

Programme Aid Partners
Performance Assessment (PAPPA)
in Mozambique

Baseline Survey on PAP Performance in 2003

September 2004

Report to the
G-15 Programme Aid Partners
and Government of Mozambique
by

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This report was commissioned by the G15 Programme Aid Partners and was undertaken with the financial support of the Swiss State Secretariat for Economic Affairs (seco), and the UK's Department for International Development (DFID), respectively chair and co-chair of the G15 in 2004/05.

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Acknowledgements

The authors wish to acknowledge the financial support of the Swiss State Secretariat for Economic Affairs (seco) and DFID and the logistical support of the G-15 secretariat and the Swiss Development Cooperation office in Maputo towards the preparation of this study. We also wish to thank all agencies and interviewees, who took time to fill the questionnaire and/or to talk to us. Last but not least, we would like to thank Franziska Pfister who has assisted us in the statistical evaluation of the questionnaire, and Sonja Zimmermann preparing the graphs.

Glossary of Terms

Programme Aid: In general terms, programme aid refers to all types of external financial assistance which are provided for the implementation of programmes of activity, rather than to finance specific projects. In this report, programme aid refers specifically to non-earmarked general budget support (see definition below), balance of payments support (the form of programme aid provided by the World Bank), and funding of sector budget support (“Sector Wide Approaches, SWAPs”).

General Budget Support (GBS): Is a form of financial aid in which funds are provided:

- in support of the government’s overall programme typically focusing on growth, poverty reduction, fiscal adjustment and strengthening budgetary institutions, especially budgetary processes;
- directly to a partner government’s treasury to spend using its own financial management, procurement and accountability systems;
- as a general contribution to the overall budget, with funds not being explicitly earmarked to specific sectors.

Sector budget support: Similar to general budget support but where the funds are earmarked in advance to a specific sector of activity e.g. health sector, education sector.

Pooled (“basket”) funding: Where donors jointly fund an activity or institution through the establishment of a separate and designated financial arrangement (sometimes also known as “basket” funding). There are a number of examples of pooled funding arrangements in Mozambique e.g. for the importation of essential medicines.

Project Aid: financial and other forms of assistance e.g. technical assistance which are provided for the implementation of specific projects, typically with their own separate financing, accounting and auditing arrangements.

On budget/ off budget: There are a number of alternative possible definitions of on and off-budget resources. In this report, we mainly refer to revenues arising from external donor aid flows, as opposed to government own source revenues from fees and licences etc. “Off-budget” external resource flows are defined as those resources which are applied to areas normally considered within the scope of a government’s public expenditure programme but which are not incorporated into the annual state budget (Orçamento do Estado – OE) and are not accounted for by the national accounting procedures (Conta Geral do Estado – CGE).

Executive summary

In Mozambique, donors have been providing co-ordinated and untied **support to the state budget since 2000**. The formal basis for budget and balance of payment (BoP) support operations is the Memorandum of Understanding (MoU), signed on April 5, 2004, between the Republic of Mozambique, Belgium, Denmark, the European Commission, Finland, France, Germany, Ireland, Italy, the Netherlands, Norway, Portugal, Sweden, Switzerland, United Kingdom, and the World Bank (“G-15”).

Signatories of the MoU declare in its § 3 that they are determined to work in the spirit of NEPAD, the Monterrey Consensus and the Rome Declaration on Harmonisation. The MoU was prepared in the spirit of **mutual accountability**. It systematically clarifies the performance and reporting commitments of the GoM as well as the Programme Aid Partners (PAPs). While the GoM is accountable based on the terms of its performance assessment framework (PAF), the G-15 have also signed up to specific commitments concerning how they will provide programme aid in future. These obligations are an effort to effectively implement the concerns of the Rome Declaration on Harmonisation. Art. 16 MoU obliges the donors to provide an annual report on their efforts in implementing these obligations. This initial report draws a baseline on donor performance in 2003, in order to be able to regularly monitor PAPs progress in future.

It should be noted that the signing of the new MoU in April 2004 was in itself a **major step forward** in the process of harmonising and aligning PAP’s support to the implementation of Mozambique’s poverty reduction strategy. It is a remarkable innovation that 15 donors agree to (1) have no conditionality outside the common performance assessment framework; (2) strongly enhance predictability; (3) align on the GoM cycle and documents. Future updates on this baseline survey will reflect the impact of this new agreement on donor performance.

Mozambique provides an excellent environment in which to improve aid effectiveness. The basis of this is the **good working relationship** between international funding agencies and the Government of Mozambique (GoM). Mozambique is also one of the most aid dependent countries in Africa and hence the potential returns from improving aid effectiveness are high. At present, out of total Official Development Assistance (ODA) of approximately USD 700 million annually, the programme aid¹ share can be estimated at only 35-40 percent. The joint general budget support scheme represents the bulk of programme aid.

The **findings** on alignment and harmonisation, predictability, transparency, the administrative burden, and capacity building show that, even in the progressive environment for international cooperation that prevails in Mozambique there is considerable room for improvement. The untapped areas where further attention is required if PAP’s are to meet their new commitments under the MoU are specified in this report whereas the annexes contain detailed information at the agency level. Readers are referred to the shaded boxes at the end of each section which provide a summary of the main conclusions in each section of the report.

¹ Programme aid includes budget support, balance of payments support, funding of sector wide approaches (SWAPs)

The **portfolio overview** demonstrates the considerable scope for rationalisation and further inter-agency co-operation that exists in many sectors. There is an even greater potential to improve aid effectiveness if the spirit of the MoU is applied to the overall portfolio beyond the general budget and BoP support component.

The cornerstone of the implementation of the PAPs' obligations contained in the MoU is the development of a **PAPs' PAF**. This facilitates the monitoring of PAP's behaviour against commitments, exposes non-compliance and weaknesses to peer pressure, and strengthens PAPs accountability to GoM. The construction of such a PAF is the responsibility of the PAPs. The start of this process is facilitated by an initial proposal made in this report (see Section 4). A negotiation among PAPs and with the GoM should lead to an agreed PAF, linked to an action plan and timeframe for implementation. In the framework of the annual review cycle, the PAPs' PAF becomes the basis for dialogue between the G-15 and GoM to assess collective and individual donor performance and to adapt the PAF on a continuous and rolling basis. In order to ensure credibility, monitoring of donor performance should be undertaken by an independent assessment team, with their annual reports released into the public domain – as has been agreed with this baseline report.

The G-15 should adopt a **pro-active strategy** to build mutual accountability to domestic and external stakeholders. Mozambican voices beyond the central government and PAPs demonstrate a need to clarify and account for the role of budget and BoP support. It is recommended that the G-15 disseminate the 2003 PAPPAs Baseline widely and hosts a workshop to validate and discuss the baseline findings in dialogue with Mozambican stakeholders (GoM, parliament, civil society).

The findings of this report should also be disseminated at the **Second High-Level Forum on Harmonization and Alignment for Aid Effectiveness**, taking place in Paris in early 2005, as an example of good practice in achieving greater donor accountability at the country level.

1 Introduction

For a long time the debate about effective aid policy and practice has tended to overlook the need for donor performance monitoring and focused instead almost exclusively on monitoring the performance of recipient governments. However, aid effectiveness is a concern and task of all development partners. There are unresolved issues of donor behaviour regarding harmonisation of aid delivery and alignment around country procedures, reducing volatility and increasing predictability of aid flows², transparency of donor decisions, transaction costs and capacity building. A number of multilateral efforts were targeted to cope with these challenges, in particular the Rome High Level Forum on Harmonisation on February 22-25, 2003, resulting in the Rome Declaration on Harmonisation³. The implementation of this agreement will be reviewed in early 2005.

