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PROJECT APPRAISAL DOCUMENT

ON A

PROPOSED CREDIT

IN THE AMOUNT OF SDR 19.6 MILLION
(US\$30.4 MILLION EQUIVALENT)

TO THE

REPUBLIC OF MOZAMBIQUE

FOR A

NATIONAL DECENTRALIZED PLANNING AND FINANCE PROJECT

March 4, 2010

Urban and Water
Country Department AFCS2
Africa Region

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CURRENCY EQUIVALENTS

(Exchange Rate Effective as January 31, 2010)

Currency Unit	=	New Meticais (Mtn)
31.07 Mtn	=	US\$1
US\$1.55	=	SDR 1

FISCAL YEAR

January 1 – December 31

ABBREVIATIONS AND ACRONYMS

AD	<i>Administração Distrital</i> (District Administration)
AT	<i>Assistência Técnica</i> (Technical Assistance)
AWPB	Annual Work Plan and Budget
BdPES	<i>Balanço do Plano Económico Social</i> (Monitoring System of the Annual Government Plan)
CCD	<i>Conselho Consultivo Distrital</i> (District Consultative Council)
CdS	<i>Comité de Supervisão</i> (Supervision Committee)
CdSP	<i>Comité de Supervisão Provincial</i> (Provincial Supervision Committee)
CFAA	Country Financial Accountability Assessment
CFFM	Common Fund Financing Mechanism
CL	<i>Conselho Locais-CLs</i> (Local Councils)
CNCS	<i>Conselho Nacional de Combate ao HIV/SIDA</i> (National AIDS Council)
CPAR	Country Procurement Assessment Report
CPS	Country Partnership Strategy
CQS	Consultants' Qualification
CUT	<i>Conta Única de Tesouro</i> (National Treasury Account)
DAC	Development Assistance Committee
DCP	<i>Departamento de Contabilidade Pública</i> (Public Accounting Department)
DNO	<i>Direcção Nacional de Orçamento</i> (National Budgeting Directorate)
DNP	<i>Direcção Nacional de Planificação</i> (National Directorate of Planning)
DNT	<i>Direcção Nacional do Tesouro</i> (National Treasury Directorate)
DPFP-Centro	Decentralized Planning and Finance Project –Central
DPFP-N	Decentralized Planning and Finance Project –North
DPO	<i>Departamento de Plano e Orçamento</i> (Plan and Budget Department)
DPOPH	<i>Direcção Provincial de Obras Públicas e Habitação</i> (Provincial Directorate of Works and Housing)
DPPF	<i>Direcção Provincial de Plano e Finanças</i> (Provincial Directorate of Planning and Finance)
DTT	District Technical Team
EPAP	<i>Equipa Provincial do Apoio a Planificação</i> (Provincial Planning Support Team)
e-SISTAFE	(Computerized Registration System of SISTAFE)
ESMF	Environmental and Social Management Framework
FM	Financial Management
GCCC	The Central Office for Combating Corruption (<i>Gabinete Central de Combate à Corrupção</i>)

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GoM	Government of Mozambique
GT	Grupo Técnico (Technical Group) also EPAP
GTZ	German Agency for Technical Cooperation
IAP	<i>Inspecção Administratvo Provincial</i> (Provincial Administrative Inspectorate)
IC	Individual Consultants
ICB	International Competitive Bidding Contracts
IDA	International Development Association
IFMIS	Integrated Financial Management Information System
IGAE	<i>Inspecção Geral da Administracção do Estado</i> (General Inspectorate for State Administration)
IGF	<i>Inspecção Geral de Finanças</i> (General Inspection of Public Finance)
INE	<i>Instituto Nacional de Estatística</i> (National Statistics Institute)
KfW	<i>Kreditanstalt Fur Wiederaufbau</i> (German Development Cooperation)
KPIs	Key Performance Indicators
LED	Local Economic Development
LCS	Least-Cost Selection
LIGs	Local Investment Grants
LOLE	Law on Local Organs of State (<i>Lei dos Órgãos Locais do Estado</i>)
M&E	Monitoring and Evaluation System
MAE	<i>Ministério da Administração Estatal</i> (Ministry of State Administration)
MF	Ministry of Finance
MFP	<i>Ministério da Função Pública</i> (Ministry of Public Service)
MICOA	<i>Ministério para Coordenação Ambiental</i> (Ministry for Coordination of Environmental Action)
MOPH	<i>Ministério das Obras Públicas e Habitação</i> (Ministry of Works and Housing)
MoU	Memorandum of Understanding
MPD	Ministry of Planning and Development
MTEF	Medium-Term Expenditure Framework
NCB	National Competitive Bidding
N-DPPF	National Decentralized Planning and Finance Project
NGO	Non-Governmental Organization
O&M	Operation and Maintenance
OE	<i>Orçamento do Estado</i> (State Budget)
OECD	Organization for Economic Co-operation and Development
OIIL	<i>Orçamento de Investimento de Iniciativa Local</i> (Local Budget for Local Investment Initiatives)
OP	Operational Policy
PAD	project appraisal document
PARPA	<i>Plano de Acção de Redução de Pobreza Absoluta</i> (Action Plan for the Reduction of Absolute Poverty)
PDO	Project Development Objective
PEDD	<i>Plano Estratégico de Desenvolvimento Distrital</i> (District Strategic Development Plan)
PEFA	Public Expenditure and Financial Accountability
PEP	<i>Plano Estratégico Provincial</i> (Provincial Strategic Plan)
PES	<i>Plano Económico Social</i> (Economic and Social Plan)
PESOD	<i>Plano Económico Social e Orçamento Distrital</i> (District Operational Plan and Budget)
PESOE	<i>Plano Económico Social e Orçamento do Estado</i> (National Operational Plan and Budget)

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PESOP	<i>Plano Económico Social e Orçamento Provincial</i> (Provincial Operational Plan and Budget)
PETS	Public Expenditure Tracking Survey
PFM	Public Financial Management
PLACOR	Strategic and Operational plan of the Administrative Court
PIU	Project Implementation Unit
POT	<i>Planos de Ordenamento Territorial</i> (Territorial Planning)
PRODER	Programa de Desenvolvimento Rural – GTZ (Rural Development Program)
PROMAPUTO	Maputo Municipal Development Program
PRSP	Poverty Reduction Strategy Program
PSR	Public Sector Reform
RESP	Review of the Economic and Social Plan
RFP	Request for Proposal
RPF	Resettlement Policy Framework
SBDs	Standard Bidding Documents
SDC	Swiss Development Cooperation
SIL	<i>Subsidio de Investimento Local</i> (Local Investment Grants)
SISTAFE	<i>Sistema de Administração Financeira do Estado</i> (State Financial Administration System)
SMPD	<i>Sistema de Monitoria dos Processos Distritais</i> (District Performance Monitoring System)
SP	<i>Secretário Provincial</i> (Provincial Secretariat)
SSS	single source selection
TA	<i>Tribunal Administrativo</i> (Administrative Tribunal)
TAL	Technical Assistance Loan
ToR	Terms of Reference
UFSA	<i>Unidade Funcional de Supervisão das Aquisições</i> (Central Procurement Unit)
UGB	<i>Unidade de Gestão Beneficiária</i> (State implementation agency without e-SISTAFE terminal)
UGE	<i>Unidade de Gestão Executora</i> (State Implementation Agency with e-SISTAFE terminal)
UGEA	<i>Unidade de Gestão e Execução de Aquisições</i> (Unit for Execution and Management of Acquisition-Procurement Unit)
UNCDF	United Nations Capital Development Fund
UNDP	United Nations Development Program
UNICEF	United Nations Children's Fund
UTRAFE	<i>Unidade Técnica de Administração Financeira do Estado</i> (Technical Department for the State Financial Management)
WB	World Bank

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Sector Director:	Inger Andersen
Country Manager	Luiz Awazu Pereira da Silva
Sector Manager:	Jaime Biderman
Task Team Leader:	Ali Alwahti

MOZAMBIQUE

National Decentralized Planning and Finance Project

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MOZAMBIQUE

NATIONAL DECENTRALIZED PLANNING AND FINANCE PROJECT

PROJECT APPRAISAL DOCUMENT

AFRICA

AFTUW

Date: March 4, 2010	Team Leader: Ali Alwahti
Country Director: Luiz A. Pereira da Silva	Sectors: Sub-national government administration (100%)
Sector Director: Inger Andersen	Themes: Decentralization (100%)
Sector Manager: Jaime M. Biderman	Environmental category: C
Project ID: P107311	
Lending Instrument: Technical Assistance Loan (TAL)	

Project Financing Data

Loan Credit Grant Guarantee Other:

For Loans/Credits/Others:

Total Bank financing (US\$m.): 30.40

Proposed terms: 40 years, including a grace period of 10 years.

Financing Plan (US\$m)

Source	Local	Foreign	Total
BORROWER/RECIPIENT	0.00	0.00	0.00
DEVELOPMENT PARTNERS: Netherlands, Ireland, Switzerland (Common Fund Partners)	1.60	5.70	7.30
DEVELOPMENT PARTNERS: German Cooperation/GTZ, UNDP (Non Common Fund Partners)		8.60	8.60
International Development Association (IDA)	6.20	24.20	30.40
Total:	7.80	38.50	46.30

Borrower:

Government of the Republic of Mozambique
Mozambique

Responsible Agency:

Ministry of Planning and Development
Av. Ahmed Sekou Toure, 21
Maputo, Mozambique

Tel: 258 21 490006/7 Fax: 258-21-492-708

Estimated disbursements (Bank FY/US\$m)						
FY	2010	2011	2012	2013	2014	2015
Annual	2.00	9.10	8.00	6.40	3.80	1.10
Cumulative	2.00	11.10	19.10	25.50	29.30	30.40
Project implementation period: Start: March 30, 2010 End: June 30, 2015 Expected effectiveness date: June 30, 2010 Expected closing date: June 30, 2015						
Does the project depart from the CAS in content or other significant respects? <i>Ref. PAD I.C.</i> <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No						
Does the project require any exceptions from Bank policies? <i>Ref. PAD IV.G.</i> <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No						
Have these been approved by Bank management? <input type="checkbox"/> Yes <input type="checkbox"/> No						
Is approval for any policy exception sought from the Board? <input type="checkbox"/> Yes <input type="checkbox"/> No						
Does the project include any critical risks rated "substantial" or "high"? <i>Ref. PAD III.E.</i> <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No						
Does the project meet the Regional criteria for readiness for implementation? <i>Ref. PAD IV.G.</i> <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No						
Project development objective <i>Ref. PAD II.B., Technical Annex 3</i> The project development objective is to improve the capacity of local government to manage public financial resources for district development in a participatory and transparent manner.						
Project Components <i>Ref. PAD II.C.</i>						
Component 1: Improving National Support Systems This component consists of technical assistance to the central and provincial levels to further develop and strengthen national systems designed to facilitate technically, economically, financially, environmentally and socially sound decentralized planning and finance and the integration of local planning instruments into the national planning cycle.						
Component 2: Strengthening Participatory Planning and Budgeting This component focuses on improving the quality and scaling up coverage of five-year district strategic development plans (PEDDs) and annual district operational plans and budgets (PESODs).						
Component 3: Enhancing Management and Implementation Capacity This component supports the management and execution of the PEDD and PESOD by (i) improving the capacity of districts to implement public investments in various sectors at the local level; (ii) providing training to civil servants in administration, financial management, procurement and revenue collection, and safeguards, and (iii) implementing the national system of monitoring and evaluation at the local level.						
Component 4: Strengthening Oversight and Accountability This component supports activities that strengthen internal inspection and external auditing of financial management and administrative procedures to promote greater transparency and public						

accountability by (i) extending the coverage of inspections and audits in provinces and districts; (ii) strengthening the internal control system in provinces and districts; (iii) improving citizens' participation in the oversight of public management.

Component 5: Knowledge Management

This component ensures that the knowledge and experiences generated by the project are collected, systematized, and disseminated so as to ensure continuous learning and influence policy development through demonstration.

Component 6: Effective Project Management and Coordination

This component strengthens the capacity of government at the central and provincial levels to manage and institutionalize the project.

Component 7: Activities Funded Outside of the Common Fund

This component involves a targeted program of capacity building in selected provinces to facilitate further decentralized planning and finance at the provincial and district levels in these provinces, and will be integrated into the other six components.

Which safeguard policies are triggered, if any? *Ref. PAD IV.F., Technical Annex 10*

This Project is a Technical Assistance Loan and will not finance infrastructure investments or other work that could generate any adverse environmental or social impacts and is therefore classified as Category C.

Significant, non-standard conditions, if any, for:

Ref. PAD III.F.

Board presentation: None

Effectiveness

1. A financial management (FM) consultant has been hired at the Ministry of Planning and Development (MPD) to work with the National Directorate of Planning (DNP), and FM training has been completed.
2. A Project Implementation Manual, including FM procedures, and a Procurement Manual have been adopted.
3. Baseline data for the Results Matrix for all districts have been updated based on final 2009 findings.
4. The Memorandum of Understanding (MoU) has been signed by all the parties.

Covenants

1. The Recipient is to prepare the proposed annual work plan of activities and the

plan for the following year per the MoU, not later than October 31 in each fiscal year, and is to implement the plan approved by the Bank; disbursement percentages for each year will be determined by the Bank on the basis of this plan.

2. External auditors for the project are to be hired (within 3 months of effectiveness).
3. Guidelines and templates are to be elaborated and disseminated by districts for the publication of information related to their annual investment plans, budgets, execution, contracts and audits (within 6 months of effectiveness).
4. An analysis of the operation and maintenance (O&M) requirements for district infrastructure and of the budget implications of the DFPF National at Central, Provincial and District levels is to be carried out, with the objective of formulating recommendations for a short-, medium-, and long-term sustainability strategy (by December 31, 2010).
5. A study is to be undertaken of the legal and institutional requirements applicable to districts in the areas of local strategic and operational planning, budgeting, management and execution, accountability, and internal control and audits; on the basis of that study, general user district manuals are to be prepared (by December 31, 2010).
6. A framework is to be prepared and adopted for the assessment and management of environmental and social aspects of district-level investments, in order to ensure that these investments are developed and implemented in an environmentally and socially sound and sustainable manner (by December 31, 2010); an evaluation of districts' application of this framework is to be carried out (by December 31, 2012).
7. Two studies on community participation in district planning are to be conducted (by December 31, 2012, and December 31, 2014, respectively).
8. All district technical consultant staff contracted under the project and financed out of the proceeds of the financing are to be included in the civil service payroll within two years of their initial recruitment.
9. An evaluation of technical assistance (TA) is to be conducted, using independent consultants provided under the project (by June 30, 2012).
10. An SMPD report on districts' and provinces' relative performance is to be published annually, commencing with fiscal year 2011 (by July 31 of each year, covering the previous year's performance).

Special events of suspension

1. The International Development Association determines that an event has occurred that makes it unlikely that the government's program (as outlined in its Letter of

Sector Commitment) or a significant part of it will be carried out.

Retroactive financing up to an aggregate of US\$100,000 equivalent will be allowed for eligible expenditures paid prior to the date of the Financing Agreement but on or after January 1, 2010.

I. STRATEGIC CONTEXT AND RATIONALE

A. Country and sector issues

1. Despite the last decade's sustained high economic growth rates and concomitant reduction in absolute poverty, Mozambique remains a very poor country, one where the majority of people live in rural areas and depend on agriculture for their livelihood. Access to public services is severely limited in many rural areas, and human development in Mozambique, although improving, remains low compared to other countries in southern Africa. To address rural poverty and to bring the management of public services closer to the people, the Government of Mozambique (hereafter, the government) has chosen decentralization as an explicit method for achieving many of the objectives of its second Poverty Reduction Strategy (PRSP or PARPA II), including its vision of districts as the '*polo de desenvolvimento*' (Pole of Development).

2. A free-standing decentralization policy does not yet exist, but the core principles of one may be found within the Constitution of Mozambique. However, to make the policy objectives more specific and practical, the government is preparing a decentralization strategy, expected to be approved by the Council of Ministers in 2010, which will consolidate the government's approach to decentralization. The National Decentralized Planning and Finance Project (N-DPFP) is considered a critical cross-cutting program for putting into practical application the Constitution, the Poverty Reduction Strategy (PARPA), and the forthcoming Decentralization Strategy, as well as supporting the implementation of other recent legislation such as the Law on Local Organs of State (LOLE) and the State Financial Administration System (SISTAFE) at the local level. These last two laws provide the legal basis for the approach to decentralized planning and public financial management in Mozambique and, while implementation has been piloted in some provinces, N-DPFP will scale up and harmonize implementation across all 128 existing districts in all of the 10 provinces. Since along with other donors the IDA credit will finance N-DPFP, the project is referred to as "the project" in the PAD.

3. Capacity constraints in the public sector are one of the major bottlenecks in Mozambique. Mozambique has embarked on an ambitious Public Sector Reform Program which is central to the country's medium- and long-term development strategy. The proper functioning of state bodies and their ability to deliver public services to citizens are a cornerstone of PARPA. The gradual process of decentralization, and N-DPFP in particular, is the main tool of government policy to pursue all of these PARPA goals at a local level.

4. The process of decentralization in Mozambique is therefore nested within this context of public-sector reform. The model of decentralization and deconcentration adopted in Mozambique, and the concept of local governance, stems from the early period of national independence. Elected municipal governments were established under the municipal framework law of 1997 in 33 areas with urban features, while provinces and administrative districts were set up as deconcentrated entities in the rest of the country, with appointed administrations. In 2008,

the 33 municipalities defined in 1997 were expanded to 43. It should be noted that unlike many of Mozambique's neighbors, particularly those with British colonial legacies, there was not a strong tradition of local government in Mozambique and, therefore, district capacity after the peace accord was almost nonexistent.

5. The deconcentration of functions to the districts has gained momentum since the passing of LOLE in 2003 and its regulation in 2005. The LOLE provides the legal framework for district government and builds on the Constitution by indicating a model for participatory governance. This emphasizes the role of districts as development poles and is the foundation of the planning system in Mozambique. The LOLE provided the impetus for reforming districts to be more service-oriented and gave them the status of "budgetary unit" for the first time. As a result, districts became the recipients of small direct fiscal transfers to support their recurrent and investment budgets for the first time in 2006, replacing the previous discretionary allocation of funds by provinces.

6. The LOLE provides the basis for the model of deconcentrated planning that underpins the proposed project, as it designates the district government as the local state body empowered to carry out the government's program and its annual Economic and Social Plan at the local level. The district planning process is further detailed in the regulation of the LOLE (decree 11/2005). In terms of participatory strategic planning, LOLE requires each district to elaborate a five-year strategic and development plan, called *Plano Estratégico de Desenvolvimento Distrital* (PEDD). The elaboration of these plans was first piloted in 1995, and most districts now have five-year strategic plans approved. Some of the pilot districts have evolved beyond their first plan and are on second or third generation strategic plans. These plans, together with provincial and central level sector and strategic plans provide the basis for annual planning and budgeting via an operational plan and budget known as the *Plano Económico Social e Orçamento Distrital* (PESOD). However, these are recent phenomena at the district level and they are currently extremely limited in coverage and quality. As Mozambique pursues decentralization through deconcentration of resources and competencies, the districts have become an increasingly important government sphere. The project will therefore support the development of the strategic and annual operational plans to improve the quality of the planning process and the plans themselves, the harmonization between district level planning and planning at the provincial and central levels, and harmonization with sector plans. In this way, the project strengthens integrated territorial and sectoral planning throughout the country. It should be noted, however, that according to the Medium-Term Expenditure Framework (MTEF), the total discretionary budget allocation to districts will remain less than 3 percent of the national budget through 2012.

7. The decision of the government to formulate N-DPPF is predicated on the need to consolidate and implement these recent developments in the legal framework and to mainstream and harmonize the lessons learned from the partner-supported decentralized planning and finance projects. The introduction of the District Investment Budget, combined with increasingly deconcentrated sector funds, has meant that N-DPPF can now focus on technical support to assist districts in elaborating and managing the implementation of district plans rather than providing funding for the investments themselves. Implementation of plans will be funded by the districts and sectors as part of the budget and planning system of the government. The Letter of Sector Commitment, signed in January 2010, sets out the government's perspective and its commitment

to gradual decentralization in Mozambique (see Annex 14). It lays out the recent developments and commitments that were met during the first project, and sets out the government's vision for the next five years along with key aspects of its planned decentralized planning and finance program going forward. It clearly shows that the Government is committed to decentralization and has a vision supported under N-DPPF.

8. In addition to the planning process, the project will support improvements in public financial management at the district and provincial levels, a major focus of DPFP-Centro (Mozambique's previous IDA-financed project) and considered generally successful. Since 2002, finance administration has been guided by SISTAFE and its subsequent regulations (2004). The SISTAFE law is aligned with international good practice and sets out a vision for sound public financial management in Mozambique. It covers the five main areas of public sector budgeting, treasury operations, accounting, fixed asset management, and internal control (known as 'sub-systems' of SISTAFE). Implementation is carried out through the state financial management system known as e-SISTAFE. This is an electronic system that the government is rolling out throughout the country on its computer network. By the end of 2008, e-SISTAFE coverage included all central-level ministries, all 10 provincial governments, and 50 of the 128 districts. Further roll-out to the districts is planned for the coming years, depending on improvements to electricity, telecommunication connections and the expansion of the banking network in the districts. For the remainder of the districts, transactions are undertaken manually at the district level and entered into the treasury sub-system module at the provincial level. The implementation and putting into application of the SISTAFE law can be done manually for districts where electricity is a problem. So far, experience from the project level has shown that roll-out of the SISTAFE law with the necessary support (and e-SISTAFE where available) has had a positive impact on improving financial management, whether or not management was on e-SISTAFE, at the district level. The project will therefore continue to support the districts and provinces in the strengthening of public financial management in order to continue to improve and scale-up operationalization of these laws. The project is not, however, responsible for the rollout of the e-SISTAFE in districts as this is part of another program.

9. It is important to note from the outset that N-DPPF is not envisaged as a policy-oriented decentralization project, but is focused on technical assistance and capacity building to replicate and scale up good practices, carry out the many legal and policy changes, and cover all districts in the 10 provinces to ensure that lessons learned from the first years of implementation of the LOLE and SISTAFE laws are replicated and mainstreamed. This is particularly important in the current context, where policy progress is not linear or predictable as is typical of many decentralization processes. What is uncontested, however, is the need to increase the capacity of districts to implement existing legislative requirements and to improve basic public sector management at a local level. This is critical for improved service delivery at the local level irrespective of the extent of devolution versus deconcentration of functions (both of which fall under the broader banner of "decentralization"). The N-DPPF is therefore focused on consolidating and scaling up the necessary skills and systems building approach to date, and assisting the government in institutionalizing and implementing many of the requirements in the LOLE and SISTAFE laws and regulations, as well as improving the overall intergovernmental budget and planning system.

10. Development partners, such as the World Bank, UNDP/UNCDF, and the German Agency for Technical Cooperation (GTZ) have supported this process of decentralization through three similar projects since UNDP/UNCDF pioneered support to the district governments in Nampula Province in 1998. These projects have supported capacity building for district governments with respect to participatory strategic and operational planning, public financial management, and the implementation of small infrastructure investments. In 2006, the financing partners of the three projects collaborated with the government in a joint review of experience to date, which led to an agreement on the need for a unified national framework of support for planning and finance at the local level. The focus of N-DPFP would remain strengthening the building blocks of any system of local government, no matter how devolved, including integrated planning and budgeting, accountability and transparency, sound financial management, procurement and community participation, and oversight.

11. The new project will support all the strategic priorities of the overall public sector reform in Mozambique at the district level. It will build on lessons learned from the three partner-funded projects that preceded N-DPFP and scale them up to ensure national coverage and a harmonized approach.

B. Rationale for Bank involvement

12. The Country Partnership Strategy (CPS) for Mozambique 2008-2011 has been designed to complement the government's second Action Plan for the Reduction of Absolute Poverty (PARPA II, 2006-09), which aimed to reduce poverty from 54 percent to 45 percent in 2009 and to promote rapid, inclusive, and sustainable growth. PARPA II focuses particularly on development at the district level, the creation of an enabling environment for economic growth, an improved financial management system, the promotion of small and medium-size enterprises, and improved management of internal and external revenues.

13. The CPS is aligned with PARPA and rests on three pillars: (i) increased accountability and public voice, (ii) equitable access to key services, and (iii) sustainable and broad-based growth. N-DPFP will directly contribute to achieving results in all three pillars through its focus on improving local service delivery, achieving better public financial management, and strengthening good governance and stronger citizen oversight.

14. Through N-DPFP, the World Bank will contribute to the consolidation and deepening of the results and good practices achieved to date and their further integration into the national system of planning, management, and service provision at the local level. N-DPFP will provide much needed technical, methodological support for the change management process and strengthen the local foundation for deconcentrating sector competencies and functions already under way or being considered by sector ministries.

15. The World Bank is considered a key partner by the government as well as the other development partners, and it brings significant technical knowledge about public sector reform processes, decentralization, governance, and accountability that are crucial for this project and most other projects in the portfolio. The World Bank has been closely engaged with the government on the policy and practical requirements for strengthening the capacity of both

districts and municipalities since the mid-1990s and is widely considered the major partner in this area. While N-DPFP is focused on capacity building, the IDA team is actively engaged in the policy dialogue on decentralization as the agenda unfolds and facilitates the synergies between the N-DPFP and numerous other World Bank financed projects in Mozambique, including such cross-cutting ones as Public Sector Reform (PSR), rural development, and Public Financial Management (PFM) (including audits), as well as the many sector programs that are increasing targets for deconcentrated service delivery.

C. Higher level objectives to which the project contributes

16. N-DPFP will assist in strengthening, expanding, and harmonizing the experiences and methodologies of the existing projects into a national integrated project for participatory planning and development at the district level. Experience to date demonstrates that (i) significant improvements can be made in the capacity of district governments to plan, budget, and execute local development initiatives in a transparent manner; (ii) positive impacts can be achieved for local economic development through stimulation of demand for locally produced goods, services, and local infrastructure; and (iii) success can be gained in stimulating local accountability by supporting the creation of local consultative councils now functioning in most districts and recently enshrined in legislation.

17. The project supports the results of all three pillars of the existing Country Partnership Strategy (CPS) for Mozambique. The pillar for increased accountability and public voice includes outcomes related to improved planning and budgeting at the central, district, and municipal levels, improved government fiduciary systems, and improved government information and communication systems. The project directly contributes to all of these outcomes by focusing on strengthening the national system of planning and budgeting, with a specific focus on district level plan elaboration and implementation. Further, in terms of public financial management, it will strengthen fiduciary systems at the local level and includes support to the *Tribunal Administrativo* (TA) and *Inspecção Geral de Finanças* (IGF) for external and internal controls at the district level. The project also contributes to the development of a national system of monitoring and evaluation of government performance at the deconcentrated level that will facilitate improved flows of information and knowledge relating to development outcomes and constraints between different tiers of government.

18. Improving communication between citizens and government is an explicit strategy of the project in order to ensure increased demand for accountability, and communication systems and strategies are an integral part of the design. Pillar II of the CPS is the long-term goal of projects such as N-DPFP, which support equitable access to key public services. The project contributes to this long-term goal by supporting the elaboration and implementation of participatory district development plans and budgets that address service delivery challenges at the decentralized level with improved bottom-up planning. The project also contributes to the harmonization and alignment of district level plans and budgets with provincial, sectoral, and national plans. As decentralization advances, the project will focus increasingly on working with the service delivery sectors to further target services in accordance with local priorities.

19. By supporting strategic and operational district planning and subsequently improving local infrastructure development and service delivery, districts will increasingly stimulate their local economies. The project therefore contributes indirectly but significantly to the economic growth pillar of the CPS. N-DPPF's objectives are therefore encapsulated in the CPS – improved governance and service delivery, increased accountability, and the stimulation of local enterprise to meet local demand. Lastly, N-DPPF focuses on establishing the foundation at a local level upon which sector and private-sector initiatives can build more effectively – namely, public-sector capacity building and accountability.

II. PROJECT DESCRIPTION

A. Lending instrument

20. The lending instrument proposed is a Technical Assistance Loan (TAL) to be channeled through the National Treasury Account (*Conta Única de Tesouro* or CUT) of the Republic of Mozambique. The TAL will be the World Bank's contribution to a Common Fund that will finance part of the activities under the project. A local investment grant (SIL) was initially proposed but ultimately discarded given the technical assistance focus of the project and the clear absence of any physical infrastructure work to be financed through the Common Fund. A Development Policy Loan had also been considered but was rejected given the focus on technical support rather than on policy and a decision to avoid upfront conditionality.

B. Project development objective and key indicators

21. The project development objective (PDO) is to improve the capacity of local government to manage public financial resources for district development in a participatory and transparent manner. The PDO is similar to that of the previous project (DPFP-Centro) with a focus on strengthening the capacity of the district governments. However, it now incorporates an increased focus on better integrating district planning and budgeting into the national systems and the scaling-up, institutionalization and mainstreaming of best practices as important goals for the second phase. The PDO was defined and agreed upon by the government and all development partners in a series of workshops since late 2006 and finalized in a Monitoring and Evaluation workshop held in June 2009. It represents a consensus between the views of different participating agencies.

22. The main target group for the project is civil servants at provincial and district levels involved in the consolidation of decentralized and participatory planning processes, public financial management systems, and the monitoring of local development at the district level. The project will also support central government through technical support to participating ministries and will indirectly support civil society and the private sector in rural areas through its emphasis on voice and on participation in and stimulation of local demand and supply. However, the ultimate beneficiary of the project, as reflected by the goal, is the population of rural communities, which should benefit from better service provision and increased participation as a result of the capacity building of district governments.

23. At all levels of government concerned with district performance, the objective of N-DPFP is to mainstream and institutionalize improved public-sector management practices through mentoring and technical assistance and to ensure the transfer of skills and/or integration of such assistance into the system in a sustainable way. Therefore, full ownership of technical assistance and its integration into government institutions and reporting systems is critical. Progress toward the project's objectives will be measured annually through key performance indicators (KPIs) detailed in the project results framework matrix (see Annex 3).

Key performance indicators

24. N-DPFP has a strategy for monitoring and evaluation that has been developed over a number of years and consolidated into a Results Matrix, Monitoring Plan, and Evaluation Plan (see Annex 3 and Operations Manual).

25. The Results Matrix and Monitoring Plan build on extensive consultation and prior experience in monitoring within the government and partner community. The Results Matrix was finalized in a collaborative workshop in June 2009. It incorporates the key performance indicators for the project by objective and by component outcome. These indicators were also selected to be measurable from the outset, and to the extent possible can be drawn from existing systems such as e-SISTAFE or monitored through existing reporting mechanisms.

26. The PDO indicators were selected to reflect the overall objective of the project, namely the improvement in the ability of district governments to manage public resources, partly through the inclusion of mechanisms to enhance transparency and community participation. The component indicators provide intermediate outcome indicators that contribute to the overall PDO. The PDO indicators are therefore:

	PDO Indicator	Use of Results Information
1	Number of districts with more than 90% budget execution of their district operational plan and budget (PESOD)	Contributes to an improvement of plan quality and efficiency in plan execution
2	Number of districts with annual PESOD execution report publicly displayed and discussed by district councils in accordance with guidelines	Contributes to improved transparency and community oversight of both strategic and operational plan implementation
3	Number of districts that report on district performance in decentralized planning and finance through the District Performance Monitoring System (SMPD)	Enables all involved institutions at the provincial and district level to understand in detail how their performance affects the overall functioning of the five decentralized planning and finance district processes and to define actions to improve such performance

C. Project components

27. N-DPFP scales-up and harmonizes existing approaches to district planning and development such as the elaboration of the five-year strategic plans (PEDD) and the annual operational planning and budgeting instrument (PESOD) as piloted by several development partners, including IDA. N-DPFP will further develop and implement existing policies and regulations with a focus on institutional strengthening and systems development and capacity building at the district, provincial, and central levels of government. In contrast to previous projects, N-DPFP will cover all 128 districts in the 10 provinces of Mozambique. Technical assistance will be provided through the project at the central and provincial levels of the administration for both strategic and operational planning and management.

