

Learning Assessment of Joint Review 2004 Final Report

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Report to the Government of Mozambique and
Programme Aid Partners by:

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Joint Review Learning Assessment Contents

Executive Summary	5
A. Background/Overview	8
Donor provision of budgetary support in Mozambique.....	8
Objectives of learning assessment	9
Methodology	10
Report outline.....	10
B. Joint Review Organisation and Outputs.....	12
Major Advances since 2003.....	12
Concerns & Issues for Attention.....	12
Recommendations.....	15
Proposed 2004/05 Workplan.....	16
Areas for Further Government Attention.....	17
C. Alignment and Harmonisation	19
Overall Degree of Alignment of Donor Procedures and National Processes	19
Use of Government Instruments for Monitoring	20
Types of Conditionality & Streamlining.....	21
Increasing Predictability – Multi-Year Agreements	22
Are Funds Disbursed on Schedule?	24
Timing of Missions and Joint Missions	26
Other Issues.....	27
D. Assessment of Progress Towards Underlying MoU Objectives.....	28
Government Ownership/ Leadership of Process.....	28
Improving Domestic Accountability.....	29
Improving Allocative Efficiency	29
Improving the Effectiveness of Public Administration	31
Reduction of Transaction Costs	32
Risks to sustainability of programme	33
E. Monitoring Donor Behaviour	35
PAPPA Framework.....	35
Baseline Study	35
Monitoring Government-Donor Relationships	36
F. Existing and Potential Role of Other Stakeholders	37
Engaging Parliament.....	37
Engaging Civil Society	38

Engagement of non-programme aid donors.....	39
Engagement of UN agencies.....	40
Bibliography	42
Annexes:	
A1 Mozambique Aid Profile: An Overview.....	43
A2 Financial disbursements in 2003 and pledges for 2004.....	44
A3 Audits of the Joint Donor Programme 2003: Issues Arising.....	46
A4 SPA Comments and Recommendations	48
A5 List of Persons Interviewed	54
Box 1 Feedback from Joint Review Participants.....	13
Box 2 Views of the SPA on Overall Alignment & Harmonisation.....	19
Box 3 PAF Workshop Objectives	22
Box 3 Specific Disbursement-Related Problems in 2003/04	25

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Acronyms

BdPES	<i>Balanço do PES</i> (annual report on execution of the previous year's PES)
BdM	<i>Banco de Moçambique</i> (Bank of Mozambique)
CFMP	<i>Cenário Fiscal do Médio Prazo</i> (Medium-term Fiscal Framework)
CGE	<i>Conta Geral do Estado</i> (General State Accounts)
CRE	<i>Comissão de Relações Económicas</i> (Commission of Economic Relations)
DAC	Development Assistance Committee (of OECD)
EMPSO	Economic Management and Private Sector Operation ?? (World Bank)
GoM	Government of Mozambique
G15	Group of 15 donors currently providing programme aid
HIPC	Heavily-Indebted Poor Countries
IAF	<i>Inquérito aos Agregados Familiares</i> (Household Survey)
IMF	International Monetary Fund
JDP	Joint Donor Programme 2000-04 (for provision of budget support)
JR	Joint Review
JSA	Joint Staff Assessment (by IMF/ World Bank of PRSP implementation)
M&E	Monitoring and evaluation
MoU	Memorandum of Understanding
MDG's	Millennium Development Goals
MPF	Ministry of Planning & Finance
ODA	Official Development Assistance (grants plus concessionary loans)
OE	<i>Orçamento do Estado</i> (state budget)
PAF	Performance Assessment Framework
PAP's	Programme Aid Partners (signatories of MoU)
PAPPA	Programme Aid Partners Performance Assessment
PARPA	<i>Plano de Acção para a Redução do Pobreza Absoluta</i> (Mozambique's PRSP)
PES	<i>Plano Económico e Social</i> (Economic and Social Plan)
PFM	Public financial management
PRGF	Poverty Reduction and Growth Facility (of IMF)
PRSC	Poverty Reduction Support Credit (of World Bank)
PRSP	Poverty Reduction Strategy Paper
QUIBB	<i>Questionário de Indicadores Básicos de Bem-Estar</i> (Survey of Basic Welfare Indicators)
SISTAFE	<i>Sistema Integrada de Administração Financeira do Estado</i> (Integrated System for State Financial Management)
SPA	Strategic Partnership with Africa
SWAP	Sector-Wide Programme
SWG	Sector Working Group
TOR's	Terms of Reference
TT	Technical Teams (participating in 2004JR)
UTRESP	Technical Unit for Public Sector Restructuring

EXECUTIVE SUMMARY

In Mozambique, donors have been providing co-ordinated and untied support to the state budget since 2000. The benefits of this mode of delivering ODA, compared to traditional sector-based programmes and fragmented project assistance, are now beginning to become apparent. There have been significant gains in (a) the promotion of government ownership of its economic and social reform programme, (b) more joined-up and strategic government planning and resource allocation, (c) greater focus by both donors and government on underlying constraints to enhanced government performance across all sectors (e.g. in areas of public financial management, public sector reform and promoting the rule of law), (d) the beginnings of joint accountability of government to both internal and external stakeholders, (e) harmonisation of conditionality around a limited and prioritised set of actions and indicators.

The challenge for donors is to consolidate on these successes and to move on towards further harmonisation of their interventions (across the full range of their assistance programmes), while at the same time seeking ways to align with government systems, instruments and commitments and to strengthen government capabilities to govern effectively.

The challenge for government is to promote stronger, deeper and more open relationships between the central resource allocation institutions (MPF, BdM and Cabinet) and the spending ministries, both at central and sub-national levels. A history of mistrust and lack of transparency within and between these institutions, partly as a result of an effective “balkanisation” of the state in response to incentives to seek direct donor financing of specific departments and projects, needs to be comprehensively addressed.

It is also necessary to broaden the current levels of political support for reforms, through greater emphasis on working with the National Assembly and organised civil society. It is apparent that important groups within the legislature do not support elements of the reform agenda and may seek to slow down or reverse the pace of reform – for example, key pieces of legislation on anti-corruption measures, legal sector reform and decentralisation have been the subject of recent political controversy and legislative stalemate. Donors must also take more responsibility than currently for explaining and justifying their policy advice.

Current dialogue arrangements are sufficient while the Government of Mozambique (GoM) is basically pursuing good policies, meeting conditionality and achieving progress in poverty reduction and progress towards meeting at least some of the Millennium Development Goals. However, it is necessary to ask how robust current arrangements will be to future shocks (both internal and external) e.g. a change of governing party, financial sector instability, increasing fiduciary risks or greater assertion of sovereignty by Government over controversial elements of the reform agenda, possibly in response to domestic political pressures?

The report identifies a number of key issues connected with programme performance that need to be addressed in the coming year, including (a) the need to resolve continuing administrative and other problems which have delayed disbursements of

programme funds, (b) a clear commitment from both government and donors to seriously address the effects that “off budget” external resource flows have on the integrity and completeness of Mozambique’s budgetary planning and execution systems and (c) further work to integrate the joint review into a planned and rationalised annual cycle of dialogue between government, PAP’s and other development partners in order to prevent duplication, focus debate upon key policy issues and minimise transaction costs for government.

Key recommendations arising from this report include:

- Establishment of a GoM/PAP secretariat to manage more effectively the administrative burdens inherent in the process of harmonisation and new ways of working and particularly to ensure improvements in disbursement arrangements. The details of the structure, functions and institutional location of such a secretariat will need to be negotiated between the parties (Section B);
- Integration of the Joint Review into a planned annual cycle of dialogue, which would take greater cognisance of existing sector-based review mechanisms and progressively seek to integrate a wider range of opinions, particularly those from provincial and local levels of the state administration (Section B);
- The implementation of further mechanisms and capacity-building measures to ensure greater articulation between MPF and sectoral ministries e.g. creation of a working group of national directors of economy/planning from line ministries, presence of qualified technical staff from MPF in sectoral planning and monitoring meetings (Section B);
- Government should host a PAF workshop to clarify the purpose, future contents and process of consultation to produce this key document for internal and external accountability (Section C);
- Donors should provide quarterly to government a consolidated report on disbursements, conditions attached to disbursements and procedural requirements that must be fulfilled before each disbursement can take place (Section C);
- Donors should consider setting quarterly (or even monthly) disbursement targets for their programme aid. A feasible target for 2005 would be disbursement of 60% of total confirmed commitments in the first two quarters [compared to only 29.5% in 2003] (Section C);
- It would be desirable to ensure that in future the IMF/WB Joint Staff Assessment mission to consider the PRS Annual Progress Report avoids unnecessary duplication with the JR. It is also important to clarify how the IMF’s macroeconomic assessment for the PRGF will in future link with the JR process (Section C);
- Consideration of a more articulated Donor Assistance Strategy, which would (a) make the current range of donor interventions more transparent and (b) begin to reduce current levels of donor fragmentation and proliferation in Mozambique –

based upon the concept of lead donors by sector and further consolidation of sectoral programmes (Section D);

- Donors should strive where possible to limit their responses to perceived under-performance and/or breaches of underlying principles to decisions about levels of future budget support allocations (in the form of gradual reductions), rather than through untimely interruptions to within-year flows. Their degree of commitment to a genuine partnership with government will be judged largely by their behaviour in this respect (Section D);
- Implementation of a regular process to monitor donor performance in meeting their commitments under the MoU, through the PAPPa baseline survey (Section E);
- Appointment of an independent monitoring team to monitor both government and donor behaviour under the new Memorandum of Understanding and also more generally government/ donor relations in Mozambique (Section E);
- As a further step to increasing accountability, the final negotiated Aide Memoire should be made a public document (as are documents relating to government negotiations with the IMF over their PRGF facility). This being the case, the Government should also formally table the Aide Memoire before the National Assembly for information (Section F).
- The National Assembly should also be more closely involved in preparations for next year's Joint Review. Sectoral working groups should "link-up" with the parliamentary commissions operating in their respective areas for information sharing (Section F);
- The Poverty Observatory should be scheduled to take place in advance of the Joint Review, so that civil society opinions can be considered. Organised civil society should be formally invited to make written contributions to the Joint Review Process, but without actually participating directly in the main event. (Section F);
- To stimulate public discussion of the macroeconomic policy content of the PARPA, the proposal made by the World Bank/IMF to broaden participation by establishing a macroeconomic working group merits serious attention. The working group could be government-led but be an open forum to representatives from all stakeholder groups (Section F).

A. BACKGROUND/ OVERVIEW

Donor Provision of Budgetary Support in Mozambique

General budget support in Mozambique consists of a programme of non-earmarked financial support to the government's public expenditure programme involving multiple donors and multi-year indicative commitments. The overall objective of budget support is to contribute to the achievement of the government's economic and social programme (PES) and to poverty reduction (through policies set out in the PARPA).

Donor co-ordination in the provision of budget support and other forms of programme aid¹ in Mozambique commenced in the mid-1990's and was formalised in 2000 with the establishment of the Joint Donor Programme (JDP) for Macro-Financial Support. The number of donor agencies contributing to this programme has grown rapidly from an original 6 agencies in 2000 to 15 agencies in 2004². This agreement has now been superseded by a Memorandum of Understanding (MoU) signed at the end of the 2004 Joint Review (April 5, 2004) that sets out in great detail the procedural arrangements for the budgetary support (and balance of payments support) programme. The main rationale of the new agreement was to clarify further the roles and responsibilities of both government and donor agencies and to build a more effective partnership-based approach to supporting the government's poverty reduction strategy.

Financial disbursements under the programme were US\$ 156 million in 2002 (or 27% of all ODA to Mozambique) and US\$160 million in 2003 - with further pledges of US\$167 million for 2004 plus the World Bank's PRSC credit of US\$120 million. MoU signatories will make indicative commitments for programme aid in 2005 within four weeks of the end of the 2004 Joint Review. During the 2004 Joint Review, GoM stated its expectation that in future programme aid (including the sector-wide programmes) should represent approximately 60% of total ODA disbursements, with projects and other forms of emergency assistance constituting the remaining 40%.

It is an explicit objective of the Government of Mozambique (GoM) to reduce aid dependence in the medium-term by enhanced efforts to mobilise domestic fiscal resources. Budget support disbursements represented 34.7% of the annual budget of the GoM in 2003. Including other aid modalities, Official Development Assistance (ODA) funded 48% of the official state budget. The ODA share of budget expenditure has already been reduced from 70% in 1995/96 to 48% now, with the intention that this ratio will be progressively reduced to around 25% from 2010 onwards – as tax receipts and other sources of domestic revenue increase and public expenditure levels fall as a proportion of increasing national income.

¹ In this report "programme aid" will be used to refer to non-earmarked direct budget support and balance of payments support.

² Participating external partners include Belgium, Denmark, the European Commission, Finland, France, Germany, Ireland, Italy, Netherlands, Norway, Portugal, Sweden, Switzerland, the United Kingdom and the World Bank (these 15 support a joint program for providing budget/balance of payments support and are known as the G15), which have signed a Memorandum of Understanding with the Government.

The G14 and World Bank donor group in Mozambique is, in terms of size and active participation, one of the most important of the 9 budget support groups that currently operate in Africa³. The World Bank formally joined the group in 2003 and will in future use the Joint Review as the main evaluation and reporting mechanism for its Poverty Reduction Support Credit (PRSC). Observing external partners include Canada, Japan, Spain, the United States, the United Nations, the International Monetary Fund, and the African Development Bank⁴.

In evaluating the success and impact of the budget support programme, we will give particular consideration to the environment in which the programme is evolving in Mozambique and the extent to which the conditions necessary for successful implementation are present⁵. These include *inter alia* (a) the need for a formal agreement between donors and central budget authorities on policies and expenditure priorities, (b) adequate public expenditure management systems, including performance monitoring and auditing, (c) a unified reform programme owned by the country around which any donor conditions can be built and (d) a willingness of the part of the government to deal with so-called “second generation” reform issues such as governance and institution-building, which are particularly important for ensuring effective use of public funds. It is interesting to note that these issues were all central to the dialogue that took place during the 2004 Joint Review.