Mozambique is one of the most aid dependent countries in Africa and hence the potential returns from improving aid effectiveness are high. In Mozambique there is a good working relationship between international funding agencies and the Government of Mozambique (GoM). Based on a positive track record, the volume of programme aid delivered mainly in the forms of general budget support, balance of payments support and sector support is increasing. At present, out of total Official Development Assistance (ODA) of approximately USD 700 million annually, the programme aid share can be estimated at only 35-40 percent. The joint general budget support scheme represents the bulk of programme aid with a pledged bilateral volume of USD 166 million plus World Bank commitments in 2004. The GoM welcomes all types of support but has strongly indicated its desire to attain a programme aid share of two thirds of total ODA in the medium term⁴.

The basis of budget and balance of payment (BoP) support operations in Mozambique is the recent Memorandum of Understanding ("MoU") between the Republic of Mozambique, Belgium, Denmark, the European Commission, Finland, France, Germany, Ireland, Italy, the Netherlands, Norway, Portugal, Sweden, Switzerland, United Kingdom, and the World Bank ("G-15"). The MoU was signed on April 5, 2004 with a duration of five years, and serves the provision of direct Budget and Balance of Payments Support. Signatories of the MoU declare in its § 3 that they are determined to work in the spirit of NEPAD, the Monterrey Consensus and the Rome Declaration on Harmonisation.

The MoU was prepared in the spirit of mutual accountability between the signatories. It systematically clarifies the performance and reporting commitments of the Government of Mozambique (GoM) as well as the Programme Aid Partners (PAPs). While the GoM is accountable based on the terms of its performance assessment framework (PAF), the G-15 have also signed up to a number of specific commitments concerning how they will provide programme aid in future. These obligations are an

² See e.g. Bulir Ales/Hamman Javier A., How volatile and unpredictable are Aid Flows, and What are the Policy Implications, IMF Working Paper 01/167, Washington 2001. In a nutshell: Aid is more volatile than fiscal revenues particularly in highly aid dependent countries; uncertainty about aid disbursements is large, being larger for program than project aid; the information content of commitments made by donors is small.

³ See <http://www.oecd.org/dataoecd/54/50/31451637.pdf>

⁴ Prime Minister Luisa Diogo in her address on the occasion of the signing ceremony of the Memorandum of Understanding on April 5, 2004

effort to effectively implement the concerns of the Rome Declaration on Harmonisation at the country level. Article 13 in the MoU is the key section and has the following language:

PAPs are committed to providing Programme Aid in a way that

- Is aligned with Mozambican instruments, processes and systems of financial management, including: (1) Providing assistance for and undertaking dialogue around the PARPA, PES, priority aspects of the PES set out in the PAF, the CFMP and the OE. (2) Using government processes and documentation. (3) Following the government cycle for planning, implementation, monitoring, reporting and funding.
- Increases the predictability of the flow of donor funds, including by making multi-year agreements on programme aid, providing GoM with information on Programme Aid commitments in time for the information to be used in policy and budget planning, linking response mechanisms to agreed, realistic targets and indicators, disbursing according to the agreed disbursement schedule and not interrupting in-year disbursement, unless underlying principles are violated.
- Ensures transparency of conditions and funding.
- Improves harmonisation by eliminating bilateral conditions and bilateral administrative and reporting requirements (as far as possible given existing legal and statutory requirements, which should also be reduced over time)
- Lessens the administrative burden of their assistance on GoM by increasingly mounting joint missions, undertaking joint analysis, using joint procedures and by reducing the number of visits and overlapping activities;
- Enhances the capacity of the GoM to meet its commitments by providing appropriate technical assistance and capacity building.

In order to monitor and stimulate PAPs' progress in moving towards meeting these commitments and implementing best practice in Mozambique, the Programme Aid Partners Performance Assessment (PAPPA) framework was developed. Art. 16 MoU obliges the donors to provide an annual report on their efforts in implementing these obligations. The G-15 mandated the authors of this report as independent consultants to draft the baseline survey. The same independent team had already in March/April 2004 on behalf of the GoM and the PAPs prepared a "Learning Assessment"⁵ on how to improve the interaction between GoM and PAPs in general and the annual Joint Review in particular.

This PAPPA report draws a baseline for the year 2003 to assess PAPs progress in future. The methodology is based on a questionnaire (see Annex 7) filled by all 15 PAPs. The questionnaire was designed taking into account the on-going international effort by the OECD's Development Assistance Committee (DAC) to monitor the implementation of the Rome Declaration on Harmonisation.⁶ Moreover, a number of interviews were held during the week of June 20 – 25, 2004, with representatives of the GoM, of civil society and donors. The donors had an opportunity to comment on

⁵ Harding Alan/Gerster Richard, Learning Assessment of Joint Review 2004. Final Report, June 2004, see http://www.gersterconsulting.ch/fs/fs_main.asp?kt=2

⁶ See OECD, OECD-DAC Survey on Progress in Harmonisation and Alignment, DAC Working Party on Aid Effectiveness and Donor Practices, Third Meeting, 8-9 July 2004, Room Document 1; the on-going survey conducted by the DAC in 14 partner countries includes Mozambique.

the draft before it was finalized. The responsibility for the contents of the report fully remains with the authors. The final version is part of the public domain.

It should be noted that this baseline survey refers principally to donor performance in 2003, before the provisions of the MoU signed on April 5th 2004 formally came into effect. The principal objectives of this report are thus (a) to set a baseline against which future changes in donor behaviour and performance can be evaluated and (b) to highlight particular areas in which donors were not in 2003 living up to the spirit of the commitments which they have now undertaken.

We recognise that PAP's ability and willingness to make significant progress in some of these areas, particularly on the types of aid modality used, predictability of funding, and levels of alignment with country-based systems, will be partly determined by government performance under the MoU, particularly in the area of improving public financial management systems.

2 Findings, analysis and trends

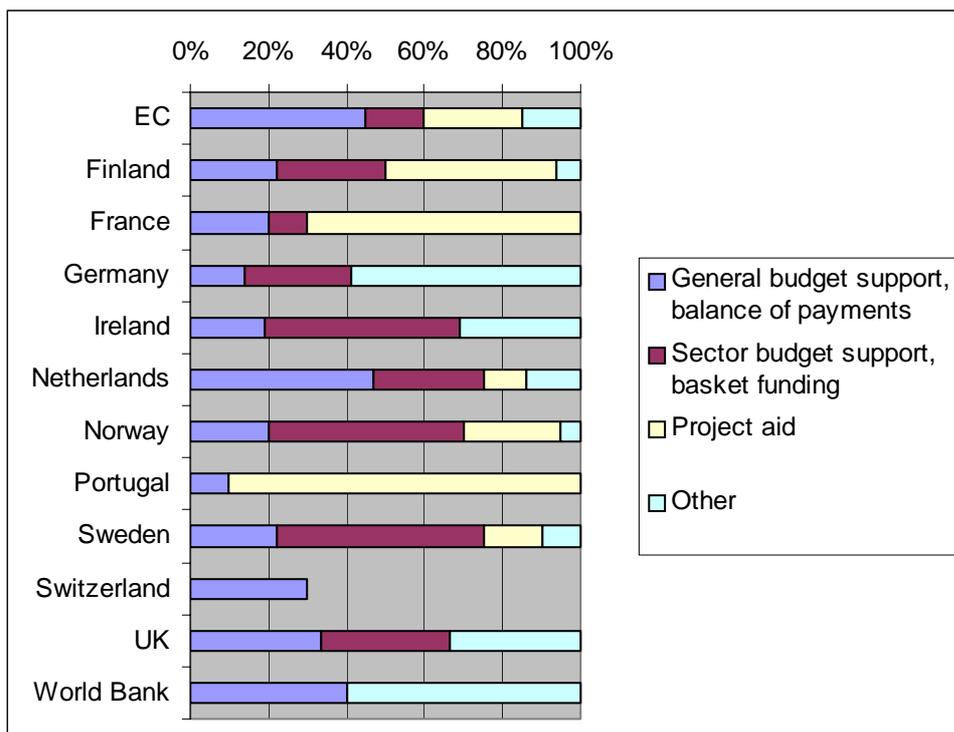
Please note, for easy reference, the figures in brackets refer to the tables in the annex which again are based on the same numbers used in the questionnaire.

