

Evaluation of General Budget Support – Mozambique Country Report

**A Joint Evaluation
of General Budget
Support 1994-2004**



May 2006

The Joint Evaluation of General Budget Support is supported and guided by the following organisations and countries, which form its Steering Group:

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Nicaragua

Rwanda

Uganda

Vietnam

JOINT EVALUATION OF GENERAL BUDGET SUPPORT 1994–2004
Burkina Faso, Malawi, Mozambique, Nicaragua, Rwanda, Uganda, Vietnam



Mozambique Country Report



May 2006



**Richard Batley
Liv Bjørnstad
Amélia Cumbi**



Development
Researchers'
Network



International Development Department
School of Public Policy
University of Birmingham
Edgbaston
Birmingham B15 2TT, U.K.
Tel: +44 (0) 121 414 5009
Fax: +44 (0) 121 414 7995
Website: www.idd.bham.ac.uk

Study contacts

Country Team Leader:

Richard Batley – R.A.Batley@bham.ac.uk

Study Coordinator:

Rebecca Carter – R.L.Carter@bham.ac.uk

PREFACE

The Joint Evaluation of General Budget Support (GBS) was commissioned by a consortium of donor agencies and 7 partner Governments* under the auspices of the DAC Network on Development Evaluation. The evaluation followed a DFID GBS Evaluability Study which established an Evaluation Framework for GBS. This framework was agreed with DAC Network members in 2003. A Steering Group (SG) and Management Group (MG), both chaired by DFID, were established to coordinate the evaluation. The study was carried out by a consortium of consultants led by the International Development Department, University of Birmingham (IDD).

The purpose of the evaluation was to assess to what extent, and under what circumstances, GBS is relevant, efficient and effective for achieving sustainable impacts on poverty reduction and growth. The evaluation identifies evidence, good practice, lessons learned and recommendations for future policies and operations.

This report is one of 7 country level evaluations (Burkina Faso, Malawi, Mozambique, Nicaragua, Rwanda, Uganda and Vietnam). Fieldwork took place between October-December 2004 and May-July 2005.

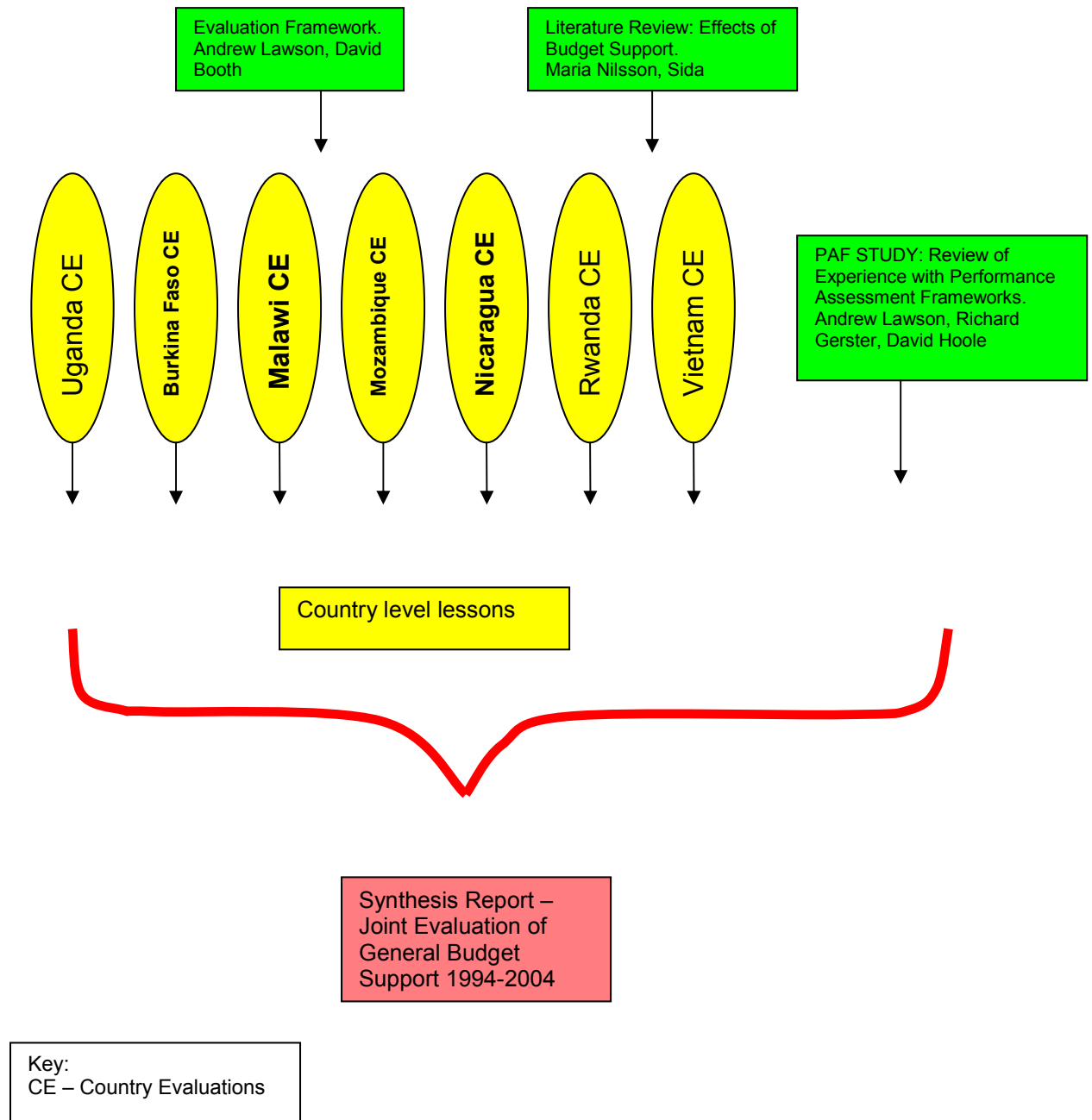
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*The consortium comprised the Governments of Australia, Austria, Belgium, Canada, Denmark, France, Germany, Ireland, Japan, The Netherlands, New Zealand, Norway, Portugal, Spain, Sweden, Switzerland, United Kingdom and USA, plus the European Commission (EC), the Japan Bank for International Cooperation (JBIC) and the Inter American Development Bank (IADB), the IMF, OECD/DAC and the World Bank. The evaluation was undertaken in collaboration with the Governments of Burkina Faso, Malawi, Mozambique, Nicaragua, Rwanda, Uganda, and Vietnam, who were also members of the SG. The study was designed to interact closely with aid agencies and with government and other stakeholders at country level. There were government and donor contact points in each country.

Joint Evaluation of General Budget Support 1994-2004

The Evaluation Framework, Literature Review and PAF Study were contracted separately. The remaining reports were authored by a consortium of consultants led by the International Development Department, University of Birmingham (IDD).

The diagram below shows how the reports in this series fit together:



A Management Group (MG) led the process:

Kate Tench, (Chair) DFID
Alexandra Chambel-Figueiredo, European Commission
Nele Degraeuwe, Belgian Technical Cooperation
Martin van der Linde, Consultant to the Netherlands Ministry of Foreign Affairs
Bob Napier, DFID

We are grateful for the contributions of former MG members:

True Schedvin, EuropeAid, European Commission
Susanna Lundstrom, Sida, Sweden
Fred van der Kraaij, IOB, Netherlands
Joe Reid, DFID

Any enquiries about this evaluation should be addressed to:

Publications Officer
Evaluation Department
Department for International Development
Abercrombie House
East Kilbride
Glasgow
G75 8EA

Email: ev-dept@dfid.gov.uk
Tel: +44(0)1355 843387
Fax: +44(0)1355 843642

Further reports can be obtained from the DFID website at :

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Nick York
Head of DFID Evaluation Department and
Chair of Joint Evaluation of GBS Steering Group

Joint Evaluation of General Budget Support MOZAMBIQUE COUNTRY REPORT

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Abbreviations and Acronyms

AAP	Assessments and Action Plan
ACORD	Agency for Cooperation and Research in Development
AFD	French Development Agency (Agence Française de Développement)
AfDB	African Development Bank
AfDF	African Development Fund
BdPES	budget execution reports (balanço do PES)
BADEA	Arab Bank for Development in Africa
BOM	Bank of Mozambique
BOP	balance of payments
BS	budget support
CBM	Central Bank of Mozambique
CBO	community-based organisation
CCI	cross-cutting issue
CEM	Country Economic Memorandum
CFAA	Country Financial Accountability Assessment
CFMP	Medium Term Fiscal Framework (Cenário Fiscal de Médio Prazo)
CG	Consultative Group
CGE	general state accounts (Conta Geral do Estado)
CHAEM	Centre for Environmental Hygiene and Medical Examination
CIDA	Canadian International Development Agency
CNCS	National Council to Combat Aids
COFOG	Classifications of Functions of Government
COMECON	Council for Mutual Economic Cooperation
CPAR	Country Procurement Assessment Report
CRA	Central Revenue Authority
CS	civil society
CTA	Confederation of Trade Association
DAC	Development Assistance Committee (of OECD)
Danida	Danish International Development Agency
DCI	Development Cooperation Ireland
DFID	Department for International Development (UK)
DNA	National Directorate for Customs
DNCP	National Directorate for National Accounts
DNIA	National Directorate for Taxes and Auditing
DNPO	Directorate of Planning and Budget in MPF
DNT	National Directorate Treasury
DPCCN	National body to coordinate emergency and food aid
DPG	Development Partners Group
DPPFs	Provincial Directorates for Planning and Finance
EC	European Commission
EEF	Enhanced Evaluation Framework
EIB	European Investment Bank
EMPSO	Economic Private Management Sector Operation
ESAF	Enhanced Structural Adjustment Facility