The report identifies a number of key issues connected with programme performance that need to be addressed in the coming year, including (a) the need to resolve continuing administrative and other problems which have delayed disbursements of programme funds, (b) a clear commitment from both government and donors to seriously address the effects that “off budget”⁶ external resource flows have on the integrity and completeness of Mozambique’s budgetary planning and execution systems and (c) further work to integrate the joint review into a planned and rationalised annual cycle of dialogue between government, PAP’s and other development partners in order to prevent duplication, focus debate upon key policy issues and minimise transaction costs for government.

Objectives of Learning Assessment

This learning assessment report was commissioned by GoM and the programme aid partners (PAP’s) as a part of this year’s Joint Review, with a view to identifying ways to improve implementation of the new MoU over time. As well as this report, a

³ The others being Burkina Faso, Benin, Madagascar, Malawi, Ethiopia, Ghana, Uganda and Tanzania (Source: SPA)

⁴ Of the current observers, only Canada and Spain have expressed the explicit intention of joining the programme as signatories of the MoU and making financial disbursements through the programme aid modality.

⁵ See Harding (2002) budget support evaluability study for further discussion of necessary conditions for budget support programmes.

⁶ There are a number of alternative possible definitions of on and off-budget resources. We are here mainly concerned with revenues arising from external donor aid flows, as opposed to government own source revenues from fees and licences etc. We define “off-budget” external resource flows 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).

further output from the learning assessment will be a baseline survey on current PAP progress in achieving the objectives set out in the MoU. The results of the baseline survey (to be undertaken in May/ June 2004) will be presented at the mid-term review in August 2004. It should be noted that some of the recommendations in this report might need to be reformulated (or supplemented) in the light of the results of this baseline survey on PAP performance.

Key issues covered in this report include progress to date in achieving the following desired outcomes:

- a. Building partnership between Government and donors
- b. Providing financing to the public sector for poverty reduction in a manner that is clear, transparent and linked to performance
- c. Increasing aid effectiveness and country ownership of the development process
- d. Reducing transaction costs of donor interventions
- e. Promoting and allowing for improved allocative efficiency in public spending
- f. Increasing predictability of aid flows
- g. Strengthening domestic accountability over the budgetary process
- h. Achieving greater harmonisation and alignment in donor objectives, practices and monitoring methods

Methodology

The learning assessment took as a starting point the performance of partners (GoM and donors) in meeting commitments under the current Joint Agreement, as reflected in existing reporting. Main sources of information were observations during a great number of meetings of the JR at all levels, the contents of the resulting Aide Memoire and technical team reports and 30 interviews with GoM and PAPs representatives during the JR as well as the subsequent two weeks (see list in Annex 5). The Learning Assessment builds upon other assessments already undertaken in Mozambique (e.g. Evaluability Study and T&B report). Best practice in the context of the Strategic Partnership for Africa (SPA) and guidance of the OECD's Development Assistance Committee (DAC) were also taken into account. Moreover, the learning assessment took advantage of the presence of an SPA team during the Joint Review to exchange views and experience. An SPA report on observations and recommendations is included as Annex 4.

Report Structure

The report is structured as follows:

- Section B provides an assessment of the strengths and weaknesses of the 2004 Joint Review process and presents some recommendations for the organisation of future review processes, as well as a proposed timetable of preparatory work. Some specific issues raised by government participants in a follow-up roundtable meeting to discuss the outcomes from the 2004 JR are also discussed.

- Sections C presents an initial assessment of donor and government performance in meeting some of their major commitments under the earlier Joint Agreement and new Memorandum of Understanding during 2003/04. An evaluation of the extent to which Mozambique's budget support programme is resulting in desired intermediate outcomes is made in Section D. These sections draw upon responses by external partners and government to the 2003 SPA questionnaire and also further interviews with government agencies and PAP's undertaken during the 2004 Joint Review.
- Section E includes a detailed proposal to undertake a baseline study of donor performance in 2004 and develop a Programme Aid Partners Performance Assessment (PAPPA) framework for monitoring future donor performance and behaviour, particularly the extent to which individual donor's programmes are consistent with best practice principles as set out in DAC guidelines on alignment and harmonisation of their programmes. A possible model for future independent monitoring of government/ donor relations is also presented.
- Section F discusses ways of integrating non-programme aid donors and domestic stakeholders more closely into the budget support programme and associated dialogue mechanisms.

B: JOINT REVIEW ORGANISATION AND OUTPUTS

The 2004 Joint Review was a unique event in several respects. In particular, this was the first attempt in Mozambique (and possibly in Africa) to undertake a joint assessment by both Government and donors of progress made and forward-looking policy options, rather than, as previously, a more traditional evaluation made by donors of observed government performance and proposals for future reforms.

The review was based almost exclusively on the Government's own planning instruments (including the Government's Action Plan for the Reduction of Absolute Poverty (PARPA), the Economic and Social Plan (PES), and the Performance Assessment Framework (PAF) matrices) and monitoring reports (particularly the *Balanço do PES* (BdPES), budget execution reports, and various other poverty-related analyses completed in the recent past⁷) over 2003. Several additional donor-sponsored evaluation reports were also considered, including a fiduciary risk assessment and a review of the SISTAFE programme.

The joint review proceeded in two phases: an assessment of progress and performance of the government in 2003 and a critical review of the government's proposed objectives, work program, and indicators⁸ for 2004 and together with more general discussions for 2005 and 2006. The organisation of the review through 20 technical teams grouped into 5 thematic areas (namely poverty, public financial management, governance, private sector development, and service delivery) led by a steering committee made it possible to address technical issues in greater depth than during previous reviews, although the level of detail and productiveness of debate seems to have been quite heterogeneous amongst technical teams.

Main Advances since 2003

Some of the major advances in this year's event identified by participants in the JR2004 included (a) greater opportunity for specialised discussion in technical teams, particularly those which were more closely integrated with established sectoral working groups, (b) greater ability for government participants to enter into dialogue with donors and particularly to challenge mistaken opinions and unrealistic expectations, (c) the ability of teams to link up in thematic groups to begin addressing cross-cutting issues, although this aspect needs to be enhanced further in future events. Both other donors and government viewed the integration and active involvement of the World Bank in this year's review positively. See also Box 1 for participants' comments on the strengths of this year's review.

Concerns & Issues

Common concerns about the JR 2004 include (a) the heavy burden of an extended period of dialogue (over two weeks plus preparation meetings) on the time of key government officials, (b) the need for donors to co-ordinate their policy positions in

⁷ These include the second *Inquérito aos Agregados Familiares* (IAF); the *Trabalhos de Inquérito Agrícola* (TIA); and several other indicators surveys.

⁸ In this report "indicators" or "performance indicators" refer to the set of process and output indicators included in the PARPA and as summarised in the long PAF and short PAFinho.

Box 1: Feedback from Joint Review participants

G= government representative

D= donor representative

Strong Points

- Use of performance indicators which are chosen by government and are realistic (G)
- Joint evaluation by government and donors was positive (G)
- Open, frank and constructive discussion (G)
- Engagement in process of joint commitment, by both government and donors (G)
- The event marked the beginning of a shift in accountability from 'GoM to donors' towards accountability of 'GoM and donors to wider Mozambican society' (D)
- Depth of analysis was far greater (D)
- Provided government participants with the opportunity to discuss issues at a serious technical level, which doesn't often happen elsewhere (G)
- Opportunity for government and partners to understand each other's perspectives and constraints – resulting recommendations are more feasible (D)
- Opportunity for government participants to get a broader understanding of cross-cutting issues (G)

Weak Points

- Process too long. Burden on government (G)
- Circulate important documents at least 30 days in advance of meetings (G)
- Use of English in documents excludes government participation (G)
- Writing of Aide Memoire – should be produced more gradually and be written in Portuguese (D)
- Lack of participation by civil society/ private sector (D)
- Involve the sectors earlier in the process & integrate with sectoral programmes and reviews (D)
- Lack of working conditions at TDM (telephone, fax) (G)
- Need for further devolution of responsibility from donor HQ's to country offices in order to be able to negotiate effectively (D)

Suggested Improvements

- Report on donor performance should be explicitly included in the discussions (D)
- Need to distinguish clearly triggers for budget support from the general performance assessment (D)
- Need to time sectoral reviews so that they feed into the Joint Review (D)
- Include provincial and district levels of government in the process effectively (D)
- Fewer working groups (both)
- Hold Poverty Observatory before the Joint Review – or two meetings, one before and one after (G)
- Non-country donor staff need to be better prepared to take part in the discussions (D)
- Current calendar is OK – Balanço do PES goes to Parliament in March, Joint Review in March/ April, and Poverty Observatory in April/ May. Points arising from these reviews can then be taken forward into the next year's planning process (G)

Note: Edited comments in feedback questionnaire completed by participants in the 2004 Joint Review

advance of entering into dialogue with government and to seek in future to identify more systematically lead donors on specific areas of the reform agenda and (c) the effect that attempting to achieve consensus on all issues in the Aide Memoire had on opportunities for clear expression of divergent views.

There is also still concern that the degree (and level) of participation by a range of important government agencies – in particular line ministries – was too limited and that a broader range of views on government performance, including those from provincial and local levels of government, should be integrated into future events. Effective ways need to be found to achieve greater “inclusiveness” without adding substantially to the transaction costs of organising effective dialogue.

Several participants also commented upon the need to provide enhanced opportunities for (indirect) inputs into the joint review process from other domestic stakeholders, including the National Assembly and elements of Mozambican civil society. Some possible ways to increase levels of domestic involvement and achieving greater mutual accountability of government to internal and external stakeholders are discussed in Section F of this report.

The roles and responsibilities of observers to the Joint Review process need to be clarified. In this context, an important question is the extent to which non-programme aid donors should be able to participate directly in discussions with government about contents of the Aide Memoire? Several donors currently providing budget support expressed the view that there needs to be a clear commitment by individual donors to the programme in return for the ability to negotiate with government over policy issues, or in effect to gain a seat at the “policy-making” table. However, such a position, while understandable, conflicts with the government’s own desire to make the Joint Review process as inclusive as possible, and to avoid the need for duplicatory review and negotiation arrangements with non-programme aid donors.

Development partners (PAPs and GoM) are still focused on sector-specific issues and attempts to influence policy design and implementation, but we observed the beginning of a shift towards greater focus on the types of cross-cutting issues that affect performance in a range of sectors, including public financial management, legal sector reform and procurement issues. This is very welcome development and should be encouraged in future processes for organising dialogue. Donors need to step back and allow government to implement its own programme and stop trying to micro-manage the implementation of the reform programme.

As well as the current focus on public sector financial management, procurement and legal and judicial sector reform, other cross-cutting issues such as gender and HIV/AIDS, which are fundamental to effective poverty reduction and sustainable development in Mozambique, also need to be given a more central role in future events. This should be achieved through the mainstreaming of these cross-cutting issues in future revisions of the PARPA (as well as the PES and PAF), inclusion in the terms of reference for technical teams and facilitating the effective involvement of the relevant government ministries in the Joint Review process.

Recommendations:

- Basic structure and timing of Joint Review should be maintained but technical working groups should be rationalised and mandated to prepare their inputs (both backward-looking assessment and forward-looking proposals of issues for policy dialogue) in advance of the main review. The ToR for the technical teams should specify the expectations and include also criteria for the selection of TT-members (experience, sectoral expertise, language capabilities).
- The Joint Review should be a shorter event (5 days maximum), which would focus discussion on key issues emerging from the technical team reports and particularly discuss cross-cutting issues that are inhibiting progress in various sectors.
- Donors should seek to harmonise their positions to a greater degree in advance of the main JR in future and then delegate responsibility for engagement with government to a lead donor (or a smaller subset of donors) in each sector. Greater consultation among donors on key policy reforms and actions in advance of the Joint Review would be useful, firstly, to avoid the dispersion of donors' messages, secondly, to lighten the process and thirdly, to help focus dialogue with Government on what is considered most important in helping the Government implement its poverty reduction strategy.
- In order to arrive at a common understanding of the Performance Assessment Framework (PAF), both short and long versions, it is recommended that the GoM host a PAF workshop, in particular for participants from line ministries and at decentralised levels. This workshop would aim to both disseminate the concept and objectives of the PAF and also to agree the process by which future revisions of the PAF will be made.
- Sectoral reviews and sectoral expenditure reviews (SER's) should be scheduled to take place in advance of the Joint Review, which will, to the extent possible, enable the use the results of these sectoral evaluations of past performance and identification of forward-looking priorities in consideration of Programme Aid Partners future aid commitments. It would be helpful to develop a clear "process map" for sectors, which indicate what outputs are required, in what format and by which date, for general monitoring & evaluation purposes.
- The increasing alignment of sectoral reviews (which typically involve a wider range of stakeholders in the respective sectors) and the Joint Review also provides an opportunity and potential mechanism to ensure greater representation of views from provincial and local level in performance evaluation and definition of priority actions for future.
- For future Joint Reviews, it is essential that main reports and other key inputs are prepared sufficiently in advance to allow all parties to effectively brief themselves for the negotiations – for example, this year the reports of the SISTAFE Quality Assurance Team and the fiduciary risk assessment were not available in time and hence could not be fully considered.

- While attempts to achieve a common Government/ donor evaluation of performance and forward-looking policy priorities are laudable, future Joint Reviews and versions of the Aide Memoire should allow for a clearer articulation of any points of divergence in the views of government and donors (or amongst donors). These issues once identified can then be clearly identified as the focus of further government-donor dialogue. It was particularly notable that efforts to agree the text of an Aide Memoire between donors and GoM ended up diluting serious criticisms or differences of view, which it would be better to reflect fully in the documentation.
- In order to promote greater government “ownership” and effective participation, negotiation on the text of future Aide Memoire’s and other main outputs of the JR process should be on the Portuguese version of the text, with subsequent translation of the final agreed text into English.
- In future, the overall terms of reference for the Joint Review and also the terms of reference given to technical teams in advance of the Joint Review should be more explicit about reporting requirements on a range of cross-cutting issues, including gender and HIV/AIDS. On the side of donors as well as the GoM, focal points should be designated for each of the agreed cross-cutting issues.