2.1 Portfolio overview

PAPs make use of a broad range of **aid modalities** in Mozambique: out of 15 donors, 14 provide also sector budget support, 10 basket funding, 14 use project aid, and 9 provide "other" forms of aid – 8 mention explicitly support to civil society/NGOs. (1.1)

In terms of future growth in overall **portfolio volume prospects** donors paint a positive picture: For 8 PAPs the volume is expected to rise in 2005-2007 whereas for 7 of them the volume will remain constant. None intends to reduce support. Only three countries are in the position to quantify the expected increases for 2005 and 2006. For all the donors 2007 is beyond the planning horizon. The expected increases are of a gradual nature of around plus 10% but in most cases are not quantified. (1.3-1)

The information received makes it possible to sort out the **relative weight of aid modalities**. For 4 PAPs (Netherlands, Ireland, UK, EC), the share of programme aid (BS/BoPS, sector budget support, basket funding) is with 60% and 75% close to or beyond the GoM target figure of two thirds. For 5 donors (Finland, Norway, Sweden, Germany, World Bank) the share exceeds one third up to 50% and for another 2 (France, Switzerland) it is with 30% close to it. For the remaining donors, programme aid represents either a minor share (Portugal) or they are non-reporting (Belgium, Denmark, Italy). (1.3-2)



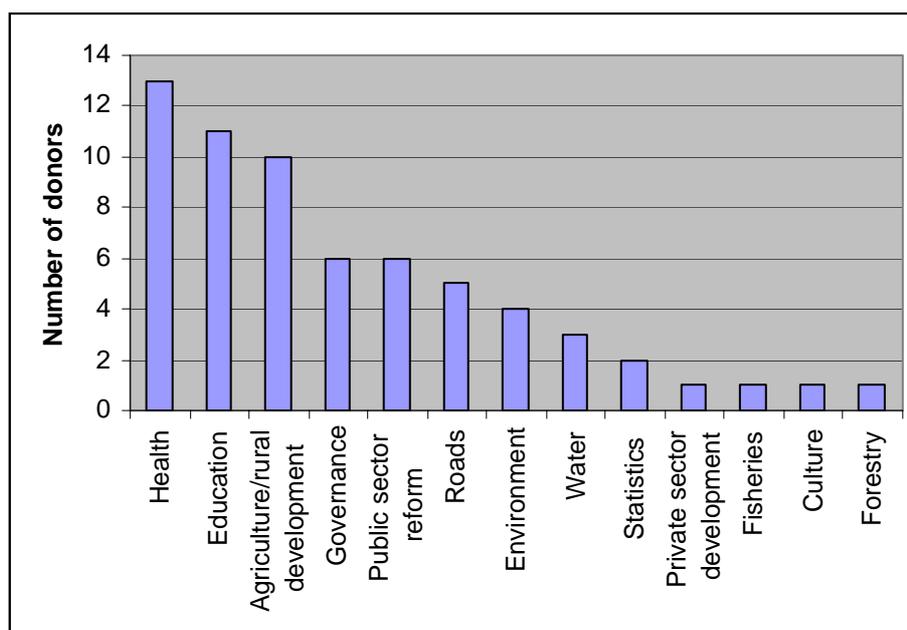
Graph 1: Shares of aid modalities. Incomplete bars indicate incomplete information. "Other" in the case of the World Bank means investment projects which are difficult to break down into the other categories we have defined, since they involve multiple types of funding arrangements.

An interesting piece of information would be how much support is **on- and off-budget**.⁷ Some donors (e.g. Belgium, Netherlands, Norway) report on it to the GoM. Most of the PAPs are aware that this is an important issue:

- 2 PAPs have all support on-budget (World Bank), or all except NGOs/private sector support (Sweden);
 - 7 PAPs intend to increase on-budget share, mainly by strengthening programme aid (Belgium, Denmark, Germany, Italy, Netherlands, Switzerland, UK);
 - 4 PAPs require clarifications of reporting requirements (Finland, France, Ireland) or of the implications moving more on budget (EC);
 - 1 PAP does not consider further measures (Portugal).
- (1.3-3)

Sector mapping of PAPs portrays a picture with a clear emphasis on health (13 donors involved), education (11), and agriculture/rural development (10). Other areas are governance (6), public sector reform (6), roads (5), energy (4), environment including protection of natural resources (4), water (3), statistics (2), private sector development (1), fisheries (1), culture (1), forestry (1). (1.4)

⁷ Those donors reporting on-/off-budget do it on different concepts. Therefore, not only a new reporting format is needed but also clear and agreed definitions and interlinkages of donors' information with the other departments of MPF. A first meeting on this subject was held early August 2004.



Graph 2: Priority sectors

The **portfolio reporting** did not permit a clear picture of the aggregate support of the G-15. In contrast to the clearly expressed wish to report to the Department of International Cooperation (DCI) in the Ministry of Planning and Finance (MPF), 6 of 15 PAPs did not provide statistical information on their support to Mozambique. Despite the provision of a standard reporting template by DCI⁸, the reporting donors use different formats, and one country provides two non-aggregated statistics of its two agencies. (1.2)

Conclusions on portfolio overview.

Already at a high level, overall ODA to Mozambique provided by PAP's can be expected to increase slightly over 2005/06. The share of programme aid is considerable but falls short of the GoM's vision of a two thirds' share⁹. An unknown but high share of ODA funding, including most non-programme aid, is still channelled off-budget instead of on-budget. Sector mapping shows that most of the donors are active in a large number of sectors, leaving substantial room for future concentration and delegation to improve aid effectiveness. The primary responsibility of the GoM to prioritise and monitor public resource use by sectors, areas and tasks is not facilitated by donor reporting because

- Reporting on their aid portfolio is not comprehensive;
- Some donor reporting is difficult to break down by the GoM budget categories;
- There are neither agreed definitions nor a standardized reporting format in place.

The reporting requirements of DCI/MPF are somewhat unclear. Current MPF usage of financial reporting by donors on their aid programmes should be explored. It would

⁸ This template should be in line with the forms of public accounting to facilitate the process of monitoring budget execution and preparation.

⁹ It should be noted that this figure for the share of ODA delivered as programme aid (budget and balance of payments support) is not part of the formal agreement between PAP's and the Government of Mozambique, but rather represents the desired level from the government's point of view.

