Mozambique PFM for Results Program P124615

Annex 4: Technical Assessment

Strategic Relevance of the PFM for Results program

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

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

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

2 Southern and East Africa Consortium for Monitoring Educational Quality (see http://www.sacmeq.org/)
efficiency of government spending, stronger PFM processes may increase the confidence of development partners to bring more external financing on-budget, and to use government systems.

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

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

**Technical Soundness**

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

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change that can help or hinder reform. Intervening in PFM processes inevitably involves changes to formal and informal distributions of power and access to resources. This requires both deep understanding competing interests within systems, and the ability to adjust implementation as incentive structures and institutional relationships change.

7. **Financing constraints and inefficiency of spending on medicines in Mozambique contribute to poor outcomes.** External financing for vertical disease programs constitutes significant proportion of funding for medicines in Mozambique (an estimated US$ 120 – 130 million per annum). This funding is essential to meet the high-burdens of HIV, malaria and TB that are prevalent in the country. As this funding is restricted, it reduces the ability of the Ministry of Health to allocate resources across all health needs. The funds available for essential primary health care medicines are often insufficient. While the volume and flexibility of funding are constraints, the inefficiency of spending due to system weakness constitutes a serious cause of poor health outcomes. System weaknesses, leading to unreliable storage, distribution and availability of medicines, reduce the efficiency of existing and potential future expenditures. Better system performance would provide an important and durable means to increase the coverage of medicines within the existing resource envelope, and to maximize the impact of any additional funding in the future. Improved transparency and PFM in the medicine supply chain would also provide a stronger basis for costing medicines and supply chain needs, and can contribute to the development of a sustainable health financing strategy. 6

8. **The Program will primarily focus on improving the transparency and efficiency of the medicines supply chain.** It will strengthen institutional incentives for alignment along the length of the medicines supply chain, improve the quality and use of information, and reduce vulnerability to waste or diversion of stock. This focus will complement the large scale funding for medicines procurement provided by vertical funds (such as PEPFAR and the GFATM). 7 The current reform space in the medicines supply chain to drive improved efficiency requires that the Program works within the existing organizational structure, while building a foundation for more profound reforms in the future. The focus on improving accountability, information flow and alignment of supply chain units can deliver performance improvements in the short term, while building a performance culture and information base that can support longer term changes. The multi-layered structure of the supply-chain in Mozambique amplifies inefficiencies in the timeliness and quality of information communicated between supply chain units; small delays and inaccuracies at lower levels are aggregated at superior levels, leading to poor communication of demand and supply information, poor visibility of inventory and lack of clarity regarding pipeline and delivery scheduling. 8 Weak alignment of supply and demand can also lead to gaming behaviors (such as tactical over-ordering by delivery units in anticipation of incomplete order filling) that further undermine performance, and increased vulnerability to inventory diversion and wastage. Similarly, inaccurate and irregular provision of order information undermines scheduled distribution, resulting in sub-optimal route planning, multiple ad hoc collections and deliveries, more complex inventory management and monitoring, and poor staff utilization at stocking points.

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6 The Bank and development partners are supporting the Government of Mozambique to develop a road map for a comprehensive health financing strategy. This will include improved costing and prioritization of health programs in Mozambique, including prioritized medicines and system investment needs.
7 The pooled sector fund (Prosaúde) also contributes to medicines procurement, primarily primary health care kits. The Bank has also supported medicines procurement through the Health Commodities Security Project (P121060) and the Health Service Delivery Project (P099930).
9. **Performance allocations and technical assistance to provincial and district warehouses** will incentivize and support more timely and accurate provision of data up and down the supply chain, and reward increased adherence with standard operating procedures for inventory and warehouse management. Increased supervision complements these positive incentives. These improvements, combined with better reporting of medicines availability at health centers, should increase the quality of information available for procurement and distribution planning, and reduce vulnerability to diversion of medicines from the public sector for private sale. Institutional incentives, such as improvements in working conditions and access to training, will help reduce the resistance to such changes, although careful monitoring will be required to assess if these are sufficient to facilitate shifts in behavior. In addition, the Program allows for some performance based allocation to be used to support gap-filling purchases for essential primary care medicines. This will help overcome inefficiencies associated with the restrictions that come with resources available through vertical funds.

