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PROJECT INFORMATION DOCUMENT (PID)
APPRAISAL STAGE

Report No.: 56236

Project Name	Health Commodity Security Project
Region	AFRICA
Sector	Health (100%)
Project ID	P121060
Borrower(s)	REPUBLIC OF MOZAMBIQUE
Implementing Agency	Ministry of Health
Environment Category	[ ] A [ ] B [X] C [ ] FI [ ] TBD (to be determined)
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A. Country and Sector Background

1. *Mozambique has emerged from a set of complex emergencies, brought about by war and natural disasters, to become a country with impressive annual economic growth*. Following the devastating civil war that ended in 1992, the economy grew at an average annual rate of 8 percent between 1996 and 2006. The poverty headcount index fell by 15 percentage points between 1996/7 and 2002/3, driven by rapid economic growth. However, poverty remains predominantly rural, and there is concern that the rate of decline in absolute terms may be slowing down.[1] Economic expansion has been underpinned by overall macroeconomic stability, sound policy reforms, growth in agriculture, post-war reconstruction, mega-projects, and strong support from development partners.

2. *Despite upward trends in economic growth, Mozambique remains one of the poorest countries in the world*; it ranks 172nd of 177 countries on the 2008/09 Human Development Index. It is a country vulnerable to exogenous shocks (such as recurrent natural disasters) and debilitating poverty – the per capita income was US$340 in 2006 (compared to the Sub-Saharan Africa average of US$500), 54 percent of the population lives below the poverty line, and 63 percent of rural children live in absolute poverty. While the country is on track to achieve the Millennium Development Goal (MDG) for poverty reduction, significant progress needs to be made to increase access to health care services, and water and sanitation services, particularly in rural areas, if Mozambique is to attain the other MDGs.

3. *Mozambique has been significantly affected by the global economic crisis.* In 2008, there were larger than expected expenditures due to the rapid rise in food and fuel prices, and in 2009 because of high fuel prices. During 2008, tax revenues remained flat in real terms at 16% of GDP and budgeted expenditures on some key social services, including health, were reduced. In 2009, tax revenues performed better than anticipated, reaching 17.8% of GDP and were able to mitigate the high fuel prices. Nevertheless, the level of foreign development assistance (both

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[1] IEG. Mozambique Country Program Evaluation, April 7, 2010.

program and project aid) was below projections at 1.6% of GDP, and notably, project aid was substantially lower than the initial pre-financial-crisis projections of 2.5% of GDP. These trends of reduced government and donor financing have contributed to a substantial financing gap for drugs and medical supplies.

4. *Mozambique's health and human development indicators rank among the lowest in the world*. Mozambique faces significant health challenges in areas such as HIV/AIDS, malaria, tuberculosis (TB), reproductive health, and child health. For example:

- Fifteen percent of people between the ages of 15 and 49 years are living with HIV/AIDS. This is the eighth highest prevalence rate in the world. In 2005, there were 123,000 AIDS-related deaths, and an estimated 1.6 million orphans. These numbers continue to increase.
- The estimated annual incidence of all forms of TB in Mozambique is 431 per 100,000 which is above the average incidence of 356 case per 100,000 in Sub-Saharan Africa. About 40% are smear positive and therefore infective. Sixty-six percent of all diagnosed TB cases are co-infected with HIV.
- Malaria accounts for approximately 44% of all outpatient consultations, 57% of inpatient admissions (especially paediatric services), and almost 30% of in-hospital deaths. Malaria is also a major problem affecting pregnant women in rural areas, and contributes to at least 30 percent of maternal deaths.
- Contraceptive prevalence rate among women of child-bearing age is 18 percent[2]. There is a significant unmet need for contraceptives and lost opportunities to mobilize women to use contraceptives for child birth spacing[3]. There is a risk that recent reductions in maternal mortality will be reversed in the absence of sustained efforts to expand coverage.
- During the last three years, the number of measles case reported each year has nearly doubled, from 272 to 530. To address this increase, Mozambique has modified its national campaign strategy to include all children aged 6 to 59 months and increased the number of campaigns from one to two each year.

5. *The recent global financial crisis has reduced the level of funding available for essential health commodities which address these health problems.* In Mozambique, these gaps have recently appeared because:

- *Government expenditures on health are declining*. The health budget as a percentage of the total budget shows a downward trend from 14% in 2006 to 7% in 2010[4].
- *Donor funding is declining*. Donor support to pharmaceuticals through the common fund decreased 38% between 2008 and 2009.[5] The US financed President's Emergency Plan

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[2] Moz DHS; 2003; MoH-Macro International)

[3] Moz DHS; 2003; MoH-Macro International)

[4] The decline does not necessarily mean that the government has reduced priority to the health sector. Rather, it reflects the complex dynamics of a multitude of funding sources and mechanisms in the health sector, which, despite the significant presence of donors, is still underfunded by regional and world standards.