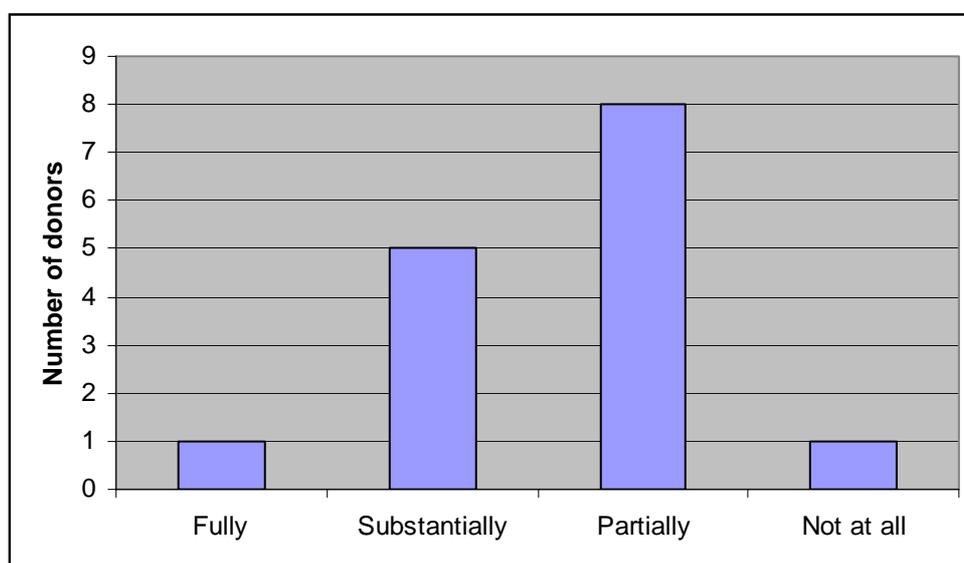
be of particular interest to know whether the information currently submitted to DCI is being used effectively by other parts of the Ministry (DNPO for budget formulation and MTEF projections; DNCP for monitoring budget execution, particularly of on-budget, off-execution projects). Based on a needs assessment, a revised common standard reporting format should be defined. This needs to be followed up by both the PAP's and the Government. Donors should explicitly report on/off budget flows in their own financial management systems.

2.2 Alignment and harmonisation

When making decisions about BS/BoPS, 5 PAPs declared to have fully aligned in 2003 to **GoM processes and documentation**, 7 other aligned substantially, 2 declare to have aligned to a partial extent only, while 1 PAP considered the question as not applicable. Beside GoM documentation, donors mention the use of IMF and World Bank reports as well as other joint donor analysis like the fiduciary risk assessment in their decision-making. (2.1)

For planning, implementation, monitoring, reporting and funding 4 PAPs declared to have fully followed the **GoM cycle** in BS/BoPS, 2 more aligned to a substantial extent, 6 were only partially on board whereas for 3 donors the question was not applicable. The weaknesses in donor alignment to the GoM cycle concentrate on delays of disbursements (see also below, chapter 23). (2.2)

Delegation of decisions related to disbursements and conditionality for BS/BoPS is in one case only (France) fully with the country office. For 6 PAPs (Denmark, Germany, Norway, Portugal, UK, World Bank) decisions are delegated to a substantial extent, for 7 donors (Belgium, EC, Finland, Ireland, Italy, Netherlands, Switzerland) only partially, while for Sweden decisions are not at all delegated. The comments made reveal that de facto decisions are more delegated to the country offices and embassies than the formal processes lead us to suppose. None of the PAPs is considering further measures to increase delegation of decision-making. (2.3)



Graph 3: Extent of delegated decision making

In 2003 bilateral evaluations on BS/BoPS were done by 3 donors (Germany: preparation of first BS in the coming year; Norway: Review and national audit; World Bank: Joint Staff Assessment with IMF). 11 donors declared to have done no bilateral evaluation. One donor (Portugal) considered the question as not applicable because Portuguese budget support started in 2004 only. (2.4-a)

2 PAPs (EC: mission by European Court of Auditors¹⁰; Finland) will have a **bilateral evaluation of programme aid In 2004 and 2005** beyond the Joint Review and the preparations for the single harmonised evaluation in 2006. The remaining 12 donors will refrain from bilateral evaluations, apart from internal evaluations not involving GoM structures. Several donors mention the global evaluation on budget support of the DAC, having Mozambique as one of the case study countries, which is not a bilateral evaluation but, nevertheless, within the control of the bilateral donors. (2.4-b)

Beyond the steps related to BS/BoPS and included above, four of the PAPs (Denmark, France, Germany, Ireland) report taking **other measures for alignment (2003)** with Mozambican instruments, processes and systems of financial management. These moves referred to programmes and projects at sector and provincial level. (2.5)

For **2004/05 other measures for alignment**, beyond BS/BoPS, are mentioned by four PAPs. These efforts intend to bring more aid on budget (Germany, Sweden), to improve sector coordination (Norway), and an external assessment related to DCI's harmonisation and alignment potential (Ireland). (2.6)

Bilateral arrangements preventing donors from full harmonisation of the BS/BoPS programme became relevant for 5 donors in 2003. It should be noted, however, that in 2003 there has been no common framework for full harmonisation in place yet; the MoU was signed in 2004 only. The following barriers were experienced:

- Bilateral conditions (Belgium, EC: see MoU, Annex 10);
 - Bilateral administrative and reporting requirements (Belgium: administrative requirements, Netherlands: budget cuts at HQ delayed approval of multiyear agreement and disbursements, Sweden: centralised decision making, Switzerland: no confirmation of disbursements before GoM budget approval, see MoU, Annex 10);
 - Bilateral legal and statutory requirements (Norway).
- (2.7)

Donors mention as targets and planned **activities in 2004/05 to remove remaining bilateral barriers** preventing full harmonisation:

- Denmark indicates that it may NOT be able to align to the disbursement and response mechanism under the new agreement;

¹⁰ The MoU indicates that Audit Institutions missions, as Independent Bodies, are recognized as exceptions to joint evaluations of GoM's performance (see section 6 article 17 MoU). The mission of the European court of Auditors is not an evaluation of programme aid beyond the joint review. It is an evaluation of the way the EC is undertaking budget support, so the subject is very different. Finally, the European Court of Auditor is an Independent Body from the EC and thus is not part of a PAP.

- Germany: Discussions planned on whether changes to the exceptions of MoU annex 10 will be possible;
 - Ireland: Advocacy of country office in HQ with local good practice examples to move to greater harmonisation;
 - Netherlands: Advocacy for an earlier decision on a new multi-year agreement.
- (2.8)

Conclusions on alignment and harmonisation:

Overall, PAPs are well aligned to GoM processes, particularly in terms of the use of its documentation. Weaknesses in donor alignment to the GoM cycle concentrate on delays of disbursements which were a significant problem in 2003, resulting in negative fiscal and general macroeconomic consequences, and need improvement. The indication of potential non-alignment by Denmark would constitute a serious violation of the MoU. Delegation of decision making to country offices should be followed up as there is significant room for improvement¹¹. There were two bilateral evaluations in 2003, and another is announced for 2004/05 despite the commitment¹² to refrain from such bilateral exercises. Beyond programme aid, other measures have been and will be taken on alignment by few PAPs, measures mainly at the sector and decentralised levels. Despite the impression that there is not a great enthusiasm among donors to work on reducing the number of bilateral barriers preventing full harmonisation, an additional effort needs to be made. Several PAP's seem to consider membership of the G15 donor group *per se* as a sufficient step in demonstrating their commitment to harmonisation, rather than seeing this as a forum in which further harmonisation measures need to be discussed and then implemented.

