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GRANT AGREEMENT

THIS AGREEMENT IS MADE THIS 12th DAY OF FEBRUARY

BETWEEN

THE NORWEGIAN MINISTRY OF FOREIGN AFFAIRS OF
P.O. BOX 8114 DEP, 0032 OSLO, NORWAY

AND

THE REVOLUTIONARY GOVERNMENT OF ZANZIBAR OF
P.O. BOX 1154, ZANZIBAR,

REGARDING

STRENGTHENING OF

PUBLIC FINANCIAL MANAGEMENT CAPACITY

WHEREAS the Government of the Kingdom of Norway (Norway) and the Government of the United Republic of Tanzania (Tanzania) have entered into an agreement dated 14 May 1986 regarding cooperation for promotion of the economic and social development of Tanzania which has been prolonged by Addenda of which the latest is dated 16 December 2006 (the Main Agreement),

WHEREAS Tanzania is the Union of two parts of which Zanzibar is one part,

WHEREAS the Revolutionary Government of Zanzibar (Zanzibar) according to the Government Loans, Guarantees and Grants Act of the United Republic of Tanzania of 2004, is authorised to solicit and sign for external grants,

WHEREAS Zanzibar in letter dated 21 September 2007 requested Norway for support to Strengthening Public Financial Management Capacity of Zanzibar, and

WHEREAS the Norwegian Ministry of Foreign Affairs (MFA) has decided to comply with the request,

NOW THEREFORE MFA and Zanzibar (the Parties) have reached the following understanding which shall constitute an Agreement between the Parties:

Article I Scope and objectives

1. This Agreement sets forth the terms and procedures for MFA's support to Strengthening Public Financial Management Capacity (the Programme) as outlined in the Agreed Programme Summary in Annex I and further described in the Programme Document "Strengthening Public Financial Management Capacity of Zanzibar", dated 21 September 2007.
2. The Goal of the Programme is to contribute to reducing poverty on Zanzibar.

The Purpose of the Programme is to improve public financial management on Zanzibar.

3. The Parties may agree on extending existing or including new Programme elements within the Programme, as well as on re-allocating funds within the Programme. Any such agreement shall be in writing and recorded in the Agreed Minutes from the consultations mentioned in Article VI.

Article II Cooperation – Representation

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1. The Parties shall communicate and cooperate fully with the aim to ensure that the Goal and Purpose are successfully achieved. The Parties further agree to cooperate on preventing corruption within and through the Programme, and undertake to take rapid legal action to stop, investigate and prosecute in accordance with applicable law any person suspected of misuse of resources or corruption. The Parties shall immediately inform each other of any indication of corruption or misuse of resources related to the Programme.
2. In matters pertaining to the implementation of the Programme the Norwegian Embassy in Dar es Salaam (the Embassy) and the Ministry of Finance and Economic Affairs of Zanzibar (the Ministry) shall be competent to represent MFA and Zanzibar respectively. All communication regarding the Agreement shall be directed to the Embassy and the Ministry.

Article III Contribution of MFA

1. MFA shall, subject to Parliamentary appropriations, make available to Zanzibar a financial grant not exceeding NOK 13 500 000 (Norwegian kroner thirteen million five hundred thousand (the Grant) to be used exclusively to finance the Programme in the planned period 2007-2010.
2. Any accrued interests on the Grant may be used for the benefit of the Programme if agreed on by the Parties in writing.
3. Any unspent disbursed funds and accrued interests shall be returned to MFA upon completion of the Programme.

Article IV Contributions and obligations of Zanzibar

Zanzibar shall through the Ministry of Finance and Economic Affairs as implementing ministry be responsible for implementing the Programme, and shall hereunder:

1. Have the overall responsibility for the planning, implementation, reporting and monitoring of the Programme,
2. ensure that the Grant is used according to approved work plans and budgets,
3. ensure that Programme funds, which shall include any accrued interests, are properly accounted for, and that the Grant is reflected in the plans, budgets and accounting of Zanzibar,
4. promptly inform MFA of any circumstances that interfere or threaten to interfere with the successful implementation of the Programme,
5. ensure that all permits, import licenses and foreign exchange permissions that may be required are granted,
6. ensure that representatives of Norway are permitted to visit any part of Zanzibar for purposes related to the Agreement and examine any relevant records, goods and documents,
7. ensure the establishment of a Steering Committee with representatives from the Ministry, the Office of Controller and Auditor General, and the House of Representatives that will meet quarterly to oversee the Programme implementation and serve as an advisory and monitoring board,
8. provide the financial and other resources required in addition to the Grant.

