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<u>ANNEX</u>

of the Commission Decision on the financing of an individual measure in favour of the Republic of Mozambique

<u>Action Document for EU budget support in response to COVID-19 crisis</u>

1. Title/basic act/ CRIS number	EU budget support in response to COVID-19 crisis CRIS number: MZ/2020/041-898 financed under the 11th European Development Fund (EDF)
2. Zone benefiting from the action/ location	Republic of Mozambique The action shall be carried out at the following location: nationwide
3. Programming document	National Indicative Programme (NIP) for Mozambique 2014-2020
4. Sustainable Development Goals (SDGs)	Goal 1: End poverty in all its forms everywhere Goal 4: Ensure inclusive and equitable quality education and promote lifelong learning opportunities for all Goal 16: Peace, Justice and Strong Institutions
5. Sector of intervention/ thematic area	Sector 1: Good governance and Development/ thematic areas: education and social protection DEV. Assistance: YES[1]
6. Amounts concerned	Total estimated cost: EUR 100 000 000 Total amount of EDF contribution: EUR 100 000 000 of which: EUR 96 000 000 for budget support EUR 3 750 000 for complementary support EUR 250 000 for audit, evaluation, communication
7. Aid modality and implementation modalities	Budget Support **Direct management** through: - Budget Support: State and Resilience Building Contract - Grants - Procurement
8 a) DAC code	11110 – Education policy and administrative management 11220 – Primary education 11320 – Secondary education 15111 – Public Finance Management 15150 – Macroeconomic policy 16012 – Social security (excl. pensions)
8 b) Main Delivery Channel	12000 – Recipient government

[1] Official Development Assistance is administered with the promotion of the economic development and welfare of developing countries as its main objective.

9. Markers (from CRIS DAC form)	**General policy objective**	**Not targeted**	**Significant objective**	**Principal objective**
	Participation development/good governance			X
	Aid to environment	X		
	Gender equality and Women's and Girl's Empowerment		X	
	Trade Development	X		
	Reproductive, Maternal, New born and child health	X		
	Disaster Risk Reduction	X		
	Inclusion of persons with disabilities	X		
	Nutrition	X		
	RIO Convention markers	**Not targeted**	**Significant objective**	**Principal objective**
	Biological diversity	X		
	Combat desertification	X		
	Climate change mitigation	X		
	Climate change adaptation	X		
10. Internal markers	**Policy objectives**	**Not targeted**	**Significant objective**	**Principal objective**
	Digitalisation	X		
	Migration	X		
	COVID response			X

1. BACKGROUND AND CONTEXT DESCRIPTION

1.1 Context and problem description

In line with the National Indicative Programme (NIP) for Mozambique 2014–2020[2], the response by the EU to the adverse health and devastating socio- economic effects of the COVID-19 crisis calls for a new budget support programme.

This action will be implemented in a COVID-19 context and adapted as necessary for a successful completion.

The outbreak of the COVID-19 pandemic has triggered an unprecedented complex global crisis with severe interdependent health, economic and social impacts worldwide, with still many unknowns. In Mozambique, to avoid an uncontrolled spread of the virus, the Government has opted for a containment strategy. Since the first confirmed case in Mozambique on 22 March 2020, preventive measures, such as social distancing and closure of schools, were introduced. On 1 April, the Government declared the State of Emergency, moving into phase 3 restrictions (out of 4 phases), including limitations to commerce/ trade, transport and travel. As of 29 April, the State of Emergency was prolonged for another 30 days, including i) ban of all gatherings; ii) ban and cancellation of all entry visas; iii) 14 days mandatory quarantine for all travellers entering Mozambique; iv) creation of a technical and scientific committee; v) limitations of movements within the country and border entries; vi) ban for all public and private events; and vii) limited activities of all non-essential shops.

Considering Mozambique's sluggish economic performance (gross domestic product (GDP)) growth of 2.3% in 2019 and estimated 2.2% in 2020), even before the COVID-19 crisis,

[2] Commission Decision C(2015)5996 of 28.8.2015 on the adoption of the National Indicative Programme between the European Union and and Mozambique.

including successive external shocks, high levels of indebtedness and deteriorating governance, coupled with low human development, low literacy and rising inequalities, the escalation of the insurgency in the North of the country, the current multifaceted crisis could have unprecedented health, economic and social impacts, potentially fuelling instability and state failure. The drastic reduction of exports, the fall of commodity prices and currency depreciation make imports and debt service even more onerous.

Postponements of final investment decisions in the emerging gas sector due to low international market prices, expected initial increase in the level of public debt-to-GDP ratio of up to 125% (slightly reduced to a projected 113.7% GDP for 2020 following international measures), and ongoing post-cyclone reconstruction are other challenges further restricting the fiscal space and the ability to maintain essential services, including internal security. In addition, existing reserves are likely to dry up fast to respond to the short-term health and social needs. Under these conditions, Mozambique will struggle to absorb any potential additional fiscal shocks in the near future, e.g. related to climate disasters.

The global demand and supply crisis, combined with the slowdown of economic activity, are leading to a fall in both formal and informal employment, with the subsequent loss of income in a majority of households. In a context where the informal economy and the absence of formal safety nets prevail, social protection needs become even more critical. This, together with short term needs to cope with the health crisis, puts pressure on the state budget, while the expected drastic fall of revenues puts the balance of payment at risk. A tighter fiscal space and weak health and social protection systems put Mozambique in very a difficult situation.

The costs on the social fabric will go beyond the Government's health and economic plans and will affect the families living in poverty and in vulnerable situations disproportionally, with increased cost of living, creating further exclusion and aggravating social, gender and economic inequalities. With a poverty rate of about 48.1%, and only approximately 20% of the people in most vulnerable situations being covered by the existing social protection system, the vast majority of households will require a source of income provided via the social protection schemes. On the education front, and as 46.6% of the population is under 15 years old, with the closure of 14,970, schools the COVID-19 pandemic is affecting over 8.5 million students and teachers. School closures pose significant risks to children's health and safety, including further risks of abuse, exploitation, child labour and violence. As evidence from previous crises shows, schoolchildren and especially girls, who are out of school for extended periods of time, are much less likely to return to school when classrooms will reopen. Therefore, it will be important to maintain at least a minimum level of engagement, protection and learning for children during school closures, without further widening existing inequality gaps, and quickly restart education to support children and young people, particularly those in most vulnerable situation, to stay safe and healthy, and not lose past gains.

In this context, the Government presented an initial **relevant** response strategy, including health preventive measures and stimulus package to mitigate the socio-economic impact. Yet, due to weak capacities and very uncertain environment, the Government is still in the initial stages of translating the existing strategies into a relevant and comprehensive plan to guide public action, while allowing flexibility, adaptability and close monitoring in a rapidly evolving context. Therefore, there is a need to support the Government develop a **comprehensive multi-sectorial response plan to COVID-19**, under the Prime Minister leadership, covering both health and socio-economic impact and clarifying the scope[3] as well as the overall inter and intra-sectorial priorities and sequencing. The EU has offered support to

[3] For instance, some issues are still not yet fully on the agenda, such as whether and how the government will address immediate health and social protection needs, while paving the ground for economic recovery by expanding social protection in the formal sector and enhancing support to SME.

assist in this development, and the Development Coordination Platform (DCP) is assisting in compiling information.

In terms of the **credibility** of the Government's response, the initial preventive and fiscal/financial measures taken, as well as the strengthened high-level dialogue with the donor community, are positive signs of awareness and reactivity. The initial plan included a scenario of potentially 20 million people infected by COVID, as well as the construction of 79 district hospitals. Since then, development partners (DPs) have been involved in the process and assisting the Government in the development of sound estimations for a more realistic and appropriate plan, adapted to the country context. Yet, concerns still exist as regards the credibility of the overall and sector specific response strategies.

1. State capacity and fiscal/macro-economic challenges

Despite the work done by the Government to minimise fiscal and macro-economic impact, if not clarified, the following challenges weaken the Government's response credibility:

- State budget and government resources allocated to respond to COVID-19: the recently approved state budget 2020 does not appropriately consider the impact of the COVID-19 pandemic. Underlying macroeconomic assumptions are unrealistic and allocations do not fully reflect pre COVID-19 policy priorities, as stated in the recently approved 5-year development plan (Plano Quinquenal do Governo (PQG) 2020-2024). Overall, while the PQG has a target to **allocate 65.2% of the budget to essential sectors by 2024**, in the first year of PQG implementation 2020 budget only allocates 34% of the budget (including debt servicing) to these sectors that require rapid expansion to cope with the COVID-19 crisis. While the share of education in the budget increased to 19.2%, this is far from reflecting current needs. More worrying is the drop by 14%, in real terms, of funds to social action and the fact that the share of budget and of GDP allocated to social protection programmes has not increased compared to last year. Decreasing health sector allocations are also of high concern in the context of the pandemic. While the budget was prepared before the COVID-19 pandemic hit, it was approved during the State of Emergency and only marginal changes were integrated. Not only does this implies that budget credibility and transparency will weaken due to the necessary in year reallocations to cope up with the crisis, but that allocations to key sectors are not targeting people living in poverty and those in the most vulnerable situations, such as persons with disabilities with higher risk of contracting COVID-19, due to barriers accessing preventive information and hygiene, reliance on physical contact with the environment and support persons (UN Women, 2020). Already in a situation without COVID, the approved budget did not address sufficiently the needs of the people living in poverty and those in the most vulnerable situations. Now with COVID hitting Mozambique, the needs have even become bigger and the situation for the poorest and most vulnerable have become even worse. The development of a consolidated plan should help address this challenge and reinforce the link between the budget and the policy response, guiding in year policy reallocations to key sectors.
- Unclear basis and scenarios to assess financing gaps: The Government preliminary estimations of financing gaps to cover the COVID-19 impact in Mozambique included the following: i) the Ministry of Economy and Finances (MEF) initial funding request of USD 700 million for a general response, including macroeconomic and fiscal needs; ii) Ministry of Gender, Children and Social Protection (MGCAS) initial funding request of USD 122 million, to enhance existing social protection programmes and expand them to new beneficiaries; iii) Ministry of Health (MISAU) initial COVID-19 Plan estimated at USD 28 million but then revised to USD 260 million; iv) Other line ministries sector plans being developed in parallel within their own envelopes. The Ministry of Education and Human Development (MINEDH) developed a COVID-19 response plan for the education

sector, based on the available funding (USD 15 million from the Global Partnership for Education (GPE)) and the indicative commitments through the Government managed Education Sector Common Fund (FASE) for 2020, which some partners are frontloading[4]. Three major concerns exist as regards the credibility of these estimates: i) lack of a solid estimation of the overall financing gap due to the absence of an overall comprehensive response as mentioned above; ii) unclarity of details and underlying scenarios and assumptions[5] on which the gap is calculated; iii) dynamic nature of the crisis[6]. As a result, while in these initial stages, the fiscal/financial sustainability, transparency and efficiency of the response are not yet ensured, the Government, in dialogue with the international community, is gradually detailing the needs, objectives and underlying scenarios.

- Lack of monitoring, transparency and reporting mechanism of the implementation: Besides the high level platforms and working groups with the donor community, there are no concrete mechanisms yet to allow monitoring the response implementation (objectives, goals, targets, information/reporting system), nor a communication strategy, nor is there a structure in place allowing dialogue with civil society. This will be critical to ensure accountability.
- State capacity to reach all territories of the state and ensure equity: In the context of the ongoing decentralisation reform, which increases the wage bill in a crisis context, the measures to ensure continuity of services at provincial level remain unclear, as much in terms of finances, but also in terms of systems and responsibilities. In addition, the deteriorating governance and the security situation in Cabo Delgado are strong concerns that can further hinder response capacity, effectiveness and efficiency. Finally, measures to ensure effectiveness of the Public Financial Management (PFM) system, from central down to local level, still need to be clarified to ensure that transfers to the municipalities and to the provinces translate into effective service delivery and in timely expenditures. Financial gap and difficulties to reach the most vulnerable regions could lead to an increase in socio-economic inequalities.
- Governance and accountability of expenditures: Measures to ensure an appropriate balance between emergency procedures and internal controls/accountability need to be identified, so as to mitigate risks of mismanagement and corruption. Therefore, safeguard measures and strengthened policy dialogue are key to ensure sound management in the short term and to encourage commitments to implement pending medium term reforms.
- Basis for medium term recovery: The National Development Plan PQG (2020-2024) was prepared before the COVID-19 crisis and approved[7] recently, with minimal partners', Civil Society Organisations (CSOs) and private sector involvement and consultation. The precedent plan's objectives of diversifying the economy and increasing competitiveness as a means of generating income and employment, although with a new emphasis on youth, are kept without main changes. This is to be achieved through a set of holistic strategies and objectives focusing on improved education and health services, sound public finance management, efficient administration and a favourable investment environment. Moreover, a special focus is given to transforming key growth sectors, such as agriculture and related trade and processing, extractives and tourism, with a more transparent management of natural resources. All this is to be grounded on the consolidation of peace and democratic reforms. Furthermore, there is a mismatch between the PQG, the Medium

[4] Before the COVID-19 crisis, the EU made an indicative commitment of EUR 20 million Euro for 2020 with the funds that are now being reprogrammed to this BS operation.

[5] The massive increase of the health financing gap confirms the still unclear underlying scenario on which the government, and each ministry are working to assess the costs.

[6] While the impact of some initial fiscal measures have been considered in current gap estimates, financial needs are likely to increase as (and if) the government adopts additional fiscal measures to support SMEs.

[7] PQG was approved by Parliament on 3 April 2020.

Term Fiscal Framework, the annual budget and the COVID-19 related impacts. Given the country's current poor economic performance, to be further eroded by the impact of COVID-19, the Government's capacity to concretise the planned objectives will be very challenging and cannot be used as a reference to credibly guide policy efforts.

2. Education

MINEDH has recently adopted the new Education Strategic Plan (ESP) 2020-2029, prepared with the EU and other partners support. While grappling with the severe damages from recent years' cyclones, it is also developing a preparedness response and recovery strategy for education in emergencies (2020-2029). The ESP will guide the implementation of the planned reforms for the next 10 years, including the expansion of compulsory education from 6 to 9 years and of the early childhood development and teacher training reform. The sector urgently needs to address the learning crisis, as it is struggling to provide the basic cognitive skills for children, with very low primary completion and literacy rates.

Teachers are at the core of this crisis, even more so as the sector fails to recruit and train sufficient qualified teachers in a context of school expansion. Partners have agreed to support the implementation of the plan through the Education Sector Support Fund (FASE), as the long term harmonised vehicle for support and main policy dialogue platform in the sector. However, 2020 is a transition year with significant less FASE funds for investments, as donors require a new FASE Memorandum of Understanding (MoU) before making commitments for the next years.

In the context of the COVID-19 pandemic, with schools closed since March 2020, MINEDH had to react quickly and started 'Telescola', a distance learning programme through TV and radio. As the majority of students do not have access to technology and many do not have literate adults at home (illiteracy is at 39%[8]) or books to support, inequalities will increase. Contrary to other line ministries, MINEDH quickly put together a response plan with partners (led by the United Nations Children's Fund (UNICEF) and the World Bank (WB)) but only based on the available funds as of now - the grant of USD 15 million under the GPE Accelerated Funding window, assuming the indicative FASE commitments for 2020-2021 are safeguarded. The plan focuses on supporting students through distance learning while schools are closed (printed material, TV, radio); disseminating prevention measures through schools; and strengthening teachers' capacities to provide psychosocial support. A COVID-19 Education Technical Group with FASE partners (UNICEF, WB, the World Food Programme (WFP), Germany), the United Nations Educational, Scientific and Cultural Organization (UNESCO) and MEPT (main CSO platform on education) is working to update and support MINEDH COVID-19 response plan.

The projections of needs and expenditures for the development of the education COVID-19 response will depend on the period of school closure. This is a good start and appropriate for the immediate term, but an under-estimation of the needs to facilitate the reopening of schools. Most likely, all children will need additional support for learning, particularly if schools remain closed for long and MINEDH tries to reach children from a distance, including persons with Disabilities. It is unlikely that any significant learning will occur during this period and it is essential that students and families have the tools to remain engaged and involved in schooling activities (including specific distance learning measures to support children living in vulnerable situations, such as those living in rural or isolated areas)). MINEDH needs to plan ahead on conditions for returning to school, including criteria for the reopening of schools as the COVID-19 scenario evolves, for accelerated learning and remedial programmes to make up for lost learning hours and a number of other activities needed for safe school reopening (construction and rehabilitation of classrooms, improvement

[8] Significant gender differences (illiteracy rate for women 49.9% and men for 27.2%).

of hygiene by construction of latrines and wells, recruitment of personnel to lower class sizes to help with social distancing).

Within the sector response, equity needs to be prioritised in order to minimise dropouts and to protect people living in poverty and in most vulnerable situations. Schools can be used in the inter-sector emergency response strategy, for example, targeting social protection assistance to families with school-aged children, and adopting measures to facilitate access to water and food to families in poor communities through schools. Specific activities targeting girls will be required, as their situation can be more vulnerable and they tend to be less likely to return to school, taking into account risks of early marriage and pregnancies. A school is generally a centre in its local community, as much as it can also become a source of COVID-19 spread-out once the education system reopens.

If the economic crisis evolves as above, the Government's own ability to maintain its financial obligations will almost certainly come under severe stress – including payment of teachers, who represent 50% of the civil servants workforce, and hiring enough new qualified teachers to decrease the high pupil/teacher ratio.

Protecting and prioritising education spending, as well as investments, is crucial as per the initial indicative commitment to FASE, avoiding losing the progress achieved in recent years and prioritising financing to support new recovery needs, especially for students in disadvantaged situations.