Proposed JR2005 Annual Workplan

The objective for JR2005 is that this event has become the culmination of a well-structured annual cycle of dialogue between the GoM, PAPs and other development partners. A proposed workplan for the next 12 months is set out below:

May 2004	PAP’s complete PAPP questionnaire and baseline survey on donor performance is drafted.
June 2004	Informal follow-up meeting with government to discuss Learning Assessment and preliminary discussion on the JR 2005 (preparation, priorities, structure, lead donor system, envisaged innovations: alignment with IMF/ World Bank JSA, civil society inputs, presence of decentralised levels).
August 2004	Mid-year review decides on key issues JR 2005 (in particular priorities, agreed TORs for Technical Teams, agreed standards for lead donors, schedules, invitation of civil society & private sector to provide written inputs for the TT not later 31 December 2004). Baseline study on PAP performance presented.
Dec. 2004	Follow-up meeting reviews preparation and outstanding issues; agreement with IMF and World Bank on alignment/coordination of procedures for PRSC/ PRGF in 2005.
Jan. 2005	TT start/continue working according to TORs, review inputs.
15/03/2005	Balanço de PES 2004 available.

31/03/2005 TT have delivered their assessments on 2004 against PAF, PES & Aide Memoire, also present proposals for PAF 2005/2006.

[Sectoral reviews of PARPA-priority sectors timed to coincide with preparation of inputs by technical teams into the Joint Review; sectoral reviews draw upon views and opinions from broad and representative range of stakeholders, including those from provincial and local level]

15/04/2005 Draft Aide Memoire & PAF based on TT assessments, drafted by joint team; all documents available.

April 2005 Poverty Observatory (before or in conjunction with Joint Review).

End 04/2005 JR 2005: Five days for discussion, negotiation and agreed Aide Memoire which allows a clearer articulation of any points of divergence; JSA & PRGF reviews coincide with Joint Review.

The preparation schedule for JR2005 should be disseminated as early as possible and should be co-ordinated with a range of other domestic review processes (individual ministries' coordinating councils, Conselho Economico meetings, parliamentary oversight principally through the Budget & Planning Commission), other regular dialogues between government and external partners on cross-cutting issues (budget working group, PAF working group), sectoral working groups and the PAPP process.

Areas for Further Government Attention

The 2004 Joint Review process served to highlight a number of areas where greater attention is required in order for the Government of Mozambique to be able to respond effectively to the challenges posed by, firstly, the progressive move towards external financing through non-earmarked budget support and, secondly, a greater focus on development of an integrated medium-term reform programme based upon the PARPA, PES and PAF. A meeting between the Learning Assessment team and several key government officials highlighted two areas requiring particular attention: (a) inter-governmental coordination and information-sharing and (b) clarification of the processes by which performance indicators are selected and monitored⁹:

- MPF needs to lead the process of preparation for future Joint Reviews and ensure effective coordination with line ministries and other agencies, giving clear guidance on the objectives, level of information and participation required;
- As well as regular inter-governmental meetings on budgetary limits, further discussion is needed on the criteria for distribution of budgetary resources, the

⁹ These issues were discussed at a round table on 13th April involving Planning Directors from the Ministries of Education, Health, Agriculture and Rural Development, and Justice and representatives from MPF to follow up on issues raised as part of the Learning Assessment exercise.

linkages between annual planning and prioritisation of government activities and the resources levels required and available to achieve these objectives;

- The need to establish mechanisms to intensify exchange of information between MPF and sectoral ministries, for example through: creation of a working group of national directors of economy/ planning from main line ministries (particularly for the discussion of cross-cutting issues), presence of qualified technical staff from MPF in technical meetings of sectors (for planning and evaluation of sector strategic plans), greater transparency on the part of MPF, better use by MPF of existing information available in sectoral ministries, greater use of the CRE (Comissão de Relações Económicas);

Regarding the selection of monitoring indicators and their use during the Joint Review, government proposals include:

- Future JR's should not focus on the selection of sectoral indicators, but rather on the level of progress compared to selected indicators;
- To avoid a multiplicity of monitoring instruments, PAF indicators should be extracted from the list of evaluation indicators included in sectoral strategic programmes;
- The JR should thus take place after sectoral evaluations have been completed and try, where possible, to use the outputs of these sectoral evaluations as inputs into the more global evaluation of government performance;
- The final selection of indicators should be subject to approval by the sectoral ministries' consultative councils, in order to ensure high-level political support for the technical proposals;
- Given that the PAF will be the basis for further external monitoring, this implies that all sectors which will be included in the evaluation must have selected indicators included in the PAF.

C. ALIGNMENT & HARMONISATION

Overall Degree of Alignment of Donor Procedures and National Processes

There has been significant progress in Mozambique in the last 2-3 years in integrating monitoring and evaluation processes and improving dialogue between the Ministry of Planning and Finance (MPF), the sectoral ministries, and the National Institute of Statistics (INE) as well as with civil society (through the Poverty Observatory). In particular, the use of the *Balanço do PES* (BdPES) to report on PARPA implementation and annual agreement on a PAF matrix of prioritised actions and indicators to be included in the PES, are widely viewed as important and significant steps forward. Their central position also institutionalises greater parliamentary oversight as the government must submit the PES and BdPES to parliament.

In a major move towards greater alignment and also reduced transaction costs for both MPF and sectoral ministries, the G14, World Bank and IMF have agreed to use the BdPES as the main instrument for assessing Government performance in future reviews. For the World Bank and the IMF, this implies accepting the BdPES as a PARPA Progress Report and the basis for the Joint Staff Assessment of Government progress. This obviously places considerable importance on improving the quality and coverage of this instrument so that it can effectively meet donors expectations.

Box 2: The Views of the Strategic Partnership with Africa (SPA)¹⁰

The SPA team's assessment concluded that the Mozambique Joint Donor Group is based upon the strong harmonisation and co-ordination foundations set out by NEPAD, Monterrey and Rome and, process wise, strongly reflects good practices recommended by SPA in areas of:

- strong anchor and alignment to the PRSP (PARPA)
- good alignment with the government's budget process and calendar
- streamlined conditionality using a common framework drawn directly from the PARPA and the annualised Economic and Social Plan (PES) in the form of a short matrix that includes policies, actions and outcome indicators
- harmonised reporting requirements
- increased predictability of funding (many donors now provide 3 year indicative statements)
- joint review missions with specific calendars agreed by all involved

Their assessment however noted a number of areas in which further strengthening is required, particularly in reducing the burden of the Joint Review process on key Government staff, avoiding a diffusion of donor effort over too wide a range of sectors and issues and the need to use the Joint Review process to also enhance government accountability to domestic stakeholders.

¹⁰ The Strategic Partnership with Africa (SPA) is the forum of multilateral and bilateral development agencies on assistance to low-income countries in Africa. The work of the SPA is undertaken by a number of working groups of which the Budget Support Working Group (BSWG) is one.

The SPA report also highlights several risks including:

- (1) the risk of the increasing complexity of the process and growing intrusiveness and breadth of the policy dialogue undermining GoM ownership and accountability to domestic stakeholders;
- (2) the risk that efforts to achieve a consensus opinion by GoM and all donors on all issues during the Joint Review could strain relationships and disrupt disbursements if such agreement cannot easily be reached; they recommend a graduated response mechanism by which donors would be able to deliver “partial disbursement in response to partial performance”.

For further details, see SPA assessment attached as *Annex 4*.

There are however still significant problems related to the timing and predictability of donor disbursements to the government’s budget which require immediate attention. These partly result from individual donor’s internal administrative arrangements, which should be re-examined as part of the PAPP process. There also seems to be a problem of lack of clear responsibility on the government’s side for requesting and administering disbursements, which has also contributed to unnecessary delays in initiating transfers of funds, even once these have become available.

Use of Government Instruments for Monitoring

As mentioned above, attempts to achieve a harmonised monitoring & evaluation of government performance based upon key government instruments - namely the PARPA, PES (PAF), CFMP and OE - has to a considerable extent been achieved this year. The focus for both government and donors must now be upon strengthening these individual instruments and ensuring their consistency and transparency.

In 2003, PARPA monitoring and evaluation was primarily done through quarterly state budget reports and semi-annual and annual reports under the government’s Economic and Social Plan (PES). To this an important contribution in measuring changes in basic (result and impact) social and economic indicators is given by surveys conducted in the field, such as the QUIBB and the household survey, which provided complementary information to data provided by sectoral agencies and line ministries. This process largely followed the Government’s strategy for monitoring and evaluating of the PARPA as set out in the chapter on the M&E strategy in the PARPA.

For the first time in 2003 the government also produced a supplementary document, a progress report on implementation of the PARPA, which was published in April 2003, covering the period 2001-2002. This was based on the PES and state budget balance sheets plus additional information, such as data on the execution of actions contained in the PARPA 2000-04 and 2001-2005 operational matrices to measure sectoral performance; data from the National Institute of Statistics and various ministries and consultation with sectors.

From 2004, the Government intends to fully integrate monitoring of the PARPA with the national monitoring process. The Government is working to improve the quality

of the PES so that it can act more as a planning document for implementation of the PARPA. The improved PES reviews and budget execution reports will therefore be the key instruments for monitoring PARPA implementation. These reports, which are presented to Parliament, will also be the basis of discussion with donors, civil society and private sector, including in the Poverty Observatory. There will be no separate (parallel) PARPA Implementation Report. The informational content of the BdPES for 2003 was enhanced compared to earlier years (e.g. in providing some analysis as well as reports on overall budget execution and progress towards the Millennium Development Goals)

An evaluation of the government's poverty M&E strategy undertaken during the 2004 Joint Review emphasised the following points: The M&E strategy needs to be better operationalized in order to ensure a common understanding of the planning and monitoring instruments and how monitoring links with planning. There is a need for better coordination of the M&E system as a whole to ensure that the various reporting requirements are streamlined and consistent. In this respect, it is important to note that donor demands for *ad hoc* M&E systems also continue to draw attention away from this overall aim, thus impeding progress. Capacity weaknesses also continue to afflict the M&E system.

Within the wide-ranging public financial management reform efforts, further work to mainstream the use of the medium-term financial framework (CFMP) and implement a move towards programme-based budgeting are essential for allowing a clearer link between planned government programmes (as set out in the PES and PAF) and their financing implications (for the OE). Preliminary work on internal systems and training have commenced in MPF in preparation for the gradual implementation of programme-based budgeting from 2006.

Types of Conditionality

The Government of Mozambique was previously obliged to meet a number of different and sometimes inconsistent set of performance indicators for donors including the IMF's PRGF (structural performance criteria, structural benchmarks and prior actions), EMPSO conditions, EC indicators, HIPC benchmarks, the PARPA matrix and an update on actions against Joint Donor Review Aide Memoire. The period 2003/04 has seen a concerted effort to seek to both harmonise and simplify conditionality, with a focus on a core set of policy actions and output indicators which are considered fundamental to deliver on the intended results of the Government's poverty reduction strategy.

The Government has now developed a common Performance Assessment Framework (PAF), which is an agreed multi-year matrix of policy and institutional reforms, with results-focused monitoring indicators and progress benchmarks, for which it is prepared to be held to account. The PAF for 2003-06 is attached as an annex to the new Memorandum of Understanding. Reporting against the PAF (through the PES review) will be used to assess performance by the World Bank (for its PRSC) and by Budget Support Donors (with no additional conditionality or reporting requirements).

It became apparent during the 2004 Joint Review that the PAF and particularly the "PAFinho" (the reduced matrix), as a new member of the extended family of

instruments used in Mozambique, is an infant which is widely misunderstood. Some donors were of the opinion that it was their role to write the PAF and arrived at the meeting with their own versions in their back pockets. Representatives of the sectoral ministries claimed not to recognise the indicators relating to their sectors which were included in the 2003 PAF, even though this had been drafted by MPF after consultation with sectors. In order to avoid a future identity crisis, the role of the PAF and the PAFinho within the family needs to be clarified. This would be the objective of the proposed PAF workshop (see Box 3 below).

Box 3 PAF Workshop objectives (amongst others)

1. identify the existing links between the PARPA, PES and PAF
2. examine the planning processes by which sectoral ministries identify priorities and select appropriate indicators for M&E of sectoral performance
3. examine the mechanisms by which MPF interacts with sectors over PAF formulation
4. examine the processes and institutional mechanisms for defining priorities and selecting indicators on cross-cutting issues (e.g. for public expenditure reform)
5. what are the respective roles of donors and other stakeholders in influencing contents of the PAF; should government define the contents and donors approve or does PAF represent more a set of donor conditionality?
6. Should PAF be an all-inclusive matrix covering all areas of the government programme (including macroeconomic targets) or rather more closely focused on a limited number of priority sectors.

An important caveat here is that the institutionalisation of the PAF, while a significant forward step in promoting alignment and streamlining conditionality, should not provoke the mistake amongst donors to take government “performance” against a limited and imperfectly monitored set of indicators as a necessary and sufficient basis by which to be able to genuinely evaluate progress. This inherent danger for donors, as well as in some circumstances for the GoM, can be avoided by an appropriate contextual discussion of what underlies these indicators and what endogenous and exogenous factors have affected whether or not they are achieved.

We are arguing here for a more holistic and less deterministic approach to assessing government performance and “levels of commitment”, which takes appropriate cognisance of prior conditions, capacity constraints and exogenous shocks. This does not imply that indicators do not have value or that there is not a need for a transparent decision-making process based upon a limited set of measurable indicators. However, we recognise that to the extent that the contextual evaluation matters, the assessment potentially becomes more arbitrary and loses its predictability. There is a trade-off here between the legitimate requirement for a limited set of clear-cut, simple indicators and a well-founded and robust assessment of the essence of progress.

