

Input notes for session III

### **Results-based Conditionality: Innovative Steps in Mozambique**

Richard Gerster, Gerster Consulting, Switzerland

Let me, first of all, thank you for the invitation to this important conference and the opportunity to share some thoughts with you. Gerster Consulting has a Strategic Partnership with the Swiss State Secretariat for Economic Affairs (seco) on policy issues of general budget support (GBS) provision. I would like to focus on three aspects of conditionality, all of them related to Mozambique, where I have been particularly involved and which offers some innovative solutions.

#### ***Underlying principles***

The Memorandum of Understanding (MoU) signed on April 5, 2004, sets the rules of cooperation between the Government of Mozambique (GoM) and now 16 Programme Aid Partners (PAPs, including the World Bank, the EC and 14 bilateral donors) committed to the provision of General Budget Support (GBS). The MoU mentions underlying principles of the partnership between the GoM and the GBS-donors beyond performance. They are the foundation of the cooperation and are as such non-negotiable and not part of the performance assessment framework (PAF). The underlying principles include the

- joint commitments of the PAPs<sup>1</sup> and the GoM to peace, democracy and human rights: promoting free, credible and democratic political processes, independence of the judiciary, rule of law, human rights, good governance and probity in public life, the fight against corruption;
- GoM's commitment to fight poverty (with reference to the Millennium Development Goals and PARPA, as the PRSP is called in Mozambique), including through a pattern of public expenditure consistent with PARPA priorities;
- GoM's commitments to pursuing sound macro-economic policies (with reference to IMF programme 'on-track' status or an equivalent judgement).

These underlying principles make transparent that political concerns and macro issues are important but keep political conditionality off the routine negotiation table. Underlying principles are "non-PAF-able": Their violation is understood as being above and beyond concerns raised about under-performance against indicators and targets expressed in the PARPA, in the Social and Economic Plan (PES) and the PAF. The assessment of performance on the occasion of the annual Joint Review (JR) provides the basis for decisions on donor commitments of budget support in the following year, to be made within four weeks following the JR. These commitments have to be confirmed not later than 31 August, permitting the GoM to budget for the

---

<sup>1</sup> With the exception of the World Bank.

following year. A violation of an underlying principle is the sole reason for which a donor may decide not to disburse funds already committed. The formula of underlying principles raises basic donors' concerns while trying to protect the GoM from arbitrary and unpredictable donor behaviour.

### ***The Performance Assessment Framework (PAF)***

The PAF is the core of conditionality. The term "conditionality" is, in fact, no longer adequate to the situation prevailing in Mozambique as the PAF is proposed by GoM and negotiated between the partners but not unilaterally imposed just as a door-opener to funding. The PAF is also the heart of reform. Despite GoM ownership, it goes without saying that donor influence can be traced in the PAF, be it in the high number of performance indicators, or related to the areas of concern, or in terms of over-ambitious targets. Even then, however, the PAF reasonably captures the GoM's priorities across the areas of the PARPA and serves as the common basis for policy dialogue and performance monitoring with the PAPs. The assessment of past performance against the PAF provides the basis for decisions on donor support commitments for the following year. As part and parcel of the domestic planning, monitoring and reporting cycle it is an element of the GoM's accountability towards the parliament.

It was agreed between the GoM and the PAPs that the PAF should not exceed the ceiling of 50 indicators. Such a ceiling had been a key concern of the then Minister of Planning and Finance. The PAF 2005-2007 enumerates 49 indicators<sup>2</sup>. Preparing the Mid Year Review (MYR), the working groups had proposed 85 indicators for the PAF. An enlarged, comprehensive set of indicators ("large PAF") is used at the sector level to track progress. From a GoM perspective, the agreed PAF is not adding any new reform requirements; all these programs are part of the Government's agenda and have to be implemented anyway. The inclusion of an indicator in the short PAF rather increases the political pressure in order to get access to budgetary resources, underpinned by GBS funding.

The agreed PAF consists of two baskets:

- 19 sector-specific, MDG-related and result-focused monitoring indicators. The areas covered are the PARPA priority sectors in the form of MDG related poverty reduction outcomes, as well as education (2), health (3), HIV/AIDS (3), roads (3), water (1), sanitation (1), agriculture and rural development (6).
- 30 process-related indicators measuring progress in key areas of reform: private sector development (2), financial sector (5), state financial administration (3), tax reform (2), procurement (1), auditing (2), planning and monitoring (2), public sector reform incl. corruption (8), justice reform (4).

The PAF basket is offering the donors a menu of options from which to choose: Disbursement decisions can be based on an overall performance assessment of the PAF or on a smaller number of selected PAF indicators. The choice has to be transparent beforehand to retain predictability. Some donors prefer process related indicators fully under control of the Government. Others give priority to result-focused indicators because they facilitate the justification of GBS to the domestic audience

---

<sup>2</sup> In 2004, the matrix of the Poverty Reduction Support Credit (PRSC) of the World Bank was only partially harmonised to the PAF despite the World Bank's membership in the donor group. The PRSC 2005 will, however, make use of the agreed PAF.

and – as some argue – because in such a way the accountability of the GoM to its own people in terms of MDG achievements can be strengthened. The process-related indicators directly link the PAF to specific actions of policy reform whereas the result-oriented indicators offer political space to choose the paths of implementation. A substantial reduction of the number of benchmarks is a major demand from the GoM side – to sharpen the focus on priority actions. Independent of the PAF's size, in a large GBS donor group as in Mozambique only a mixture of result and process related criteria will be practical.

### ***The PAFs' PAF***

The MoU was prepared in the spirit of mutual accountability between the signatories. It systematically clarifies the performance and reporting commitments of the GoM as well as the PAFs. While the GoM is accountable based on the terms of its PAF, the G-16 have also signed up for a number of 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 at the country level and are fully in line with the recent Paris Declaration on Aid Effectiveness.

According to the MoU, PAFs are committed to providing Programme Aid in a way that

- Is aligned with Mozambican instruments, processes and systems of financial management;
- Increases the predictability of the flow of donor funds, including by making multi-year agreements on programme aid;
- Ensures transparency of conditions and funding;
- Improves harmonisation by eliminating bilateral conditions and bilateral administrative and reporting requirements;
- 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 PAFs' 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 the above mentioned obligations. In 2004, the then G-15 mandated an independent team to provide a baseline survey<sup>3</sup> for 2003 and a PAFs' PAF proposal. On that basis donors negotiated among themselves and in interaction with the GoM the first PAFs PAF.

The agreed Aide Memoire of the MYR 2004 mentioned, related to the PAPPA Baseline Survey, "the need to apply the spirit of the MoU to the overall portfolio, rather than just general budget and balance of payments support. It was proposed

---

<sup>3</sup> Gerster Richard/Harding Alan, Baseline Survey on PAP Performance in 2003. Report to the G-15 Programme Aid Partners and the Government of Mozambique, Maputo 2004; see: [http://www.gersterconsulting.ch/docs/Baseline\\_report\\_Pappa\\_04.pdf](http://www.gersterconsulting.ch/docs/Baseline_report_Pappa_04.pdf)

that individual PAPs will indicate what contribution they will make to achieving the PAP PAF commitments, and that an effort be made to translating the spirit of the MoU to the sectoral and reform levels.” It will be important to monitor the future steps made to eliminate these weaknesses of an overall innovative move to bring more symmetry into the imbalance of aid-relationships.