3. Social Protection

The Ministry of Gender and Social Action (MGCAS) has developed the National Basic Social Security Strategy (2016-2024). The strategy includes several social protection schemes, with different target groups and amounts, but its overall coverage is still very low (726 241 households supported, representing 20% of the households in need). These schemes foresee cash transfers and short-term, inkind support to vulnerable families, that includes also multiform support in response to emergency situations. Vulnerability is established according to several criteria that prioritise families with elderly, people with disabilities and children. Cash transfers are implemented by the National Institute for Social Action (INAS), including the recent e-INAS online system that processes real data of beneficiaries from the various programmes and registers the payments. Cash transfers are often delayed and bribes are common, and the value of the transfer (for a maximum of monthly EUR 13) is insufficient. Already, before the crisis, there was a need to align efforts to ensure that the people living in poverty in the country are protected. Development partners' support is provided mostly through the WB Multi donor trust fund (cash transfers) and the UN Joint Programme on Social protection (system strengthening).

The proposed 2020 Social Action Sector's Budget is worth USD 94 million. In real terms, the 2020 planned allocation decreased by 14% compared to 2019. Disparities between budget and expenditure have progressively increased since 2014 and have reached a difference of approximately 25% in 2017. In response to the COVID-19 pandemic, MGCAS presented a sector plan and funding request (up to USD 237 million, with USD 79 million already secured by Sweden, WB, UNICEF and a funding gap of USD 158 million), to enhance existing social protection programmes and temporarily expanding coverage. This plan is being revised with development partners coordinated by Sweden, to agree on the scope, targeting and expansion. The proposal is to grant an extra payment corresponding to 3 months of cash transfers to the current 726 241 households beneficiaries and 6 months to temporary new beneficiaries (up to 990 000), including the households already in the waiting list and the informal workers inscribed on the National Security System register. The first anticipated payment will start in Cabo Delgado where the insurgency is causing huge social challenges, including thousands of Internally Displaced Persons (IDPs).

Sweden, UNICEF and WB support will only cover 179 000 new beneficiaries and partners will maintain a sectorial approach by increasing the funds of the current trust fund mechanism. This State and Resilience Building Contract (SRBC) will allow for entering into discussions of Social Protection reforms, for the possibility to include these beneficiaries permanently in the system, increasing fiscal space for social protection, and assist to regularise informal workers' situation.

1.2 Other areas of assessment

1.2.1 Fundamental values

Mozambique has officially demonstrated commitments to fundamental values and made consistent progress over time in adopting international conventions and translating them into national legislation. The 2004 Constitution guarantees protection of basic principles related to pluralism of expression, freedom of information and freedom of association. It also explicitly recognises the separation of powers, the right of access to justice and the rights to effective judicial protection and equality before the courts. On democracy, since the end of the war in 1992, Mozambique conducted six presidential and parliamentary elections, five local elections and three provincial elections, often under the scrutiny of national, regional and international observers (e.g. EU EOM).

Nonetheless, the following issues call for regular dialogue and monitoring:

- On human rights in general, the implementation of the legislative framework is challenging, notably due to the lack of resources/capacity, the sensitivity of the Rule of Law reforms and corresponding enforcement, poor standards of detention facilities, limited capacities of the law enforcement agencies, corruption and impunity. Mozambique has dropped in most of the relevant human rights and governance indexes in the past years[9]. The speed of completing investigations related to political assassinations, kidnappings and intimidations has eroded the citizens' confidence. Although Mozambique has reinforced its commitments to gender issues by approving key policies and laws in 2019, gender-based violence and discrimination remain a serious issue.
- The signature in August 2019 of the Peace and National Reconciliation Agreement offered a renewed opportunity to support a durable peace, as well as reconciliation and stability. The EU remains fully committed to support this process. Transparency and inclusivity in the peace process is crucial, with significant attention given to the participation of women and youth and the gender perspective. A new amnesty law was approved by the parliament in 2019 which exempts the government forces and RENAMO's militia from being charged of war crimes during the conflict between 2014 and 2016. Tangible progress in disarmament, demobilisation and reintegration (DDR) is also instrumental for a long-lasting reconciliation. It requires immediate and sustained measures, as a satisfactory implementation of the peace agreement would improve political stability and would allow the government to concentrate efforts and resources to deal with the insurgency in Cabo Delgado. Effective steps towards effective decentralisation will also be critical.
- An armed insurgency in the Cabo Delgado province, which has been going on since 2017, has resulted in a growing number of deaths, displacements of civilians and destruction of significant infrastructure. Various districts in Cabo Delgado are already void of any state presence resulting in problems in providing education, health care and other social services to the population. International human rights organisations have widely criticised the Government's approach in dealing with the insurgency, including dissemination of information and treatment of journalists. The continuously deteriorating security and humanitarian situation in Cabo Delgado province requires urgent attention, while ensuring full respect for human rights. It is positive that the Government appears to be changing tactics in dealing with the insurgency as it has signalled readiness to apply a more comprehensive approach in dealing with the challenges in Cabo

[9] Mozambique was downgraded to an 'authoritarian regime' in the Economist Intelligence Unit's democracy index in 2018.

Delgado. The President and some Ministers have advocated for an increased international cooperation, which could become more concrete in the near future. The EU is ready to engage in a dialogue to determine effective options for assistance, taking into account the complex and regional character of the situation, and to support relevant cross-border cooperation between Mozambique and its neighbours. An integrated and coordinated approach is necessary, including by promoting democracy, human rights, effective local governance, restoring the rule of law and addressing the socio-economic conditions that foster instability and violent extremism.

- On 15 October 2019, Mozambique held its sixth Presidential and Legislative elections and elected directly, for the first time, the governors for its 10 provinces and members of the provincial assemblies. The incumbent President Nyusi, and his party FRELIMO won the elections with a landslide, however amid general criticism of the transparency and the regularity of the electoral process. Politically motivated murders were reported during the electoral process. In dialogue with the authorities, the EU stands ready to support the implementation of the recommendations of its Electoral Observation Mission in order to consolidate democracy and strengthen the trust of all Mozambicans in institutions, before the next municipal and general elections.
- The discovery in 2016 of USD 2,2 billion of undisclosed debts, secured by state guarantees, forced the IMF to put on hold its cooperation with Mozambique and international partners, including the EU and the involved Member States, to suspend their budget support. With the aim of reducing financial losses and regaining the trust of the international markets, although the Constitutional Council declared the loans 'illegal', the Government has successfully restructured the Ematum Eurobond loan. On the other hand, Mozambique has initiated legal action against Credit Suisse and Privinvest to nullify the sovereign guarantee of the Proindicus loan. VTB, a Russian state-owned bank, has also entered judicial proceedings in the United Kingdom regarding the MAM loan. The authorities have charged 19 senior officials and others close to the administration for their involvement in the scheme. The judicial cases against these have not yet been concluded. Action has also been taken against other senior administration officials, including ex-Ministers, in other high-profile corruption cases.

In cooperation with the IMF, Mozambique developed an Action-plan for Transparency in Public Finance and against Corruption, which however still lacks proper implementation.

While the country's improved performance in the Transparency International´s Perception Corruption Index last year was fuelled[10], among others, by its cooperation with the IMF on developing an anti-corruption action-plan and high profile arrests in relation to the hidden-debt scandal, governance and corruption remain significant challenges to be tackled.

1.2.2 Macroeconomic policy

Mozambique has been implementing stability-oriented policies following the hidden debt scandal in 2016, in the absence of an IMF programme and in the context of successive shocks (El Nino, tropical cyclones). IMF negotiations on an Extended Credit Facility were planned to start in March 2020 but have been postponed to deal first with the COVID-19 crisis. Based on the latest available estimates, the COVID-19 crisis is expected to hit the country as follows:

- Latest estimates indicate a reduction of projected growth from 4.8% to 2.2%[11] due to the impacts on the service sector (tourism, transport, trade), agriculture, manufacturing, communication and export-oriented sectors such as mining. As the global economic recession is likely to continue, a growth rate around 1.5-2%, at best, in 2020 appears more realistic. Yet, the duration of the crisis and its impacts are difficult to predict, calling for constant adjustment.

[10] 146th position.
[11] State Budget FY2020; IMF Staff Report Linked to the Disbursement Request of a Rapid Credit Facility, 25 April 2020.

- Short term delays and medium-term uncertainties of the Liquefied Natural Gas (LNG) sector on which the entire macroeconomic and debt sustainability outlook is dependent. ExxonMobil postponed until further notice its Final Investment Decision (USD 30 million) for one of the largest LNG exploration projects, while Ente Nazionale Idrocarburi (ENI) announced a partial stop of its activities. The prospect of the oil/gas prices and the deteriorating security situation may reduce expected levels of investment[12], calling for economic diversification/transformation.
- The IMF projects a financing gap of 4.7% of GDP linked to: i) lower tax collection and fiscal measures to support families, small and medium enterprises (SMEs) and the health sector; ii) higher spending to respond to the health crisis, and higher cash transfers and subsidies to the households living in poverty and most vulnerable situations, microbusinesses and SMEs. Yet, the gap is likely to increase[9] as the crisis unfolds and as additional fiscal measures are considered (e.g. IMF recommendations, the Technical Centre for Agricultural and Rural Cooperation (CTA) recommendations). While debt was already in distress, depreciation makes debt service more onerous. At the beginning of the crisis, debt stock was estimated at 125% of GDP, putting the country at the brink of a debt crisis. Following international response, this has been brought down to 113.7% GDP for 2020.
- While the Banking sector remains well capitalised, measures adopted by the Central Bank[13] are not yet benefiting the private sector, as the official lending rate increased from 18% to 18.4%. The supply shock together with the exchange rate depreciation is likely to lead to temporary inflationary pressures that will affect the most vulnerable. Reserves are expected to fall below threshold and should be used for critical fuel, food, medicine and health equipment imports.
- The projected financing gap of the trade balance is expected to reach 4.7% of GDP. The current account deficit, excluding COVID-19 grants and megaprojects, is expected to increase to 29,4% due to depressed export commodity prices and volumes partially offset by lower fuel imports.