Increasing Predictability – Multi-Year Agreements

One of the DAC indicators of good practice in the framework for donor co-operation¹¹ is the degree to which donors programme their aid over a multi-year timeframe that is consistent with the financial planning horizon of the partner government, and are transparent about the circumstances under which aid flows may vary.

Most donors involved in the budget support programme in Mozambique have already adopted or are moving towards at least 3 year indicative funding arrangements and the new MoU is an important step forward in terms of making more transparent the mechanisms by which donors will decide, on an annual basis, upon fulfilment of their indicative funding programmes. However, in general, donors are still extremely reluctant to make firm commitments more than one year in advance or to relinquish their sanctions to interrupt or curtail their aid flows in specific circumstances. Donors are concerned that they will be perceived to be writing the government a “blank cheque” if truly multi-annual commitments are made.

As Batley (2002) points out, the high level of aid dependence in Mozambique makes the government particularly vulnerable to donor pressures, in some instances at the expense of accountability to national constituencies, but also presents a dilemma for donors. The extreme level of dependence upon external financing of the budget make it extremely difficult for donors to effectively exercise conditionality without creating macroeconomic instability and serious problems in budgetary formulation and execution. In such circumstances, it has to be questioned whether donor threats to interrupt budgetary flows in a co-ordinated manner are actually credible?

Issues of predictability are at the heart of Government concerns about the clauses in the new Memorandum of Understanding which deal with donor response mechanisms, particularly in circumstances where one or more donors feel that “underlying principles¹²” of the agreement may have been breached. Government is especially concerned that a decision to suspend aid flows by a single donor agency, particularly those that have a low threshold when it comes to bearing fiduciary or other forms of governance-related risk, may now result in collective action on the part of all PAP’s. Donors have sought to play down such concerns by emphasising that any decision to interrupt aid flows within year would only be taken in the most extreme circumstances and also following an intensive process of dialogue with Government in order to identify appropriate measures to allay donor concerns.

In order to mitigate this type of risk, the SPA report argues correctly that “while it is desirable to strive for harmonisation of conditions between donors and streamlining of the aggregate number of conditions, donors should have the freedom to respond differently to performance.” The principle of differentiated response is also extremely relevant to decision-making upon responses to perceived breaches of underlying principles. To avoid undermining predictability and the budget formation process, any graduated response mechanism, in the form of fixed and variable tranches, has to

¹¹ See DAC (2003), “Harmonising Donor Practices for Effective Aid Delivery”, Good Practice Papers, OECD, Paris.

¹² Underlying principles (Section 3, MoU) include Government’s commitments to “peace and to promoting free, credible and democratic political processes, independence of the judiciary, rule of law, human rights, good governance and probity in public life, including the fight against corruption”; Government’s commitment to fight poverty (with reference to the MDG’s and PARPA) and to pursue sound macro-economic policies (with reference to IMF ‘on-track’ status).

strictly remain within the range of agreed PAF indicators. It should be noted that even then, this split graduated response mechanism potentially introduces distorted incentives to hit selected donor-determined “trigger points” for these additional aid flows.

New thinking on aid conditionality (see, for example, Foster et al. 2003; Goldin, Rogers and Stern 2002) argues that conditionality should act by reducing future commitments rather than by suspending disbursements within the budget year, and that the extent of donor reactions to policy shortfalls or other events should be measured and take account of the full range of likely impacts. In Mozambique, donors should strive where possible to limit their responses to perceived under-performance and/or breaches of underlying principles to decisions about levels of future budget support allocations (in the form of gradual reductions), rather than through untimely interruptions to within-year flows. Their degree of commitment to a genuine partnership with government will be judged largely on their behaviour in this respect.

Are Funds Disbursed on Schedule?

Along with the proportion of general budget support in total ODA, an important indicator of the effectiveness of budget support programmes is whether funds are disbursed on schedule. Late disbursal or non-disbursal of programmed support is a source of unpredictability for the recipient, and unpredictable funding of the national budget (a) weakens the budget as an effective instrument for implementing the PARPA, and (b) increases the costs for the GoM to access alternative commercial resources to finance their budget deficit.

There have been significant problems in the scheduling and general financial management of donor disbursements of budget-support funds in Mozambique in recent years and the problem seems to be getting worse and not better. Several donors admitted in interviews to being “one of the bad guys” when it comes to delivering their programme aid in a timely and predictable manner. There were a number of serious continuing problems in this area in 2003 (see Box 4 for some specific examples). As can be seen, both donors and government have been responsible for a range of administrative problems which have delayed receipt of funds by the Ministry of Planning and Finance. Further, the back loading of donor disbursements in the fourth quarter of 2003 caused considerable problems for the government’s monetary policy and attempts to control inflation¹³.

On the government’s side, there are also a number of ongoing problems in the area of Treasury operations which mean that donor funds are not being used as efficiently as possible. Two specific issues have been discussed in recent Budget Working Group meetings:

- the lack of effective communication between DCI (Department for International Cooperation) and the Treasury over the timing and administration of donor disbursements;

¹³ See Aide Memoire from 2004 Joint Review, para 12: the rate of inflation “rose further at the end of 2003 and in early 2004 due to a significant monetary expansion associated with the concentration of Government spending in late 2003, financed with delayed disbursements of external aid that were not sterilised by selling foreign exchange.”

- the tightest period in terms of liquidity for the GoM are the first two quarters of the year, yet a significant number of donors continue to disburse at the end of the budgetary year. This is one of the factors contributing to very low budget execution rates in key PARPA-priority sectors.

Box 4: Specific Disbursement-Related Problems in 2003/04

2003

Netherlands – Disbursed US\$2.4 million of 2002 tranche only on 6th January 2003
Reason Given: due to renewal of three-year agreement with GoM covering 2003-05

European Commission – Disbursed US\$31.2 million of 2002 tranche only in January 2003
Reason Given: Need for official request by government to release funds, which does not happen on time. EC procedures are complicated, for example disbursements to a US\$ account are more complex than if disbursements were to a Euro account

Donors disbursing all/ some of budget support funds in Q42003:
European Commission, Netherlands, Sweden, Switzerland
(note: for some donors, 2003 disbursements were deliberately delayed due to concerns about government's ability to meet critical financial sector reform conditions in the EMPSO review)

Banco de Moçambique – delay of 64 days in transferring Ireland's budget support funds of US\$3.18 million from Forex account in Frankfurt to Specific Transitory Account of the Ministry of Planning & Finance (Joint Agreement specifies that funds, once received by BdM, should be transferred within 48 hours) *[source: KPMG audit]*

Banco de Moçambique – EUR3 million of French funds transferred to wrong forex bank account in Frankfurt; error only detected and rectified one month later *[source: KPMG audit]*

2004

Belgium – Disbursed US\$3.75 million of 2003 tranche only on 2nd Feb 2004
Reason Given: Belgian Inspectorate of Finance is not fully prepared for the provision of budget support. Funds were only made available for disbursement (engaged) on 12th December 2003.

European Commission – Disbursed US\$6.6 million of 2003 variable tranche only in March 2004
Reason Given: see above

Norway – Could not confirm value of 2004 commitment
Reason Given: New three-year agreement being prepared

France - 3 million Euros could have been disbursed on 1st January 2004 (source is France's HIPC debt relief contributions). MPF needed to request funds from BdM and then FDC would issue a no objection letter. MPF did not issue letter on time and then when the letter was sent (following FDC reminders) it included the wrong bank account number. Funds eventually disbursed on 28th February 2004.

Recommendations

- To assist the GoM in managing donor flows, the donor group should undertake to provide quarterly a single consolidated report to Government detailing for each donor: (a) historical disbursements by quarter for last year and this year to date, (b) projected disbursements by quarter, in a form suitable for Government to use in budgetary planning, (c) conditions attached to each projected disbursement, and the means by which performance against conditions will be assessed, (d) procedural requirements which must be fulfilled before each disbursement can take place.
- This function could be undertaken by a GoM/PAP secretariat, reporting to the chair of the donor group, but funded jointly by signatories to the MOU, through a pooled account. The details of the structure, functions and institutional location of such a secretariat will need to be negotiated between the parties.
- Stronger disincentives are needed to discourage donors from becoming signatories but then failing to disburse. PAPs which fail to disburse for a period of 2 years should be considered to have defaulted on their commitments under the MoU, and should be denied the right to voice opinions on policy issues or PAF indicators in Joint Review meetings and processes.
- The Aide Memoire includes the recommendation that donors should consider setting quarterly disbursement targets for their programme aid. A feasible target for 2005 would be disbursement of 60% of total confirmed commitments in the first two quarters [compared to only 29.5% in 2003]. Government has indicated that it would eventually prefer monthly targets.

Timing of Missions and Joint Missions

The major issue with regard to timing of donor missions is the current lack of alignment between sectoral reviews (particularly in the SWAP sectors) and the Joint Review. Several sectors, including health, education, roads, water and agriculture, have well-established sector-wide programmes, with their own sector-based evaluation procedures¹⁴. The timing of these sectoral reviews seem however to be rather arbitrary and designed more for the convenience of the main donor agencies supporting these sectors, rather than being aligned with the sectoral ministries' own planning and budgeting cycles. Some sectors (e.g. health) have already begun to review their own dialogue mechanisms in order to seek better alignment with the Joint Review process.

The progressive alignment of sectoral reviews, including performance evaluations and sectoral expenditure reviews (SER's), with the annual Joint Review has several potential advantages including (a) providing an opportunity for the integration of provincial and district level opinions into the analysis without overloading the Joint Review itself, (b) avoiding duplication of sector-based analysis and monitoring by the

¹⁴ The range of SWAP's in Mozambique and their various characteristics are discussed by Batley (2002) and also in Annex 2 of the DAC Joint Assessment of the Aid Programmes of Germany, the Netherlands and the UK in Mozambique (November 2001).

same donors but for different purposes, (c) increasing sectoral involvement in the Joint Review process and promoting ownership of resulting policy programmes and (d) ensuring ministerial level support for the technical assessments of past performance and future policy options. Achieving such integration will require active engagement with sectoral ministries and leadership from MPF in defining an appropriate timetable and setting objectives for these reviews. It will also require strong leadership from donor's local offices to ensure that sectoral staff at head office appreciate the need to adjust their own systems and requirements to a new aligned system of sectoral evaluation.

The JR process also raises questions about the role of the IMF/WB Joint Staff Assessment of Mozambique's PRS annual report, given that the current ongoing work within the Ministry of Planning and Finance to enhance the quality of the annual Economic and Social Plan (PES) will mean that this document will in future be used as a *de facto* annual report on progress in the implementation of the PARPA. If both processes cannot be completely integrated, it would be more efficient if the JSA and JR activities coincided, rather than happening separately as they did this year, since they involve the same government officials presenting and reviewing a very similar range of performance-related indicators.

There are still too few genuine examples of donors undertaking joint missions and joint analytical work, although it has become more common for donors participating in the budget support programme to be willing to use the results of evaluation missions undertaken by other agencies as the basis for their own programme orientation. In this respect, general economic and social analysis and sectoral reviews undertaken by the World Bank are probably the most commonly used by other donors. The World Bank is keen to promote joint analytical work with other donors. However, the Country Director recognises that currently Bank staff incentives do not place as much emphasis as is needed on closer working with other donors¹⁵. This appears to apply particularly to Washington-based sector staff.

Other Issues

A range of other issues related to alignment and harmonisation, including levels of delegation to country offices, reductions in numbers of head office missions, joint analytical work, delegated cooperation arrangements and the range and effectiveness of donor-supported technical assistance programmes will be covered in the baseline survey on PAP performance to be carried out in May/June 2004 and will be discussed in the survey report.

¹⁵ The Bank's Operations Policy and Country Services (OPCS) department is currently examining the implications of donor harmonisation arrangements for future Bank procedures and staff incentives.

D. ASSESSMENT OF PROGRESS TOWARDS UNDERLYING MoU OBJECTIVES¹⁶

Government Ownership/ Leadership of Process

The gradual move of increasing volumes of aid towards direct budget support has undoubtedly strengthened the position of the Ministry of Planning & Finance and also promoted a greater level of inter-connectedness in government planning and policy dialogue, particularly at the technical level.

Several observers, on both donor and GOM sides noted that the process of discussion of the Performance Assessment Framework (matrix of indicators and policy actions) over the past 6 months has improved dialogue within government, especially between Ministry of Planning and Finance (MPF) and sector ministries, including on the shortcomings of the current budget management system¹⁷ and on M&E issues. In some cases, the PAF formulation process was the first time that ministries had been required to produce process and output indicators, as for example in the case of the Ministry of Justice.

The process of alignment of donor conditionality with government's own planning, budgeting and M&E systems has also permitted the government, in some senses, to take greater ownership/responsibility for the reform programme. The process has also led to an increased level of common understanding between government and donors over the main priorities in the reform programme, as set out in the PAF matrix.

However, there is still a lack of comprehension of the types of capacity constraints facing government, in both the planning and implementation of its programme, and any serious concerted attempt by donors to address these issues. This leads to the risk that expectations of government's ability to meet key performance targets will not be met and that this may lead to future interruptions to budget support flows, particularly for donors whose disbursements are directly linked to output indicators.

The inefficient fragmentation caused by the plethora of donors in Mozambique suggests GOM could gain by adopting a firm Donor Assistance Strategy (as Uganda has). Most of the interviewees emphasized that the GoM already adopts a clear and inclusive strategy of welcoming all types of aid. The vision is to have 60% of ODA as programme aid and, of course, to transform off-budget into on-budget ODA but few people think GOM is yet ready to take a more critical stand against non-programme

¹⁶ Intermediate objectives are set out in Section 2 of the MoU. The overall objective is to support poverty reduction in Mozambique by (a) building a partnership based on frank and open dialogue and (b) providing financing to the public sector for poverty reduction in a way that improves aid effectiveness and country ownership, reduces transaction costs, allows allocative efficiency in public spending, increases predictability of aid flows, increases the effectiveness of the state and public administration, improves M&E and strengthens domestic accountability

¹⁷ Some key features are that GOM operates a cash budget, uses procedures which will not transfer funds to spending units until they have accounted for funds transferred in the past, seeks to avoid payment arrears but does not have a consolidated treasury account system. So spending units are reluctant to sign contracts until they have cash in their account. This is not conducive to efficient use of available cash resources. The inefficiencies are compounded when budget support is delayed.

forms of aid. However, several of the main programme aid donors think that a greater assertion of Government discipline over donor behaviour and aid modalities is now essential if aid effectiveness in Mozambique is to improve.