2.3 Predictability

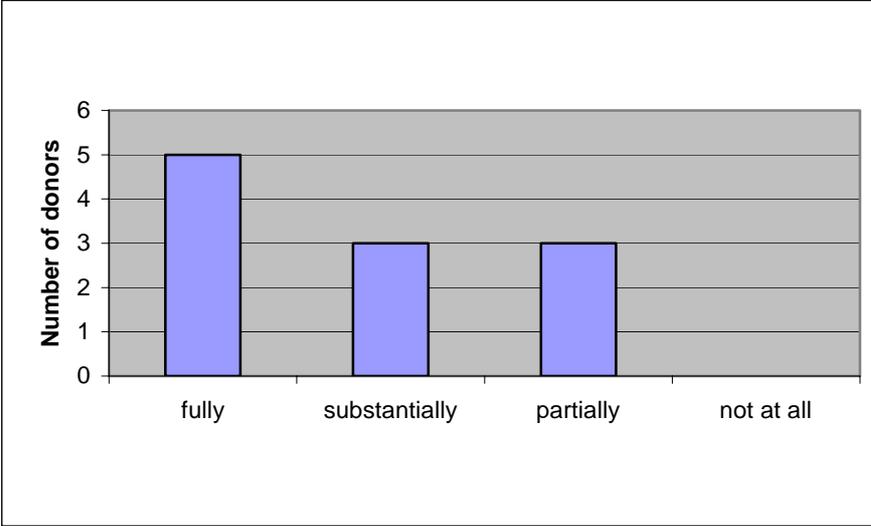
12 of 15 donors have **multi-year arrangements** in place. 3 donors (Belgium, France, Germany) with a two years duration, eight with three years, and one (EC) with four years duration. The World Bank has a multi-year Country Assistance Strategy (CAS) that defines priorities and potential projects to be implemented along a 4-year program. Current investment projects are also multi-year operations (in average about 5-7 years) with multi-year arrangements and disbursements. The 3 donors (Finland, Sweden, other) without multi-year arrangements in place mention that they intend to introduce multi-year arrangements in the near future as well. (3.1)

5 PAPs (Denmark, France, Norway, Switzerland, UK) reported that in 2003 the **response mechanism** produced fully predictable results in the form of a planned disbursement schedule which allowed incorporation into the GoM budget. 3 donors (EC, Ireland, Sweden) rated the produced results as substantially predictable, 3

¹¹ Although increased delegation of decision-making to country offices is commonly seen as an indicator of alignment of donor programmes with country priorities and systems, this is not necessarily the case. It is of course possible for decisions made at head office level to be more fully aligned and harmonised with partner government cycles and instruments than decisions taken locally.

¹² This commitment does not apply to the mission of the European Court of Auditors as the MoU recognizes such exceptions to the rule (see footnote 10).

(Belgium, Finland, Netherlands) as partially predictable, and 4 PAPs did not answer. At the origin of the delays occurred were mainly political issues at HQs. (3.2)



Graph 4: Predictability of disbursements in 2003

In **2003 disbursements** took place according to the schedule of commitments and confirmed commitments in the case of only 6 donors (Denmark, Finland, France, Ireland, Norway, UK). 2 PAPs (EC, Netherlands) did not have a clear schedule in place. Delays occurred due to donors raising concerns related to the banking scandal (Sweden), due to late receipt of data on progress against indicators (EC, Switzerland), due to lengthy disbursement procedures (Belgium, EC) and political problems at HQ (Netherlands). (3.3-a)

14 of 15 donors expect **2004/05 disbursements** according to schedule. Denmark considers the question as not applicable. Italy indicates that administrative internal procedures might delay disbursements. (3.3-b)

Donors mention as obstacles to an **early disbursement¹³ in the GoM budget cycle** time consuming administrative or political procedures at HQ (Belgium, EC, Sweden, World Bank). Portugal notes that according to the bilateral agreement and as proposed by the GoM, disbursements take place in May. Particularly for 2004, the signing of the new MoU was mentioned as a precondition for disbursements (Germany, Ireland) or the renewal of the bilateral agreement (Norway, Switzerland). All other PAPs do not see any factor preventing them from disbursing early in the budget cycle, except Denmark which considered the question as non-applicable. (3.3-c)

A number of donors intend to **move forward disbursements** to the first half of the year: In 2005, Belgium, EC (fixed tranche, variable tranche depending on provision of indicators), Germany and the Netherlands intend to join the club of early disbursers consisting of Finland, France, Ireland, Italy, Norway, Portugal, Sweden and Switzerland (both for fixed tranche, variable tranche depending on provision of indicators), UK. The Netherlands are willing to disburse early and the timing depends

¹³ By early disbursement, we refer to disbursements which take place in the first two quarters of the budget year i.e. Q1 (Jan-March) or Q2 (April – June).

on the joint calendar to be agreed upon, for Sweden disbursements depend on an early GoS decision, and the World Bank does not intend to take any measures if not asked by the GoM. Denmark and Italy did not answer the question. (3.3-d)

Conclusions on predictability:

Multi-year arrangements are already widespread; they should encompass at least a three years' duration in future. Whereas in 2003 the response mechanism did not produce predictable results in the case of many PAP's, they expect for 2004/05 a great leap forward in predictability. We question whether this is realistic without serious efforts to address the underlying reasons for delays, which seem to be quite heterogeneous and agency-specific.

In future, an increase in early disbursements during the first half year can be expected and should be specifically targeted by PAP's, based upon government requirements. Ideally, with improvements in budgetary management information systems under the SISTAFE programme, the donors and government should be able to establish a realistic calendar for the phasing of disbursements, based upon the treasury cycle and government needs. Once such a calendar has been established, further efforts will be required to minimise disbursement delays due to minor administrative requirements. The Government would also like greater certainty that once funds are committed, they will actually be disbursed. In order to harvest the full potential of predictable disbursements, the GoM will have to improve its treasury management as well.

2.4 Transparency

For 10 of the 15 PAPs, in 2003 no issues related to the **transparency of BS/BoPS conditionality or funding arrangements** came up. The Netherlands mention the internal appraisal process as an element of non-transparency. Sweden raises the issue of the split response mechanism which creates uncertainty about the second tranche. The UK reports that the source of the conditionalities, the Aide Mémoire of last year, was not stated in a transparent manner, and there had been no prioritisation. For Italy and Portugal the year 2003 is not applicable. (4.1)

8 PAPs (EC, Finland, France, Ireland, Netherlands, Norway, Sweden, Switzerland) provided on time the **quarterly reports on the release of programme aid**. The requirement for quarterly reporting according to MoU Annex 3 §3 is in place only since April 2004. Belgium, Denmark, Portugal and UK announce an effort to fulfil that requirement in future. Germany and Italy start with BS only in 2004; the World Bank disburses only once an year. (4.2)

The PAPs report 21 **country analytic studies** in 2003. (Note: Most of these are studies specifically related to the budget/BoP support programme and thus this number probably under-estimates the total number of studies actually being

undertaken). In 11 of them the GoM was involved. 5 were jointly undertaken with other donors¹⁴. 12 of the 21 were written in or translated into Portuguese. (4.3)

