport, use, and disposal of hazardous chemicals in accordance with international guidelines and conventions.

Includes measures to avoid, minimize, or mitigate community, individual, and worker risks when program activities are located within areas prone to natural hazards such as floods, hurricanes, earthquakes, or other severe weather or climate events.

sizable quantities of a wide range of pharmaceuticals, but are not promoted under the (already approved) national framework.

In practice, disposal of pharmaceutical waste from medical stores received little attention until it became a public issue last year. Procedures, capacity and budgets were found insufficient to tackle the issue, and some of the methods used for disposal were not fully compliant with international good practice. However, an effective crisis response was mobilized, an understanding has been gained of the need to tackle the issue on a routine basis, before expired stocks reach crisis level, and more detailed guidelines on disposal methods are under preparation.

Fraud & corruption issues:

24. The key potential corruption issue related to the disposal of expired medicines is the risk that they could be re-sold as valid medicines to the public. This does not represent a fiduciary risk to government, but does present a serious threat to public health if people were to be duped into purchasing ineffective and hazardous medicines. Past experience with the build-up of expired medicines indicates that this has probably not been a major issue to date, as least at the central level, but safeguards should nevertheless be put in place to ensure it cannot occur in future.

25. The overall fraud and corruption risk assessment for the Program (see Fiduciary Systems Assessment in Annex 5 within the Program Document) identifies the illicit re-sale of pharmaceuticals in general as an issue. Steps to counter this risk include the focus of the DLIs on improved stock management and reporting systems, and the inclusion of periodic spot checks on warehouses and pharmacies within the Plan of Action. After incorporation of mitigation measures, the fraud and corruption risks are assessed as moderate. At the disposal stage, current practices include collaboration between MISAU, MICOA and police in order to ensure that consignments of pharmaceuticals for disposal are well protected. The security of the disposal process is also required by the new norms.

Equitable Access to Health and Education Services

Description & Assessment of Distributional Issues related to Pharmaceuticals Supply:

26. There are differences in both health expenditures and health outcomes between provinces and districts, but the reasons for these differences, and whether there are related to systems of budget and service allocation have not been clearly established. Through improvement of record-keeping and monitoring systems within the pharmaceutical supply chain, the Program will contribute to a greater information base and the identification of weaknesses that could prejudice service delivery to certain jurisdictions. For instance, one of the DLIs for the health sector is the rate at which the central warehouses fill pharmaceutical orders by the provinces. Systematic monitoring
of this indicator would reveal not only whether CMAM were providing preferential service to some areas, but also any systematic differences between the level and frequency of orders made by the provinces, which could potentially be related to population levels, disease burdens, etc.

27. Program capacity support and change management for improved pharmaceutical supply management at the provincial and district level will be available nationally on a demand-basis. The system is expected to favor those areas where there are existing supply bottle-necks and management issues, as provinces will be encouraged to identify areas of weakness where capacity support is required. Nevertheless, it remains theoretically possible that higher capacity locations could be favored due to greater proactivity or organization in requesting support, and therefore, the populations already under-served by poorly-performing local health authorities, may also fail to reap the potential benefits of the Program. To address this potential risk, the TOR for the selection committee that decides on the award of larger capacity-building proposals will include a requirement to prioritize support to provinces and districts which are judged (on the basis of supply chain monitoring or otherwise) to face particular challenges in pharmaceutical supply or distribution.

**Description & Assessment of Distributional Issues related to Promoting Accountability in School Management:**

28. Ongoing education sector support programs have focused significant attention on issues of vulnerability and equitable access to services, including through the ESMF prepared under the Bank support to the sector. School budget allocation formulae including vulnerability and poverty indicators have been developed and piloted, with the resulting adoption of a relatively simple funding formula based on pupil headcount, but including a premium related to the number of poor pupils. During the last few years, there has also been an extensive program of investment to ensure that all areas of the country are served by complete primary schools, providing education at grades 1 through 7. It is these 4,348 primary schools, many of them recently expanded that the Program will target. Because the Program will include performance-based budget supplements, there is a potential risk that it could favor schools that are already high-performers, and therefore possibly disadvantage populations in remote or poor areas. However, the performance-related increments will be very modest in comparison to the overall school budgets, and the improvements in accountability and monitoring of school performance are expected to lead to improvements across the board. The provision of performance-based supplements is a pilot activity being introduced under the Program, and its effectiveness and potential weaknesses will be assessed before any broader application.

**Summary Assessment of Program Systems to Avoid Exclusion of Vulnerable Groups:**

<table>
<thead>
<tr>
<th>Core Principle</th>
<th>Key Elements</th>
<th>Assessment of consistency</th>
</tr>
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<tbody>
<tr>
<td>Due consideration is given to cultural appropriateness of, and equitable access to, program benefits giving special attention to rights and interests of Indigenous Peoples and to the needs or concerns of vulnerable groups.</td>
<td>Undertakes free, prior, and informed consultations if Indigenous Peoples are potentially affected (positively or negatively) to determine whether there is broad community support for the program. Ensures that Indigenous Peoples can participate in devising opportunities to benefit from exploitation of customary resources or indigenous knowledge, the latter (indigenous knowledge) to include Indigenous Peoples (as defined by the Bank) do not occur in Mozambique. As the Program includes elements of request-based and performance-related support, there is a potential risk that it could be biased towards areas where health and education service providers are already performing strongly. However, the Program is built around service delivery systems that already include systems for equitable targeting.</td>
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the consent of the Indigenous Peoples.

