PROJECT PAPER

ON A

PROPOSED ADDITIONAL FINANCING

AND

PROJECT RESTRUCTURING

IN THE AMOUNT OF US$ 17.7 MILLION

TO THE

DEMOCRATIC REPUBLIC OF TIMOR-LESTE

FOR

THE HEALTH SECTOR STRATEGIC PLAN SUPPORT PROJECT

January 24, 2013

Human Development Sector
East Asia and Pacific Region

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CURRENCY EQUIVALENTS

(Exchange Rate Effective July 26, 2012)

Currency Unit = US$

AUD 1 = US$ 1.0259
US$ 1 = AUD 0.9747
EUR 1 = US$ 1.2107
US$ 1 = EUR 0.8260

FISCAL YEAR

January 1 – December 31

ABBREVIATIONS AND ACRONYMS

AF Additional Financing
AUD Australian Dollar
AusAID Australian Agency for International Development
BETF Bank Executed Trust Fund
BSP Basic Service Package
DHS Demographic and Health Survey
EU European Union
EUR Euro
FM Financial Management
GA Grant Agreement
GGE General Government Expenditure
GoTL Government of Timor-Leste
HMIS Health Management Information System
HSSP Health Sector Strategic Plan 2008-2012
HSSP-SP Health Sector Strategic Plan Support Project
IDA International Development Association
IFR Interim Financial Reports
INS National Health Institute (Instituto Nacional de Saúde)
MDGs Millennium Development Goals
MDTF Multi-Donor Trust Fund
M&E Monitoring and Evaluation
MoF Ministry of Finance
MoH Ministry of Health
MTR Mid Term Review
NHSSP National Health Sector Strategic Plan 2011-2030
NHSSP-SP National Health Sector Strategic Plan Support Project
ORAF Operational Risk Assessment Framework
PDO Project Development Objective
PFM Public Financial Management
PSC  Project Steering Committee
RETF  Recipient Executed Trust Fund
SAMES  Central Medical Stores (*Serviço Autónomo de Medicamentos e Equipamentos de Saúde*)
SDR  Special Drawing Rights
SISCa  Integrated Community Health Services (*Sistema Integrado de Saúde Comunitária*)
US$  United States Dollar
WB  World Bank

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<th>Name</th>
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<tr>
<td>Vice President:</td>
<td>Ulrich Zachau (Acting)</td>
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<tr>
<td>Country Director:</td>
<td>Franz R. Drees-Gross</td>
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<td>Country Manager</td>
<td>Luis F. Constantino</td>
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<tr>
<td>Sector Manager:</td>
<td>Toomas Palu</td>
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<td>Task Team Leader:</td>
<td>Yi-Kyoung Lee</td>
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DEMOCRATIC REPUBLIC OF TIMOR-LESTE

HEALTH SECTOR STRATEGIC PLAN SUPPORT PROJECT

ADDITIONAL FINANCING AND RESTRUCTURING DATA SHEET

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<tr>
<td>Country Director: Franz R. Drees-Gross</td>
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<td>Sector Manager/Director: Xiaoqing Yu/Toomas Palu</td>
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<td>Team Leader: Yi-Kyoung Lee</td>
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<tr>
<td>Recipient: Democratic Republic of Timor-Leste</td>
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<tr>
<td>Responsible Agency: Ministry of Health</td>
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<tr>
<td>Contact Person: Dr. Sergio G.C. Lob., Minister of Health</td>
</tr>
<tr>
<td>Telephone No.: 670-332-2467</td>
</tr>
<tr>
<td>Fax No.: 670-332-5189</td>
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<tr>
<td>Email: <a href="mailto:minister@moh.gov.tl">minister@moh.gov.tl</a></td>
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<th>AF Estimated Disbursements (Bank FY/US$m)</th>
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**Project Development Objective and Description**

| Original project development objective (PDO): The overall objective of the project is to improve the quality and coverage of preventive and curative health services, particularly for women and children, in order to accelerate progress toward the health MDGs.  
Revised PDO: The revised PDO is to support Government of Timor-Leste to get more resources to where they are needed most to improve the delivery of health services in districts and sub-districts. |
|---|
| **Project description:**  
- Component 1. Improving Public Financial Management and Fund Flows for Service Delivery  
- Component 2. Strengthening Pharmaceutical and Medical Supplies Management  
- Component 3. Improving Evidence-Informed Decision Making and Health Sector Coordination |

**Safeguard and Exception to Policies**

| Safeguard policies triggered:  
Environmental Assessment (OP/BP 4.01)  
Natural Habitats (OP/BP 4.04)  
Forests (OP/BP 4.36)  
Pest Management (OP/BP 4.09)  
Physical Cultural Resources (OP/BP 4.11)  
Indigenous Peoples (OP/BP 4.10)  
Involuntary Resettlement (OP/BP 4.12)  
Safety of Dams (OP/BP 4.37)  
Projects on International Waterways (OP/BP 4.50)  
Projects in Disputed Areas (OP/BP 4.60)  |
|---|
| [ ] Yes  
[ x ] No |

| Is approval of any policy waiver sought from the Board (or MD if RETF operation is RVP approved)?  
Has this been endorsed by Bank Management?  
Does the project require any exception to Bank policy?  
Has this been approved by Bank Management? |
|---|
| [ x ] Yes  
[ ] No |

**Conditions and Legal Covenants:**

| Financing Agreement Reference  
Article Section 1.02  
Article Section 1.02  
Article Section 1.02 |
| Description of Condition/Covenant  
Revised Project Operations Manual  
Recruitment of four key staff positions within MoH: (i) a qualified financial management and budget specialist; (ii) a qualified procurement specialist; (iii) a qualified Project Accountant; and (iv) a partnership management specialist  
Establishment of the Project Steering Committee |
| Date Due  
February 28, 2013  
February 28, 2013  
Completed |
I. INTRODUCTION

1. The Project Paper (PP) presents an Additional Financing in the amount of US$ 17.7 million, through a multi-donor trust fund (MDTF) for the Timor Leste Health Sector Strategic Plan Support Project (P104794; Grant No. H343-TP/TF091653). In accordance with OP/BP 13.20 (para.3), as the source of financing is a trust fund, additional financing which also constitutes a new commitment is approved according to provisions of OP 14.40, Trust Funds. In accordance with OP 14.40 and East Asia and the Pacific Regional Procedures, the additional financing from the MDTF to the aforementioned Project has been approved by the East Asia and the Pacific Regional Vice President. In addition, this PP seeks approval of the Executive Directors of a restructuring comprising of: (i) revision to the project name; (ii) revision of the Project Development Objective (PDO); (iii) modification of the project components and scope of work; (iv) revision of the results framework to measure the outcomes associated with the revised PDO and scope of work; (iv) adjustment to the implementation arrangements; and (v) extension of the project closing date from June 30, 2013 to June 15, 2015.

2. The European Union (EU) and Australian Agency for International Development (AusAID) have contributed to the MDTF an additional EUR 8.3 million (approximately US$ 10.0 million) and AUD 10.7 million (approximately US$ 11.0 million) respectively to cover the additional grant.

II. BACKGROUND AND RATIONALE FOR ADDITIONAL FINANCING IN THE AMOUNT OF US$ 17.7 MILLION

A. Country Context

3. After emerging from a long struggle for independence and internal conflicts between 1999 and 2006, Timor-Leste has seen rapid economic growth especially in the past few years, although it is beginning to face inflationary pressure. Fiscal policy continues to be highly expansionary in order to meet development needs, including a 45 percent increase in spending for 2011 compared to 2010. Petroleum receipts in 2010 were strong, and Petroleum Fund savings are now over $8.7 billion (over ten times non-oil Gross Domestic Product (GDP) in 2010), providing a buffer against potential economic shocks. Timor-Leste is now a lower-middle income country. Gross National Income (GNI) per capita was US$1,980 in 2009, GDP growth averaged 8.9 percent from 2007-2010. Medium-term economic prospects are strong, and hinge not only on the quantity, but also the quality of government spending.

4. Despite efforts by the Government of Timor-Leste (GoTL) and Development Partners (DPs), human development outcomes remain low. Timor-Leste ranks 147th out of 187 countries on the United Nations Development Program Human Development Index for 2011.

1 Out of approximately US$ 20.2 million after 1% central unit cost recovery and 2.92% management unit cost recovery, US$ 17.7 million will be used to finance RETF and US$ 2.5 million to finance two BETFs: (i) US$ 1.0 million for analytical and advisory activities; and (ii) US$ 1.5 million for implementation support.