[5] Ministry of Health, Budget Execution in 2009, March 2010

for AIDS Relief (PEPFAR), for example, will reduce its funding for Anti-retrovirals (ARVs) by 10-15% in 2011/2012.

- *Donor funding is unpredictable*. The Global Fund to Fight AIDS, TB and malaria (GFATM)-one of the major sources of funding for health commodities- has not disbursed for more than a year because the MOH has not fulfilled GFATM reporting requirements which differ from those required by other donors under the SWAp.[6] The country's Round 9 proposal is for malaria and HIV/AIDS.
- *The cost of treatment has increased*. Especially in the case of ARVs, changes in clinical protocols will require approximately $8 million additional financing to maintain the same number of people currently on ARVs (approximately 200,000) for 2011 and 2012.[7]

6. *At the household-level, the non-availability of these essential public health commodities could jeopardize livelihoods*. For poor households with few assets, limited risk coping mechanisms, and limited access to capital markets (to help them cope with economic fluctuations and unanticipated health shocks), limited access to health commodities may prove an insurmountable burden.

7. *The proposed project will allow the Government of Mozambique (GOM) to ring-fence core health spending*. By financing core commodities in the areas of HIV/AIDS, malaria, TB, and reproductive and child health over a relatively short period, 2 years, the GOM will guarantee resources to these core areas of health spending. Financing, however, is not the only barrier to ensuring the availability of these essential commodities. Logistics remains a challenge. In Mozambique, the supply chain management system (SCMS) is weak and fragmented, with several entities involved in forecasting, procurement, warehousing and distribution. The distribution system is the main challenge for the SCM. Constraints include poor road infrastructure, limited availability of transport, and a lack of funding for fuel at provincial and district levels.[8] The Central Medical Stores (CMAM)[9] is trying to address these issues.

8. *A Pharmaceutical Logistics Master Plan (PLMP) is central to SCM-reform, and is under development*. Over the next few years, the MOH will reform the procurement and distribution of drugs and other medical supplies. This is expected to result in a single integrated supply chain. A PLMP- a long-term strategic planning document- is being developed to support the strategic vision and implementation of the supply chain. The PLMP is expected to cover all aspects of supply chain management. This includes forecasting and procurement, warehousing, training, monitoring and evaluation, and distribution.

9. Donors are actively involved in the health sector. About 25 donors finance about 70 percent of health expenditures in the context of a Sector-Wide Approach (SWAp). The majority have been channelling their funds through pooled sector budget support known as PROSAUDE.

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[6] This has been resolved by the establishment of a special project implementation unit in the MOH.
[7] Beginning in May 2010, the cost per patient per year will increase from $74-$88 to $140-$160.
[8] An assessment of procurement and supply chain management was undertaken in 2009 and is available in the project files.
[9] CMAM is part of the MOH. It is responsible for: procurement, warehousing, inventory management and distribution of medicines and laboratory reagents; and preparing the quantification and quarterly supply plan for ARVs and anti-malarials.

Dialogue with partners has been excellent, with commitment to work together in this project. The Bank is a part of the Grupo Tecnico de Medicamentos (GTM), a joint donor-GOM medicines technical working group which plays a key role in supporting CMAM. The GTM is comprised of representatives from the GOM, and development partners including WHO, UNFPA, UNICEF, Swiss Development Corporation, USAID, and others.

B. Objectives

10. The development objective of the proposed project is to improve the availability of selected drugs and medical supplies at key distribution points.[10]

C. Rationale for Bank Involvement

11. The proposed project has been designed to: (i) help Mozambique respond to the fall-out from the global economic crisis, (ii) leverage the Bank's comparative advantage (particularly in the area of SCM), and (iii) support the GOM's poverty reduction objectives.

12. The proposed project is closely aligned to the Government's *Absolute Poverty Reduction Plan of Action* (PARPA II 2006-2009) and the *Country Partnership Strategy* (CPS 2008-2011).[11] The project will contribute to these two higher-level policies by financing core commodities (including those related to malaria prevention and HIV/AIDS treatment), as well as improving availability of drugs and commodities. These interventions will largely benefit the vulnerable groups (pregnant women and children under five), those living in rural areas, and the poor. Close alignment between project intervention areas and GOM policies and strategies, will ensure ownership by the GOM, and facilitate implementation of the proposed project. Also, while the project does not include co-financing from other donors, implementation will be undertaken in close cooperation with other development partners.