ESP	Economic and Social Plan
FAO	Food and Agriculture Organization
FASE	Education Sector Common Fund
FCP	Provincial Common Fund (Fundo Comum Provincial)
FOPOS	Project for the strengthening of sectoral budgetary systems
Forex	foreign exchange
FRELIMO	Mozambique Liberation Front
FTSAP	Financial Sector Technical Assistance
FY	financial year
G15/17	Group of 15 (2004) and 17 (2005) donors providing programme aid
GBS	General Budget Support
GDI	Gender Development Index
GDP	gross domestic product
GE	Research Department
GNI	gross national income
GOM	Government of Mozambique
GPSCAINA	Office for the Promotion of the Commercial Agricultural Sector
GTZ	German technical cooperation agency (Gesellschaft für Technische Zusammenarbeit)
H&A	harmonisation and alignment
HDI	Human Development Index
HIPC	Heavily Indebted Poor Countries
HOC	Heads of Cooperation
IADB	Inter-American Development Bank
IAF	Household Survey (Inquérito aos Agregados Familiares)
IDA	International Development Association (WB)
IDD	International Development Department (University of Birmingham)
IFAD	International Fund for Agricultural Development
IFI	international financial institution
IGF	Internal Inspectorate (of MPF)
ILO	International Labour Organization
IMF	International Monetary Fund
INE	National Statistics Institute
IP	international partner
IT	information technology
JA	Joint Agreement
JAR	Joint Annual Review
JDR	Joint Donor Review
JICA	Japan International Cooperation Agency
JP	Joint Programme
KF	Kuwait Fund
KfW	German development bank (Kreditanstalt für Wiederaufbau)
LDC	less developed country
M&E	monitoring and evaluation
MADER	Ministry of Agriculture
MDGs	Millennium Development Goals
MEC	Ministry of Education and Culture
MICOA	Ministry of Environment

MINAG	Ministry of Agriculture
MINED	Ministry of Education
MISAU	Ministry of Health
MNR	Mozambique National Resistance
MOF	Ministry of Finance
MOH	Ministry of Health
MOU	Memorandum of Understanding
MPF	Ministry of Planning and Finance
MSAt	Ministry of State Administration
MTEF	Medium Term Expenditure Framework
MTEF	Medium Term Fiscal Framework (Cenário Fiscal do Médio Prazo – CFMP)
NDF	Nordic Development Fund
NEPAD	New Partnership for African Development
NGO	non-governmental organisation
ODA	official development assistance
ODI	Overseas Development Institute
OE	state budget (Orçamento do Estado)
OECD	Organisation for Economic Co-operation and Development
OPEC	Organization of the Petroleum Exporting Countries
PAF	Performance Assessment Framework
PAPs	programme aid partners (signatories of MOU)
PARPA	Mozambique's PRSP/Strategy for the Reduction of Absolute Poverty (Plano de Acção para a Redução da Pobreza Absoluta)
PEFA	Public Expenditure and Financial Accountability Secretariat
PEM	public expenditure management
PER	Public Expenditure Review
PES	Economic and Social Plan (Plano Económico e Social)
PETS	Public Expenditure Tracking Survey
PFM	public finance management
PGBS	Partnership General Budget Support
PIP	Public Investment Programme
PRGF	Poverty Reduction and Growth Facility (of IMF)
PROAGRI	Agriculture SWAp
PROSAUDE	Health SWAp
PRSC	Poverty Reduction Support Credit (of World Bank)
PRSP	Poverty Reduction Strategy Paper
PSIA	Poverty and Social Impact Analysis (of World Bank)
PSR	public sector reform
PTIP	Triennial Public Investment Plan
QAG	Quality Assurance Group
QBER	Quarterly Budget Execution Report
RENAMO	Mozambique National Resistance
ROSC	Report on Observance of Standards and Codes
SADC	Southern African Development Community
SAF	Structural Adjustment Facility
SAP	Structural Adjustment Programme
SBS	sector budget support
SCF	French Cooperation Service (Service de Coopération Française)

SDC	Swiss Development Cooperation
Sida	Swedish International Development Cooperation Agency
SISTAFE	Integrated System for State Financial Management (Sistema Integrado de Administração Financeira do Estado)
SPA	Strategic Partnership with Africa
SWAp	sector-wide approach
TA	technical assistance
TC	transaction cost
TOR	terms of reference
UDEBA	Unity for the Development of Basic Education
UN	United Nations
UNAIDS	Joint UN Programme on HIV/AIDS
UNCDF	United Nations Capital Development Fund
UNDP	United Nations Development Programme
UNESCO	United Nations Educational, Scientific and Cultural Organization
UNFPA	United Nations Population Fund
UNIDO	United Nations Industrial Development Organization
UNTA	United Nations Technical Assistance
UNV	United Nations Volunteer Programme
USAID	US Agency for International Development
UTRAFE	Technical Unit for Reform of State Financial Administration
UTRESP	Technical Unit for Public Sector Restructuring
VAT	value-added tax
VFM	value for money
WB	World Bank
WFP	World Food Programme
WHO	World Health Organization

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Findings and opinions in this report are those of the evaluation team and should not be ascribed to any of the agencies that sponsored the study.

Currency, Exchange Rate and Fiscal Year

Currency	Metical (MZM)
Exchange Rates	1 USD = MZM 24,623.0 1 EUR = MZM 29,575.9 (source: Financial Times 6 March 2006)
Fiscal Year	Calendar Year

EXECUTIVE SUMMARY

Part A: Context and Description of PGBS

Introduction and Conceptual Framework

S1. Mozambique is one of seven case studies in a Joint Evaluation of General Budget Support (GBS). The finance in GBS is usually accompanied by other inputs – a process of dialogue and conditions attached to the transfer, technical assistance and capacity building, and efforts at harmonisation and alignment by the GBS donors. Other forms of programme aid, including debt relief and other balance of payments support, may also be considered as budget support when they generate resources that can be used to finance the government budget, but this evaluation concentrates on so-called “new” or “Partnership” GBS (PGBS). This focuses explicitly on poverty reduction, and it attempts to support nationally developed strategies rather than imposing external policy prescriptions.

S2. Although the evaluation focuses on Partnership GBS, it covers the period from 1994–2004 in order to assess whether and how PGBS differs from other variants of budget support. The purpose of the evaluation is to assess to what extent, and under what circumstances, GBS is relevant, efficient and effective for achieving sustainable impacts on poverty reduction and growth. The Mozambique study followed the same methodology as the other country cases, working through “levels of analysis” from the entry conditions at the point that GBS was adopted, to the inputs made by GBS, their immediate effects, outputs, outcomes and impacts on poverty reduction. The analysis in each chapter is according to the **evaluation questions** shared by each country team; assessments against these questions are highlighted in the text below.

The Context for Budget Support in Mozambique

S3. From the beginning of the liberation war in 1964, Mozambicans experienced nearly 30 years of violent strife, social and political disruption, and economic crisis. Under pressure of civil war, the infrastructure of governance disintegrated. In large parts of rural Mozambique, schools and health posts were destroyed and teachers and nurses evacuated. Around 37% of the population lost their homes, were displaced or became refugees. Since the peace settlement in 1992, the country has undergone a period of almost uninterrupted growth of around 8% per annum. This has reduced the level of absolute poverty from 69% of the population in 1996–97 to 54% in 2002–03. However, high rates of poverty, poor health indicators and high illiteracy rates persist.

S4. The state apparatus that was to address these problems was poorly resourced in several senses: a very small tax base, a centralised but vertically fragmented administration, antiquated management systems, exceedingly low levels of educated and trained staff, and a weak legislature and judiciary.

S5. Mozambique's aid dependence peaked during the civil war period at 87% of gross national income (GNI) in 1992 – the year of the Peace Agreement. By the late 1990s it had fallen to below 30%, but in 2001 donor support still accounted for more than half of total public spending and about two-thirds of public investment. Official aid disbursements stabilised at about USD 1,000m a year during the period 1992–2004.