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Article V Disbursements

1. The Grant will be disbursed upon semi-annual written requests from Zanzibar based on the financial needs of the Programme and, except the first request, on approved work plans and budgets. The first disbursement, amounting to NOK 2.25 million, will be made upon signing of this Agreement and approval by MFA of a disbursement request from Zanzibar.
2. When determining the amount to request, Zanzibar shall take into account unspent disbursed amounts and income from all sources as well as any accrued interests which the Parties have agreed on using for the benefit of the Programme according to Article III, Clause 2.

Along with the requests, except the first request, Zanzibar shall state the cash balance of the Programme and submit a statement of bank balances for the Programme from the bank.

3. Funds will be transferred upon MFA's approval of the requests to the Ministry's bank account with Bank of Tanzania and shall be made available to the Programme immediately.

Zanzibar shall immediately, in writing, acknowledge receipt of the funds. The date of receipt shall be stated as well as the exchange rate applied.

4. All disbursements to suppliers of goods or services shall be made by Zanzibar.

Article VI Annual Meeting

1. Representatives of the Parties shall have an Annual Meeting within the second quarter in each year in order to:
 - Discuss the progress of the Programme, including results and fulfilment of agreed obligations,
 - discuss and, if feasible, approve annual work plans and budgets for the following financial year,
 - discuss issues of special concern for the implementation of the Programme, such as the major risk factors set out in the Agreed Programme Summary in Annex 1, and how to manage such risks/issues.

Each of the Parties may include others to participate as observers or as advisors to their delegations.

2. The documentation specified in Articles VII and IX shall form the basis for the consultations.
3. The Annual Meeting shall be called and chaired by the Ministry.
4. Main issues discussed and points of view expressed as well as any decisions shall be recorded in Agreed Minutes. The Agreed Minutes shall be drafted by Zanzibar and be submitted to MFA for comments no later than two weeks after the Annual Meeting.
5. There will be an additional three consultative meetings annually to discuss implementation progress of the Programme. The quarterly progress reports will serve as the basis for these discussions. These consultative meetings will be called by the Ministry, who will also record the agreed minutes from these meetings and submit them to MFA for comments no later than two weeks after each of the consultative meetings.

Article VII Reports

1. Zanzibar shall submit to MFA the reports and documentation specified below. MFA shall respond within three weeks upon reception of the reports and documentation.
2. A progress report shall be submitted quarterly within two weeks before the quarterly meetings.

The progress reports shall be prepared in accordance with the format in Annex II to this Agreement, and shall include the following information:

- A description of actual outputs compared to planned outputs (as defined in the work plans),
 - a brief summary of the use of funds compared to budget,
 - an assessment of the efficiency of the Programme (how efficiently resources/ inputs are converted into outputs),
 - an explanation of major deviations from plans,
 - an assessment of problems and risks (internal or external to the Programme) that may affect the success of the Programme,
 - an assessment of the need for adjustments to activity plans and/or inputs and outputs, including actions for risk mitigation.
3. A work plan shall be submitted annually within three weeks before the Annual Meeting. The work plan shall specify planned outputs and time schedules for the next fiscal year.
 4. The following annual financial statements and budget shall be submitted within three weeks before the Annual Meeting each year:
 - a. Financial statements for the Programme consisting of:
 - i) A statement showing cash receipts/income and expenditures for the previous period structured as and compared to approved budgets for such previous period as well as accumulated for the Agreement period. The statement shall capture all sources of funding, with sufficient segregation of data to permit identification of individual sources of funds and disbursements on major Programme activities or types of expenditure,
 - ii) a statement of cash and bank balances,
 - iii) relevant notes to the above mentioned statements including a description of the accounting policies used and any other explanatory material necessary for transparent financial reporting of the Programme.
 - b. Budget for the Programme for the coming fiscal year showing estimated income from all sources and planned expenditures.