28. The project structure is multi-sectoral and designed to promote an integrated, territorial approach to district planning and financial management. The design has evolved based on experience and the evaluation of lessons learned and needs expressed in a series of workshops with representatives from central, provincial, and district government and civil society, as well as development partners and technical consultants. The core themes of planning and budgeting, financial management, participation and accountability are reflected in activities at both central and local government level, with central-level activities designed to support delivery and implementation at the sub-national level. In this sense, the project was conceived to reflect the functional differentiation between various tiers of government, with central government institutions playing a policy development, supervisory, regulatory, and monitoring role and provincial and district institutions involved more directly in implementation and monitoring.

29. The N-DPFP approach provides support to provincial and district Governments to fulfill their mandates in relation to a set of “core processes” in local strategic and operational planning, budgeting, management and execution, accountability and “control” (audits). All of these have a legislative basis (under LOLE and SISTAFE laws) but there is a need for capacity development and practical implementation, which have been very limited in practice. The project provides technical assistance to central government institutions to support these core processes by ensuring that there is an appropriate and conducive policy and legal framework for them, adequate development of methodological instruments, and other guidelines, and by strengthening the institutional capacity for project management, knowledge management, and training. Technical assistance is a vital part of the project; central and provincial government will play a key role in the management, evaluation, and quality assurance of technical assistance.

30. The project has the following seven components. The first six components will be financed by IDA together with certain co-financiers under a pooled arrangement (i.e., Netherlands, Ireland, and Switzerland, known here as “Common Fund Partners”); the seventh component will be financed outside the pooled arrangement by the other cofinanciers (UNDP and the German Agency for Technical Cooperation or GTZ, known here as “Non-Common Fund Partners”).

Component 1: Improving National Support Systems (*Estimated full cost US\$3.9 million, of which IDA US\$3.2 million*). This component consists of technical assistance to the central and provincial level to further develop and strengthen national systems

designed to facilitate decentralized planning and finance and the integration of local planning instruments into the national planning cycle in ways that are technically, economically, financially, environmentally, and socially sound. It will also inform policy formulation for decentralization through the provision of analyses and experiences on the ground. The component will support activities to help develop policy and legal instruments as well as methodologies, guidelines, manuals, and the system for monitoring and evaluation of the five district planning and finance processes. It will further support activities at a central level that aim to strengthen human resources management at the district and provincial level through the development of training programs, curricula, and the training of trainers for the “core processes” at the district level.

Component 2: Strengthening Participatory Planning and Budgeting (*Estimated full cost US\$13.2 million, of which IDA US\$10.4 million*). This component will focus on improving the quality and scaling up coverage of the five-year district strategic development plans (PEDDs) and the development, scaling up and quality of the annual district operational development plans and budgets (PESODs). It will strengthen community participation in the planning and budgeting process by strengthening the capacity of local consultative councils and the district governments to effectively participate in this process. This is a highly resource-intensive component given the need for direct training and technical assistance to all provincial and district planning teams on the many modules for development of the PEDD and PESOD. It also targets consultative council members and other district officials.

Component 3: Enhancing Management and Implementation Capacity (*Estimated full cost US\$11.6 million, of which IDA US\$9.2 million*). This component implements the systems and tools developed by components 1 and 2 at the district level. It supports the management and execution of the PEDD and PESOD by (i) improving the capacity of districts to implement public investments in various sectors at the local level; (ii) providing training to civil servants in administration, financial management, procurement and revenue collection, and safeguards, and (iii) implementing the national system of monitoring and evaluation at the local level. This component integrates training modules and manuals on HIV/AIDS as part of the district and provincial planning process.

Component 4: Strengthening Oversight and Accountability (*Estimated full cost US\$0.4 million, of which IDA US\$0.3 million*). This component supports activities that strengthen the internal inspection and external auditing of financial management and administrative procedures to promote greater transparency and public accountability by (i) extending the coverage of inspections and audits in provinces and districts; (ii) strengthening the internal control system in provinces and districts; and (iii) improving the participation of citizens in the oversight of public management. Further, the component supports intergovernmental coordination of key actors in internal and external audit control and strengthen the dissemination of the results of the control process in an accessible manner. This component will be complemented by another Common Fund for the *Tribunal Administrativo* under a separate project, known as PLACOR, which is financed by Netherlands, Sweden, Finland, and Germany. Activities under this component will therefore be coordinated closely with the activities under PLACOR.

Component 5: Knowledge Management (*Estimated full cost US\$0.5 million, of which IDA US\$0.4 million*). This component ensures that the knowledge and experiences generated by the project are collected, systematized, and disseminated so as to ensure continuous learning and influence policy development through demonstration. This will ensure that the development of national policies and strategies can increasingly be based on tried and tested practices and accumulated knowledge at the local level. These will be disseminated through a range of instruments including good practice notes, a website, case studies, use of other ICT options (e.g. radio) and peer review mechanisms.

Component 6: Effective Project Management and Coordination (*Estimated full cost US\$4.8 million, of which IDA US\$3.9 million*). This component strengthens the capacity of government at the central and provincial levels to manage and institutionalize the project. It provides technical assistance to strengthen the capacity of the Decentralized Planning Department which has been created within the Ministry of Planning and Development (MPD). This department is part of the new organizational structure for MPD that was formalized during project preparation. Since it is a new department, there will be a need for long-term technical advisors to strengthen its capacity to plan and manage the project as well as handle monitoring and evaluation. This component will support these key functional areas. It will also coordinate key sector ministries in their management and participation in the project. It has been well documented that the success or otherwise of a decentralization project depends considerably on the capacity of the central government to manage the process effectively.

Component 7: Activities Funded Outside of the Common Fund (*Non-IDA US\$8.6 million*). This component will involve a targeted program of capacity building in selected provinces to facilitate further decentralized planning and finance at the provincial and district levels in these provinces, and which will be integrated into the other six components. The details of these activities are set out in Annex 16.

IDA will also finance the refund of the PPA (US\$2.0 million) as well as the contingency (US\$1.0 million).

D. Lessons learned and reflected in the project design

31. The N-DPFP scales up the first DPFP financed by the World Bank, known as DPFP-Centro (2003-2009). The World Bank has also financed municipal projects in Mozambique, including the Municipal Development Project (2003-2007) and the Maputo Municipal Development Program/PROMAPUTO (2007-2010). These projects have all contributed significantly to the establishment of the legal and institutional frameworks for local government in Mozambique and the establishment of good practices for local governance, particularly participatory planning and budgeting and improvements in financial management, procurement and accountability. There are many lessons to be learned from these experiences as well as others in Mozambique, including the two projects most similar to DPFP-Centro that were reviewed jointly in 2006 – GTZ-PRODER and DPFP-Norte (financed by UNDP/UNCDF with support from Ireland, the Netherlands, Norway, Sweden, and the Swiss Development Cooperation

(SDC)) – when the government and its development partners agreed to scale up and establish the national project. Lessons have also been drawn from a growing body of practice in World Bank local government and social accountability programs in Africa. A number of these lessons are summarized below.

32. ***Political leadership from the government is a necessary precondition for preparation.*** It is critical that there be commitment to improving good governance and community participation and oversight over the long term and that this be evident through the evolution of policy over time. As is evident from many countries, the development of a decentralization policy is rarely a linear process and often spans many political cycles. Decentralization is also not an end in itself, and any support for it must be predicated on improving service delivery at a local level. Projects must therefore be flexible enough to actively promote policy progress with respect to decentralization when the context is conducive and to focus on consolidation and capacity building of local government when policy evolution is slow or comes temporarily to a stop. As clearly set out in the Letter of Sector Commitment, government has taken various legislative and policy steps to show its commitment to gradual decentralization and this is also regularly reflected in political speeches and statements by the President.

33. ***Focus on institutional and financial reform should be balanced with service delivery improvements.*** Concerns over decentralization generally focus on a lack of capacity at the local level. Experience shows that capacity can be developed and strengthened only where local governments are provided with some resources and technical assistance through “learning by doing.” This is similar to the experience of national sector ministries. Channeling too many investment funds through local government in the early years can be counterproductive, but there needs to be sufficient incentive to motivate local officials and to give the local planning process credibility among citizens.

34. ***Management and implementation capacity should be established within the structure of the government itself and supported by advisors who report within government structures under clear terms of reference.*** Furthermore, as long as projects are perceived to provide parallel systems and staff, the incentive (and discipline) to fully integrate project functions into the regular duties and functions of civil servants and senior Government officials is significantly undermined. It is important to recognize that this institutionalized approach may require more time to achieve outcomes than one in which project management units are established, and may result in early implementation difficulties, but benefits tend to be longer term and therefore more meaningful and sustainable.

35. ***Emphasize accountability – upward and downward.*** Lessons learned from DFPF-Centro and other projects in Africa include the importance, and challenges, of improving upward and downward accountability. Upward accountability includes audits of local government, which is a powerful instrument for improved financial management. The DFPF-Centro pioneered district-level audits (through the Tribunal Administrativo) which strongly demonstrated the positive impact of an audit component, although the dissemination of results in an accessible format remains weak, despite some technical efforts to improve it, and will require strong political leadership to be successful. Initial experiences with financial audits and experimentation with citizen report cards and consultative councils offer some positive signs and much to build on.

Both the Tribunal Administrativo and the IGF will play a crucial role in accountability, and the lessons learned from previous projects show the benefits in supporting these institutions.

36. ***Productive investments need differentiated strategy.*** N-DPFP will provide capacity building support to complement the investment budget allocation through sectors and also directly to districts via the national budget. In 2006, a district budget transfer called the OIIL (*Orçamento de Investimento de Iniciativa Local*) was introduced for social and economic infrastructure, but this was re-orientated in 2007 at a political level to focus more on food security and income-generating activities. Lessons learned from other countries suggest that it is better to separate funds for productive investments and to allocate their management to specialized instruments/agencies. Experience indicates that unless such specialized arrangements and agencies exist, there is a high risk that productive investment funds can be diverted to private goods, thereby undermining the legitimacy of the participatory planning process and potentially fueling corruption.

37. In 2006, the OIIL consisted of an equal transfer of 7 million *meticals* per district (ca. US \$280,000) to be allocated according to the district development plan. In 2007, the transfer was further refined to reflect the political priorities for food security and income-generating activities. The transfer was split into two parts: (i) one part, for food security and income-generating activities, continued under the name “OIIL” and allocated via the aforementioned formula; and (ii) in addition, an investment transfer known as the “delta” was introduced to finance locally determined infrastructure investment priorities. This delta is more in line with good international practices and reflects the lessons learned by the DPFP Norte and the DPFP-Centro. The delta is allocated on an equal basis and amounted to 2.35 million *meticals* in 2008 (approximately US\$ 95,000) per district.

38. Policy dialogue continues on the nature of the OIIL and the delta, and is discussed further under Annex 1 and in the Letter of Sector Commitment. For the period 2010-2012, the government has made provision in the Medium-Term Expenditure Framework (MTEF) for an increase of more than 50 percent in the overall value of this allocation, subject to the priorities defined in the government’s program for 2010-2014 and prevailing macroeconomic circumstances.

E. Alternatives considered and reasons for rejection

A full decentralization project

39. Under ideal circumstances, N-DPFP would have been broadened into a more comprehensive decentralization project in this phase that dealt not only with district management capacity but the degree to which sector competencies, functions, personnel, and resources could be decentralized, deconcentrated, or delegated. While these were included in the public sector reform program in Mozambique, they have not yet been accomplished, although some progress is being made, albeit slowly, in a few sectors such as education, health, agriculture, water, and roads. The government will adopt a Decentralization Strategy during 2010 that should provide greater clarity on these matters. The IDA team therefore concluded that the current circumstances in Mozambique are not conducive to a full decentralization program with a strong

policy focus. Instead, the continuation of a focus on capacity building and a bottom-up approach, which has already proved very adept at influencing government thinking and policy, was thought to be more effective. It is also important for N-DPFP not to overlap but to coordinate with the decentralization policy elements in the PSR program. Crucially, capacity building remains key to improving local development outcomes irrespective of whether there is rapid decentralization or a more gradual process of deconcentration.

Withdrawal from DPFP and pursuit of policy dialogue

40. Given some of the risks in the pre-election political and policy context for decentralization, the team considered withdrawing from the project and remaining engaged to the extent possible through the Poverty Reduction Support Credit (PRSC) and other forums for policy dialogue. The upside of this was the potential to influence policy reform. The downside was that in Mozambique the rules of engagement on the PAF/PRSC are extremely restrictive in terms of indicators, and the commitment to make this a priority is not apparent. More importantly, taking a purely policy approach may result in recent gains at a capacity level being eroded. In the current context, where detailed policy dialogue is unpredictable, the most appropriate way forward is to focus on consolidating and scaling up the capacity building approach adopted to date, and assisting the government in institutionalizing and implementing many of the obligations in LOLE and SISTAFE, as well as improving the overall intergovernmental budget and planning system. Finally and importantly, remaining engaged in the DPFP also allows the World Bank to retain a seat at the policy table on policy and institutional issues related to decentralization.

Approaches to national DPFP

41. Within the framework of a National DPFP, a number of options were also considered and rejected. One option considered was for the various partners to finance “thematic components” of the project in line with their core competencies and areas of experience and strength. For example, the World Bank would scale up some of the fiduciary capacity building activities of DPFP-Centro to the rest of the country, while the German Agency for Technical Cooperation would focus more on community participation. However, MPD felt strongly that experience showed that managing by province rather than by theme made more sense and would be less disjointed given the nature of the project, and the thematic approach was therefore discarded. The debate was also influenced by the geographic limitations of certain partners’ contributions. Another proposal was for the Bank to provide parallel financing, possibly through additional financing rather than a new project. However, the Government of Mozambique, development partners, and the World Bank country management team requested that N-DPFP use a Common Fund mechanism that would be better suited to a national project in terms of coverage and programmatic approach and would provide scope for greater harmonization.

42. As a result of a thorough assessment of these various options, it was agreed that the most appropriate alternative would be a follow-up to DPFP-Centro that would take the form of a scaled-up capacity building TAL financed by a Common Fund, with limited ambitions on a policy level but a strong focus on consolidating the implementation of recent legislation and improving the intergovernmental planning and budgeting system and public financial

management by the districts. The focus of the project would remain the strengthening of the building blocks of any (deconcentrated or decentralized) system of local government, including integrated planning and budgeting, accountability and transparency, financial management, procurement, community participation, and oversight.

III. IMPLEMENTATION

A. Partnership arrangements

43. The N-DPFP will be cofinanced by several international and bilateral development agencies. These include the German Development Cooperation (KfW and DED), Irish Aid, the Netherlands, the Swiss Development Cooperation, and UNDP. The financing of part of the project (Components 1 to 6) will be in the form of pooled financing in a Common Fund and will be on budget and on CUT (*Conta Unica de Tesouro*, the national treasury account). The cofinanciers that will pool their financing in the Common Fund are referred to as “Common Fund Partners” under the MoU. The other cofinanciers, known as “Non-Common Fund Partners” (UNDP and German Cooperation/GTZ) will finance Component 7 of the N-DPFP outside of the Common Fund through two separate mechanisms: (i) in-kind (direct) contributions and (ii) cash contributions. The World Bank financing will be pooled with the financing from other Common Fund Partners in the Common Fund. There is also a separate project (with a separate Common Fund) to assist the Tribunal Administrativo (PLACOR), financed by Netherlands, Sweden, Finland, and Germany, whose activities will complement N-DPFP activities for audits and controls implemented under Component 4.

44. The close collaboration between the government and the development partners is a visible step toward the harmonization of interventions. Government and donors invested considerable time upfront during the preparation stage to reach an agreement on fundamental issues such as procurement, financial management, and disbursement, which will be included in a MoU to be signed with the government and development partners for the financing and coordination of the project. A draft MoU has already been finalized and awaits signature (as a condition of effectiveness). Annexed to the MoU are the project document and technical notes that have been prepared by the government and endorsed by the development partners as a group. In an environment of harmonization and alignment, the final project appraisal document (the PAD) represents consensus and a degree of compromise between the World Bank, development partners, and the government.

B. Institutional and implementation arrangements

45. Despite the relatively narrow focus on planning, budgeting, and public financial management, the N-DPFP requires a complex institutional architecture reflecting both the horizontal and the vertical institutional linkages that one would expect to find in a deconcentrated system. At the national level, MPD is responsible for the overall management, coordination, and implementation of the project, following its institutional mandate. However, a number of line ministries, including the Ministry of State Administration (MAE), Ministry of Finance (MF), Ministry of Public Service (MFP), Ministry of Works and Housing (MOPH), Ministry for Coordination of Environmental Action (MICOA), and the Audit Office have

responsibilities for the implementation and oversight of components of the project. Further, at the sub-national level, in addition to these seven central agencies, all 10 provinces have implementation and monitoring responsibilities. The DPPFs are the main implementing agencies of the project, responsible for coordinating, harmonizing, and monitoring the overall process of planning and budgeting at the provincial level and below. All 128 districts are implementing agencies, since they will each execute a part of the project budget in addition to funds transferred for plan implementation.

46. The central institutions (the ministries and the Tribunal Administrativo) are therefore all members of the supervision committee (CdS), which has responsibility for interministerial coordination. These ministries are directly involved in aspects related to decentralized planning and public financial management (see Annexes 6-8 for details).

47. This institutional set-up was discussed extensively with the government and development partners. The institutional arrangements had to balance two concerns: on the one hand, the need for a simple and manageable set-up, and on the other hand, a respect for the multiple agencies involved in decentralized governance across the country. Given that the project is a national support project, it was felt that centralizing its implementation in the MPD only, would risk not only alienating other key ministries but would also be contrary to the principle of alignment with government processes and procedures. Similarly, regarding exclusion of local governments, it was not only felt to be contrary to both the spirit and the concept of the project (i.e., to strengthen the capacity of local government) but also would have ignored some notable and significant transfers in competencies and resources to local government. The aim of the project is to enhance local capacity for implementation, and this is reflected in the learning-by-doing aspects of the project. The final institutional arrangement was chosen to balance these realities and concerns.

C. Monitoring and evaluation of outcomes/results

48. The N-DPPF has a strategy for monitoring and evaluation that has been developed over a number of years and consolidated into a Results Matrix, Monitoring Plan and Evaluation Plan (see Annex 3).

49. The Results Matrix and monitoring plan build on extensive consultation and prior experience in monitoring within the government and the partner community. The PDO indicators were selected as they reflect the overall objective of the project, namely the improvement in the ability of district governments to manage public resources, partly through the inclusion of mechanisms to enhance transparency and community participation. The component indicators provide intermediate outcome indicators that contribute to the overall PDO.

50. One of the component indicators for Component 1 is the establishment, during the project, of a District Performance Monitoring System (SMPD) that will be used by the government to assess the compliance of districts with public resource management procedures as well as determine areas of weakness that require additional capacity enhancement and other forms of support.

51. The SMPD will build on earlier endeavors by the DPFP-Centro project and UNCDF supported system for DPFP-Norte, which developed pilot M&E systems. The SMPD will provide the government with an internal monitoring system that will measure the degree of compliance with legal norms and procedures by all central, provincial, and district-level institutions involved in implementing decentralized planning and finance. The management of the system will be located in MPD, and the system will be developed in collaboration with the MAE and other relevant organizations. The knowledge management component (Component 5) will ensure that lessons learned are systematically collected, and will be accessible for use by managers and policy makers both during and after the project closes. In addition to the SMPD, the electronic system of public financial management—e-SISTAFE—will be used to monitor some of the public finance related indicators.

52. A comprehensive evaluation plan has been developed to accompany the project to generate additional information about the efficiency, effectiveness, and impact of the project and its components.

53. In addition, the MPD commissioned a study in 2008 on the National Planning, Monitoring and Evaluation System, with special reference to the systems that support the government's Review of the Economic and Social Plan (RESP). One of the study's key findings is that there is a need to build an integrated national monitoring and evaluation system, based on existing sector and sub-sector M&E systems, avoiding the development of additional systems. In this context, the national project will contribute to developing an integrated sector and territorial planning and monitoring system for the RESP, which will be located in MPD. The above-mentioned SMPD will be one of its subsidiary systems, providing the parliament with unique information regarding the compliance of local government in implementing the decentralized planning and finance processes.

54. In order to achieve these M&E objectives, technical assistance is already in place in MPD, supporting the development and reinforcement of the above-mentioned systems and tools. The Supervision Committee (CdS) will be responsible for ensuring that information from various ministries is made accessible to MPD in order to ensure completion of the Results Matrix as and when required.

D. Sustainability

55. Decentralization is a central theme in the government's Public Sector Reform Program which is currently in its second phase.

The government through the MPD and MAE has shown its ongoing commitment in the preparation phase of the project. The N-DPFP is mentioned in the strategic plan of MAE as an important instrument in implementing the government decentralization agenda. However, cooperation from some line ministries has been fragmented, as is typical in many countries due to a reluctance to relinquish perceived control and funds from the central level. It is critical that there be improvement in inter-ministerial cooperation among the cross-cutting agencies involved in the various themes crucial to N-DPFP. To this effect, the functioning of the CdS as the body that ensures inter-ministerial coordination is essential. In addition to ensuring coordination, the

CdS will approve the annual work plan and monitor its implementation. To support the CdS, a technical group comprised of technical staff from the participating agencies has been established.

56. It is critical for a project of this nature that sustainability issues concerning technical assistance, institutional strengthening, and training be considered at the outset. To this effect, government has elaborated and adopted a strategic note on technical assistance, which addresses this issue through a two-pronged approach. The first prong is where technical assistance is needed in the short to medium term but will not be necessary in the long term, as skills either will no longer be required or will have been transferred. The second prong is the integration of support into the organizational structure of the civil service; the government will assume salary responsibility after a period of up to two years, an approach that has been effectively piloted at the district level with technicians under DPFP-Centro. The issue of sustainability has been informed by experience with previous donor supported projects.

57. The programmatic nature of the project ensures that activities are integrated into national systems, norms, and procedures for day-to-day management and reporting at all levels. In this way, the gains from the project will not be project-specific, and this should ensure lasting impact beyond the project life. All instruments developed for use under the project are formal government instruments for ongoing use irrespective of the project's continuation. The precedent was effectively set by the Guide for Community Participation, which was initiated under DPFP-Centro but was issued by the government and subsequently incorporated into law and practice. Most activities under N-DPFP require ongoing support and reinforcement over decades in order to build capacity (partially due to staff turnover), and any local government capacity development project requires a long-term vision and commitment from both the government and development partners.

58. The national government recognizes that building local government capacity is a long-term, ongoing process, one that usually takes many decades. The N-DPFP, financed by a Common Fund, provides for the next five years a common approach to this capacity building by the partners and government. As such, it is critical that sufficient financing for both the medium term and the long term be sought. As with any other long-term program, this financing will depend on a conducive policy environment and ongoing commitments from the partners and the government.

E. Critical risks and possible controversial aspects

59. The overall risk rating of the proposed project is estimated to be moderate after risk-mitigating measures have been taken into account. There are three critical risks to the N-DPFP. The first is the risk that despite decentralization being an explicit policy objective of the government, there is still a need to clarify exactly how this will unfold, that is, in terms of the specific levels of decentralization of functions and the resources needed by many sectors. However, the government is currently finalizing a draft Decentralization Strategy, which will be discussed in the country and is targeted for formal adoption in 2010.

60. The second risk is one of corruption and patronage. This risk has been aggravated by the reorientation of the OIIL toward productive activities and income generation in the absence of

very clear guidelines. The government is taking steps to develop such guidelines and to revisit the institutional set-up of the OIIL, with the World Bank actively involved in the discussions. The N-DPFP should be seen as even more critical in its ability to mitigate this risk, given its focus on improved planning and budgeting, financial management, internal and external controls, and the implementation of mechanisms of accountability to increase transparency in the use of resources.

61. A third risk is the operational risk that the time period for the project will be too short to see extensive results achieved across all districts or to vastly improve the highly complex planning system of the government. It is important to emphasize that this is a process that typically takes decades and that it is critical to reinforce a trend toward improved local public sector management over time. Another operational risk is that districts will not allocate sufficient amounts of their budget allocations to O&M for local investments, given the increasing mandates and limited recurrent expenditure budgets. This is a perennial problem in most countries, and the emphasis put on sustainability through revenue generation and a predictable formula for transfers is an important part of the answer, along with community accountability and public sector capacity building. Significant progress was made in the previous five-year project and it is therefore realistic to expect these gains to be spread to other districts within the timeframe of the N-DPFP. The procurement risk is substantial, given district capacity, but this is the case across the country irrespective of the project and it is part of the overall capacity building program for procurement in the country, to which N-DPFP contributes and reduces the risk.

62. The development partners and the government have agreed that this project will focus on capacity building and planning but that support for any future projects will be predicated on a positive evaluation of the political and policy context for decentralization. In this respect, the Letter of Sector Commitment (see Annex 14) and clarity regarding the Decentralization Strategy are important elements. Whilst the level and extent of decentralization in Mozambique are matters for national determination, as an explicit policy of the government it would be important for the government to clarify what is meant by decentralization and to specify the implications for sectors and lower levels of government in order to develop appropriate capacity and accountability.

Risk	Rating	Mitigation	Risk after Mitigation
Political will to continue and deepen decentralization policy and action declines.	Moderate	Decentralization Strategy expected in 2010. Explicit commitment of government in LSC, political statements and increased actions toward decentralization.	Low
Corruption at the local level increases with OIIL.	High	Countrywide improvements in PFM and project focus on improving FM, procurement and other processes at the district level and stronger accountability mechanisms.	Moderate

Timeframe is too short to see comprehensive improvements in planning and budgeting, especially for O&M at the local level.	High	Continued small increases in resources available to the district level as well as improved capacity and community oversight.	Moderate
The Common Fund does not function.	Moderate	MOU provides mechanisms for timely and effective notice and resolution of problems as well as advance commitment of funds	Low
Procurement (overall) is not performing well	Substantial	Close supervision and monitoring of implementation of the Action Plan, including semiannual field supervision to carry out post-review of procurement actions. To be complemented by the transfer of knowledge of the Procurement Specialist, targeted at the staff of UGEA.	Moderate
Overall Risk Rating	Substantial		Moderate

F. Loan/credit conditions and covenants

63. The following events are conditions of effectiveness and covenants of the Financing Agreement:

Effectiveness

1. A financial management (FM) consultant has been hired at the Ministry of Planning and Development (MPD) to work with the National Directorate of Planning (DNP), and FM training has been completed.
2. A Project Implementation Manual, including FM procedures, and a Procurement Manual have been adopted.
3. Baseline data for the Results Matrix for all districts have been updated based on final 2009 findings.
4. The Memorandum of Understanding (MoU) has been signed by all the parties.

Covenants

1. Recipient is to prepare the proposed annual work plan of activities and the financing plan for the following year, following the MoU, not later than October 31 in each fiscal year,

and implement the plan approved by the Bank; disbursement percentages for each year will be determined by the Bank on the basis of this plan.

2. External auditors for the project are to be hired (within three months of effectiveness).
3. Guidelines and templates are to be elaborated and disseminated by districts for the publication of information related to their annual investment plans, budgets, execution, contracts, and audits (within six months of effectiveness).
4. An analysis of the operation and maintenance (O&M) requirements for district infrastructure and of the budget implications of the DFPF National at Central, Provincial and District levels is to be carried out, with the objective of formulating recommendations for a short-, medium-, and long-term sustainability strategy (by December 31, 2010).
5. A study is to be undertaken of the legal and institutional requirements applicable to districts in the areas of local strategic and operational planning, budgeting, management and execution, accountability, and internal control and audits; and on the basis of the study, general user district manuals will be prepared (by December 31, 2010).
6. A framework for the assessment and management of the environmental and social aspects of district-level investments is to be prepared and adopted to ensure that these investments are developed and implemented in an environmentally and socially sound and sustainable manner (by December 31, 2010); and an evaluation of districts' application of this framework is to be undertaken (by December 31, 2012).
7. Two studies on community participation in district planning are to be conducted (by December 31, 2012, and December 31, 2014, respectively).
8. All district technical consultant staff contracted under the Project and financed out of the proceeds of the Financing are to be included on the civil service payroll within two years of their initial recruitment.
9. An evaluation of technical assistance (TA) is to be conducted, using independent consultants provided under the project (by June 30, 2012).
10. An SMPD report on districts' and provinces' relative performance is to be published annually, commencing fiscal year 2011 (by July 31 of each year, covering the previous year's performance).

Special events of suspension

1. The International Development Association determines that an event has occurred that makes it unlikely that the government's program (as outlined in its Letter of Sector Commitment), or a significant part of it, will be carried out.

IV. APPRAISAL SUMMARY

A. Economic and financial analyses

64. This operation is a technical assistance and capacity building operation and will not finance any public investment. Public investments will be financed by the existing state budget allocation direct to districts (District Investment Budget) and by the sector program funds that are being deconcentrated. Given the character of the operation, a quantitative economic and financial analysis is not an appropriate tool to assess the benefits of the project.

65. As work on district revenues is done under the project going forward, and as district audits are rolled out further by the Tribunal Administrativo and audit reports are published, there will be information available to conduct analyses of district financial management performance over time.

B. Technical

66. Since this operation is a technical assistance and capacity building operation, which does not finance any works, a technical appraisal has not been undertaken. However, since existing state budget transfers are allocated to the districts for investment, as are sector program funds, this project will build on the capacity building done in the past, especially in developing blueprints and standards for public work, including guidelines for assessment and the management of social and environmental impacts of investments, based on the safeguards frameworks developed for previous IDA-financed operations, the DPFP-Centro, and provision of training in these guidelines.

C. Fiduciary

Financial management

Financial management assessment

67. An FM assessment was carried out for all participating line ministries and the Administrative Tribunal (TA) at the central level, and for a sample of provincial directorates of planning and finance (DPPFs) and districts. The assessment was performed in accordance with the Financial Management Practices Manual issued by the Financial Management Sector Board in November 2005, and its objective was to determine whether implementing units had acceptable and adequate financial management arrangements. The assessment also took into account the most recent report based on Public Expenditure and Financial Accountability (PEFA) methodology. This assessment indicated that the last 10 years had been characterized by major improvements in the Mozambican PFM system. In particular, the introduction of the national treasury account (CUT) and the government's Integrated Financial Management System (IFMIS), known as e-SISTAFE, represented major breakthroughs.

68. For funds out of the Common Fund, financial execution will take place through this system for all central level entities and provincial directorates and for 50 of the 128 districts that

are already connected. For the remaining 78 unconnected districts, the financial execution will also take place through the government's IFMIS; however this will occur through an e-SISTAFE-connected district, or through the Provincial Directorate of Planning and Finance, which already has the required equipment to cater to the unconnected districts. There will also be a parallel financing mechanism by the non-Common Fund partners, UNDP and GTZ, which will be implemented outside of the national treasury account. The non-Common Fund partners will have to submit information on the execution of these funds to MPD for consolidation with information from e-SISTAFE and submission to the Bank and the partners.

69. A minimal petty cash amount will be kept by all districts for the execution of petty payments. Despite some improvements, fiduciary capacities vary but are generally weak, especially at the district level, where some districts still lack basic working conditions such as electricity, telephone connections, and banks. However, the project also intends to increase the PFM capacity in these districts, based on previous experience from DPFP-Centro. The final audit report for DPFP-Centro, which closed in March 2009, was submitted in July 2009. This, like the previous audits, was qualified on account of the auditors' failure to confirm contributions by the government. Since the N-DPFP has no monetary contributions from government, this will not be an issue under this project.

Implementation

70. The implementation of the project will be coordinated by MPD through the recently created Department of Decentralized Planning (DDP), which falls under the primary implementing entity, the Directorate of National Planning (DNP). This DDP includes personnel with the experience from the DPFP-Centro, which only involved four central provinces and later extended to Maputo Province. However, for the current project, besides the six line ministries and the Tribunal Administrativo, the activities will be spread throughout all 10 provinces and all 128 districts. This project design creates a challenge, due to the low level of some district personnel's FM capacity. As a result, a series of mitigating measures have been proposed as part of the FM arrangements and endorsed by the authorities to address these challenges.