The Evolution of Partnership GBS in Mozambique

S6. Collaboration in PGBS grew out of a long history of coordination between a “like-minded” group of donors and collaboration with government through the civil war period. Two rounds of Heavily Indebted Poor Countries (HIPC) debt relief from 1996/97 and the approval of the Poverty Reduction Strategy Paper (PRSP, or PARPA in Mozambique) in 2001 enabled the conditions for donor alignment on an agreed poverty reduction strategy. The bilateral donors began to formulate plans for a common programme of GBS in 1998. The International Monetary Fund (IMF) switched its loans from an Enhanced Structural Adjustment Facility (ESAF) to a Poverty Reduction and Growth Facility (PRGF) agreement aligned with the PARPA from 1999; and from 2004 the World Bank began to give Poverty Reduction Support Credit (PSRC) credits aligned with the PARPA and the bilateral donors' budget support programme.

S7. Coordination of GBS was agreed in 1999 and formalised in 2000 as a “common framework agreement” in a Joint Donor Programme for Macro-Financial Support between the government and bilateral donors. An original group of six donors rapidly expanded to 10 in 2002, 15 in 2004 and 17 in 2005, including the World Bank. With regard to policy conditionality, the agreement required the government to prioritise poverty reduction according to the PARPA. While GBS was the focus of the agreement, it also embraced other forms of programme aid and, specifically, sector support.

S8. In response to a banking crisis in 2001 and associated violations of human rights, in 2002 some donors temporarily withheld disbursement. In the face of the damaging effect of unpredictability on macrofinancial management, the government asked that the conditions for disbursement should be set out more transparently. This led to the redesign of PGBS in a Memorandum of Understanding (MOU) which set out the objectives, basic principles and commitments on the part of government and donors, processes for reporting, monitoring and dialogue, dispute resolution and disbursement processes. It led to the establishment of a Performance Assessment Framework (PAF) as the shared instrument for dialogue, as the basis for assessing government's performance and for deciding donors' commitments for the following year. It committed the Programme Aid Partners (PAPs) to align with government systems, to make their funding predictable, to strengthen domestic accountability, and to expose their own performance to a donor accountability framework – the Programme Aid Partners' Performance Review.

S9. GBS increased from about 2.7% of net official development assistance (ODA) in 2000 to about 14.1% in 2003 and 18.6% in 2004. However, the growing importance of PGBS does not mean that any other form of aid has disappeared. For most donors, PGBS remains a complement to other forms of programme and project aid. The Government of Mozambique (GOM) has made it clear that it favours more programme aid up to the level of two-thirds of all aid, but has not specified how programme aid should be distributed between sector and general budget support.

Part B: Analysis of PGBS

The Relevance of Partnership GBS

S10. All the design elements of GBS anticipated in the Enhanced Evaluation Framework (EEF) are present in the Mozambican case: significant funding, harmonisation and alignment, policy dialogue, conditions, technical assistance and capacity building. Chapter B1 suggests that the technical assistance (TA) and capacity building are the weakest elements in this otherwise very strong case.

S11. Donors assessed the readiness of the government for such a programme on the basis of its macroeconomic performance, public finance management, foreign exchange management and public sector reforms. There was no separate analysis of the wider country context beyond government, nor of why budget support might be better than other aid modalities at addressing poverty in this context. The focus of the analysis leading to the Agreement was largely technical.

S12. An elaborate system of joint reviews timed to coincide with the government's budgetary cycle has been created backed by an organisational structure of thematic and working groups which include non-member observers – IMF, African Development Bank (AfDB), United Nations (UN), USA and Japan. The group contains a variety of shades of commitment to PGBS and to other forms of programme and project aid. The review of government performance is matched by an annual review of international partners' performance according to the 2004 MOU.

S13. The donors that joined later were affiliating to a club with its own existing rules. Whether their contributions were large or small, whether they were principally committed to project, sector or general budget support, and whether they were sceptical or committed to GBS, the Programme Aid Partnership was an inclusive forum that gave them voice. The evaluation does not adopt the view that smaller contributors are simply “buying a seat at the table”. It suggests that the GBS design in Mozambique has been successful in responding to the priorities of different donors and, perhaps, in advancing their own national aid policy and the decentralisation of aid management to country offices.

S14. The **government's priorities and ownership of the process came to be more fully represented** in the redesign of the Joint Programme that occurred from 2002. The jointly agreed PAF consisted of policy actions and performance indicators drawn from the government's poverty reduction strategy and from proposals made by line ministries about indicators that were relevant to their sector. They were also strongly influenced by donor officials, including those operating in sector ministries, in drawing up the shortlisted indicators.

S15. The broad conclusion is that the original **design of PGBS is relevant** to the national context and led to the creation of **a framework that has allowed it to broaden its policy and poverty focus** and to increase government's participation. This sort of partnership could not have emerged through project aid and did not develop under structural adjustment programmes; while there have been earlier forms of donor–government collaboration, none has been so institutionalised.

Effects on Harmonisation and Alignment

S16. The broad pattern since 1994 has been for aid management first to become more concentrated in sector ministries and then, increasingly, in the Ministry of Planning and Finance (MPF). The late 1990s saw the emergence of donor pools and sector-wide approaches in the ministries of health, agriculture and education. Line ministries continue to be important focuses of both sector and project aid. However, sector support arrangements are increasingly being brought on-budget and GBS is strengthening MPF's responsibility for financial management.

S17. There are carefully worked-out procedures for harmonisation between the G17 donors, and these arrangements also involve all other large donors and international agencies as observers. The World Bank moved from observer status to full membership in 2004, and in 2005 adopted the PAF matrix as the basis to “trigger” its PRSCs. The IMF has harmonised its PRGF programme. Indeed, the level of harmonisation of GBS donors may be a cause for concern for the government. Apart from general concerns about the power imbalance, there is the specific possibility that they all might act together in withholding aid. However, it is now at least as likely

that the risk works the other way: the consequences of joint non-disbursement would be so catastrophic for the government and country that such action would never be taken.

S18. Approval of the 2001–05 PRSP (PARPA) by the IMF and the World Bank in September 2001 provided the formal basis for donor alignment on a governmental poverty reduction strategy, and facilitated the first donor agreement to coordinate budget support. While the PARPA is the formal basis of long-term strategic alignment, the G17 partners have now also aligned themselves through the government's own annual planning processes – the economic and social plan (PES) and the targets in the Performance Assessment Framework (PAF) that is reported with the PES to parliament. This is seen by government and donors as a major advance towards alignment and national ownership

S19. The PGBS funds, review process and dialogue have been fundamental in elevating the status of the MPF as a focal point for national planning, though the sector ministries retain a high degree of autonomy owing to their links with aid agencies. PGBS has also had an important role in developing common instruments of planning and prioritisation both within government and between government and donors, and in working through the government's own systems of cash management, procurement and audit. **It has thus strengthened governmental systems and leadership.**

S20. PGBS has developed mechanisms for **harmonisation and alignment that have been very effective** in practice; the mechanisms of dialogue and shared conditions have been more important than the funds, except that the latter are the precondition for the former. It is very unlikely that this level of harmonisation and alignment could have occurred through any other aid instrument.

Effects on Public Expenditures

S21. PGBS has had a **positive effect in increasing the proportion of public expenditure subject to the national budget**. Moreover, policy dialogue and conditionality are highly focused on key public policy and public expenditure issues and priorities.

S22. Budget allocations to priority (“pro-poor”) sectors were already high and increasing before PGBS existed. Through policy dialogue and conditionality, **PGBS has supported this governmental prioritisation**, and allocations to priority sectors have grown roughly in proportion to the State Budget as a whole. However, increasing the resource envelope subject to the Budget has not had the effect of changing the pattern of budget allocation further in favour of pro-poor expenditure. This assessment should be qualified by the fact that, owing to deficiencies in budget classifications, it is not possible to be sure exactly how funds have in fact been spent. Moreover, a significant part of public expenditure (mostly aid-funded) is “off-budget”. PGBS has had a **moderately positive effect in increasing the efficiency of public expenditure**, particularly in improving the balance of recurrent to capital expenditure. Current reforms (including SISTAFE – the Integrated System for State Financial Management) are likely to lead to improved budget execution rates.

S23. PGBS is one of the few aid modalities which put funds truly “on-budget”; even some basket funding to support sector programmes is still subject to its own disbursement and accounting procedures. However, PGBS disbursements have tended to be unpredictable (whether within the year or even into the next financial year, and over-disbursing and under-disbursing within the year) and hence to have short-run destabilising impacts, contributing to inflationary financing. Over the period, **PGBS funds have become more predictable** as the disbursement problem has been acted upon with a commitment to multi-annual donor agreements and growing alignment with the government's budget. The dialogue linked to PGBS

has been heavily focused on the improvement of public finance management (PFM) systems. Fiduciary risk in Mozambique remains high and ratings against Public Expenditure and Financial Accountability (PEFA) criteria are low, but the government is committed to a reform agenda to reduce the level of fiduciary risk and strengthen PFM systems. Nonetheless, the situation is exacerbated by the huge amount of off-budget funds provided by, among others, the same donors who provide PGBS.