The authorities have announced the following measures to cope with the crisis:

- On the fiscal side, the Government committed to create additional fiscal space and increase health spending and social programmes through reallocations, including freezing wages. However, there is not yet a comprehensive view of all the fiscal measures that have been, and that still need to be, adopted to mitigate the impact of the crisis and their impact on the budget and on the projections. The PFM Working Group, co-chaired by the EU, will map out and monitor all fiscal measures and, together with the DCP and the COVID-19 Task Force[14], will follow up as part of the development of a consolidated COVID-19 response plan. In addition, to ensure sustainability after the crisis, the Government committed to implement a value-added tax (VAT) reform that could reduce inequalities.

[12] https://noticias.sapo.mz/economia/artigos/investimentos-no-gas-em-mocambique-comecam-a-perder-brilho-considera-a-fitch-solutions [9] Impacts on formal and informal economy are likely to be strong. Initial estimated losses for the private sector amount to 2% of the GDP. This will affect the livelihoods of many households and increase pressure on an already weak social protection system. The CTA (Confederation of Business Associations) recommended delaying tax payments to 2021 and to foresee payment of salaries for six months to firms in the most impacted sectors.

[13] Injection of USD 500 million to commercial banks, relaxation of reserves levels, reduction of the MIMO interest rate.

[14] The Task Force is a high level dialogue platform at HoM-ministerial level to coordinate COVID 19 reponse plan, including political/consular, health, macro-economic and social matters. From donor side it is composed by EU, USA, Ireland, South Korea, South Africa Canada, UK, UN, IMF, AfDB, World Bank.

- According to the IMF, current measures[15] allow bringing down debt levels to a 'more' sustainable level, reaching 113.7% of GDP in 2020. Yet, strong concerns still exist: i) this only allows to 'buy' some time as it is a suspension, not a debt relief; ii) the positive outlook continues to be the over-dependency on future yields of LNG projects that may not materialise as initially expected. This calls for urgent diversification and transformation of the economy, which is not yet credibly on the agenda. In the medium term, the authorities committed to a domestic financing strategy to reduce domestic debt and rebuild Government's deposits.
- On the monetary and exchange rate policies, in the short term, the Bank of Mozambique stands ready to provide liquidity to the financial system, ensuring transparency on eligible collateral. In the medium term, it committed to pursue a cautious monetary policy normalisation and to maintain exchange rate flexibility[16] as a shock absorber while allocating international reserves to the market to address disorderly market conditions.
- On financial stability, the Bank of Mozambique is adopting prudential rules to support the soundness of banks and to ensure that: i) loan classification/provisioning standards are maintained; ii) exceptional loan restructuring is time bound; iii) loans are identified and reported; iv) use capital buffers as liquidity buffers. In the medium term, measures to restore capital and liquidity levels will be discussed.

The authorities expect to receive additional support from: i) the IMF Rapid Credit Facility (RCF) for an amount of USD 309 million, approved on 24 April 2020, and to be disbursed soon as a one-off payment; ii) the WB Development Policy Operation (DPO budget support) for an amount of USD 100 million, one-off payment based on the achievement of prior actions in the areas of fiscal sustainability/transparency, financial sector/mitigation of economic impact and social protection and health); iii) African Development Bank (AfDB) budget support operation for an amount of USD 40 million, one-off payment as a short term response focused on health (testing capacities), social protection and agricultural SME (including fiscal incentives). Close monitoring of the situation will be performed in coordination with the IMF the WB, AfDB and other partners. In conclusion, the response to the crisis is assessed as relevant and credible to restore key macroeconomic balances.

1.2.3 Public Financial Management (PFM)

Mozambique has demonstrated progress in PFM and Domestic Revenue Mobilisation (DRM) through the following key PFM reforms (legislative and policy framework):

- Law and Regulation of the State Financial Administration System (SISTAFE) in 2002 and 2004, respectively, and their successive amendments (2009, 2017, ongoing revision) that set the basis of the PFM system.
- e-SISTAFE implementation plan that foresees gradual implementation and still ongoing expansion of modules and roll out of the IT system, with State Asset Administration Module (MPE) in 2018, roll out to Municipalities in early 2020 and still ongoing design of the Sistema de Planificacao e orçamentação (SPO) Planning and Budget module) and GRHE (human resources module).
- Public Finance Vision 2011-2025 in 2012, which provides long term strategic guidance; Public Finance Strategic Plan 2016-2019. Its successor plan is under development.

[15] In order to avoid a global debt crisis, G20 announced (April 2020) the suspension of repayments of official bilateral credit for the poorest countries. The IMF provided a six-month moratorium of repayments through the Catastrophe Containment and Relief Trust to the value of USD 15 million for Mozambique. In addition, Government's decision not to support MAM which will follow the normal course of commercial bankruptcy together with the ongoing judicial attempt to consider government guarantee on VTB invalid, have flattened the projected sharp deterioration in debt liquidity in the short term.

[16] The metical has been allowed to adjust flexibly and has depreciated since February by almost 5%.

This general reform framework is completed by thematic reform initiatives/actions, including:

- Strategic plans/reform actions of different key institutions - with uneven progress - such as the Strategic Plan of the Supreme Audit Institution to improve external audit, Strategic Plan of the Centre for the Development of Financial Information Systems (CEDSIF) for the modernisation of the IT system and, reform led by the Tax Authority to improve tax collection (e-tributação, taxpayers portal);
- Legal revisions across PFM areas. Since the hidden debt scandal, reform efforts focused on immediate and medium-term fiscal risks, public investment, procurement and the cleaning of arrears to re-establish confidence and showing some tangible results. Yet, the lack of progress in other areas is of concern[17].

The evaluation of past performance is hampered by weak monitoring and evaluation framework. Nevertheless, looking at past track record on the basis of preliminary findings of the Public Expenditure and Financial Accountability (PEFA) and of the IMF Fiscal Transparency Evaluation, the following elements can be noted: 1) while acknowledging a very low starting base, globally there is no deterioration of practices. Potential higher number of low scores in both exercises are, in most cases, explained by a stricter methodology, by the fact that reforms that were initiated may not yet have yielded results at indicator level; 2) The crisis context since 2016 constrained Government's capacities to pursue reforms and make progress in all areas at once. The PFM reform framework remains relevant. The crisis context will however require close monitoring of increased risks of misuse of funds linked to the substantial resource inflows expected to support Government's COVID-19 response. This requires concrete measures and dialogue to improve transparency and accountability, while putting in place effective mechanisms for the channelling of funds to beneficiaries. Issues to be closely monitored and addressed include, amongst others: i) criteria and implementation of the Emergency Procurement Procedure and internal controls; ii) transparency and reporting of COVID-19 funds[18]; iii) ensuring the functioning of the PFM systems to guarantee business continuity and responsiveness across the country, in the context of social distancing and of the decentralisation reform[19] - including a possible slow-down of decentralisation at provincial level until the crisis is over -; iv) strengthen the ability of municipalities and front line service delivery agents[16] to maintain essential services; iv) carry out independent audit of crisis mitigation health spending and related procurement processes and their publication (part of IMF commitment under the Rapid Credit Facility); v) reinforce anticorruption efforts and follow up concrete implementation of priority commitments taken in the Governance Transparency and Accountability Report (July 2019).

In this context, upcoming donor support and dialogue also can pave the ground for a credibly sequenced reform and to firm up commitments on decisive transparency and accountability medium term reforms that are lagging behind. The following issues need to be considered:

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[17] Other reform actions are: 1) Fiscal risk management: revised procedures related to the issuance and management of public debt and State guarantees (2017); Amendment of the specific Taxation and Fiscal Benefits regime for Petroleum Operations and Mining Activity (Law no. 14 and 15/2017); measures to contain expenditure (Decree No. 75/2017); Creation of the Fiscal Risk Management Office (Decree No. 77/2017) and its recently adopted strategic plan (2019); Approval of the organization and functioning of institutes, foundations and public funds (Decree No. 41/2018); Law on State Owned Enterprises (Law no. 3/2018) and its subsequent regulations (2019); 2) Public Investment Management: Integrated Investment Plan (2015), Inter-ministerial Evaluation Commission (2015), project screening manuals (2018) and online pipeline system (2019); 3) Procurement: Procurement Portal (2015), Revised procurement Decree (2016) and Manual (2019); 4) Introduction of Program Based Budgeting since 2008 with its related still ongoing reforms (development of the Planning and Budgeting module, carteira de programas do Governo); 5) Approval of Decree No. 60/2013 on the internal audit that gives the General Inspectorate of Finance (IGF) greater autonomy but still showing major weaknesses with no major reforms in this area.

[18] Ensure periodic situation analysis reports and budget execution reports.