Gives attention to groups vulnerable to hardship or disadvantage, including as relevant the poor, the disabled, women and children, the elderly, or marginalized ethnic groups. If necessary, special measures are taken to promote equitable access to program benefits.

will improve the monitoring of service provision, and aims to identify and target specific service delivery bottlenecks.

**Inputs to the Program Action Plan:** The following points have been included in the Program Action Plan (Annex 8):

29. Maintain the Norms for Disposal of Pharmaceutical Products, including detailed acceptable methods of disposal by category and volume of pharmaceutical, and necessary environmental, health & safety conditions, including requirements for consultation with affected members of the public and involvement of relevant government agencies in decision-making and implementation of pharmaceutical disposal activities.

30. Development and implementation of pharmaceutical disposal plans:
   - Develop simple disposal plans / procedures for each major facility consistent with the Norms, and determine the (budgeted) requirements for equipment, training, etc. The plans would be very simple, but would specific how the Norms would be implemented in each facility – i.e. whether expired pharmaceuticals would be returned up the supply chain or disposed of locally, method of disposal to be used, staff responsibilities, etc.
   - Provide training and equipment to appropriate staff, and implement: (i) development and approval of pharmaceutical disposal plans for storage facilities; (ii) routine reporting on volumes and disposal of pharmaceutical waste; and (iii) spot checks for compliance with plans and guidelines.

31. A ballpark estimate of the cost of completing the Norms and developing facility-level plans would be in the region of $20,000, which is less than the support being provided to the Pharmaceuticals Department under the program. Further implementation costs will depend on the disposal options selected.

**Inputs to the Program Implementation Support Plan:**

32. Social and environmental specialists within the task team will give ongoing advice on the development of management systems on a needs-basis, and will join at least one implementation support mission per year to review progress in the field. They should give particular attention to the following:

   (a) Satisfactory development and implementation plans for Disposal of Pharmaceutical Products at main warehouses, including consideration of the needs for public consultation and participation;
   (b) Satisfactory implementation of the Norms through review of routine reporting on volumes and methods of pharmaceutical waste disposal, and periodic field visits to warehouses and disposal sites.
Summary of Public Consultations and Participation:

33. A consultation event was held by the Bank on 12 June 2013. The draft ESSA, program summary and invitation to the event were publicized through NGO networks in the health and education sectors. Participants accepted the findings of the ESSA that environmental and social risks are low and welcome actions to improve the disposal of expired medicines. The environmental and social systems assessment was publically disclosed in July 2013.

Environmental and Social Risks Screening Tool/Form

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<thead>
<tr>
<th>Risk</th>
<th>Assessment</th>
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<tbody>
<tr>
<td><strong>Associated or likely social and environmental effects</strong>&lt;br&gt;There are very few physical activities involved in the program that could engender environmental or social impacts. The pertinent activity is improved management of pharmaceuticals supply chain. This will actually reduce the level of expired medicines accumulating in the system, and therefore have a beneficial effect through reducing issues of waste pharmaceutical disposal. However, given the program’s involvement with supply chain management it is recommended to exercise due diligence to ensure that disposal is managed properly. Systems are already being strengthened, however, with support from a number of donor programs, and no major issues are anticipated. The program activities occur at the main central and provincial warehouses, where pharmaceutical stocks and expiries can be readily monitored.</td>
<td>Low</td>
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<td><strong>Environmental and social context</strong>&lt;br&gt;Mozambique does not have well-developed systems for solid waste management, municipal disposal sites host large numbers of waste-pickers, and demand for medicines means that resale of expired drugs is a realistic risk. However, these issues can be addressed by ensuring that the Ministry of Health takes direct responsibility for tracking and disposing of expired pharmaceutical stocks.</td>
<td>Low</td>
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<tr>
<td><strong>Program strategy and sustainability</strong>&lt;br&gt;The program is focused on improving public financial management, which is key to delivery of government services in general, and strongly supported by GoM, partners and the public. Key sectors have been selected according to their strategic needs for improved PFM to remove service delivery roadblocks. The program does not include explicit environmental objectives (which are not appropriate to the focus), but it does include a specific objective to reduce the volume of expired pharmaceuticals, which will have a positive environmental impact. It also contains objectives on the delivery of education and health services which will have considerable social benefits. For the disposal of waste pharmaceutical, sustained action will be needed beyond the end of the operation, but government commitment is strong, and the scale of the issue should decrease over time in line with improvements in stock management systems.</td>
<td>Low</td>
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<tr>
<td><strong>Institutional complexity and capacity</strong>&lt;br&gt;The program is complex to the extent that it involves two separate sectors, but in each case, implementation is handled within a single sector without need for extensive coordination or cross-dependencies. Awareness of the issues within the relevant sectors is already strong, and performance is steadily improving. Capacity is not unlimited, but it is adequate for the scale of the issues. In relation to construction activities, much of the oversight can be tasked to qualified supervision consultants.</td>
<td>Moderate</td>
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<td><strong>Reputational and political risk context</strong>&lt;br&gt;Potential corruption issues have been identified, but these do not present major risks as long</td>
<td>Low</td>
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as basic systems function acceptably. Build-up of expired pharmaceuticals has recently attracted political attention because of the impression of wastage it creates. However, this would generally mitigate in favor of installing improved stock management and disposal systems, as has been observed to be the case.