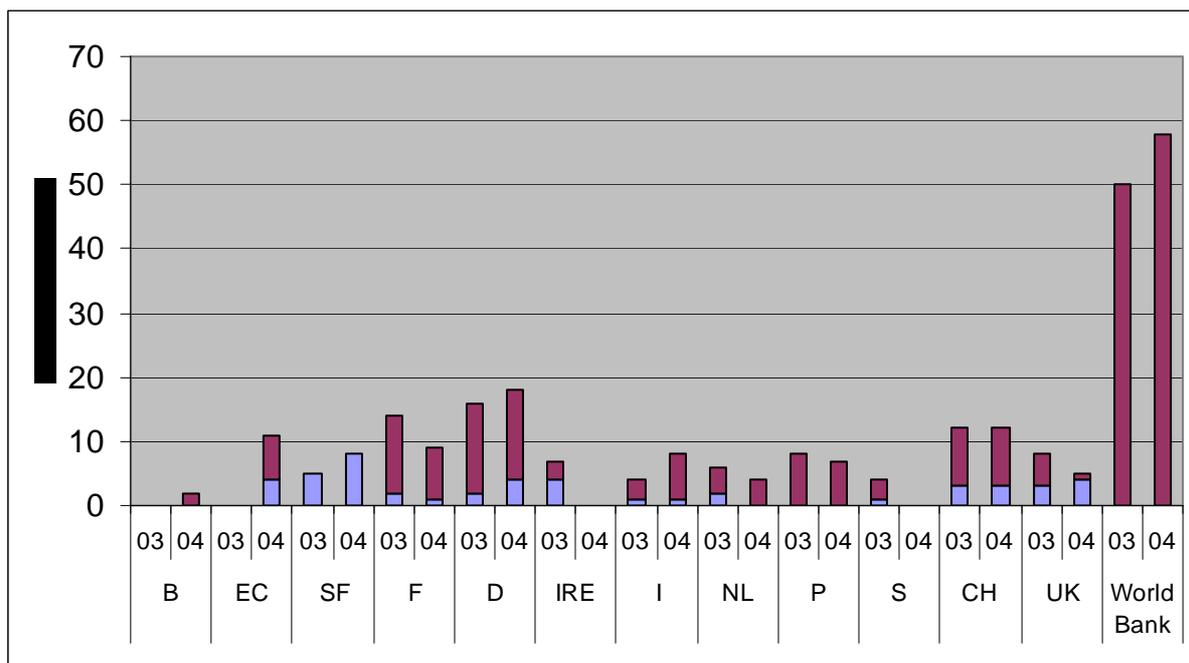
Conclusions on transparency:

Transparency related to conditionality and funding arrangements was not an issue of concern for donors, despite contrary evidence from other sources e.g. SPA survey 2003 that this continues to be a concern of government. The development of the performance assessment framework (PAF), a limited matrix of priority government policy actions drawn from the PARPA on which PAP's will base their budget/BoP support disbursement decisions, is the main development which took place in 2003 to increase transparency of donor conditionality. The success of this matrix in leading to transparent and predictable disbursement decisions will need to be carefully monitored. The provision of quarterly disbursement reports according to the MoU has been a voluntary effort in 2003 and is compulsory from 2004 onwards. The weak transparency in overall portfolio reporting has already been mentioned in chapter 21. Out of the country analytic studies done in 2003, the GoM was actively involved in only half of them, only a quarter were done jointly with other donors, and only half are available in Portuguese. A policy should be developed to share all country analytic work with GoM, other donors, and to have a Portuguese version in time. All country analytic work should be previously discussed in the relevant sectoral working groups to minimise duplication of effort.

2.5 Administrative burden

Out of 134 reported missions in 2003, 23 or 17% are declared as *joint missions* with other donors. This represents an average of more than 2.5 missions per week from just 15 donor agencies!! The plans for 2004 do not reveal a substantive increase in joint missions – out of an estimated number of 142 total missions some 25 are designated as joint missions, corresponding to 18%. (5.1)

¹⁴ Another example of cooperation among donors is the fiduciary risk assessment which first was produced by the World Bank. During the first half of 2004, the donors with the support of the Bank have conducted a new fiduciary assessment to define a baseline to enhance the fiduciary environment. Performance on fiduciary could be measured against this baseline once agreed with the Government and donors.



Graph 5: Joint missions in 2003 and 2004 – The blue part indicates the number of joint missions.

7 (Belgium, EC, Ireland, Netherlands, Switzerland, UK, World Bank) out of 15 donors practiced in 2003 mostly **joint analysis** with the GoM, another 3 (Denmark, France, Norway) practice some joint analysis and another 4 (Finland, Germany, Italy, Portugal) little joint analysis with the GoM. Joint analysis with other donors mostly done by 7 donors (EC, Ireland, Netherlands, Norway, Sweden, Switzerland, UK), and to some extent by 3 (Denmark, France, Germany,). Another 2 PAPs (Finland, Italy) make little use of joint analysis with other donors, and 3 (Belgium, Portugal and the World Bank) did not indicate joint analysis with other donors. (5.2)

Joint procedures with the GoM and other donors were mostly adopted in 2003 by 7 (Belgium, EC, Netherlands, Norway, Sweden, Switzerland, UK) out of 15 donors; some joint procedures were applied by 3 (Denmark, France, Ireland) with GoM and 3 (Denmark, Germany Ireland) with other donors. Another 4 (Finland, Germany, Italy, Portugal) donors used just few joint procedures with GoM and 2 (Finland, Italy) with donors. Portugal reports no joint procedures with other donors. The World Bank did not answer. Overall, for 2004/05 there is a positive attitude to intensify joint procedures. (5.3)

Delegated cooperation is not widely used. In 2003, 4 PAPs (Germany, Sweden, Switzerland, World Bank) out of 15 donors administered funds for other agencies; in 2004/05 additionally the Netherlands are considering to use that instrument and Ireland would be open if an opportunity arises. Denmark coordinates common aid of Sweden and Norway to the Statistical Institute without administering the funds. The Netherlands intend to start a debate on transaction costs and the introduction of silent partnerships within the donor community in Mozambique. Switzerland would like to discuss a possible rotation in delegated management and costs of that additional role and contributions from other donors to cover these management costs. The UK is focusing more on putting funds through common funds and the budget rather than through other donors. (5.4)

As other forms of **inter-donor cooperation/harmonisation** designed to reduce the administrative burden, donors mentioned participation in sector working groups, and also activities at the multilateral level. Among other elements, donors mentioned

- EC: Three co-financing agreements with the World Bank and UNDP and four pooling arrangements
- Germany: Lead donor in the education sector; other cooperation among donors
- Netherlands: Pooled funding at sector level; support will be reduced to three sectors
- Sweden: Silent partition of labour with Norway
- UK: Putting funds through other donors (IMF, UNICEF)
- World Bank: Close cooperation with the IMF; harmonisation and alignment with the GoM and donors will gradually be enhanced in specific topics beyond the PRSC.

(5.5)

Conclusions on the administrative burden:

These figures suggest a significant untapped potential to reduce the administrative burden on the GoM by using more frequently the instruments of joint missions, joint analysis, and joint procedures. Moreover, the instrument of delegated cooperation is seldom used and its potential should be systematically explored, linked to an effort of a concentration on fewer sectors of each donor (see section 2.1). To make real progress in lessening the administrative burden, the PAPs will have to make a deliberate effort. The success of efforts to reduce administrative burden also depend upon establishing a much clearer annual planning and review cycle at sectoral level, with a clear and shared understanding of the points in this annual cycle at which donor missions would be welcomed and specific reports are required.