[19] Ensure remote processing of payments, Streamline the expenditure chain for COVID-19, E-sistafe can pay the latest calculated net salaries (with/without deductions depending on cash availability) to all registered employee bank accounts directly to avoid delays. [16] Ensure reliability and predictability of FCA and FIIA to municipalities in 2020.

- Currently the PFM Reform is in transition as regards the institutional setting and the policy cycle;
- Following the Government's reshuffling after the elections, a new Vice Minister of Economy and Finances was appointed and the PFM reform was put back within the competences of the Ministry of Economy and Finances;
- The Government is initiating a new policy cycle with the recently approved 5 Years Plan, while still working on various interconnected reforms, including the revision of the SISTAFE law, the development of the PFM Strategic Plan 2020-2024, Programme based budgeting, the recently launched decentralisation reform and of ongoing diagnostics (IMF Fiscal Transparency Evaluation and PEFA). The challenge is to ensure consistency, build a coherent strategic vision based on the findings of the diagnostics and sequence the reform realistically. To this aim, improving policy-based budgeting, carrying out targeted interventions, notably on internal controls, and improved access to fiscal data could help improve transparency and accountability.

1.2.4 Transparency and oversight of the budget

The entry point is met since the budget proposal was published on the Ministry of Economy and Finance website, was approved on April 24th, 2020 by the Parliament and the Budget Law for financial year (FY) 2020 is about to be published according to the budget calendar during an election year and that budgetary information is generally accessible, timely, comprehensive, and sound. External audit and control are also performed. The crisis context will however require close monitoring of:

- Credibility of the budget and transparency of budget execution: the recently approved Budget for FY2020 does not cater for COVID 19 impact, which means that in-year budget reallocations are to be expected to cope with the crisis. The development of a consolidated costed COVID-19 response plan (including fiscal measures and expenditure needs) and revision of the macro-fiscal projections accordingly, would help address this challenge and would also support efforts to improve debt sustainability, as this is a basis to initiate bilateral G20's debt suspension negotiations. Clarification of orderly emergency procedures will be required to mitigate this risk;
- Follow up of in-year budget execution reports with clear data on COVID-19 resource allocations and expenditures and ensure a space for civil society monitoring;
- Follow up of Government's commitment to undertake independent audits of crisis mitigation health spending and related procurement processes and publish the results.

In the medium term, while Mozambique performs less well in fiscal reporting, data and statistics, performance on fiscal risk improved, reflecting the focus of attention after the hidden debt scandal. Yet, budget and forecasting show a set-back linked to the lack of evidence of controls, coverage of flows and lack of reconciliation that make it difficult to know with exactitude the budget deficit.

Despite the recent publication of the 2020 Fiscal Transparency statement, the frequency/ discontinuation/non publication of reports is a major weakness. Going forward, PEFA, Fiscal Transparency Evaluation (FTE) and Open Budget findings should be integrated in the upcoming PFM Strategic plan. The tight fiscal space and urgent need for support may be an incentive for the Government to engage in key reforms to improve policy-based budgeting, improve efficiency gains and fiscal transparency[20].

[20] Areas to monitor are: 1) reliable and transparent fiscal data, 2) Fiscal planning, budget credibility and sustainability; 3) Improving the reporting on resource revenues and publication of biding processes; 4) Public access to information.

2. RISKS AND ASSUMPTIONS

Risks	Risk level (H/M/L)	Mitigating measures
Political Further deterioration of the security situation in Cabo Delgado and of the respect of fundamental values linked to the implementation of the COVID-19 response itself and to potential social tensions linked to uneven geographic and social impacts and response	**H**	- High level Political Art. 8 dialogue - Planned first political dialogue on Human Rights and governance - Continuous dialogue on the Peace Agreement and creation of a platform on Cabo Delgado - Address political risks in the COVID-19 High Level Coordination platform[21] - EU COVID-19 response to mitigate socio-economic impacts through the SRBC, and to address health and private sector needs through ongoing programmes - Accompanying measure to support Civil Society's role in the monitoring of the implementation of the COVID-19 response and advocate for a structured dialogue
Macroeconomic International environment and impact of COVID-19 on the economy are longer and more severe than expected and increase its vulnerability to external shocks Medium term positive outlook on fiscal sustainability and stabilisation jeopardised (LNG projects at risk, debt)	**H**	- High level dialogue with International Financing Institutions (IFIs) and the Government on the macroeconomic and socio-economic impact, including the need to prioritise economic diversification for inclusive growth in the medium term; Dialogue at technical level at the macroeconomy and social protection group, multisectoral coordination platform and at the PFM Sector Working Group, including the need to improve transparency and update projections in line with consolidated COVID-19 response plan; - Substantial financing from IFIs and prospects for debt suspension
Developmental Fragmented response with no link to budget or Medium Term Fiscal Framework (MTFF) and weak interministerial and intergovernmental coordination Policy dialogue for longer term sector reforms hampered with a short term programme not allowing to focus on results Risks for private sector and formal sector not yet covered undermine economic recovery and increases segments of the population falling into poverty Rising social (including gender) and geographic inequalities with individuals and families living in	**H**	- High level dialogues on COVID-19 and continuous monitoring and dialogue at sector working groups Clarity on the criteria used to assess general conditions and necessary dialogue - Ensure priority of social sectors in the EU new programming cycle to ensure leverage for longer term reforms and inclusion of results indicators - Careful choice of indicators in the results matrix, including disaggregation (when possible by sex, location urban/rural, province) and paying particular attention to Cabo Delgado and inequalities in monitoring and evaluation. Indicators targeting social expenditures and identification of clear verification protocols for each indicator, in line with the European Court of Auditor's recommendations (2019). - Role of civil society supported in the accompanying measures

[21] Under the Prime Minister's leadership, three main high-level working groups have been established, with the EU being present in all: health sector, macroeconomic and social protection and political/consular coordination. Existing coordination structures, particularly the Development Coordination Platform (DCP) and thematic working groups are also working at technical level to support the initial response.

poverty disproportionally impacted by crisis Learning loss and deterioration of children's learning safety and health and significant post COVID-19 drop outs, especially for girls. Government response does not reach the people living in the most vulnerable situations and all the provinces equally Absorption capacity, and efficient functioning of the social protection system and sustainability		
Public Finance Management Risks of insufficient transparency and controls in budget execution and reporting, in relation to substantial new inflow of crisis response funds Risks of dysfunctional PFM system in the context of social distancing and decentralisation, with the risks of resources not reaching beneficiaries and not translating into fiscal discipline, strategic allocation and efficient and equitable service delivery	**H**	- Close coordination with the IFI's and monitoring of conditions and recommendations and joint high-level dialogue - Monitoring and dialogue on joint priorities at the PFM Sector Working Group (debt sustainability, recommendations to implement commitments of the Governance, transparency and accountability report, follow up of the Fiscal Transparency Evaluation FTE and PEFA findings in the upcoming PFM Strategic Plan and value for money analyses-link financial allocations, expenditures and results) - Possible indicator on transparency and accountability - Capacity Accompanying measures (Technical Assistance (TA) to support data/reporting quality and support to civil society) -
Corruption Increased risks for corruption leading to increased developmental, macroeconomic and PFM risks, as well as reputational risks	**H**	- High level dialogue and sector dialogue - Follow up the implementation of the Governance, Transparency and Accountability priority recommendations - Clarification of the emergency procurement procedures - Commitment to carry out audit of health expenditures and procurement. - Identification of clear verification protocols for each indicators, in line with the European Court of Auditor's recommendations (2019) - Complementarity with the EU justice programme.

Assumptions
• The political and security situation do not escalate into uncontrolled instability • Fiscal space is effectively used to allocate resources strategically in line with the COVID-19 response, protecting expenditures in education and social protection • Donors jointly seize the opportunity to create incentives for the Government to respond to COVID-19 crisis in a transparent way and to firm up commitment to medium term decisive reforms in PFM (transparency/accountability), macroeconomic, education and social protection reforms • Strong close coordination between the EU, IMF, WB and AfDB and space for civil society

3. COMPLEMENTARITY, SYNERGY AND DONOR COORDINATION

In the EU response to the crisis, synergies are sought between this programme and the following operations:

The EU will support Mozambique's response to the COVID-19 pandemic with EUR 110 million for a two year period. Of these funds, around EUR 60 million will be disbursed in 2020. The EU's interventions from the 11th European Development Fund (EDF) will support the priorities of the Government, i.e. the health sector, social protection and mitigating the economic impact caused by COVID-19. In addition, the Directorate-General for humanitarian aid and civil protection (DG ECHO) will provide humanitarian assistance by adjusting ongoing programmes to adopt preventive measures, activating crisis modifiers and eventually adjusting small scale prepositioning. DG ECHO and partners will continue monitoring the evolution of the situation on the ground. Mozambique will also be part of a multi-country EUR 10.5 million Instrument contributing to Stability and Peace (IcSP) project implemented by UNESCO to tackle disinformation around the COVID-19 crisis. The EU and the EU Member States will support the Mozambican response through the following measures:

- PROMOVE-Nutrição (through partnership with UNICEF): the mobilisation of EUR 3 million contingencies will allow the expansion of this EU-UNICEF programme to support the COVID-19 response with a focus on: i) Risk Communication & Community Engagement; ii) COVID Surveillance, Case Management and Response; iii) Continuity of Care for essential Health & Nutrition services; iv) Infection, Prevention and Control (WASH Section).
- Promove Energia: EUR 3 million are being mobilised in support to off-grid renewable energy providers and distributors through FASER, the Fund for Sustainable Access to Renewable Energy, a Results-Based Financing Fund, implemented through Deutsche Gesellschaft für Internationale Zusammenarbeit GmbH (GIZ).
- Promove Agribiz (Programme for small-scale, sustainable commercial agriculture): under this programme, several actions are under formulation. This includes: support to micro, small and medium rural enterprises in their efforts to ensure business continuity; to procure health and safety equipment and adapt their businesses and production lines to the new requirements. Innovative solutions for extension services and input supply to smallholder farmers, including a possible expansion of input subsidies to smallholder farmers via vouchers, are being considered. Up to EUR 3 million could be mobilised from the contingencies.
- Promove Comercio: the ongoing Technical Assistance on this project will contribute with analyses of impact of COVID-19 on trade and private sector.
- The Southern Africa and Indian Ocean COVID-19 Rapid Response Facility (RRF) is the fast response of the European Investment Bank (EIB) to the adverse consequences of the COVID19 pandemic on private businesses. It comprises a regional facility that will include credit lines to a number of banks. Its main objective is to support financial intermediaries' on-lending to private sector projects in the Southern Africa and Indian Ocean region, including Mozambique. The Facility will dispose of a total amount of EUR 200 million.
- The Mozambique Recovery Facility (United Nations Development Programme (UNDP) - managed Multi-donor Trust Fund created in response to the 2019 cyclones): the project includes a EUR 1 million crisis modifier which can be used to respond to humanitarian needs in the COVID-19 crisis, prioritising particularly vulnerable groups of communities such as woman, children, disabled and elderly. The EU, with its EUR 34.3 million contribution, is the biggest donor to this fund.

- Mozambique's response capacity will be reinforced through important contributions from the Global Partnership for Education and the Global Fund to Fight AIDS, Tuberculosis and Malaria. The EU and Member States are important donors to these global funds.
- Support Measures for Management of EU Resources II to fund COVID-19 health-related issues such as training of staff, strengthening of capacities and communication and awareness campaigns.
- Support Programme to Non-State Actors in Mozambique: participation for inclusive growth (PAANE II). State budget allocation and use, education and social protection services and indicators are currently being monitored by a group of national social protection platforms, such as the Education for All Movement (MEPT), the Budget Monitoring Forum (FMO) and the Social Protection Platform (PP).

In the response of the international community, close coordination will be ensured between the EU and the following entities:

- Coordination between Budget Support providers on macro-economic and PFM response is ensured at various levels: i) joint EU/IMF/WB/AfDB high level dialogue on COVID-19 response, which will also ensure follow-up on appropriate use of the resources; ii) technical level dialogue and operational coordination between the four budget support providers to discuss priorities and programme preparations[22]; iii) as co-chairs of the PFM Working Group, the IMF and the EU also consult and coordinate with the donors active in the PFM area to consolidate key messages to bring to higher levels of dialogue on COVID-19 response; iv) coordination with the WB Public Financial Management for Results Programme Project (PREFER) multi-donor trust fund (MDTF) to which the EU has also planned to contribute is also ensured.
- The Education Sector Support Fund (FASE) partners: Canada, Finland, Germany, Ireland, Italy, Portugal, UNICEF, WB and the GPE, with the WB acting as Grant Agent. Three new partners have expressed interest in joining FASE: France, WFP and USAID. FASE is the main funder of non-salary expenditure in the sector, and is considered the most effective mechanism for coordinating support and facilitating collaboration between MINEDH and donors.
- A Social Protection Working group composed by DPs active in the sector and civil society organisations (CSOs) has regular meetings and coordinate the support to the National Strategy on Social Action. Three main programmes are followed by this group: the World Bank Multi donor Trust Fund that strengthens the cash transfers scheme, the joint UN Programme on Social Protection which focuses on system strengthening, e-INAS and piloting the child grant and the CSOs support to monitor the main Social Protection programme (PSSB), with EU support.
- The EU coordinates closely its overall support with the Mozambican government and international partners by participating at the ad-hoc COVID-19 coordination mechanism and its sub-groups with some partners (Canada, Ireland (leading partner in health), IMF, UK, UN, US and the WB) at all levels. Within the EU, the COVID-19 response is coordinated through weekly EU Heads of Mission and regular Heads of Cooperation meetings. Through weekly Development Cooperation Platform meetings, co-chaired by the EU and the US, an integrated COVID-19 response vision is also shared with the wider international community.

[22] The sequenced timing of each program disbursements allows keeping momentum to pave the ground for medium term reforms, with the EU programme having the comparative advantage as it lasts 2 years, allowing monitoring and a longer term accompaniment.

For the purpose of ensuring complementarity, synergy and coordination, the Commission may sign or enter into joint donor coordination declarations or statements and may participate in donor coordination structures, as part of its prerogative of budget implementation and to safeguard the financial interests of the Union.

4. DESCRIPTION OF THE ACTION

The action consists of a new budget support contract to provide short term emergency assistance for Mozambique and to achieve expected results through financial transfers, policy dialogue, performance assessment and capacity development.

The transfers to the treasury will help support the supply side by: i) allowing funding of essential state functions through the national budget, including salaries of front-line service providers whose salaries were already affected before the COVID-19 crisis (doctors, nurses, teachers), recruitment of newly well-trained service providers, increase the effectiveness of social protection schemes for the most vulnerable and protect education expenditure; ii) supporting macroeconomic stability to ensure business continuity, reduce vulnerability to additional external shocks and avoid risks of further state fragilisation, or even collapse, if such a risk materialises. In the uncertain and volatile environment, with trade-offs across sectors, this action will help address competing risks by allowing responsiveness to evolving context needs and stabilising the macroeconomic situation with the primary objective of protecting social expenditures through safeguards and indicators. In addition, this support to the supply side of governance will support progress in medium term PFM reforms with a particular focus on improving transparency, accountability and space for civil society.

Policy dialogue is being reinforced at higher levels and technical levels on the general conditions and on cross-sectoral issues (cf. section 3). Existing policy dialogues under the FASE framework and the Social Protection framework will be aligned and reinforced through policy dialogue with the respective line ministries.

Given identified risks, accompanying measures will also be implemented to help achieve the objectives and include: i) support to the demand side of governance, through civil society, to strengthen local accountability processes in education and social protection and scrutinise budget implementation in a decentralising context. Evidence from these activities would also inform EU (and other partners) policy dialogue; ii) Technical Assistance package to support the Ministry of Finance and line ministries in monitoring conditions and to provide on demand support.

The log-frame reflects the support to the supply and to the demand side with the aim of ensuring social expenditures for the continuity of service delivery and strengthened accountability in the implementation of the COVID19 response, while making progress on important PFM reform actions that affect fiscal discipline and service delivery. A set of indicative indicators is proposed as a basis for dialogue and finalisation in full coordination with the Government, the EU Member States and IMF, WB and AfDB. On this basis, the log-frame will be streamlined and adjusted to the uncertainty of the crisis, including the technical description of each indicator, targets, sources of verification and verifying agents, before the release of the first tranche.

Results chain			Indicators	Source of data
IMPACT	Impact (overall objective)	*To mitigate the socioeconomic impact of the COVID-19 crisis in Mozambique with a focus on inclusive education and social protection*	*1. GDP Growth rate* *2. Status of debt sustainability and fiscal consolidation* *3. Poverty rates disaggregated by province and by sex* *4. Human development Index*	1. MTFF/IMF 2. IMF (Art IV, ECF) 3. National Poverty assessment (NPA), WB/UNDP reports 4. UNDP report
OUTCOME(S)	Outcome 1 (specific objective)	*1. Fiscal transparency*[23] *and responsiveness of the Public Finance Management (PFM) system are improved*	*1.1 No. of SMEs and individuals –self-employed benefiting from fiscal measures and remaining in business (disaggregated by SME size and type and by sex)* *1.2 Status of the Credibility and transparency of the budget* *1.3 Status of the implementation of agreed measures to improve public debt transparency and sustainability*[24] *1.4 Status of the Audit of health spending and emergency procurement agreed with the IMF (unqualified/qualified with small materiality)* *1.5 Level of effectiveness of expenditures at provincial level for service delivery*	1.1 Government, CTA, Chamber of commerce reports 1.2 PEFA 2019; ad hoc assessment of selected PEFA indicators[25][26] 1.3 Government decrees/strategies as agreed with WB and IMF[23] 1.4 IMF reports independent audit report 1.5 Budget execution reports, CSOs monitoring reports/dialogue
	Outcome 2 (specific objective)	*2. Basic education students, girls and boys, have a safe return to schools with minimum loss of learning*	2.1 Net enrolment ratio in grade 1, disaggregated by sex and province	2.1 MINEDH Education Management Information System (EducStat)
	Outcome 3 (specific objective)	*3. Households with people living in vulnerable situation increased temporary access to social protection programmes*	*More than 179 000 temporary new beneficiaries households (disaggregated by type of household, sex, age, disabilities)*	MGCAS reporting

[23] The Governance, Transparency and Accountability report includes 6 priority actions to improve fiscal transparency in the following areas: i) strengthen the Public Debt Management regulatory framework; ii) Strengthen transparency of State Owned Enterprises management; iii) Strengthen sustainability and transparency of public debt and investment decisions; iv) chain of expenditures; v) control framework; vi) disclosure of fiscal risks; vii) transparency in procurement.