<table>
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<th><strong>Overall assessment</strong></th>
<th>Low</th>
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<tr>
<td>The potential for negative environmental and social impacts attributable to the program is extremely limited, and the specific issues identified can be readily addressed.</td>
<td>Low</td>
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## Annex 7: Integrated Risk Assessment

### 1. PROGRAM RISKS

<table>
<thead>
<tr>
<th><strong>1.1 Technical Risk</strong></th>
<th><strong>Rating:</strong> Moderate</th>
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<tbody>
<tr>
<td><strong>New approach to reforms</strong></td>
<td><strong>Risk Management:</strong> The operation has been carefully designed over time to identify PFM issues that all key stakeholders have an objective interest in solving. - These incentives will be reinforced by the DLIs and performance allocations - Technical assistance will be used to help problem solve to meet the DLIs as well as to identify the next series of issues that could be tackled in the same manner. - The operations manual sets out clear roles and responsibilities for MoF, MinEd and MoH. - The program coordination team will be in place early to support effectiveness (a coordinator has already been identified) - The performance based allocation component of the Program is designed precisely to improve vertical and horizontal coordination - There will be an annual review of performance allocations and TA to adjust as necessary. Discussions regarding potential supporting interventions will be raised sector dialogue.</td>
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<tr>
<td><strong>Medicines supply chain</strong></td>
<td><strong>Risk Management:</strong> - Two availability DLI focus on medicines with different financing streams - DLI pricing commensurate with level of government control - Performance based allocations can be used for gap filling for essential primary health care medicines - Improved forecasting, stock position visibility and reduced losses may mitigate against short-term funding variability - Indicators relevant to short term Pharmaceutical Logistics Strategic Plan proposals. - Flexibility of approach can support implementation of supply chain reform proposals - Extensive preparation phase dialogue with primary supply chain partners to agree focus of support. - Availability DLIs most at risk, and priced accordingly.</td>
</tr>
<tr>
<td><strong>Medicines supply chain</strong></td>
<td><strong>Risk Management:</strong> - Two availability DLI focus on medicines with different financing streams - DLI pricing commensurate with level of government control - Performance based allocations can be used for gap filling for essential primary health care medicines - Improved forecasting, stock position visibility and reduced losses may mitigate against short-term funding variability - Indicators relevant to short term Pharmaceutical Logistics Strategic Plan proposals. - Flexibility of approach can support implementation of supply chain reform proposals - Extensive preparation phase dialogue with primary supply chain partners to agree focus of support. - Availability DLIs most at risk, and priced accordingly.</td>
</tr>
<tr>
<td><strong>Education sector</strong></td>
<td><strong>Risk Management:</strong> - DLI focus: on council composition and activity and; role of SDEJTs in providing supportive supervision - Bank support to MinEd and SDEJTs to ensure TA and performance based allocation well defined, targeted and reviewed on annual basis for adjustment if required - Supervision by SDEJTs, and targeting of performance based allocations Coalition building between the Ministry of Finance and ministries interested in gaining greater control over district level budget allocations (health, education, public works)</td>
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**Resp:** Bank and Client  **Stage:** IMP  **Due Date:** Continuous  **Status:** In progress
### 1.2 Fiduciary Risks

<table>
<thead>
<tr>
<th>Unaccountable use of school funds</th>
<th>Rating: Substantial</th>
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<tbody>
<tr>
<td>Weak school councils and a limited participation of parents and local communities in school management, as well as lack of trained personnel handling the accounting and finance of the schools</td>
<td><strong>Risk Management:</strong> - Resources and training to strengthen school councils and more effective school supervision. - DLIs on improved school governance and supervision - Appropriate audit procedures designed to ensure effectiveness of the human resources management and financial management at the school level</td>
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<tr>
<td><strong>Resp:</strong> Bank and Client</td>
<td><strong>Stage:</strong> IMP</td>
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<tr>
<th>Poor procurement practices for medicines</th>
<th><strong>Risk Management:</strong> - Coordination with capacity development by other development partners (notably USAID for improved selection of medicines and stronger procurement practices in CMAM). - Inclusion of benchmarking for procurement prices attained in audit TORs. - Requirement that all medicines consignments paid for by the program are sampled and quality assured in laboratories the meet international quality standards, according to a protocol to be agreed, dated and incorporated in the Operations Manual.</th>
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<td>Lack of procurement monitoring and feedback provisions or data-capturing systems.</td>
<td><strong>Resp:</strong> Bank and Client</td>
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<th>Poor procurement for program financed items (other than medicines)</th>
<th><strong>Risk Management:</strong> PCT will include a procurement specialist to review and monitor program funded procurements. Capacity building available to strengthen procurement processes. - Installation of a full PCT by Program effectiveness - Full staffing &amp; continued training of UGEAs - Mandatory planning, monitoring, and reporting - Procurement plans and procurement information disclosed on Program and UFSA websites - Establishment, roll-out, and maintenance of a procurement data system - Publication of opportunities and awards of contracts on the UFSA website</th>
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<tbody>
<tr>
<td>Weak procurement practices, particularly at provincial levels and below, for use of performance based allocations.</td>
<td><strong>Resp:</strong> Bank and Client</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Leakages of medicine in the supply chain</th>
<th><strong>Risk Management:</strong> Program focuses (and DLIs) on strengthened inventory management practices, improved quality and flow of information on stock-levels and needs, and monitoring of the availability of medicines and health unit level.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Poor information management between the central, provincial and district levels of the supply chain and ad-hoc distribution of medicines from provinces to districts and health centers</td>
<td><strong>Resp:</strong> Bank and Client</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Weak F&amp;C complaint handling mechanism</th>
<th><strong>Risk Management:</strong> Strengthening of the complaints handling mechanism at sector, provincial and district levels and clear reporting responsibility collection of all these complaints and reporting</th>
</tr>
</thead>
<tbody>
<tr>
<td>While there have been successes in establishing central level framework for receiving fraud and corruption related complaints and carrying-out investigations, there is more work required to improve effectiveness of frameworks at lower levels.</td>
<td><strong>Resp:</strong> Bank and Client</td>
</tr>
</tbody>
</table>