13. The proposed project will complement the Bank's health program in Mozambique. The existing Health Service Delivery Project (HSDP)[12], for example, aims to improve access to health services, by promoting the expansion and improvement of: (i) fixed-base facilities; (ii) outreach services; and (iii) community health services. The HIV/AIDS Response project[13] aims to reduce the spread of HIV infection among the general population and mitigate its effects through a multisectoral approach. The Project also has a health strengthening component to allow the health sector scale up prevention, care and treatment of HIV/AIDS, other sexually

[10] In the case of some commodities, particularly ARVs, the objective is to sustain certain levels of coverage rather than increase. In other cases, such as LLINs, the government is aiming for an increase. The PDO refers to improving the availability to cover both these objectives.

[11] The World Bank's third Country Assistance Strategy (CAS), renamed Country Partnership Strategy, was approved in May 2007. The next CAS is currently being prepared.

[12] The HSDP was approved in April 2009, and became effective in June 2010. It is funded by a US$44.6 million credit. The lending instrument is a SIL. The project aims to: (a) reduce child mortality; (b) reduce maternal mortality; (c) reduce the burden o f malaria; (d) reduce the prevalence o f tuberculosis; and (e) reduce inequity in the access to health services in Mozambique.

[13] The HIV/AIDS Response project was approved in March 2003, and became effective in August 2003. It is funded by a US$55 million grant. The objective of the project is to slow the spread of HIV infection in Mozambique, and mitigate the effects of AIDS, through prevention and care activities.

transmitted infections and other related infectious diseases. This proposed project will work closely with both existing projects to promote synergies and ensure access to commodities.

D. Description

14. The project has two components. Each component is described below.

- ***Component 1: Provision of Essential Health Commodities ($35.6 million)[14].*** This component will finance the procurement of much-needed selected essential commodities and consultant services to support the HIV/AIDS (ARVs and diagnostic test kits), malaria (Long Lasting Insecticide Treated Nets (LLINs), TB (drugs and reagents), and reproductive (contraceptives) and child health (vaccines) programs. It will also finance the operating costs associated with distribution of the commodities.

- ***Component 2: Strengthen Supply Chain Management ($3.4 million).*** This component will help to strengthen the distribution system between the central, provincial, and district warehouses. It will finance: (i) trucks; (ii) technical assistance to prepare fleet management plans; and (iii) operating costs including fuel. The component will also support the computerization of the logistics management system in 70 districts by financing computer hardware.[15]

E. Financing

Source:		($m.)
BORROWER/RECIPIENT		0
International Development Association (IDA)		39
	Total	39

F. Implementation

15. The institutional and implementation arrangements are driven by the need to: (a) ensure achievement of the Project's development objective; (b) maximize the use of existing MOH structures and systems and (c) work with the international health partners to the extent possible. The MOH will have the overall responsibility for the management of the HCSP. Within the MOH, the Directorate of Planning and Cooperation (DPC) will be responsible for overall coordination, monitoring and reporting. For Component 1 (Supply of Essential Health Commodities), the DPC will work closely with the National Directorate of Public Health (DNSP) and with the Medical Assistance Directorate (DNAM) to implement project activities under their respective responsibilities. The DNAM will work with CMAM and CA to ensure that the supplies are stored once the supplies arrive into the country. These two entities will be responsible for the in-country distribution using the current distribution systems to the provincial level or directly to the facilities. The DNAM will also work with the provinces and districts to

[14] Costing of this component includes $1.6 million in contingencies.
[15] The software is already available and training is being provided by USAID under an on-going Supply Chain Management System (SCMS) project.

ensure that the products reach the service delivery places (SDPs). For Component 2 (Strengthening Supply Chain Management), the DPC will work closely with the Central Agency for Drugs and Medical Supplies (CMAM) and the Provincial Directorates (DPSs). Financial management and procurement oversight of the HCSP will be the responsibility of the MOH through its Department of Administration and Finance (DAF). *A condition of project effectiveness is that an Operational Manual has been issued and adopted by the Recipient, and approved by the Association.*[16]

16. The MOH and its agencies are constrained by limited institutional capacity, particularly in areas of financial management and procurement. They have both insufficient numbers of qualified staff to undertake the necessary functions, and suffer from over-centralization of decision-making. The latter has lead to delays in implementation in other projects. To mitigate this (low institutional capacity) risk, the MOH will contract-out procurement of health commodities to UN agencies (UNICEF, UNFPA and WHO/GDF). Such arrangements are considered to be the most cost-effective option for the timely delivery of these essential commodities because: (a) these agencies are recognized for their expert knowledge of the commodities being procured under this Project; (b) they have the capacity to delivery within the needed timeframe; and (c) they have adequate quality assurance mechanisms in place. UNFPA is procuring reproductive health commodities for the MOH under the MAP and the experience has been satisfactory with all commodities delivered according to schedule. In parallel, focus will be placed on building the capacity of CMAM to manage procurement and distribution.