[24] In line with Recommendation 11 of the Governance, Transparency and Accountability report.

[25] PEFA indicators that could be considered for ad hoc assessment are: PI-2, PI-5, PI-6, PI-7, PI-8, PI-9.

[26] WB prior actions: (i) annual debt report with coverage of SOE and LNG debt; (ii) the financial statements of the national hydrocarbons company (ENH); and (iii) a credit risk assessment framework for SOEs; (iv) decree to set standards for improved project planning, selection and monitoring, which includes consideration of disaster resilience; (v) IMF RCF: Domestic financing strategy.

INDUCED OUTPUT(S)	Induced Output(s) related to Outcome 1	1.1 Sound implementation of the government's COVID-19 response strategy, including improved macro-economic governance and PFM processes	*1.1.1 Status of publication of operational progress and budget execution report of the COVID-19 policy response, identifying sources of financing, allocations, expenditures and results in terms of increased expenditures in education and social protection*[27] *1.1.2 Level of orderliness and publication of FY2020 in-year budget reallocations and FY2021 budget law* *1.1.3 Existence of regular updates of the costs of fiscal measures and projections* *1.1.4 Value and % of procurement processes that comply with transparent procurement emergency criteria*[28] *1.1.5 Level of development of decrees/administrative orders/laws to ensure effective expenditure management and control for service delivery, including at provincial level and as recommended in the Governance, Transparency and Accountability Report (e.g. commitment ceilings, decree to restore the chain of expenditures, control framework regularly assessed by the General Inspectorate of Finance (IGF) and TA)* *1.1.6 Status of the adoption and publication of fiscal measures to mitigate the socio-economic impact of COVID 19 (ex. Postponement of tax payments for SMEs, provisions to maintain payroll)*	1.1.1 Physical/budget execution reports in line with M&E framework agreed with IFIs as part of the debt suspension. Minutes of dialogue with partners and CSOs. 1.1.2 (Supplementary) budget law 1.1.3 mapping of fiscal measures, revisions of MTFF, IMF reports 1.1.4 Public Procurement Agency, assessment of PEFA/MAPs indicator 1.1.5 Decrees/ administrative orders/ Laws. Government report on the status of implementation of the Governance, Transparency and Accountability report 1.1.6 Government reports, decrees, laws.
Results chain			**Indicators**	**Source of data**
		1.2 Implementation of a Medium-term PFM reform tackling structural transparency and accountability challenges aiming at improving fiscal discipline, strategic allocation of resources and service delivery	*1.2.1 Level of revenues from large tax payers*[29] *1.2.2 Status of a costed and sequenced PFM Strategic Plan 2020-2024, clearly addressing FTE and PEFA findings with a M&E framework linked to a program budget for PFM* *1.2.3 Status of implementation of the VAT reform plan*[30]	1.2.1 Budget Execution Report, IMF and AT data. 1.2.2 PFM Strategic Plan 2020-2024, Progress report. 1.2.3 IMF reports, AT reports.

[27] The exact definition of the indicator still needs to be finalised but transparency and reporting presuppose that there is a consolidated COVID-19 response plan as well as a 'tag' in e-SISTAFE for all COVID-19 funds which developments we would follow as part of general conditions during year 1. For the variable tranche the indicator would focus on the physical and financial reporting against this plan, its dissemination and publication. It may involve submission to parliament and to civil society.
[28] In line with Recommendation 15 of the Governance, Transparency and Accountability report.
[29] IMF recommendation as part of the Rapid Credit Facility.
[30] Commitment as part of the IMF RCF.

	Induced Output(s) related to Outcome 2	2.1 Improved education service delivery through the teaching force and its equitable redistribution.	*2.1.1 % of teachers present in schools and in the classroom teaching* *2.1.2 Parity index between worse and best performance province in terms of student/teacher ratio, primary education*	2.1.1 Service Delivery Indicators (SDI) WB study complemented by MEPT reports 2.1.2 MINEDH Education Management Information System (EducStat)
	Induced Output(s) related to Outcome 3	3.1 Increase of budget allocations to the Social Action sector budget in 2021	*Increase in nominal and real terms*	MGCAS annual budget

5. IMPLEMENTATION

5.1 Financing agreement

In order to implement this action, it is foreseen to conclude a financing agreement with the Republic of Mozambique.

5.2 Indicative implementation period

The indicative operational implementation period of this action, during which the activities will be carried out and the corresponding contracts and agreements implemented, is 36 months from the date of entry into force of the financing agreement.

Extensions of the implementation period may be agreed by the Commission's responsible authorising officer by amending this Decision and the relevant contracts and agreements.

5.3 Implementation of the budget support component

5.3.1 Rationale for the amounts allocated to budget support

The amount allocated for the budget support component is EUR 96 000 000 and for complementary support is EUR 3 750 000. This amount stems from the most recent forecasts of the fiscal impact of the crisis, which could result in shortfall of revenue and additional spending estimated at 4.7% of GDP.

5.3.2 Criteria for disbursement of budget support

a) The general conditions for disbursement of all tranches are as follows:

- Satisfactory progress in the implementation of a COVID-19 consolidated policy response, of the education strategy and the social protection strategy and continued credibility and relevance thereof. Areas for policy dialogue and monitoring progress include: 1) progress in the development of a consolidated COVID-19 policy response, its implementation and updates on budget implementation (availability of a consolidated plan and progress reports), including evidence of sustainable increase of budget allocations and expenditures in social protection and education, commensurate to the expected results in the sectors; 2) Mitigating measures to counter the loss of learning opportunities; 3) Increased coverage of social protection scheme beneficiaries.
- Maintenance of a credible and relevant stability-oriented macroeconomic policy or progress made towards restoring key balances. Areas for policy dialogue and monitoring progress include, amongst others: i) progress in implementing IMF recommendations of the RCF facility, evolutions of upcoming negotiations on the upcoming IMF Extended Credit Facility and IMF Art. IV; ii) clarification and implementation of the comprehensive list of fiscal/financial measures and updates on the impact on macroeconomic projections and Medium term macroeconomic

Framework; iii) measures to pave the ground for economic recovery included in the consolidated response plan.

- Satisfactory progress in the implementation of reforms to improve public financial management, including domestic revenue mobilisation, and continued relevance and credibility of the reform programme. Areas for policy dialogue and monitoring progress include, amongst others: 1) assessment of the impact of fiscal measures on annual budget and link between allocation, expenditures and policy objectives; 2) transparency and regular reporting of budget implementation, to ensure that funds for COVID19 response are used for the intended purpose; 3) progress in the implementation of programme budget; 4) measures taken to ensure transparency in the implementation of emergency procurement procedures and internal controls; 5) Improve ex-ante and ex-post controls in budget execution, to be designed and monitored together with the IMF/WB/AfDB, as well as targeted audits by the Supreme Audit Institution on the use of funds; 6) progress in the evaluation of the implementation of the PFM Strategic Plan 2016-2019 and in the development of a sequenced, costed and results oriented PFM Strategic Plan 2020-2024 that prioritises fiscal transparency and accountability, considering recent and ongoing diagnostics; 7) progress made in the implementation of the priority commitments of the Governance, Transparency and Accountability report of July 2019; 8) measures taken to ensure effectiveness of transfers and payment procedures at local level for continuity of service delivery, including measures clarifying the authority to spend at provincial level; 9) debt transparency and sustainability, including State Owned Enterprises and development of the domestic financing strategy agreed as part of the IMF RCF; 10) progress in implementing revenue collection reforms, including VAT reform, postponement of payment of taxes for SMEs and tracking large tax payers during the COVID-19 crisis, etributação and taxpayers portal.
- Satisfactory progress with regard to the public availability of accessible, timely, comprehensive and sound budgetary information. Areas for policy dialogue and monitoring progress include, amongst others: 1) orderly procedures for in-year reallocations in times of emergency and their transparency; 2) budget execution proposal including fiscal liability from State Owned Enterprises (SoEs) and approved budget for 2021 published.

b) The performance indicators for disbursement that may be used for variable tranches will aim at promoting actions and measuring their effects in the response to the COVID-19 crisis.

The exact definition of 3 performance indicators will be done during 2020 and, in any case, at the latest by the end of the first quarter of the assessed year in order to optimise and target the policy dialogue, fully taking into account the evolution of the COVID-19 crisis. Indicative indicators include:

- Publication of regular progress and budget execution report of the implementation of the COVID-19 policy response, identifying sources of financing, allocations.
- Extent to which an education covid-19 costed action plan is implemented, approved by MINEDH and partners, with appropriate financing from government resources allocated to it.
- Timely payments for current and new beneficiaries according to payment schedules applicable during COVID-19 crisis.