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

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

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

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

central political leadership prioritizes school performance as a popular issue may also be an important influence on how successful these reforms will be.

Ownership and Sustainability

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

12. The Program ensures sustainable improvement in practices, with high levels of ownership by the stakeholders. The Program engenders a strong results focused approach to driving change, both at the level of agreed disbursements linked indicators between the Government and the Bank, and the use for performance based payments within sectors. It strengthens information reporting and verification systems as essential corollaries to such results based approaches. It supports experience of cross-sector working, establishes a mechanism to improve management capacity, and builds a cadre of more effective public sector managers. These latter will be better equipped to analyze implementation challenges in their organizations, convene teams to devise solutions, and dynamically manage implementation with due consideration to the importance of understanding inter- and intra-organizational incentives. The Program is fully aligned with strategies and current action plans in both sectors, which set out short and medium term goals and approaches for performance improvement.13

Figure A4.1: Mozambique PFM Vision 2011 - 2025

13. PFM support will be demand driven, with PFM institutions working closely with sector and local agencies as needed. While PFM technical assistance can draw on external consultants where necessary, PFM institutions will be closely involved with the implementation of the Program.

13 In the health sector: (a) CMAM Program for Action 2013, and accompanying Results Framework and (b) Pharmaceutical Logistics Strategic Plan (draft, awaiting approval). In the education sector: The Third Strategic Plan for Education, 2012 – 2016.
This will ensure that capacity development activities are consistent with the directions and approaches of overarching PFM reform. PFM institutions will also be able to learn from and incorporate lessons from sectors into national programs and strategies, and to share experiences across and up and down government.

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

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

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

**Institutional and Implementation Arrangements**

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14 For example, the Bank (with co-funding from the UK Department for International Development) is supporting Service Delivery Indicator surveys in the health and education sectors in 2013 and 2015. These include a number of indicators that are highly relevant to the focus of the Program in the health and education sectors, including availability of medicines in health units and rates of teacher absenteeism.
17. The setup and effective operation of the interdepartmental institutional arrangements, and communication between central ministries provinces, districts and service units, are critical for the Program success. The Government has drafted an operations manual that defines roles, responsibilities, procedures and financial flow arrangements to manage and ensure smooth implementation of the Program. Despite clearly defining the roles and responsibilities of key stakeholders, setting-up the Program as a multi-sector facility will be challenging. The Program Coordination Team will need to be established quickly (a program coordinator has already been identified). The Bank will provide intensive technical and supervisory support, especially during the first year of the Program.

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

Program expenditure framework

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

2. By improving transparency and efficiency, the PFM for Results Program will contribute to more efficient allocation and use of related government expenditures on complete primary school education (including teacher salaries, text books etc.), and medicines procurement. There will also be spillover benefits for the management and use of similar externally financed expenditures. In the health sector, total government procurement of medicines amounted to US$ 66 million in 2013. A further US$ 155 million of medicines were procured by development partners (primarily HIV, TB and malaria medicines). All medicines move through

16 CMAM annual medicines quantification projections, January 2013.
the government supply chain. In addition, the US Government and the Global Fund to Fight AIDS, TB and Malaria invest about US$ 7 million per year in supply chain strengthening (including technical assistance for medicines selection and procurement). In the education sector, total government spending on complete primary schools in 2013 was approximately US$ 172 million. In addition, the education pooled fund (Fundo de Apoio ao Sector da Educação - FASE) contributed a further US$ 52.5 million.17

**Desired Results, Technical Risks & Mitigations**

19. **The Government’s draft program document**18 **provides a comprehensive results framework, from which DLIs are identified.** The program development objective (PDO) is to improve the transparency and efficiency of expenditures for the storage, distribution and availability of medicines and for the management of complete primary schools. In coordination with Government, and support from other development partners, improved performance of these systems will contribute to the better service delivery, further down the causal chain (see Figures A4.2a and A4.2b below). The Program is designed to be accountable for the first-level results in terms of improved performance of these systems including: (i) fiduciary integrity and proper monitoring of medicines storage distribution, and availability; and (ii) transparent and accountable school-based management.