Financial management arrangements

71. The proposed FM arrangements were reviewed, leading to the following conclusions: the overall FM risk rating of the project is substantial, prior to the adoption of any mitigating measures. Upon implementation of the proposed measures to mitigate the identified risks, summarized in Annex 7, including the hiring of qualified and experienced FM staff, elaboration of an FM Procedures Manual for the coordinating unit, as well as targeted training and workshops on the new FM manual for both provincial and district FM officials, increased supervision of district FM activities by the DPPFs and inspections by the IGF, the residual FM risk rating is Moderate.

72. The assessment was favorably impacted by the fact that the rules, laws, and regulations to be adhered to in terms of FM are the same as those used by the implementing entities in their day-to-day work except for the request of funds from the partners. The external audit will be the overall responsibility of the Tribunal Administrativo (TA), which is the supreme audit institution

and responsible for conducting audits of public funds. The scope, relevance, and quality of the external audit work produced by the TA have increased substantially over the years. In order to further improve the TA work's compliance with international standards and take staffing constraints into consideration, the audit of the project will be the responsibility of the TA, but this will be subcontracted to an auditing firm until such time as the TA is able to undertake such audits directly, to the satisfaction of IDA. The proposed FM arrangements meet the minimum requirements for financial management under OP/BP 10.02.

Procurement

73. Procurement of contracts financed under the Common Fund will be carried out in accordance with *Guidelines: Procurement Under IBRD Loans and IDA Credits*, published by the World Bank in May 2004 and revised in October 2006, and with *Guidelines: Selection and Employment of Consultants by World Bank Borrowers*, published by the World Bank in May 2004 and revised in October 2006. The Mozambique Procurement Law and regulations were adopted in 2005. This law will be generally applied to National Competitive Bidding (NCB) procurement, subject to certain exceptions that are elaborated in Annex 8.

74. A capacity building program was started in 2009, and the procurement system is more transparent, with Ethics Code sanctions and an appeal mechanism included in the approved Procurement Law. A Regulatory Unit (UFSA) in MF is now operational. Standard Bidding Documents issued are acceptable, with a few exceptions. The outcomes of the 2008 Country Procurement Assessment Report (CPAR) show some improvements on pillars I and III of the CPAR. No relevant progress on pillars II and IV was observed (a description of the pillars is in Annex 8). The risk is considered to be substantial.

75. To mitigate the risk, a capacity building program has started countrywide. A procurement website is operational, but there are still areas in need of improvement in transparency and access to information. There is also a need for more capacity building and assistance at the UFSA. An Action Plan with recommendations from the CPAR has been prepared and is being implemented in some specific areas needing improvement. The Bank and partners will continue to engage with the Government of Mozambique and support the implementation of the 2008 CPAR Action Plan. With those measures in place, the risk may be considered as Moderate.

76. MPD has successfully implemented the DPFDC-Centro project, despite the fact that at the end of the project some key staff left due to uncertainty with regard to their positions after the closing of the project and this fact delayed the start of the N-DPFP.

77. The main procurement risk is related to the decentralized nature of the project and the current set-up under the new procurement law. This law has resulted in the establishment of units called UGEAs at the district level, for the implementation of project activities (and any other procurement by districts). These UGEAs in the districts have little capacity, and their existing staff lacks procurement experience. However, building UGEA capacity is part of the process of capacity building for procurement at all levels of government following the new procurement law, and N-DPFP has, through Component 3, a specific focus on improving procurement

capacity in the districts. (For further information see Annex 8.) Thus the risk is being addressed through the project.

D. Social

78. A major thrust of the DPFP-Centro continued and scaled up into N-DPFP is the inclusion of rural citizens into the governance process at the local level. The DPFP-Centro conducted various preparation studies that reviewed the experience of citizen participation approaches in Mozambique. This led to the elaboration of Guidelines for Community Participation, which were widely discussed across the country and revised before being formally disseminated by the Ministry of Planning and Finance and the Ministry of State Administration. Many of the provisions in the Guidelines were subsequently adopted into law (the LOLE) and have subsequently been revised and updated. These include provisions for the representation of vulnerable or disadvantaged groups, including women and geographically distant communities.

79. Various studies have been conducted on the experience of community participation in Mozambique, including that of the recently established Consultative Councils. The most recent and comprehensive study was commissioned as part of the evaluation of the DPFP-Centro (See SAL-CDS & Massala 2009). The study focused on 14 districts in 7 provinces in the northern, central, and southern regions of the country and addressed (i) the organization and functioning of local councils; (ii) the results of community participation in district planning; and (iii) the involvement and satisfaction of communities with the results of district planning.

80. Findings indicate that from 2003 to 2008 there was much more interaction and much more dialogue between the government and citizens, although with oscillating quality and outputs. In general, communities participate actively in the prioritization of infrastructure investment and OIIL (*Orçamento de Investimento de Iniciativa Local*), and priorities are reflected in local plans and budgets.

81. Further, the study finds that women are increasingly involved in the development dialogue at all levels, and that literacy courses, especially for local council (*Conselho Locais-CLs*) members, are being implemented in all districts. It notes that “in spite of many challenges, women are gradually becoming more active in the CLs”.

82. In spite of these advances, a number of weaknesses were observed and need to be actively addressed during the project’s life. These include the fact that many focus groups of women and youth said that they [still] feel under-informed and under-represented in CLs. Training is still insufficient to allow for the consolidation of previously learned material or the addition of new information. Monitoring is fragmented and unsystematic. PEDDs (*Plano Estratégico de Desenvolvimento Distrital* - District Strategic Development Plan) and PESODs (*Plano Económico Social e Orçamento Distrital* - District Operational Plan and Budget) are not widely distributed or adapted to the capacity needs of the CLs. There is a lack of communication and weak transmission of information between higher levels of government and local government regarding new legislation, governance policies, and strategies, and also between districts and the lower levels of government. A key problem in some districts is the disconnect between the discussion and management of the OIIL from that of the PESOD and PEDD, so that in the

majority of communities, and in CL members' perception, OIIL is the focus of the meetings. "The observed tendency for the PEDD and PESOD to be elaborated in a variously participatory fashion and then not to be used by the CLs to guide development decisions and dialogue, especially where the OIIL is concerned, needs to be restrained."

83. The study provides a number of recommendations in the following areas: promotion of participation in planning; documentation, communication and information flows; capacity building of CLs; participatory monitoring; constitution, organization and functioning of the CLs; and resources for CLs and participatory planning. These have formed part of the design process for the N-DPPF.

84. HIV/AIDS poses a serious risk to government institutions in Mozambique and impacts the ability of these institutions to deliver adequate services to the population. This cross-cutting issue is addressed under the project. Building on the experiences of DPPF-Centro and PRODER/GTZ with HIV/AIDS training modules and in line with the government's National HIV/AIDS Strategy, measures to combat HIV/AIDS are integrated into the capacity building activities of N-DPPF and will follow the CNCS regulations and financing mechanisms available to provincial and district CNCS nuclei to support this HIV/AIDS strategy.

E. Environment

85. Mozambique's Environmental Framework Law No. 20/97 and EIA Regulations Decree No. 76/98 require preparation of an environmental assessment report to assess the potential environmental and social impacts of public investments.

86. Although Mozambique's regulatory framework is suitable, institutional capacity and law enforcement remain weak, particularly at the district level, leaving Mozambique's environment and natural resource base vulnerable to mismanagement and degradation.

87. The project is rated as Category C since no adverse environmental impacts are expected from any of the project's activities. However, safeguarding the integrity of the environment and natural resource base is important to ensure sound district level investments. As such, the recipient will, under the project, adopt measures to ensure that any adverse environmental impacts caused by investments to be financed through the government's own budget allocations to districts are mitigated in line with national laws and international good practice (see details in Annex 10).

F. Safeguard policies

88. The project was originally classified as Category B at Concept Note stage, consistent with the provisions of OP/BP 4.01, but reclassified as Category C at the Decision Meeting once it was determined that the project would be a TAL designed to finance consultancies and assessments for institutional strengthening, without any infrastructure investments or other works that would potentially generate any adverse environmental or social impacts. As such, as a TAL the project does not trigger any of the Bank's safeguard policies.

89. Although the project is classified as Category C, the borrower will update the relevant safeguard policy frameworks (ESMF and RPF) prepared for DFPF-Centro to integrate the assessment and management of any potentially adverse environmental and social impacts of any investments made at the district level, financed directly from district government budgets so as to ensure that such investments are carried out in an environmentally and socially sound manner. These special measures, which include capacity building for district officers tasked with application of the revised safeguard tools, are detailed in Annex 10.

Safeguard Policies Triggered by the Project	Yes	No
<u>Environmental Assessment (OP/BP 4.01)</u>	[]	[x]
<u>Natural Habitats (OP/BP 4.04)</u>	[]	[x]
<u>Pest Management (OP 4.09)</u>	[]	[x]
<u>Physical Cultural Resources (OP/BP 4.11)</u>	[]	[x]
<u>Involuntary Resettlement (OP/BP 4.12)</u>	[]	[x]
<u>Indigenous Peoples (OP/BP 4.10)</u>	[]	[x]
<u>Forests (OP/BP 4.36)</u>	[]	[x]
<u>Safety of Dams (OP/BP 4.37)</u>	[]	[x]
<u>Projects in Disputed Areas (OP/BP 7.60)</u>	[]	[x]
<u>Projects on International Waterways (OP/BP 7.50)</u>	[]	[x]

G. Policy Exceptions and Readiness

90. **Compliance with Bank policies:** The project complies with all World Bank Policies and no exception is required.

Readiness: The status of readiness criteria include:

- Core staff in place at central (hiring of FM consultant at MPD to work with DNP is a condition of effectiveness) and provincial levels
- The Results Matrix has been completed and initial baseline data collected (updating of the baseline is a condition of effectiveness)
- All key procurement documents for the first year's activities are complete and ready for the start of project implementation
- A draft Project Implementation Manual has been prepared and has been found to be realistic and of satisfactory quality (its adoption is a condition of effectiveness)
- Agreed MoU has been negotiated by all contributors to the Common Fund and the government (signing is a condition of effectiveness).

Annex 1: Country and Sector or Program Background

Context

1. To address rural poverty and to bring service delivery closer to the people, decentralization is an explicit strategy of the Government of Mozambique (“the government”) in achieving many of the objectives of the Poverty Reduction Strategy (PRSP or PARPA II) including its vision of the District as the “*polo de desenvolvimento*” (Pole of Development). However, the government recognizes that the starting point for achieving this is the strengthening of basic public sector management capacity before districts can significantly enhance the provision of local services. The government has therefore adopted a gradualist approach both to the deconcentration of functions and budgets to rural district governments as and to the expansion of elected municipal governments. While decentralized planning has been piloted in some form in at least one province for over 10 years, it is still in an early and evolving stage. Decentralization was explicitly stated as a policy objective in the government’s most recent five-year plan, building on the intention stated in the 1994 Constitution, and the principle behind decentralization is governed by the Constitution. Nevertheless, a decentralization strategy does not yet exist, although one has been under preparation by the government since 2006. This process has suffered from numerous delays and a lack of quality in the existing drafts.

2. With support from development partners such as the World Bank, UNDP and the German Cooperation, the strategy is now expected to be approved by the Council of Ministers in 2010. It is expected that these will consolidate the government’s approach to decentralization including deconcentration to district (rural) local governments and gradual devolution to municipal (urban) governments.

3. The National Decentralized Planning and Finance Project (N-DPFP) is considered a critical cross-cutting program for operationalizing the Public Sector Reform Program at local levels of government and for implementing the vision the government has of the district as the development pole of Mozambique. It is also seen as key to operationalizing provisions in the constitution for increased local participation, and recent laws such as the Law on Local Organs of State (LOLE) 8/2003 (19 May 2003), the Public Financial Management System Law (SISTAFE) 9/2002 (12 February 2002) and the law on Territorial Organization (Lei de Ordenamento Territorial) 19/2007 (18 July 2007) at the local level.

LOLE – *Lei dos Órgãos Locais do Estado (Law on Local Organs of State)*

4. LOLE establishes the principles and norms of organization, competencies and functioning of provinces, districts, administrative posts and localities, and it assigns different functions to the province and district level (for more on LOLE see “Analysis of District Finances In Mozambique,” March 2009, by Jamie Boex and Ângelo Macuacua). The district remains administratively and politically subordinate to the provincial level and as such the vision contained in LOLE is that of deconcentration, whereas decentralization through devolution is pursued through the Municipal Framework Law. Within the provisions set forth in LOLE, each level of administration is supposed to have its own annual plan and budget. As a result, the

central level, provincial level, district level and municipalities each are considered a ‘sphere’ within the national budget framework. In terms of planning and budgeting, districts are required by LOLE to develop five-year strategic district development plans, the so-called PEDD (Plano Estrategico de Desenvolvimento Distrital) as well as annual operational plans and budget, called PESOD (Plano Económico Social e Orçamento Distrital).

5. In addition to the above, LOLE further introduced the concept of participation by local communities at the sub-national levels of government. In Article 3 of LOLE, which concerns the principles of organization and functioning of local state bodies, active participation by citizens is defined as a principle of that functioning; further, in Article 35, the competency to promote community participation and participation by community authorities in economic, social and cultural activities is given to the district administrator. The principle of community participation is further developed in the subsequent regulation to LOLE (*Regulamento da Lei dos Orgãos Locais do Estado*) 11/2005 (10 June 2005). This regulation defines Title VIII as “Citizenship and Participation” and mandates that local bodies (OLEs) must ensure citizen participation, and it defines the principle of citizen consultation. It gives the district administrator the institutional responsibility for the creation of local consultative councils at the level of district, administrative post, locality and “povoação,” (neighborhood) and articulates the composition of these councils, the regularity of meetings, and the functioning of the councils.

Key features of district finances

6. With respect to district finances, LOLE established the district as a unified budgeting unit within the central government budget, with the district planning and budgeting process starting at the Administrative Post. This means that the district functions as a single cost-center, and all district departments (‘services’) are planned and managed as part of the same district budget. Further articulation of the planning and budgeting process was articulated in the subsequent regulation of LOLE in 2005.

7. Whereas the district level is considered a separate budget sphere in the national budget (in addition to spheres for the central level, provincial level, and municipalities), not all district-level revenues and expenditures are captured in the district-level budget breakdown. In fact, in 2007 district-level budgets only reflected recurrent expenditures for administration as well as district investment spending. District-level budgetary accounts also capture district own-source revenues. However, district-level budgetary accounts do not appear to include sectoral expenditures that take place at the district level. As such, spending on salaries for teachers or health-care workers posted within the district is not (yet) included in district-level budget figures.

8. District-level plans and budgets (PEDDs and PESODs) are currently determined using a bottom-up planning process, whereby the resource requests from each district are aggregated up to the provincial level (by sector) and then to the national level. Discussions and negotiations take place at the national level (led by MPD and the DNO), followed by instructions to provinces and districts to modify their budget plans accordingly. The revised district budget plans are again aggregated up hierarchically prior to finalization of the national budget plan. While a bottom-up planning process sounds highly participatory and decentralized, it should be noted that this process is de facto highly centralized, as ultimately all budgetary decisions are made by

government officials at the center, with limited or no budgetary decision-making power at the provincial or district levels. Many districts complain that the final district budgets approved by parliament rarely reflect district priorities.

9. Deconcentrating expenditures to the district level in Mozambique is constrained by the current financial management processes. Since 2002, the administration of state finances has been guided by the Financial Management System Law (SISTAFE). The SISTAFE law covers the five main functional areas of sound public finance management, including public sector budgeting, accounting, fixed asset management, treasury operations and internal control, and it sets out a vision for sound public financial management in line with international standards. The integrated financial management system that operationalizes SISTAFE is known as e-SISTAFE. Whereas all ministries and provinces use e-SISTAFE for the management of public finances within their respective jurisdictions, currently only 50 districts (out of 128) have access to e-SISTAFE. This means that any district expenditures that take place in the 78 districts that are not on e-SISTAFE need to be transacted through advances to the districts, are accounted for manually at the district level outside the computerized portion of the treasury system, and are then entered into the treasury system after the fact at the provincial level.

10. Financing of the district budget is primarily through transfers from the central government in the form of a recurrent budget allocation and a capital budget allocation. The districts have had revenue collection competencies assigned to them, but a recent study on district finances affirms that own-source revenue collection plays a very limited role in the financing of the district budget. The recurrent budget allocation that mainly finances salaries and goods and services is not allocated with a formula, and it displays substantial variation in per capita allocations between the districts. In 2009, district recurrent spending accounted for 6 percent of the total recurrent spending.

11. According to the Letter of Sector Commitment: “The Government introduced a recurrent budget for the District Administrator’s and District Secretary’s Offices in 2006. From 2009 the goods and services component of the recurrent budget has been extended to all the component services of the District Government (*Serviços Distritais*) for operating costs. The transfer of the payroll responsibilities to the district has begun but recognizing the capacity and technical and financial infrastructure requirements, this will take some time to complete. Nevertheless, the payment of the salaries of district government personnel is already being undertaken in some districts and the government intends to expand this process to include the payment of the salaries of all government staff at the district level, including health and education staff, by 2012.”

12. With respect to capital spending, there are two parts, the OIIL and the “Delta,” explained in detail below.

13. In addition to the direct district budget, sector funds are also being deconcentrated to the provincial and district level. Following a decision by the Council of Ministers in October 2007, all sectors were instructed to look at ways in which both their competencies and budgets could be decentralized to lower tiers of administration and in particular to the district level. Some progress has been made, notably in the sectors of education, health, agriculture, water and roads. For example, in 2008 the National Directorate for Water allocated Mt18.8 million to provincial

governments for the construction of water infrastructure and Mt29.8 million to district governments for their rehabilitation and maintenance. Since 2008, district governments have each received Mt1.0 million per year for construction and maintenance of tertiary roads. The Ministry of Education has decentralized the responsibility and funds for the accelerated school construction program to provincial governments and transferred some Mt96 million to districts from 2005 to 2008 for primary school maintenance. The Ministry of Health has decentralized responsibility for the construction and maintenance of Type 1 Health Posts to the district level. (See Letter of Sector Commitment).

14. Importantly, LOLE requires the district to submit one integrated plan and budget for the district as a whole, including all sector and direct district funds. The ability to produce an integrated plan and budget is still extremely weak, and capacity building of districts to produce such a budget is at the core of the N-DPFP. Positive experiences in Nampula Province are being developed into the dossier on participatory planning and budgeting and will be one of the core processes for technical support during N-DPFP (Component 2).

OIIL – *Orçamento de Investimento de Iniciativa Local*

15. In 2006, the OIIL (*Orçamento de Investimento de Iniciativa Local*) was conceived as a discretionary budget allocation to districts, as part of a long term vision to improve local service delivery and accountability. Before this, some administrative resources to the district were allocated to the office of the district administrator but otherwise all funds were earmarked sectoral funds spent by the respective line ministries. To a large extent, the experiences with discretionary investment funds were pioneered by two donor-financed projects, the UNDP/UNCDF DPFP-Norte in Nampula and Cabo Delgado provinces and the IDA-financed DPFP-Centro in Zambezia, Tete, Manica and Sofala provinces.

16. Through the OIIL transfer each district received an equal allocation of 7 billion metical (old metical) and the transfer was therefore popularly named “*sete bilhões*.” It was to be allocated through a process of participatory budgeting and planning at the local level, building on some good practices in districts in the north and central parts of the country. Through this process, activities were defined and inscribed in the district five-year strategic and development plan (PEDD) and annual district operational plan and budget (PESOD). In 2006 most of these district plans remained geared toward more typical socio-economic infrastructure.

17. During his visits around the country during the “Open Presidency” of 2006, the President was reported to have changed the nature of the OIIL funds by indicating that they should be used for “jobs and growth” or “local economic development,” and not for infrastructure as had been the case in many districts. The budget guidelines remained vague. Some districts interpreted “local development” broadly (especially in 2006), by considering investment in roads, water, education, health and provision of administrative services in this definition. Others interpreted it narrowly as support for income generating investments, for agriculture for the most part. In 2007, an instruction was issued to the districts that the OIIL should be exclusively used for projects related to food production and employment generation.

18. The budget guidelines have remained vague despite the clarity of the political directives. This served to create uncertainty and confusion in the districts. With the reorientation towards food production and employment generation, the districts were no longer able to allocate the OIIL in a truly discretionary manner. This created a problem in terms of resources available to finance the infrastructure aspects of the strategic and annual plans, and once again a demand arose for discretionary funds at the district level.

19. In the 2008 budgeting guidelines the matter was clarified, dividing district budget allocations into two distinct parts. The OIIL part of the allocation is now a grant allocated according to a formula and is still clearly to be used only for food production and employment generation. In addition, there is a fixed amount, called the *Fundo de Iniativa Local* (Local Initiative Fund) or Delta for infrastructure investment, maintenance and acquisition of goods. This Delta retains the original spirit of the *sete bilhões* as a discretionary allocation that can be used for infrastructure.

20. In terms of value, the OIIL has grown by about 55 percent between 2006 and 2009 from approximately 910 million meticaís in 2006 to 1,414 million meticaís in 2009. The Delta was Mt2.3 million per district in 2008 and has risen to Mt2.5 million per district in 2009. According to the Letter of Sector Commitment: "For the period 2010-2012 the Government has made provision in the MTEF for an increase of over 50 percent in the overall value of the district allocation. Moreover, the Ministries of Finance and Planning and Development are currently developing and will introduce by 2012 a formula for the more equitable allocation of these funds between districts." In 2006 the OIIL was distributed equally to all the districts. From 2007, however, a formula for distribution, including allocation criteria, was introduced. The formula included (i) the size of district population, (ii) the size of the district territory, (iii) the poverty index of the district, and (iv) factors linked to the capacity to collect revenues. However, the Delta continues to be allocated without the use of a formula.

21. An impact evaluation study of the first years of OIIL expenditure is being undertaken by the government with financing from UNICEF, but currently there is no reliable study on which to base an evaluation of the impact.

22. Although the OIIL and Delta together amount to about US\$400,000 per district annually, the overall share of the budget remains low. The total transfer constitutes only 3 percent of the national budget, so most of the resources for jobs, growth or any social investment remain in the sector/vertical budgets largely outside of the control of the districts. The N-DPPFP seeks to provide support for the elaboration of an integrated district budget that reorients the planning and budgeting process into a more territorially integrated one consistent with LOLE, taking into account national policy objectives while accounting more closely for local priorities.

23. The roles of District Planning Teams and District Consultative Councils (CCDs) are very important as these are the multi-sector, multi-stakeholder structures for participatory planning and good governance and accountability at a local level. The impact of these CCDs is being felt, but the vertical process in Mozambique is still limiting the choice and accountability at a local level. In some cases, sector directorates in the provinces have overruled the CCD priorities, by demanding that they revisit their priorities late in the year, thus potentially undermining bottom-

up accountability. To date districts have been able to apply development funds (donor supported or OIIL) to priorities identified by CCDs of an investment nature, including social and economic infrastructure (such as irrigation, water, roads, and markets).

24. In terms of future perspectives, the thinking of the government continues to evolve. There is a commitment, which is visible in the Medium Term Fiscal Framework, to maintain the infrastructure allocation, and it is expected to increase over time. For the OIIL part, current discussions in the government seem to be in line with developing a local economic development (LED) fund mechanism to allocate resources to projects identified by the District Consultative Councils (CCDs) and to be spent by the communities. According to the Letter of Sector Commitment, this would be a “revolving district development fund managed by local community representatives” for “recycling public investment funds for LED”.

25. Having both a thriving private sector and a capable public sector is critical to successful rural development, as local revenues and new jobs depend on the private sector and the private sector requires basic services and support from government. Most technocrats believe that local development funds should not be used for private goods for productive investments nor for microcredit but rather for socioeconomic investments of a public-good nature, as defined in district plans approved by the CCDs. Microcredit and agriculture services should be provided by the private or NGO sector or by a PPP with the public sector where risk is subsidized.

26. Experience in many countries shows that investments in income generating activities and micro-credit are better served through specialized funds and technical assistance, and should not be incorporated into a local government or general local development program. These types of investments, if not managed appropriately, often tend to benefit specific groups (elite capture) of society, with perverse effects on equity and worsening corruption. Mozambique is in need of consolidating and further developing the rural finance and support services sector to stimulate rural private sector development. There are numerous small funds (*fomentos*) and NGOs, but a comprehensive policy, program and resource allocation remains underdeveloped.

27. It is important not to confuse the need for rural micro-credit and agriculture services with what are often called “social funds” or “community driven development” programs. In Mozambique, a decision was deliberately taken to develop and strengthen districts as the locus for service delivery at a local level. Alternatives such as social funds were rejected due to the lack of both civil society and governance structures post-war, and a decision was therefore made to focus on building sustainable government structures with the limited resources available. It was also recognized that while local governance projects might be slower to deliver, the implications for longer term service delivery and sustainability were important and therefore prioritized. Sectors therefore retained most of the spending power at the district level, while district capacity was slowly developed through the DPFP process of learning by doing. It is therefore critical that any future efforts to refocus the OIIL be targeted in the direction of micro-credit and agriculture, rather than the establishment of a social-fund type of instrument. Social funds can be developed as separate bodies that often have more resources and power than local governments and can sometimes result in the undermining of emerging local governance capacity.

Project implications

28. There is wide agreement that the DPFP remains critical to building district capacity to plan, manage and implement service delivery at a local level, and to build accountability through proper financial and procurement management systems as well as participatory planning and accountability to citizens.

29. The partner-supported projects to date have played a critical role in building this capacity in many districts, as well as developing and supporting the establishment of CCDs (see the SAL-CDS report discussed in the main report under Section J, “Social”). This is a long-term process that is still in the very early stages in Mozambique. However, it is critical to enhancing participation, accountability and efficiency/equity considerations and any interruption or distortion would be regressive.

30. In 2007, the partners and government (MAE, MF, MPD, MOP, MICOA) agreed to harmonize existing local government support projects into one national project (N-DPFP) with a Common Fund. The fund would support technical and other support to provinces and districts designed to improve capacities leading to more effective preparation, implementation and monitoring of district operational plans and budgets (PESODs). The funds for implementation of the PESOD would come from the sector budget allocations and a small unconditional or block allocation (OIIL) starting with seven *bilhões* in 2007. It was agreed that partners would not fund district grants in future, as this would be done by the OIIL in line with good practice for streamlining and mainstreaming. Subsequent changes to the OIIL eligibility led to some delays in project preparation but the insertion of the Delta for socioeconomic infrastructure and commitment to its enlargement restarted the preparation process.

31. The partner-supported Common Fund would provide US\$37.7 million (mostly for technical assistance) in support over four to five years. The OIIL and Delta are the only funds over which the district has some allocative discretion and they constitute less than 3 percent of the national budget. The district currently has very limited discretion and unlike many decentralized systems is still far from being a conditional and unconditional grant system allocated in a predictable and stable way. Most district funds are prescribed by sectors, often from national level on a line by line basis. Over time, however, as capacity improves at both district and upper levels of government, there is expected to be a softening of this approach if policy and political statements hold true. Moving towards some level of unconditional grants at a district level, combined with conditional sector grants, will bring the system closer to the principles embodied by effective local governance, namely subsidiarity, allocative efficiency and accountability.

Risks

32. The OIIL in its current form, that is, for income generating and food production investments, carries the risk of undermining the structures for good governance and accountability at the local level, if these are seen to be private goods being financed with public funds. For the financial sector, there is even a greater risk that if not defined properly, the use of

public funds for productive investments could undermine the growing credit culture and economic appraisal and investment of projects in rural communities.

33. The World Bank recognizes that even with an improved financial sector delivery mechanism in place, the actual resources targeted to the government’s development priorities may be limited, especially in an environment with a very nascent microfinance industry. Some governments have opted to address this constraint by establishing microfinance development facilities that act as a wholesale mechanism to provide financing and technical support to retail MFIs, microfinance networks, and other intermediaries and service providers working in rural communities. Such an approach would have to be complementary to the district budget funds, and not be seen as a substitute. As a separate project supporting local economic development, such a dedicated facility could be established through partnerships with public and private actors and resources. This would be commercially driven with the potential for long-term self sustainability, while the latter would continue to be grant-based and supported by central government budget. The government is currently evaluating options for this as part of its LED project, and it is yet to be seen how the OIIL will migrate into this fund, if at all. What is clear, however, is that there needs to be a clear institutional separation between a fund that supports income-generating investments and related LED activities (currently the OIIL) and the funds of the district government that finance public goods, particularly socioeconomic infrastructure, operations, and maintenance (currently the Delta).

34. World Bank involvement in N-DPFP allows it to maintain a seat at the policy table in relation to these critical issues, as well as to feed information to the broader policy processes for public sector reform and macroeconomic management. The decision of the government to formulate N-DPFP is based on the need to consolidate and implement recent developments in the legal framework, and build the lessons learned from the partner-supported projects into a harmonized approach to decentralized planning and finance. It will therefore present an integrated and holistic platform for the implementation of LOLE and SISTAFE laws and support the districts in managing their new role.

35. The new project will build on lessons learned from the three partner-funded projects (DPFP-Centro, DPFP-Norte, and the PRODER) that preceded the N-DPFP. The lessons learned are summarized in the chart below.

Area	Major Achieved Outcomes	Good Practices/Lessons Learned	Challenges
Strategic planning	80% districts with PEDD approved 100 % with PESOD	Capacity can be created Process more important initially, but quality will follow	Ensuring quality of PEDD Capacity to cover entire country Ensuring integration of sector plans with territorial plans Ensuring integration of LED

District public finance	District as a budget unit Roll-out of e-SISTAFE Decentralization of recurrent budget and payroll District investment budget	e-SISTAFE facilitates FM Own-source revenue can improve with incentives and systems introduced	Financial management capacity still weak Lack of transparency and incentives for own-source revenue registration Roles and responsibilities of implementing agencies still to be defined
Participation	CDDs in all districts, Administrative Posts and some localities. Participatory methodologies established and mainstreamed in the legal framework Participatory planning guidelines approved	Communities can be effectively involved in strategic and operational planning	Ensuring that capacity of CCDs is improved Ensuring that guidelines are effectively implemented
Communication	Communication Strategy Implementation of mechanisms for downwards accountability	Weak quality Resistance to transparency	Lack of culture or political will for publication of district plans, budgets and results Needs structured top-down and bottom-up efforts.
Internal and external control	District-level external audits	Improved FM and procurement management	IGF still weak at the provincial level

36. The national project will consolidate these lessons learned and scale-up the DFPF-approach to reach national coverage. The project will thus contribute to a uniform and institutionalized approach to strategic planning, public finance and management at the district level.

37. The design of N-DFPF results from a participatory process led by the Ministry of Planning and Development, but with involvement of other key ministries. These include the Ministry of State Administration (MAE - *Ministério da Administração Estatal*), Ministry of Finance (MF), Ministry of Public Service (MFP - *Ministério da Função Pública*), Ministry for Coordination of Environmental Action (MICOA - *Ministério para Coordenação Ambiental*), Ministry of Works and Housing (MOPH - *Ministério das Obras Públicas e Habitação*), and the Administrative Tribunal (TA - *Tribunal Administrativo*), as well as the development partners. It also benefitted from several workshops where the provincial and district level government had the opportunity to comment on design and content.

38. The close collaboration between the government and development partners is a visible step toward harmonization of intervention. However, it must be recognized that this presents a very challenging and time-consuming process for the government and development partners alike. It is the first time that the World Bank has participated in the design of a project funded by a Common Fund from the outset. The task team spent a lot of time upfront with the development partners to develop the MoU for the financing of N-DPFP. The MoU contains numerous important annexes such as the project document, KPIs, flow of funds and partner exceptions. It has been prepared by the government and endorsed by the development partners.