Indicators will be disaggregated by sex and by provinces when data are available.

The chosen performance indicators and targets to be used for disbursements will apply for the duration of the action. However, in duly justified circumstances, the National Authorising Officer (NAO) of the Republic of Mozambique may submit a request to the European Commission for the targets and indicators to be changed.

Note that any change to the targets should be agreed ex-ante, at the latest by the end of the first quarter of the assessed year. The agreed changes to the targets and indicators shall be agreed in advance and may be authorised in writing (either through a formal amendment to the financing agreement or an exchange of letters).

In case of a significant deterioration of fundamental values, budget support disbursements may be suspended, reduced or cancelled, in accordance with the relevant provisions of the financing agreement.

5.3.3 Budget support details

The budget support component consists of a fixed and a variable tranche to be disbursed indicatively: first fixed tranche in the fourth trimester of 2020 and a second fixed/variable tranche in third trimester of 2021, as following:

SRBC	***2020***	***2021***	***Total (EUR million)***
Tot annual tranche	50	46	96
Fixed Tranche (FT)	50	34	84
Variable Tranche (VT)		12	12
VT %	*0%*	*26%*	
Overall VT %			*12.5%*

Budget support is provided as direct untargeted budget support to the national treasury. The crediting of the euro transfers disbursed into Metical will be undertaken at the appropriate exchange rates in line with the relevant provisions of the financing agreement.

5.4. Implementation modalities for complementary support to budget support

The Commission will ensure that the EU appropriate rules and procedures for providing financing to third parties are respected, including review procedures, where appropriate, and compliance of the action with EU restrictive measures[31].

5.4.1 Grants: (direct management)

(a) Purpose of the grant(s)

In order to enhance participative democracy, the 3 grants have the objective to support civil society in monitoring the implementation of the consolidated COVID-19 response and its financial impacts, as well as monitoring the mitigating measures against the sectorial impact of COVID-19. It is also crucial to support feedback loops on how the most vulnerable are accessing services, including women's concerns and the elderly, and how these are addressed.

(b) Type of applicants targeted

Nationally recognised CSO platforms specialised in budget tracking, on policy making and monitoring for the education sector and social protection.

[31] www.sanctionsmap.eu Please note that the sanctions map is an IT tool for identifying the sanctions regimes. The source of the sanctions stems from legal acts published in the Official Journal (OJ). In case of discrepancy between the published legal acts and the updates on the website it is the OJ version that prevails.

(c) Justification of a direct grant

Under the responsibility of the responsible Commission's authorising officer, the grants may be awarded without a call for proposals to FMO (Budget Monitoring Forum), the Education for All Movement (MEPT) and PSCM-PS (Civil Society Platform for Social Protection), selected using the following criteria, the financial and operational capacity of the applicant. The essential award criteria are relevance of the proposed action to the objectives of the call; design, effectiveness, feasibility, sustainability and cost-effectiveness of the action.

Under the responsibility of the Commission's authorising officer responsible, the recourse to an award of a grant without a call for proposals is justified because of de facto monopoly:

- FMO is the only CSO platform on participatory budget existing in the country, working with a system of sub-granting to its members in various provinces. FMO has already established numerous linkages with the National and Municipals Assemblies and is used to manage EU funds through the ongoing EU EDF programme for supporting CSOs in Mozambique (PAANE).
- MEPT (National Movement on Education for All) is the only CSO national platform monitoring the education strategic plan through an already existing system of community monitoring mechanism and its partners. MEPT has already carried out numerous national campaigns against inequalities, budget analysis in the education sector and supporting budget increasing and is currently managing EU funds through the ongoing EU EDF programme for supporting CSOs in Mozambique (PAANE).
- PSCM-PS (Civil Society Platform for Social Protection) as PSCM-PS is the only CSO platform monitoring the national strategy for social protection through an already existing system of community monitoring mechanism. It has already executed numerous national campaigns against inequalities and supporting budget increasing for the strategy. The Platform is used to manage EU funds through the ongoing EU EDF program for supporting CSOs in Mozambique (PAANE).

5.4.2 Procurement (direct management)

The Technical Assistance package to support the Ministry of Economy and Finances and line ministries in monitoring conditions and to provide on demand support will be awarded in full respect of EU appropriate rules and procedures for providing financing to third parties, including review procedures, where appropriate, and compliance of the action with EU restrictive measures.

Subject	**Indicative type**	**Indicative trimester of launch of the procedure**
Technical Assistance package	Services	4th trimester 2020

5.5 Scope of geographical eligibility for procurement and grants

The geographical eligibility in terms of place of establishment for participating in procurement and grant award procedures and in terms of origin of supplies purchased as established in the basic act and set out in the relevant contractual documents shall apply, subject to the following provisions:

The Commission's authorising officer responsible may extend the geographical eligibility on the basis of urgency or of unavailability of products and services in the markets of the countries concerned, or in other duly substantiated cases where the eligibility rules would make the realisation of this action impossible or exceedingly difficult.

5.6 Indicative budget

	EU contribution (in EUR)
Budget support (section 5.3)	**96 000 000**
Complementary support - Grants (total budgetary envelope) 5.4.1 Direct Management - Procurement (total budgetary envelope) 5.4.2 Direct Management	**3 750 000** 2 750 000 1 000 000
Evaluation-Audit/expenditure verification	**150 000**
Communication-visibility	**100 000**

5.7 Organisational set-up and responsibilities

As part of its prerogative of budget implementation and to safeguard the financial interests of the Union, the Commission will participate in the governance structures (section 3) set up for governing the implementation of the action, notably:

1) Ad hoc COVID 19 response coordination platform including a high level EU/IMF/WB/AfDB dialogue and technical coordination at various levels (macroeconomic and social protection group, multi-sectoral coordination and group, technical coordination between budget support providers). This platform will interact with the authorities to monitor the budget implementation of the COVID response plan and ensure that funds are used for the intended purpose;
2) regular DCP meetings at high level and technical coordination in relevant policy areas (PFM, education and social protection sector working groups);
3) EU coordination at Heads of Mission and Head of Cooperation level;
4) EU will continue to co-chair the PFM Working Group and will organise regular policy dialogue with Ministry of Economy and Finances.

5.8 Performance and Results monitoring and reporting

The day-to-day technical and financial monitoring of the implementation of this action will be a continuous process, and part of the implementing partner's responsibilities. Additional monitoring will be provided by the 3 grants implemented under the Accompanying Measures, which will feed into the policy dialogue with the Government. To this aim, the implementing partner shall establish a permanent internal, technical and financial monitoring system for the action and elaborate regular progress reports (not less than annual) and final reports. Every report shall provide an accurate account of implementation of the action, difficulties encountered, changes introduced, as well as the degree of achievement of its results as measured by corresponding indicators, using as reference the simplified Logframe matrix (for project modality) available in section 4 or the partner's strategy, policy or reform action plan list (for budget support).

The Commission may undertake additional project monitoring visits both through its own staff and through independent consultants recruited directly by the Commission for independent monitoring reviews (or recruited by the responsible agent contracted by the Commission for implementing such reviews).

5.9 Evaluation

Having regard to the importance of the action, an ex-post evaluation(s) will be carried out for this action or its components via independent consultants contracted by the Commission.

It will be carried out for accountability and learning purposes at various levels (including for policy revision). The evaluation of this action may be performed individually or through a joint strategic evaluation of budget support operations carried out with the partner country, other budget support providers and relevant stakeholders.

The Commission shall inform the implementing partner at least 60 days in advance of the dates foreseen for the evaluation missions. The implementing partner shall collaborate efficiently and effectively with the evaluation experts, and inter alia provide them with all necessary information and documentation, as well as access to the project premises and activities.

The evaluation reports shall be shared with the partner country and other key stakeholders. The implementing partner and the Commission shall analyse the conclusions and recommendations of the evaluations and, where appropriate, in agreement with the partner country, jointly decide on the follow-up actions to be taken and any adjustments necessary, including, if indicated, the reorientation of the project.

Evaluation services may be contracted under a framework contract.

5.10 Audit

Without prejudice to the obligations applicable to contracts concluded for the implementation of this action, the Commission may, on the basis of a risk assessment, contract independent audits or expenditure verification assignments for one or several contracts or agreements.

It is foreseen that audit services may be contracted under a framework contract.

5.11 Communication and visibility

Communication and visibility of the EU is a legal obligation for all external actions funded by the EU.

This action shall contain communication and visibility measures which shall be based on a specific Communication and Visibility Plan of the Action, to be elaborated at the start of implementation.

For the purpose of enhancing the visibility of the EU and its contribution to this action, the Commission may sign or enter into joint declarations or statements, as part of its prerogative of budget implementation and to safeguard the financial interests of the Union.

In terms of legal obligations on communication and visibility, the measures shall be implemented by the Commission, the partner country, contractors, grant beneficiaries and/or entrusted entities. Appropriate contractual obligations shall be included in, respectively, the financing agreement, procurement and grant contracts, and delegation agreements.

The Communication and Visibility Requirements for European Union External Action (or any succeeding document) shall be used to establish the Communication and Visibility Plan of the Action and the appropriate contractual obligations.

It is foreseen that a contract for communication and visibility may be contracted under a framework contract.