### 1.3 Environmental and Social Risk

| Rating: Low |
**Environmental risk**  
Environmental risk limited to appropriate disposal of expired/damaged medicines - potential risks to garbage pickers, waste disposal workers, and environment (ground water, air pollution) if products not disposed of in line with good practice

Social risks low with some potential for existing disparities in service delivery to be reinforced by performance based payments if not well designed.

**Risk Management:**  
- Program should lead to reductions in the amount of pharmaceutical waste produced  
- New Norms have been developed for the proper disposal of medicines, which should be enacted during Program implementation, including training and local action plans  
- Design and award of performance based allocations to be reviewed regularly. Options include rewarding ‘most improved’ performers as well as highest levels of attainment. TA assistance components will also help to address differences in capacity.  
- Program is anticipated to have social benefits, including increase community voice (particularly for mothers) in education decision making at local levels, and improved data on service delivery performance that will allow analysis for potential geographical/population inequities.

<table>
<thead>
<tr>
<th>Resp: Bank &amp; Client</th>
<th>Stage: IMP</th>
<th>Due Date: As per Program Action Plan</th>
<th>Status: In progress</th>
</tr>
</thead>
</table>

### 1.4 Disbursement linked indicator risks

**Resistance to change and political economy challenges:**  
Program focuses on strengthening allocation, use and accountability for resources. As such it will directly engage with current institutional distribution of power and formal/informal control of resources. Shifts in these distributions will generate resistance.

**Risk Management:**  
- PforR instrument shifts risk to the Government, and incentivizes the need for strong political leadership, and consideration of potential political economy challenges  
- Approach is specifically designed to take alignment/misalignment of incentives into consideration, and provides flexibility and tools to address these issues head on  
- Program specifically focuses on engagement of change agents at the deconcentrated levels of government to drive change, backed up by performance based allocations and TA. This focus both improves ownership and is more able to navigate institutional interests at local levels.

<table>
<thead>
<tr>
<th>Resp: Client</th>
<th>Stage: IMP</th>
<th>Due Date: Continuous</th>
<th>Status: In progress</th>
</tr>
</thead>
</table>

**Data verification:**  
Effective results based management requires robust data systems capable of providing credible information on results. The current state of data raises some concerns to the completeness, timeliness, and integrity of information generated by these.

**Risk Management:**  
- Government's sensitization of the advantages of independent monitoring for improving systems.  
- Engagement of internal audit agencies in detailed verification of performance data  
- Agreement with Tribunal Administrativo for independent validation of the disbursement-linked indicators.

<table>
<thead>
<tr>
<th>Resp: Bank and Client</th>
<th>Stage: IMP</th>
<th>Due Date: Continuous</th>
<th>Status: In progress</th>
</tr>
</thead>
</table>

### 2. OVERALL RISK RATING

<table>
<thead>
<tr>
<th>Rating:</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Substantial</td>
<td></td>
</tr>
</tbody>
</table>

**Legend:** L – Low  
M – Medium  
S – Substantial  
H - High
## Annex 8: Program Action Plan

<table>
<thead>
<tr>
<th>Action description</th>
<th>DLI</th>
<th>Covenant</th>
<th>Due date</th>
<th>Responsible party</th>
<th>Completion measurement**</th>
</tr>
</thead>
<tbody>
<tr>
<td>Provide annual summary reports in respect of the capacity building activities for sector and PFM institutions to confirm that all proposals have first been jointly agreed by the relevant PFM institution and, as appropriate, by the MoE or MoH.</td>
<td>☐</td>
<td>☒</td>
<td>On-going</td>
<td>PCT, MoF</td>
<td>Summary of PFM capacity development activities and corresponding agreements provided annually.</td>
</tr>
<tr>
<td>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 &amp; safety conditions, including requirements for consultation with affected members of the public and involvement of relevant agencies in decision-making and implementation of pharmaceutical disposal activities.</td>
<td>☐</td>
<td>☒</td>
<td>On-going</td>
<td>MISAU, CMAM, MICOA, MMAS</td>
<td>Any changes in the Norms communicated to the Bank</td>
</tr>
<tr>
<td>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).</td>
<td>☐</td>
<td>☒</td>
<td>Six months after the effectiveness</td>
<td>MISAU, CMAM</td>
<td>Sample of plans provided</td>
</tr>
<tr>
<td>Provide an annual summary report detailing pharmaceutical products disposed of by facilities, their volumes, and places and methods of disposal in accordance with the Norms.</td>
<td>☐</td>
<td>☒</td>
<td>First 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</td>
<td>MISAU, CMAM, MICOA, MMAS</td>
<td>Routine reporting of expiries &amp; disposal events at the facility level to be verified as part of the Internal Audit Unit’s routine performance assessments</td>
</tr>
<tr>
<td>Provide a report detailing activities undertaken at the Recipient’s provincial and district levels to disseminate information to the</td>
<td>☐</td>
<td>☒</td>
<td>Six months after the effectiveness date and</td>
<td>PCT, IGF, IGE, IGS</td>
<td>PCT report</td>
</tr>
</tbody>
</table>
public regarding the mechanisms and procedures for complaints handling in the health and education sectors.