S24. There have been **transaction costs** associated with the transition to PGBS and the development of the new partnership structure, but many of these “start-up” costs will exhibit positive externalities in the longer-term – for example, improved coordination between MPF and line ministries, strengthened monitoring and evaluation systems, and better safeguards against the misuse of funds, which could lead to improvements in domestic accountability.

S25. The transaction costs of managing aid are now incurred more heavily by MPF, but without any significant reduction in the costs to line ministries owing to the continuation of other aid modalities. However, disbursement through the budget should represent lower transaction costs for GOM since it is able to use its own procurement and disbursement procedures.

Effects on Planning and Budgeting Systems

S26. Budgeting and planning in Mozambique suffer from systemic weaknesses: input-based budgets cannot be related to plans; the state budget which covers most recurrent costs is disconnected from much investment funding which is largely funded directly by donors operating at sector and provincial level; and, there are weak linkages between approved budgets and actual expenditure.

S27. Partnership GBS has been influential on planning and budgeting, not only through its funding but also through the focus of dialogue on the national budget and shared policy objectives. It supports changes in the relationship and reporting lines between core government and line ministries, and between line ministries and donors. In that sense, it has had a **moderately positive effect in increasing core governmental ownership** of the budgetary process, by which we mean ownership that permits planning by government as a whole, rather than by government at the level of particular sectors or activities. However, this should be qualified by the fact that donors have themselves become more involved in the core processes and policies of government, possibly to an extent that is detrimental to national ownership, especially where governmental capacity for policy analysis, budgeting and implementation is weak.

S28. The changes in the systems of **budgeting and planning are beginning to be internalised** throughout the government system. The budgetary process is beginning to be adjusted to support a more coordinated and directive government strategy. Officials in sector ministries perceive a change in the nature of the inter-ministerial dialogue. However, they share a concern about the speed of the transition from a situation where they had some control of donor funding (since it was allocated directly to the sector or to sector projects) to one where funds are channelled directly through the national Treasury.

S29. All the weaknesses characteristic of the budgetary process in Mozambique are also inhibitions to democratic accountability. Above all is the fact that a large part of public expenditure is off-budget and therefore not subject to comprehensive parliamentary scrutiny or national audit procedures. Although some large donor projects are subject to parliamentary approval, this is on a piecemeal basis rather than as part of the review of budgetary allocations. Most donors will subject their projects to external audit, but the audit is according to donors' requirements rather than those of the national government and parliament. The scope for

parliamentary accountability has increased to the extent that the state budget has grown as a proportion of all public expenditure, and that a higher proportion of donor funds has been brought into the state budget. Bringing donor funds on-budget has increasingly become a policy issue taken up by PGBS partners. While **instruments of domestic accountability remain weak, we found that they were becoming stronger** with the support of PGBS.

S30. While key ministries are now planning and coordinating more closely with MPF, the links remain weak. This is partly a problem of the gap between the experience of staff in different ministries – MPF staff having a focus on finance and line ministries staff on sector issues. However, the problem relates also to the **weak capacity** of government to attract and retain good staff. In the absence of qualified staff, ministries have depended heavily on short-term technical assistance. There are current proposals to address planning and financial management capacity through pooled donor support to government.

Effects on Policies and Policy Processes

S31. The Mozambican policy process is focused on central government line ministries with a high degree of vertical control, strongly influenced by donors, and with low levels of civil society participation. Access to donor funding at sector and provincial level has enabled government to avoid hard choices about resource allocation between sectors.

S32. In the earlier years, PGBS dialogue through the Joint Review process initially focused on the internal working of government and public finance management and on the assessment of progress on poverty reduction and economic growth. Since 2003, the agenda has broadened to cover practically all aspects of government and donor policy that could be relevant to the poverty reduction strategy. While this places heavy demands on government, PGBS has had a **positive effect in establishing and maintaining a comprehensive reform policy increasingly owned by government** and in developing systems of dialogue, review and monitoring that constitute **an effective learning process**.

S33. One of the major areas of attention of donors and government has been reform of the financial sector, especially since the banking crisis that came to a head in 2001. Through the Joint Review and working groups, some attention has also been given to reform of the business environment and the agricultural sector. PGBS is increasingly oriented to private sector development but until now **issues of market failure have been weakly pursued**, by comparison with social sector policies.

S34. Policies and reforms at sector level were not initially covered by the Joint Review process, although it supported the government's commitment to maintaining the share of the priority sectors (including education, health, infrastructure and agriculture) at 65% of total government expenditure. Line ministries became much more directly involved when in 2003 it was decided to draw up a Performance Assessment Framework on the basis of which donors would determine their funding commitments to GBS. PGBS has had a **moderately positive effect on the development of sector policies**. It has not so much contributed to new social sector policies as added more open and collective pressure to meet service targets and carry out promised reforms. It has probably had most distinct (though not yet great) policy influence in the legal and judicial sectors, which had previously received relatively little attention except from individual donors. The greater attention to the legal and judicial sectors followed a banking crisis and associated human rights violations that occurred at about the same time that PGBS was becoming established.

S35. PGBS has brought about policy dialogue that is more focused on policy priorities, more cross-sectoral and **more inclusive of stakeholders** than previously existed. More donors are involved, including non-GBS donors, and government has increased ownership of the Joint Review process. Sectoral line ministries (and in future provinces and districts) have increasing levels of participation. This has not displaced the donor–government dialogue at sector level but has reinforced pro-poor policies by subjecting them to wider scrutiny. Non-official involvement – politicians, legislators and civil society – is restricted but growing.

Effects on Macroeconomic Performance

S36. There are limits to the impact of PGBS on macroeconomic performance in a situation where monetary policy remains within the policy domain of the IMF and the country is regularly exposed to shocks such as floods and droughts. In addition the country was affected by a banking crisis during 2001/02, which worsened fiscal discipline in two out of the five years that PGBS has been provided. However, **PGBS has made a moderately positive contribution to improving fiscal discipline**, in particular by supporting IMF conditionality and increasing the volume of resources available to the national budget, which contributes to the transparency of public expenditure. Ultimately, improvement in fiscal discipline depends on the Government of Mozambique's own commitment to achieving targets.

S37. While a more favourable macroeconomic environment has largely been achieved (except for interest rates), this is more a product of monetarist policies linked to the IMF and supported by PGBS donors. **PGBS has contributed to reducing the cost of budget finance** by making new and free sources of finance available to the budget, allowing government to spend on its own priorities. While PGBS initially presented problems of late and unpredictable disbursement which obliged the government to issue treasury bills to cover its expenditure, this problem has reduced as donors have committed to multi-year agreements and more predictability.

S38. We found that, on balance, **PGBS has not adversely affected private investment** and may have had a positive effect. Although late disbursement may have increased the costs of borrowing in the earlier years of PGBS, more recently disbursement has become much more predictable. PGBS made available funding that reduced government's need to borrow to recapitalise the banks, thus helping to resolve the banking crisis. High levels of external assistance do not appear to have stifled private sector growth through exchange rate appreciation. With regard to **institutional restructuring** many of the first-generation reforms associated with market liberalisation had already been largely achieved, but PGBS has supported the conditions for stable macroeconomic management and the government's public sector reform programme. However, **reforms in areas important for private sector growth such as the judicial and regulatory environment have lagged.**

S39. We found no evidence of an overall adverse effect by PGBS on **the generation of domestic revenue**. Revenue mobilisation has been a pillar of PGBS dialogue and conditionality and is monitored by the Joint Review; however, performance remains below target.

Effects on the Delivery of Public Services

S40. Service funding and delivery were rising before PGBS existed. In a country where at least 50% of public spending was financed by aid throughout the period 1994–2004, it is unimaginable that the rapid recovery from civil war and the growth of service delivery could have been achieved without aid. Through most of this period, project aid and then increasingly basket funding at sector level were the modalities of support. Many government officials at sector level (health, education and agriculture) and some donors (and, in the case of many donors, some sector-focused officials) would argue that sector support is the most efficient way of getting aid

through to service delivery. Some fear that quickly expanding GBS could put these gains at risk by breaking established lines of financing and over-stretching the capacity of MPF. Sector support is likely to continue but needs to be brought on-budget, so that allocations under state and sector budgets can be made rationally, on the basis of a comprehensive view.

S41. The G17/government Joint Review dialogue is based on GBS but embraces sector aid, promoting coherence between them. Ultimately, PGBS offers the possibility of achieving integrated cross-sectoral prioritisation and implementation, which is not achievable otherwise. PGBS's contribution to the improvement of service delivery has not been to invent new policies nor to create previously unasserted targets, but to maintain support for policies and targets already agreed at sector level. We assess it as having had a **weak but positive effect on service delivery and service responsiveness**. It has not added new funding but redirected some of it to flow through the national budget, following PARPA commitments and probably achieving higher rates of budget execution. This has enabled it to strengthen those policy commitments by making them a matter of collective donor and government agreement. The fact that PGBS funds go through the state budget in principle encourages rational allocation within and across sectors by exposing them to transparent monitoring, and improving the link between plans, budget allocations and execution. Although the mechanisms remain weak, PGBS has supported the reform of financial accounting, procurement and performance assessment.