Improving Domestic Accountability

There is some concrete evidence of the current process leading to a strengthening of mutual accountability of government to external partners and domestic agencies e.g. Balanço do PES is now being used by the National Assembly to hold government to account over its success in delivering promised results; the institution of the Poverty Observatory has given an opportunity to civil society (in the form of the G20) to begin to seek a more institutionalised dialogue and engagement with Government and donors.

The focus of donors on the PES (Economic and Social Plan – in effect the annual policy plan) and the Balanço do PES (a report on the previous year's PES) offers good potential for improving accountability to domestic stakeholders. The PES has to be presented to Parliament. The Balanço do PES can be discussed by civil society in the Poverty Observatory (the inaugural meeting of which was held in mid-2003). The commitment of senior GOM officials to the poverty reduction strategy, and using the PES and Balanço do PES in this way was very evident.

As a further step to strengthening domestic accountability, the negotiated Aide Memoire should be made public and also be transmitted to parliament for information. The National Assembly should also be more closely involved in some of the preparatory meetings for next year's Joint Review.

It has to be borne in mind that it can be a delicate and complex process to justify general budget support to the taxpayers in the North. That is one of the reasons why there is so much emphasis from donors on the proliferation of performance indicators. Donors shift part of their own accountability problem to their Mozambican partner instead of making a serious and pro-active effort to explain General Budget Support to their own public.

Improving Allocative Efficiency

Little further progress seems to have been made in this area in the last 12 months. The focus of both government and donor concern continues to be the measurement of levels of public expenditure in the PARPA-priority sectors and, to a lesser extent, its geographical distribution, rather than any attempts to systematically assess the quality of this expenditure and its effectiveness in achieving results. An important exception was the tracking survey undertaken of expenditures in the health sector.

Budget execution figures in 2003 varied among sectors, but the share of non-interest expenditure allocations to priority sectors was 66%, falling marginally short of the PARPA target of 67%. The share of actual (rather than budgeted) expenditure, even of non-election and non-interest spending, to priority sectors was slightly lower at 64.9%. Within this, the priority sectors' outturn was just below half of the recurrent budget, though priority investment spending was over three-quarters of the total investment outturn. Recurrent expenditure continues to be dominated by wages,

salaries and other personnel related spending. Prioritization of expenditures appears to be a primary issue. Some sectors, such as health and water, had particularly low execution rates, while others were over-spent. Provincial actual spending appears to be highly unequal, though this impression may arise from incomplete coverage because the figures do not reflect some centralized activities.

In 2003 the flow of funds from the Treasury to several of the key ministries, particularly health and water, and thence to local providers, was low, slow and uneven, particularly in the first quarter of the year. This was due, among other things, to delays and unpredictability in donor disbursements, as well as weak planning, budgeting and financial management systems, with the result that implementation of government programmes (and hence budget execution rates) were even further compromised.

In terms of territorial distribution of resources, different budgetary ceilings are allocated to different provinces, in order to respect the PARPA principle of promoting development in the poorer regions. Line ministries are asked to present a budget request, disaggregated per province, while provinces also present their own budget requests. Unfortunately, at the moment some provinces do not have the necessary resources to be able to prepare adequate budget proposals. In this case, it is done at ministerial level.

Budget allocations to the sectors in 2004 are expected to be substantially very similar to last year's, apart from some increase in the funds for infrastructure. A different methodology is however being applied to allocate resources to the sectors. While current expenditure remains generally on the same level, investment expenditure allocations will decrease with the duration of a project, in order to create an incentive to conclude those projects in a more timely manner.

New functional classifiers have been introduced in the budget to enable a clearer identification of poverty-reducing expenditures, as agreed in 2001, but the implementation of the classifier was incomplete, so that important additional work remains to be done to bring it to the appropriate level of detail.

The government noted also that in analyzing global budget execution, a differentiation should be made between internal and external funds which are sometimes accounted for under different arrangements (for example, in the case of external donor project funds and also sectoral programme funds which are not channelled through the Single Treasury Account, but which are disbursed directly to the sectors through other pooled funding arrangements). Indeed, the information on budget execution of external funds is very poor and this affects negatively global execution data¹⁸. Even though part of these funds are now included in the OE (i.e. they are "on-budget"), their execution takes place outside of normal budgetary channels and information on their degree of execution remains limited (i.e. they are "off-accounts").

This reinforces the importance of having clear data on foreign disbursements and compliance with given commitments. On the other hand, donors expressed the view that the government should use better treasury management instruments to be able to

¹⁸ See the "Diagnóstica dos Sistemas de Planeamento e Orçamentação e Capacidade Institucional da DNPO", DNPO, MPF, February 2003.

cope with delays in foreign disbursements, considering that there are also other sources of revenues to the treasury. The government understands the need to improve the financial planning and treasury management of budget resources to avoid future occurrence of temporary cash shortages.

The assessment of the 2004 Joint Review was that further work needs to be done to both:

- (a) capture all external financial flows that are currently “off-budget” (particularly donor funding) through cross-checking, the MPF has managed to track a significant proportion, calculated at about 38% of total donor off-budget flows, which is reported as off the state budget annually, and which directly disempowers the MPF vis-à-vis spending agencies that receive substantial funds directly from the donors, and
- (b) make the budget execution reports meaningful (the 4Q-FY03 report lacked analysis, and the sectors do not recognize their budget status in it). In principle, from 2005 the SISTAFE system will allow incorporation of donor funding for particular projects.

Improving the Effectiveness of Public Administration

Mozambique is currently in the initial stages of implementing a wide-ranging medium-term public sector reform programme, led by UTRESP (Technical Unit for Public Sector Restructuring) within the Ministry of State Administration. The 2004 Joint Review evaluated progress in a number of areas of the reform agenda and concluded that, although progress is being made, there are continued concerns particularly in the areas of anti-corruption measures and judicial sector strengthening. As part of the reform programme, all 22 ministries have undertaken or are completing functional analyses to determine how to optimise functions, departments and staffing levels with a view to future restructuring. A proposal for a comprehensive pay reform programme, which aims to link pay to performance, is also being discussed.

As donors devote an increasing proportion of their aid budget to programme aid, they have certainly become more concerned with systems of public financial management and public administration and with implementing reforms to strengthen these systems (which they previously effectively side-stepped by establishing their own project implementation mechanisms). It is too early to say whether the current programme of reforms will be successful in improving the effectiveness of public administration in Mozambique, but it is undoubtedly a step in the right direction and the fact that this issue is now nearer to the top of the agenda for discussions between government and donors is a breakthrough in its own right.

It should be recognised that the effectiveness of public administration is also limited by other factors such as a weak human resource base, low wages and an over-centralised public expenditure system in which provinces have lost most of their discretion over spending¹⁹. To the extent that budget support increases the “resource

¹⁹ For further discussions of the constraints facing the Mozambican civil service, see particularly Sulemane & Kayizzi-Mugerwa (2001) and Fozzard (2002).

envelope” which the government has available to implement an effective civil service pay reform programme, this may be another mechanism by which budget support leads to enhanced public service delivery, by increasing the government’s ability to attract and retain skilled personnel in high priority occupational categories. It is more difficult to see how, at least in the short term, a move to budget support will support decentralisation of the administrative system, unless this becomes one of the agreed objectives of the public expenditure management reforms and donors continue to pressure the Government for greater commitment in this area.

While there is a wide range of ongoing reforms in the public sector which are aimed at addressing capacity weaknesses related to the implementation and monitoring of the PARPA, these reforms in themselves appear to be taxing current capacity to the limit. At the same time, different levels of government have high expectations of the potential success of these reforms – especially aspects dealing with the decentralisation of the planning and monitoring system – which it may be difficult to realise in practice. This reinforces the importance of identifying a limited number of key priority reforms that can be effectively delivered in the short to medium-term.

With respect to financial management systems, the PFM and the service delivery groups of the JR found that many sectors (including particularly the social sectors) continue to have serious difficulties with budget execution, caused both by problems of availability and seasonality of funding (domestic and external), and also the irregularities and poor quality with which the sectoral ministries present their *prestação de contas* in order to justify the disbursement of the next *duodécimo*, with the result that funds often arrive very late.

Another aspect of administrative effectiveness is effective planning of priority actions and associated resource requirements. Traditional forms of donor intervention at the sectoral level have progressively undermined the government’s own planning systems and capacity. It was noted by government participants that sectoral ministries which have now established sectoral working groups and pooled donor funds have succeeded in developing substantially better planning functions (for example, in the health and education sectors).

In this area, the main challenge is ensuring consistency between sectoral programmes (SWAP’s) and the non-earmarked budget support programme. There are basically still too many unnecessary off-budget donor interventions going on in a highly un-coordinated manner, particularly in sectors which do not have established SWAP’s. There is a need to build upon the success of some of the sectoral programmes e.g. PROAGRI which are beginning to have a significant positive impact in ensuring that sectoral strategic plans are effectively implemented with maximum impact and achieving value for money. However, such sectoral interventions need to be made compatible with the basic concept of reinforcing the Ministry of Planning & Finance and the Council of Ministers (and Parliament) as the ultimate arbitrators of how both domestic and external resources are allocated and for what purposes.

Reduction of Transaction Costs

Compared to the prior situation when the GoM had to individually negotiate with and report to all 15 donors, transaction costs for government under the new harmonised

arrangements are undoubtedly considerably lower. But the fact remains that the transactions costs of the budget support group for some key Government departments are unacceptably high, although many of the donors are actually promising very little budget support money.

It has also been noted that the move towards budget support may be shifting transaction costs, rather than reducing them. There are certainly greater time demands being placed upon the core departments within the Ministry of Planning & Finance in order to respond to donor demands for information, key reports required under the new MoU and attending meetings on procedural issues. The implication is that departments where the increased transaction costs from the budget support modality fall (particularly in the planning and monitoring & evaluation departments within MPF), need urgently to be reinforced with adequate human resources.

As has already been mentioned, the need for greater levels of co-ordination between MPF and sectoral ministries also has implications of a transaction cost nature and will effect their future human resourcing requirements – with a priority being to ensure that MPF has technical staff with sufficient sectoral expertise to be able to effectively engage in negotiations with sectors on planning and budgeting issues.

One of the objectives of the 2004 baseline study will be to try to establish some quantitative and qualitative indicators of the level of transaction costs and where they mainly fall.

Risks to sustainability of programme

Major risks to the success of the budget support programme are currently perceived by donors to be (a) a lack of progress in achieving necessary improvements of governance standards, despite statements of government intent in this area; (b) continuing weak relationship between budget planning and budget execution – with the Ministry of Planning and Finance unable to impose budgetary discipline over spending ministries; (c) risk that at the current stage in the implementation of public finance reforms we do not observe sufficient evidence of a more efficient and transparent allocation of public expenditures.

The major risk for government of the progressive move towards budget support is that this results in greater exposure to and consequences of volatility of donor disbursements. Government is concerned that donors will act collectively to suspend their provision of funding in response to perceived violations of the “underlying principles” of the current agreement (which are difficult to define and predict in advance). Past donor behaviour has sent mixed messages to government over the degree of consistency and restraint that they will exercise in evaluating whether conditions for continued budgetary support have been met or not.

Greater volatility of donor disbursements is also a possible side effect of the consensus approach adopted to undertake the joint review. Seeking unanimity of assessment runs the high risk that lower-than-expected performance by the Government -- which may be the result of setting expectations too high and without due considerations for the country’s limited human and institutional capacity – could

lead to coordinated suspension of support. This is particularly important as resources provided through budget support are increasingly more important as a % of total public expenditure. We should recognise that unanimity is not a necessary condition for donor harmonisation and that seeking complete consensus, while desirable, may not always be practical. A variety of opinions would first, by leading to differences of opinions, help to identify causes for poor performance. Differences of opinions would also, through mechanisms to modulate support, reduce volatility in disbursements. For instance, one can conceive an approach where the non-fulfilment of a condition considered to be important by say two donors, lead to reduced support by these donors but would not automatically stop budget support by other donors for whom this condition is not crucial.

This raises the question of the degree of sustainability of budget support programmes where the absence of an effective public expenditure management system means that there are few guarantees that donor funds (irrespective of how these are delivered) will be used effectively and transparently? In Mozambique, it is unlikely that some donors will continue to support a budget support programme in the medium-term without clear evidence of improvements in public resource management.

As part of the strategy of risk mitigation, a greater emphasis needs to be placed on mobilisation of domestic resources, through the reform of tax policy and administration, in order to over time reduce current levels of aid dependency and vulnerability to “aid shocks”. The strong government participation during the Joint Review in sessions looking at tax reform demonstrates that this is clearly a government priority, however this does not seem to be matched by an equivalent level of donor concern.

E. Monitoring Donor Behaviour

Donor behaviour may strongly influence observed GoM performance. It was already mentioned that the GoM perceived a considerable risk in the donors' "ganging-up" in times of crisis. Donor dynamics also matter in good times. There is a tendency for every donor to give priority to their own favourite topic and concern. As there is no disciplining mechanism among each other, the different demands tend to add up, the PAF becomes overburdened, and the GoM, confronted with rising expectations, will find it increasingly difficult to perform up to the agreed level. If donors do not behave clearly as a part of a larger group and put aside their individual "favourites" in preference for a more common understanding, the process may result in and contribute to avoidable failures. Therefore, monitoring donor behaviour makes a lot of sense.