2 Petroleum Fund balance is set to increase from US$6.9 billion in 2010 to US$10.9 billion by the end of 2016 (MoF, State Budget 2012 Overview)

3 World Bank World Development Indicators, accessed 4/2/2012

4 United Nations Human Development Index 2011
Performance on key socioeconomic indicators lags behind that of other low-income countries, and progress toward meeting the Millennium Development Goals (MDGs) by 2015 is mixed. The most recent assessment suggests that Timor-Leste will likely meet MDGs 2 (achieve universal primary education), 3 (promote gender equality and empower women), and 4 (reduce child mortality), but may not meet MDGs 1 (eradicate extreme poverty and hunger), 5 (improve maternal health), 6 (combat HIV/AIDS, Malaria and other Diseases), and 7 (ensure environmental sustainability) unless further concerted effort is made on these specific issues.

B. Sector Context

5. Over the past decade, the health sector has made steady and significant progress in re-establishing most of the health centers badly damaged during the struggle for independence, and in rebuilding a system for delivery of health services. This has resulted in significant improvements in health service coverage and health status. However, the sector continues to face many challenges. Key resources, such as money, health workers, and supplies have been inadequate, poorly allocated, and managed. The MoH, with support from partners, is working under the vision of the NHSSP to face the key challenges described below.

6. Health status: Timor-Leste’s progress toward the health MDGs is mixed. Under-five child mortality fell from 83 per 1,000 live births in 2003 to 64 per 1,000 live births in 2009/2010, driven largely by the decline in the infant mortality which fell from 60 to 45 per 1,000 live births during the same period. However, childhood nutritional status has not improved, reflecting the significant and complex challenges that remain: the prevalence of underweight among children under five has increased from 41.5 percent to 45.3 percent and stunting from 54.8 percent to 57.7 percent from 2003 to 2009/2010. Also, the maternal mortality ratio declined marginally from 660 per 100,000 live births in 2003 to 557 per 100,000 in 2009. There has been no improvement in malaria indicators. According to the World Health Organization (WHO), there were 43 reported malaria cases per 1,000 population in 2010 compared to 47 per 1,000 in 2008. There were 151 newly reported HIV infections between 2000 and 2009. Non-communicable diseases (e.g. hypertension and diabetes) are also placing an increasing burden on health services.

7. Demand for, and access to, health services: Demand (access and utilization) for health services varies considerably across the country, but it remains weak in general. In 2009/10, 30 percent of births were assisted by a skilled birth attendant. Facility-based deliveries increased from 10 percent in 2003 to 22 percent in 2009/10 with a large disparity of skilled deliveries between rural and urban areas.

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7 WHO’s Global Health Observatory
8 DRTL UNGASS 2010 report as referenced in DHS 2009/10
9 Timor-Leste: Health Financing Note, World Bank 2011 (based on a range of secondary data sources)
10 DHS 2003; DHS 2009/2010
8. **Health financing:** Improvements in service delivery and gains in health status have been achieved through relatively high per capita total health expenditure (US$57 in 2010)\(^{11}\). The share of public health expenditures as a percentage of general government expenditure (GGE) has been declining in recent years: around ten percent of GGE in 2002-2003 to 3.5 percent in 2011\(^{12}\). This is due in part to the government’s changing priorities away from the health sector and toward the development of core state infrastructure. This is small compared to regional peers spending 7-24 percent of GGE on health\(^{13}\). Government spending accounted for 55.8 percent of total health expenditure (THE), followed by external sources, constituting about a third of THE\(^{14}\). Recent and forecast health spending is concentrated on expansion and rehabilitation of hospital capital works projects. The share of goods and services has been decreasing in recent years from about 59 percent in 2008 to 30 percent in 2012. Salaries increased from 20 percent in 2008 to 35 percent in 2012\(^{15}\).

9. **Human resources for health** (HRH): Timor-Leste suffers from a limited number of skilled health professionals. Health workers are distributed inequitably across the country, ranging from 0.54 skilled health workers per 1,000 populations in Ermera to 1.89 per 1,000 populations in Dili. Since independence, efforts have been made to build a health workforce, while also establishing national training institutions to cater for HRH needs. Management skills, essential for improving the efficiency and effectiveness of service delivery across the health sector, are extremely weak. As a result, health workers often experience unfavorable conditions such as poor equipment, shortages in drug supplies, limited access to transportation, among others, resulting in low motivation and inability to provide quality health care. Timor Leste will not suffer from a critical shortage of qualified health workers with the imminent - and massive - inflow of new doctors in 2013, but the deployment of new doctors across the country will test HRH strategies and management capacity.

10. **Pharmaceutical and medical supplies management:** While some progress is being made in the storage and distribution of supplies, including implementing a new warehouse management system at Servico Autónomo de Medicamentos e Equipamentos de Saúde (SAMES, Central Medical Store), gaps remain in logistics and supply chain management. The significant increase in doctors over the next couple of years, with the graduation of over 900 medical students, together with increased dispensing of drugs through integrated community based health delivery is also expected to increase the use of pharmaceuticals dramatically and place a further strain on the already very limited pharmaceutical and medical supplies budget.

C. **Contribution to Higher Level Objectives**

11. The recently released government’s Strategic Development Plan (SDP) 2011-2030 aims to “transition Timor-Leste from a low income to upper middle income country, with a healthy, well educated, and safe population by 2030”. The SDP is aligned with the MDGs and clearly states that “the Timor-Leste Constitution imbeds medical care as a fundamental right for all

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\(^{11}\) WHO estimates of National Health Accounts 2012 estimated at exchange rate. US$ 84 at PPP.
\(^{13}\) WHO estimates and actual National Health Accounts for 2010
\(^{14}\) WHO estimates and actual National Health Accounts for 2010
\(^{15}\) Ministry of Health
citizens and imposes a duty on the government to promote and establish a national health system that is universal, general, free of charge and, as far as possible, decentralized and participatory”.

12. The restructured project is based on the MoH’s NHSSP 2011-2030 which links to the SDP. By contributing to improved management and delivery of resources to where they are most needed to improve service delivery in the health sector, the restructured project will support the government’s efforts to achieve selective areas of broader development goals to build the human capital needed for a prosperous country.

13. Similarly, the project will contribute to the higher level development objectives outlined in the respective NHSSP-SP partners’ strategies, including: (i) the EC’s policies and objectives for development assistance in Timor-Leste; (ii) AusAID’s Country Strategy for Timor-Leste; and (iii) the Bank’s Country Partnership Strategy (CPS) FY13-FY17 for Timor-Leste (currently in draft). The restructured project will directly contribute to two strategic areas: (a) fostering social capital development to improve lives through education, health and nutrition; and (b) strengthening institution for quality of spending and inclusive service delivery.

D. Original Project Background and Performance

14. The project, financed by an IDA Grant of SDR 0.64 million (approximately US$ 1.0 million) and an MDTF of AUD 23.0 million (approximately US$ 21.0 million of which US$ 20.0 million is available for the recipient-executed trust fund (RETF)), was approved on December 13, 2007 and became effective on June 17, 2008. A Level Two Restructuring was approved on March 5, 2012 to: (i) increase the allocation available for the RETF from US$ 15.7 million to US$ 20.0 million; and (ii) include Operating Costs, as an eligible expenditure in the Financing and Grant Agreements. As of November 19, 2012, SDR 0.53 million (US$ 0.80 million) from the IDA Grant and US$ 15.44 million from the RETF has been disbursed (approximately 77.5%).

15. The current rating for progress towards achievement of the PDO is ‘moderately satisfactory’. There have been notable positive trends in performance indicators from the Demographic and Health Survey (DHS 2009/2010) and the Health Management Information System (HMIS). The proportion of children aged 12-23 months who have received DPT3 increased from 56 percent in 2003 to 66 percent in 2009/2010, and measles vaccination from 47 percent in 2003 to 68 percent in 2009/2010. The proportion of births attended by skilled health personnel has increased from 19 percent in 2003 to 30 percent in 2009/2010 (see details in Annex 1). The project has: (i) supported direct delivery of health services in approximately 450 communities per month through the MoH’s outreach services, known as the Integrated Community Health Services, or Sistema Integrado de Saúde Comunitaria (SISCa); (ii) improved health infrastructure by rehabilitating and upgrading the Central Medical Stores warehouse, or Serviço Autônomo de Medicamentos e Equipamentos de Saúde (SAMES), the National Health Institute or Instituto Nacional de Saúde (INS), and three health posts; (iii) provided information and communication equipment and solar panels for a range of health facilities; (iv) increased

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16 In order to manage exchange rate risks, the initial RETF allocation was set at US$ 15.7 million in the Grant Agreement (GA).