<table>
<thead>
<tr>
<th></th>
<th></th>
<th>annually thereafter</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
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</tbody>
</table>

Provide 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.

End of January 2015, and then ongoing

MISAU CMAM

MISAU Report
Annex 9: Implementation Support Plan

1. The implementation support plan (ISP) is based on the guidelines for Program-for-Results (PforR) operations, adapted to the design and risk profile of the Mozambique PFM for Results Program. The borrower is responsible for the Program’s overall implementation, including its technical aspects. The basic mandate for World Bank implementation support under PforR includes the following:

(a) Review implementation progress and achievement of Program results and DLIs;
(b) Provide support for resolving emerging Program implementation issues;
(c) Provide technical support to the client for implementation of the Program Action Plan, the achievement of DLIs and other results, and for institutional development and capacity development;
(d) Monitor systems’ performance to ensure its continuing adequacy through Program monitoring reports, audit reports and field visits; and
(e) Monitor changes in risks to PforR and compliance with legal agreements and, as needed, the Program Action Plan.

2. A majority of the Bank’s implementation support team members (fiduciary, safeguards, and governance and anti-corruption), including task team leaders and sector leads, are based in the Mozambique Country Office. This will ensure timely, efficient, and effective implementation support to the Program Coordination Team in the National Treasury and the sector ministries. Formal implementation support missions and field visits will be carried out semi-annually. In addition, since they are based in the country, majority of the Bank’s implementation support team will be available to provide assistance at any time over the life of the Program.

3. Experience with results-based disbursement shows many activities remain on the critical path during implementation. This requires that the Bank team is available for continuous support. The existing Bank portfolio in the health and education sectors provides well established working relationships with sector ministries.

4. The Bank team will provide training/clinics and support during Program implementation support missions, including implementation of the action plan. Bank technical implementation support will include, but not be limited to, providing relevant sample ToRs and advice on technical assistance support and capacity development proposals. Regular routine meetings between the Bank team and the Program Coordination Team, building on the pattern established during preparation, will continue.

5. The Bank will provide focused implementation support in a number of areas:

(a) Due diligence for DLIs - the Bank team will work with the Tribunal Administrativo to define and agree methodologies and reporting responsibilities for the validation DLI data.
(b) Monitoring and evaluation - the Bank team will meet periodically with the PCT to review implementation progress. This would include, but not be limited to, review of Program implementation data on:
   - Number and value of DLIs met (reflecting the PFM and sector delivery systems improvements);
- Number and value of PFM capacity development activities carried-out with a joint sign-off by sector and related PFM institution; and
- Number and value of performance based allocations defined and disbursed successfully by sector ministries.

(c) **Environmental and social** – support to ensure development and implementation of the Action Plan. Support will also be provided to analyze Program data on an annual basis to identify any emerging patterns relating to service delivery patterns (e.g. geographic distribution of benefits)

(d) **Operational procedures** - support on the design and implementation of the Program operations manual, currently in draft.

(e) **Performance based allocations** – support for annual review of performance based allocation schedules, and revision in light of sector performance (e.g. adjusting incentives to address emerging bottlenecks)

(f) **Financial management, procurement, and fraud and corruption systems** - the fiduciary team will monitor overall performance and provide tailored technical support in these areas. Specifically the team will: (i) monitor and evaluate progress of the fiduciary capacity-development packages designed and implemented by the PFM working teams; (ii) assess the efficiency of fiduciary oversight and reporting system; (iii) assess the efficiency of complaints-handling mechanisms; (iv) assess the efficiency of fraud and corruption mechanisms; and (v) monitor achievement of key fiduciary and PFM DLIs. The Bank will also review fiduciary key performance indicators semi-annually during implementation support missions, and appropriate follow-up will be undertaken when red flags arise.

6. **Mid-Term Review** - A multi-disciplinary Bank team will be deployed during the Program’s mid-term review to work jointly with the Government team. The joint review team will assess overall Program progress, Program coordination arrangements, implementation of the performance based allocation mechanism and associated disbursements, and technical assistance and capacity development activities. Recommendations will be made for necessary Program adjustments.

7. The main focus of the implementation support is summarized Table A9.1 with the skills mix required of staff in Table A9.2.