Effects on Poverty Reduction

S42. The main poverty reduction policy in Mozambique since 2000 has been the government's PRSP (PARPA). While this has been adopted as the basis of policy alignment for all forms of aid, PGBS is the only aid modality that directly provides financial support for the implementation of this strategy by the government itself (as opposed to specific sectors of government). PGBS dialogue has also contributed to the evolving structure and quality of the poverty reduction approach since it focuses on reforming PFM, improving domestic accountability, and maintaining high levels of social sector spending. Both the PARPA and PGBS have given less attention to addressing deep-seated problems of territorial inequality and enabling the development of rural production and employment opportunities.

S43. Between 1996/97 and 2002/03, there was a spectacular fall in the incidence of poverty as measured by consumption from 69% to 54% of the total population. This represents an extraordinary reduction in six years. As a result, the poverty reduction target as set out in the PARPA has easily been reached. Socio-economic indicators show a reduction also in non-income poverty, in respect of access to education and health services. However, the HIV/AIDS prevalence rate is very high and increasing rapidly. Poverty reduction has been larger in rural than in urban areas, but territorial inequalities remain very high.

S44. High and sustained rates of economic growth have been the principal contributors but PGBS can claim to have made a **small contribution to the reduction of income poverty** through its effect on macroeconomic stability and government spending. PGBS is given on the basis that the recipient government has an established strategy to spend public funds on prioritised sectors with the overarching objective of engendering pro-poor GDP growth and resulting reductions in poverty levels. PGBS has served to increase the proportion of funds subject to the national budget and, backed by policy dialogue and (agreed) conditionality, has had a **modest effect in extending access to basic services** in all the PARPA priority sectors.

S45. If PGBS has had an effect on the empowerment and social inclusion of poor people, it will have been indirectly through its contribution to growth, employment, income, service delivery, promotion of anti-corruption measures and reform of the justice sector. PGBS and associated processes have emphasised accountability of public finance management and

created instruments (particularly the PAF) for assessing service delivery. It is not possible to say whether any of this is experienced by poor people, but is likely that its **effect so far on their empowerment is weak**.

The Sustainability of PGBS

S46. Previous sections conclude that PGBS has aligned on and helped to build the sustainability of government systems, has developed a sustained dialogue with government, and has had a broadly positive impact on policy processes, macroeconomic management and service delivery. This section considers whether there are “feedback loops” built into PGBS that allow learning and adjustment to changing realities. PGBS in Mozambique has certain characteristics: (a) it is a product of learning and evolution out of other forms of aid, (b) it is led by bilateral donors, (c) it is the principal definer of membership but the partnership embraces other forms of programme aid, and (d) it has an elaborate organisational structure and systems of review. Indeed, its formality and scale could present risks:

- to donors: of difficulty in accommodating different donor stances, and of the capacity of government systems to absorb budget support;
- to government: of incapacity to match donor organisation, and of donors acting in concert to withhold aid.

However, we judged the partnership to be sustainable.

S47. There are numerous and **strong processes of shared learning** between government and donors, with flexible mechanisms for adjusting to experience and for maximising complementarities between different forms of aid. These run through all levels of the evaluation framework from the design, to periodic reviews of the partnership, and joint reviews of government and donor performance against agreed targets. The report suggests that a more conscious effort could be made to consider the advantages of different aid modalities.

S48. **Learning processes have been strong in relation to the flow of funds, institutions and policies.** The level of PGBS funding has been sufficient to engender a well-structured dialogue which has been the main instrument of learning in regard to institutions: the development of the framework for the donor partnership and harmonisation, government–donor alignment, and performance assessment, and reforms in financial management and at sector level. The Joint Review has more often supported sector-level policies and reforms than made them. However, where the drive for reform is weak (e.g. the judicial sector and HIV/AIDS) the Joint Review has sometimes taken a lead.

S49. **Learning processes have been extended to a widening group of stakeholders,** including donors with different degrees of commitment to GBS, sector ministries of government and non-governmental actors. However, the participation of the legislature and of civil society organisations remains weak.

Part C: Cross-Cutting Issues

S50. The report distinguishes between policy (or “outcome”) cross-cutting issues (CCIs) and governance (or “process”) issues. The first set of CCIs came fully on to the PGBS agenda in 2003 when the agreement with the government was revised to include: gender, environment, HIV/AIDS and human rights. The second set is of issues that concerned PGBS from the outset – the public–private relationship, decentralisation and capacity building, ownership and conditionality, transaction costs, corruption, and accountability. It was to address some of these issues that PGBS came into being.

S51. PGBS has had an impact on CCIs in three main ways:

- coordinating and giving collective impetus where previously donors were working separately with government: e.g. on conditionality, decentralisation, and potentially on capacity building;
- making links where themes are shared across sectors but had previously been encapsulated sectorally: e.g. the public–private relationship, HIV/AIDS, gender, and corruption;
- pressing for implementation where formal policies, rights and legislation are in place but the implementation of reform is weak: e.g. human rights, gender, decentralisation and potentially the environment.

S52. Policy-related CCIs:

Most of these issues came on to the PGBS agenda only in 2003 when the agreement between government and international partners was revised:

- Gender: Women have strong formal rights and political representation. However, in the sphere of economic participation and in terms of access to service and justice, women and girls remain disadvantaged. An active gender working group is pursuing these issues within the Joint Review process.
- Environmental legislation is strong but practice is much weaker. PGBS and the Joint Review have dedicated little attention to environmental matters.
- HIV/AIDS: A national cross-sectoral strategy has existed formally since 2000. The PGBS Joint Review process has been an important means for making this a reality by asserting the case for a cross-ministerial approach to prevention and treatment.
- Human rights are strongly established at a formal level, but less so in practice, particularly in regard to the performance of the courts, prisons and police. The Joint Review has given collective impetus to the pursuit of legal and judicial reforms.

S53. The second set of CCIs concern governmental arrangements and their relations with international partners and the private sector:

- Public and private sector issues: Until recently, PGBS has given little attention to strengthening private sector development and instead concentrated on developing the public sector apparatus. Since 2003, the business environment and the productive sectors have been given more attention and we judge this to be a necessary adjustment.
- The government is following a policy of gradual decentralisation, but this is still mainly a matter of administrative deconcentration. The Joint Review is seeking to engage more directly with reform at provincial and district level, and with linking the activities of bilateral donors at local level.
- Technical assistance and capacity building: Capacity in government is weak and capacity development in core institutions of government has been largely fragmented and projectised, including by PGBS donors. There are important examples of jointly funded capacity-building for public finance management generally and MPF in particular (SISTAFE being the prime example), and donors now plan a co-financed sector-wide financial sector development project to begin in 2006.
- Ownership, in the sense of the strengthening of cross-sectoral national systems over which government exerts collective control, has increased under PGBS with donor–government agreement on shared conditions. Our conclusion is that the PGBS form

of shared conditionality, in which policy targets are agreed between government and partners through dialogue, makes for enhanced governmental ownership.

- Interplay between aid modalities: The PGBS dialogue is characterised by a relatively high degree of integration with other aid modalities. Sector support and sector policies are being brought increasingly into PGBS forums and being assessed using a common assessment framework.
- PGBS has initially increased transaction costs to government due to new dialogue requirements, new conditionalities, and unpredictable flows of PGBS funds. These costs may now be decreasing as government has adjusted and donors increasingly work through government systems. PGBS reduces the transaction costs of implementation, since regular government procurement and accounting procedures are used. However, the persistence of other aid modalities reduces the net positive effect.
- PGBS has supported national processes of democratic accountability, by bringing aid on-budget, exposing it to parliamentary and public scrutiny, and contributing instruments of performance assessment. But these mechanisms of accountability remain weak.
- Corruption has remained a problem but PGBS has increased donors' concern about fiduciary risk, and the Joint Review process is now pressing the government to make progress on anti-corruption, audit and judicial reform.

Part D: Synthesis – Overall Conclusions and Recommendations

Overall Assessment of PGBS in Mozambique

S54. Our broad conclusion is that this has been a very successful case of donor–government collaboration, and that PGBS has contributed positively to conditions for economic growth and poverty reduction.

S55. We found causality effects running right through the levels of analysis. They were more general, clearer and stronger (rated medium to strong) at Levels 0, 1, 2 and 3, in:

- the strong and evolving relationship between PGBS's design and the country context;
- harmonisation between a large number of partners and their increasing alignment on national systems;
- PGBS's increasing contribution to the proportion of public expenditure that goes through a growing state budget;
- its effects in strengthening planning and budgeting systems, policy processes, and macroeconomic performance.