17 To improve the quality and coverage of preventive and curative health services, particularly for women and children, in order to accelerate overall progress toward the health Millennium Development Goals.
health workforce capacity through a variety of short- and long-term training and professional development opportunities, including the provision of over 100 international scholarships, training of over 120 nurses and midwives, and reintegration training of over 500 returning medical students from Cuba and other places where they have received training; and (v) improved storage and distribution of pharmaceutical and medical supplies through direct funding for these medical inputs and installation of a new warehouse management system.

16. **Project implementation** has been slow overall. This project has been implemented through MoH departments, rather than by a dedicated Project Implementation Unit. While this reflects a more integrated and mainstreamed approach to development assistance in the sector, the pace of implementation was affected by limited institutional and implementation capacity within the MoH. For example, the MoH had difficulties: (i) nominating a focal point(s) to facilitate implementation of project activities which required close coordination and collaboration among departments in the MoH, the SAMES, and the INS; and (ii) strengthening in-house capacity in procurement and financial management. Over the past year, increased efforts have been made to address these issues, including the appointment of several key staff to improve project management, the establishment of a Project Steering Committee (PSC), and stronger in-country implementation support from the Bank.

17. **Compliance with covenants**: All covenants under the Financing and Grant Agreements have been complied with. All audits and interim financial reports have been submitted and accepted by the Bank, and there are no qualified audits. While ineligible expenditures have been identified during FM reviews, the MOH is taking the necessary actions to address these.

18. **Alternatives to additional financing**: After considering different options to address underperformance of the project, the government and its development partners agreed that major restructuring with additional funding from MDTF is the best option rather than: (i) restructuring only; or (ii) (partially) canceling the original project and preparing a new project. The first option is not feasible as almost 80 percent of the funding has already been disbursed and thus the original project cannot finance the activities under the proposed restructuring such as the development of resource management systems and internal capacity building for managing these systems. A new project would look similar to the proposed restructured project with emphasis on basic system strengthening but would require additional time which would create a gap in financing for the new government during this critical transition period.

III. **PROPOSED CHANGES**

19. **Change of project name**: As the HSSP 2008-2012 is being replaced by the NHSSP 2011-2030, the project will be renamed the NHSSP-Support Project (NHSSP-SP).

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18 MOH has addressed ineligible expenditures resulting from incorrect and incomplete withdrawal applications. The newly recruited Project Accountant is compiling the payment and claims of potential expenditures that cannot be covered by the Project such as the allowances and salary top-ups of some civil servants. The Ministry has agreed to review transactions and prepare the list of ineligible expenditures with a time bound action plan to address all of these.
20. **Amendment of the PDO:** The initial PDO: “to improve the quality and coverage of preventive and curative health services, particularly for women and children, in order to accelerate progress toward the health millennium development goals (MDGs)” was broad, but reflected the initial intention of using the MDTF as a sector financing instrument under a sector wide approach. However, the initial design has proven too complex, and the scope of the project has been restructured to provide more targeted support under the MoH’s roadmap for one sector plan, one budget and one monitoring and evaluation (M&E) framework. The restructured project will target system and resource management issues that underpin improved health service delivery at the district level, where the majority of the Timorese population lives. Thus, it is proposed that the PDO be amended to: “support the Government of Timor-Leste to get more resources to where they are needed most to improve the delivery of health services in districts and sub-districts”.

21. **Modification of the project components and scope of work:** The restructuring discussions agreed to focus on the system and resource management issues that will ultimately improve primary health care services in districts and sub-districts. The following changes are proposed (details in Annex 2):

- **Component 1. Improving Public Financial Management and Fund Flows for Service Delivery:** (i) strengthening the MoH’s planning and budgeting; (ii) advocating for an increased overall health budget allocation; and (iii) increasing flexible and innovative funding for district service delivery;

- **Component 2. Strengthening Pharmaceutical and Medical Supplies Management:** (i) strengthening the clinical and logistics management capacity of the health sector; (ii) strengthening regulatory capacity of the health sector; and (iii) improving quality control; and

- **Component 3. Improving Evidence-Informed Decision Making and Health Sector Coordination:** (i) developing and using an agreed sector M&E framework to assess performance across the health sector; (ii) institutionalizing health sector coordination; and (iii) strengthening research capacity.

22. Guiding the restructured project is the NHSSP ‘roadmap’ to improve public financial management (PFM) for improved service delivery. This sets out sequenced milestones to be achieved by 2015. Once basic PFM capacity is achieved, the funding under NHSSP-SP will move from being fully input-based to being increasingly based on outputs and performance against annual activity plans. District Health Teams will receive additional flexible funding to implement the activities in the annual district implementation plan. The intention is to help strengthen and increase the use of country systems in a way that keeps a strong focus on improving service delivery and related health system performance.

23. Specific assistance for the hospital services package and related proposed twinning arrangements were removed as there had been very little progress in these areas and other development partners are providing support for a range of clinical services. However, it was agreed that hospital staff would have access to, and benefit from, the management and related training activities provided under each of the components of the restructured project. It was also recognized that AusAID is working with the MoH on future clinical services support through a separate funding arrangement.
24. Support for infrastructure and human resources development (i.e. long-term scholarships, and training support for new nurses, midwives and doctors) was also removed from the project as there are now funds available from other sources for these activities, most notably the government’s recently established Human Capital and Infrastructure Funds, but also from other development partners. Procurement of medical equipment, except for items already under purchase, was also removed as this will be supported by other development partners.

25. **Amendment to the project’s performance indicators:** The project’s performance indicators are amended to align with the revised scope of work and the NHSSP (refer to Annex 1).

26. **Adjustment of the implementation arrangements:** The MoH will continue to have primary responsibility for implementation of NHSSP-SP, including procurement, disbursement, and FM. The decision made by the MoH and DPs in 2008 not to have a dedicated Project Implementation Unit has highlighted the need for stronger management capacity within the MoH and more substantive and regular implementation support from the Bank. The following has been agreed upon:

   - **Implementation arrangements.** A dedicated NHSSP-SP Management Team has been created within the MoH, headed by the Project Portfolio Manager in the Directorate of Policy, Planning, and Cooperation under the overall guidance of the PSC. The MoH has recruited an Assistant Project Manager and a Project Management Specialist;
   
   - **Management of fiduciary issues.** The MoH has recruited a more experienced Project Accountant which will expedite and improve the submission of interim financial reports (IFRs) and project audit reports. The MoH has hired a Procurement Specialist who will be responsible for processing all procurement activities under the NHSSP-SP (including assisting SAMES in its procurement process). The Procurement Advisor has been retained and is being paid under the MoH budget, and will continue to support MOH in procurement capacity building and oversight; and
   
   - **Management of technical assistance.** Recent recommendations of the MoF and the Global Fund speak to the need for reforming areas related to capacity development and the use of technical assistance, which will require a decision from the MoH and key health sector partners in order to guide future approaches to technical assistance in the sector, and build capacity for managing the reform process.

27. Responsibility for implementation of project-financed activities will rest with the line departments of the MoH, the District Health Teams, and units within SAMES and INS. In order to support the implementation of project activities and build capacity more systematically, the MoH will engage short- and long-term technical assistance when needed. In addition, financing partners have agreed on the need for stronger implementation support throughout NHSSP-SP. AusAID, EC and the Bank will ensure adequate resources are invested in implementation

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19The Project Manager will be supported by a Project Management Specialist knowledgeable about Bank Operations Guidelines and an Assistant Project Manager. The Project Management Team will also be supported by the Project Account and Procurement Specialist.

20 The MoF recently released a report "Reforming the Approach to Technical Assistance in Timor-Leste: Review of Current Practice and Options for Reform", which will be linked with recent work by the Global Fund at the MoH to improve capacity development in the health sector.
support through a Bank-Executed Trust Fund (BETF) under the MDTF. This will include funding for experienced staff based in Dili, and a range of other technical and operational support as required.

28. **Extension of project closing date:** As the restructured project will focus on improving systems and building internal capacity to better manage resources, it is proposed that the closing date be extended from June 30, 2013 to June 15, 2015. Performance of the project will be jointly assessed in order to determine whether continued support for the MoH’s implementation of the first phase of the NHSSP is warranted. Although project implementation is currently rated as Moderately Unsatisfactory, mitigating actions undertaken during the restructuring process have helped the project gain some momentum. Consequently the pace of project implementation has picked up. In order to further improve project management and implementation, the GoTL agreed to introduce a new project management structure. As a first step, the MoH has appointed the Project (Portfolio) Manager and the Project Management Specialist has just joined the MoH to support the Project Manager. The creation of a Project Steering Committee is not required by the existing project, but the government initiated steps to form this committee to provide oversight. Overall, the project management and implementation status is still not yet satisfactory, but the government is working to address remaining issues. The proposed amendments are expected to further improve performance.