PAPPA Framework

A key requirement of the new MoU is an annual report by PAP's on their performance against commitments to provide their programme aid (direct budget support and balance of payments support) more effectively, predictably and with increased transparency of terms and conditions, amongst other objectives. One of the main outputs of the initial phase of the learning assessment has been the design of an agreed performance assessment framework to measure future donor performance against these commitments. Progress will be measured in particular in the (1) alignment with Mozambican instruments, processes and systems of financial management; (2) predictability of donor flows; (3) transparency of conditions and funding; (4) harmonisation by eliminating bilateral requirements; (5) reduction of transaction costs for the GoM; (6) enhancement of the capacity of the GoM to meet its commitments. The Programme Aid Partners Performance Assessment will include an overview on the cooperation portfolio of the PAPs in Mozambique, the aid modalities applied and changes to be expected in the spirit of this MoU. In particular, on-budget and off-budget will be made transparent. In order to enhance credibility the annual report will be commissioned to an independent provider.

Baseline Study

A questionnaire has been prepared in order to undertake a baseline study on 2003 levels and 2004/2005 planned steps for improvement of donor compliance with best practice principles during May/June 2004. The answers by the PAPs and the GoM will be the primary source of information. Further inputs may be sought from MoU observers and third parties as deemed appropriate. The PAPPA baseline and later reports will build upon existing assessments undertaken in Mozambique, as well as best practice and lessons learnt in the context of the Development Assistance Committee (DAC) and the Strategic Partnership with Africa (SPA). The results of the baseline study will be presented to GoM and PAP's at the mid-year review in August 2004. PAPs will release the PAPPA report to the public domain. In particular, GoM may pass it on to the Parliament and the Poverty Observatory. The baseline study will be updated annually in order to monitor the progress of individual PAP's towards

meeting their commitments under the MoU. The first update will have to be done early 2005 in preparation for the JR 2005.

Monitoring Government-Donor Relationships

Moves towards partnership-based aid relationships require that the monitoring and evaluation of such relationships should be jointly conducted or sponsored. Killick (2004) discusses some of the components of a “best practice” model for external evaluation of donor/ government relations based upon the experiences of Tanzania, where there was a crisis in government’s relations with its main external partners in the mid-1990’s.

In February 2002, The Government of Tanzania (GoT) and donors jointly appointed an Independent Monitoring Group (IMG) to review progress in aid relationships. IMG evaluations are to be undertaken every 2-3 years and will consist of an assessment of both government and donor performance (and not just donor behaviour) with a wide-ranging and flexible TOR. The IMG is composed of senior Tanzanians (including a leading academic & a former ambassador) and respected external observers, supported by a local think-tank organisation which won a publicly tendered contract to service the group. IMG evaluations are financed by contributions from various donors to a pooled fund which is administered by UNDP.

This learning assessment represents the first formal attempt by the Government and donors in Mozambique to seek an external evaluation of their partnership arrangements. Similar exercises in future could be improved upon considerably by (a) undertaking a single harmonised evaluation - rather than parallel exercises by different individuals and teams, (b) ensuring that independent Mozambican members of the evaluation team are jointly nominated, (c) ensuring that the Terms of Reference for the evaluation is harmonised, authoritative and agreed upon by all participants in advance, (d) ensuring adequate administrative support to the evaluation which is independent of either specific donor agencies or government.

F: EXISTING AND POTENTIAL ROLE OF OTHER STAKEHOLDERS

In order to consolidate and expand the base of public and political support for poverty reduction and the Government's reform programme, there is the need to progressively move from the current exclusive Government-donor joint assessment of performance to a greater involvement by civil society organizations and the Parliament. This has already been achieved to a much greater extent in some other leading reformers, including Tanzania and Uganda. Mozambique can learn important lessons from regional experiences.

Engaging Parliament

A key institution which should be integrated into Government/donor dialogue mechanisms to a greater extent is the Budget and Planning Committee (Comissão do Plano e Orçamento) of the National Assembly. This is one of eight permanent committees of the Parliament and also acts as a coordinating committee for others covering for example judicial issues, economic issues, local government and public administration and social actions. The CPO committee is composed of 15 members of parliament (*deputados*), including 8 Frelimo members and 7 opposition Renamo/UE members. The committee chair is from the governing party.

The CPO reviews and issues opinions on any new legislation (*projectos do lei*) submitted to the Parliament which are within its remit, for example recently in areas such as SISTAFE and the new laws on tax reform. CPO is also responsible for giving official opinions (*paracers*) on the annual state budget (OGE) and the quarterly budget execution reports to the main plenary sessions of the Parliament. CPO also reviews any changes to the budget approved by end-December which are submitted during the following year. Decisions are taken on the basis of a simple majority of the members of the committee (i.e. 8 members), although it is common for unanimous decisions to be reached. There are also provisions for the indication of minority opinions or issues of divergence within an overall judgement.

Ministers and other government officials can be called before the CPO, in sessions that are open to the public, to respond to questions about general planning and budget issues. Sector-specific budgetary issues would be handled in the first instance by the permanent committees for those areas. Outside of the periods of the two main parliamentary sessions (March-May and October-December), members of the CPO also undertake visits to specific institutions and to provinces and districts in order to follow up on progress in the implementation of the government's programme. It is common for extraordinary sessions of Parliament to be called, as happened in 2002 to discuss mid-year revisions to the annual state budget.

The main planning and budgeting instruments which must be formally debated and approved by the parliament are the OGE and the Economic and Social Plan (PES). These are usually submitted at the beginning of the second ordinary session in October and must be approved by Parliament before 31st December. It is a concern of the CPO that the lack of detail in the PES currently makes it extremely difficult to

effectively scrutinise the consistency between programmed actions and the financial resources allocated to them. There have been a number of examples of spending commitments being made in the PES with no matching appropriations in the budget. This reflects in part the continued reliance upon off-budget funding sources to finance a substantial part of the government's investment programme.

The main constraint noted by the President of the CPO was the lack of technical and analytical support to the permanent commissions including CPO. One consequence of this is that discussions in the committees tend to focus more on political issues and points of political divergence, rather than being informed and rigorous technical appraisals of the government's programme.

There is obviously an initial need for much greater information-sharing, which could be undertaken by "linking-up" the key parliamentary commissions and the sectoral working groups (SWG's) operating in their respective areas²⁰. We would recommend that the Presidents of the Parliamentary Commissions be invited to participate in specific information-sharing sessions with each of the SWG's perhaps on a bi-annual basis. Donors should also make a more concerted effort to explain to members of the National Assembly the implications of the move towards programme aid and new accountability arrangements. Since the Aide Memoire in its final version will become a public document, in a similar manner to the results of government discussions with the IMF now being available publicly via the IMF's website, we also recommend to formally transfer it to parliament for information. It may then form part of the Parliament's own scrutiny of government performance and future policy commitments.

Engaging Civil Society

A forum to monitor and discuss PARPA objectives, targets and actions was established by the government in 2003 with the creation of the Poverty Observatory (as proposed in the PARPA M&E strategy). This was set up as a consultative forum where government, foreign donor community, civil society and private sector could discuss monitoring and evaluation of medium and short-term planning instruments, with the objective of holding the government to account and coordinating actions to promote national development and poverty reduction. The first P.O. meeting was held in April 2003. The Poverty Observatory meetings are expected to be annual or semi-annual and to be then the main forum to discuss reviews of the national poverty reduction strategy.

In future years, the Poverty Observatory should be held either in advance of the Joint Review or during the same week as the Joint Review – possibly following the approach adopted in Tanzania where there is an annual Poverty Week, during which government, donors, civil society and parliament all focus upon a multi-faceted evaluation of progress in poverty reduction. In order not to over-burden the process, this should be seen as an objective to be reached in the next 2-3 years, once all parties have greater experience of the positive roles that they can play and have built confidence and trust.

²⁰ In the reports of the technical teams for the 2004 Joint Review, there was very little reference to the outcomes of parliamentary debates or of the opinions of Parliament on budget-related issues.

In the interim, organised civil society should be formally invited to make written contributions to the Joint Review Process – raising any issues which they consider to be of particular relevance with regard to the impact of the government’s poverty reduction activities and particularly to enhance the focus on cross-cutting issues such as gender and HIV/AIDS.

To stimulate public discussion of the macroeconomic policy content of the PARPA, the proposal made by the World Bank/IMF to broaden participation by establishing a macroeconomic working group merits serious attention. The working group could be government-led but be an open forum to representatives from all stakeholder groups.

Engagement of non-programme aid donors

A number of donors now participate in the Joint Review and associated harmonisation processes as observers. Observing external partners include Canada, Japan, Spain, the United States, the United Nations, the International Monetary Fund, and the African Development Bank.

The Minister of Planning & Finance, Luisa Diogo, has clearly expressed her desire to see the joint programme as a broad and inclusive agreement with a variety of partners. The cost is that there may be diminishing marginal returns to further donor harmonisation and also that a lack of commitment to the programme by some of the smaller bilateral donors may lead to increased risks of volatility of aid disbursements (due to the common response mechanism).

As argued in Section B above, the roles and responsibilities of observers to the Joint Review process need to be clarified. Several donors currently providing budget support expressed the view that there needs to be a clear commitment by individual donors to the programme in return for the ability to negotiate with government over policy issues, or in effect to take a seat at the “policy-making” table. However, such a position, while understandable, conflicts with the government’s own desire to make the Joint Review process as inclusive as possible, and to avoid the need for duplicatory review and negotiation arrangements with non-programme aid donors.

Among the observers, the IMF occupies a key role. Conditionality of the PRGF should be streamlined in view of and as far as possible aligned to the PAF. Equally important, the Joint Staff Assessment (JSA) should be closely coordinated and combined with the Joint Review of the G-15 in order to make it an instrument enhancing partnership. It is obvious that the resident economists of the G-15 donors have a wealth of experience which may be relevant for macroeconomic assessments by the IMF. Fund missions and assessments should take that into account and place greater emphasis on the opinions of bilateral participants. The probability of conflicting views can be reduced by strengthening the capacity of the local IMF office.

Mozambique has a number of important partners who are not major contributors of bilateral aid flows but which have influence over policy outcomes and resource allocations. These partners include South Africa (particularly through membership of SADC and commitments under the NEPAD agreement), India and increasingly

China. There is a clear need for closer involvement of these donors in both the PARPA dialogue and budgetary support programme through a more effective mechanism for information sharing (which would be one of the functions of the Government/PAP Secretariat). Representatives of these agencies could be invited to also join as observers to the programme.

A number of countries have adopted institutionalised poverty funds, to which specific resources are allocated, as a way of co-ordinating and monitoring overall donor assistance to the Government's poverty reduction programme and dealing with donor concerns over ability to monitor the use of their financial resources²¹. However, these have a number of methodological and implementation problems and can aggravate the lack of transparency of the budget as a whole.

In some other countries, notably Uganda²², donors have contributed to a "virtual" poverty fund (VPF) which identifies and protects specific expenditures within the budget that have been identified as having direct poverty-reducing effects. Virtual poverty funds can be a good bridging mechanism for tracking pro-poor expenditures within the budget whilst budget-wide mechanisms are being established, and as such should be seen as a transitional instrument. VPF's allow donors to relate their provision of budgetary funds to allocations to specific budget line items, which are then monitored as part of overall budget execution. Such a "tagging" system presumes an efficient system of budget classification and expenditure tracking, which is currently being built through the introduction of the SISTAFE programme, but this might still be a relevant initiative for Mozambique to consider in the medium-term in order to increase donor confidence.

Engagement of UN agencies

The UN system in Mozambique is comprised of resident programme and/or funding agencies (UNDP, UNFPA, UNICEF, WFP) and Specialised Agencies (FAO, UNESCO, WHO). UNDP has the dual role of UNDP resident representative and UN resident co-ordinator. The role of the resident co-ordinator of the UN system is to co-ordinate all activities of the UN Country Management Team (UNCMT). The UN Resident co-ordinator system is the anchor of field co-ordination aimed at facilitating a more holistic approach to development and humanitarian programmes of the different partners.

Overall UN strategy and objectives in Mozambique are set out in the United Nations Development Assistance Framework (UNDAF) The UNDAF strategic objectives for 2002-2006 are based on the national action plan for the reduction of absolute poverty (PARPA) and on the comparative advantages of the UN system in Mozambique. Progress towards UNDAF goals are monitored by a set of common core indicators which measure the contribution and impact of the UN System on national capacity and development. It will be useful during the mid-term review of the UNDAF and the preparation of the next CCA to review the common set of indicators and establish to what extent they are aligned not only with the MDGs but also the Government PAF indicators and targets which is being used to assess performance of government.

²¹ See "Moving to Budget Support", DAC Task Force on Donor Practices, December 2001

²² Uganda's Poverty Action Fund was introduced in 1998 as a means of demonstrating the additional nature of HIPC and donor funds in increasing allocations to pro-poor expenditure areas.

In addition the UN resident co-ordinator co-chairs the Development Partners Group (DPG) with the World Bank. This group meets monthly and allows for the UN, World Bank and donors to discuss and resolve issues of common interest. In addition, UN Agencies participate with donors in sector working groups and specific sub-groups to ensure co-ordination and debate to plan for, monitor, or assess development issues. It is through these technical sector working groups that the UN agencies and UNDP in particular can better position itself to identify capacity needs at sectoral level and systematically address capacity building issues through providing technical expertise in areas of UN agency specialisation.

The UN and UNDP could possibly play an “independent” brokering role in this process by further facilitating the institutionalization of participatory dialogue between government, civil society and donors and taking responsibility for ensuring that the results of this dialogue are fed into the annual programme of dialogue between government and PAP’s.