2.6 Capacity building

4 donors (Belgium, Finland, France, Italy) out of 15 PAPs do not report any **capacity building measures in 2003** related to the provision of budget support. A major effort for capacity building is SISTAFE, jointly by Denmark, EC, Norway, Sweden and the UK. A number of donors support capacity at provincial, district and municipal level (Germany, Ireland, Norway, Switzerland, World Bank). Norway, Denmark and Sweden jointly contribute to enhance statistical capacities (INE). Switzerland contributes to capacity building in the areas of tax reform, macroeconomic management (Gabinete/MPF), poverty analysis (DNPO/MPF), and debt management. The UK strengthens capacity in planning and budgeting of the MPF/DNPO, supports procurement training, and the National Health Planning Project in MISAU. The World Bank's investment projects usually have a capacity development component. (6.1)

5 donors (EC, Finland, France, Italy, UK) do not mention the intention to support **new capacity building initiatives in 2004/05**. Other agencies report as follows:

- Belgium will join the support to SISTAFE.
- For Denmark and Sweden action depends on GoM initiative.
- Germany is preparing a flexible instrument to contribute to BS related capacity building.

- Ireland is prepared to support any joint initiative of the G-15.
- The Netherlands are willing to participate in new efforts, not the least in auditing activities.
- Norway considers joint support to the anti-corruption unit (with the Netherlands, Denmark, Sweden and Finland).
- Portugal intends to provide technical assistance in public finance management to the MPF.
- Switzerland considers support to enhance analytical capacity in the tax sector, on decentralised public financial management, and in the financial sector.
- The World Bank is preparing a support of capacities in reforming the financial and legal sectors and is exploring an IDF grant to support the monitoring and evaluation capacity of the MPF.

(6.2)

Conclusions on capacity building:

The answers indicate that a majority of the G-15 already make a serious effort to contribute to capacity building in key areas related to budget support provision. The openness of a number of donors to consider further capacity building support indicates that there is an untapped potential here. However, it could also be the case that the GoM is increasingly using budget support to finance capacity building. While acknowledging a division of labour among donors, there is a need for greater co-ordination of capacity-building efforts and consideration of the establishment of joint funding arrangements, such as a Common Fund for Technical Assistance, to which all PAP's would contribute. Contributions to this fund could be committed at the same time as commitments for general budget support. The uses to which such funds could be applied would need to be carefully defined and agreed with government.

Transaction costs for well targeted capacity building measures are often considerable, however, and require sufficient capacity also on the PAP's side. A dilemma to remember, mentioned by the Netherlands, is that serious capacity needs of the GoM should be paid out of the budget and not met by off-budget technical assistance.

3 External voices

3.1 Civil society/G-20

Meetings with civil society representatives showed a strong interest in the budget support programme and recent experiences with its implementation, as well as broad support for this method of financing the government's poverty reduction strategy, due to the emphasis on government ownership and increasing domestic accountability for the use of public resources.

The main concern expressed by civil society organisations was that increased donor co-ordination around budget/BoP support may lead to an even greater weight being

given by Government in its decision-making to the concerns of external donors and satisfying demands for external accountability, at the expense of greater accountability to domestic stakeholders.

In this regard, several members of the G20 interviewed supported the proposal to hold the Poverty Observatory in advance of the Joint Review in order to allow civil society concerns to be integrated into a posterior donor assessment of government performance.

Some concerns were expressed by independent commentators about the credibility of the process of dialogue, as embodied in the Joint Review, when this is restricted only to donor representatives and specific officials in central government ministries. In discussing the outcomes of the Joint Review, several also pointed to a number of areas in which the Aide Memoire avoided controversial areas or watered down criticism of government performance. Donors are commonly seen as having various incentives to continue providing financial support even in circumstances where levels of government performance or commitment to effective reform may not merit this.

In response to such criticisms, commentators pointed to the need to open up and democratise the process of oversight of government performance. In this area, the proposal in the G20 Relatório Anual da Pobreza for the creation of Consultative Councils at different levels of the state administration (including representatives of civil society and political parties) should be considered.

3.2 Parliament

It is widely recognised that the capacity of the Mozambican National Assembly to effectively scrutinise government performance is currently weak and needs to be enhanced. However, to date there has been little concerted effort to invest in building such capacity. The PAP's have stated that they would welcome a more agile, informed and scrutinising parliament and they have suggested that the National Assembly should allocate funding for capacity building and technical assistance to the various parliamentary commissions. However, there are also implicitly concerns, from both government and donors, that the strengthening of parliamentary oversight mechanisms could result in greater domestic political influence over elements of the reform agenda and decisions regarding budget allocations.

Donors' attention has been particularly focused in the last 3-4 years upon the strengthening of the core government institutions concerned with the effective use of public funds, once allocated, since positive assessments of the capacity of these institutions are required in order to be able to continue to justify disbursement of external financing through budgetary systems. This is understandable given that the success of channelling aid into budget support depends critically on the reliability of the government's financial management systems. Donors in future should seek to expand their focus upon all stages of the budget cycle and upon the strengthening of all of the institutions required for effective budgetary management in a parliamentary democracy.

4 PAPA's PAF

The **objectives** of the PAPA's PAF are to

- facilitate the implementation of the MoU and monitor PAPA's behaviour against commitments effectively;
- expose non-compliance and weaknesses of PAPA's and provide an informed basis for peer pressure to deliver on agreed commitments;
- strengthen PAPA's accountability to GoM built on the spirit and the commitments of the MoU.

As **principles** for the construction of the PAPA's PAF are to be mentioned:

- Accommodate a multi-year, rolling PAF to be updated each year;
- Use indicators which are linked to the objectives, measurable on an annual basis and under PAPA's control;
- Ensure donor-wide ownership including headquarters beyond country staff
- Independent monitoring of PAPA performance in undertaking the activities and meeting the targets set out in the PAF

The **process** of constructing the PAPA's PAF

- Is the responsibility of the G-15 (but also draws upon government comments and recommendations);
- Is facilitated by the initial proposal made below;
- involves a negotiation phase among PAPA's leading to an agreed proposal;
- includes a presentation to the GoM, inviting for feedback in view of an eventual negotiation and adaptation;
- is linked to the elaboration of an action plan and timeframe for implementation.

In the framework of the annual **review cycle**, the PAPA's PAF becomes the basis for dialogue between the G-15 and GoM to assess donor performance. It should be noted, however, that an effective response mechanism providing a link between PAPA's performance and GoM feedback is lacking. The symmetry of mutual accountability finds its limits here.

PAPs' PAF matrix

Areas of concern	Objectives	Activities	Indicators	2003 actual	2004 target	2005 target	2006 target
Portfolio composition	Transparency on ODA flows according to GoM needs based on DCI standards	<ul style="list-style-type: none"> • Donors & GoM negotiate & agree on ODA reporting standards • PAPs adapt their ODA reporting • PAPs report ODA to DCI • PAPs submit consolidated reports to MPF/DCI 	Number of PAPs reporting ODA to DCI	9	12	All (15)	All (15)
	Share of on-budget programme aid (budget support, BoPS, SWAps, basket funding) reaches GoM target of 66%	<ul style="list-style-type: none"> • Donors increase volume of programme aid • Donors turn other aid modalities into programme aid 	Share of programme aid of PAPs' total ODA	?			
Alignment & harmonisation	Flexibility of donors' country offices to align ¹⁵ to local context of Mozambique	<ul style="list-style-type: none"> • Competence to take position related to GoM PAF is delegated to donors' country offices • Disbursement decisions in BS/BoPS are delegated to donors' country offices 	Number of PAPs with full or substantial decentralisation (ranking based on self-rating)	6	8	10	12
	Full harmonisation of BS/BoPS	<ul style="list-style-type: none"> • Removal of bilateral conditions • Removal of bilateral administrative & reporting requirements • Removal of bilateral legal & statutory requirements 	Number of donors with bilateral barriers (including exceptions of MoU Annex 10)	5	4	3	2
Predictability	Medium-term predictability of BS/BoPS improves	<ul style="list-style-type: none"> • Donors commit themselves on a three -year basis or longer 	Number of donors with at least a three-year commitment	9	11	13	15 (all)
	Short-term predictability of BS/BoPS improves	<ul style="list-style-type: none"> • Donors discuss and agree with GoM a disbursement schedule and disburse on time • Donors frontload their disbursements 	Number of donors disbursing according to schedule of commitments and confirmed commitments	6	9	12	15
Transparency	PAPs fulfil their information requirements according obligations (MoU Annex 3, §3)	<ul style="list-style-type: none"> • If relevant, inform on multi-year commitments by 31 August 	Number of instances of agencies NOT meeting these commitments	(n.a.)			