The financial statements and budget(s) shall give complete and detailed information on the financing of the Programme.

5. A final report shall be submitted within six months after the completion of the Programme. If the Programme is not completed by December 2010, a status report shall be submitted to MFA by the said date. The final report shall include:
 - The topics listed in Clause 2 above for the whole Agreement period,
 - an assessment of the effectiveness of the Programme, i.e. the extent to which the Purpose has been achieved,

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 - ii) a statement of cash and bank balances,
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 - The topics listed in Clause 2 above for the whole Agreement period,
 - an assessment of the effectiveness of the Programme, i.e. the extent to which the Purpose has been achieved,

- an assessment of impact (if possible), i.e. the changes and effects positive or negative, planned and unforeseen of the Programme seen in relation to target groups and others who are affected,
- an assessment of sustainability of the Programme, i.e. an assessment of the extent to which the positive effects of the Programme will still continue after the external assistance has been concluded,
- a summary of main “lessons learned”.

Article VIII Procurement

1. Zanzibar undertakes to effect all procurements of goods and services necessary for the implementation of the Programme.
2. The procurements shall be performed in accordance with generally accepted procurement principles, good procurement practices and the procurement regulations of Zanzibar. Norwegian suppliers shall be given the same opportunities as other suppliers to compete for deliveries.

Zanzibar shall observe the highest ethic standards during the procurement and execution of contracts, and shall ensure in its national legislation adequate and effective means to punish and prevent illegal or corrupt practices.

No offer, gift, payment or benefit of any kind, which would or could, either directly or indirectly, be construed as an illegal or corrupt practice, e.g. as an inducement or reward for the award or execution of procurement contracts, shall be accepted. Invitations to make offers as well as the procurement contracts shall, respectively, include a clause stating that the offer will be rejected and/or the contract cancelled in case any illegal or corrupt practices have taken place in connection with the award or the execution of the contract.

3. Contracts entered into exceeding threshold amount USD 20 000 shall be submitted to MFA for approval before entering into force.

Along with the documentation mentioned above Zanzibar shall confirm in writing that the procurement regulations agreed on in Clause 2 above, have been adhered to.

4. The Terms of Reference for consultant contracts covered under the Programme shall be submitted to MFA for approval before they are finalized and submitted for tenders.
5. Zanzibar shall upon request furnish MFA with all relevant information on its procurement practices and actions taken, and provide access to all related records and documents. MFA may require access to information even during the stage in the procurement procedure when it is restricted to the officers performing the procurement. Restrictions on such information shall be respected until the information can be made public without any risk of detriment to the result of the procurement.

Article IX Audit

1. The annual financial statements of the Programme shall be audited by the Controller and Auditor General. Additionally, if the MFA should wish so, an extra audit shall be performed by an external auditor/audit firm. The auditor shall be engaged by the Office of the Controller and Auditor General, if not otherwise decided by the Parties, and the costs shall be covered by the grant.
2. The audit shall be carried out in accordance with international auditing standards. The auditor shall state in the report which auditing standards that have been applied.

3. The audit report shall state the auditor's opinion/findings as to:
 - Whether the financial statements present fairly, in all material respects, the Programme's cash receipts/income and expenditures as well as the cash/bank/financial position in accordance with an acceptable financial reporting framework,
 - whether the audit has uncovered any material weaknesses in relevant internal control(s),
 - whether the audit has uncovered any illegal or corrupt practices,
 - whether funds have been used exclusively to cover Programme expenditures,
 - whether cash receipts/income and expenditures are properly accounted for.
 - whether the Grant is reflected in the budgets and accounting of the Ministry.
4. Zanzibar shall submit to MFA the audit report and any other report from the auditor significant to the implementation of the Programme within nine months after the end of the year. Zanzibar shall comment upon the auditor's findings. MFA shall respond within three weeks upon reception of the report.