S56. Positive but generally slight and uncertain effects were discernible with regard to service delivery, responsiveness and access, to the reduction of income poverty and to the empowerment of poor people. However, while there were positive effects running through the chain, there were also weaknesses scattered throughout it. This not to say that the hypothesised causality links were false, but that either PGBS design or the national response have been inadequate. The main weaknesses in performance against the criteria adopted by the evaluation were in:

- Level 2: TA and capacity building; predictability of PGBS funding (though this has improved since 2003);

- Level 3: Domestic accountability;
- Level 4: Policies addressing market failure and private sector development; administration of justice and respect for human rights.

PGBS in Mozambique – Future Prospects

S57. This chapter summarises the arguments that lead to the main practical lessons we derive from the Mozambican experience, and indicates what possible actions might support the future development of PGBS. The issues we identify are:

- the strong design and organisation of PGBS which has shown a capacity for flexible adaptation but which may need to develop a more conscious strategy for the management of change;
- effective arrangements for harmonisation and alignment but which therefore present risks to both government (of combined donor action) and international partners (of being locked into a collective view);
- PGBS's contribution to the strengthening of public finance management while at the same time requiring yet further improvements in the predictability and scheduling of donor disbursements;
- the paradoxical balance between improved planning, budgeting and domestic accountability as both preconditions for and outcomes of PGBS;
- the case for a more planned and coordinated approach to the development of government's capacity to plan, budget and develop policy as well as the donors' capacity to support these;
- PGBS's support for a more coherent approach to the development of cross-sectoral policies but its relative neglect, at least until recently, of policies and institutions that do not involve major commitments of public expenditure;
- PGBS's support for improved macroeconomic management but the need for more attention to the productive sectors in government's and donors' strategies;
- the effectiveness of PGBS dialogue in collectively supporting the development of service delivery, but the case for a more conscious strategy for deciding the appropriate role of alternative aid modalities;
- the fact that PGBS's effect on poverty is so far small but positive.

Summary of Conclusions and Recommendations

S58. This chapter presents a matrix of the findings and conclusions of the Mozambique study, leading to recommendations which we present for the consideration of domestic and international stakeholders in the PGBS process in Mozambique. The main recommendations can be grouped by the focus of attention: aid strategy between government and donors; donor performance; government performance; civil society's engagement; the private sector and growth:

Aid strategy:

- R1 Design a shared strategy for the development of programme aid in parallel with government capacity.
- R2 Consider the advantages of different aid modalities and how each might be used.
- R3 Develop an aid strategy that specifies government's objectives with regard to different aid modalities.
- R4 Maintain commitment to bringing aid on-budget as financial information systems improve.

Donor performance:

- R5 Develop donor capacity to support policy analysis, planning and budgeting.
- R6 Continue to improve predictability and scheduling of intra-year and inter-year disbursements and release greater levels of funds in the first quarter of the year so as to combat cyclical tax revenue fluctuations.
- R7 Consider whether and how international partners can give graduated response to government performance.
- R8 Consider further how to minimise pressure on key government officials' time in the annual Joint and Mid-Year Reviews.
- R9 Adopt a strategy of giving the government progressively more “space” to develop and implement its own growth and poverty reduction approach.

Government performance:

- R10 Develop a pooled programme for TA and capacity building in policy analysis, planning and budgeting.
- R11 Give skewed territorial distribution of budget expenditure more prominence in dialogue.
- R12 Support phased development of programme budgeting.
- R13 Give greater priority in dialogue to impact of growth on domestic revenue and decreasing dependence on aid.
- R14 Address the concerns of line ministries about the insecurity of their lines of funding in the transition to PGBS.
- R15 Maintain pressure to focus and implement strategies in areas of HIV/AIDS and the justice sector.
- R16 Consider whether and how environment should be more strongly addressed through PGBS.
- R17 Prepare cross-ministerial positions prior to engagement with donors in Joint Review dialogue.
- R18 Maintain Joint Review pressure for measures against corruption.

Civil society's engagement and accountability:

- R19 Develop a strategy for enhancing accountability with Parliament and Poverty Observatory.
- R20 Maintain Joint Review pressure for measures against corruption.
- R21 Maintain pressure to focus and implement reform of the justice sector and audit systems.

The private sector and growth:

- R22 Enhance emphasis of dialogue and conditionality on banking, legal and judicial sector reforms.
- R23 Strengthen international partner dialogue with government on rural employment generation.
- R24 Strengthen international partner dialogue with government on the business environment.
- R25 Consider support for non-state provision of public services.

PART A: CONTEXT/DESCRIPTION

A1. Introduction and Conceptual Framework

Introduction

A1.1 Mozambique is one of seven case studies in a Joint Evaluation of General Budget Support (GBS). Each country study has contributed to the Synthesis Report of the evaluation, but is also intended to be a free-standing report of value to country stakeholders. This chapter explains the background to the evaluation, its methodology and the process that has been followed in Mozambique. Annex 1A to this report is a concise summary of the study methodology. Full details of the background and methodology for the multi-country evaluation are in the Inception Report (IDD & Associates 2005).

Objectives and Approach to the Evaluation

What is General Budget Support?

A1.2 Budget support is a form of programme aid in which official development assistance (ODA) that is not linked to specific project activities is channelled directly to partner governments using their own allocation, procurement and accounting systems. GBS (in contrast to sector budget support) is not earmarked for a particular sector or set of activities within the government budget. The foreign exchange in GBS is usually accompanied by other inputs – a process of dialogue and conditions attached to the transfer, technical assistance (TA) and capacity building, and efforts at harmonisation and alignment by the international partners (IPs) providing GBS. Other forms of programme aid (including debt relief and other balance of payments support) may also generate resources that can be used to finance the government budget; therefore they could also be considered as budget support. However, the present evaluation focuses on a particular form of budget support that has recently become prominent – “Partnership GBS”.

A1.3 A new rationale for GBS emerged in the late 1990s, closely linked to the development of Poverty Reduction Strategies. So-called “new” or “partnership” GBS focuses explicitly on poverty reduction, and it attempts to support nationally developed strategies rather than imposing external policy prescriptions. The range of expected effects from Partnership GBS is very wide. The Terms of Reference (TOR)¹ for this study draw attention to:

- Improved *coordination* and *harmonisation* among IPs and *alignment* with partner country systems (including budget systems and result systems) and policies;
- *Lower transaction costs*;
- *Higher allocative efficiency of public expenditures*;
- *Greater predictability* of funding (to avoid earlier “stop and go” problems of programme aid);
- *Increased effectiveness of the state and public administration* as GBS is aligned with and uses government allocation and financial management systems;
- *Improved domestic accountability* through increased focus on the government’s own accountability channels.

¹ The full TOR are annexed to the Inception Report (IDD & Associates 2005).

Purpose and Focus of the Evaluation

A1.4 As summarised in the TOR:

The purpose of the evaluation is to evaluate to what extent, and under what circumstances (in what country contexts), GBS is relevant, efficient and effective for achieving sustainable impacts on poverty reduction and growth. The evaluation should be forward-looking and focused on providing lessons learned while also addressing joint donor accountability at the country level.

A1.5 Although the evaluation focuses on more recent Partnership GBS (PGBS), it covers the period from 1994–2004 in order to assess whether and how PGBS differs from other variants of budget support. It is not a comparative evaluation of different aid modalities, although the assessment of PGBS requires examination of its interactions with project aid and other forms of programme aid. The joint donor approach to evaluation recognises that PGBS has to be evaluated as a whole, since it is not possible to separate out the effects of different IPs' financial contributions. However, there is a special interest in comparing various different approaches to the design and management of PGBS.