Annex 2: Major Related Projects Financed by the Bank and/or Other Agencies

World Bank-Financed Projects

Project	Sector Issues	EOD Rating	IP Rating	DO Rating
Decentralized Planning and Finance Project (DPFP)	Improved governance and more responsive service delivery.		S	S
Maputo Municipal Development Program (ProMaputo)	Institutional development and municipal governance, improving municipal finance and infrastructure rehabilitation and service delivery improvement.		S	MS
Municipal Development Project (MDP)	Legal and institutional framework for municipalities and training of municipal staff and politicians. Capacity building through implementation of infrastructure, equipment and consultancies.	MS	MS	MS
Market-Led Smallholder Development in the Zambezi Project	Increasing the incomes of smallholder farmers in selected districts of Zambezi Valley region of central Mozambique.		MS	MS
Public Sector Reform Project	Supporting the Government of Mozambique (“the government”) to restructure the public service for decentralized service delivery, professionalize the public service, and improve governance.		MU	MS
PRSC series	The second PRSC series (3-4-5) is designed to assist the government to implement key policy actions outlined in its Second Action Plan for the Reduction of Absolute Poverty (known as PARPA II by its Portuguese acronym) and in the Performance Assessment Framework agreed to by the government and the 19 external partners that provide general budget support (GBS) to the government. PARPA II is mainly focused on shared growth and on the need for decentralization. Within this context, PRSC series is expected to help the government in: (a) the consolidation and deepening of the institutional reforms in the area of macroeconomic management; (b) reforms in governance by supporting decentralization to enhance public investments and service delivery at the provincial and district level, and by supporting public sector reform; and (c) economic development by removing constraints to growth, such as infrastructure, and promoting agricultural growth.		S	S

Regional Communications Infrastructure Program/Mozambique eGovernment and Regional Communications Infrastructure Project (pipeline)	The regional communications infrastructure project covers Eastern and Southern Africa and has the objective of (i) lowering the cost of bandwidth and extend the reach of broadband networks and (ii) increasing the transparency of government through the delivery of eGovernment services. The Mozambique project will be included in Phase 3 of N-DPPF, expected to go to the Board in Q4 FY09. It will include technical and regulatory support to increase competitiveness in the sector and lower the cost of connectivity to the districts. It will also include the setup of connectivity access points across the country, and the purchase of capacity for universities, eGovernment, and other targeted users. Finally, N-DPPF will include support for the setup of eGovernment fundamentals and two eGovernment applications – likely a land information system and a civil identity registry.		-	-
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MU=Moderately Unsatisfactory; MS=Moderately Satisfactory; S=Satisfactory

Other donors-financed Projects:

Project	Funding Institutions	Sector Issues	Status
Decentralized Planning and Finance Project (PPFD Norte)	UNCDF, UNDP	Poverty reduction though improved local governance. Increased access by local communities to basic infrastructure and public services.	Closed (December 2007)
Rural Development Program(PRODER)	GTZ (Germany)	Participation as an instrument for poverty reduction. Capacity building of the public sector to meet the needs of the poor population and the population of selected districts and municipalities benefiting from improved basic services. Rural producers acknowledge and value their natural resource base as the basis for socioeconomic development and explore it in a sustainable way.	Closed (December 2006)
Decentralized Funding of Infrastructure (FINDER)	GTZ (Germany)	Improvement of the socioeconomic situation of the population through transparent and accountable local governance. Local government assumes its mandate for local development and provision of	Ongoing

		public infrastructure based on demand.	
Project for Decentralization and Municipal Development (PDD/PDDM)	GTZ (Germany)	Democratization; decentralization; empowerment of the local population; and institutional strengthening (participatory planning, municipal management, local economic development).	Closed (February 2004)
Program for Support of Decentralization and Municipalization (PADEM)	Swiss Agency for Development and Cooperation (SDC)	Decentralization; democratization; and poverty reduction.	Ongoing
Joint Municipal Development Program in the North of Mozambique	Swiss Agency for Development and Cooperation (SDC)/ Danish Cooperation Agency (DANIDA)/Austrian Development Cooperation (ADC)	Poverty reduction and the improvement of the living conditions of poor women and men, through strengthening of the municipalities' autonomy and through their balanced and sustainable development, ensuring wider coverage and quality in the provision of services.	Ongoing
PLACOR- Strategic and Operational plan of the Administrative Court	Finland, Netherlands, Germany, and Sweden	Support for implementation of the strategic and operational plan of the Administrative Court, PLACOR 2007-2010. The overall objective of PLACOR is to strengthen the Administrative Court in order to increase its future intervention capacity in the control of the public revenues and expenditure.	Ongoing

Annex 3: Results Matrix and Monitoring¹

Higher Level Goal	Improved Service Delivery at the District Level	
Project Development Objective (PDO)	Outcome Indicators	Use of Outcome Information
<p>To improve the capacity of local government to manage public financial resources for district development in a participatory and transparent manner.</p>	<p>Number of districts with more than 90% budget execution of their district operational plan and budget (PESOD).</p> <p>Number of districts with annual PESOD execution report publicly displayed and discussed in district councils in accordance with guidelines.</p> <p>Number of districts that report on district performance in decentralized planning and finance through SMPD.</p>	<p>Contributes to an improvement of plan quality and efficiency in plan execution.</p> <p>Contributes to improved transparency and community oversight of both strategic and operational plan Implementation.</p> <p>Enables all involved institutions at the provincial and district levels to understand in detail how their performance affects overall functioning of the five decentralized planning and finance district processes and to define action to improve such performance.</p>

Intermediate Outcomes per Component	Intermediate Outcome Indicators per Component	Use of Intermediate Outcome Information
Component 1: Improving National Support Systems		
<p>Management tools for decentralized planning and finance are applied in a proper manner.</p>	<p>Number of districts that have received all final district process dossiers and implementation manuals.</p> <p>Degree of progress in developing and rolling out the Performance Monitoring System for decentralized planning and finance (SMPD).</p>	<p>Verifies whether the legal and instrumental framework is in place, so that the basis for improved management of district development resources in the public sector has been established.</p> <p>Measures progress in developing the performance</p>

¹ Results monitoring for Component 7 is integrated into the monitoring of the other six components.

	<p>Number of provincial trainers accredited by IFAPA available for training district staff in decentralized planning and finance processes.</p>	<p>monitoring system of the decentralized planning and finance district processes.</p> <p>Verifies whether provincial training capacity has been established, an important prerequisite for creating district capacity to improve management of district resources.</p>
<p>Component 2: Strengthening Participatory Planning and Budgeting</p>		
<p>Strategic and operational participative planning system for local government is implemented.</p>	<p>Number of districts with an operational plan and budget (PESOD) approved and disseminated in accordance with (selected criteria in) established planning guidelines.</p> <p>Number of district councils that operate in accordance with (selected criteria in) current legislation. [Note: PARPA/PAF indicator]</p>	<p>Verifies which planning procedures are operational and in accordance with key features of the national planning cycle. Note that the SMPD, once in place, will expand on verifying qualitative elements of the planning exercise.</p> <p>Verifies whether the prerequisites for local government functioning and participative decentralized planning are in place.</p>
<p>Component 3: Enhancing Management and Implementation Capacity</p>		
<p>Improved institutional capacity for the implementation of district plans.</p>	<p>Number of districts with financial processes closed in e-SISTAFE at the end of the financial year</p> <p>Proportion of procurement contracts in public works executed by the districts with prior approval (“visto”) by the Administrative Tribunal.</p> <p>Number of local government technical staff integrated in civil service payroll (based on selected key-post prefinanced by N-DPFP).</p> <p>Number of districts with an annual increase in local revenue collection and registration in e-SISTAFE.</p>	<p>Verifies to what extent administrative and financial management procedures are functioning, both as a result of capacity building and the appropriateness of the legal and instrumental framework to improve management at the district level.</p> <p>Verifies through external control whether certain key aspects of national procurement legislation are being adhered to.</p> <p>Verifies progress in creating sustainable district capacity to management public resources for development</p>

		<p>through the integration of key technical posts in the district government budget.</p> <p>Verifies progress in expanding the districts' capacity to generate resources, thus improving the country's fiscal balance and the degree of auto-financing district development.</p>
<p>Component 4: Strengthening Oversight and Accountability</p>		
<p>Improved oversight and accountability at the local level.</p>	<p>Number of districts that submitted their annual financial statements to the Administrative Tribunal in accordance with current legislation.</p> <p>Percent of district accounts audited by the Administrative Court (% of their collective budget as well as % of institutions). [Note: PARPA/PAF indicator]</p> <p>Number of districts that inform their local councils about the results of internal and external control exercises in accordance with guidelines.</p>	<p>Verifies progress in adhering to a basic legal requirement of public financial management, as a result of increased capacity to do so.</p> <p>Measures the degree to which external control of district accounts actually takes place, providing district governments with an incentive to improve financial management that cannot be provided by capacity building.</p> <p>Contributes to measuring the degree of transparency and accountability of district government, allowing community oversight on public expenditure.</p>
<p>Component 5: Knowledge Management</p>		
<p>Best practices, innovations, information and knowledge concerning decentralized planning and finance systematized and disseminated</p>	<p>N-PDPF web page in the government's (MPD) portal updated at least three times per year with best practices and district performance reports.</p> <p>Number of districts that use at least three established best practices in decentralized planning and finance.</p> <p>Aggregated number of best practices in-service training</p>	<p>Provides an additional way to organize and provide access to available documentation on decentralized planning and finance, for those with access to the internet.</p> <p>Measures the willingness and capacity of the decentralized planning and finance system to re-</p>

	contents that are disseminated.	<p>invigorate itself based on local creative initiative and best practices elsewhere, as well as the degree to which horizontal diffusion of innovations takes place.</p> <p>Measures the degree of systematizing and disseminating practical experience from Mozambique and elsewhere.</p>
Component 6: Effective Project Management and Coordination		
Management system in place which ensures good quality project management.	Timely submission of consolidated Project AWPB and monitoring reports.	Management tools important to guide project implementation and ensure that support under Components 1 to 5 is provided in accordance with project management principles.
Component 7: Activities Funded Outside of the Common Fund		
Project activities under this component are integrated into the above six components and will be monitored according to each component in this results matrix.		

Arrangements for Results Monitoring

PDO Indicators	Baseline	2010	2011	2012	2013	2014	Frequency and Reports	Data Collection Instruments	Responsible for Data Collection
Number of districts with more than 90% budget execution of their district operational plan and budget (PESOD)	85	90	95	100	105	110	Annually	DPF "sector" monitoring system	DNP/MPD
Number of districts with annual PESOD execution reports publicly displayed and discussed in District Councils in accordance with guidelines	NIL	NIL	32	64	96	115	Annually	DPF "sector" monitoring system	DNP/MPD
Number of districts that report on District Performance in decentralized planning and finance through SMPD	NIL	NIL	30	80	128	128	Annually	SMPD	DNP /MPD (MAE)
Comp 1									
Improving National Support Systems									
Number of districts that have received all final and all available updated of district process dossiers and implementation manuals	NIL	128	128	128	128	128	Annually	DPF "sector" monitoring system	DNP/MPD
Degree of progress in developing and rolling out the Performance Monitoring System for decentralized planning and finance (SMPD)	NIL	Initial version of tool designed and tested	Tool introduced in all districts and baseline data available	Refined version of tool used by all districts	Final version of tool used by all districts	Tool formally adopted by Government	Annually	DPF "sector" monitoring system	DNP /MPD
Number of provincial trainers accredited by IFAPA available for training district staff in decentralized planning and finance processes.	NIL	20	35	50	50	50	Annually	DPF "sector" monitoring system	DNP/MPD

Strengthening Participatory Planning and Budgeting										
Comp 2		90	94	98	106	114	122	Annually	DPF "sector" monitoring system	DNP/MPD
Number of districts with an operational plan and budget (PESOD) approved and disseminated in accordance with (selected criteria in) established planning guidelines										
Number of District Councils that operate in accordance with (selected criteria in) current legislation Note: PARPA/PAF indicator	6	18	30	54	78	102		Annually	PARPA annual review	DNP/MPD
Comp 3		Enhancing Management and Implementation Capacity								
Number of districts with financial processes closed in e-SISTAFE at the end of the financial year	50	60	70	80	95	110		Annually	e-SISTAFE	DNP/MPD
Proportion of procurement contracts in public works executed by the districts with prior approval ("visto") by the Administrative Tribunal	17%	25%	33%	40%	50%	60%		Annually	DPF "sector" monitoring system	DNP/MPD
Number of local government technical staff integrated in civil service payroll (based on selected key-post pre-financed by the national project)	98	98	98	270	444	628		Annually	DPF "sector" monitoring system	DNP/MPD
Number of districts with an annual increase of at least 10% in local revenue collection and registration in e-SISTAFE	59	65	70	75	80	85		Annually	e-SISTAFE	Districts, MF (consolidated reports by DNP/MPD)

Strengthening Oversight and Accountability										
Comp 4		40	58	75	93	110	128	Annually	DPF "sector" monitoring system	DNP/MPD
Number of districts that submitted their annual financial statements to the Administrative Tribunal in accordance with current legislation										
		17	22	28	33	39	44	Annually	PARPA annual review	DNP/MPD
Number of districts with their accounts audited by the Administrative Court										
		29	50	70	90	110	128	Annually	DPF "sector" monitoring system	DNP/MPD
Number of districts that inform their local consultative councils about the results of internal and external control exercises										
Comp 5	Knowledge management									
N-DPEP web page in the government (MPD) portal updated at least 3 times per year with Best Practices and District Performance reports	Webpage exists with 98 PEDDs accessible	Webpage operational in MDP portal with information regarding 3 Best Practices	Information updated with 5 Best Practices and SMPD summary report	Information updated with 7 Best Practices and SMPD summary report	Information updated with 10 Best Practices and SMPD summary report	Information updated with 12 Best Practices and SMPD summary report	Annually	DPF "sector" monitoring system	DNP/MPD	
	NIL	30	50	70	100	128	Annually	DPF "sector" monitoring system	DNP/MPD	
Number of districts that use at least 3 established Best Practices in decentralized planning and finance										
	NIL	3	5	7	10	12	Annually	DPF "sector" monitoring system	DNP/MPD	
Cumulative number of best practices identified and disseminated										
Comp 6	Effective Project Management and Coordination									
Timely submission of consolidated Project AWPB and monitoring reports	Implementation manual available	100%	100%	100%	100%	100%	100%	According to implementation manual	DPF internal monitoring system	DNP/MPD
Component 7:	Activities Funded Outside of the Common Fund									
Project activities under this component are integrated into the above six components and will be monitored according to each component in this results matrix.										

Annex 4: Detailed Project Description

1. The objective of N-DPFP is to improve the institutional capacity to manage resources for district development in a participative and transparent manner. N-DPFP is closely linked to the overall strategy for public sector reform in Mozambique, currently in its second phase (2006-2011). This phase of the reform is grounded in four priorities: improving service provision; strengthening the local state bodies; professionalizing the public service; and good governance and the fight against corruption.

2. N-DPFP is designed to support all of these strategic areas and to this end it is essentially a capacity building and technical assistance project. The proposed activities under N-DPFP will be carried out by the government at central, provincial and district level with the support of technical advisors recruited under the project. It will primarily finance capacity building and training activities including the development of methodologies and instruments with a view to strengthening local state institutions. It will also finance some acquisition of goods such as office equipment, furniture and vehicles, as conditions in the districts and provinces are still limited (amounts listed in parentheses below represent the IDA financing allocated to each component).

Component 1: Improving National Support Systems (*Estimated full cost US\$3.9 million, of which IDA US\$3.2 million*).

3. The objective of this component is to support the central government to establish an effective framework for decentralized planning and finance. This component is targeted at central level institutions in order to build their capacity to provide the necessary policy, legal and methodological framework for decentralized planning and finance at the provincial and district level. It is also aimed at supporting MPD and MF in the improvement of the national planning and budgeting system, particularly in respect of the harmonization and integration of territorial and sectoral plans and budgets.

4. With the adoption of the LOLE in 2003 and its regulations, the SISTAFE law, and a host of other public finance laws and regulations, N-DPFP is aimed at providing capacity support for districts to assume their new roles as “budgetary units” and “development poles” and operationalize these laws and policy frameworks. N-DPFP is not a policy project but one that seeks to develop capacity and scale-up or mainstreaming of good practices from recent experience. However, revisions to the legal and policy framework may be needed. This component will therefore provide support for inputs for new or revised legal, policy or institutional reforms.

5. The component will primarily support the elaboration, development, testing, revision, publication and dissemination of various tools, instruments, curricula, methodologies and related operational costs for countrywide replication of socially and environmentally sound district planning and financing methodologies and processes. The feedback from learning-by-doing (Component 5) will be channeled into this component in order to learn from the experiences in other components at the district level so as to improve existing instruments or introduce additional ones to the legal, policy, and instrumental framework.

6. The component will oversee the development of a District Process Monitoring System (SMPD). The system will monitor district compliance with the range of procedures related to planning and public financial management (including human resource management and

participatory planning and budgeting) and will provide information to all levels of government as to the absolute and relative performance of all participating institutions. This will enable additional targeted support to districts and provinces where necessary, or to the system as a whole through the development of new policy, legal, institutional or methodological instruments. The SMPD will be developed under N-DPFP and will include a mix of technical assistance, ICT and training.

7. Under this component, N-DPFP will finance the following activities:
 - (i) Technical advisors at the central level for ministries and agencies involved in supporting decentralized planning and finance;
 - (ii) Studies required to support improvements to, or the elaboration of, the legal, policy, or institutional framework for decentralized planning and finance;
 - (iii) Consultants or technical advisors to prepare the methodological instruments (including dossiers) necessary for improving or scaling-up the system of intergovernmental planning and finance and particularly district planning and finance;
 - (iv) Development and operationalizing of a District Performance Monitoring System (SMPD), which will measure the performance of all participating institutions in the implementation of aspects of the district planning and finance system, which are related to their respective institutional mandates;
 - (v) Training of trainers and associated operating costs for the training of provincial trainers in methodologies and other instruments for decentralized planning and finance;
 - (vi) Publication and dissemination of the materials developed under this component;
 - (vii) Elaboration, testing, and design of materials that make plans, monitoring reports, financial reports, performance reports, audit and inspection findings accessible to communities, including but not limited to printed media and community television and radio;
 - (viii) Studies to support the development or updating of methodologies and materials for conducting district audits and inspections and downward accountability mechanisms; and
 - (ix) Updating of a framework for the assessment and management of environmental and social impacts of district-level infrastructure investments.

8. Components 2 to 4 focus on the implementation at the district level of the frameworks, systems and instruments developed or disseminated under component 1.

Component 2: Strengthening Participatory Planning and Budgeting (*Estimated full cost US\$13.2 million, of which IDAUS\$10.4 million*). The objective of this component is to improve participatory planning and budgeting at a district level, and it therefore targets resources at both provincial and district levels that will support the district.

9. The component will provide support:
 - (i) to provide the necessary capacity support to districts for the participatory elaboration or updating of five-year district strategic development plans (PEDDs) including the better integration of land-use and local economic development (LED) components. The aim is to improve the quality and speed with which these plans are prepared and to ensure they reflect both community priorities and national policy objectives, implying greater harmonization of sector and territorial

planning efforts. Activities related to the land-use planning are mainly to perform a diagnosis of existing social and economic infrastructure at the district level, to complement them with the simplified plans undertaken during the previous DPFP-Centro and then to digitize the data with the view of creating an integrated national database.

The component will support the integration of a stronger LED component in PEDDs, although N-DPFP will not support the actual implementation of LED activities. Therefore, the intervention of N-DPFP with regard to LED will be limited to its planning and budgeting aspects although it will collaborate, where necessary, to provide strategic advice to those responsible for implementing the government's LED projects as they evolve.

- (ii) to scale up the introduction or improve the operationalization of annual planning and budgeting. Annual district operational plans and budgets (PESODs), have not yet attained a sufficient level of quality in many districts, and therefore a major focus of N-DPFP is to support the capacity of district planning teams to develop PESODs and to engage constructively with the province to ensure their integration, as far as possible, into the provincial operational plans and budgets (PESOPs), as well as sector plans in the context of the national operational plan and budget (PESOE). The development of methodologies and processes to improve the 'harmonization' of process at the district and provincial level is a key aspect of this component. It requires improved capacity not only to determine spending priorities and choices but also to forecast and integrate the revenue side of the budget into the PESOD including sources of own revenue and fiscal transfers. A major challenge for this component will be to strengthen the linkages between strategic and operational planning at the district and provincial level.
- (iii) to strengthen the basis for community participation in the local development process. The establishment and functioning of the Consultative Councils at the district, Administrative Post, and local levels is critical to the participatory nature of the district planning and finance process. These councils are made up of representatives of government and communities and are the forums for prioritizing investment in the district. The component will build on the good practice of the earlier projects and the long history in Nampula Province in particular.

10. Under this component N-DPFP will finance the following activities:

- (i) The training of district staff in community participation and strategic and operational planning and budgeting;
- (ii) The contracting of specialized technical assistance at the provincial level to work with districts on improving strategic and operational planning with community participation. These would be long-term or short-term advisors or consultants depending on the nature of the intervention required;
- (iii) The elaboration and integration of territorial perspective to District Strategic Development Plans;
- (iv) Strengthening community participation in the strategic planning process, including supporting the operating costs of relevant Consultative Council sessions which will, over time, be integrated into district budgets;

- (v) The elaboration and dissemination of materials and instruments for community participation, including the provision of information in local languages and accessible formats;
- (vi) Strengthening the capacity of Consultative Councils to effectively engage in the district development process;
- (vii) The publishing and dissemination of PEDDs and PESODs in an accessible format to their respective communities; and
- (viii) The financing of goods and equipment, including vehicles where necessary and their associated operating and maintenance costs, to support planning and budgeting processes. This will be accompanied by plans for operation and maintenance and a financial plan for integration of these costs into the district or provincial budgets over time.

Component 3: Enhancing Management and Implementation Capacity *(Estimated full cost US\$11.6 million, of which IDA US\$9.2 million).*

11. The objective of this component is the improved institutional capacity for district plan implementation in line with the regulatory and policy framework and associated procedures. Funds for plan implementation are provided in the state budget via sector budgets and the District Investment Budget. N-DPPF provides the associated technical assistance and related capacity building support for the implementation of plans.

12. The component will provide training and technical support to district staff on procurement, safeguards screening and implementation, contract management, financial management, supervision and oversight of public investments as set out in district plans. It will also provide support for the planning and implementation of district maintenance plans and their implementation. The component will also be able to support training for local private sector contractors to respond more effectively to invitations to tender. It will also provide support for training and mobilizing provincial staff to more effectively engage in supporting districts in plan implementation. It will also provide, as part of the implementation of the plans, systematic training in the review of environmental and social risks, and the actions needed to mitigate these where necessary, as defined by both the previous project (DPPF-Centro) and MICOA.

13. In Mozambique, the reform of the public financial management system and the rollout of e-SISTAFE have been under way for a number of years although many districts are not yet online, due to lack of technical infrastructure (reliable electricity supply, internet access and banking facilities). Nevertheless, all districts follow SISTAFE procedures. E-SISTAFE is currently available to 50 out of 128 districts. At least 14 more are expected to have access by 2012. The component will provide support to districts enabling them to comply with their legal obligations with respect to financial management procedures. It will build on good practices established by the former DPPF-Centro particularly in respect to contracting, training and supporting district staff responsible for management of public resources at the district level.

14. Another critical element of the component is supporting improvement in the collection and management of the districts' own revenue. Although overall potential is low, as some districts have a limited economic base (see "Analysis of District Finances in Mozambique," March 2009, by Jamie Boex and Ângelo Macuacua), there is nevertheless some potential for districts to increase revenue collection and that this will have impact at a district level. While many districts have made progress in this area, nevertheless the incentive for collection and registration remains weak and needs to be addressed under Component 1. However, there are

opportunities for improved collection, registration and management of own revenues at the district level, and this component will provide the necessary support through the provision of materials, equipment, training, and technical advice.

15. The component will also provide technical support, training, and the necessary associated operating costs and equipment for districts in the area of procurement, contract management, supervision and monitoring of plan implementation. The component also integrates training modules and manuals on HIV/AIDS as part of the district and provincial planning process.

16. Under this component, N-DPFP will therefore finance the following activities:
- (i) Training for district officials in design, safeguard assessment, procurement, contract management and supervision of public investments, particularly in works;
 - (ii) Monitoring of compliance (implementation of SMPD at the district level);
 - (iii) Strengthening of financial management capacity, including expenditure management and own-revenue collection, registration and management;
 - (iv) Purchase of goods, equipment and vehicles as necessary to oversee plan implementation;
 - (v) Improvement of human resource management at district level, including systems, training and equipment;
 - (vi) The effective supervision and monitoring of the implementation of PESODs (including O&M which will be progressively integrated into the district and provincial budgets); and
 - (vii) The contracting of District technical staff (on Government terms and conditions) for a maximum of two years, to be integrated into the district (or provincial) budgets within that period.

Component 4: Strengthening Oversight and Accountability *(Estimated full cost US\$0.4 million, of which IDA US\$0.3 million)*

17. The objective of this component is improved oversight and accountability at the district level in terms of both upward and downward accountability.

18. This component is concerned with improvements to internal and external control functions, as well as downward accountability to citizens. The coverage of district audits has been limited in the past, although with some progress achieved under DPFP-Centro. This will be continued and expanded in the next phase of the government's program. The strengthening of external control functions will also be supported from resources outside of N-DPFP (for example the Common Fund for PLACOR, which is a separate but complementary project). The activities to support this component's objectives will include any related to (i) extending the coverage of inspections and audits in provinces and districts, (ii) strengthening the internal control system in provinces and districts, or (iii) improving the participation of citizens in oversight of public management.

19. With regard to internal control, the component will support IGF, IGAE and UFSA to strengthen the capacity of Provincial Administrative Inspectorates (IAPs) at the provincial level to undertake internal control functions in provinces and districts and training for which direct support will be provided.

20. The component will also support activities aimed at improving community oversight and accountability mechanisms. Critical to these efforts will be making planning, budget execution, and financial and external and internal control reports available to communities in an accessible format, along with opportunities for discussion and review between communities and district government, especially within consultative councils, and between different levels of sub-national government.

21. The component will also seek to promote coordination and collaboration among the various audit and inspection functions, as well as other key ministries involved in the N-DPFP, in order to maximize the learning and improvement opportunities offered by the functions under their control. Activities under this component will therefore be coordinated with the complementary activities financed under the PLACOR.

22. Under this component N-DPFP will finance the following activities:

- (i) Technical assistance for the strengthening of external and internal control functions;
- (ii) The elaboration and dissemination of materials that make plans, financial reports, audit and inspection findings accessible to communities, including but not limited to printed media and community television and radio;
- (iii) Support to establishing internal control functions at the district level including training workshops; and
- (iv) Meetings, peer-learning opportunities and training workshops for representatives of the inspection and audit agencies involved with district audits and accountability.

Component 5: Knowledge Management (*Estimated full cost US\$0.5 million, of which IDA US\$0.4 million*)

23. The objective of Component 5 is to collect, systematize, and disseminate good practices, innovations, information and knowledge concerning decentralized planning and finance in Mozambique and beyond. The component will be focused on establishing learning loops whereby experience in the districts will be analyzed and the results of this fed into activities of Components 1, 2, 3 and 4 in order to improve performance on the ground through knowledge sharing. The component will be responsible for facilitating exchanges of experience, peer learning and intergovernmental communication. It will also establish a repository of materials and a library on decentralized planning and finance at the central level, since significant transaction costs have been incurred in providing this material to researchers, consultants, new government staff and other interested parties over the years.

24. Under this component N-DPFP will finance the following activities:

- (i) Development of guidelines and manuals for data collection, compilation and dissemination of information and knowledge on decentralized planning and finance;
- (ii) Consultancies, services or advisors to compile good practice experiences and innovations into appropriate media and other forms of knowledge capture and the publication and dissemination of these;
- (iii) Establishment of a low-cost ICT platform (web-based) to act as a repository for the knowledge materials and for updating and maintaining this platform;

- (iv) Training and workshops necessary for the exchange of experiences and dissemination and discussion of the good practices and other information compiled under the component; and
- (v) The purchase of the necessary goods and equipment (not including vehicles) and associated operating costs, for the preparation of materials under this component, provided this is accompanied by an operation and maintenance plan and a financial sustainability strategy for end of project.

Component 6: Effective Project Management and Coordination *(Estimated full cost US\$4.8 million, of which IDA US\$3.9 million)*

25. The objective of this component is to ensure high-quality project management and to establish the systems necessary to monitor compliance with government and development partner procedures and other commitments.

26. The component will finance long-term advisors under N-DPFP at the central and provincial level, with a view to phasing out. It will finance the purchase of necessary office equipment as per the annual plan, as well as specific studies in support of project management. The component will also finance the necessary project audits, mid-term review, and other compliance requirements from development partners under the project.

27. Under this component N-DPFP will therefore finance the following activities:
- (i) Contracting of consultants and short term advisors for project management
 - (ii) Project financial audits
 - (iii) Project procurement audits
 - (iv) Purchase of necessary equipment to manage the project, and
 - (v) Operating costs for management and supervision of project activities in the field, ensuring consolidated reporting, collaboration and active coordination among ministries and other central agencies involved in N-DPFP, and
 - (vi) Organization of regular management workshops.

Component 7: Activities Funded Outside of the Common Fund *(Non-IDA US\$8.6 million).*

28. This component will involve a targeted program of capacity building in selected provinces to facilitate further decentralized planning and finance at the provincial and district level in these provinces, and which will be integrated into the other six components. The details of these activities are set out in Annex 16. These activities will be financed by the Non-Common Fund Partners (UNDP and German Cooperation) signatories to the Memorandum of Understanding, through two separate mechanisms: (i) in-kind (direct) contribution to provide technical assistance, and (ii) cash contribution to finance some studies, acquisition of goods such as vehicles, and training activities. The details of the Non Common Fund activities and costs to be financed by UNDP and German Cooperation are in Annex 16.