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Annex 1: Mozambique Aid Profile: An Overview

Table 1
Trends in ODA to Selected Countries in Sub-Saharan Africa 1998-2002

	Net ODA Receipts (\$ million)					GNI/CAP (c)	Population	Current GNI	ODA/GNI
	1998	1999	2000	2001	2002	2001 US\$	2001 million	2001 \$ million	2001 per cent
Mozambique	1 040	805	877	933	2 058	210	18.07	3 314	28.14
Ghana	702	609	600	653	653	290	19.71	5 172	12.62
Kenya	415	310	512	463	393	350	30.74	11 248	4.12
Tanzania	1 000	990	1 022	1 271	1 233	..	34.45	9 285	13.69
Uganda	647	590	819	793	638	260	22.79	5 556	14.28
Zambia	349	624	795	349	641	320	10.28	3 499	9.98
Nigeria	204	152	185	185	314	290	129.87	38 922	0.47
Ethiopia	660	643	693	1 116	1 307	100	65.82	6 181	18.05
Rwanda	350	373	322	299	356	240	7.93	1 680	17.77

source: OECD - DAC Aid Tables 2004

notes: GNI is Gross National Income; GNI/CAP is GNI per capita

Table 2
Mozambique: External Financing (US\$ millions)

	2002 CGE	2003 Programmed	2003 Actual	2004 Budget	2005 CFMP	2006 CFMP
Grant aid	431.6	460.7	468.4	451.1	476.9	476.6
Projects	244.7	273.0	249.1	270.0	270.0	270.0
Countervalue	126.0	155.8	175.2	154.4	165.0	165.0
Direct financing	26.3	12.4	20.9		10.0	10.0
Special programmes	12.9	5.9		13.6	15.0	15.0
IMF via BdM	21.7	13.6	23.2	13.2	16.9	16.6
Credits	354.1	174.2	341.3	198.5	213.0	211.6
Projects	106.2	104.5	117.1	123.1	138.0	129.0
Countervalue	106.2	106.4	117.1	105.7	113.0	123.0
Debt interest	141.8	-36.8	107.2	-30.3	-38.0	-40.4
Total	785.7	634.9	809.7	649.6	689.9	688.2

Source: MPF (DNPO), Macroeconomic and Fiscal Indicators, April 2004

Notes: CGE is Conta Geral de Estado (State Accounts), CFMP is the medium-term fiscal framework

Annex 2: Financial Disbursements in 2003 and Pledges for 2004

Pledges and Disbursements for 2003																	
				I Quarter			II Quarter			III Quarter			IV Quarter			Total disbursed	
DONOR	Currency	PLEDGE FOR 2003 Domestic Currency (mil)	PLEDGE FOR 2003 USD (mil)	Amount in domestic currency	Amount in USD	Date of Disb'ment	Amount in domestic currency	Amount in USD	Date of Disb'ment	Amount in domestic currency	Amount in USD	Date of Disb'ment	Amount in domestic currency	Amount in USD	Date of Disb'ment	Total in Domestic Currency	Total In USD
Belgium	EUR	3	3.65														
Denmark	DKK	60.0	8.8	30	4.191	Jan 9th	30	4.645	June 25th							60.0	8.8
European Commission	EUR	41	47.8	30	31.165	Jan (from last year)							34.4	39.8	October 3rd	64.4	71
France	EUR	3.0	3.216	3.0	3.216	March 5th										3.0	3.2
Ireland	EUR	6.15	6.5				3.0	3.183	April 3rd	3.15	3.42	Sept 23rd				6.15	6.603
Netherlands	EUR	19.3	22.2	2.3	2.408	Jan 6th (from last year)							13.3	15.374	October 7th	19.3	22.282
Norway	NOK	76	10.497	76	10.497	March 14th										76	10.5
Sweden	SEK	100.0	13.58										100	13.58	17 Dec	100	13.3
Switzerland	CHF	8	5.3										8	5.3	October 15th	8	5.3
United Kingdom	GBP	10.0	15.654	10	15.654	March 20th										10.0	15.6
Finland	EUR	3.0	3.2							3	3.2	August 28th				3	3.2
Total			140.12														159.785

** 1\$ = .82 €(The Economist, 2/12/03) ***Still to be disbursed (as of 17/12/03)

FINAL TOTAL OF USD 163.4 INCLUDES ALL DISBURSEMENTS FOR 2003 PLUS ADDITIONAL DISBURSEMENTS OF USD 33.57 FOR 2002

G14 FORECAST FOR DISBURSEMENTS IN 2004

DONOR	Currency	INDICATIVE SUPPORT FOR 2004 Domestic Currency (mil)	INDICATIVE SUPPORT FOR 2004 USD (mil)	I Quarter			II Quarter			III Quarter			IV Quarter			Total Disbursed	
				Amount in domestic currency (mil)	Amount in USD (mil)	Date of Disb'ment	Amount in domestic currency (mil)	Amount in USD (mil)	Date of Disb'ment	Amount in domestic currency (mil)	Amount in USD (mil)	Date of Disb'ment	Amount in domestic currency (mil)	Amount in USD (mil)	Date of Disb'ment	Total in Domestic Currency (mil)	Total In USD (mil)
Belgium	EUR	2		2.5 0.5	3.125 0.625	02/02/04 (from last year)				2							
Denmark	DKK	31	5										31	5			
European Commission	EUR	62.6 ²³	77.7	6.6	8.25	March				56.6	70.7						
France	EUR	3.0	3.65	3.0	3.65	Feb											
Ireland ²⁴	EUR	6.00	7.24	6.00	7.24	Jan											
Netherlands	EUR	10	12.5							6.25	5						
Norway	NOK	75 ²⁵	11							75	11						
Sweden	SEK	100	13.6				70	9		30	3						
Switzerland	CHF	10	7.7							10	7.7						
United Kingdom	GBP	15	23.4	15	23.4												
Finland	EUR	4.0	4.8														
Italy	EUR	3.2	4	3.2	4												
Portugal	USD	1.875	1.5				1.875	1.5	May								
Germany	EUR	3.5	4.2							3.5	4.2						
Total pledged in USD			166.89														

²³ Disbursement through one single tranche to be committed – sum preparing CSR

²⁵ Estimate – a new three-year agreement is under preparation

Annex 3: Audits of the Joint Donor Programme 2003: Issues Arising (from 2004 Aide Memoire)

The joint donor program (JDP) and the succeeding joint program (JP) specify three audit modalities:

1. Financial audit

The flow of funds from the donors/PAPs into the principal state budget account (BuAc) is to be audited annually.

The audits covering from the start of the JDP in November 2000 until end-2002 were discovered in 2003 not to have fully completed the audit trail. The Terms of Reference were therefore revised in 2003 to specify the audit of the last step of the trail more exactly. (These ToR should serve for the financial audit of the JP from 2004 onward). A supplementary audit of the last step, to document the receipt of the funds by the BuAc 2000-2002 from the metical countervalue deposit account, was then commissioned. The MPF agreed to the auditors examining the receipts of the BuAc (which by law is audited only by the TA). However, the auditors stated that it was not possible to track the funds over this step directly in the period November 2000 – August 2002, during which the donors' disbursements part-fed the general MB10 countervalue account. (Deposits in to MB10 came from many sources besides the JDP, and the MPF transfers from MB10 to the BuAc did not mirror the size of the incoming amounts). As from the agreed opening of a specific transitory account (TrAc) for the JDP in April 2002, only JDP funds were deposited and then transferred out, so the correspondence with the deposits into the BuAc can be verified. The auditor could track the five transfers made from the TrAc into the BuAc as of August 2002. The operation and documentation of this procedure could be improved, however.

The JDP audit group requested MPF's documentation for 2000, 2001 and 2002 to check that the amounts debited to MB10 and credited to BuAc were at the least equal in sum to the amounts deposited by the JDP donors into MB10 in the same year under the JDP. This would not prove that all the donor funds were completely transferred from MB10 and received into BuAc, but would give reasonable grounds for presuming so. Photocopies of documentation indicating this relation were delivered by MPF on 2nd April.

The audit for 2003 is more complete and accurate and the auditors testify that using the bank bordereaux and account balance statements they can verify that the funds deposited into the TrAc have been deposited over to the BuAc, with the exception of a year-end closing balance in TrAc of 315,6 bn MT. Nonetheless, a number of errors in bank operations and two serious delays in bank transfers beyond the specified time of 2 working days took place during the year, which carry their costs, and it is necessary for the MPF to ensure their full reimbursement by BdM where BdM was at fault. It emerged that more reliable monthly bank reconciliation procedure is needed. There is considerable room for improvements to be made at MPF and BoM in the administration of the budget support/BoP funds. The following need to be followed up:

- corrective measures on defective bank transactions and losses
- audit of the MB10 – BuAc transfers 11/00 – 08/02 (to be contracted by the IGF)
- bank reconciliation statement should be included in the Report on Contravalores.

2. Value for money audit (VfM)

The JDP provides that one (sub)sector of relevance for poverty reduction will be subjected to a VfM each year by the MPF's IGF, to provide an insight into the efficiency of use of budget funds for reducing poverty. The first VfM into the medicines distribution system was carried out successfully over 2002-2003, reporting fully at mid-2003. The audit was a successful learning experience for IGF and achieved a good standard. The IGF identified numbers of system failures and made a considerable number of recommendations, which it has planned to follow up but has not yet managed to follow up on all of them. The IGF declares its intention still to do so.

The second VfM was decided to be carried out on the Roads sector, and started late in 2003. The IGF made an initial presentation to the PAP's during the JR. The scope and quality of work appear

satisfactory, but the IGF will not be able to deliver the full report until end-May 2004. This type of audit is a welcome operation in itself, and should be fully institutionalised. For the purposes of the JP, the identification of the area, the planning process, the agreement on financing, and the contracting of expertise need to be loaded closer to the beginning of each year so the VfM is finished in time for the JR.

3. The audit of the general state account (CGE)

The Tribunal Administrativo (TA) has the task in law to appraise and audit the CGE annually. This is agreed by all parties to be a fundamental and essential operation, which is entirely indispensable for budget support to be able to be given. However, the MPF compilation of the CGE has hitherto taken most of the year n+1 after the year n being accounted for, and the TA has taken a significant part of year n+2 to audit it and deliver its report to Parliament. Thus its reports, although substantial and of good quality, come altogether too late for practical use by the JDP in assessing the financial management of the Budget. This periodisation has been retimed in law and it will become obligatory for MPF to issue the CGE for year n by May in n+1, and for TA to deliver its audit report on the CGE to Parliament by October in n+1. This will make both documents much more relevant for the appraisal and evaluation of the JP in future.

4. Fiduciary risk assessment (FRA)

On a pilot basis, the JP has this year been assisting MPF to set into operation an annual FRA, a species of financial systems fiability audit. The pilot is participated by the IGF and the aim is to institutionalize it on an annual basis. The preliminary findings of the 2004 FRA are sketched above. The PAP's consider all four of the above institutionalised follow-up mechanisms to be relevant, feasible and essential for the budget/BoP support program.

Strategic Partnership with Africa (SPA) Budget Support Working Group Mission to Mozambique, March-April 2004

Introduction

1. An SPA mission composed of Gilles Hervio (EC, co-chair of the Budget Support Working Group), Peter Dearden (DFID, the other co-chair), Jiro Otsuka (JICA, Japan) and Brian Ngo (World Bank) visited Mozambique during the Government of Mozambique (GOM)-donor Joint Review (JR) exercise from March 28 to April 5, 2004. We thank the GOM and donors for allowing us to participate in the different stages of the Joint Review.
2. The main objective of the SPA mission was to draw lessons from the JR exercise in order to communicate to other countries Mozambique's experiences and good practices for donor budget support groups, in the context of the SPA Budget Support Working Group (BSWG). A BSWG regional Workshop scheduled for June 2004 will bring together from several African countries government and donor representatives involved in this process. The findings from the Mozambique SPA mission will inform the workshop. This report also contains some observations which may be useful to GOM and donors in Mozambique.

Background

3. The G14²⁶ + World Bank group in Mozambique has more members than any of the other nine budget support groups that currently operate in Africa²⁷. The group has a long history having evolved from a group of 4 donors in 1998.
4. The group is now based on the strong harmonization and coordination foundations of NEPAD, Monterrey and Rome. In terms of process, the Group's plans strongly reflect good practices recommended by the SPA, namely:
 - strong anchor in and alignment with the PRSP (known as the PARPA in Mozambique),
 - good alignment with the government budget process and calendar,
 - streamlined conditionality using a common framework of indicators drawn directly from PARPA and the annual Economic and Social Plan (PES) in the form of a short matrix, known as the Performance Assessment Framework (PAF), that include policies, actions, output and outcome indicators,
 - harmonized reporting requirements against the PAF,
 - steps to increase predictability,
 - joint review missions with specific calendars agreed by all involved,
 - mechanisms for stronger mutual accountability (by incorporating arrangements for donors to report to government).

²⁶ The 14 signatory Programme Aid Partners are : EC, Belgium, Denmark, Finland, France, Germany, Ireland, Italy, Netherlands, Norway, Portugal, Sweden, Switzerland, UK. Non-signatory observers are the African Development Bank, Spain, UN and USA.

²⁷ The others are in Burkina, Benin, Madagascar, Malawi, Ethiopia, Ghana, Rwanda, Uganda, and Tanzania.

5. The WB decided in 2003 to process the first PRSC within this common framework. The PRSC will be submitted to the Bank Board in June.
6. A 21-page Memorandum of Understanding (MOU) between the Government and the 15 donors provides the detailed framework for joint support. The MOU required 19 draft revisions and intensive negotiations over more than a year (and right up to the last day) before it could be signed.
7. The 2004 Joint Review is the most recent of a series of annual reviews but the first undertaken jointly with the government. A mid-term review of the PARPA and the accompanying budget support program is planned to be conducted in August 2004. The MOU envisages that this pattern of joint reviews in March and August will be repeated on a yearly basis.
8. The 2004 JR proceeded in two phases: firstly an assessment of progress and performance of the government in 2003 and secondly a critical review of the government's proposed objectives, work program, and indicators for 2004 (including more indicative discussions for 2005 and 2006). One of the most noteworthy features of this review is that both these phases were conducted jointly by the government and donors involved in budget support and thus provides an "agreed assessment". The JR Steering Group undertook lengthy discussion to reach agreement on text of a JR Aide Memoire and Performance Assessment Framework. The participants in the review were the government, represented by the Ministry of Planning and Finance (MPF), line ministries and the Bank of Mozambique and the donor community, represented by some local representatives and also some participants from capitals.
9. In parallel with the JR an independent "Learning Assessment" consultancy was conducted, to make recommendations on improving the JR process for 2005.