29. **Financing plan:** The project is expected to use the full allocation of SDR 0.64 million from IDA and US$ 20.0 million from the MDTF to carry out the remaining activities under the original project. The uncommitted balance of about US$ 2.0 million and additional contribution to the MDTF by the EC and AusAID\(^\text{21}\) will finance the activities under the restructured project until June 15, 2015. Due to the significant changes in project components, the financing plan for additional financing is provided separately.

**Project Costs by Category (US$)**

<table>
<thead>
<tr>
<th>Category</th>
<th>Original Project Costs Financed by IDA Grant (A)</th>
<th>Project Cost Financed by MDTF (after level 2 restructuring) (B)</th>
<th>Changed with AF Financed by MDTF 2013 (C)</th>
<th>Revised Cost (A+B+C)</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1) Goods, Civil Works, Services, Training, OCs (and Grant to District for AF)</td>
<td>1,000,000 (SDR 640,000)</td>
<td>20,000,000</td>
<td>17,700,000</td>
<td>38,700,000</td>
</tr>
<tr>
<td><strong>TOTAL AMOUNT</strong></td>
<td><strong>1,000,000</strong></td>
<td><strong>20,000,000</strong></td>
<td><strong>17,700,000</strong></td>
<td><strong>38,700,000</strong></td>
</tr>
</tbody>
</table>

\(^{21}\) EU and AusAID will contribute an additional EUR 8.3 million (approximately US$ 10.0 million) and AUD 10.7 million (approximately US$ 11.0 million) respectively. Out of approximately US$ 20.2 million after 1% central unit cost recovery and 2.92% management unit cost recovery, US$ 17.7 million will be used to finance RETF and US$ 2.5 million to finance two BETFs: (i) US$ 1.0 million for analytical and advisory activities; and (ii) US$ 1.5 million for implementation support. In order to manage exchange rate risks, the initial RETF allocation of the additional contribution will be set at US$ 14.2 million in the Grant Agreement (GA) and will be adjusted once the full tranches of contribution are made by the donors and the available funding of the MDTF (in US$) is confirmed.
## Project Costs by Component (US$, million)

<table>
<thead>
<tr>
<th>Components</th>
<th>Original Project Costs Financed by IDA Grant &amp; MDTF</th>
<th>Revised Project Costs after Level 2 Restructuring in March 2012</th>
<th>Additional Financing 2013</th>
<th>Revised Costs</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Original Components</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1. Health Service Delivery</td>
<td>12.0</td>
<td>9.0</td>
<td>0.0</td>
<td>9.0</td>
</tr>
<tr>
<td>2. Support Services, Human Resources, and Management</td>
<td>4.0</td>
<td>9.0</td>
<td>0.0</td>
<td>9.0</td>
</tr>
<tr>
<td>3. Coordination, Planning and Monitoring</td>
<td>2.0</td>
<td>1.7</td>
<td>0.0</td>
<td>1.7</td>
</tr>
<tr>
<td>4. Innovation and Program Development</td>
<td>2.3</td>
<td>1.3</td>
<td>0.0</td>
<td>1.3</td>
</tr>
<tr>
<td>Sub-Total</td>
<td>20.3 ¹/</td>
<td>21.0</td>
<td>0.0</td>
<td>21.0</td>
</tr>
<tr>
<td><strong>Restructured Components</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>5. Improving Public Financial Management and Fund Flows for Service Delivery</td>
<td>0.0</td>
<td>0.0</td>
<td>12.2</td>
<td>12.2</td>
</tr>
<tr>
<td>6. Strengthening Pharmaceutical and Medical Supplies Management</td>
<td>0.0</td>
<td>0.0</td>
<td>1.6</td>
<td>1.6</td>
</tr>
<tr>
<td>7. Improving Evidence-Informed Decision Making and Health Sector Coordination</td>
<td>0.0</td>
<td>0.0</td>
<td>3.9</td>
<td>3.9</td>
</tr>
<tr>
<td>Sub-Total</td>
<td>0.0</td>
<td>0.0</td>
<td>17.7</td>
<td>17.7</td>
</tr>
<tr>
<td>Total</td>
<td>20.3</td>
<td>21.0</td>
<td>17.7</td>
<td>38.7</td>
</tr>
</tbody>
</table>

¹/ The original project totaled US$ 20.3 million (RETF and IDA). Due to currency exchange fluctuations with the rise of the Australian Dollar over the period when tranche payments had been received, the project was restructured to modify the recipient-executed trust fund from US$ 15.7 million to US$ 20.0 million (total project costs were revised to US$ 21.0 million in March 2012.

30. **Disbursement arrangements:** The disbursement arrangements of the restructured project remain the same, with the exception of the definition of ‘eligible expenditures’, which will be revised from “consisting of goods, works, services, training and operating costs as of April 16, 2008” to “consisting of goods, works, services, training, grants to districts, and operating costs as of April 16, 2008”.

31. **Financial management (FM):** A recent FM implementation support mission found that while some progress has been made, the overall FM rating of the project remains *moderately unsatisfactory*. An upgrade will be considered, given the recent hiring of an experienced Project Accountant in mid-August 2012. In addition to existing arrangements, the project will support the implementation of the FM accounting software (FreeBalance) in the MoH. When comingling/pooling of funds occurs through the use of the imprest fund system for flexible funding at the district level, the MoH will have the District’s Imprest Account audited. Each
audit of the District’s Imprest Account will cover the period of one (1) fiscal year of the MoH and be furnished to the Bank with the project audit within nine (9) months after the end of such period.

32. **Procurement:** An ex-post review conducted by Bank staff in March 2012 identified shortcomings in procurement planning and processing, with bid evaluation reports in some cases lacking detail and clarity, particularly with respect to technical compliance checks. Additionally, review of SAMES showed a lack of understanding of procurement processes. The role of the Procurement Advisor who was supporting the ongoing project was re-assessed in relation to efficiency and compliance, and the position will be changed from a supportive role to actual implementation of procurement activities under the NHSSP-SP. The MoH recently recruited a dedicated Procurement Specialist who will be responsible for managing the procurement of the NHSSP-SP. As the restructuring involves additional funds, the MoH will carry out procurement for activities financed from the additional trust funds and any balance from the ongoing project financing in accordance with the Bank’s “Guidelines: Procurement of Goods, Works and Non-consulting Services under IBRD Loans and IDA Credits and Grants by World Bank Borrowers” published by the Bank in January 2011; and “Guidelines: Selection and Employment of Consultants under IBRD Loans and IDA Credits and Grants by World Bank Borrowers” published by the Bank in January 2011, and the provisions stipulated in the Financing Agreements. The Grants to Districts to be financed under the additional financing will follow the procedures set out in the revised Project Operations Manual. For procurement processes which were launched (bid invitation or request for expression of interest) the “Guidelines: Procurement under IBRD Loans and IDA Credits” and “Guidelines: Selection and Employment of Consultants by World Bank Borrowers” published by the World Bank in May 2004 and revised in October 2006 and May 2010” will apply. Provisions outlined in the Financing Agreements shall be applicable for procurement through National Competitive Bidding. Additionally, the use of framework agreements in accordance with the provisions of paragraph 3.6 of the Procurement Guidelines 2011 will be adopted, if necessary.

**IV. APPRAISAL SUMMARY**

33. **Economic and financial analysis:** The economic and financial analysis for the NHSSP-SP is based on a Health Financing Note completed by the WB team in 2011. Overall macroeconomic growth prospects for the country are positive, deriving mainly from the strong growth in the Petroleum Fund. However, growth prospects for non-petroleum GDP are more conservative. The overall fiscal balance in the country (revenues and expenditures) is fragile and in the medium-term, economic policies will continue to focus on the twin objectives of macroeconomic growth and fiscal discipline. Therefore, ensuring the quality of public expenditures and guaranteeing that investments and expenditures yield maximum value for money will be critical; these are areas the restructured project will help strengthen.

34. While there have been modest increases over recent years in the absolute annual GoTL budget allocation for health, when looked at as a percentage of GDP and/or as a percentage of overall general government expenditure (GGE), there is a declining trend in health expenditure. This is due in large part to the substantial increase in the budget from the Petroleum Fund and the decision to prioritize the development of core state infrastructure and related needs. Many of
these areas such as roads, water, sanitation and electricity supplies also have a positive impact on health status. Nevertheless, spending on health as a percentage of GGE has decreased from eight percent in 2008 to three percent in 2012.