G. Sustainability

17. This project represents a stop-gap effort to ensure that key public health commodities remain in stock and are available during this period of global financial crisis. It is hoped that as the global economy recovers, the traditional donors supporting this sub-sector will resume their support at pre-financial crisis levels. Despite their best efforts, it is not reasonable to expect the GOM to be able to cover these gaps in the immediate future.

H. Lessons Learned from Past Operations in the Country/Sector

18. The proposed project is the fourth Bank-financed health sector operation in Mozambique since 1989. As such, the project design has benefitted from lessons learnt from Bank projects in Mozambique in the health and other sectors, and similar health projects in other countries in Africa and elsewhere.

19. The first two projects, which are closed, were both assessed to be satisfactory for both implementation and meeting their development objectives. However, implementation has been more difficult with the two on-going projects.

- The HIV/AIDS Response project was restructured in 2009 because of implementation delays arising mainly from a complex and cumbersome process of funding sub projects of civil society organizations (CSOs), public and private sector put in place by the

[16] This manual is in draft and will be discussed during negotiations. If approved, the condition of effectiveness will be removed.

National AIDS Council. As part of the restructuring, procurement of reproductive health commodities was contracted-out to UNFPA, and management of the small grants to CSOs program to UNDP. Since being restructured, an additional $14.1 million has been disbursed adding to a total US$ 59 million disbursed to date (approximately 96.3 % of the grant). The project ratings have been upgraded to satisfactory. Based on this experience in the procurement of reproductive health commodities, the proposed Health Commodity Security Project (HCSP) plans to contract-out the procurement of health commodities.

- The HSDP became effective on June 11, 2010, after a nine month delay, and is currently rated as unsatisfactory. The project had seven conditions of effectiveness. The proposed project has no conditions of effectiveness. This will accelerate implementation, and is expected to have no adverse effects on the quality of implementation.

20. A 2009 evaluation of the World Bank's Independent Evaluation Group (IEG): *Improving Effectiveness and Outcomes for the Poor in Health, Nutrition, and Population* identifies a series of lessons learned including the following, which have been incorporated into the Project's design:

- Given the short time frame of the project, no attempt will be made to influence policy or support health sector reforms which are politically contentious, often complex, and relatively risky.
- The project supports population and reproductive health interventions which are often not included in Bank financed health projects and critical for reducing maternal mortality and sustained economic growth
- The project supports a pro-poor approach by investing in diseases that disproportionately affect the poor.

21. A recent evaluation of the country program identified a series of lessons for the Bank to consider in the future. The most relevant for this project is the need to strengthen monitoring and evaluation. Many projects in the portfolio lacked well-defined indicators.[17] This project has a limited number of indicators that are well defined and for which baseline data are available.

I. Safeguard Policies (including public consultation)

22. There are no significant adverse environmental impacts expected as a result of the proposed project. The project is focused on the timely procurement and distribution of medications, diagnostic kits, and other medical supplies. It does not entail civil works, pest management issues, or medical waste management issues. Expiration dates of pharmaceuticals will be monitored during project supervision to ensure there are no waste disposal issues.

[17] IEG. *Mozambique: Country Program Evaluation*. 2010.

Safeguard policies triggered?	
Environmental Assessment (OP/BP 4.01)	○ Yes ❺No
Natural Habitats (OP/BP 4.04)	○ Yes ❺No
Forests (OP/BP 4.36)	○ Yes ❺No
Pest Management (OP 4.09)	○ Yes ❺No
Physical Cultural Resources (OP/BP 4.11)	○ Yes ❺No
Indigenous Peoples (OP/BP 4.10)	○ Yes ❺No
Involuntary Resettlement (OP/BP 4.12)	○ Yes ❺No
Safety of Dams (OP/BP 4.37)	○ Yes ❺No
Projects on International Waters (OP/BP 7.50)	○ Yes ❺No
Projects in Disputed Areas (OP/BP 7.60)	○ Yes ❺No

J. List of Factual Technical Documents

1. Assessment of the Warehouses and Operations of *Central de Medicamentos e Artigos Médicos (CMAM)*, Maputo, Mozambique, for Operational and Physical Enhancements, PEPFAR, 2008.
2. Crime Risk Analysis at *Centro de Abastecimentos (CA)* Warehousing Facilities in Maputo, Mozambique, PEPFAR, 2009.
3. Crime Risk Analysis at *Central de Medicamentos e Artigos Médicos (CMAM),* PEPFAR, 2009.
4. Malaria Related Commodities – Gap Analysis by Products, The World Bank, 2010
5. MOZAMBIQUE GFATM – HIV/AIDS Procurement and Supply Management Plan, Government of Mozambique, 2009.

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