Perceived Strengths

10. The SPA mission welcomes the principles underlying this JR process (see para 4 above) and the World Bank's decision to join the group, thus avoiding a parallel exercise that would impose additional transactions cost on the Government.
11. The "joint" form of the JR has several good features compared to the traditional "donor-only" assessment.
 - a. The organization of the review using technical groups within thematic clusters led by a steering committee made it possible to address technical issues in great depth.
 - b. The main output of the JR (the agreed Aide Memoire and the PAF) provides a balanced assessment of progress (although the reasons where progress was slow were not always explored).
 - c. The JR generated serious policy dialogue between GOM and donors. GOM commitment to the actions in the Aide Memoire and in the PAF should be stronger as a result of the process of reaching agreement on the text of these two documents during the JR mission.
12. The external examination of the Joint Review process by the Learning Assessment team appears also to have been useful. We particularly welcome the LA proposal that there should be an annual report on the performance of donors in relation to their obligations under the MOU (eg. on harmonisation, alignment, transparency, predictability, transactions costs etc).

Challenges

13. The SPA team noted a number of challenges posed by the JR.
14. **Challenge 1 : Burden on GOM Staff.** Concerns were expressed both by some government officials and some donor representatives that the JR process imposed an excessively heavy burden on government time²⁸, due in part to the large number of participants and the number of technical issues discussed. The 2 phases of the JR (backward looking and forward looking) monopolised the time of key government officials for two full weeks (and this came very soon after they had been occupied for 3 weeks with an IMF mission). Also, a lot of government and donor time had been spent before the JR mission on negotiating the MOU and on defining the JR process. (However, these tasks should require less time in future years.)
15. **Challenge 2 : Diffusion of Donor Effort.** The large number of technical groups led to excessive dispersion of the review effort and assessment and perhaps to downplaying important cross-cutting and cross-sectoral considerations. Also, this approach renders the prioritization process very difficult to manage.
16. SPA suggestions for addressing these two challenges are :
 - Rationalizing and consolidating the groups, and perhaps persuading each donor to attend fewer groups, could reduce the complexity of the next JR.
 - Consultations among donors on key policy reforms and actions prior to meeting the government could have several advantages²⁹. First it could avoid the dispersion of donors' messages, second, it could lighten the process for GOM, and third, it could help focus attention on what is considered most important in helping the Government implement its poverty reduction strategy.
17. **Challenge 3 : Domestic Accountability.** Civil society and Parliament do not currently have a formal role in the JR but it is important that budget support processes strengthen government accountability to domestic stakeholders. During the JR, some donors suggested that Parliament and civil society should be participants in the JR. However, the SPA team believes that trying to incorporate consultations with Parliament and civil society during the JR would risk overburdening the JR which already is very complex because of the number of issues and actors involved. It would be more efficient to keep the JR process separate. Nevertheless, it would be helpful to clarify the relationships between the JR and various domestic accountability processes, such as the presentation to Parliament of the Budget, the PES and the Balanco do PES, and discussion with civil society including in the Poverty Observatory event.

Risks

18. In spite of its overall favourable assessment of the Mozambique JR exercise, the SPA mission wishes to highlight two main risks which will need to be carefully managed.
19. **Risk 1 : Growing Intrusiveness and Breadth of Policy Dialogue.** The JR process risks becoming more and more intrusive each year, as donor pressure expands the range and depth of detail covered in the discussions, and this will be reflected in an ever-growing PAF matrix.

²⁸ Some donors found the process was burdensome for them too.

²⁹ Although donors should avoid the appearance of "ganging up" against the Government.

This would add to the burden of the JR on GOM and could undermine GOM ownership and accountability to domestic stakeholders. Such a trend would be contrary to the principle of donors streamlining their conditions and monitoring requirements. Although the intention at the start of the 2004 JR was to discuss a two-page PAF, the JR groups and the Aide Memoire discussed a much larger range of indicators and this squeezed the time for open discussion of GOM actions for 2005³⁰.

20. In thinking about how to handle this risk, the SPA team recognises several considerations:

- (a) GOM want to use the Budget and the PES as the main framework for presentation of its policy to Parliament.
- (b) The process of donor harmonisation and alignment with the PRS is important for non-budget support aid as well as for budget support.
- (c) Non-budget support donors want to influence policy and therefore want to be part of JR processes.
- (d) There needs to be a forum for dialogue between GOM and all donors at least once a year, on issues which span across sectors and across both budget support and non-budget support assistance. In the past the Consultative Group has come closest to fulfilling this function.
- (e) The JR process needs to be kept as light as possible to avoid overloading GOM.
- (f) The WB PRSC team wants to focus on agreeing policy prior actions with GOM, and some other donors are interested in policy actions too.

21. We therefore suggest that greater clarity is needed on the following :

- (a) How the JR and its various groups relate to the Consultative Group and to other government-donor joint work throughout the year in a broader family of government-led groups. Other such groups already exist, in various sectors (such as health and agriculture) and on various cross-cutting issues (such as public finance management). But some government-donor groups could perhaps play a more useful role if they gave more attention to policy issues and aid coordination, harmonisation and alignment and were more explicitly linked to the JR process than they are currently. It is also important to clarify within these groups what are the respective roles of WB sectoral and PRSC teams, and of budget support and non-budget support donors. (In some other countries (eg. Uganda) these roles are clearer than they currently are in Mozambique.)
- (b) How the JR discussion will focus on a reduced matrix of indicators (referred to as the PAFinho). This reduced matrix would be drawn from the full set of GOM policy intentions and targets (which itself would summarise the PES), but would reflect only the subset of actions and indicators which donors would use for budget support conditionality and monitoring purposes³¹. We suggest that as far as possible, JR discussion should limit itself to this reduced matrix and to the factors which donors would like to see included in the PES for the coming year as the basis for their monitoring and conditionality. The PAFinho will inevitably change over time as new issues arise, but budget support donors must agree to exercise collective self-discipline to avoid the budget support matrix always growing in an effort to cover everything.

³⁰ We recognise that some of the lack of clarity about the status of the PAF reflected the fact that 2003-04 is a transition period during when the sequencing of PAF, PES and JR processes was less than ideal.

³¹ On this point differing views were expressed during the JR. Some donors saw the JR as an opportunity to discuss all aspects of GOM policy and all items in the longer PAF matrix. Others argued that the JR should focus only on the PAFinho.

22. **Risk 2. Unanimity and Unpredictability.** The consensus approach used in the 2004 JR could increase the unpredictability of donor disbursements. If donors seek unanimity in assessment of progress, lower than expected performance could lead to coordinated suspension of budget support, which would have disastrous consequences for budgetary and macroeconomic management because of Mozambique's high dependence on budget support.
23. Seeking complete agreement on all issues between GOM and all donors during the JR could strain relationships and disrupt disbursements if agreement on some issues cannot easily be reached. Even if the output of the JR is planned to be a document agreed between GOM and donors, it is important to clarify during the process and in the final document what are the respective positions and expectations of donors and government. Otherwise, failure to reach agreement on a document during the review could lead to an impasse, hiatus, and uncertainty about donor responses, or to a document full of compromise language which pretends no differences of view exist but which donors do not really accept as a basis for making budget support commitments. A documentary output from the JR which records divergences of opinion would be more useful than this and should allow some donors to proceed with disbursement even while others wish to wait for further evidence or discussion with government.
24. While it is desirable to strive for harmonisation of conditions between donors and streamlining of the aggregate number of conditions, donors should have freedom to respond differently to performance. Total cross-conditionality between all donors should be discouraged. Donors should clarify how they will respond to the findings of the JR and make transparent to GOM and other donors which triggers are critical for their disbursements. This will reduce the risk of Donor A withholding disbursement because of "informal" cross-conditionality with Donor B when the latter withholds because of a failure in relation to a disbursement trigger which is important to B but not really important to A.
25. Another approach which donors should consider in order to reduce the risk of unpredictability and volatility of disbursement is to use a framework allowing graded responses to performance. For instance, donors could state explicitly what share of their disbursement will be linked to progress in different areas of reform and this would permit them to deliver partial disbursement in response to partial performance. (The EC already operates this way for its "variable" tranche.)

Other Suggestions and Observations by the SPA Team

26. Establishment of a small secretariat could facilitate the running of the joint budget support donor group and avoid overtaxing the capacity of the group's Chair. We believe it would help government if this secretariat produced for GOM every quarter a single consolidated report to GOM on, for each donor : (i) Historical disbursements by quarter for last year and this year to date; (ii) Projected disbursements by quarter, in a form suitable for GOM to use in budgetary planning; (iii) Conditions attached to each projected disbursement, and the means by which performance against conditions will be assessed; (iv) Procedural requirements which must be fulfilled before each disbursement can take place.
27. The JR process needs to allow for more explicit and systematic analysis and discussion of reasons for underperformance against the PAFinno, (such as implementation of actions and policy reforms, choice of appropriate measures/policies, (non-) achievement of targets, impact of exogenous shocks) and also of capacity constraints.
28. The approach taken in the MOU through the concept of "Underlying Principles" is an innovative way to try to reduce the risks for GOM that budget support disbursements might be

disrupted because of political governance issues³². It will be valuable for the SPA to monitor how this approach works in practice.

29. It would be desirable to ensure that in future the IMF/WB Joint Staff Assessment mission to consider the PRS Annual Progress Report avoids unnecessary duplication with the JR. It is also important to clarify how the IMF macroeconomic assessment should link with the JR process.
30. At some stage it may be appropriate to revise and simplify the MOU. It would be desirable to rationalise the different fiduciary and public finance management assessments it contains.
31. The SPA team noted that several of the signatories to the MOU are planning to provide very modest sums of budget support in 2004 and suggests that Government and the donor group need to keep in view the balance for different donors between their disbursement performance and the transactions costs entailed in their participation in JR processes.

Conclusion

32. The SPA mission found the progress of the Mozambique budget support group very promising. Although operating such a large group will be a challenging process, we believe that the principles that Government and donors have used in structuring their relationship to use budget support for poverty reduction are fundamentally sound, and their experience is likely to yield many lessons for others countries. The SPA Budget Support Working Group will seek to monitor this experience as it evolves.

³² The way the MOU seeks to reduce the vulnerability of disbursements is through the words in the (added) italics in the following quote : “A serious violation of an underlying principle may lead in the case of some [Programme Aid Partners] to interruption of disbursement of Programme Aid in year and/or a decision not to disburse or commit Programme Aid in the following year(s). The serious violation of an underlying principle is understood as being *above and beyond concerns raised about under-performance against indicators and targets expressed in the PES/PAF.*” The “underlying principles” set out in the MOU are “GOM’s commitments to peace and to promoting free, credible and democratic political processes, independence of the judiciary, rule of law, human rights, good governance and probity in public life, including the fight against corruption...to fight poverty...to pursuing sound macroeconomic policies”.

Annex 5: List of Interviewees

Donors

Belgium

Nora de Laet, Head of Cooperation
Dr. Danny Cassimon, Macro-economic adviser

Denmark

Tomas Thomsen, Councillor, Royal Embassy of Denmark

European Commission

Sylvie Millot Wathier, First Secretary, Political and Economic Affairs
Dr. Peter Rundell, National Expert, Economic Cooperation & PRSP Process
Ana Ribeiro, Agriculture & Rural Development Adviser

Finland

Olli Sotamaa, Councillor, Finnish Embassy
Laura Torvinen, Ministry of Foreign Affairs, Helsinki

France

Francoise Desmazières, Director, French Development Agency
Corinne de Peretti, Ministry of Foreign Affairs, Paris

Germany

Ronald Meyer, Head of Development Cooperation, German Embassy
Carsten Sandhop,
Mike McDonald, GTZ

Ireland

Bridget Walker Muiambo, Education Adviser, Irish Embassy

Japan

Ichiro Muto, Councillor, Embassy of Japan

Netherlands

Jolke Oppewal, Economist
Sara Cohen, Ministry of Foreign Affairs

Norway

Camilla Rossaak, Team Coordinator/Advisor, Ministry of Foreign Affairs, Oslo

Sweden

Dr. Anton Johnson, Economist

Switzerland

Adrian Hadorn, Head of Cooperation
Telma Loforte, Manager of Economic Programmes, Swiss Development Corporation
Ivo Germann, seco

UK (DFID)

Eamon Cassidy, Head of Cooperation
Nick Highton, Economic Adviser
Melanie Speight, PRSP/ PAF Adviser
Alison Beattie, Education & Health Sector Advisor

Alicia Herbert, Governance Adviser

UNDP

Barbara Barungi, Poverty Reduction Strategies, Bureau for Development Policy, Pretoria

World Bank

Darius Mans, Country Director

Antonio Franco, Macroeconomist

Jean de St. Antoine, Lead Operations Officer, Human Development Division
(Southern Africa Region)

Paola Ridolfi, Country Management Unit, Mozambique & Angola

John Factora, PRSC Evaluation Unit

Participants in Health Sector Working Group meeting, Maputo, 8th April

Participants in Gender Working Group meeting, Maputo, 15th April

GoM & other stakeholders interviews

MPF/DNPO (Planning & Budget)

José Sulemane, National Director

Momad Piaraly, Dep National Director, Planning

Elena Arjona, Economist

MPF/DNT (Treasury)

Antonio Laice, National Director

Eugenio Paulo, Economist

MPF/GEST (Gabinete de Estudos)

Dr. Pedro Couto, Director

MINEC (Ministry of Foreign Affairs)

José Morais, Permanent Sec.

MINED (Ministry of Education)

Virgilio Juvane, Director Planning

MISAU (Ministry of Health)

Humberto Cossa, Head of Planning

MADER (Agriculture & Rural Development)

Carlos Mucavel, National Director, Economy

MAE (Ministry of State Administration)

Adelino Cruz, Director, UTRESP

Ministry of Justice

Angela Melo, Planning Director

Bank of Mozambique

Miguel Mondlane, Financial Economist, Overseas Department

Arne Disch, Consultant, Fiduciary Risk Assessment

Roberto Tibana, Consultant, Fiduciary Risk Assessment