35. The restructured project aims to support improved resource management and access to quality health services, especially for mothers and children. The capacity-building interventions supported under the restructured project will aim to provide increased capacity for health planning and prioritization, resource management, effective use of resources, and increased accountability at the district and sub-district levels. An initial health sector costing exercise looking at maternal and child health components of the Basic Services Package (BSP) completed in 2010 estimates annual costs of US$38.7 million to deliver these services nationwide. Further costing of the priority areas of the NHSSP is proposed over the coming year. Sufficient allocation of resources will enable and sustain desired levels of financial protection and access to quality health services for the Timorese people.

36. The MoH agrees that further work is required to ensure: (i) sufficient resources for priority activities in the sector; (ii) an equitable allocation of these resources; and (iii) that funds are being received when and where they are most needed. Accordingly, developing a robust PFM system will be a major focus for the MoH over the next five years through the ‘PFM Roadmap’. The MoH is working with the MoF to achieve these goals.

37. **Technical:** The project design is based on the government’s NHSSP, which is oriented to achieve the MDGs and the delivery of the BSP. The content of the BSP is based on international evidence regarding the most cost-effective interventions for reducing child and maternal mortality, including analysis undertaken by the Bank and WHO, and a series of literature review articles published in *The Lancet*. Despite these advances and Timor-Leste’s growing capacity, there are still many difficulties in Timor-Leste’s health system that prevent financial, pharmaceutical and human resources from getting to the district and sub-district levels. These problems in large part explain lags in meeting some of the MDGs and achieving related improvements in overall health outcomes. The interventions included in NHSSP-SP are expected to: (i) strengthen capacity for planning and budgeting, including at the district level, which is expected to improve the equity and efficiency of spending; (ii) support the MoH in moving toward program-based budgeting as outlined in the NHSSP, which will enable better prioritization within the health sector; and (iii) improve management of health sector inputs, such as pharmaceuticals, which is expected to reduce waste in the sector. These interventions are expected to enhance the sustainability of health financing. Finally, the focus on getting necessary resources for primary health care services at the (sub) districts is cost-effective. Maternal health and childhood illnesses contribute to a large percentage of the burden of disease in Timor-Leste. 

38. **Social and Environment:** The proposed modifications do not change the overall environmental category of the project (rated Category C), nor do they trigger any new safeguard policies. OP/BP 4.01. The trigger for Environmental Assessment remains as the original project financed the rehabilitation of facilities and procurement of drugs and medical equipment. An

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Environmental and Health Care Waste Management Assessment was disclosed in 2007. The rehabilitation of the targeted health facilities is completed, even though distribution of medical equipment is pending. The restructured project will not finance any procurement of drugs or civil works/infrastructure, except for very minor rehabilitation (i.e., shelf and window screen for drug storage), as other funding sources are available for this purpose, most notably the government’s own Infrastructure Fund. Accordingly, no land acquisition or involuntary resettlement will take place under the restructured project. Also, as the restructured project will focus primarily on resource management by strengthening the system and building capacity among staff, no adverse social or environmental impacts are anticipated. Various capacity building activities will target all PFM related staff in the health sector (e.g., central MOH, all 13 district health teams, hospitals, and central medical stores) without any preference given to specific ethnic and/or gender groups.

39. **Exceptions to Bank Policy:** The Regional Vice President has approved an exception to the requirement for “satisfactory” project performance in order to apply Additional Financing procedures under OP13.20. Although project implementation is currently rated as “moderately unsatisfactory”, mitigating actions undertaken during the restructuring process have already improved project momentum. Consequently, the pace of project implementation has picked up even as elections and a change of government have occurred. Though project management and implementation status is not yet fully satisfactory, the proposed changes and modifications to the project are expected to further improve overall implementation progress to satisfactory status within six months after approval of the proposed restructuring.

40. **Risk:** The restructured project has a number of risks, particularly related to the low levels of capacity and limited systems to adequately monitor the project, as well as to potential changes in senior management following approval of the new Organic Law of the MoH. These can be mitigated to a reasonable with some positive gains in the health sector. The overall risk rating of the project is moderate. While there is a high likelihood that the project will face the risks outlined in the Operational Risk Assessment Framework (ORAF), the impacts of these risks are deemed to be low (see Annex 3).
## Annex 1: Results Framework and Monitoring

**Timor-Leste: Health Sector Strategic Plan Support Project**

### Results Framework

#### PDO

<table>
<thead>
<tr>
<th>Current (PAD)</th>
<th>Proposed</th>
<th>Comments/ Rationale for Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>To improve the quality and coverage of preventive and curative health services, particularly for women and children, in order to accelerate progress toward the health millennium development goals (MDGs)</td>
<td>To support the Government of Timor-Leste to get more resources to where they are needed most to improve the delivery of health services in districts and sub-districts</td>
<td>The current PDO reflected the initial intention of using the MDTF as a sector financing instrument under a sector wide approach. However, the initial design has proven too complex, and the scope of the project has been restructured. The restructured project will target system and resource management issues that underpin improved health service delivery at the district level.</td>
</tr>
</tbody>
</table>

#### PDO indicators

<table>
<thead>
<tr>
<th>Current (PAD)</th>
<th>Proposed change*</th>
</tr>
</thead>
<tbody>
<tr>
<td>% of children under 1 year vaccinated with (i) DPT3 (ii) Measles</td>
<td>Indicator dropped as it is beyond the project scope</td>
</tr>
<tr>
<td>% of births attended by skilled health personnel</td>
<td>Indicator dropped as it is beyond the project scope</td>
</tr>
<tr>
<td>% of pregnant women receiving at least four antenatal visits</td>
<td>Indicator dropped as it is beyond the project scope</td>
</tr>
<tr>
<td>% of children (6-59 months) receiving vitamin A supplements</td>
<td>Indicator dropped as it is beyond the project scope</td>
</tr>
<tr>
<td>% married or cohabitating women using modern contraceptives</td>
<td>Indicator dropped as it is beyond the project scope</td>
</tr>
<tr>
<td>Number of districts that receive recurrent expenditures consistent (+/- 20%) with the NHSSP MTEF and approved budget</td>
<td>New indicator proposed for the restructured activity</td>
</tr>
<tr>
<td>Number of districts that report expenditure against the approved plan/budget on time</td>
<td>New indicator proposed for the restructured activity</td>
</tr>
<tr>
<td>Percentage of stock-outs of tracer essential drugs at health facilities</td>
<td>Intermediate result indicator revised to correctly reflect the level of result</td>
</tr>
<tr>
<td>Joint annual sector review and planning meetings held as planned (at least 1/year)</td>
<td>New indicator proposed for the restructured activity</td>
</tr>
</tbody>
</table>