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

- Availability of essential maternal and reproductive health medicines at health facility level.
- Increased number of provinces achieving the minimum acceptable score of compliance with standards for stock management, warehousing, and distribution of medicines as assessed by the CMAM internal audit unit; and
- Increased number of schools with more transparent and accountable school councils.

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

22. **The results indicators are designed to be SMART (specific, measurable, achievable, relevant, and time bound).** Indicators are realistic and reflect a coherent theory of change for the two focus areas based on improvements in both client and intra-system accountability, alignment of delivery system units and improved timeliness and quality of information and financial resource flows (see Figures A4.2a and A4.2b). The Program is embedded within and complements a broader context of Government and development partner support for PFM, education, and medicines supply chain reform (see Annex 1. Table A1.1.2 and Figures A4.2a and A4.2b below).

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

- Improved quality and timeliness of information (DLI 5)
- More efficient and accurate procurement (Indirect - DLI 6)
- Improved management of stock in hand (DLI 2)
- Improved distribution (Indirect - DLI 1, 2, 4 and 6)
- Improved drug availability at health centers (DLIS 1 & 4)

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

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

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

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

- Accurate budget classification for direct grants for schools DLI 8
- Timely disbursement of funds for direct grants DLI 7
- Supportive supervision of school and council performance DLI 9
- School-councils meet standards for transparency and accountability DLI 3
- More effective use of resources contribute to better learning outcomes

**Performance based allocations:**
- Central and Provincial: equipment and operational expenses, performance based salary-top ups
- District level: funds for SDEIT supervision costs, equipment and operational expenses, performance based salary-top ups
- School level: Additional direct grant funds for most-improving complete primary schools

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

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

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

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| **General**                                                          | • Selection of issues that both MoF and line ministries have an incentive to solve as the basis for program design;  
• Reinforcement of collective incentives through the choice of DLIs;  
• Bank support for timely recruitment of PCT  
• Ongoing Bank support across sectors to facilitate dialogue                                                                 |        |             |       |
| Difficulties of inter-ministerial coordination, and management of performance based allocations (particularly flow of funds to implementing units) |                                                                                                                                                                                                         | Moderate | Moderate    | Moderate |
| Challenges in recruiting, training and deploying national staff to provide ongoing public sector management capacity development and support | • Bank supports DNT to develop ToRs, identify and recruit high-quality international TA for training and ongoing QA of national staff  
• Staff identified within public sector institutions centrally and provincially (deployment issue) | Moderate | Moderate    | Moderate |
| Incentives insufficient or poorly targeted to offset potential shifts required in formal/informal benefits of existing institutional arrangements | • Annual review of performance allocations, and capacity development  
• Annual discussion of supporting interventions in sector dialogue                                                                                                                                     | Substantial | Moderate    | Substantial |
| **Medicines Supply Chain**                                           |                                                                                                                                                                                                         |        |             |       |
| Funding constraints for medicines purchase impact on tracer medicines availability (DLI# 1 and 4) | • Two availability indicators focus on medicines with different financing streams  
• DLI medicines (HIV and maternal and reproductive health) are high-priorities for both GoM and health partners (particularly, US Government and GFATM)  
• DLI pricing commensurate with level of government control  
• Sector level performance based allocations support gap-filling purchase of low cost essential primary health care medicines (which are often neglected by vertical funding sources). Allocations of up to US$ 9.6 million are available over the period of the Program, representing approximately 20% of costs for medicines included in primary health care kits.  
• Improved forecasting, stock position visibility and reduced losses may mitigate against short-term funding variability | Moderate | Moderate    | Moderate |
| Changes in physical or accountability structure of the supply chain alter relevance of approach/indicators | • Indicators relevant to short term Pharmaceutical Logistics Strategic Plan\textsuperscript{19} proposals.  
• Flexibility of approach can support implementation of supply chain reform proposals | Low | Moderate | Moderate |
| --- | --- | --- | --- | --- |
| Associated development partner investments focusing on procurement, infrastructure, and last-mile delivery do not materialize | • Extensive preparation phase dialogue with primary supply chain partners to agree focus of support.  
• Availability DLIs most at risk, and priced accordingly. | Moderate | Low | Moderate |
| Quality of medicines purchased using Program funds is poor | • A protocol for sampling, quarantining, testing (in laboratories meeting international standards (e.g. ISO 17025)), releasing or withdrawing consignments of medicines purchased with Program funds to be agreed and incorporated in the Program Operations Manual (completion of which will be a condition of effectiveness). | Moderate | Low | Moderate |