¹⁵ See footnote 11

Areas of concern	Objectives	Activities	Indicators	2003 actual	2004 target	2005 target	2006 target
		<ul style="list-style-type: none"> • Inform on commitment within four weeks of the annual review • Confirm commitments n+1 by 31 August (exceptions MoU Annex 10) • Inform on disbursement schedules (timing and amounts) for year n+1 by 31 December of year n • Provision of quarterly report on release of Programme Aid within 2 weeks of the end of each quarter 					
	Donors' BS/BoPS related analytic work on Mozambique is shared with GoM	<ul style="list-style-type: none"> • GoM participates in study • Analytic work is done in Portuguese • Analytic work is translated into Portuguese 	Share of studies timely available in Portuguese	69%	100%	100%	100%
Administrative burden	The mission related burden on GoM caused by the overall portfolio is reduced	<ul style="list-style-type: none"> • The number of missions is reduced • Donors increasingly use joint missions 	Share of joint missions in total	17%	18%		
	Donors contribute to reduction of GoM burden	<ul style="list-style-type: none"> • Donors manage funds for other donors • Donors conclude agreements to perform tasks for other agencies 	Number of examples of delegated cooperation among donors	4	6	8	10
Capacity building	Capacities to design, implement, monitor and evaluate GoM PRS are strengthened	<ul style="list-style-type: none"> • Donors contribute to GoM capacity building • Donors contribute to BS/BoPS related capacity building of parliament, civil society, private sector 	Volume of donors' capacity building funding (Alternatively: Number of donors actively engaged in BS/BoPS related capacity building)	?			
	Key bottlenecks in capacity are jointly addressed by donors	<ul style="list-style-type: none"> • Joint funding of capacity building programmes • Pooled funding for capacity building 	Share of joint/pooled capacity building volume	?			

n.a. not applicable

5 Outlook

5.1 Suggestions and Observations by PAPs

Observations on future G-15 performance

- The inclusion of the disbursements of the projects which are “on budget but off treasury” in the budget execution so to be “on record” must be improved. It must be a real joint exercise between government and donors in the coming year. (France)
- It would be interesting to pay more attention of the other modalities of aid and investigate transparency, predictability, etc. of these other funds (including the grey zone of on-budgets and off-budgets). There certainly is a need for horizontal harmonisation (between donors). However, there is also a need for vertical harmonisation (between aid modalities within one donor agency). (Netherlands)
- Harmonisation in data collection processing is important. Hopefully the results of this questionnaire can be used to streamline and improve the flow of information and foreign aid between the donors and government. (Netherlands)
- Consider ways to explore more on incentives and disincentives for further harmonisation to both donors and GoM. (Switzerland)

Suggestions on PAPP design and methodology

- Avoid too much detail in favour of a clear broad picture distinguishing current situation and commitments. (EC)
- Integrate analysis on how harmonisation effort is contributing to consolidate strengthening government and donors financial reporting mechanisms and systems. (Switzerland)
- Consider how to include assessment of link between harmonisation and aid effectiveness (in later studies). (Switzerland)
- Possibility of doing cross-country comparison in progress/efforts towards harmonisation? (Switzerland)

Observations/suggestions on the PAPP questionnaire

- Need to improve/provide definitions of key concepts and terms applied in the questionnaire. (Norway)
- Some questions are still ambiguous as to whether they cover budget support or go beyond. (Germany)
- Question 1.1: “Others” depends very much on definition on “project aid” (The Netherlands)
- Question 1.3. 3) The definition of “on-budget” is not sufficiently clear (France)
- Question 2.1: Unclear question. Sida is part of G15 and follows those processes. Obviously PES and BPES, OGE and QBER, TA CGE reports are of substantial weight (Sweden).
- Question 2.2: Not a very precise question: follow signifies what? (Norway).
- Question 2.5: Does the question refer solely to Programme Aid or beyond? (Germany)
- Question 3.2: Not clear if the question is concerned about predictability in terms of disbursement schedule and/or incorporation in the budget. Answer refers to the latter (Switzerland)

- Question 5.1 has huge transaction costs (looking back to 2003 and separating the different missions). Data could not be assembled fully in time for the deadline therefore numbers will be understated. This proxy indicator is not very scientific in measuring partner's transaction costs without looking at consultants and staff of donors in-country. (Germany)

5.2 Recommendations by independent team

The team proposes three main recommendations:

1. Based on the proposal of the baseline study, the G-15 should **negotiate a meaningful donor-PAF** among the donors and also with the GoM. These negotiations have to include an agreed list of activities and timeframe. The PAF will serve as benchmark for the future reporting of budget support donors on their collective and individual performance in meeting MoU commitments.
2. The G-15 adopt a **pro-active strategy to build mutual accountability** to domestic and external stakeholders. It is recommended that the G-15 disseminate the 2003 PAPPAs Baseline widely and hosts a workshop to validate and discuss the baseline findings in dialogue with Mozambican stakeholders (GoM, parliament, G-20/civil society). The findings of this report should also be disseminated at the Second High-Level Forum on Harmonization and Alignment for Aid Effectiveness, taking place in Paris in early 2005, as an example of good practice in achieving greater donor accountability at the country level.
3. For the production of the 2004 PAPPAs Survey, we recommend to follow this **roadmap into 2005**:
 - The G-15 should appoint a **team with an independent status** in autumn 2004; this would serve to consolidate the spirit of openness already demonstrated by PAPPAs, give greater credibility to results, build upon international best practice and provide balance to the assessment;
 - The team should include an **international and a Mozambican expert**, both being neither GoM nor donor staff;
 - The G-15 should clarify whether **development partners with observer status** should be included in the survey;
 - The **questionnaire** should be reviewed along the observations reported above and taking into account the discussions among the G-15 and with the GoM on the PAPPAs Baseline Survey and in particular the PAF; the revision of the questionnaire should be limited to few issues and concentrate on improving clarity in order to facilitate performance assessments over the medium term.
 - The **methodology** as well should remain close to the 2004 exercise. As the results of the 2003 Baseline Survey have been available in the meantime, discussions with the Mozambican partners (GoM, civil society, other) on their expectations towards donor behaviour will have a new dimension.
 - The production of the 2004 PAPPAs Survey should **start in January 2005** with PAPPAs filling the questionnaire based on 2004 performance; in February/March 2005 the PAPPAs 2004 report is drafted, agreed and transmitted to the GoM and PAPPAs within 75 days of the end of the year (Annex 3 of the MoU);
 - In April 2005, as part of the **Joint Review** process, GoM and PAPPAs assess PAPPAs performance in 2004 against commitments, based on the PAPPAs report.

Annex Tables (separate file)

(all chapters with an agencies' overview in alphabetical order, and annotations)

- 1 Portfolio overview
- 2 Alignment and harmonisation
- 3 Predictability
- 4 Transparency
- 5 Administrative burden
- 6 Capacity building
- 7 Questionnaire