Article X Reviews – Evaluation

1. A mid-term review focusing on progress to date and the effectiveness of the Programme, i.e. the extent to which the Purpose is being/has been achieved, shall be carried out by January 2009. An assessment of the Programme's impact may also be included in the review(s).

The cost of the review shall be covered by the Grant,

2. MFA reserves the right to carry out independent reviews or evaluations of the Programme as and when MFA deems it necessary. The cost for such reviews will be covered by funds over and above the Grant.

Article XI Reservations

1. MFA reserves the right to withhold disbursements at any time in case e.g.:
 - The Programme develops unfavorably in relation to the Goal and Purpose,
 - substantial deviations from agreed plans or budgets occur,
 - resources to be allocated by Zanzibar are not provided as agreed,
 - the documentation specified in Articles VII and IX has not been submitted as agreed,
 - the financial management of the Programme has not been satisfactory,
2. MFA reserves the right to reclaim all or parts of the Grant and cancel the Agreement if Programme funds are found not to have been used in accordance with the Agreement or are found not to be satisfactorily accounted for.
3. MFA has the right to cancel the Agreement or portion of the Agreement, and has the right to demand the cancellation of any contract financed under the Agreement, with immediate effect if it determines that corrupt or fraudulent practices were engaged in by representatives of Zanzibar or by a beneficiary of Programme funds during procurement or execution of the contract without Zanzibar having taken timely and appropriate action satisfactory to Norway to remedy the situation.
4. Before MFA withholds disbursements, reclaims funds or cancels the Agreement, the Parties shall consult with a view to reaching a solution in the matter.

Article XII Distribution of the Agreement

The Parties shall distribute copies of the Agreement to the respective ministries, authorities and other institutions involved in the Programme or otherwise in need of information on its content.

Article XIII Entry into force – Termination – Disputes

1. The Agreement shall enter into force on the date of its signature, and shall remain in force until the Parties have fulfilled all obligations arising from it. Whether the obligations are fulfilled, shall be determined in consultations by the Parties.
2. Notwithstanding the previous clause each Party may terminate the Agreement upon three months written notice.
3. If any dispute arises relating to the implementation or interpretation of the Agreement, the Parties shall consult with a view to reaching a solution.

IN WITNESS WHEREOF the undersigned, acting on behalf of the irrelative Party, have signed the Agreement in two originals in the English language.

Done in Zanzibar the 18th day of FEBRUARY of 2008.

For the Norwegian Ministry
of Foreign Affairs

For the Revolutionary Government
of Zanzibar



JON LOMØY
Ambassador



KHAMIS OMAR
Principal Secretary



Annexes:

- I. Agreed Programme Summary
- II Format for progress reports

1. Identification of the Programme

- Programme Title/Name: PFM Reform MOFEA
- Implementing institution: Ministry of Finance and Economic Affairs (MOFEA)

2. Description of the Programme

The overall goal of the project is to contribute to reducing poverty on Zanzibar. This will be achieved by improving Public Financial Management, which will allow for more effective use of public resources and improved implementation of the Poverty Reduction Strategy MKUZA.

The purpose of the project is to improve Public Financial Management on Zanzibar. This will be done by providing additional financial resources for MOFEA to enable them to expedite implementation of PFM reforms mainly within the ministry. This will contribute to improving the financial operation of the RGOZ.

The project has six overall objectives. They are:

- Improved budgeting, budget execution and accounting information for timely budget preparation, execution and accounting in accordance with mandatory requirements.
- Strengthened human resource capacity of key staff in economic management, budgeting and accounting.
- Debt management system and procedures implemented.
- Adequate systems for budget forecasting and monitoring established.
- New procurement act fully implemented.
- Establishment of aid management and information system.

The first objective is to improve budgeting, budget execution and accounting and it will mainly be met through the installation of an Integrated Financial Management Information System (IFMIS). This installation will be financed outside of this project. However, this project will contribute to the same objective by financing the installation and implementation of a fully integrated computerized human resource and payroll system.