**Education sector**

| Difficulties in engaging, training and retaining community members sufficient for effective and representative school councils | • DLIs focus: on council composition and activity and; role of SDEJTs in providing supportive supervision  
• Bank support to MinEd and SDEJTs to ensure capacity development and performance based allocation well defined, targeted and reviewed on annual basis for adjustment if required | High | Moderate | Substantial |
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<td>Lack of cooperation and support of school director for effective school council management engagement</td>
<td>• Supervision by SDEJTs, and targeting of performance based allocations</td>
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<td>Implementation challenges in implementation of program classification at district level</td>
<td>• Coalition between MoF, Ministry of Health, Ministry of Education and Public works to overcome challenges at various levels</td>
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**Economic Assessment**

**Rationale for Public Sector Delivery - Health and Education Public Sector Service Provision**

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

\textsuperscript{19} These are: CMAM autonomy, extended CMAM mandate for delivery to health facilities, and contracting out of distribution. Longer-term objective for supply chain network redesign is unlikely to be implemented during program implementation.
system of direct grants to school is in operation. For the health sector, decentralization is less well advanced, with the central Ministry of Health retaining decision making powers on investment financing, and provinces playing the leading role with respect to budgeting for recurrent spending. Districts currently play a relatively passive role in planning and budgeting health services. The medicines supply chain currently has the same concentration of budget holding and responsibility at central and provincial levels, and is mapped to the center-province-district structure, with stock holding points at each level. All medicines procured centrally, and all medicines – including those procured by partners – move through the government supply chain (with some contracting out of distribution between warehouses in some provinces).

**Public Sector Performance**

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

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

**Options for Non-State Delivery of Health and Education Services**

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

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20 US$ 66 million funded from the state budget, US$ 13 million funded from the health pooled fund and US$142 million procured by partners.

been implemented, warehouse staff workloads are more predictable (due to fewer ad hoc stock requests), and reductions of 15 – 20 percent have been achieved in distribution costs. By improving the data collection and information flows across the medicines logistics chain, the program will pave the way for a possible scale-up of this pilot initiative, subject to private sector interest and capacity (initial discussions have already taken place regarding how the CHAI/Coke/MISAU project can assist data collection relevant to the PFM for Results Program in provinces also participating in the CHAI/Coke/MISAU pilot. Provinces receiving performance based allocations through the Program may also utilize these funds to support the CHAI/Coke/MISAU project at local level).

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

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

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

Program Development Impact - Program approach and anticipated benefits

30. The incremental program funding, in addition to existing budget lines that will come under the scope of the program, will be US$ 55 million (US$ 50 million Bank financing, US$ 5

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22 Performance based allocations to provinces can be used to contract out distribution, including through the CHAI/Coca Cola partnership. Discussions with CHAI and Coca Cola have identified opportunities for collaboration in provinces currently participating in the initiative, and funds available through the Program can be used to expand the initiatives to addition provinces.