<table>
<thead>
<tr>
<th>Time</th>
<th>Focus</th>
<th>Skills Needed</th>
<th>Resource estimate</th>
<th>Partner role</th>
</tr>
</thead>
<tbody>
<tr>
<td>First 12 months</td>
<td>Technical support</td>
<td>PFM / specialist</td>
<td>6 staff weeks</td>
<td>NA</td>
</tr>
<tr>
<td>FM and procurement capacity development</td>
<td>PFM specialist</td>
<td>4 staff weeks</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sector specialists</td>
<td>Health and education</td>
<td>12 staff weeks</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Operational – FM</td>
<td>FM specialist</td>
<td>2 staff weeks</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Operational – Procurement</td>
<td>Procurement specialist</td>
<td>2 staff weeks</td>
<td></td>
<td></td>
</tr>
<tr>
<td>M&amp;E</td>
<td>Operations specialist</td>
<td>4 staff weeks</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Environment and social</td>
<td>Environment specialist</td>
<td>2 staff weeks</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Skills needed</td>
<td>Number of staff weeks annually</td>
<td>Number of trips*</td>
<td>Comments</td>
<td></td>
</tr>
<tr>
<td>--------------------------------------------</td>
<td>-------------------------------</td>
<td>-----------------</td>
<td>--------------------------</td>
<td></td>
</tr>
<tr>
<td>Task team leader</td>
<td>8</td>
<td>2-3</td>
<td>Country office based</td>
<td></td>
</tr>
<tr>
<td>Sector specialists for health and education</td>
<td>12</td>
<td>4-6</td>
<td>Country office based</td>
<td></td>
</tr>
<tr>
<td>Procurement</td>
<td>5</td>
<td>2-3</td>
<td>Country office based</td>
<td></td>
</tr>
<tr>
<td>Financial management specialist</td>
<td>2</td>
<td>1-2</td>
<td>Country office based</td>
<td></td>
</tr>
<tr>
<td>Environment specialist</td>
<td>2</td>
<td>1-2</td>
<td>Country office based</td>
<td></td>
</tr>
<tr>
<td>Social specialist</td>
<td>2</td>
<td>1-2</td>
<td>Country office based</td>
<td></td>
</tr>
<tr>
<td>Social specialist</td>
<td>4</td>
<td>2-3</td>
<td>Consultant</td>
<td></td>
</tr>
<tr>
<td>Operations specialist</td>
<td>4</td>
<td>2-3</td>
<td>Consultant</td>
<td></td>
</tr>
<tr>
<td>PFM specialist</td>
<td>4</td>
<td>2-3</td>
<td>Consultant</td>
<td></td>
</tr>
</tbody>
</table>

*All field trips are in-country to provinces and do not include travel to the country from headquarters or other countries.

Notes:
- **Table A9.2 Staff Skills Mix Required**
- **Task team leadership**
- **Task team leaders**
- **US$180,000**
- **US$150,000 per annum**
Annex 10: Development Partner Support to PFM Reforms in Mozambique

1. The Ministry of Finance is the central government institution in charge of public finances, and also coordinates and controls the implementation of the SISTAFE law, and roll out and operation of the e-SISTAFE system. The Ministry is organized in directorates, which include the General Inspectorate of Finances (IGF), responsible for internal audit; the National Treasury Directorate (DNT); the National Budget Directorate (DNO); the Public Accounts Directorate; and the National Patrimony Directorate. A new Directorate, since 2010, is devoted to social providence. The Ministry of Finance is represented in each province by a Provincial Directorate of Planning and Finance.

2. The Ministry of Planning and Development (MPD) is responsible for managing the planning cycle of the Government. It is the responsible ministry for the preparation of the Government Five-Year Plan, the Poverty Reduction Strategy (PARP), the Medium-Term Expenditure Framework, and the Annual Social and Economic Plan. MPD’s primary objective is to ensure an integrated process of planning and budgeting. During 2007-2009 a proposal for a formal “planning law” was formulated and submitted to the Council of Ministers. Thus, the work of MPD respects the need to have a single process and cycle of planning centered on the PARP, mid-term fiscal framework, and the Orçamento do Estado (State Budget) – the key processes of medium-term planning and budgeting in Mozambique.

3. PFM improvement has been a cornerstone of reforms toward good governance and sound macroeconomic management under the Poverty Reduction Strategy (PARP). PFM reforms have led improvements, and these are reflected in Public Expenditure and Financial Accountability (PEFA) indicators from 2006 to 2008 and 2010. These PFM improvements have broad, including multi-year planning, annual budgeting, procurement, accounting, internal controls, auditing, and public access to key fiscal information. SISTAFE legislation (2002), along with new PFM policies and procedures, provided a solid foundation for the PFM structure. A PFM IT platform - e-SISTAFE - has also been progressively rolled out. PFM reforms have had particular impact in supporting macroeconomic management through the expansion of these systems, as well as by increasing the coverage and efficiency of internal and external audit bodies. Success in using a medium-term expenditure framework (MTEF) as the basis for sectoral budget allocations supporting programmatic implementation of PARP has been limited. However, considerable progress has been made in rolling out and expanding the functionality of e-SISTAFE. The system now covers budget preparation, budget execution and reporting of expenditures. A Treasury Single Account (Conta Única do Tesouro) has also been introduced for efficient treasury management. The capacities of the Supreme Audit Institution (Tribunal Administrativo), the internal oversight coordinating body (Inspecção Geral das Finanças), and the procurement regulatory agency (UFSA) have all been increased.

