Mozambique PFM for Results Program P124615

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>
<thead>
<tr>
<th>Description</th>
<th>FY14</th>
<th>FY15</th>
<th>FY16</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Storage and distribution of medicines</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>2. District Education Management</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>3. Capacity development and Systems Strengthening (Health, education, MoF)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1.8</td>
<td>2.2</td>
<td>4.0</td>
<td></td>
<td>8.0</td>
</tr>
<tr>
<td>4. Program coordination and operational costs (MoF)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>0.8</td>
<td>1.5</td>
<td>1.5</td>
<td></td>
<td>3.8</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 *Serviços 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 pharmaceutical 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,1 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 procurements involved are likely to be very small. None of the planned procurements, based on

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1 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.
their estimated value at this time, will require review or approval by the Operational Procurement Review Committee.²

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.³

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.⁴ 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

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² 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.

³ 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.

public procurement information. The capacity of UFSA is low, and it has difficulty delivering on its mandate. Decentralized *Unidades Gestoras Executores de Aquisições* (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.\(^5\)

**Table A5.2: Procurement Support Services to be provided under the Program**

<table>
<thead>
<tr>
<th>Client</th>
<th>Support service provided</th>
</tr>
</thead>
<tbody>
<tr>
<td>Program Management Committee</td>
<td>Strategic advice</td>
</tr>
<tr>
<td>Program Coordination Team and its procurement specialist and support team</td>
<td>Support on planning, procurement resource management, hand-holding procurement</td>
</tr>
<tr>
<td>UFSA &amp; staff responsible for design, supervision, and training of the UGEAs</td>
<td>Support on procurement design, planning, human resources, monitoring, and supervision</td>
</tr>
<tr>
<td>UGEAs at all levels</td>
<td>Hand-holding support, training, mentoring, monitoring, and backstopping service</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 opportunities for abuse.\(^6\) 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.\(^7\) These issues are addressed in the next section.

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\(^5\) Procurement performance is defined by the service delivery aspects: time, place, price, quality and satisfaction of the beneficiary.


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.

Figure A5.1: Anti-Corruption Complaints Mechanisms

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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 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

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9 The Bank team has reports for 4 years up to 2010 on file.
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 elections, school development plan approval, and display of development plan, budget and expenditures to 60%</td>
<td>9,000,000</td>
</tr>
<tr>
<td>(4) Proportion of treatment sites with a stock-out of key-ARVs at the end of each</td>
<td>Decreased stock-outs from 27% to 21%</td>
<td>3,356,481</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. The Program Coordination Team and respective Departments of Administration and Finance will be obligated to respond to audit observations within 30 days.
<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>