Annex 5: Project Costs

Table 1: Estimated Project Costs per Component to Be Financed by Common Fund and Other Contributions (In-kind and Cash)

Project Cost By Component	Local US\$ million	Foreign US\$ million	Total US\$ million
Component 1: Improving National Support Systems	0.2	3.7	3.9
Component 2: Strengthening Participatory Planning and Budgeting	1.2	12.0	13.2
Component 3: Enhancing Management and Implementation Capacity	5.6	6.0	11.6
Component 4: Strengthening Oversight and Accountability		0.4	0.4
Component 5: Knowledge Management	0.1	0.4	0.5
Component 6: Effective Project Management and Coordination	0.6	4.2	4.8
Component 7: Activities Funded Outside of the Common Fund		8.6	8.6
Refund of Project Preparation Advance (PPA)	0.1	1.9	2.0
Total Base Cost		37.2	45.0
Contingencies		1.3	1.3
Total Project Costs	7.8	38.5	46.3
Total Financing Required	7.8	38.5	46.3

Table 2: Committed and Indicative Financing (in US\$ million)

Committed and Indicative Financing (in US\$ million)				
Budget and Financing Agency	2009	2010-2012	2013-2014	Total
Budget	2.9	37.0	6.4	46.3
IDA	2.0	22.2	6.2	30.4
Netherlands, Ireland, and Switzerland		7.3		7.3
Germany	0.3	4.8	0.2	5.3
UNDP	0.6	2.7	0.0	3.3

Table 3: Estimated Project Costs per Component to Be Financed by IDA

Project Cost by Component	Local US\$ million	Foreign US\$ million	Total US\$ million
Component 1: Improving National Support Systems	0.2	3.0	3.2
Component 2: Strengthening Participatory Planning and Budgeting	0.9	9.5	10.4
Component 3: Enhancing Management and Implementation Capacity	4.4	4.8	9.2
Component 4: Strengthening Oversight and Accountability		0.3	0.3
Component 5: Knowledge Management	0.1	0.3	0.4
Component 6: Effective Project Management and Coordination	0.5	3.4	3.9
Refund of Project Preparation Advance (PPA)	0.1	1.9	2.0
Total Base Cost	6.2	23.2	29.4
Contingencies		1.0	1.0
Total Project Costs	6.2	24.2	30.4

**Table 4: Estimated Project Costs per Component to Be financed by IDA
(US\$ million per calendar year)**

Project Cost by Component	PPA	2010	2011	2012	2013	2014	Total
Component 1: Improving National Support Systems		0.8	0.9	0.8	0.5	0.2	3.2
Component 2: Strengthening Participatory Planning and Budgeting		2.6	4.0	2.2	1.4	0.2	10.4
Component 3: Enhancing Management and Implementation Capacity		2.9	2.2	2.0	1.5	0.6	9.2
Component 4: Strengthening Oversight and Accountability		0.1		0.1		0.1	0.3
Component 5: Knowledge Management		0.1	0.1	0.1	0.1	0.1	0.4
Component 6: Effective Project Management and Coordination		0.6	1.0	1.1	0.7	0.5	3.9
Refund of Project Preparation Advance (PPA)	2.0						2.0
Total Baseline Cost	2.0	7.0	8.2	6.3	4.2	1.7	29.4
Contingencies		0.2	0.3	0.2	0.2	0.1	1.0
Total Project Costs	2.0	7.2	8.5	6.5	4.4	1.8	30.4

Table 5: Estimated Project Costs per Component to Be Financed through In-kind and Cash Contributions (Non Common Fund Partners)

Cost of Component	German Cooperation (Foreign US\$ million)	UNDP (Foreign US\$ million)	Total US\$ million
Component 7	5.2	3.3	8.5
Contingencies	0.1		0.1
Total Costs	5.3	3.3	8.6

Annex 6: Implementation Arrangements

Institutional and implementation arrangements

Basic principles

1. N-DPFP is a support project which provides an integrated platform for a number of activities undertaken at various levels of government. The focus of these activities is to strengthen capacity for the execution of decentralized and participative planning processes and public financial management with the aim of increasing the efficiency and responsiveness of district government.
2. The project will focus on strengthening capacity in relation to five district planning processes, each of which has a basis in law and confers upon district governments a set of legal obligations and requirements.
3. Institutional arrangements for the implementation of the project are based on this legal framework and guided by three important principles:
 - i) The project is a government project executed and managed by government²;
 - ii) The support and technical assistance that the project offers is delivered within the framework and structure of government institutions and systems and wherever possible follows established government procedures, processes and norms;
 - iii) Where these systems, procedures and processes are fragile or where there is a lack of capacity for their effective implementation, the project will seek to strengthen them and build capacity rather than bypass them or set up parallel structures.
4. Furthermore, in the definition of implementation arrangements, the project takes into account the experiences and lessons learned during the implementation of project-based approaches which preceded the national project³. Many of the institutional and implementation arrangements that have been tried and tested over many years are up-scaled and mainstreamed in the national project.

Scope of project implementation

5. N-DPFP seeks to consolidate and mainstream the best practices in the fields of decentralized and participative planning and public financial management, and it will therefore be implemented countrywide (covering all districts) and will involve the participation of key central level institutions that contribute directly to the management of the decentralized planning and finance process.

² Except for in-kind contributions by Non-Common Fund Partners.

³ In the case of DPFP-Norte (UNDP/UNCDF) from 1998 to 2008 and in the case of DPFP-Centro 2004 to 2008

Implementing agencies

6. Given the scope of N-DPFP, government institutions and agencies at the central, provincial and district levels will all contribute to the implementation of its constituent parts. These agencies are summarized at the end of this Annex. The role of these agencies at each level in respect to the implementation of the project components can be summarized as follows:

Tier of government	Component	Summary
Central level	1	Development of policy, strategy, methodologies, guidelines and institutional development
	4	External and internal control (auditing and inspections)
	5	Knowledge management
	6	Project management
Provincial and district	2	Strengthening participative planning processes
	3	Strengthening plan execution and financial management
	5	Information management
	6	Project management

For further information, refer to Annex 3 of the Memorandum of Understanding (“Institutional and Implementation Arrangements”).

Funding modalities

7. N-DPFP will be supported by two financing modalities:
- (i) A Common Fund Financing Mechanism (CFFM). This is the principal financial source for the project, of which the IDA is the major contributor.
 - (ii) In-kind and cash contributions provided outside the Common Fund (UNDP and the German Cooperation).

8. Financial support made available through the CFFM will be “on budget” and programmed, executed, and accounted for using the government’s public financial management system, SISTAFE. A more detailed explanation of financial mechanisms and funding flows is given in Annex 7, “Financial Management and Disbursement Arrangements.”

Project management and coordination

9. Project management and coordination adopts an approach which has been tried and tested in two of the existing DPFP projects: DPFP-Norte (UNDP-CDF) and DPFP-Centro (World Bank) in which supervisory (coordinating) committees are established at provincial and national levels supported by multi-sectoral technical teams.

Central level

10. ***National Supervisory Committee (Comité de Supervisão- CdS)***: The lead agency for N-DPFP is the Ministry of Planning and Development (MPD), which will be responsible for overall

management and coordination of the project. MPD will be supported in this task by a multi-ministerial supervisory committee (CdS) which will play a strategic oversight and coordination role. The CdS was established over five years ago under the auspices of the DPFP-Centro project and has played a key role in the development of N-DPFP. Until recently the CdS was chaired by the National Director of Planning. However, for the purposes of the N-DPFP, and to give the committee more “gravitas,” it is proposed that the CdS be chaired by the Vice-Minister MPD. Members of the CdS will comprise national directors of Planning, Promotion of Rural Development, Budgeting, Construction, Territorial Planning, Local Administration, and Strategic Management of Human Resources, as well as representatives of the Auditor General (*Tribunal Administrativo*), the General Finance Inspectorate (IGF), and the General Inspectorate for State Administration (IGAE).

11. The key role of the CdS is to ensure the overall strategic direction of the project and includes the following specific responsibilities:

- (i) Coordinate and oversee project implementation so as to ensure that project objectives and key indicators are achieved;
- (ii) Ensure the consistency between N-DPFP and other ministerial programs or projects that intervene in the area of decentralization;
- (iii) Ensure inter-ministerial coordination of the decentralisation process in relation to planning and PFM;
- (iv) Approve the budget ceilings and the institutional and territorial distribution of project funds;
- (v) Approve central level project related annual work plan and budget;
- (vi) Oversight of project activities at central, provincial and district level to ensure that they are adequately resourced;
- (vii) Endorse provincial and district project related annual plans and budgets;
- (viii) Approve project monitoring and financial execution reports; and
- (ix) Maintain regular dialogue with project partners.

12. **Technical Group (*Grupo Técnico – GT*):** A group comprised of technical officers from the institutions represented on the CdS has also existed for over four years and has primarily focused on activities related to Component 4 of the DPFP-Centro project (research and policy replication). Under N-DPFP, the remit of this Technical Group will be widened to support the CdS by providing inputs on policy and methodological issues, work plans, budgets, monitoring and progress reports, financial reports and other material relevant. This group’s function would include, among other things:

- (i) The definition, programming, budgeting, and execution of annual activities;
- (ii) Accompanying the implementation of project activities and preparing progress and financial execution reports;
- (iii) Advising and keeping the Vice Minister and Director(s) informed about N-DPFP progress as well as any new initiatives that might be relevant to N-DPFP implementation;
- (iv) Supporting technical coordination and inter-sectoral articulation;
- (v) Supporting/backstopping provincial technicians and advisors on project methodologies and implementation; and
- (vi) Disseminating project policy, methodologies, guidelines, and other relevant materials.

The Technical Group will be supported by project technical advisors and specialists.

13. National Directorate of Planning, MPD (Direcção Nacional de Planificação - DNP): The National Director of Planning, based in the MPD, will be responsible for the day-to-day management, coordination, and monitoring of the project. The director will be supported by technical staff of the newly created Department for Decentralized Planning, which falls under the NDP and which will provide oversight to ensure the effective and efficient implementation of the project. The role of the department will include among others:

- (i) Elaboration of a consolidated N-DPFP Annual Work Plan and Budget (AWPB) including consolidated procurement plan;
- (ii) Conducting all project monitoring and evaluation activities;
- (iii) Elaboration of project implementation reports for submission to CdS and partners. These reports will include an analysis of progress against KPIs and a consolidated financial report;
- (iv) Oversight of the timely flow of funds from development partners to CUT and from the national level to provinces, districts, and central-level institutions;
- (v) Coordination of the Technical Group;
- (vi) Provision of support and guidance to other government institutions with regard to the planning and implementation of N-DPFP;
- (vii) Support and supervision of provincial activities in collaboration with provincial directorates (DPPF);
- (viii) Safeguarding of the operational consistency of all long-term and short-term TA inputs to the project;
- (ix) Maintenance of dialogue with development partners on a regular basis; and
- (x) Initiation and preparation of mid-term reviews as well as final project reports.

Provincial level

14. ***Provincial Supervisory Committee (Comité de Supervisão Provincial – CdSP)***: Arrangements for project management and coordination at the provincial level largely reflect those at the central level. At the provincial level, the Provincial Secretariat will be responsible for project coordination supported by other provincial directorates, which together form the Provincial Supervisory Committee (CdSP). Provincial CdSs have, in fact, been established in Nampula and Cabo Delgado for some years and generally function well. Previously these have been chaired by the director of Planning and Finance. However, for the purposes of N-DPFP it is proposed that the Provincial Committee will be chaired by the Provincial Secretary, supported by the Provincial Director of Planning and Finance in order to align more closely with institutional responsibilities. Members of the Provincial CdS will include the Provincial Director of Public Works, Environmental Affairs, and other provincial directors nominated by the Provincial Secretary.

15. The role of the provincial CdS, among others, will include the responsibility to:

- (i) Coordinate and oversee project implementation so as to ensure project results and targets are achieved at the provincial level;
- (ii) Approve project-related sectoral annual work plans and budgets;
- (iii) Endorse districts' project related annual work plans and budgets;
- (iv) Ensure intersectoral coordination and adequate linkages between provincial directorates and district administrations; and

- (v) Approve provincial project monitoring and financial execution reports.

16. **Provincial Technical Team (Equipa Provincial do Apoio a Planificação –EPAP):** The Provincial CdS will be supported by a Provincial Technical Team (EPAP), whose members will comprise technical staff drawn from project participating directorates. Provincial Technical Teams have already been established in Cabo Delgado, Nampula, Zambezia, Tete, Manica and Sofala under the auspices of existing UNDP/CDF and World Bank projects. The EPAPs will provide substantive input on technical and methodological issues relevant to their respective institutions as well assist districts in complying with their obligations in respect to district planning processes. The EPAPs will be coordinated by the Head of the Department of Planning and Budget (DPO) based in the Provincial Directorate of Planning and Finance (DPPF).

17. The role of the EPAP includes:

- (i) Providing technical and methodological support to districts on the overall process of decentralized planning and execution, including on job training;
- (ii) Ensuring technical coordination of project activities and their articulation between sectors;
- (iii) Supporting districts in the planning and budgeting of project activities to guarantee the conformity with project objectives, results and targets;
- (iv) Supervising and monitoring project-supported activities; and
- (v) Analyzing and harmonizing AWPB and progress reports of the sectors and districts.

18. The Provincial Technical Teams will be supported by provincial project technical advisors and specialists.

19. **Provincial Directorate of Planning and Finance (Direcção Provincial do Plano e Finanças, DPPF):** The Provincial Director of Planning and Finance will be responsible for the day-to-day management of the project including:

- (i) Ensuring that project-related sector activities are consistent with the project's results framework;
- (ii) Elaborating a consolidated provincial project related AWPB including a consolidated procurement plan;
- (iii) Elaborating consolidated provincial project implementation reports;
- (iv) Ensuring the timely flow of funds to participating directorates and districts;
- (v) Providing support and guidance to provincial directorates and districts regarding the planning and implementation of N-DPPF-supported activities; and
- (vi) Supporting and supervising district activities in collaboration with other provincial directorates.

District level

20. District governments are the principal focus of the project's institutional capacity building activities. Capacity will be strengthened to ensure that districts comply with their legal obligations in relation to district planning processes. District governments are also the implementing agencies for project activities, such as facilitating improved functioning of consultative councils and their members.

21. At the district level, district administrators will be responsible for resource use and sub-project management supported by a district technical team (DTT) that comprise staff from various district services. Moreover, the project will support the reinforcing of the technical capacity of the district by making funds available for contracting technical staff in key areas. These staff are technicians in areas such as bookkeeping and works management, and are positions within the approved new structure of the district but not yet fully funded in all districts. As was piloted effectively in four provinces under DFPF-Centro, these staff will be recruited according to government procedures and pay scales and within two years will be integrated and funded within the district's own budgets. (see Technical Note on Technical Assistance for more information)

Project annual planning and budgeting cycle

22. The annual planning and budgeting cycle of the project will be aligned with that of the government. Project activities will be integrated into the government's annual operational plan (*Plano Económico Social PES*) and budget (*Orçamento do Estado – OE*) at sector, provincial and district level.

23. The definition of annual activities will be guided by the project's strategic planning and results framework (MQL) and will take place at all levels and involve all participating institutions. DNP will define a formula for the distribution of project funds to participating institutions. On the basis of these budget ceilings, a series of pre-planning workshops will take place at the central level (for central level institutions) and at the provincial level (for provincial directorates and districts) in the May-June period of each year. These workshops will support the elaboration of activities and budgets for the project annual work plan for the following year. Following a process of harmonization and quality control, each participating institution will insert project activities and costs into their respective annual plans and budgets (PESODs, PESOPs and PESOE) which will then be subject to the normal consolidation and approval process.

24. In principle, district and provincial AWPBs, prepared on the basis of the project's strategic results matrix, are endorsed at provincial level by the provincial CdS and subsequently integrated in the PESODs and the PESOPs of the respective institutions. The DPPF in each province plays an important quality assurance role in this process.

25. The role of the central level CdS will be to endorse the district and provincial AWPBs, based on an analysis by DNP. This analysis will be shared with the provinces and development partners. The central-level AWPBs of the participating institutions are discussed and approved by the CdS, based on an analysis by DNP and subsequently integrated into the sector PES-Budget.

26. The DNP will have the responsibility to harmonize and consolidate the overall AWPB for the project endorsement. This meeting will normally take place in October of each year. Once actual project planning has taken place, MPD and the DPPFs will have the responsibility to:

- (i) Ensure harmonization of the AWPB, in accordance with the planning framework of the N-DPPF; and
- (ii) Consolidate and analyze the plan and submit it for validation / approval to the respective Supervision Committees.

27. The project's annual planning and budgetary cycle can be summarized as follows:⁴

Year	Month	Actions	Responsible
N-1	By end April	Funds to be made available to the NP are defined in the Medium Term Financial Framework for Years N to N+2	DNP, DNO, partners
N-1	By end May	Sectoral and territorial ceilings for project budget defined and project planning guidelines sent to participating institutions	DNP, DNO
N-1	By end June	Pre-planning workshops realized at provincial and national level to define project activities for Year N (on the basis of budget/guidelines)	DNP DPPF
N-1	By end July	Project activities are integrated into PESODs, PESOPs and the PESOE and into the budget using e-SISTAFE (with project budget codes)	All participating institutions
N-1	By end August	Budget negotiations with sector and provinces finalized and submitted to Parliament	DNP, DNO, sectors, provinces
N-1	By mid September	PESOE finalized and submitted to Parliament	DNP, DNO
N-1	By end September	Finalize and distribute consolidated project AWPB for Year N	DNP & DPPFs
N-1	By end October	Joint CdS-Partner Planning Meeting to endorse AWPB Partners confirm financial support for Year N	DNP, Partners
N-1	By end November	Confirmation of final budgetary limits and communication to sectors, provinces, districts	DNP, DNO

⁴ Note that for the purposes of this table, 'the plan year' (i.e., the year in which the plan will be implemented) is referred to as Year N. The year prior to the plan year is Year N-1. Subsequent years are referred to as Year N+1, N+2, etc.

		Final adjustment of plans (if necessary)	
N-1	By mid December	Preparation of annual progress reports and financial executions reports begins	All participating institutions
N	By end January	State budget and Common Fund Resources allocated by e-SISTAFE (on-going) Finalize annual progress reports and financial executions reports for Year N-1	MF All participating institutions
N	By end February	Finalize consolidated project progress and financial execution reports for Year N-1	DNP DPPFs
N	By end March	Joint CdS-Partner Evaluation Meeting to approve consolidated project progress and financial execution reports for Year N-1	DNP, Partners

28. The MPD has the institutional mandate to strengthen national planning capacity and ensure that the results of decentralized and participatory planning and budgeting processes are effectively integrated into annual operational plans and budgets. Compliance with this mandate will require the further development and strengthening of the national system and training to ensure its correct application in participating institutions. It is a specific objective of the project to support the MPD and the DPPFs in this task through short term and long term technical assistance where and when considered necessary.

Monitoring

29. Monitoring of the N-DPFP will be aligned with national procedures and processes and will contribute to the development and improvement of the following monitoring systems:

- (i) The PESOD/PESOP monitoring system, which evaluates progress in the implementation of provincial and district strategic development plans (PEDD/PEP) and is an integral part of the BdPES/PARPA monitoring system.
- (ii) The District Processes Monitoring System (SMPD), which measures performance of district governments in the execution of the obligations in respect to district planning processes. (This is, in effect, an evaluation of the district government's ability to manage local development according to established planning and financial management procedures). The DPMS will simultaneously measure any improvement

in performance, which can be attributed to the N-DPFP intervention, and as such N-DPFP performance.

- (iii) An N-DPFP internal monitoring system, which will take in additional monitoring needs for the national program that cannot be covered by the two previous systems and which will cease to exist once the N-DPFP ceases to exist.

30. Impact evaluation, both in terms of improved local governance and in terms of economic development (as a result of PEDD/PEP implementation, measured by the BdPES) will be done through specific evaluation studies.

31. The MPD has the institutional mandate to develop monitoring systems for the BdPES. Development of the SMPD will be done by MPD in collaboration with MAE, as it essentially measures the effectiveness of district government in managing development processes in the district in accordance with the norms and procedures embedded in the district process dossiers.

32. In relation to the BdPES, monitoring data will be collected by participating institutions. For those indicators that are of special interest to the national project, MPD/DNP and DPPF/DPO will still have the responsibility to include them in a consolidated report, which will be submitted for validation/approval to their respective Supervisory Committees.

33. In relation to the SMPD, consolidated reports will be produced jointly by the SP and DPPF at the provincial level, as well as by MAE and the MPD at the central level. As far as the national program is concerned, these reports will be submitted to the respective Supervision Committees.

34. The SP and DPPF will be jointly responsible to ensure that there is proper feedback to district government with regard to district performance. A similar joint responsibility lies with the MAE and MPD to discuss performance of district, provincial and central level.

35. Lastly, the national project's Internal Monitoring System will form the basis for regular progress reporting. The participating institutions in N-DPFP will report back on project plan implementation to DPPF and MPD, who in turn will be responsible for producing consolidated reports at provincial and national level in their respective PES-OEs.

Financial execution

36. Financial execution of the program is dealt with in more detail in a separate Technical Note. What follows is a summary:

37. The responsibility for developing and strengthening the public financial management system (SISTAFE) lies with the Ministry of Finance. Project activities and their costs will be codified and integrated into the PES and the state budget. Once approved by Parliament, financial execution using established government procedures will be followed by each of the participating institutions.

38. Accounts will be presented through the accounting reports of the respective DAFs using e-SISTAFE and based on state budget classifiers. Monthly reports will be produced by e-SISTAFE including analytical reports, summary reports and detailed reports for each level of management. Additional reports can be made in response to a specific request for information by development partners and other stakeholders.

39. The responsibility for producing the financial execution reports of the N-DPFP lies with the following institutions:

- (i) MPD/DNP: Consolidated financial report aggregating all information from implementing agencies at the central and provincial levels, using e-SISTAFE.
- (ii) DPPF/Public accounts Department: Consolidated financial report aggregating all information from implementing agencies in their respective provinces, using e-SISTAFE.
- (iii) Project Implementing Agencies: Financial execution reports, elaborated either by generating analytical reports from e-SISTAFE (in the case of the UGEs who have access to a terminal) or by compiling the necessary documents (in the case of the UGBs, who do NOT have access to a terminal).

40. A single Consolidated Financial Report is prepared for all development partners and participating institutions in the N-DPFP.

Procurement⁵

41. Project procurement is dealt with in more detail in a separate Technical Note of the MoU and Annex 8. What follows is a summary.

42. *Procurement of Goods:* The project will in principle use the procurement units (UGEA) within the participating institutions at provincial and district level following Bank procedures (which allow for national bidding and local shopping procedures, as indicated in Annex 8 on Procurement), based on the approved AWPB. The project will provide technical assistance personnel for procurement at provincial and central level in order to be able to comply with Bank procedures.

43. ***Procurement of services***

a) Long-term technical assistance

- All long-term technical assistance inputs will be based on the defined needs of the participating institutions, who will prepare draft ToRs in coordination with DNP.
- DNP will be responsible for contracting all long-term central and provincial level based TA financed by the Common Fund in collaboration with the requesting institution during the procurement process in order to ensure a uniform coordinated project input at both levels.

b) Short-term technical assistance

- For short-term technical assistance that is an input to approved project activity and included in the procurement plan, the ToR will be prepared by each governmental agency and submitted to the relevant Technical Group at the provincial or central level for quality assurance. The final ToR will be submitted to DNP for monitoring and recording purposes only.

⁵ Does not apply to activities financed by the Non-Common Fund partners.

c) *Personnel (district field staff)*

- The project will initially finance field staff during a period of 2 years to strengthen district government. After this period they will be integrated into the public administration. This staff will be recruited directly by the districts but on the basis of ToR which have been prepared in coordination with the provincial Secretariat and DNP.

44. Procurement of all goods and services for which payment in Forex is required will be undertaken by MPD in consultation with participating institutions when necessary or appropriate.

Internal and external control

45. The accounts of the project will be audited by the MF/IGF (internal audits) and the Tribunal Administrativo (external audits) according to the Bank's requirements.

List of Project Implementing Agencies

1. Central Level

Ministry	Directorate
Ministry for Planning and Development	ND for Planning
	ND for Promotion of Rural Development
Ministry of Finance	ND of Budgeting
	ND for State Property
	ND for Public Accounts
	General Inspectorate for Finances (IGF)
	Procurement Supervision Unit (UFSA)
Ministry for State Administration	ND for Local Administration
	ND for Territorial Organization
	General Inspectorate for State Administration (IGEA)
Ministry for Public Works & Housing	ND for Construction
Ministry of Environmental Affairs	ND for Land Use Planning
Ministry for Public Service	ND for Strategic Management of Human Resources
Auditor General (<i>Tribunal Administrativo</i>)	

2. Provincial Level

Directorate	Department
Office of the Permanent Secretary	
PD Planning and Finance	Planning and Budgeting
PD Public Works and Housing	Construction
PD Environmental Affairs	Land-Use Planning

3. District Level

	Department/Service
District government	Office of the District Administrator
	Office of the Permanent Secretary
	District Service for Planning and Infrastructure
	District Service for Economic Activities

Annex 7: Financial Management and Disbursement Arrangements

Introduction and background

1. The National Decentralized Planning and Finance Project (N-DPPF) is a follow-on to the DPPF-Centro, whose responsibility for implementation and coordination was within the Ministry of Planning and Development (MPD). One of the key differences between the previous project and the current project is the number of benefiting and implementing entities; while the previous project only involved four central provinces, and later extended to Maputo, the current project will involve six line ministries (MPD, MAE, MOPH, MOF, MICOA, MFP) as well as the Tribunal Administrativo (TA), all Provincial Directorates of Planning and Finance (DPPF), and all 128 districts of Mozambique. One of the objectives of the project is to strengthen decentralized planning process, district public financial management execution and capacity.

Summary of the Assessment

2. The assessment of the financial management arrangements of the project in accordance with the Financial Management Practices in Bank-Financed Investment Operations, dated November 3, 2005, took place for all central line ministries, including the TA, a sample number of DPPFs, as well as a sample of districts, some of which connected to the government's IFMIS, and some not. The assessment of the project was favorably impacted by the fact that the project will use the same financial management procedures used on a day to day basis by the participating units. The findings of the assessment are in the subsequent paragraphs of this Annex.

3. The residual Financial Management (FM) risk rating for the project is "Moderate". In order to reduce the FM identified risks several mitigating measures are proposed, including the use of the government e-SISTAFE IFMIS for financial management and reporting. The hiring of an FM consultant as well as preparation of an FM Procedures Manual for accessing partners' funds as well as reporting on their use will also facilitate collaboration between partners and the project. The use of the Supreme Audit Institution, TA, to audit the project funds, with assistance of a private firm of external auditors, namely for the use of International Standards on Audit as well as transferring skills from the private sector to the public sector are also considered. Details of the identified risks and the proposed mitigating measures are in paragraph 17 below.

Country issues

4. The country's public financial management system has previously been noted as weak in diagnostic studies carried out in this area. The most recent of these is the report based on the PEFA methodology (2008, over 2006 data), which itself was a follow-up to the country's first PEFA assessment (2006, over 2004 data). Prior to this, a Country Financial Accountability Assessment (CFAA) had been conducted in 2001. Up to 2006, these early reports observed that the public sector financial management systems in Mozambique were weak and that the overall public sector fiduciary risk in Mozambique was high. Furthermore, although satisfactory improvements had been registered in the management of the economy, the comprehensiveness and transparency of the budget was poor, the medium-term planning and budgeting was weak, while budget execution and accounting and reporting presented serious weaknesses.

5. Coming out of these diagnostic reviews, the government, with the support of its development partners, instituted a number of reforms in an effort to address the weaknesses. These initiatives included the introduction of a new Financial Management (FM) law that formed

the basis for the introduction and implementation of a computerized integrated financial management information system, e-SISTAFE, which has since been rolled out to all the line ministries at national and provincial level, as well as to 51 of the 128 districts.

6. Comparing the situation in 2004 to that in 2006, the 2008 PEFA report confirmed that significant improvements had been achieved in the quality of PFM systems and processes, particularly in the areas of:

- Payroll, procurement, and internal controls;
- Cash management;
- Donor practices, especially predictability of budget support disbursements;
- Revenue collection and management;
- Timeliness and regularity of account reconciliations; and
- Timeliness and regularity of in-year budget reports.

7. On the negative side, however, no Public Expenditure Tracking Survey (PETS) had been performed in the last three years.

8. The report noted that the quality of the PFM was expected to continue improving as a natural consequence of ongoing reforms such as e-SISTAFE; but indicated that this would take some time. AFTFM conducted a review of e-SISTAFE and its supporting pillars in 2008 and concluded that the Mozambique public FM system was adequate for handling Bank investment projects subject to the successful resolution of some cross-cutting issues identified at the time.

9. The issues included:

- Assurances regarding the timeline between the disbursement of Bank funds and their availability to spending units;
- Agreed procedures for amendments to the project budget;
- Timeliness and content of intra-year and year-end financial reports;
- Assurances on the timeliness and accuracy of CUT (Single Treasury Account) bank reconciliation; and
- Progressive greater involvement of the Tribunal Administrativo in the external audit of Bank projects.

10. These issues were successfully resolved in discussions with the authorities, including the Tribunal Administrativo.

Governance and accountability

11. The government of Mozambique approved an Anti-Corruption Law in 2004. The law stipulates that all contracts to which state or municipal bodies are party must incorporate an anti-corruption clause and that whistle blowers are protected. However, to many it appears that although the law is extensive in scope, implementation is lacking. The Central Office for Combating Corruption (GCCC) has been established within the Attorney General's Office, replacing the now defunct anti-corruption agency from 2003 (known as the Anti-Corruption Unit). The GCCC carries out investigations of complaints in relation to corruption-related offenses within the public sector and has delegations in Maputo, Beira, and Nampula. The unit receives an increasing number of reports on corruption, but the number of investigations and prosecutions is still low, due partly to under-staffing and lack of funds.

12. While no specific issues of governance and accountability came to light during the FM assessment, the following two steps will be undertaken to minimize the incidence of corruption during implementation of the project:

13. *PFM system development:* To enhance the use of national systems in the management of the partners funds, as well as ensure adherence to established procedures and controls, all funds flow, accounting, and reporting for the project will be through e-SISTAFE, the government IFMIS;

14. *External Audit:* The TORs for the auditors will include specific responsibilities towards the detection and reporting of fraud and corruption in project activities.

15. The above steps are anchored in the Mozambique country assistance strategy's three pillars for achieving growth with equity, a critical part of which is "strengthening governance".

Risk assessment and mitigation

16. The project should have financial management arrangements that will at least guarantee that (1) the project funds are used only for the intended purposes in an efficient and economical way, (2) periodic financial reports are prepared in an accurate, reliable, and timely way, and (3) the entities' assets are adequately safeguarded.

17. The overall risk associated with the project is substantial in all areas related to financial management, but the specifics of the risks vary by institution and geographical location. While the risk level of public financial management skill, knowledge, and experience throughout all the implementing agencies is generally substantial, some mitigating measures to help lower the identified risks are listed in the table below:

Risk Rating Summary

Risk factors	Description of risk	Rating of risk	Mitigation measures	Rating of residual risk	Condition of Effectiveness , Board or Negotiation (Yes or No)	Remarks
Country Level	1. Major weaknesses exist in the FM environment (staffing, operating system, reporting), resulting primarily from low capacity.	Substantial	The government is committed to the reform project, and has introduced a new legal and regulatory framework that is underpinned by the introduction and roll-out of the integrated financial management system (e-SISTAFE).	Moderate	No	
Entity Level	<ol style="list-style-type: none"> 1. The recently created Department of Decentralized Planning (DDP) may not have sufficient experience to coordinate such a large and complex project. 2. Lack of coordination between the different ministries, DPPF and districts. 	Substantial	<ol style="list-style-type: none"> 1. Work closely with higher level technicians from the CdS to provide guidance and structure. 2. The inter-ministerial coordinating group staffed with experienced and skilled personnel complimented by regular supervisions by DPPF to the districts. 	Moderate	No	
Project Level	1. The very nature of N-DPPF, and geographic spread in a country whose public financial management system is weak	High	1. At least one full supervision mission a year, not only by the World Bank but more importantly by the Supervisory Committees, IGF, and TA,	Moderate	No.	World Bank supervision missions will assess the continuing adequacy of the FM arrangements and recommend

			to ensure compliance and identify any problems early			measures to be taken when appropriate.
Overall Inherent Risk		Substantial		Moderate		
II. Control Risk						
Budgeting	<ol style="list-style-type: none"> Budget constraints can result in budgeted funds for certain activities to be used for other priority activities of the implementing units. Mismatch between state budget and disbursement categories. 	H	<ol style="list-style-type: none"> Use of e-SISTAFE defines arrangements required for budgeting, and requirements for budget revisions. Use of sectional classifiers for state budget for IFRs/ annual Financial Statements. 	M	No	
Accounting	<ol style="list-style-type: none"> Inexperienced and unqualified accounting personnel throughout the districts may result in non-compliance with accounting rules, standards, laws and regulations of the country. 	S.	<ol style="list-style-type: none"> Continued, regular training projects and supervision of districts' accounting personnel. 	M	Yes	Hiring of an FM Consultant for the project to work closely with DNP will be a condition of effectiveness.
Internal Control	<ol style="list-style-type: none"> Districts may not adhere to adequate internal control procedures, or not follow the procedures and regulations of the SISTAFE laws. 	H	<ol style="list-style-type: none"> Supervision from the DPPF, CdSP, checking and verifying completeness, accuracy and validity of transactions. 	M	Yes	Approval of an FM procedures manual for MPD/DNP will be a condition of effectiveness. Supervision missions will build the capacity of the project team and encourage them to conduct an annual FM risk assessment

						for the program
Funds Flow	<ol style="list-style-type: none"> 1. There is a risk that Project funds may be applied towards other government commitments once captured in the CUT or that there may be delays in the release of funds from the CUT towards qualifying activities. 2. Risk of increased chance of errors and misappropriation of funds once transferred to district bank accounts. 	S.	<ol style="list-style-type: none"> 1. Funds will be ring-fenced to the specific Project, not permitting any other party access to those funds and commitment from DNT to hold funds for a reasonable period before they are allowed to be used by the participating units. 2. Limited transfer of funds to the districts allowing them to execute petty payments. 	M.	No.	
Financial Reporting	<ol style="list-style-type: none"> 1. The risk that the government may not be reporting in terms of international accounting standards. 	S.	<ol style="list-style-type: none"> 1. Government accounting standards have already been reviewed and deemed to equate to international accounting standards. 	M.	Yes	IFR formats agreed at Negotiation.
Auditing	<ol style="list-style-type: none"> 1. Given the geographical spread of the project, there is risk that the audit coverage may not be satisfactory. 2. Risk that the audit report will not be submitted to the partners by the stipulated time and that the audit will not be conducted under International Standards on Audit. 	M	<ol style="list-style-type: none"> 1. The TA, with a respective sub-contracted private sector audit firm to design a risk-based audit project which will involve as many implementing agencies as possible without affecting the quality of the work. 2. Commitment from (i) 	L	Yes	Agreement on audit TOR at negotiations

			<p>UTRAFE that the accounts can be ready to be audited by March and (ii) From TA to deliver the audit report by the stipulated time.</p> <p>3. The subcontracting of a private audit firm, through which the TORs will be approved by the partners and acceptable to the Bank.</p>			
Overall Control Risk		S.		M.		
OVERALL RISK RATING:		S.		M.		