4. The PFM Vision 2011-2015 and Action Plan consolidate and set future direction for PFM reform. The PFM Vision was developed to provide guidance for PFM Reform over the next 10-15 years. It includes a broad outline of the challenges and lessons learned from previous reforms. It builds on extensive consultations, diagnostics and technical assessments to set out the main strategic objectives to be achieved by the different components of the budget cycle. The Vision
2012. The Government has a comprehensive PFM reforms program\textsuperscript{115} in place to support the implementation of the PFM Vision. A total of 19 donors are providing US$157 million over a five-year period (2010-2014) in coordinated support to PFM reforms and capacity development. This support covers many areas of PFM at the central level, including planning, budgeting, public procurement, revenues, accounting, and auditing (Table A10.1). However, this support does not focus on the implementation of PFM reforms in sectors, provinces and districts. The primary mechanisms for this support are common funds/joint financing to support key central agencies, including CEDSIF, Tribunal Administrativo, Inspectorate General of Finance (IGF), Tax Authority (Autoridade Tributária), and MPD (Table A10.2). Partners ensure harmonization through participation in a PFM coordination working group, assisted by five thematic sub-working groups.\textsuperscript{116}

Table A10.1 Program Financing Plan

<table>
<thead>
<tr>
<th>Source</th>
<th>Amount (US$)</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>IDA/World Bank</td>
<td>18,704,436</td>
<td>11.88</td>
</tr>
<tr>
<td>EC</td>
<td>12,472,895</td>
<td>7.92</td>
</tr>
<tr>
<td>IMF</td>
<td>2,000,000</td>
<td>1.27</td>
</tr>
<tr>
<td>UNICEF</td>
<td>734,000</td>
<td>0.47</td>
</tr>
<tr>
<td>UNDP</td>
<td>4,522,885</td>
<td>2.87</td>
</tr>
<tr>
<td>Portugal</td>
<td>682,708</td>
<td>0.43</td>
</tr>
<tr>
<td>Norway</td>
<td>17,608,730</td>
<td>11.18</td>
</tr>
<tr>
<td>Denmark</td>
<td>27,308,778</td>
<td>17.34</td>
</tr>
<tr>
<td>Sweden</td>
<td>25,479,000</td>
<td>16.18</td>
</tr>
<tr>
<td>DFID</td>
<td>5,657,780</td>
<td>3.59</td>
</tr>
<tr>
<td>Italy</td>
<td>1,926,694</td>
<td>1.22</td>
</tr>
<tr>
<td>USAID</td>
<td>4,152,000</td>
<td>2.64</td>
</tr>
<tr>
<td>Switzerland</td>
<td>5,065,500</td>
<td>3.22</td>
</tr>
<tr>
<td>Germany</td>
<td>13,320,600</td>
<td>8.46</td>
</tr>
<tr>
<td>Belgium</td>
<td>9,213,680</td>
<td>5.85</td>
</tr>
<tr>
<td>Finland</td>
<td>3,195,000</td>
<td>2.03</td>
</tr>
<tr>
<td>Netherlands</td>
<td>3,782,308</td>
<td>2.40</td>
</tr>
<tr>
<td>Ireland</td>
<td>1,348,687</td>
<td>0.86</td>
</tr>
<tr>
<td>France</td>
<td>301,000</td>
<td>0.19</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>157,476,081</strong></td>
<td><strong>100.00</strong></td>
</tr>
</tbody>
</table>

Table A10.2 Mozambique PFM Reforms Program

<table>
<thead>
<tr>
<th>Activity</th>
<th>Amount (US$)</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>SISTAFE common fund</td>
<td>35,874,526</td>
<td>22.78</td>
</tr>
<tr>
<td>IGF common fund</td>
<td>15,887,720</td>
<td>10.09</td>
</tr>
<tr>
<td>National decentralized planning and finance program</td>
<td>18,266,285</td>
<td>11.60</td>
</tr>
<tr>
<td>Tribunal Administrativo common fund (External audit)</td>
<td>24,200,653</td>
<td>15.37</td>
</tr>
</tbody>
</table>