#### Intermediate Results indicators

<table>
<thead>
<tr>
<th>Current (PAD)</th>
<th>Proposed change*</th>
</tr>
</thead>
<tbody>
<tr>
<td>% of health clinics providing the comprehensive Basic Service Package (BSP)*</td>
<td>Indicator dropped as it is beyond the project scope</td>
</tr>
<tr>
<td>Revisions to the Results Framework</td>
<td>Comments/Rationale for Change</td>
</tr>
<tr>
<td>---------------------------------------------------------------------------------------------------</td>
<td>---------------------------------------------------------------------------------------------</td>
</tr>
<tr>
<td>% of pregnant women receiving tetanus toxoid (TT) injection</td>
<td>Indicator dropped as it is beyond the project scope; HMIS does not provide this kind of data</td>
</tr>
<tr>
<td>Cesarean section rate</td>
<td>Indicator dropped as it is beyond the project scope; HMIS does not provide this kind of data</td>
</tr>
<tr>
<td>Number (% of children (6 mo – 3 yrs) participating in integrated community nutrition programs</td>
<td>Indicator dropped as it is beyond the project scope; HMIS does not provide this kind of data</td>
</tr>
<tr>
<td>Number of referral hospitals implementing the Hospital Service Package*</td>
<td>Indicator dropped as Hospital Service Package is dropped</td>
</tr>
<tr>
<td>Number of referral hospitals implementing guidelines* for hospital management and clinical quality, including (i) monthly clinical review meetings; (ii) maternal death audits</td>
<td>Indicator dropped as it is beyond the project scope</td>
</tr>
<tr>
<td>Availability of tracer essential drugs at (i) SAMES; (ii) health facilities</td>
<td>Percentage of stock-outs of tracer essential drugs at SAMES</td>
</tr>
<tr>
<td>Percentage of biomedical equipment in hospitals that is out of order (non-functional)</td>
<td>Indicator dropped as it is beyond the project scope</td>
</tr>
<tr>
<td>(i) total health staff trained with project financing; (ii) Percentage of district and CHC managers that have received management training</td>
<td>Indicator dropped as it is beyond the project scope</td>
</tr>
<tr>
<td>% of health facilities/ submitting completed HMIS monitoring reports 1 month after end of each quarter</td>
<td>Indicator dropped as it is beyond the project scope</td>
</tr>
<tr>
<td>(i) % recurrent expenditures on hospitals (&lt;40%); (ii) % State Budget allocated to health; (iii) % execution of health budget</td>
<td>Indicator dropped as it is beyond the project scope</td>
</tr>
<tr>
<td>Number of partners submitting to MOH a fully costed work program for forthcoming year</td>
<td>Indicator dropped as it is beyond the project scope</td>
</tr>
<tr>
<td>Number of pilot initiatives (i) financed by project and implemented; (ii) evaluated with lessons disseminated; (iii) scaled up and/or influenced policy</td>
<td>Indicator dropped as it is beyond the project scope</td>
</tr>
<tr>
<td>Number of formal MOH-private sector/NGO partnership contracts signed</td>
<td>Indicator dropped as it is beyond the project scope</td>
</tr>
<tr>
<td></td>
<td>Health MTEF prepared based on costing of strategic plan</td>
</tr>
<tr>
<td></td>
<td>New indicator directly linked to the restructured activity</td>
</tr>
<tr>
<td></td>
<td>Number of districts that submit annual district plan/budget to the Central MoH for approval on time</td>
</tr>
<tr>
<td>Revisions to the Results Framework</td>
<td>Comments/ Rationale for Change</td>
</tr>
<tr>
<td>-----------------------------------</td>
<td>-------------------------------</td>
</tr>
<tr>
<td>Percentage of targeted staff who pass competency test in financial management, procurement, and/or management</td>
<td>New indicator directly linked to the restructured activity</td>
</tr>
<tr>
<td>Percentage of SAMES' procurement activities using direct contracting (emergency order, in $ value)</td>
<td>New indicator directly linked to the restructured activity</td>
</tr>
<tr>
<td>Number of targeted places (13 districts and 6 hospitals) with functional National Logistics Management Information System</td>
<td>New indicator directly linked to the restructured activity</td>
</tr>
<tr>
<td>A computerized drug registration system available</td>
<td>New indicator directly linked to the restructured activity</td>
</tr>
<tr>
<td>Number of structured sector coordination meetings held to progress toward one plan, one budget, and one sector M&amp;E framework</td>
<td>New indicator directly linked to the restructured activity</td>
</tr>
<tr>
<td>Percentage of research projects approved by the research cabinet that responds to the national research priorities defined by the MoH</td>
<td>New indicator directly linked to the restructured activity</td>
</tr>
</tbody>
</table>
REVISED PROJECT RESULTS FRAMEWORK

Project Development Objective (PDO): To support the Government of Timor-Leste to get more resources to where they are needed most to improve delivery of health services in districts and sub-districts

<table>
<thead>
<tr>
<th>PDO Level Results Indicators</th>
<th>Core</th>
<th>Unit of Measure</th>
<th>Baseline Original Project Start (2008)</th>
<th>Progress To Date (2012)</th>
<th>Cumulative Target Values</th>
<th>Frequency</th>
<th>Data Source/Methodology</th>
<th>Responsibility for Data Collection</th>
<th>Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of districts that receive recurrent expenditures consistent (+/- 20%) with the NHSSP MTEF and approved budget</td>
<td>☑️</td>
<td>Number</td>
<td>N/A</td>
<td>0 (No MTEF for NHSSP available)</td>
<td>0 (2014 budget will be prepared per MTEF)</td>
<td>3</td>
<td>8</td>
<td>Annual</td>
<td>MTEF budget/finance report</td>
</tr>
<tr>
<td>Number of districts that report expenditure against the approved plan/budget on time</td>
<td>☑️</td>
<td>Number</td>
<td>N/A</td>
<td>0 (Reporting &amp; management has been done centrally)</td>
<td>0</td>
<td>5</td>
<td>8</td>
<td>Annual</td>
<td>Budget/finance report</td>
</tr>
<tr>
<td>Percentage of stock-outs of tracer essential drugs at health facilities</td>
<td>☑️</td>
<td>Percentage</td>
<td>N/A</td>
<td>40 (Proxy data from 3 districts survey in 2011)</td>
<td>-</td>
<td>-</td>
<td>30</td>
<td>Every 3 years</td>
<td>Facility Surveys (in 2012 and 2015) &amp; SAMES database (once established)</td>
</tr>
<tr>
<td>Joint annual sector review and planning meetings held as planned (at least 1/year)</td>
<td>☑️</td>
<td>Tex</td>
<td>N/A</td>
<td>No</td>
<td>Sector Framework Developed</td>
<td>Yes</td>
<td>Yes</td>
<td>Annual</td>
<td>JASR report; quarterly progress report (QPR)</td>
</tr>
</tbody>
</table>

**Beneficiaries**

| Project beneficiaries, | ☑️  | Number | N/A | 739 | 1100 | 1200 | 1300 | Annual | QPR | Project Management Team |
| Of which female (beneficiaries) | ☑️  | Number | N/A | 250 | 385 | 420 | 455 | Annual | QPR | Project Management Team |
| Number of health personnel receiving training | ☑️  | Number | 0 | 739 | 1100 | 1200 | 1300 | Annual | QPR | Project Management Team |
| Number of health facilities constructed, renovated, and/or equipped | ☑️  | Number | 0 | 4 (3 health post, SAMES warehouse) | 70 | 70 | 70 | Annual | QPR | Project Management Team |
## Intermediate Results and Indicators

<table>
<thead>
<tr>
<th>Intermediate Results Indicators</th>
<th>Core</th>
<th>Unit of Measurement</th>
<th>Baseline Original Project Start (2008)</th>
<th>Progress To Date (2012)</th>
<th>Target Values</th>
<th>Frequenc y</th>
<th>Data Source/Methodology</th>
<th>Responsibility for Data Collection</th>
<th>Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
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<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Intermediate Result 1:</strong> Improving public financial management and fund flows for service delivery</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Health MTEF prepared <strong>based on costing of strategic plan</strong></td>
<td>Text</td>
<td></td>
<td>METF based on the new strategic plan (i.e., NHSSP) not available</td>
<td>Available</td>
<td>Updated</td>
<td>Updated</td>
<td>Annual</td>
<td>Budget/finance report</td>
<td>D/Financing &amp; Planning</td>
</tr>
<tr>
<td>Number of districts that submit annual district plan/budget to the Central MoH for approval on time</td>
<td>Number</td>
<td></td>
<td>0 (Plan/budget submitted, but not on time per planning cycles)</td>
<td>6</td>
<td>9</td>
<td>9</td>
<td>Annual</td>
<td>Annual Plan/Budget (District Plan for CY 2016 likely due by Sept 2015)</td>
<td>D/Financing &amp; Planning</td>
</tr>
<tr>
<td>Percentage of targeted staff who pass competency test in financial management, procurement, and/or management</td>
<td>Percentage</td>
<td>N/A</td>
<td>0 (Assessment done and training plan prepared)</td>
<td>30</td>
<td>60</td>
<td>Annual</td>
<td>QPR</td>
<td>D/Financing &amp; Planning</td>
<td></td>
</tr>
<tr>
<td><strong>Intermediate Result 2:</strong> Strengthening pharmaceutical and medical supplies management</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Percentage of stock-outs of tracer essential drugs at SAMES</td>
<td>Percentage</td>
<td>N/A</td>
<td>19</td>
<td>18</td>
<td>17</td>
<td>15</td>
<td>Annual</td>
<td>SAMES database</td>
<td>SAMES</td>
</tr>
<tr>
<td>Percentage of SAMES’ procurement activities using direct contracting (emergency order, in $ value)</td>
<td>Percentage</td>
<td>N/A</td>
<td>47</td>
<td>40</td>
<td>35</td>
<td>30</td>
<td>Annual</td>
<td>SAMES database</td>
<td>SAMES</td>
</tr>
<tr>
<td>Number of targeted places (13 districts and 6 hospitals) with functional National Logistics Management Information System</td>
<td>Number</td>
<td>N/A</td>
<td>0</td>
<td>4</td>
<td>8</td>
<td>11</td>
<td>Annual</td>
<td>SAMES database; QPR</td>
<td>SAMES Pharmacy Dept</td>
</tr>
<tr>
<td>A computerized drug registration system available</td>
<td>Text</td>
<td>N/A</td>
<td>No computerized system</td>
<td>Assessment conducted</td>
<td>Partially functional system available</td>
<td>Functional system available</td>
<td>Annual</td>
<td>QPR</td>
<td>Pharmacy Dept</td>
</tr>
</tbody>
</table>
### Intermediate Results and Indicators