23 Until 2008 central medicines purchasing, customs clearance, storage and distribution was contracted out to a semi-autonomous state enterprise called Medimoc. CMAM was responsible for quantification, planning and oversight. Provinces and districts were responsible for storage and distribution to lower levels. Medimoc still exists, and is contracted by CMAM to manage customs clearance.
million GoM), which will be used to improve the transparency and efficiency of expenditures for the management of the medicines supply chain and complete primary schools. Table A4.2 (below) outlines the potential direct and indirect economic benefits that may result.

Plausibility of Approach - Education

31. A recent World Bank review\(^{24}\) of approaches to strengthening management and accountability in education service notes that reforms must address institutional complexity of the sector. The authors note that: (a) education systems are managerially, technically and financially complex and demanding; (b) most incentives that affect learning outcomes are institutional, and; (c) this complexity makes central planning, management and long-route accountability impractical and inefficient. Hence, local decision making and fiscal decentralization can be important to improving system performance and educational outcomes by making service providers accountable to parents and students (short-route accountability).\(^{25}\)

32. School-based management (SBM) approaches have been developed and implemented in a number of settings to strengthen local decision making and accountability. In general, SBM approaches aim to:\(^{26}\) (a) increase voice and participation by communities in decisions on education service provision; (b) make information on school budgets and performance widely available, and; (c) strengthen the rewards to schools for the delivery of effective services to target communities. These improvements in participation, transparency, accountability and incentives are intended to drive: (a) higher quality education through more efficient and transparent use of resources; (b) more welcoming and improved school environment; (c) increased participation by local stakeholders in decision-making and; (d) improved student performance (lower repetition and drop-out rates, higher test scores).

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

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\(^{25}\) “Long-route” accountability refers to the accountability of public sector service providers to the population mediated through national or local political processes. “Short-route” accountability refers to a direct relationship between services providers and populations that they serve (or should serve). See World Bank. (2004). World Development Report: Making Services Work for the Poor.