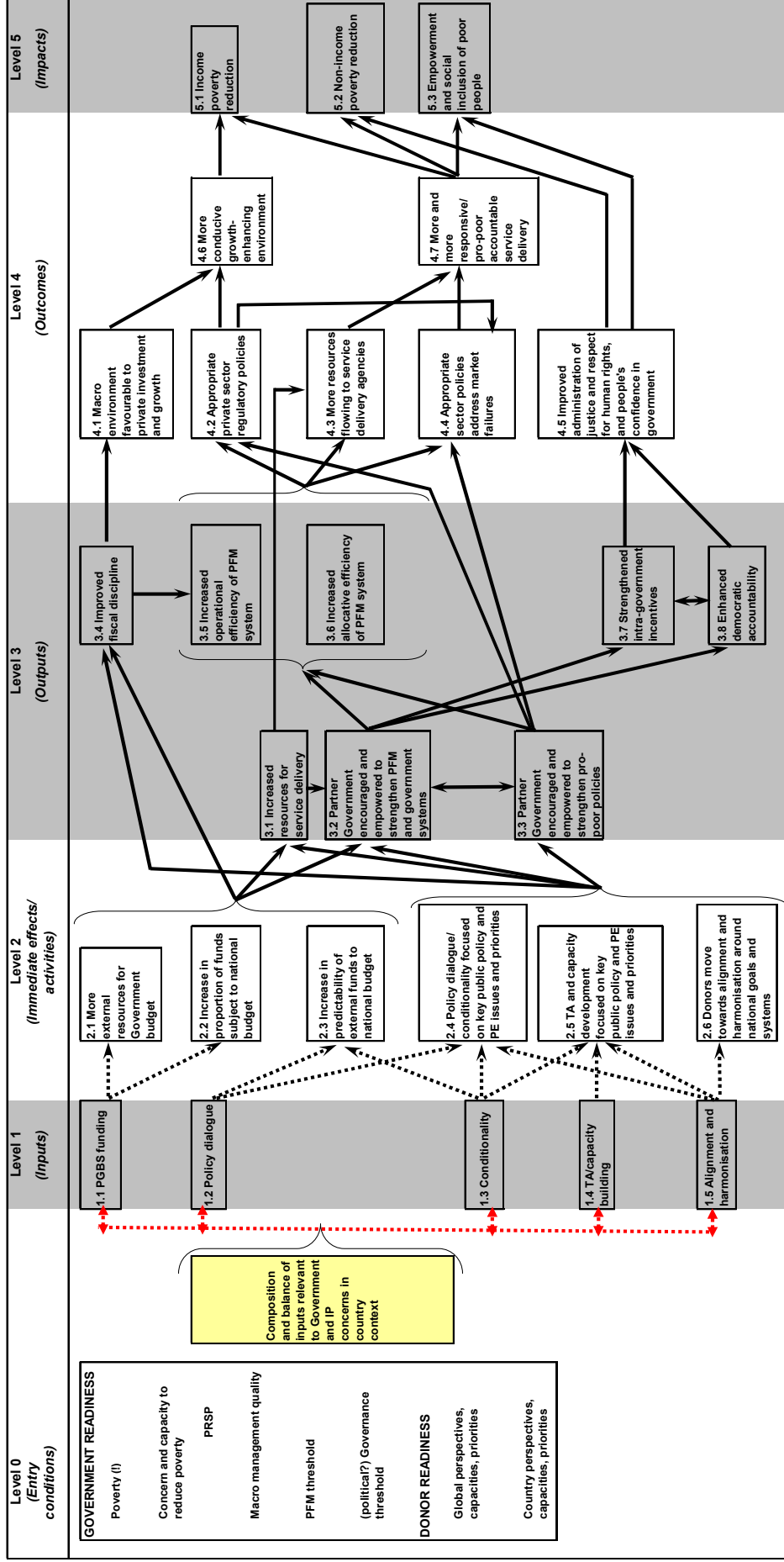
Evaluation Methodology

A1.6 The evaluation is based on a specially developed methodology which has been further refined during the inception phase of the study. The Enhanced Evaluation Framework (EEF) has the following key elements:

- It applies the five standard evaluation criteria of the Organisation for Economic Cooperation and Development's (OECD's) Development Assistance Committee (DAC) – relevance, effectiveness, efficiency, impact and sustainability.
- A logical framework depicts the possible sequence of effects of PGBS and allows them to be systematically tested. There are five main levels:
 - Level 1: the inputs (funds, plus dialogue and conditionality, harmonisation and alignment, TA and capacity building)
 - Level 2: the immediate effects (activities)
 - Level 3: outputs
 - Level 4: outcomes
 - Level 5: impacts.
- The entry conditions for PGBS (i.e. the circumstances in which PGBS is introduced) are conceived as "Level 0" of the logical framework.
- PGBS is conceived as having three main types of effect: flow-of-funds effects, institutional effects and policy effects. These effects overlap and interact with each other.
- There is particular attention to monitoring and feedback effects at all levels of the framework.
- The framework allows for the disaggregation of PGBS inputs, and notes their interaction with non-PGBS inputs.
- Similarly, it allows for the disaggregation of the poverty impacts of PGBS (income poverty, non-income dimensions reflected in the Millennium Development Goals, and empowerment of the poor).

A1.7 Annex 1A sets out these elements of the EEF more fully. From them, a Causality Map has been developed (Figure A1.1 below), which depicts the main cause-and-effect links to be tested by the evaluation.

Figure A1.1: Causality Map for the Enhanced Evaluation Framework



Country Report Structure

A1.8 The methodology ensures a standard approach to the evaluation across the seven case-study countries, and all seven country reports follow the same structure based on the same overarching evaluation questions. To enhance consistency across the country studies, a simple rating system is used in addressing the evaluation questions posed in Part B of the report; this is explained in Annex 1A. The TOR require special attention to gender, environment, HIV/AIDS, and democracy and human rights. These and a number of other cross-cutting themes are addressed in an additional section (Part C). A final section (Part D) presents the overall assessment and recommendations for Mozambique. The report structure is summarised in Box A1.1. The final section of this chapter describes the study process in Mozambique.

Box A1.1: Structure of the Country Report

Executive Summary

Part A: Context/Description

- A1. Introduction and Conceptual Framework
- A2. The Context for Budget Support in Mozambique
- A3. The Evolution of Partnership GBS in Mozambique

Part B: Evaluation Questions: Analysis and Main Findings

- B1. The Relevance of Partnership GBS
- B2. The Effects of Partnership GBS on Harmonisation and Alignment
- B3. The Effects of Partnership GBS on Public Expenditures
- B4. The Effects of Partnership GBS on Planning and Budgeting Systems
- B5. The Effects of Partnership GBS on Policies and Policy Processes
- B6. The Effects of Partnership GBS on Macroeconomic Performance
- B7. The Effects of Partnership GBS on the Delivery of Public Services
- B8. The Effects of Partnership GBS on Poverty Reduction
- B9. The Sustainability of Partnership GBS

Part C: Cross-Cutting Issues

- C1. Cross-Cutting Policy Issues (gender, environment, HIV/AIDS, democracy and human rights)
- C2. Public and Private Sector Issues
- C3. Government Capacity and Capacity Building
- C4. Quality of Partnership
- C5. Political Governance and Corruption

Part D: Synthesis – Overall Conclusions and Recommendations

- D1. Overall Assessment of PGBS in Mozambique
- D2. PGBS in Mozambique – Future Prospects
- D3. Summary of Conclusions and Recommendations

Bibliography

Annexes

- 1. Approach and Methods
- 2. Country Background
- 3. Aid to Mozambique
- 4. Public Finance Management
- 5. Summary of Causality Findings
- 6. Survey of Seven Civil Society Organisations
- 7. Performance Assessment Framework 2005

The Evaluation in Mozambique

A1.9 The Mozambique study was based on two field visits, a two-week inception period in October 2004, and a three-week study in May 2005. The evaluation was undertaken by a team of six people, two of whom (the team leader and the national consultant) were part of the team for both visits. The purpose of the inception period was to undertake scoping studies of: the partnership among and between government and international partners; the institutions of policy-making, budgeting, sector coordination, and service delivery; public expenditure management; the macroeconomy; and poverty reduction. The purpose of the second study was to focus in more detail on answering the evaluation questions set out in Annex 1A in relation to the design and the effects of PGBS in Mozambique.

A1.10 The evaluation was undertaken through a review of the extensive literature on the Mozambique case of aid and aid management, PGBS, poverty and poverty reduction, public finance management and the economy (see the Bibliography). This was accompanied by extensive interviewing of officials of bilateral and multilateral aid agencies, central and local government and non-governmental organisations (NGOs). More than 100 separate interviews were conducted. In addition, the study team held discussions with the Programme Aid Partnership's group of economists, participated in meetings of other groups within the Partnership and listened in to the final stages of the Joint Review between government and donors in May 2005. Annex 1B describes in more detail how the methodology was applied in Mozambique and includes the full list of interviewees.

A1.11 The focal points of the study in Mozambique were the National Director of Planning and Budgeting of the Ministry of Planning and Finance (MPF) and the "Troika" of three donors who led the Programme Aid Partnership (first UK, Switzerland and Sweden, and on the second visit Switzerland, Sweden and the Netherlands). The study team was supported by the Programme Aid Partners' secretariat. The team participated in Joint Review and working group meetings between donors and government. Briefing and debriefing workshops were held at the beginning and end of each of the two visits.

A2. The Context for Budget Support in Mozambique

Overview

A2.1 From the beginning of the liberation war in 1964, Mozambicans experienced nearly 30 years of violent strife, social and political disruption, and economic crisis. A peace agreement in 1992 heralded a period of almost uninterrupted growth of around 8% per annum (World Bank and International Monetary Fund [IMF] 2005), but analysis of the past decade requires an understanding of the historical legacy (see the chronology at Annex 2A). In summary, in 1994 Mozambique faced among the deepest problems of absolute poverty, in a largely subsistence economy, with a long history of bitter war, during which any rudimentary public services that existed had been eroded, while debt had mounted. It contained a legacy of regional identities, political hostility and mistrust (Hanlon 1991, Carbone 2002). The roles played by aid, and different aid donors, were also strongly influenced by relationships established during the earlier periods.

A2.2 Of the population of 18.9 million, 80% derive their living mainly from agricultural activity, though agriculture accounts for only a little over one-fifth of gross domestic product (GDP). The activity is very largely subsistence farming undertaken mainly by women in households that are predominantly (77%) male-headed. Industry declined to 14% of GDP in 1983, recovering to 23.5% by 2003, mainly as a result of investment in “mega-projects” (the MOZAL aluminium plant, port and gas-field development), although the latter have little direct effect on the population in terms of employment and are highly concentrated in the south of the country (Hodges and Tibana 2004: 20).