Key: H-High; S-Substantial; M-Moderate; L-Low

Strengths

18. The most significant strength is that of the funds flow through the government’s IFMIS, which provides additional security and reliability as a result of the embedded controls. Even though in terms of structure, size, and complexity the operations of DPFPP-Centro were not as severe as in this project, the lessons and experience acquired from the DPFPP-Centro will also be used and taken advantage of to avoid the same mistakes in the areas where problems were identified. In addition, the N-DPFPP will not be receiving any monetary contributions from the government, which was a key reason for qualifications of the audit reports of the predecessor project, as a result of auditors not been able to confirm the government’s contributions to the project. The laws, rules and regulations to be adhered to are the same as those which the implementing agencies are currently using for their day-to-day work, namely those which all government institutions are entitled to follow and with which the FM personnel should be familiarized.

Weaknesses

19. The main weakness relates to the first strength, in that not all districts are connected the government’s IFMIS, requiring the e-SISTAFE unconnected districts’ personnel to travel to other connected districts or Provincial Directorates of Planning and Finance to capture transactions, resulting in additional costs and other unforeseen events that may slow down project activities. Most districts lack qualified and experienced personnel in the finance departments, while several districts still lack basic working conditions such as electricity and computers, which can hamper implementation.

Action Plan

Significant Weakness	Action	Responsible Party	Completion Date
Unqualified, inexperienced FM staff at district level	Workshop/Training on DFPF FM activities to district FM staff	DPPF	Prior to effectiveness

Implementing entity

20. MPD will have the overall responsibility for coordinating the activities of the project. The Bank’s main counterpart for the project will be MPD through the National Department of Decentralized Planning, a recently created department within the institution. The financial management activities of the project within the ministry will be supervised by an internationally qualified and experienced financial management specialist whose functions, among others, are to transfer the know-how to the government’s civil servants, but the day-to-day activities of the project will be the responsibility of the civil servants in each of participating units throughout the country. Each of the line ministries will have a specific person assigned as the project ‘champion’ to facilitate coordination between the ministries, but more importantly to facilitate coordination between each ministry and MPD. Each DPPF will also have their respective project ‘champion’ for coordination of activities in the DPPF and all districts in the respective province, particularly those districts which are not connected to the government’s IFMIS. As the financial laws, rules and regulations to be used for the project are the same as those that each ministry, province and district currently uses, there is no specific Bank experience required from the participating units.

21. A Memorandum of Understanding (MoU) between the MPD as representative of the government and the partners, which include both Common Fund and non-Common Fund partners, has been prepared and provides a code of conduct of the partners whether they contribute to the Common Fund or through any other parallel financing in the project. The MoU also governs the relationship between the involved partners, defines key dates for both annual reviews and annual joint planning sessions. However, as it is not a legal document, it does not replace the individual bilateral agreements between the government and the individual partners.

Budgeting

22. Budgeting will follow standard government procedures. As the project will use the e-SISTAFE, no activities will take place without first being budgeted for (at least) in the system, and similarly there can be no budget overruns for the project as a whole using the system. As the project will be “on budget,” the consolidated project budget will need to be submitted to parliament for approval as specified in the law.

Accounting

23. The basis of accounting will be Cash Basis, and the accounting standards to be used will be same as those used by government, which refers to International Accounting Standards, and will also be e-SISTAFE based, where all financial transactions will be able to be summarized, tracked and analyzed through the same system. However, for the activities which are financed by non-Common Fund partners, the accounting will take place outside of the e-SISTAFE. UNDP

and GTZ will submit the summarized accounting information to MPD for consolidation purposes in a manner that should allow MPD to submit timely financial reports to the Bank.

24. The accountants for the project will be the same as those performing accounting functions for the ministries, DPPF, and the districts. These have varied levels of qualifications, experience, with the ones in the districts being less privileged. To minimize the risk of errors and misappropriation of funds, the advance of funds modality will be used on a limited basis and in cases where necessary. To safeguard against the risk of some inexperienced and unqualified accounting personnel at district level, regular supervision and capacity building from DPPF will take place.

Internal control and internal auditing

25. A real advantage of using the government's IFMIS is that there are some internal controls embedded in the system, namely a segregation of duties in that the person responsible for initiating a transaction is different from the person approving as well as the one authorizing the payment. Other internal control procedures to be used are laid down in the government financial management procedures manual, which is supposed to be followed by all participating units of the project in their current day-to-day operations.

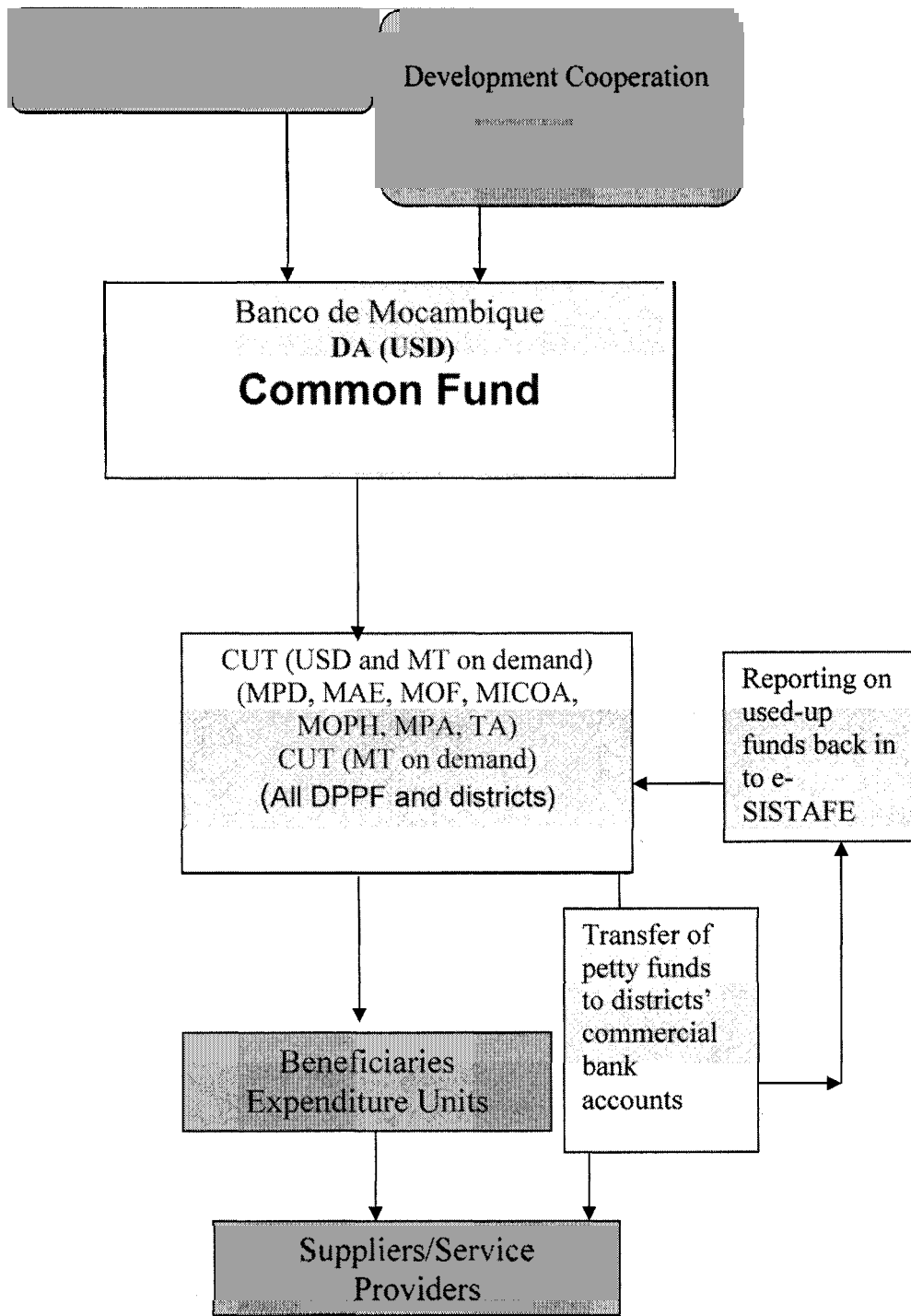
26. The internal audit function is the responsibility of the *Inspecção Geral de Finanças* (General Inspection of Public Finance - IGF), which is the government mandated institution to conduct inspections and internal audits to all government funds. Some line ministries do however have their internal audit units, but they may not be adequately staffed. It is envisioned that for the life of the project, the IGF will visit each of the implementing units, and will also perform internal audit procedures on the funds financed by partners. During supervision, the team will encourage the coordinating entity of the project to also prepare an annual risk assessment and share it with the internal auditors in order to ensure appropriate coverage of the risks identified in their audit work plans. To complement the work effected by the IGF, the DPPFs, through their departments of *Fiscalização e Receitas*, will also perform additional inspections and supervisions to the districts, including the districts connected to e-SISTAFE, since connection to IFMIS may not necessarily imply compliance with rules, laws and regulations. To mitigate the risk of varying levels of capacity within the central ministries and DPPF, the DAFs will benefit from targeted training on the use of e-SISTAFE.

Funds flow

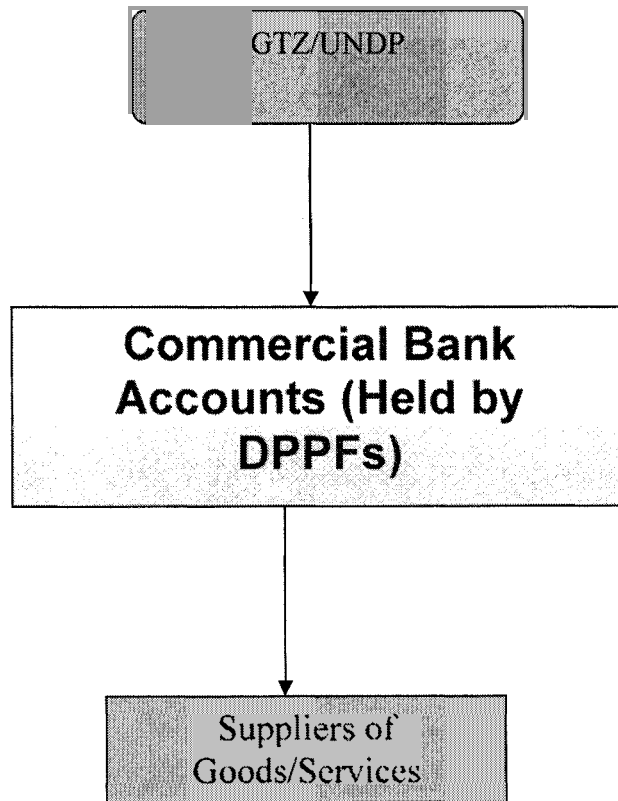
27. For purposes of the project, the government will operate a Designated Account (Common Fund) in US dollars in the Banco de Moçambique to which the Common Fund partners⁶ will disburse funds, prior to these being transferred to the National Treasury Account (CUT) through which the funds will be paid directly to the suppliers of goods and services. Districts may have a limited amount of cash for execution of petty project costs. This amount is not to exceed six thousand meticaís (Mt6,000), and should follow the same approval procedures as other district expenditures. Non-Common Fund partners, UNDP and GTZ, will operate a parallel financing mechanism whereby the funds will flow through commercial bank accounts managed directly by the respective beneficiary institutions or DPPFs. The above description can be verified as follows:

⁶ Two cofinanciers, UNDP and the German Cooperation, will provide in kind and cash TA services, and will thus not use the Common Fund.

Common Fund



Non-Common Fund



Disbursement

28. The project will use report-based disbursement documentation. This will be effected by producing quarterly IFRs. Disbursements from the Bank will be on a quarterly basis. Upon effectiveness of the Financing Agreement, an initial advance, based on an estimate of six months' forecast financing requirements, will be disbursed into the DA to cover eligible expenditures. Disbursements will be subject to approval of the Annual Work Plans and communication of the annual disbursement percentage by IDA.

29. The Bank will issue the "Disbursement Letter" which will specify the additional instructions for withdrawal of the proceeds of the Credit.

Category	Amount of the IDA Credit Allocated (US\$ Million)	Percentage of Expenditures to be Financed (inclusive of taxes)
(1) Goods, consultants' services, Training and Operating Costs for all components of the Project N-DPPF other than the Non Common Fund activities	28.4	Such percentage as the Association shall determine and communicate to the Recipient in its Annual Confirmation for the relevant Agreed Annual Work Plan ⁷
(2) Refund of Project Preparation Advance (PPA)	2.0	Amount payable pursuant to Section 2.07 of the General Conditions
Total Amount	30.4	

Financial reporting

30. The objective of the reporting system is to enable the production of sufficiently detailed and regular information to assist in the management and monitoring of the implementation of the project. The DNP at the MPD will be responsible for the consolidation of all project activities into a single report through the use of e-SISTAFE for information on the execution on funds from Common Fund partners, while relying on information from GTZ and UNDP on the execution on the funds outside of the Common Fund.

31. To increase celerity in the submission of the interim as well as year-end reports, the e-SISTAFE can always provide real-time information in terms of financial execution, where the DNP can always verify and prepare for submission to partners should the reports be needed, but more importantly for project management's own use.

32. The classifiers to be used for the project will be the same as those used by the government. Quarterly reports in line with government reporting intervals will be prepared and submitted to the Bank within 45 days of the end of the reporting period. The financial reports have been designed to provide quality and timely information to project management,

⁷ Annual Confirmation for 2010 will be sent to the Government of Mozambique before the initial disbursement.

implementing agencies, and various stakeholders on project performance. These quarterly reports include Designated Account Activity Statements, Summary Statements of DA expenditures subject to Prior Review, as well as DA expenditure not subject to prior Review; Sources and Uses of Funds by disbursement categories or sectional classifiers; Detailed Use of Funds by project Component/ Activity with comparison of budgets and actual and explanation of variances; and short-term forecasts of expenditure. A narrative summary of implementation highlights for the quarter helps the readers understand the financial statements better.

33. Audited financial statements will be submitted annually to the Bank, within six months of the end of the financial year audited. The audits will be conducted in accordance with international standards on auditing. The Annual Financial Statements for the project will incorporate all activities of the implementing Ministries including Tribunal Administrativo, all DPPFs and all districts, and include: a Statement of Sources and Uses of Funds showing funds from all financiers and how they were applied, a Summary of Expenditures analyzed by Classification, and the supporting Notes in respect of significant accounting policies and accounting standards adopted by management; Designated Accounts Activity for the Year showing deposits and replenishments received, payments substantiated by withdrawal applications, interest that may be earned on the account and the balance at the end of the fiscal year; an Implementation Report, which would be a narrative summary of the implementation progress for the project; and a Summary of Withdrawals using IFRs, listing individual withdrawal applications by reference number, date and amount.

Auditing

34. The audit will be the responsibility of the Tribunal Administrativo (TA), which is constitutionally mandated to audit all government projects. However, the TA, which is one of the implementers of the project, is currently not only understaffed to conduct such an audit, but may also not be using International Standards on Audit to conduct their work and will require some assistance in the initial stages from a private sector audit firm (private audit firms would be unable to access e-SISTAFE without this assistance). MPD/TA will prepare the audit terms of reference in consultation with the World Bank, and engage auditors in accordance with the Bank's Consultant Guidelines to assist in carrying out the audits during the initial period. The audit will cover all project activities. As e-SISTAFE currently does not have an *Asset Management Module*, the auditors will need to place some emphasis on verifying project assets and assessing the adequacy of the accounting arrangements for assets.

35. The audited financial statements, together with the auditor's report and management comments covering identified issues, will be submitted to IDA within six months of the end of each financial year, that is, by June 30 of each year. A single audit opinion will be issued and will cover all project income and expenditures, Designated Account, and quarterly reports. The subcontracted audit firm will be contracted on terms agreeable to the Bank and the Partners.

FM Action Plan

Action	Indicative Date	By whom
Recruit financial consultant	By effectiveness	MPD
FM procedures manual	Condition of effectiveness	MPD
Contract external auditors	Within 3 months of effectiveness	MPD

Conditionality

Effectiveness

- Hiring of an FM consultant at MPD to work with DNP
- Approved FM procedures manual (integrated into the project implementation manual)
- Operations manual approved (integrated into the project implementation manual)

Dated Covenant

- External auditors for the project to be hired within 3 months of effectiveness

Financial Covenants

1. Maintain the financial management system, including records and accounts, and have the financial statements for the project audited, in both cases in accordance with the terms of the Financing Agreement and the General Conditions applicable to the financing agreement;
2. Prepare and furnish to the Bank not later than 45 days after the end of each calendar quarter, interim unaudited financial reports for the project covering the quarter, in form and substance satisfactory to the Bank.

Supervision Plan

36. The project supervision plan is a risk-based plan, and the project being a moderate-risk project, there will be at least one full supervision a year to the different line ministries, selected DPPFs, and districts on a sample basis.

Annex 8: Procurement Arrangements

General

1. Procurement for activities financed out of the Common Fund under the proposed project would be carried out in accordance with the World Bank's "Guidelines: Procurement under IBRD Loans and IDA Credits," dated May 2004, revised October 2006; and "Guidelines: Selection and Employment of Consultants by World Bank Borrowers," dated May 2004, revised October 2006, and the provisions stipulated in the Legal Agreement. The various items under different expenditure categories are described in general below. For each contract to be financed by the Credit, the different procurement methods or consultant selection methods, estimated costs, prior review requirements, and time frame are agreed between the Borrower and the Bank in the Procurement Plan. The Procurement Plan will be updated at least annually or as required to reflect the actual project implementation needs and improvements in institutional capacity.

2. The Bank has been engaging the Government of Mozambique in pursuing sound procurement reforms and the government has issued the Decree 54/2005 of December 13, 2005, enacting the new Procurement Regulation. With the support of the World Bank, the KfW, and the African Development Bank, the government has carried out in 2008 an update of the Country Procurement Assessment Report (CPAR). The 2008 CPAR highlights that the country has adopted a new Procurement Regulation, which makes progress toward meeting the requirement of OECD DAC indicators, since the Regulation is considered generally to meet international standards for efficiency and accountability. Nevertheless, the CPAR recommended areas for improvement of the Regulation and the Bank and Partners will continue to engage with the government and support the implementation of the CPAR Action Plan. The following are the pillars that were subject to this assessment:

Pillar 1: Legal and Regulatory Framework: This pillar examined the coherence of the legal and regulatory framework from the highest-level national law to the detailed regulations, manuals, and bidding documents and examines their existence, availability, and quality.

Pillar 2: Institutional Framework Capacity: This pillar looked at the institutional framework of public procurement and how the procurement system as defined by law is integrated in the overall management and governance systems.

Pillar 3: Procurement Operations and Market Practices: This pillar looked at the operational effectiveness and efficiency of the procurement system at the level of the implementing entities in charge of the individual procurement actions.

Pillar 4: Integrity and Transparency of Public Procurement: This pillar assessed whether public procurement and its environment are able to operate with integrity and with appropriate control systems and have appropriate measures in place to address the potential for corruption in the system.

3. Along with the Decree 54/2005, the government issued standard bidding documents (SBDs) for works, goods and non-consulting services, drugs and medical supplies, and a Request for Proposal (RFP) for consulting services. These SBDs are generally consistent with Bank guidelines and may be used under national competitive bidding with exception indicated under

section F below, to align them with the Bank's procurement and consultant guidelines and the recommendations of the CPAR.

4. The proposed project will be cofinanced by Partners working in Decentralization (Germany Cooperation, Netherlands, Switzerland, Ireland, and UNDP). The IDA financing will be pooled with certain of these Partners: Netherlands, Switzerland and Ireland have agreed to channel their support through a single Common Fund. The Bank's procurement rules will apply for all activities financed out of the Common Fund. The German Cooperation and UNDP will provide their support for other Project activities through in kind services and cash contributions made available separately from the Common Fund; the Bank's procurement rules will not apply to these separate activities. To this end, Partners have discussed with the government and agreed on a Memorandum of Understanding.

5. **Procurement of Works:** The project will not finance any works.

6. **Procurement of Goods:** An amount of approximately US\$10 million (around 26% of the Common Fund) for goods to be procured under this project would include: Vehicles, motorcycles, bicycles, information technology equipment, office equipment, office furniture among others. The procurement will be carried out using the World Bank's Standard Bidding Documents for all International Competitive Bidding (ICB) contracts. For National Competitive Bidding (NCB), the national documents in the Portuguese language, in accordance with the Mozambican Procurement Regulations, as per Decree 54/2005, and with the exceptions indicated under Section F below, may be used for contracts estimated to cost less than US\$500,000 equivalent per contract. Small value goods estimated to cost less than \$75,000 per contract may be procured under the shopping procedures (see below).

7. **Procurement of Non-Consulting Services:** Non-consulting services procured under this project would include very limited contracts estimated to cost less than \$75,000 per contract: Printing materials, preparation and organization of seminars and workshops, advertisement, among others. These will usually be procured under the shopping method.

8. **Shopping** is a procurement method based on comparing price quotations obtained from several suppliers, with a minimum of three, to assure competitive prices, and is an appropriate method for procuring readily available off-the-shelf goods.

9. **Direct Contracting (DC)** may be employed with prior approval of the Bank and will be in accordance with paragraphs 3.6 to 3.7 of the Procurement Guidelines.

10. **Selection of Consultants:** Consulting services under the project are estimated to cost around US\$8.5 million (23% of the Common Fund) through technical assistance and studies and these will include: Development of policies, strategies, methodologies and guidelines; strengthening of district plan execution and financial management; enhancement of participative planning processes; monitoring and evaluation, human resources and auditing services among others. All consulting service contracts estimated to cost US\$200,000 equivalent or more per contract for firms will be awarded through the Quality and Cost Based Selection (QCBS) method. Contracts for assignments estimated to cost less than US\$200,000 equivalent may be contracted through Consultants' Qualification (CQS).

11. **Least-Cost Selection (LCS)** may be used for selecting consultants for assignments of a standard or routine nature, such as audit services, where well-established practices and standards exist, and estimated to cost less than US\$200,000.

12. **Single Source Selection (SSS)** may be employed with prior approval of the Bank and will be in accordance with paragraphs 3.9 to 3.12 of the Consultant Guidelines.

13. All services of individual consultants (IC) will be procured under individual contracts in accordance with the provisions of paragraphs 5.1 to 5.4 of the Guidelines.

14. For the selection of Consulting Services estimated to cost less than the equivalent of US\$200,000 per contract and with a short list comprised only of national consultants, the provisions of the Decree 54/2005 may apply insofar as they are consistent with the Bank's Consultant Guidelines.

15. All terms of reference (TOR) for the selection of firms and individual consultants, regardless of the estimated value of the assignment, will be subject to Bank review and no-objection.

16. **Training:** About 21 percent of the Common Fund resources are earmarked for the training of trainers, and training of provincial and district government staff, and members of local councils. This category would cover all costs related to the carrying out training and workshops and seminars, i.e. hiring of venues and related expenses, stationery, resource required to deliver the workshops and per diem and travel costs of participants. Training programs would be part of the project's Annual Work Plan and Budget and will be included in the procurement plan. Prior review of all training will be required, on an annual basis, including proposed budget, agenda, participants, location of training and other relevant details. When training activities require the recruitment of a specialist trainer, the procedures for the selection and employment of consultant will apply

17. **Operating Costs:** Operating costs (around 16% of the Common Fund) shall consist of office supplies; operation and maintenance costs for vehicles and equipment; travel expenses and subsistence expenditures; and remuneration of project staff but excluding Recipient's civil servants, among others. The goods and services under the operating costs will be procured using the procedures described above. The procedures will be reviewed and agreed by the Bank as satisfactory for use under the project.

18. **Conflict of Interest:** Government officials and civil servants cannot be hired under any circumstances by a government agency for which they previously worked, or when their employment would create a conflict of interest. Government officials and civil servants may only be hired under consulting contracts, either as individuals or as members of a team of a consulting firm, if they (i) are on leave of absence without pay; (ii) are not being hired by the agency they were working for immediately before going on leave; and (iii) their employment would not create a conflict of interest.

19. The procurement procedures and SBDs to be used for each procurement and selection methods, as well as contract templates for works and goods procured, and consulting services will be included in the project Implementation Manual prepared by the Borrower and acceptable to the Bank. The Procurement section of the Project Implementation Manual will be prepared and submitted for Bank review and approval prior to Negotiations. The SBD for NCB will need

to include the provisions of Section F below and agreed with the Government of Mozambique during Negotiations.

Assessment of the agency's capacity to implement procurement

20. The Ministry of Planning and Development (MPD) is responsible for the overall management, coordination and implementation of the project. Several line ministries including Ministry of State Administration (MAE), Ministry of Finance (MF), Ministry of Public Service (MFP), Ministry of Public Works and Housing (MOPH), Ministry for Coordination of Environmental Action (MICOA) and the Administrative Tribunal (TA) have responsibilities for the implementation and oversight of components of the project. Furthermore, all 10 provinces have implementation and monitoring responsibilities. The DPPF (Provincial Directorates for Planning and Finance) are the key implementing agencies at the provincial level, responsible for coordinating, harmonizing and monitoring the overall process of planning and budgeting at provincial level and below. The actual budget managed at the Provincial level is about US\$90,000 per year. The 128 districts in the 10 provinces will implement very limited activities as they will have access to around US\$4,000 each during the life of the project.

21. At the national level, the MPD will be responsible for management of all the procurement activities including the liaison with the Bank. The other central level institutions, in their capacity as beneficiaries, will be involved in the preparation of TOR/specifications, participate in evaluation committees and be responsible for their respective contract signing and contract management. Given the limited financial resources to be allocated at provincial and district levels, only small-value procurement is anticipated under the project, and it will be procured with the use of shopping procedures. Procurement under the project will largely be carried out by the MPD's *Unidade de Gestão e Execução de Aquisições* (Unit for Execution and Management of Acquisition-Procurement -- UGEA).

22. An assessment of the capacity of the MPD's UGEA to implement procurement actions for the project was carried out by Giacomo Ottolini, Senior Procurement Specialist and Amós Malate, Procurement Analyst, on February 20, 2009. The assessment reviewed the organizational structure for implementing the project and the interaction with different department. The outcome of the assessment is that the associated risk is high.

23. MPD's UGEA has been created under the framework of the government's New Procurement Regulation, the Decree 54/2005, enacted on December 13, 2005, to carry out the procurement activities at the MPD. Despite the clear governmental framework, the UGEA did not have permanent staff assigned to it. There were five (5) officers from different departments who comprise the UGEA staff and do meet on a demand basis to carry out procurement duties, in addition to their other normal obligations. The arrangement raises concerns as procurement is not their primary responsibility. All five officers have had limited procurement training in the government's own regulations. The size and associated complexity of the procurement they have carried out is low. Furthermore, there is no prior experience with Bank or other multilateral development organizations.

24. The assessment findings are that the UGEA's overall capacity to efficiently handle government procurement, in general, and Bank financed procurement, in particular, is limited. The capacity of the UGEA officers needs to be enhanced. Due to the important role that these officers should play under the project in supporting the officers in the provinces, it is recommended that permanent staff for the UGEA be appointed. Moreover, the officers once

appointed should be exposed to Bank procedures to ensure adequate capacity as needed. The enhanced capacity would be provided by an experienced consultant who would be hired to support the UGEA in a period of up to four weeks, while preparing all the packages for the major procurement.

25. The overall project risk for procurement was High but an Action Plan was developed to mitigate this and the action plan has been implemented. The overall risk is now Substantial.

Procurement Management Action Plan to Mitigate Procurement Risk

Risk	Action	Completion Date
UGEA capacity inadequate	-MPD to assign permanent staff for UGEA.	Completed
	- Agree on a Training Plan for UGEA staff.	Completed
	- Draft project Procurement Manual agreed with Bank.	Completed

26. **Procurement Audits:** Due to the decentralized nature of the project, the associated Procurement risk, the need for a more systematic ex-post review is high. In addition to the semi-annual supervision missions by the Bank, the MPD will carry out procurement audits of the project every year. These audits will be carried out by independent consultants under terms of reference acceptable to the Bank and whose qualifications and experience are acceptable to the Bank. The audits will include an action plan to improve performance, where required, which will be submitted to the Bank and discussed with the Government of Mozambique.

Procurement plan

27. The Borrower, at appraisal, developed a procurement plan for project implementation which provides the basis for the procurement methods. This plan was agreed to between the Borrower and the project Team on November 19, 2009, and is available at DNP, Ministry of Planning and Development, Av. Ahmed Sekou Toure, 21, Maputo, Mozambique. It will also be available in the project's database and in the Bank's external website. The Procurement Plan will be updated in agreement with the project Team annually or as required to reflect the actual project implementation needs and improvements in institutional capacity.

Frequency of procurement supervision

28. In addition to the prior review supervision to be carried out from Bank offices, the capacity assessment of the Implementing Agency has recommended semi-annual supervision missions to visit the field to carry out post review of procurement actions. The supervision missions will also include on-site visits, at least once every year.

Details of the procurement arrangements involving international competition

29. The thresholds for the use of the various procurement and selection methods are summarized below:

Thresholds for Procurement Methods and Prior Review

Expenditure Category	Contract Value Threshold (US\$)	Procurement Method	Contracts Subject to Prior Review After the First 5 Contract ⁸
1. Goods and Services (other than Consultants' Services)	≥500,000 ≥75,000 - <500,000 <75,000	ICB NCB Shopping Direct Contracting	All None None All
2. Consultants' Services Firms	≥200,000 <200,000	QCBS, LCS and CQS Single Source	All None All
3. Individuals	≥100,000 <100,000	IC IC Sole Source	All None All

1. Goods, Works, and Non-Consulting Services

(a) List of contract packages to be procured following ICB and direct contracting:

Ref. No.	Contract (Description)	Estimated Cost (US\$)	Procurement Method	Review by Bank (Prior / Post)	Expected Bid-Opening Date	Comments
1	Computers [218 Desktop and 44 Laptop] and Printers [248 units]	604,500	ICB	Prior	19-May-10	
2	Double Cabin [45 vehicles]	1,575,000	ICB	Prior	16-Mar-11	

(b) Contracts estimated to cost US\$500,000 equivalent or above for goods and non consulting services per contract and all direct contracting will be subject to prior review by the Bank. All other Prior Review requirements shall be determined by the Bank in Procurement Plan.

⁸ The first five contracts procured under each method shall be subject to Bank Prior Review, regardless of the amount.

2. Consulting Services

(a) List of consulting assignments with short-list of international firms.

1	2	3	4	5	6	7
Ref. No.	Description of Assignment	Estimated Cost	Selection Method	Review by Bank (Prior / Post)	Expected Proposals Submission Date	Comments

At Appraisal stage, no assignment with the short-list is foreseen.