### Table A4.2: Potential Direct and Indirect Benefits by DLI (and other relevant indicators)

<table>
<thead>
<tr>
<th>DLI</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Health Sector – Medicines Supply Chain</strong></td>
</tr>
<tr>
<td><strong>DLI#1</strong>: Availability of essential maternal and reproductive health medicines at health facility level</td>
</tr>
<tr>
<td><strong>Year 3</strong>: At least 9.4 percent increase over baseline if DLI met.</td>
</tr>
<tr>
<td><strong>Direct (PFM service delivery systems)</strong></td>
</tr>
<tr>
<td>• Increased and more consistent availability of inventory (essential reproductive health medicines) at service unit level.</td>
</tr>
<tr>
<td><strong>Indirect (service delivery)</strong></td>
</tr>
<tr>
<td>• Consistent availability of family planning medicines avoids costs associated with unintended pregnancies.</td>
</tr>
<tr>
<td>• Availability of maternal health medicines reduces likelihood of birth complications and requirements of more expensive emergency obstetric care.</td>
</tr>
<tr>
<td><strong>DLI#2</strong>: Number of provinces achieving minimum acceptable score from internal audit of compliance with standards for stock management, warehousing, and distribution of medicines</td>
</tr>
<tr>
<td><strong>Year 3</strong>: At least 8 provinces meeting acceptable standard</td>
</tr>
<tr>
<td>• Improved control system adherence and inventory management - including better visibility of stock-in-hand, more accurate recording of receipt and dispatch of goods, better management of near expiry and expired drugs, improved storage conditions – resulting in reduced wastage and lower vulnerability to pilfering and diversion.</td>
</tr>
<tr>
<td><strong>DLI#4</strong>: Proportion of treatment sites with a stock-out of key ARVs at the end of each month</td>
</tr>
<tr>
<td><strong>Year 3</strong>: At least 6 percent reduction in number of stock-outs at health facilities if DLI met</td>
</tr>
<tr>
<td>• Increased and more consistent availability of inventory (high-value anti-retroviral medicines) at service unit level.</td>
</tr>
<tr>
<td>• Consistent availability of ARVs avoids costs related to potential drug resistance and treatment failure for people living with HIV (Note: risk of drug resistance increases dramatically if adherence falls below levels of 90% - 95%).</td>
</tr>
<tr>
<td><strong>DLI#5</strong>: Proportion of districts for which CMAM receives logistics information through the SIMAM system</td>
</tr>
<tr>
<td><strong>Year 3</strong>: At least 13.5% increase in number of districts (to 78%)</td>
</tr>
<tr>
<td>• More accurate and timely information leading to more robust requisitioning and better quantification for procurement.</td>
</tr>
<tr>
<td>• Increases visibility of stock down to district level, allowing more robust analysis of stock-positioning, relative needs and performance of districts. Better information also reduces vulnerabilities to pilfering and diversion.</td>
</tr>
<tr>
<td><strong>DLI#6</strong>: Fill rate of approved requisitions from CMAM clients for tracer medicines</td>
</tr>
<tr>
<td><strong>Year 3</strong>: At least 12% increase in fill rate for tracer essential medicines</td>
</tr>
<tr>
<td>• Improved alignment of supply with demand, resulting in less unmet need and less waste.</td>
</tr>
<tr>
<td>• Better availability of medicines.</td>
</tr>
<tr>
<td>• Costs of associated with non-treatment or inconsistent treatment avoided.</td>
</tr>
<tr>
<td>DLI #3: Proportion of school-councils that comply with defined standards for transparency and accountability (school councils elected according to revised criteria, approved school development plan, and displayed information on resources allocated, planned, and applied)</td>
</tr>
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</tbody>
</table>
| • Increased transparency of the budget.  
• Possibly increases in the level of execution  
• Better application of internal control mechanisms resulting in reduction in the misuse of funds. | • De-concentration of competences and actual decentralization to the service provider units – the schools.  
• Better services provided by the schools.  
• Effective performance of school councils leading to better availability of school resources.  
• Monitoring of teachers and student attendance in the classroom.  
• Better learning outcomes to be substantiated by examination results. |

<table>
<thead>
<tr>
<th>DLI #7: Proportion of complete primary schools receive funds on or before February 28</th>
<th>• Improved budget execution rate.</th>
<th>• Timely availability of schools materials</th>
</tr>
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</table>

| DLI #8: Revised budget classification by sub-sector, configured, and applied | • Increased transparency of the budget.  
• Possibly increases in the level of execution.  
• Better application of internal control mechanisms resulting in reduction in the misuse of funds. | • Effective performance of school councils leading to better availability of school resources.  
• Monitoring of teachers and student attendance in the classroom.  
• Better learning outcomes to be substantiated by examination results.  
• Educated and productive human resource entering the labor market of the country. |
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</tbody>
</table>

| DLI #9: Proportion of schools visited for supervision by SDEJT's | • Better application of internal control mechanisms.  
• Reduction in the misuse of funds. | |
|---|---|---|
Medicines Supply-Chain

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

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

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

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

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

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

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

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

Cost-Effectiveness of the Program

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

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

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

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

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

**Table A4.4: Estimated Value of Efficiency Savings**

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

_Added value of World Bank Intervention_

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

- Long-standing support for, understanding of and engagement with PFM reforms;
- Established and strong working relationships with the Ministries of Financing, Health and Education;
Established and strong working relationships with development partners in the two target sub-sectors: the Bank is currently the Focal Partner of the Education SWAp partners group; and the co-chair of the health sector working group on medicines;

- Technical capacity to support the Government to implement the Program, and to facilitate lesson learning and knowledge sharing.

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

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

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