<table>
<thead>
<tr>
<th>Intermediate Results Indicators</th>
<th>Core Unit of Measurement</th>
<th>Baseline Original Project Start (2008)</th>
<th>Progress To Date (2012)</th>
<th>Target Values</th>
<th>Frequency</th>
<th>Data Source/Methodology</th>
<th>Responsibility for Data Collection</th>
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<td>2013</td>
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<tr>
<td>Improving evidence informed</td>
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<td>decision making and sector</td>
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<td>Number of structured sector</td>
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<td>progress toward one plan, one</td>
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<td>budget, and one sector M&amp;E</td>
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<td>Percentage of research projects</td>
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<td>the MoH</td>
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<tr>
<td></td>
<td>□ Number</td>
<td>N/A</td>
<td>0</td>
<td>2</td>
<td>4</td>
<td>2</td>
<td>Quarterly</td>
<td>D/Financing &amp; Planning</td>
</tr>
<tr>
<td></td>
<td>□ Percentage</td>
<td>N/A</td>
<td>N/A</td>
<td>0 (National</td>
<td>50</td>
<td>60</td>
<td>Annual</td>
<td>DCEF</td>
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</tbody>
</table>

**Intermediate Result 3: Improving evidence informed decision making and sector coordination**
Annex 2: Revised Components
Timor-Leste: Health Sector Strategic Plan Support Project

<table>
<thead>
<tr>
<th>HSSP-SP</th>
<th>NHSSP-SP</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Component 1: Health Service Delivery</strong></td>
<td><strong>Component 1: Improving Public Financial Management and Fund Flows for Health Service Delivery</strong></td>
</tr>
<tr>
<td>Support: (i) Basic Service Package for primary health care, including improved outreach services to remote areas; (ii) community nutrition and health services; (iii) district level planning and management capacity to support service delivery; (iv) hospital care and the referral system; (v) quality of care throughout the health system, including improvement of infrastructure.</td>
<td>Support the Recipient to assist central and district health teams to use the resources available to them more efficiently, equitably and effectively by: (a) strengthening MoH’s central and district planning and budgeting in line with the Recipient’s “One Plan, One Budget, One Sector Monitoring and Evaluation Framework” concept through the preparation of annual activity plans and budgets that are focused on improved health service delivery; (b) advocating for an increased overall health budget allocation that has adequate provision for recurrent costs for essential health service delivery across the country; and (c) increasing flexible and innovative financing, such as grants to districts, for district service delivery.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Component 2: Support Services, Human Resources, and Management</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>A. Improve: (i) overall governance and management of the health sector; (ii) human resource development and management practices in the health sector; (iii) procurement, distribution and management of essential drugs and supplies; (iv) core health sector fiduciary and support functions, including planning and supervision of civil works; logistics and maintenance of infrastructure and equipment; financial management; procurement; and information and communication technologies.</td>
<td>B. Strengthen: (i) the Institute of Health Sciences; and (ii) training for health staff and managers.</td>
</tr>
<tr>
<td>B. Strengthen: (i) the Institute of Health Sciences; and (ii) training for health staff and managers.</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Component 3: Coordination, Planning and Monitoring</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>A. Strengthen: (i) coordination and monitoring of donor programs, including through establishment of a Department for Partnership Management within the MOH; and (ii) policy development and operational research capacity.</td>
<td>B. Support: (i) health sector program planning and budgeting procedures at national and district levels; and (ii) HSSP monitoring and evaluation system, including the Health Management Information System, and support for health sector surveys and evaluations.</td>
</tr>
<tr>
<td>B. Support: (i) health sector program planning and budgeting procedures at national and district levels; and (ii) HSSP monitoring and evaluation system, including the Health Management Information System, and support for health sector surveys and evaluations.</td>
<td></td>
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</table>

<table>
<thead>
<tr>
<th>Component 4: Innovation and Program Development</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Support: (i) promote community demand for health services; (ii) provide incentives to service providers; (iii) establish effective public-private partnership options; and (iv) pilot rapid results initiatives, to build local implementation capacity and strengthen the focus on results.</td>
<td></td>
</tr>
<tr>
<td>HSSP-SP</td>
<td>NHSSP-SP</td>
</tr>
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</tr>
<tr>
<td><strong>Component 1: Health Service Delivery Support: Improving -</strong></td>
<td>Component 1</td>
</tr>
<tr>
<td>• Basic Services Package (BSP) for primary health care, including improved community nutrition and health services and outreach services to remote areas;</td>
<td></td>
</tr>
<tr>
<td>• District level planning and management capacity to support service delivery;</td>
<td>Component 1</td>
</tr>
<tr>
<td>• Hospital care and the referral system; and</td>
<td>Drop</td>
</tr>
<tr>
<td>• Quality of care throughout the health system, including improvement of infrastructure.</td>
<td>Drop</td>
</tr>
</tbody>
</table>

**Component 2: Support Services, Human Resources, and Management: Improving -**

<table>
<thead>
<tr>
<th>nhssp-sp</th>
<th>HSSP-SP</th>
</tr>
</thead>
<tbody>
<tr>
<td>Component 1</td>
<td>Component 1</td>
</tr>
<tr>
<td>• Health management information system;</td>
<td>Drop</td>
</tr>
<tr>
<td>• Human resource development and management practices in the health sector;</td>
<td>Component 1</td>
</tr>
<tr>
<td>• Procurement, distribution and management of essential drugs and supplies;</td>
<td>Component 2 (management only)</td>
</tr>
<tr>
<td>• Core health sector fiduciary and support functions, including planning and supervision of civil works, logistics and maintenance of infrastructure and equipment, financial management, procurement, and information and communication technologies;</td>
<td>Component 1 (only fiduciary management and IT for management)</td>
</tr>
<tr>
<td>• Support system infrastructure; and</td>
<td>Drop</td>
</tr>
<tr>
<td>• Supply and installation of IT equipment</td>
<td>Drop (except for limited IT for improved management)</td>
</tr>
</tbody>
</table>

**Component 3: Coordination, Planning and Monitoring: Improving -**

<table>
<thead>
<tr>
<th>Component 3</th>
<th>Component 3</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Coordination and monitoring of donor programs, including through establishment of a Department for Partnership Management within the MOH;</td>
<td>Component 3</td>
</tr>
<tr>
<td>• Policy development and operational research capacity;</td>
<td>Component 3</td>
</tr>
<tr>
<td>• Health sector program planning and budgeting procedures at national and district levels; and</td>
<td>Component 1</td>
</tr>
<tr>
<td>• Monitoring and evaluation system, including the Health Management Information System, and support for health sector surveys and evaluations</td>
<td>Component 3</td>
</tr>
</tbody>
</table>

**Component 4: Innovation and Program Development: Promoting -**

<table>
<thead>
<tr>
<th>Component 1</th>
<th>Component 1 (only through SISCa)</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Community demand for health services;</td>
<td>Drop</td>
</tr>
<tr>
<td>• Incentives to service providers;</td>
<td>Drop (except for partnership with NGOs)</td>
</tr>
<tr>
<td>• Effective public-private partnership options; and</td>
<td>Drop</td>
</tr>
<tr>
<td>• Pilot rapid results initiatives, to build local implementation capacity and strengthen the focus on results.</td>
<td>Drop</td>
</tr>
</tbody>
</table>
Annex 3: Operational Risk Assessment Framework
Timor-Leste: Health Sector Strategic Plan Support Project

<table>
<thead>
<tr>
<th>Project Stakeholder Risks</th>
<th>Ratings:</th>
<th>Moderate</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Description:</strong> Mismatch of GoTL and DPs interests and objectives in concordance with the National Health Sector Strategic Plan (NHSSP) for 2011-2030</td>
<td><strong>Risk Management:</strong> NHSSP-SP partners (GoTL/MoH, AusAID, EU and WB) have restructured the existing HSSP-SP to address performance issues and lessons to date, and to align the project components to a select number of key components within the NHSSP.</td>
<td></td>
</tr>
<tr>
<td><strong>Resp:</strong> MOH/DPs</td>
<td><strong>Stage:</strong> Preparation</td>
<td><strong>Due date:</strong> Appraisal</td>
</tr>
</tbody>
</table>

| Description: Weak coordination (i) amongst the NHSSP-SP partners and (ii) between the MoH and all health DPs to ensure consistency of messages, efforts and interventions, particularly at the district level | **Risk Management:** MoH agreed to create a project management team in Directorate of Policy, Planning, and Coordination to oversee day-to-day operations and coordination within MoH. Project partners have also established a Project Steering Committee for oversight of the NHSSP-SP management and performance on a quarterly basis. This will feed into a broader sector coordination committee for all DPs. The work of the sector coordination meeting will include a Joint Annual Sector Review and Planning and the use of a joint Sector M&E Framework. AusAID will also provide intensive implementation support for better donor coordination and sector M&E. |  |
| **Resp:** MoH | **Stage:** Implementation | **Due date:** Ongoing | **Status:** Satisfactory |