The second objective is to strengthen the capacity of key staff in economic management, budgeting and accounting. This will be achieved by (i) undertaking a study of the incentive scheme in MOFEA; (ii) providing training for staff in lower level and higher level CPA and internal audit courses; (iii) finance internships for staff in other ministries of finance, and (iv) finance the procurement of some computer hardware.

The third objective is to implement a debt management system. This will be achieved by providing assistance to hiring a consultant to provide a strategy for debt management for Zanzibar. Moreover, the project will finance training for staff in the use of computer software for debt management and for relevant staff to participate in debt management training courses.

The fourth objective is to establish adequate systems for budget forecasting and monitoring. This objective will be achieved by (i) hiring a consultant to recommend an appropriate macroeconomic forecast model for Zanzibar and provide for staff training to install, use and refine model; (ii) hiring a consultant to recommend simplification and improvement to the tax regime; (iii) provide training for relevant staff in balance of payments statistics; (iv) train staff in medium term expenditure frameworks, and (v) provide training for the development of public expenditure reviews for Zanzibar.

The fifth objective of this project is fully to implement the new procurement act. This objective will be achieved by undertaking extensive training of RGOZ staff at various levels

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and providing information to private companies on the new procurement act and regulations. There will also be a consultancy to review RGOZ procurement alignment with those of the mainland.

The sixth and final objective is the establishment and implementation of an aid management and information system. This objective will be achieved through the installation of an aid management system in MOFEA and relevant line ministries. The project will also finance training for staff in the use of the system and sensitization on the need of information sharing and use of the system to relevant managers. The project will also provide financing for a consultant to assist MOFEA in the installation of the system.

Main indicators

It is recognized that the indicators for the program ideally should be at the outcome level. However, for the practical reasons, the following indicators will be used. It is assumed that these indicators will work as proxies for the outcomes of the program.

For Objective 1:

- Integrated human resource/ payroll system installed

For Objective 2:

- Incentive scheme report from consultant presented
- Number of MDA Accounting Staff that have completed 3 month CPA courses
- Number of MDA Accounting and Internal Audit Staff that have achieved Post Graduate Diploma
- Number of MDA Accounting and Internal Audit Staff that have achieved a Master's Degree
- Number of MOFEA Staff that have completed a 11 month internship program
- Number of Economic Management and Budget Staff that have been trained in the 18 month budgeting and economic planning program
- Number of computers and laptops that have been installed for the use of the internal audit staff

For Objective 3:

- Presentation of debt policy, strategy and plan
- Procurement and installation of debt management system
- Number of MOFEA staff trained in the use of the debt management system
- Number of staff that have completed the short term training course at MEFMI

For Objective 4:

- Presentation of report with recommended macro economic forecast model for Zanzibar
- Installation of macroeconomic forecast model
- Number of staff trained in macroeconomic forecast model
- Installation of tax revenue model
- Number of staff trained on tax revenue model
- Presentation of report proposing tax regime reforms
- Number of MOFEA/EMBD staff trained in compilation and use of BOP Statistics
- Number of MDA staff trained in MTEF budget preparation and monitoring
- Presentation of Public Expenditure Review Report

For Objective 5:

- Number of MDA Chief Executives and Accounting Officers trained on procurement
- Number of MDA Heads, Procurement Staff, and contractors trained on procurement

- Number of MDA staff trained on procurement procedures.
- Number of MOFEA staff from stock verification department that have completed diploma or post graduate training
- Number of MOFEA staff from CPI and stock verification department that have been trained in carrying out evaluation of public assets

For objective 6:

- Review report on aid management presented
- Aid management system installed in MOFEA and all MDAs
- Number of MDA staff trained in operation of aid management system
- Number of MDA staff that have completed on-the-job training in aid management system
- Workshops conducted for HOR on Aid Coordination
- Workshops conducted for PSs and senior MDA staff on Aid Coordination
- Workshops conducted for civil society on aid coordination.