(b) Consultancy services estimated to cost above US\$200,000 per contract for firms, and US\$100,000 per contract for individual consultants, and all single source (or sole source) selection will be subject to prior review by the Bank.

(c) Short lists composed entirely of national consultants: Short lists of consultants for services estimated to cost less than US\$200,000 equivalent per contract may be composed entirely of national consultants in accordance with the provisions of paragraph 2.7 of the Consultant Guidelines.

NCB Provisions

30. National Competitive Bidding (NCB) for Goods and Works, in accordance with the Mozambican Procurement Regulations, as per Decree Number 54/2005 may apply subject to the following additional provisions:

- (i) Eligibility. No bidder, foreign or domestic, shall be precluded from participating in the bidding process for reasons unrelated to their eligibility or capability to perform the contract. Examples of reasons that may not be used to preclude a bidder from so participating include the following: proof that the bidder is not under bankruptcy proceedings in the territory of the Recipient; appointment by the bidder of a local representative in the territory of the Recipient; prior registration by the bidder in the territory of the Recipient; or license or agreement allowing the bidder to operate in the territory of Recipient.
- (ii) Qualification. Bidders shall be post-qualified unless the Procurement Plan explicitly provides otherwise. Irrespective of whether post qualification or prequalification is used, both national and foreign bidders who meet the qualification requirements stated in the bidding documents shall be allowed to participate in the bidding process.
- (iii) Bidding Documents. Bidders shall use standard bidding documents for the procurement of goods, works and services, consistent with the provisions of the Procurement Guidelines.
- (iv) Preferences. No preference for domestically manufactured goods or for domestic contractors shall be allowed.

- (v) Bid evaluation. The qualification criteria shall be clearly specified in the bidding documents, and all criteria so specified, and only such criteria so specified shall be used to determine whether a bidder is qualified; the evaluation of the bidder's qualifications should be conducted separately from the technical and commercial evaluation of the bid. Evaluation of bids shall be made in strict adherence to the criteria set forth in the bidding documents; criteria other than price should be quantified in monetary terms. A contract shall be awarded to the qualified bidder offering the lowest technically responsive evaluated bid. Bidders shall not be eliminated from detailed evaluation on the basis of minor, non-substantial deviations.
- (vi) Rejection of All Bids and Re-bidding. In cases where the Recipient rejects all bids and solicits new bids for a contract, it shall, as soon as possible, notify the Association of such decision.
- (vii) Complaints by Bidders. Complaints by bidders shall be handled by the Recipient, who shall inform the Association of any such complaint.
- (viii) Right to Inspect/Audit. Each bidding document and contract financed out of the proceeds of the Financing shall provide that the bidder, supplier or contractor, and any subcontractor, shall permit the Association, at its request, to inspect their accounts and records relating to the bid submission and performance of the contract, and to have these accounts and records audited by auditors appointed by the Association. An act by the bidder, supplier, contractor or subcontractor intended to materially impede the Association's exercise of its inspection and audit right constitutes an Obstructive Practice.

Annex 9: Economic and Financial Analysis

NOT APPLICABLE

Annex 10: Safeguard Policy Issues

1. The project was originally classified as Category B at Concept Note stage, consistent with the provisions of OP/BP 4.01, in light of the possible inclusion of investments contemplated at the time, but was reclassified as Category C at the Decision Meeting once it was determined that the project would be a Technical Assistance Loan (TAL) designed to finance consultancies and assessments for institutional strengthening without any infrastructure investments or other works that would potentially generate any adverse environmental or social impacts. As such, the project as a TAL does not trigger any of the Bank's safeguard policies.
2. IDA funds for the project will be pooled with those of other cofinanciers and channeled through a Common Fund, which will be used exclusively for the project. All funds from the Common Fund as well as those funds from the Non-Common Fund partners for the project will be applied towards technical assistance for the project. The entire project is focused on technical assistance and related activities, targeted at improving the quality and coverage of participatory district plans and improved public financial management and monitoring of their execution. There are no works included under the project.
3. Since the LOLE of 2006, the government has provided direct budget allocations to the districts to finance the implementation of the district plans. Essentially, this means that the 128 districts participating in the project will finance infrastructure investments out of their own budget allocations similar in nature to those financed by the Bank under DPFPP-Centro. Despite N-DPFPP's focus on technical assistance, rather than on financing infrastructure, the government recognizes the importance of ensuring that these district level investments are carried out in an environmentally and socially sound and sustainable manner. Therefore, although the project is a Category C operation, it includes technical assistance to enhance the appropriate environmental and social assessment and management of district level investments. As part of the project, the government will prepare an environmental and social management framework as well as a resettlement policy framework and specific tools for environmental and land use management, based on the ones that were developed under DPFPP-Centro. In addition, the government has embedded ongoing training on such frameworks and tools into the TAL throughout the life of the project. Thus, both safeguards frameworks, including the screening checklists and referral system to MICOA (Ministry for Coordination of Environmental Action), are fully integrated into the implementation capacity building interventions under the project. The project is therefore designed to reflect the fact that environmental and social considerations are regarded as core elements of civil service administration alongside financial management and procurement responsibilities. Appropriate levels of funding for these activities will be made available under Components 1 and 3 of the project.
4. Component 2 of the project is focused on the participatory elaboration and updating of the five year strategic development plans (PEDDs) including the better integration of land-use and LED components. The aim is to improve the quality and speed with which these plans are prepared and to ensure they reflect both community priorities and national policy objectives, implying greater harmonization of sector and territorial planning efforts. Activities related to the land-use planning are mainly to perform a diagnosis of existing social and economic infrastructure at the district level, to complement them with the simplified plans undertaken during the previous DPFPP-Centro and then to digitize the data with the view of creating an integrated national database.

5. Under the Financing agreement, the government will, by December 2010, prepare and ensure the application of a suitable framework for the assessment and management of environmental and social aspects of district-level investments (including resettlement policy framework) so as to ensure that such investments are developed and implemented in an environmentally and socially sound and sustainable manner, and that any potential adverse environmental or social impacts of such investments are prevented, minimized, mitigated, or appropriately compensated for, and that positive impacts are enhanced. These frameworks will specifically emphasize the guidelines and mitigation measures required for district level land use planning and infrastructure investments and will be based on the original ESMF and RPF prepared for the DPFP-Centro project approved by the Bank. The Recipient will hire a consultancy firm for this purpose. Furthermore, the financing agreement also includes an undertaking to review the application of these safeguards at MTR.

Annex 11: Project Preparation and Supervision

IDA Credit Preparation Time Table

	Planned	Actual
PCN review	December 11, 2007	June 30, 2008
Initial ISDS to PIC	November 14, 2008	December 4, 2008
Appraisal	December 9, 2009	December 9, 2009
Negotiations	February 4, 2010	February 4, 2010
Board/RVP approval	March 30, 2010	
Planned date of effectiveness	June 30, 2010	
Planned date of mid-term review	June 30, 2012	
Planned closing date	June 30, 2015	

Key institutions responsible for preparation of the project:

Government Institutions:

- Ministry of Planning and Development
- Ministry of Finance
- Ministry of State Administration
- Ministry of Public Function
- Ministry of Environmental Coordination
- Ministry of Public Works and Housing-
- Tribunal Administrativo

Development Partners:

- German Cooperation
- Royal Netherlands Embassy
- Embassy of the Republic of Ireland
- United Nations Development Program (UNDP)
- Swiss Agency for Development and Cooperation

Bank staff and consultants who worked on the Project included:

Name	Title	Unit
Ali Alwahti	Urban Specialist/Task Team Leader	AFTUW
Katherine Kuper	Sr. Urban Specialist	AFTUW
Uri Raich	Municipal Finance Specialist	AFTUW
Anne Louise Grinsted	Economist, Consultant	AFCS2
Jeffrey Racki	Consultant	AFTUW
Jonathan Nyamukapa	Financial Management Specialist	AFTFM
Renaud Seligmann	Sr. Financial Management Specialist	AFTFM
João Tinga	Financial Management Specialist	AFTFM
Elvis Langa	Financial Management Specialist	AFTFM
Lourdes Pagan	Senior Operations Officer	AFTRL
Andrew Asibey	Sr. Monitoring & Evaluation Spec.	AFTRL
Nicolette Dewitt	Lead Counsel	LEGAF

Jutta Kern	Monitoring and Evaluation Specialist	AFTRL
Eduardo Brito	Sr. Counsel	LEGAF
Suzanne Morris	Disbursement Officer	CTRFC
Cary Anne Cadman	Sr. Safeguards Specialist	AFTEN
Antonio Chamuco	Procurement Specialist	AFTPC
Amos Malate	Procurement Assistant	AFTPC
Giacomo Ottolini	Sr. Procurement Specialist	AFTPC
Isabel Nhassengo	Procurement Specialist	AFCS2
Roderick M. Babijes	Team assistant	AFTUW
Nilsa Come	Team Assistant	AFCS2
Rildo Santos	Program Assistant	AFTUW

Bank funds expended to date on Project preparation:

Bank resources: US\$272,856

Estimated approval and supervision costs:

1. Remaining costs to approval: US\$30,250
2. Estimated annual supervision cost: US\$ 114,000

Annex 12: References and Other Documents in the Project File

Jamie Boex, Abdul Ilal, Eduardo Nguenha, and Rudinei Toneto Jr., *Intergovernmental Fiscal Relations in Mozambique* (World Bank, May 2008).

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Jeremy Gottwals and Anselmo Zimba, *Approaches to Sectoral Coordination of Small Scale Rural Investment*, Discussion Draft (March, 2003).

Massala Consult and SAL CDS, *Analysis of Experiences Relating to Community Participation and Consultation in District Planning in Mozambique: North Center and Southern Regions (Niassa, Nampula, Tete, Zambézia, Manica Inhambane And Gaza Provinces)* (March 2009).

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Ministry of Planning and Development, Government of Mozambique, Annual progress reports of *Decentralized Planning and Finance Project (DPFP)* implementation prepared for IDA.

Renaud Seligmann, *Mozambique: Country Systems review for project Financial Management Analysis and recommendations for action* (June 2008).

UCA & DPFP Technical Team, with Filimone Meigos, *Guidelines for Community Participation and Consultation in District Planning*, Discussion Draft (March 2003) (in Portuguese).

World Bank, *Mozambique Country Assistance Strategy* (October 20, 2003).

World Bank, *Mozambique Country Partnership Strategy* (April 24, 2007).

World Bank, *Project Appraisal Document, Decentralized Planning and Finance Project* (October 15, 2003).

World Bank, *Midterm review aide memoire, Decentralized Planning and Finance Project* (August 2006), DPFP Task Team.

World Bank, *Implementation and Completion and Results Report, DPFP* (September 2009).

Note: Other sources include other project files, project supervision reports, aide memoires, back-to-office reports, and financial audits.

*Including electronic files

Annex 13: Statement of Loans and Credits

MOZAMBIQUE: National Decentralized Planning and Finance Project

Project ID	FY	Purpose	Original Amount in US\$ Millions				Cancel.	Undisb.	Difference between expected and actual disbursements	
			IBRD	IDA	SF	GEF			Orig.	Frm. Rev'd
P106355	2009	MZ-Competitiveness & PS Dev	0.00	25.00	0.00	0.00	0.00	25.16	0.00	0.00
P099930	2009	MZ-Health Service Delivery SIL (FY08)	0.00	44.60	0.00	0.00	0.00	46.76	0.00	0.00
P104566	2008	MZ-Water Services & Inst. Support	0.00	15.00	0.00	0.00	0.00	13.03	3.06	0.00
P096332	2007	Maputo Municipal Development Program	0.00	30.00	0.00	0.00	0.00	11.44	6.93	0.00
P083325	2007	MZ-APL2 Roads & Bridges	0.00	100.00	0.00	0.00	0.00	74.81	43.92	0.00
P071465	2006	MZ-TFCA & Tourism Dev (FY06)	0.00	20.00	0.00	0.00	0.00	13.16	1.97	0.00
P093165	2006	MZ-Market Led Smallholder Dev (FY06)	0.00	20.00	0.00	0.00	0.00	15.76	4.37	0.00
P087347	2006	MZ Tech & Voc Edu & Training (FY06)	0.00	30.00	0.00	0.00	0.00	22.81	11.51	0.00
P086169	2006	MZ-Financial Sector TA Project	0.00	10.50	0.00	0.00	0.00	6.41	0.31	0.00
P082618	2005	MZ-Beira Railway SIL (FY05)	0.00	110.00	0.00	0.00	0.00	11.66	-7.06	-3.32
P069183	2004	MZ - Energy Reform and Access APL-1	0.00	40.26	0.00	0.00	0.00	13.48	7.82	6.19
P078053	2003	MZ-HIV/AIDS Response SIL (FY03)	0.00	55.00	0.00	0.00	0.00	18.71	10.70	0.00
P072080	2003	MZ: Pub Sec Reform (FY03)	0.00	25.60	0.00	0.00	0.00	4.36	0.45	0.00
P069824	2002	MZ-Higher Education SIM (FY02)	0.00	75.00	0.00	0.00	0.00	3.71	-21.36	0.00
Total:			0.00	600.96	0.00	0.00	0.00	281.26	62.62	2.87

**MOZAMBIQUE
STATEMENT OF IFC's
Held and Disbursed Portfolio
In Millions of US Dollars**

FY Approval	Company	Committed				Disbursed			
		IFC				IFC			
		Loan	Equity	Quasi	Partic.	Loan	Equity	Quasi	Partic.
2004	ENH	0.00	18.50	0.00	0.00	0.00	13.37	0.00	0.00
	GTFP BDC	0.11	0.00	0.00	0.00	0.11	0.00	0.00	0.00
1997	MOZAL	29.70	0.00	58.50	0.00	29.70	0.00	58.50	0.00
2001	MOZAL	10.12	0.00	0.00	0.00	10.12	0.00	0.00	0.00
2000	SEF Ausmoz	0.72	0.00	0.00	0.00	0.72	0.00	0.00	0.00
1997	SEF CPZ	1.00	0.00	0.00	0.00	1.00	0.00	0.00	0.00
2000	SEF Cabo Caju	0.58	0.00	0.00	0.00	0.51	0.00	0.00	0.00
2001	SEF Grand Prix	0.33	0.00	0.00	0.00	0.33	0.00	0.00	0.00
2004	SEF Merec	1.02	0.00	0.00	0.00	1.02	0.00	0.00	0.00
Total portfolio:		43.58	18.50	58.50	0.00	43.51	13.37	58.50	0.00

		Approvals Pending Commitment			
FY Approval	Company	Loan	Equity	Quasi	Partic.
Total pending commitment:		0.00	0.00	0.00	0.00

Annex 14: Letter of Sector Commitment



REPÚBLICA DE MOÇAMBIQUE
MINISTÉRIO DA PLANIFICAÇÃO E DESENVOLVIMENTO
GABINETE DO MINISTRO

Offício nº. 013/MPD/GM/2010

Subject: Letter of Sector Commitment – National Program for Decentralized Planning and Finance

Dear Mr. Da Silva,

1. On behalf of the Government of Mozambique, I'd like to express the Government's firm and renewed commitment to a National Program for Decentralized Planning and Finance that aims to support the continuation and consolidation of longstanding and on-going policy reforms in the field of decentralization, planning and public financial management.
2. These commitments follow and complement those made by the Government in the period 2003-2006 in the context of the Decentralized Planning and Finance Project implemented by the Government with the generous support of the World Bank and which in large part have been achieved. I am particularly referring to the Letter of Sector Commitment signed by the Minister of Planning and Finance and dated 13th August 2003, and the Letter of Sector Policy signed by myself in November 2006.
3. I believe there is common understanding that the process of decentralization is a long and complex one often spanning several political mandates. Nevertheless, we believe that since 2003 the Government has made significant advances in terms of developing a policy framework for decentralization and participative planning in Mozambique as indeed you recognized in your letter of 2nd April 2008.
4. This progress has been achieved, in no small part, through institutionalizing and mainstreaming many of the best practices and valuable lessons that have resulted directly from the innovative approaches being tested in the field with the support of the World Bank and other development partners, notably the United Nations and the German Cooperation (GTZ).
5. The Government has made clear its commitment to citizen participation in the local decision making process which we consider an important factor in reducing of poverty in Mozambique. Through the Law on Local State Bodies (Law 08/03, 19th May 2003), participatory processes have been institutionalized and consolidated across the country. Consultative Councils have been established in all districts and administrative posts and, in some districts, at locality level. The establishment of these forums has been popular and well received in the community and has established a "participative culture" at district level where it previously did not exist enabling local community representatives to dialogue with District Government and play an active role in determining development priorities.
6. Nevertheless, the Government recognizes that the capacity of Consultative Councils needs to be strengthened and, indeed, that this is an on-going rather than a definitive process. In this context, the Ministry of State Administration is finalizing a training program in which it is envisaged that members of all 128 Consultative Councils at district level will receive

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training in citizenship and participation, planning, public finance management, sustainable development, local economic development, disaster risk management, and monitoring amongst others by June 2011. To complement this, the Ministry of Education and Culture has embarked on a literacy program for members of Consultative Councils in which it is envisaged that all members of consultative councils will have basic literacy skills by 2011.

7. The 2003 Act (*Lei das Órgãos Locais do Estado*) has provided the foundation for a process of change in other important respects. District Development Plans (PEDDs) are defined as the cornerstone of the Mozambican planning system and to date over 100 districts have approved Strategic Development Plans with the remainder having plans approaching finalization.
8. These integrated development plans define strategic priorities for the district through a participative process with community representatives. Through the National Decentralized Planning and Finance Program the Government seeks to consolidate this process. However, as part of the Program, PEDDs will be re-focused and better integrated to ensure that they consider questions relating to local economic development potentials and priorities in a more comprehensive manner as a way of providing a clearer strategic framework for investments at district level whether from the public or private sector.
9. The Government has already taken a number of important steps to support the transformation of District Governments into planning and budgetary units. As you are aware, districts were allocated an investment budget for the first time in 2006. The overall value of this allocation has increased by 55% over the period 2006-2009 a trend which the Government will maintain. The district investment budget mainstreams an approach which was tested by the PP-D projects in the north and centre of Mozambique with UNCDF and World Bank support. It provides District Governments with a source of discretionary funding with which they can implement development priorities defined in their PEDDs in relation to local economic development and, since 2008, public infrastructure. Projects to be funded are defined on an annual basis through a participatory process in which consultative councils play an important role. The Government considers the district investment budget an important and irreversible step forward which it intends to further consolidate over the next three years.
10. In initially making investment funds available to districts for the promotion of income generation and food production activities, the Government purposefully sought to finance activities that would directly impact on poverty reduction in rural areas. By providing loans to local associations and micro-enterprises the Government has assumed risks associated with the introduction of rural credit which the private sector has, to date, been reluctant or unable to take.
11. Moreover, through this approach the Government has sought to broaden the experience and capacity of rural people with regard to using micro-credit in such a way that will create more favourable conditions for the eventual entry of private financial institutions through the creation of a ready market.
12. The Government intends to consolidate and normalise these experiences via means of recycling public investment funds for LED through a revolving district development fund. The operation of these funds will initially require technical support but once established it is envisaged that they will be able to accept third party funding and ultimately become self-

financing. The Government considers that there is little risk of these funds competing with those of emerging financial institutions in rural areas. On the contrary, it is envisaged that such funds will complement the private sector through strengthening the viability of their entry into rural areas.

13. Since 2008, the Government made funds available to District Governments, via the district investment budget, for public infrastructure. These funds are discretionary in the sense they are available for administrative, social or economic infrastructure projects defined as priorities in PEDDs and by Consultative Councils as part of the annual operational planning process (PESOD). In the State Budget for 2008, each district was allocated Mt.2.3M. For this year the allocation has risen to Mt. 2.5M. For the period 2010-2012 the Government has made provision in the MTEF for an increase of over 50% in the overall value of this allocation subject to the priorities defined in the Government's Program for 2010-14 and prevailing macro-economic circumstances. Moreover, the Ministries of Finance and Planning and Development are currently developing and will introduce by 2012 methodologies with explicit criteria for the equitable allocation of these funds between districts.
14. The Government introduced a recurrent budget for the District Administrator's and District Secretary's Offices in 2006. From 2009 the goods and services component of the recurrent budget has been extended to all the component services of the District Government (*Serviços Distritais*) for operating costs. The transfer of the payroll responsibilities to the district has begun but recognising the capacity and technical and financial infrastructure requirements, this will take some time to complete. Nevertheless, the payment of the salaries of district government personnel is already being undertaken in some districts and the Government intends to expand this process to include the payment of the salaries of all government staff at district level, including health and education staff, by 2012.
15. The Government has made provision in the MTEF 2010-2012 for an increase of 17% in the recurrent budget of District Governments over the 2009 allocation and will gradually assume responsibility for operation and maintenance costs of the Program and ensure that the salaries of technical staff funded by the Program are integrated into the civil service payroll.
16. In addition to the district investment budget, sector funds are also being decentralized to provincial and district level. Following a decision by the Council of Ministers in October 2007, all sectors were instructed to look at ways in which both their competencies and budgets could be decentralized to lower tiers of administration and in particular to district level. Some progress has been made, notably in the sectors of education, health, agriculture, water and roads. For example, in 2008 the National Directorate for Water allocated Mt.17.8M to Provincial Governments for the construction of water infrastructure and Mt.79.8M to District Governments for their rehabilitation and maintenance. Since 2008, Districts Governments have each received Mt.1M per year for the construction and maintenance of tertiary roads. The Ministry of Education has decentralized the responsibility and funds for the accelerated school construction program to Provincial Government and transferred some Mt.96M to Districts between 2005-2008 for primary school maintenance. The Ministry of Health has decentralized responsibility for the construction and maintenance of Type 1 Health Posts to district level.
17. Whilst these developments provide a starting point, the Government recognizes that further decentralization initiatives must take place within the context of a more

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coordinated and systematic approach. Work on the development of a strategic framework for decentralization started in 2007 but in this complex area the Government feels that a carefully considered approach based on both international best practices and the particularities of Mozambique is required.

18. The coordination of the decentralization process is being led by the Ministry of State Administration with technical support from UTRESP and other specialists. A team of specialists is currently supporting MAE in the elaboration of a decentralization strategy which is anticipated to be approved by the end of 2010. Sector deconcentration, currently under review as part of the evaluation of PARPA II, will be a major consideration in the preparation of this strategy which will seek to consolidate and institutionalize processes already underway and further define the distribution of competencies between different levels of Government. It is envisaged that the elaboration of the strategy will be followed by a National Decentralization Plan that will set out concrete steps and activities that will take the decentralization process forward.
19. The Government believes that the greater clarity in the definition and distribution of competencies that will result from the Decentralization Strategy will facilitate the more effective integration and harmonization of sector and territorial planning instruments and provide the basis for further fiscal decentralization. Following approval of the strategy, the Government will revise methodologies and guidelines for the preparation and integration of sector and territorial strategic and operational plans by 2014 and foresees a gradual increase in the percentage of the state budget being transferred to provincial and district level over the same period.
20. With regard to district finance, with support from The World Bank, the Ministry of Finance has recently approved a set of practical guidelines for District Government which will bring greater integrity and transparency to financial management and in particular the collection and registration of receipts. As a result the Government expects the registration of receipts at district level to increase over the period 2010-2012. Furthermore, the ongoing roll-out of e-SISTAFE will lead to at least half of all districts being on line for the purposes of budgeting, execution and financial reporting by 2012 and the Government intends to continue to strengthen internal and external control functions to ensure greater understanding and adherence to administrative and financial management regulations and procedures.
21. In pursuing a process of decentralization the Government believes it must exercise care to ensure that any increase in the allocation of responsibilities and resources to District Government is commensurate with the strengthening of human and institutional capacity at this level especially in the areas of planning and financial management. Through Decree 6/2006, (12th April, 2006) the Government approved a new organic structure for districts governments with a view to establishing a more service orientated approach. On this basis, the structure of all District Governments has been reorganised to create the Office of the District Secretary and four District Services. Through Decree 5/2006 (12th April, 2006), the Government decentralised the responsibility for the recruitment and management of human resources with the result that the responsibility for the definition and recruitment of posts within the new organic structure is now the competency of the District.
22. The Government expects the National Program for Decentralised Planning and Finance to play a pivotal role in strengthening the capacity of District Governments in the field of planning and financial management using training manuals certified by SIFAP and SIFAP

accredited trainers. The National Program will monitor Improvements in the capacity of District Government in relation to a number of key processes in the field of participative planning and financial management through the introduction of a performance monitoring system which once in place will be linked to the district budget allocation mechanism.

23. Finally, with a view to consolidating community participation, raising public awareness and promoting greater transparency and access to information, the Government intends to develop and introduce various mechanisms and communication techniques for improving the dissemination and transmission of information to communities with regard to local development, planning, budgeting and monitoring and Government performance in these areas. This will be specifically addressed through the information and knowledge management component of the national program.
24. I hope I have been able to show that much has already been achieved and that significant and irreversible steps have been taken in the decentralization process in Mozambique. The Government has complied with all of the commitments sets out in the letter of 13th August, 2003. Nevertheless, we recognize that there is much to do and many challenges to be faced.
25. The Government considers the consolidation of efforts in the field of decentralized planning and finance to be critical components of the decentralization process in Mozambique. The National Decentralized Planning and Finance Program, led by this Ministry, will address these areas. The preparation of the program is coming to a conclusion and the Government intends to proceed with its launch this year. It will continue to be an integral component and make an important contribution to the public sector reform and decentralization process and the strengthening of the capacity of district Government in relation to participative planning and public financial management which will serve to promote greater transparency and good governance practices.
26. The Program will be coordinated through a multi-sectoral supervisory committee composed of National Directors from the 6 relevant ministries and chaired by my colleague the Vice-Minister for Planning and Development which will meet on a quarterly basis. The team responsible for day-to-day program management is based in the National Directorate for Planning in the newly created Department for Decentralized Planning. Recruitment of additional technical staff for this department in the field of strategic planning, operational planning and monitoring was completed by the end of 2009.
27. In summary, and with a view to consolidating the policy framework within which the National Decentralized Planning and Finance Program will be implemented, the Government has agreed upon the following commitments during the World Bank's Appraisal mission that took place in December 2009:

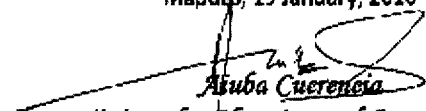
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| • An approved Decentralization strategy; | By end 2010 |
| • An increase in the value of the infrastructure component of District Investment budget by at least 50% per year and the introduction of methodologies for its equitable allocation; | 2010-2012 |
| • District performance monitoring system operational in all districts; | By end 2011 |
| • 50% Districts on-line for the purposes of e-SISTAFE; | By end 2012 |
| • Evaluation of the Impact of the National Program | By end 2014 |

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28. Finally, I'd like to take this opportunity to once again reiterate the Government's continuing strong commitment to the decentralization process in Mozambique. We are grateful for the continued support of the World Bank in what will be a lengthy and complex process. Nevertheless, we remain convinced that by working in partnership we will succeed in surmounting the challenges that confront us.

Yours sincerely,

Maputo, 19 January, 2010


Atuba Cuerecia
Minister for Planning and Development
Governor for Mozambique

Mr. Luiz Pereira da Silva
Country Director for Angola, Malawi, Mozambique,
Zambia and Zimbabwe
Africa Region
Maputo

C.c: H.E Manuel Chang - Minister for Finance
H.E. Minister for State Administration – Carmelita Namachulua

Annex 15: Capacity Building Strategy

Technical Assistance

1. The national project's core objective is to strengthen the institutional and human capacity of government at the central, provincial, and district level for the management of public resources and the district development process in a more transparent and participative manner. As such, technical assistance in various forms is a necessary and fundamental component of the project. For this purpose, technical assistance includes the contracting of short-term experts and specialists (for the development of specific outputs or products) and long-term technical advisors embedded in government institutions to work alongside government technical staff to transfer knowledge and technical know-how.

2. Overall requirements for the technical assistance considered necessary to achieve the project results and objective are incorporated into the Strategic Budget and set out in a more detailed technical note annexed to the government's Program Document. However, at this stage these requirements and the type of technical assistance foreseen for the project are indicative only. In practice it will be the responsibility of each participating institution to evaluate and justify its needs and requirements in terms of technical assistance within the context of the objectives and financial limits of the project. Terms of Reference for all long-term technical advisors and short-term technical experts or specialists whether financed by the Common Fund or as part of an in-kind contribution, will be elaborated by the recipient (beneficiary) institution in collaboration with MPD. In the case of long-term technical advisors these Terms of Reference will stipulate:

- the results expected to be obtained and in which timeframe, including the knowledge to be transferred and the skills to be developed;
- The performance indicators;
- to whom the advisor reports;
- the counterpart(s) of the advisor (government staff);
- the experience and qualifications considered necessary for the post; and
- the link to the objectives of N-DPFP.

3. Overall requirements in terms of technical assistance in any one year (including in-kind technical assistance) will be defined in the project's operational plan and budget and thereby linked to the results expected in project implementation. The contracting of technical assistance (technical advisors) financed through the Common Fund will be incorporated in the annual procurement plan and will be undertaken by the government using procedures stipulated in financial agreements with project partners.

4. All technical assistance of both a long-term and short-term nature will be managed by and accountable to the beneficiary institution which together with MPD will undertake an evaluation of performance, assess progress and future requirements.

5. It is desirable and indeed foreseen that the terms and conditions (salaries and other benefits) of all long-term technical advisors should be harmonized. This harmonization should ideally apply to all technical advisors--that is, those contracted by the government (using the Common Fund) and those provided by Partners as part of an in-kind contribution. For the government's part, the salaries for technical advisor positions at both provincial and national

level that will be financed through the Common Fund and technical advisors contracted by government are already harmonized, as reflected in the project's strategic budget. This means that an indicative salary for each advisory position has been defined and is uniform across provinces and between ministries. Clearly, in practice there will be some variations in remuneration reflecting the degree of expertise, experience and qualifications of the candidate selected for each position.

6. Naturally, the government does not have direct control over the terms and conditions of those technical advisors offered to the project by Partners as part of an in-kind contribution. However, the government will seek to encourage partners providing in-kind technical assistance to align with terms and conditions offered by Government in such a way that would permit, in the medium term, the definition of a salary table indicating minimum and maximum salaries for each advisory position.

7. The process of the contracting of technical advisors by Partners as part of an in-kind contribution to the project should be inclusive and transparent. Technical advisor positions offered by partners should be agreed with both MPD and the beneficiary institutions. These institutions should be involved in the definition of Terms of Reference, which should be aligned with those of technical advisors contracted with the Common Fund, and the recruitment and selection of the advisors.

8. The adoption, implementation, supervision and monitoring of the Project's safeguard policies and tools will be embedded in the capacity building efforts provided at the central, regional and district levels throughout implementation.

Technical assistance knowledge transfer and sustainability

9. The national project is premised on the recognition that despite significant progress in recent years, human and institutional capacity constraints remain with regard to the management of public resources and the local development process. Technical assistance will be used as and when necessary (although within budgetary limits) to strengthen the capacity of participating institutions in these fields to achieve the strategic objectives of the project and specific targets of operational plans.

10. However, the national project simultaneously recognizes that technical assistance must be sustainable and that the government must not become dependent on external technical advisors in the long-term performance of its routine functions. In this context the project must ensure that the transfer of knowledge, skills and know-how from technical advisors to permanent government staff will take place over time, and can be monitored and evaluated. This will be achieved in a number of ways:

- All long-term technical advisors, whether contracted using the Common Fund or offered as part of an in-kind contribution, will be integrated into the beneficiary institution and will report to the appropriate senior manager (nominated by the institution). The institution and the senior manager to whom the advisor should report will be specified in the advisor's terms of reference; he/she will also clearly indicate the "transferee/s" with whom the advisor will work and ensure these counterparts are clearly committed and available to work with the technical assistance.
- The TOR of long-term advisors will identify the results that s/he will be expected to obtain, the knowledge to be transferred and skills to be developed, and the government

department and counterpart(s) who will be the beneficiary(ies) of capacity building. Moreover, the TOR of long-term advisors will include performance indicators which will be regularly evaluated (yearly) by the beneficiary institution and representatives of MPD.