<table>
<thead>
<tr>
<th>Implementing Agency Risks (including fiduciary)</th>
<th>Ratings:</th>
<th>High</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Description:</strong> Weak commitment and capacity within MoH to fulfill project’s managerial, technical, reporting and fiduciary requirements</td>
<td><strong>Risk Management:</strong> MoH agreed to create a project management team to oversee day-to-day operations and coordination within MoH. In addition, joint partners have agreed there is a need for increased substantive and regular implementation support from the WB team and additional resources will be invested in this by the partners, including to cover an experienced staff based in the country office. The PSC will monitor the effectiveness of this support.</td>
<td></td>
</tr>
<tr>
<td><strong>Resp:</strong> MoH</td>
<td><strong>Stage:</strong> Implementation</td>
<td><strong>Due date:</strong> Ongoing</td>
</tr>
</tbody>
</table>

<p>| Description: Low familiarity and capacity to respond to WB policies and procedures related to financial management and procurement of goods and services | <strong>Risk Management:</strong> The project is continuing to build skills in MoH staff on procurement and FM procedures. MOH hired a procurement specialist who would be solely responsible for all procurement activities under NHSSP-SP. Increased support from the Bank’s Sydney and Dili based fiduciary team and a procurement tracking system is helping to address this risk. MOH will also hire a firm to assist in the sector PFM reform program, which includes building the in-house procurement capacity in the sector agencies. NHSSP-SP also demonstrates a move from inputs to that of outputs and results. |  |
| <strong>Resp:</strong> MoH | <strong>Stage:</strong> Implementation | <strong>Due date:</strong> Ongoing | <strong>Status:</strong> Satisfactory |</p>
<table>
<thead>
<tr>
<th>Governance</th>
<th>Ratings: High</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Description:</strong> Unreliable health management information system for generating data to be used for M&amp;E, and limited use of data at both central and district levels of the MoH</td>
<td><strong>Risk Management:</strong> By coordinating with the Directorate of Planning and Finance, and the ongoing DP activities to upgrade the HMIS, the project seeks to build a culture of using data to inform decision making within the MoH. Under the project, MoH is planning to engage a full time M&amp;E Specialist and will also support capacity building for data entry, validation and use at the district level through the District Health Management Advisors and NGOs that are already involved in systems strengthening (funded under the project). The project will also contribute to a DHS type survey and a Health Facility Survey(s) to assess project impact on service delivery and quality of care using a more reliable information base.</td>
</tr>
<tr>
<td><strong>Resp:</strong> MoH <strong>Stage:</strong> Implementation <strong>Due date:</strong> Ongoing <strong>Status:</strong> Satisfactory</td>
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</table>

| Description: Absence of a project accounting system | Risk Management: The project has had problems with previous stand-alone accounting systems used and is currently using Excel spreadsheets only. In order to be in a stronger position to support MoH and increase its use of GoTL systems the project is migrating to the GoTL financial management system, FreeBalance, with support from the MoF. |
| **Resp:** MoH **Stage:** Implementation **Due date:** Ongoing **Status:** Satisfactory |

| Description: Weak control mechanism of corrupt and fraudulent practices | Risk Management: An investigation by the Integrity Vice Presidency (INT) substantiated allegations of corrupt and fraudulent practices by an international firm during the procurement for the supply of medical equipment under the HSSP-SP. The World Bank undertook enhanced procurement and technical reviews of the bid evaluation report based on INT's preliminary findings, resulting in the supplier withdrawing from the tender. The sanctions case is in progress, and operational measures have been taken to remove other parties involved in the misconduct. Also, the MoH recently hired a procurement specialist who would be solely responsible for all procurement activities under the project. |
| **Resp:** MoH/WB **Stage:** Implementation **Due date:** Ongoing **Status:** Satisfactory |

<table>
<thead>
<tr>
<th>Project Risks</th>
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<tbody>
<tr>
<td><strong>Design</strong></td>
<td><strong>Ratings:</strong> Moderate</td>
</tr>
<tr>
<td><strong>Description:</strong> Complexity of the project and components</td>
<td><strong>Risk Management:</strong> Great effort has gone into streamlining the project, and joint partners will continue to ensure that the project directly reflects the objectives and results sought through the NHSSP through regular PSC meetings and engagement with MoH/GoTL.</td>
</tr>
<tr>
<td><strong>Resp:</strong> MoH/DPs <strong>Stage:</strong> Implementation <strong>Due date:</strong> Ongoing <strong>Status:</strong> Satisfactory</td>
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<table>
<thead>
<tr>
<th>Social &amp; Environmental</th>
<th><strong>Ratings:</strong> Low</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Description:</strong> No adverse social and environmental impact</td>
<td><strong>Risk Management:</strong> As the restructured project will focus primarily on resource management by strengthening the system and building capacity among staff to better manage it, no adverse social or environmental impacts are anticipated. Joint partners will remain alert and sensitive to any project activities that may have social or environmental impacts.</td>
</tr>
<tr>
<td><strong>Resp:</strong> MoH <strong>Stage:</strong> Implementation <strong>Due date:</strong> Ongoing <strong>Status:</strong> Satisfactory</td>
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<tr>
<td><strong>Program &amp; Donor</strong></td>
<td><strong>Ratings:</strong> Moderate</td>
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<tr>
<td><strong>Description:</strong> Weak coordination and varying working practices between NHSSP-SP partners as well as with other health DPs.</td>
<td><strong>Risk Management:</strong> The PSC aims to ensure consistent and coherent approaches between the joint partners, which will feed into the broader sector coordination meetings. Also, AusAID will support MoH to better coordinate donors in the health sector towards one plan, one budget, and one sector M&amp;E.</td>
</tr>
<tr>
<td><strong>Resp:</strong> MoH/DPs <strong>Stage:</strong> Implementation <strong>Due date:</strong> Ongoing <strong>Status:</strong> Satisfactory</td>
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<thead>
<tr>
<th><strong>Delivery Monitoring &amp; Sustainability</strong></th>
<th><strong>Ratings:</strong> High</th>
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<tbody>
<tr>
<td><strong>Description:</strong> Insufficient technical and institutional capacity to sustain benefits of project after closing.</td>
<td><strong>Risk Management:</strong> The project is working towards sustainability by seeking to build a ‘critical mass’ of core basic skills within the MoH at both district and central levels by the end of the project. There will be a rolling program of training that provides on-the-job follow up, and that recognizes that staff regularly change so key courses need to be offered on a rolling basis.</td>
</tr>
<tr>
<td><strong>Resp:</strong> MoH <strong>Stage:</strong> Implementation <strong>Due date:</strong> 2015 <strong>Status:</strong> NYD</td>
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| **Description:** Unavailability of an effective project M&E system to accurately monitor project implementation. | **Risk Management:** Through the PSC, the sector coordination meetings, the capacity building efforts to use the HMIS, the common sector M&E framework (with a subset used for the project) and the Joint Annual Sector Reviews, the project contributes to developing an M&E culture in the MoH that focuses on results and performance. |
| **Resp:** MoH **Stage:** Implementation **Due date:** Ongoing **Status:** Satisfactory |

<table>
<thead>
<tr>
<th><strong>Overall Risk</strong></th>
<th><strong>Implementation Risk Rating</strong></th>
<th><strong>Ratings:</strong> Moderate</th>
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<tbody>
<tr>
<td>Because the project is already being implemented, the risk rating reflects the view that many of the risks associated with this project are known and have a high likelihood. As such, they can be, to some extent, mitigated through targeted measures drawn from lessons to date, which serve to reduce the expected impact of the risks. However, the risks remain “moderate” due to a low capacity of the implementing agency at the time of restructuring and possible change of senior management after approval of the new Organic Law of MOH.</td>
<td><strong>Resp:</strong> MoH <strong>Stage:</strong> Implementation <strong>Due date:</strong> Ongoing <strong>Status:</strong> Satisfactory</td>
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</table>