Major risk factors (internal and external)

√ Capacity to implement project

Questions could be raised as to the capacity of the management of MOFEA to implement this type of project since this is a new type of project for the ministry. However, the management is already undertaking many of the same reforms on a more limited scale using its own resources. Moreover, the management of MOFEA is very committed to implementing the project in order to improve PFM on Zanzibar. This should ensure the allocation of sufficient personnel resources to manage the project in MOFEA.

A special concern is about MOFEA's capacity to locate and hire well qualified consultants and adequately develop Terms of Reference for consultancies. This risk is mitigated by the inclusion in the agreement of a clause on submission to the Embassy of the TORs for approval before they are submitted for tenders. The Embassy will seek expert advise on these TORs for Norad or a relevant consultant when necessary.

√ Implementation delays

Implementation delays is a risk that are inherent to all projects in Tanzania. Given the level of commitment from the leadership of MOFEA, this risk should be lower than for most projects. The project will nevertheless have to be closely monitored and watched for delays. The project will initially have a relatively frequent monitoring meeting schedule that will include quarterly meetings. These meetings will allow for a close monitoring of any project delays and open for a solid policy dialogue on any issues that should arise.

√ Political interference

The President of Zanzibar has expressed keen interest in fast tracking PFM reforms on the islands, and this should reduce the risk of political interference in the reforms. However, given the sometimes sensitive nature of some PFM reforms, the partners should closely monitor the need for a political dialogue should interference become an issue.

√ Mismanagement of funds

The funds will be accounted for as a project in order to minimize the risk of mismanagement of funds. However, the recent introduction of IFMIS has reduced greatly contributed to enhanced accounting and transparency, and the money for the project will consequently use Zanzibar's treasury system. The money from Norway will be transferred to Zanzibar's account at the Bank of Tanzania.

The use of Zanzibar's procurement act and regulations could be considered an additional risk, as it is recognized that they are not as solid as those of the mainland. However, their use will contribute to the ownership of the program. Use of Zanzibar rules and regulations also contribute to reducing transaction costs. The project includes funding for procurement capacity

building, which should contribute to improving general public procurement on the islands, and it will contain a clause for submission of contracts exceeding USD 20,000 to the MFA for approval before entering into force. The project contains relatively little money for procurement.

Another potential risk arises from the use of the OCAG as the auditor for the project, as questions have arisen over the quality of their audits. To minimise the risk from low audit quality, the partners will follow the development of the capacity building of OCAG through the PFM RP and through dialogue with the Swedish Auditor general (should their project materialize as expected). The agreement will include a clause to allow for external audit should the quality of the audit report we receive not meet international standards.

Also, the disbursement of money will be based on budgets, work plans, implementation reports, and audited accounts in order to minimize the risk of mismanagement of funds. The frequent monitoring schedule will assist in monitoring the use of funds.

Overall budget

Budget overview (all figures in USD):

Objective	2007/08	2008/09	2009/10	Total
1. Improved budgeting, budget execution and accounting	54,162	-	-	54,162
2. Strengthened human resource capacity for key MOFEA staff	253,180	382,820	92,800	728,800
3. Improved debt management	29,000	18,538	-	47,538
4. Improved systems for budget forecasting and monitoring	224,500	144,000	-	368,500
5. Procurement act implemented	120,000	56,000	28,000	204,000
6. Improved aid management and information system	61,000	-	-	61,000
7. Monitoring and review	-	36,000	-	36,000
Total	741,842	637,358	120,800	1,500,000

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Annex II Format for Progress reports

The progress report will include the following:

- A description of actual outputs compared to planned outputs (as defined in the work plans),
- a description of progress towards the objectives (as described in annex I) ,
- a brief summary of the use of funds compared to budget,
- an assessment of the efficiency of the Programme (how efficiently resources/ inputs are converted into outputs),
- an explanation of major deviations from plans,
- an assessment of problems and risks (internal or external to the Programme) that may affect the success of the Programme,
- an assessment of the need for adjustments to activity plans and/or inputs and outputs, including actions for risk mitigation.