- The government for its part will review the TOR of the government counterpart(s) who is the "transferee" (the target of knowledge transfer) to ensure that the national project related skills and tasks are integrated into their official functions and where this is not the case, update them by the MTR of the N-DPPF- .
- The government will ensure that the performance of all staff is regularly reviewed and evaluated and, where necessary, will update human resource management procedures to ensure that this is undertaken. For national project counterparts such reviews would take into consideration the development of skills and the transfer of knowledge and know-how related to the project. This process has already been initiated by MFP under the broader public sector reform project. However, MPD would need to ensure that it provides its own additional efforts respecting the performance evaluation of staff involved in NDPFP on an annual basis if this is not yet being done through the MFP stipulated process.
- From time to time (biannually, with the first one prior to the first MTR) an external evaluation of "skills transfer" will be undertaken by an independent specialist consultancy and the findings will be reported to the Supervisory Committee and project Partners. Moreover, improvements in the capacity and performance of district and provincial government will be monitored and evaluated through the introduction of a performance monitoring system.
- All short term- experts/specialists contracted to undertake a specific task or deliver a specific product (whether through the use of Common Fund or as an in-kind contribution) will report to a nominated senior government official and work with designated government technical staff involving them, as far as possible, in the task;
- In the interests of sustainability and to strengthen national capacity in general, both long-term technical advisors and short-term technical experts will, wherever possible, be contracted locally. International advisors/experts will only be sought in those few cases where the particular mix of qualifications, skills and experience cannot be readily or easily found locally. In general, the project would not encourage government staff to leave their posts to take up an advisory position with the project except in exceptional circumstances;
- Staff training is a fundamental component of the national project's capacity development and sustainability strategy. Training will be undertaken at all levels and will be tailored to develop the knowledge and skills of government staff so that they better match workplace demands. Training will take various forms, including on-the-job, workplace, and in-the-field learning, workshops, and seminars facilitated by externally contracted technical specialists, and through short courses and vocational courses. On-the-job training and specialized and job-relevant workshops or short courses will normally be undertaken the project's long-term advisor who's TORs will reflect this as a key output. The project will also maintain the practice of "training of trainers" which has successfully been used in the past to capacitate provincial level government staff to train district level colleagues. All training manuals and all trainers used by the project will be certified and accredited

by SIFAP, the Government's Public Service Training System. Moreover, the project will rely as much as possible on the existing training capacity within Mozambique, both through the variety of specialized public sector training institutes and centers associated with central ministries and through the several universities and technical-vocational institutes that operate in the country.

- Finally, it is envisaged in the project's Strategic Budget that all technical advisor posts will be phased out within five years of the project's start.

Technical advisor framework for central and provincial governments for N-DPPF

- PPF Program Management Advisor (type 1 or 3) for a minimum period from 2010 to 2012 in the Department for Decentralized Planning in DNP;
- Operational Planning Operational Advisor (type 1 or 3) for a minimum period from 2010 to 2012 in the Department for Decentralized Planning in DNP;
- Advisor for Decentralized Planning and Finance (type 1 or 3 for a minimum period from 2010 to 2012 in the Department for Decentralized Planning in DNP;
- Specialist in Monitoring and Evaluation (type 1 or 3 for a minimum period from 2010 to 2012 in the Department for Decentralized Planning in DNP;
- Advisor for Monitoring and Evaluation (type 1 or 3) for a minimum period from 2010 to 2012 in the Department for Decentralized Planning in DNP;
- Advisor for Knowledge Management (type 1 or 3) for a minimum period from 2010 to 2012 in the Department for Decentralized Planning in DNP
- Advisor for District Finance (type 1 or 2) for a minimum period from 2010 to 2012 in the National Directorate for Planning in the Ministry of Planning and Development;
- Advisor for Procurement Specialist (type 1 or 3) for a minimum period from 2010 to 2012, in the Department for Administration and Finance in the Ministry of Planning and Development;
- A specialist in Financial Control area (Type 1 or 2) for the minimum period from 2010 to 2012, in the Department for Administration and Finance in the Ministry of Planning and Development;
- Advisor in Public Service Training (type 1 or 3) for a minimum period from 2010 to 2012 in the Ministry for Public Service;
- Advisor for Public Infrastructure (type 1 or 3) for a minimum period from 2010 to 2012 in the National Directorate for Planning in the Ministry of Planning and Development;
- Advisor for Public Works Management (type 1 or 3) for a minimum period from 201 to 2012, at the National Directorate for Construction at the Ministry of Public Works and Housing;

- Advisor for the Physical and Land-Use Planning (type 1 or 3) for a minimum period from 2010 to 2012, in the National Directorate of Territorial Planning at the Ministry for Environmental Coordination;
- Advisor for Decentralization and Local Government (type 1 or 3) for a minimum period from 2010 to 2012 in the National Directorate for Local Administration at the Ministry of State Administration;
- Advisor for the Auditing and External Control area (type 1 or 3) for a minimum period from 2010 to 2012 at the Administrative Tribunal; and
- Advisor for Internal Control area (type 1 or 3), for a minimum period from 2010 to 2012, in the Financial Inspectorate and the Administrative Inspectorate.

Technical assistance at the provincial level:

11. The evolution of technical assistance for the DPFP during the last 10 years has varied between provinces. The list below reflects the results of the efforts to harmonize technical assistance at the provincial level.

- Advisor for the Decentralized Planning (type 1 or 3) for a period from 2010 to 2012 in the Planning and Budgeting Department of the Provincial Directorate for Planning & Finance;
- Advisor for Community Participation and Cross-Cutting Issues (type 1 or 3) for a period from 2010 to 2012 in the Provincial Secretariat
- An Advisor for District Finance Management (type 1 or 3) for a period from 2010 to 2012 in the Planning and Budgeting Department of the Provincial Directorate for Planning & Finance;
- Advisor for Public Works Management (type 1 or 3) for a minimum period from 2010 to 2012, at the Provincial Directorate of Public Works and Housing;
- Advisor for Monitoring and Information and Knowledge Management (type 1 or 3) for a minimum period from 2010 to 2012 in the Provincial Directorate for Planning and Finance Provincial.

12. Each provincial government will evaluate its needs for technical assistance within the context of project results framework and annual activities. Technical assistance will be contracted in coordination with the Ministry of Planning and Development according to the financial limits of the project.

Contracting and integration of district technical staff

13. In pursuit of decentralization in Mozambique the government agrees it must exercise care to ensure that any increase in the allocation of responsibilities and resources to district government is commensurate with the strengthening of human and institutional capacity at this

level especially in the areas of planning and financial management. Through Decree 5/2006 (12th April, 2006), the government decentralized the responsibility for the recruitment and management of human resources with the result that the responsibility for the definition and recruitment of posts within the new organic structure is now the competency of the districts. With Decree 6/2006, (12th April, 2006) the government approved a new organic structure for districts governments with a view to establishing a more service orientated approach. On this basis, the structure of all district governments has been reorganized to create the Office of the District Secretary and five integrated District Services.

14. Subsequent to these decrees all district have submitted a “*quadro do pessoal*” (staffing structure) defining the posts that they wish to establish within their new organic structure and which have been approved by the Ministry for Public Service (MFP). The baseline survey undertaken for the national project will provide information on the number posts at district level which are filled and those which will need to be recruited.

15. In the context of the national project, the government does not consider the placement of technical advisors at the district level either necessary or financially viable. Technical assistance for districts and the process of building the capacity of district technical staff will be provided by provincial level government technical staff supported by provincial level technical advisors.

16. However, the national project recognizes that, on the basis of past experience, the process of recruitment of technical staff for district government can be time-consuming due to a requirement that each candidate selected for a post be approved by the Administrative Tribunal (TA)⁹. In the absence of regional offices, this has resulted in a backlog of cases in the Tribunal in Maputo with the result that it can take many months for a successful candidate to take up his/her post in a district and receive a salary. In addition the districts may not have the revenue necessary to recruit these technical staff immediately and have traditionally needed a period of time to identify funding sources for this (whether through own revenue or from the recurrent expenditure transfer).

17. Clearly this situation has implications for the implementation of the national project, which requires that the new staffing structure of every district be filled in order that it can achieve its prescribed objectives and results. With this in mind, and on the basis of an approach tried and tested in the central and northern provinces of Mozambique, it is proposed that the national project will use the Common Fund to temporarily pay the salaries of key district technical staff relevant for achieving the objectives of the national project until they can be fully integrated into the public service staffing and salary structure.

18. Once detailed information is available from the baseline survey, the exact number of posts that will be temporarily supported with project funds will be defined. However, some general principles have been established:

- Posts eligible for support from the project must be directly related to the project and justified, by the district, as being necessary to achieve its objectives and results. The table below lists in an indicative sense those posts which could be supported by the project. However, this list is not exclusive. Other posts might be considered for support if adequately justified.

⁹ Equivalent of the Office of the Auditor General or Auditing Commission in many other countries.

Post	Attributed to:
Strategic/operational/participative Planning Technician	District Permanent Secretary Office
Accountant/Finance Officer	District Permanent Secretary's Office
Human Resources Administrator	District Permanent Secretary's Office
Land-use Planning Technician	District Service Planning and Infrastructure
Engineer/Public Works Technician	District Service Planning and Infrastructure
LED Technician	District Service for Economic Activities

- The project will only consider supporting posts defined in the staffing structure of the district and approved by the Ministry for Public Service. This serves to guarantee that the selected candidate will ultimately be integrated into the public service staffing and salary structure and that provision has been made for this;
- Technical staff will be recruited in line with government procedures and will be temporarily remunerated by the project on the basis of the same terms and conditions as other district government staff on an equivalent scale and with equivalent qualifications and experience;
- The district Government will be responsible for the recruitment process, including the elaboration of TORs, with technical support from the Office of the Provincial Permanent Secretaries and in coordination with MPD;
- The recruitment process undertaken by the district will serve a dual purpose: (i) triggering the process of approval of the candidate by the TA, and (ii) contacting the successful candidate by the district on a short-term, time-limited (but renewable) contract, paid with project funds, which will expire once the candidate is approved by the AT and integrated into the public service staff and salary structure;
- Project funds will support district technical posts for a maximum of two years although in practice it is probable that the period will be much shorter than this (6-12 months);

19. For the purposes of elaboration of the project's Strategic Budget, it has been assumed that an absolute maximum of 670 technical staff could be recruited by 128 district governments during the period 2010-2013 and supported with project funds for a maximum period of two years before being absorbed into the public service payroll. It is anticipated that the actual number supported will fall below this and the average period required for project support is expected to be between 6 and 12 months and reduced over time as the capacity of the TA improves (also supported by the project).

20. Given technical and financial capacity constraints, the project assumes a phased approach to recruitment with approximately 25 percent technical staff being contracted each year until 2013. It is expected that all technical staff contracted and supported with project funds will be integrated into the public service payroll by the beginning of 2015. An extract from the project's Strategic budget below demonstrates how this is envisaged to take place. The graph below indicates how the use of project funds for the payment of district technical staff will gradually diminish from 2012-2015 while the costs to government correspondingly increase from 2011.

Excerpt from Project Strategic Budget (table below):

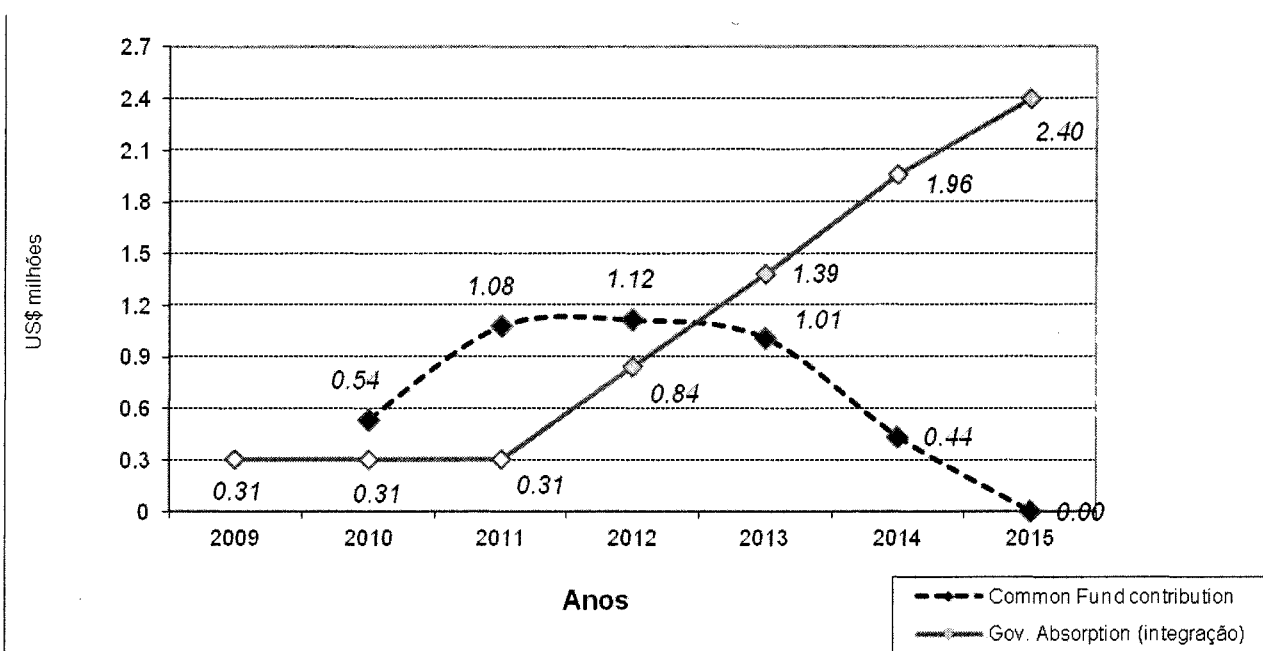
	Baseline	2010	2011	2012	2013	2014	2015
- Recruitment Plan (# posts)		172	174	184	140	-	
- Number of posts to be paid by Project		172	346	358	324	140	-
- Salary paid by Project fund ('000 \$)		536.6	1,079.5	1,117.0	1,010.9	436.8	
- Annual Integration Plan (# posts)				172	174	184	140
- Posts already integrated	98	98	98	98	98	98	98
- Cumulative integration plan (# posts)				172	346	530	670
- Salary paid by Gov. for already integrated posts (period to NPPFD)	305.8	305.8	305.8	305.8	305.8	305.8	305.8
- Salary to be paid by Gov. for posts recruited via N-DPPF				536.6	1,079.5	1,653.6	2,090.4
- Total Gov. salary contribution/absorption	305.8	305.8	305.8	842.4	1,385.3	1,959.4	2,396.2
- Gov. Financial contribution increment rate				22%	23%	24%	18%
- Gov. Cumulative Financial absorption rate	13%	13%	13%	35%	58%	82%	100%

Staff deemed necessary/required for the Districts (6 posts): it is foreseen that the N-DPPF will support the payment of salaries of these staff for a period of 24 months for each post after which they will be integrated into the civil service salary system via the State Budget.

NB: the central provinces of Tete, Manica, Zambezia & Sofala have already integrated accountants and public works technicians.

Taking into account the capacity constraints in relation to recruitment and the absorption capacity of the Government, it is assumed that the 670 posts that will potentially be recruited for 128 districts will be recruited gradually using a phased approach of 26%, 26%, 27%, 21% during project implementation. It is estimated that by the end of 2012, 26% of the total posts will have already been integrated and that by the end of 2014 all posts recruited will be paid from the State Budget (see table above).

On the basis of the above assumption, the Government, although not making a direct contribution to the project budget will continue to finance the district budgets by USD305, 800 (13% of salary costs) during the first two years and by USD842, 400 (35% of salary costs), US\$ 1,385,300 (58%) and US\$ 1,959,400 (82%) during the subsequent 3 years, reaching US\$ 2,396,000 (100%) by 2015.



Annex 16: UNDP and German Cooperation Contribution (Non-Common Fund Activities)

1. N-DPFP is designed to support strategic areas including improving service provision; strengthening the local state bodies; professionalization of the public service; and good governance and fighting corruption. To this end, it is essentially a capacity building and technical assistance national project. The proposed activities under N-DPFP will (except for in kind services provided by Non-Common Fund Partners) be carried out by the government at central, provincial and district level with the support of technical advisors recruited under the project. It will primarily consist of capacity building and training activities including the development of methodologies and instruments with a view to strengthening local state institutions. It will also involve some acquisition of goods such as office equipment, furniture and vehicles, as conditions in the districts and provinces are still limited. The activities supported by the Non-Common Fund Partners (UNDP and German Cooperation) signatories to the Memorandum of Understanding, are as follows:

2. UNDP (Central level)

A In-kind direct contribution will finance the following activity (US\$0.6 million):

- One technical advisor at the central level in the area of Decentralized Planning and Finance.

B Indirect contribution will finance the following activity (US\$0.2 million):

- One technical advisor at the central level in the area of Knowledge Management.

3. UNDP (Gaza, Nampula and Cabo Delgado)

A In-kind direct contribution will finance the following activities (US\$0.5 million):

- Three (3) technical advisors at provincial level in the area of Decentralized Planning.

B Cash/Indirect contribution will finance the following activities (US\$2.1 million):

- Twelve (12) technical advisors at the provincial level in the areas of (i) Community Participation and Cross-Cutting Issues; (ii) District Finance Management; (iii) Public Works Management; and (iv) Monitoring and Information and Knowledge Management.
- One study on Knowledge Management.
- Acquisition of 2 vehicles for Nampula.

4. German Cooperation (Central level)

In-kind direct contribution will finance the following activity (US\$0.4 million):

- One technical advisor at central level in the area of Auditing and External Control.

German Cooperation (Manica, Inhambane and Sofala)

A. *In-Kind direct contribution will finance the following activities (US\$2.2 million):*

- Fifteen (15) technical advisors at provincial level in the areas of (i) Decentralized Planning; (ii) Community Participation and Cross-Cutting Issues; (iii) District Finance Management; (iv) Public Works Management; and (v) Monitoring and Information and Knowledge Management.

B. *Cash contributions will finance the following activities (US\$2.6 million):*

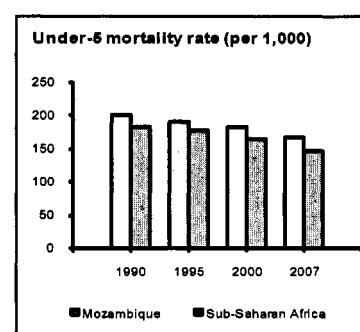
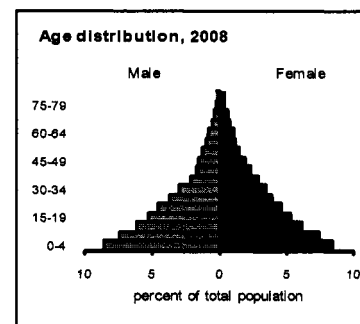
- Training and the necessary associated operating costs and equipment for the districts in the area of procurement, contract management, supervision and monitoring of plan implementation, as follows, and in three provinces (Manica, Sofala, Inhambane):
- Training of District technician staff in participation and community consultation in planning
- Training of Local Committee's (CL) members in the development of PED and DEL (local development)
- Training of District Staff in strategic planning
- Training of District Staff in operational planning and budgeting (PESOD)
- Training of District Staff in management of public works
- Training of District Staff in financial management (expenditures and prescriptions)
- Training of District technician staff in procurement of goods, works and services
- One study on elaborating methodologies and manuals for strengthening Internal and External Control of public funds
- One study on Evaluation of the effective implementation of monitoring activities.

Annex 17: Country at a Glance

Mozambique at a glance

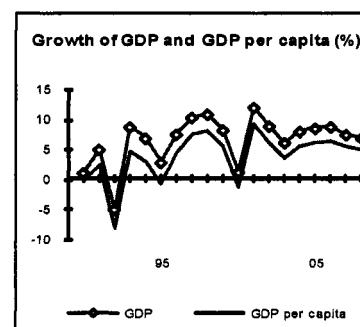
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Key Development Indicators (2008)	Mozambique	Sub-Saharan Africa	Low income
Population, mid-year (millions)	218	818	973
Surface area (thousand sq. km)	799	24,242	19,310
Population growth (%)	19	2.5	2.1
Urban population (% of total population)	37	36	29
GNI (Atlas method, US\$ billions)	8.4	885	510
GNI per capita (Atlas method, US\$)	390	1,082	524
GNI per capita (PPP, international \$)	770	1,991	1,407
GDP growth (%)	6.8	5.0	6.4
GDP per capita growth (%)	4.8	2.5	4.2
<i>(most recent estimate, 2003–2008)</i>			
Poverty headcount ratio at \$125 a day (PPP, %)	75	51	..
Poverty headcount ratio at \$2.00 a day (PPP, %)	90	73	..
Life expectancy at birth (years)	42	52	59
Infant mortality (per 1000 live births)	115	89	78
Child malnutrition (% of children under 5)	21	27	28
Adult literacy, male (% of ages 15 and older)	57	71	72
Adult literacy, female (% of ages 15 and older)	33	54	55
Gross primary enrollment, male (% of age group)	19	103	102
Gross primary enrollment, female (% of age group)	103	93	95
Access to an improved water source (% of population)	42	58	67
Access to improved sanitation facilities (% of population)	31	31	38



Net Aid Flows	1980	1990	2000	2008 ^a
<i>(US\$ millions)</i>				
Net ODA and official aid	167	998	906	1,777
<i>Top 3 donors (in 2007):</i>				
European Commission	7	81	79	240
United States	9	62	115	153
United Kingdom	11	43	83	115
Aid (% of GNI)	4.7	43.0	22.5	24.2
Aid per capita (US\$)	14	74	50	83

Long-Term Economic Trends	1980	1990	2000	2008 ^a
Consumer prices (annual % change)	4.2	43.7	12.7	10.3
GDP implicit deflator (annual % change)	4.1	34.1	12.0	7.7
Exchange rate (annual average, local per US\$)	0.0	0.9	15.4	24.3
Terms of trade index (2000 = 100)	87	12	100	119



	1980–90	1990–2000	2000–08
Population, mid-year (millions)	12.1	13.5	16.2
GDP (US\$ millions)	3,526	2,463	4,249
<i>(% of GDP)</i>			
Agriculture	37.1	37.1	24.0
Industry	34.4	18.4	24.5
Manufacturing	..	10.2	13.9
Services	28.5	44.5	51.5
Household final consumption expenditure	96.7	92.3	79.5
General govt final consumption expenditure	12.2	13.5	9.0
Gross capital formation	7.6	22.1	31.0
Exports of goods and services	10.9	8.2	17.5
Imports of goods and services	27.4	36.1	37.0
Gross savings	..	..	..

1980–90 1990–2000 2000–08
(average annual growth %)

Population, mid-year (millions)	11	3.0	2.2
GDP (US\$ millions)	-0.1	6.1	8.0
Agriculture	6.6	5.2	7.8
Industry	-4.5	12.3	10.1
Manufacturing	..	10.2	9.4
Services	6.5	5.0	7.2
Household final consumption expenditure	-11	5.8	7.6
General govt final consumption expenditure	-6.7	3.2	-7.0
Gross capital formation	4.1	8.6	3.3
Exports of goods and services	-6.8	13.1	15.5
Imports of goods and services	-3.8	7.6	6.7
Gross savings	..	..	..

Note: Figures in italics are for years other than those specified. 2008 data are preliminary. .. indicates data are not available.
a. Aid data are for 2007.

Development Economics, Development Data Group (DECDG).

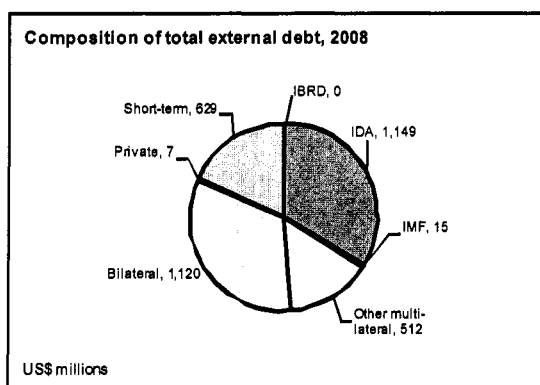
Balance of Payments and Trade	2000	2008
<i>(US\$ millions)</i>		
Total merchandise exports (fob)	364	2,653
Total merchandise imports (cif)	1,633	3,804
Net trade in goods and services	-815	-1,223
Current account balance	-1,042	-2,021
as a % of GDP	-24.5	-20.5
Workers' remittances and compensation of employees (receipts)	37	116
Reserves, including gold	745	1,605

Central Government Finance

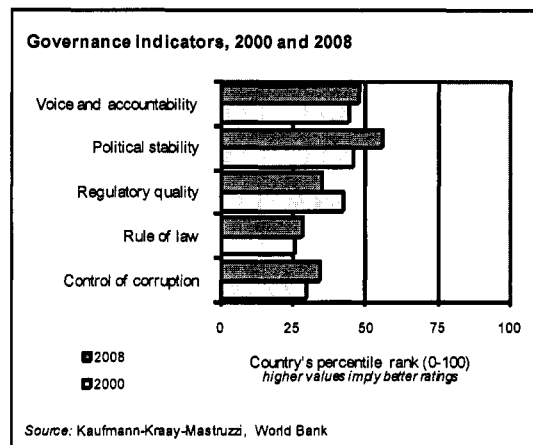
	2000	2008
<i>(% of GDP)</i>		
Current revenue (including grants)	15.2	19.7
Tax revenue	10.5	14.2
Current expenditure	11.7	15.7
Overall surplus/deficit	-8.4	-7.9
Highest marginal tax rate (%)		
Individual	20	32
Corporate	35	32

External Debt and Resource Flows

	2000	2008
<i>(US\$ millions)</i>		
Total debt outstanding and disbursed	7,247	3,432
Total debt service	96	43
Debt relief (HIPC, M DRI)	2,992	1,057
Total debt (% of GDP)	170.6	34.9
Total debt service (% of exports)	12.5	13
Foreign direct investment (net inflows)	139	587
Portfolio equity (net inflows)	0	0



Private Sector Development	2000	2008
Time required to start a business (days)	--	26
Cost to start a business (% of GNI per capita)	--	22.9
Time required to register property (days)	--	42
Ranked as a major constraint to business (% of managers surveyed who agreed)	2000	2008
n.a.	--	--
n.a.	--	--
Stock market capitalization (% of GDP)	--	--
Bank capital to asset ratio (%)	8.2	6.4



Technology and Infrastructure	2000	2008
Paved roads (% of total)	18.7	--
Fixed line and mobile phone subscribers (per 100 people)	1	21
High technology exports (% of manufactured exports)	9.3	2.3

Environment

	2000	2008
Agricultural land (% of land area)	61	62
Forest area (% of land area)	24.8	24.5
Nationally protected areas (% of land area)	--	5.8
Freshwater resources per capita (cu. meters)	5,242	4,693
Freshwater withdrawal (billion cubic meters)	0.6	--
CO2 emissions per capita (mt)	0.07	0.09
GDP per unit of energy use (2005 PPP \$ per kg of oil equivalent)	13	17
Energy use per capita (kg of oil equivalent)	397	420

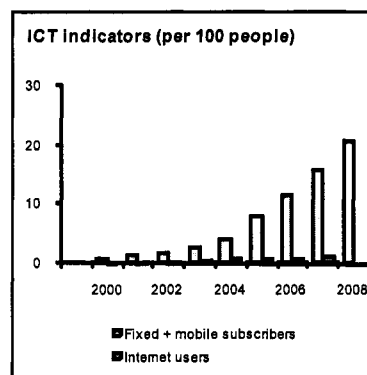
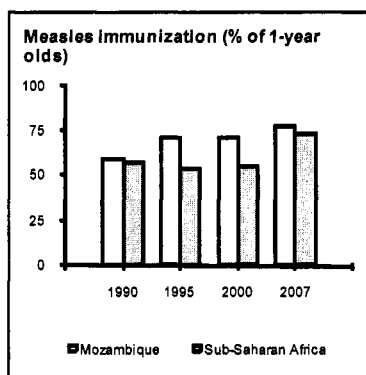
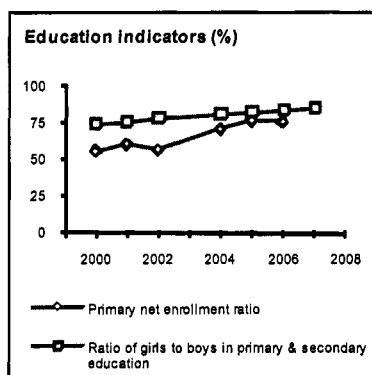
World Bank Group portfolio

	2000	2008
<i>(US\$ millions)</i>		
IBRD		
Total debt outstanding and disbursed	0	0
Disbursements	0	0
Principal repayments	0	0
Interest payments	0	0
IDA		
Total debt outstanding and disbursed	760	1,149
Disbursements	97	255
Total debt service	6	8
IFC (fiscal year)		
Total disbursed and outstanding portfolio of which IFC own account	99	84
Disbursements for IFC own account	49	-2
Portfolio sales, prepayments and repayments for IFC own account	3	18
MIGA		
Gross exposure	114	228
New guarantees	74	50

With selected targets to achieve between 1990 and 2015
(estimate closest to date shown, +/- 2 years)

Mozambique

	1990	1995	2000	2008
Goal 1: halve the rates for extreme poverty and malnutrition				
Poverty headcount ratio at \$ 125 a day (PPP, % of population)	..	81.3	..	74.7
Poverty headcount ratio at national poverty line (% of population)	..	69.4	..	54.1
Share of income or consumption to the poorest quintile (%)	..	5.6	..	5.4
Prevalence of malnutrition (% of children under 5)	..	28.1	..	21.2
Goal 2: ensure that children are able to complete primary schooling				
Primary school enrollment (net, %)	42	..	56	76
Primary completion rate (% of relevant age group)	26	26	16	46
Secondary school enrollment (gross, %)	7	7	6	18
Youth literacy rate (% of people ages 15-24)	..	47	..	53
Goal 3: eliminate gender disparity in education and empower women				
Ratio of girls to boys in primary and secondary education (%)	71	..	75	85
Women employed in the non-agricultural sector (% of non-agricultural employment)	11	..	..	..
Proportion of seats held by women in national parliament (%)	16	25	30	35
Goal 4: reduce under-5 mortality by two-thirds				
Under-5 mortality rate (per 1,000)	201	190	184	168
Infant mortality rate (per 1,000 live births)	135	128	125	115
Measles immunization (proportion of one-year olds immunized, %)	59	71	71	77
Goal 5: reduce maternal mortality by three-fourths				
Maternal mortality ratio (modeled estimate, per 100,000 live births)	..	..	..	520
Births attended by skilled health staff (% of total)	..	44	..	48
Contraceptive prevalence (% of women ages 15-49)	..	6	..	17
Goal 6: halt and begin to reverse the spread of HIV/AIDS and other major diseases				
Prevalence of HIV (% of population ages 15-49)	14	4.5	9.5	12.5
Incidence of tuberculosis (per 100,000 people)	181	262	378	431
Tuberculosis cases detected under DOTS (%)	..	59	47	49
Goal 7: halve the proportion of people without sustainable access to basic needs				
Access to an improved water source (% of population)	36	39	41	42
Access to improved sanitation facilities (% of population)	20	22	27	31
Forest area (% of total land area)	25.4	25.1	24.8	24.5
Nationally protected areas (% of total land area)	..	..	..	5.8
CO2 emissions (metric tons per capita)	0.1	0.1	0.1	0.1
GDP per unit of energy use (constant 2005 PPP \$ per kg of oil equivalent)	0.9	10	13	17
Goal 8: develop a global partnership for development				
Telephone mainlines (per 100 people)	0.4	0.4	0.5	0.4
Mobile phone subscribers (per 100 people)	0.0	0.0	0.3	20.2
Internet users (per 100 people)	0.0	0.0	0.1	16
Personal computers (per 100 people)	..	0.1	0.3	14



Annex 18: IBRD Map 33451R1