primarily sets out principles and high-level goals, rather than detailed objectives and costing. Operational or Action Plans have been developed by different government departments at central level to implement specific PFM components.\textsuperscript{115} There is no single document detailing all of the elements of the PFM reform program. However, the SISTAFE legislation provides the overarching framework. The PFM Vision 2011 – 2025, now approved, provides additional detail on goals, principles, processes and indicators.\textsuperscript{116} Budget Analysis WG, e-SISTAFE WG, Procurement WG, Audit WG, on-CUT WG and a Public Sector WG. In addition, there are separate PFM working groups for health and education sectors.
<table>
<thead>
<tr>
<th>Element of the Overall PFM Reforms</th>
<th>Budget Allocation</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>The SISTAFE Common Fund</strong></td>
<td></td>
</tr>
<tr>
<td>supports CEDSIF to establish a sustainable, modern, efficient, effective, and transparent PFM system, where the preparation and execution of the state budget are aligned with the Government's priority of reducing poverty. The common fund supports the SISTAFE action plan and budget to improve the e-SISTAFE system and support e-tributação. This includes: (i) organizational and human resources development; (ii) development of the PFM systems; (iii) improvement of sector PFM practices. Financing has included support for civil works, goods and equipment, training, and workshops.</td>
<td></td>
</tr>
<tr>
<td><strong>Institutional support to the Inspectorate General of Finance Strategic Plan 2009-2013.</strong></td>
<td></td>
</tr>
<tr>
<td>The main objective of the program is to improve IGF performance in order to fulfill its role as the superior internal audit and control institution. Support is also provided to AMAI (Mozambican Association of Internal Auditors).</td>
<td></td>
</tr>
<tr>
<td><strong>The National decentralized planning and finance program</strong></td>
<td></td>
</tr>
<tr>
<td>supports the Ministry of Planning and Development to build capacity in 128 district governments country-wide. Particular focus is given to district planning and finance systems. The program also supports district audits by the Tribunal Administrativo.</td>
<td></td>
</tr>
<tr>
<td><strong>Tribunal Administrativo Common Fund.</strong></td>
<td></td>
</tr>
<tr>
<td>The main objective of this Fund is to improve the Tribunal Administrativo’s performance as the country’s supreme audit institution. This fund supports implementation of the Administrative Tribunal Corporate Plan (PLACOR) 2009-2013.</td>
<td></td>
</tr>
<tr>
<td><strong>Taxation Common Fund.</strong></td>
<td></td>
</tr>
<tr>
<td>Contributes to key expenditures for tax administration reform, with a focus on financing technical assistance and capacity development in planning, budgeting, project management and financial management, including procurement. The Government of Norway also provides complementary assistance to increase the capacity of the Autoridade Tributária with respect to auditing of international petroleum companies, particularly their exploration costs. The objectives of the Fund are: to increase of sustainable revenue collection; modernize and strengthen the tax administration; and develop information technology to improve management of taxation processes. This Fund also supports CEDSIF activities for implementation of the e-SISTAFE tax module.</td>
<td></td>
</tr>
<tr>
<td><strong>Municipal Finance.</strong></td>
<td></td>
</tr>
<tr>
<td>The Bank financed Cities Project provides support to all 42 municipalities to strengthen of their FM and procurement systems. Three other donors (Switzerland, Austria and Denmark) also provide support to 13 municipalities. In addition to building financial monitoring at the central level with the Ministry of Administration and Establishment, support is provided to implement computerized accounting systems at municipality level, strengthen FM staffing, and improve municipality audit.</td>
<td></td>
</tr>
</tbody>
</table>
11. **Program Support for the Public Procurement System** supports organizational development for UFSA and UGEA to improve monitoring, supervision, and statistical capacity. The program has been piloted initially in the education sector. DFID is currently preparing support for this program.

12. **Support to PFM Reform Phase II, Parliament Oversight in Mozambique Project.** Funded by UNDP, with the objective that Parliament becomes more effective in conducting its executive oversight function including: establishing project management, support, and M&E structures; and enabling effective oversight for major national development programs. This Project has supported training to members of Parliament in oversight and monitoring of government activities.

13. **Other elements of reform**, the Bank also supports ongoing technical assistance for accountancy profession development, adoption of International Financial Reporting Standards, and improving regulatory environment for public enterprises and public investment management.

**PEFA Scores and Progress**

**Table A10.1: Mozambique PEFA Score 2006, 2008 and 2010**

<table>
<thead>
<tr>
<th>INDICATOR</th>
<th>2006 Score (a)</th>
<th>2008 Score (b)</th>
<th>2010 Score (c)</th>
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<td><strong>A. PFM OUT-TURNS: Credibility of the Budget</strong></td>
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<td>PI-1</td>
<td>Aggregate expenditure out-turn compared to original approved budget</td>
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<td>PI-2</td>
<td>Composition of expenditure out-turn compared to original approved budget</td>
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<td>PI-3</td>
<td>Aggregate revenue out-turn compared to original approved budget</td>
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<td>PI-4</td>
<td>Stock and monitoring of expenditure payment arrears</td>
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<td><strong>B: KEY CROSS-CUTTING ISSUES: Comprehensiveness and Transparency</strong></td>
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<td>PI-5</td>
<td>Classification of the Budget</td>
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<td>PI-6</td>
<td>Comprehensiveness of information included in budget documentation</td>
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<td>PI-7</td>
<td>Extent of unreported government operations</td>
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<td>PI-8</td>
<td>Transparency of inter-governmental fiscal operations</td>
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<td>Oversight of aggregate fiscal risk from public sector entities</td>
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<td>PI-10</td>
<td>Public access to key fiscal information</td>
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<td><strong>C: BUDGET CYCLE</strong></td>
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<td>C(i) Policy-based Budgeting</td>
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<td>Orderliness and participation in the annual budget process</td>
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<td>C(ii) Predictability and Control in Budget Execution</td>
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<td>Multi-year perspective in fiscal planning, expenditure policy and budgeting</td>
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<td>Transparency of tax-payers’ obligations and liabilities</td>
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<td>Effectiveness of measures for tax-payer registration and tax assessment</td>
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<td>Effectiveness in collection of tax payments</td>
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<td>Recording and management of cash balances, debt and guarantees</td>
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<td>Effectiveness of payroll controls</td>
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<td>Competition, value for money and controls in procurement</td>
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<td>Effectiveness of internal controls for non-salary expenditure</td>
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<td>Effectiveness of internal audit</td>
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<td><strong>C(iii) Accounting, Recording and Reporting</strong></td>
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<td>PI-23</td>
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<td>Quality and timeliness of in-year budget reports</td>
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<td>Quality and timeliness of annual financial statements</td>
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<td>Legislative scrutiny of the annual budget law</td>
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<td><strong>D. DONOR PRACTICES</strong></td>
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<td>Predictability of Direct Budget Support</td>
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<td>Financial information provided by Donors for budgeting and reporting on</td>
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<td>Proportion of aid that is managed by use of national procedures</td>
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