Poverty and Poverty Reduction Strategy

A2.3 The long period of high economic growth has had an impressive effect in reducing the level of absolute poverty from 69% of the population in 1996–97 to 54% in 2002–03. However, high rates of poverty, poor health indicators and high illiteracy rates persist (INE 2004). The United Nations Development Programme (UNDP) Human Development Report (2004) places Mozambique last out of the 14 Southern African Development Community (SADC) countries and 171st out of 177 countries overall. It is 139th out of 144 in the UNDP’s Gender-related Development Index. Illiteracy rates which had been about 93% at independence (UNESCO 2004) were estimated in 2003 to be 36% among men and 67% among women. The incidence of income poverty and poor access to social services and economic infrastructure is particularly high in the rural areas. Indicators of access to education and health services show a poor situation even by comparison with other least developed countries (Harvey 2002, Hanlon 2002). The main reason for declining life expectancy is the onset of HIV/AIDS; Mozambique now has the eighth-highest prevalence in the world (UNAIDS 2003).

Table A2.1: Selected Millennium Development Goals

	Mozambique		Sub-Saharan Africa	Low-income countries
	1997	2003	2003	2003
GNI per capita (Atlas method, USD)	180	210	490	450
% below poverty line	69	54		
Life expectancy at birth (years)	42	41	46	58
Infant mortality (per 1,000 live births)	147	124	103	82
Illiteracy (% of population age 15+)	60	54	35	39

Sources: INE (National Statistics Institute) 1998 and 200; <http://devdata.worldbank.org/idg/>; <http://devdata.worldbank.org/AAG>; and OECD DAC International Development Statistics (online database) (OECD DAC 2005–2006).

A2.4 Approval in September 2001 by the IMF and the World Bank of the 2001–05 Poverty Reduction Strategy Paper (PRSP, or PARPA in Mozambique) provided the formal basis for donor alignment on a governmental poverty reduction strategy, and its preparation facilitated the first donor agreement to coordinate budget support. The PARPA is often described by international financial institutions (IFIs) and donors as an effective and strongly government-owned document (e.g. World Bank and IMF 2005: 53). It is due to be revised in 2005.

A2.5 The pro-poor orientation of government policy is not new (World Bank and IMF 2005: 53). Indeed government since independence has claimed a pro-poor focus that may have weakened under the pressures of civil war and then, in practice but not intention, structural adjustment (Gustafsson and Disch 2001 Annex E:11, Abrahamsson and Nilsson 1994). The government first put forward its own poverty reduction strategy to a Consultative Group meeting in 1995. This was elaborated and improved on the basis of studies of the poverty situation between 1996 and 2000. The conditions for the receipt of Heavily Indebted Poor Countries (HIPC) debt relief included that the quantity and quality of social spending should be increased, and access to enhanced HIPC (from 2000) was linked specifically to implementation of a poverty reduction plan (White 1999: 17, 28) with commitment of debt relief to “priority sectors” (Dijkstra 2003: 42). A commitment to the allocation of 67% of the budget to priority sectors, with half to education and health, was expressed as government policy in the PARPA. Gender equality was defined as an integral component of poverty reduction. The PARPA itself then became the point of reference for government and all aid programmes, whether they took the form of the IMF’s Poverty Reduction and Growth Facility (PRGF), the World Bank’s Poverty Reduction Support Credits (PRSCs), project aid, basket funding and sector-wide approaches (SWAs) or GBS.

Macroeconomic Management

A2.6 The shift from a statist towards a market economy began on the government’s own initiative, in 1983, before Mozambique joined the World Bank and IMF in 1984 and received its first structural adjustment loan in 1987 (Harvey 2002). By 1994, after the peace agreement, the economy was at the beginning of a long period of high economic growth. However, much of this growth can be accounted for by the catching-up process, post-war reconstruction, large-scale donor assistance, and some “mega” investment projects. However, the basic imbalances of Mozambique’s economy were still in place. The negative trade balance had continuously worsened over the previous 10 years, and the deficit on the current account (before grants) had reached 55% of GDP (Aguilar 1996: 25). As government expenditure accelerated in times of peace (outpacing the growth of domestic revenue), the deficit on the government’s budget grew to an annual 23% of GDP in 1994, declining somewhat thereafter but returning to 19% in 2001. The difference was not entirely made up by external grants and loans (World Bank 2001a). By 1997, accumulated external debt had reached 170% of GDP (World Bank 2003a: 10). Inflation, which averaged 47% between 1988 and 1996, has been brought under control, to below the IMF target of 11% in 2004, but at the cost of high real interest rates. The current flexible exchange rate regime has so far served Mozambique relatively well.

Public Finance Management

A2.7 The budget, planning and accounting systems on which donors are aligning are weak (see Annex 4 for a detailed review). Mozambique is a country with a high level of fiduciary risk, owing more to the weakness of its public finance management (PFM) system than to deliberate corruption or gross misuse of funds. There are serious and justified concerns over the effectiveness of unearmarked aid flows entering a budget that is incremental in nature, is delinked from costed outcomes, exhibits little improvement in operational efficiency over time, depends on vulnerable and non-transparent procurement practices, and remains an ineffectual indicator of how money is spent and allocated.

Governance

A2.8 The state apparatus at the beginning of the review period was poorly resourced in several senses: a very small tax base, a centralised but vertically fragmented administration, antiquated management systems, exceedingly low levels of educated and trained staff,² and a weak legislature and judiciary (Hodges and Tibana 2004, Scanteam 2004).

A2.9 The state that was to address these problems in the period after the peace agreement, had taken on the formal characteristics of a liberal democracy in the 1990 constitution, with the official separation of the legislature, the executive and the judiciary, and the introduction of a multi-party system.³ Legislative power is vested in the Assembly of the Republic, while executive power is concentrated in the presidency. The national government is formed by the president who appoints the prime minister ("a relatively symbolic role" – Hodges and Tibana 2004: 24) and Council of Ministers. Legislative and presidential elections take place every five years, when the assembly and the head of state are elected through direct universal suffrage. National elections took place in 1994, 1999 and 2004 – each accompanied by complaints of election rigging but broadly accepted as valid by the international community. Judicial power is vested in the Supreme Court, composed of independent judges appointed by the president. The president also appoints the president of the Administrative Tribunal (the supreme audit institution) and the Attorney-General.

A2.10 The concentration of executive power on the national president runs also down to local government. He appoints the governors of the 11 provinces, and the governors in turn appoint the administrators of districts – provinces and districts are integral parts of the national government. The structure of power at provincial and district level is complicated by a system of "dual subordination" through which all power and accountability flow upwards but on parallel tracks. District directors of line agencies (principally health, education and agriculture) are accountable not only to the district administrator but also to the provincial directorates of health, education and agriculture. In their turn, the provincial directorates are accountable both to the governor and to their respective line ministry. This centralism, combined with vertical cleavages between administrative hierarchies, has serious implications for the management of budgets, the flow of funds and service delivery (Hodges and Tibana 2004).

A2.11 Apart from the national level, there is only one other centre of independent executive and legislative power. Following a constitutional revision in 1996, local authorities (*autarquias*) with financial and administrative autonomy were established in 1997: 23 cities and 10 towns became municipalities. Elections were held in 1998 and 2003.⁴ Since the opposition party (the RENAMO – the Mozambique National Resistance) is relatively strong only in the rural areas of the north and centre of the country, elections in urban centres present very little risk to the hegemony of the governing party, FRELIMO (the Mozambique Liberation Front). "The FRELIMO party retains an overwhelming political position in the country in terms of organisation, resources, and control of the state, including the loyalty of senior civil servants" (Scanteam 2004: 4).

Aid Flows and Aid Partners

A2.12 Mozambique is one of the most aid-dependent countries. Aid dependence was very high during the civil war period, peaking at 87% of gross national income (GNI) in 1992 – the year of the Peace Agreement. However, by the late 1990s it had fallen to below 30% (Table A2.2⁵), though Mozambique remained the largest single recipient of foreign assistance in Africa. In

² Even by 1998, 80% of civil servants were said to have no more than 6th-grade education, 3% university education, and half earned less than USD 50 per month (Joint Donor Review 1999).

³ "A new constitution, approved by parliament in 2004, made a few changes regarding the separation of powers and reinforced the rights of citizens." (Hodges and Tibana 2004:24.)

⁴ Provincial assemblies are to be elected in 2007.

⁵ The high ratio of aid to GNI in 2002 was exceptional and accounted for by large-scale debt cancellations.

2001, donor support accounted for more than half of total public spending and about two-thirds of public investment (World Bank 2001a).

A2.13 ODA to Mozambique rose steadily from USD 300m in the mid-1980s to stabilise above USD 1,000m for most of the 1990s into 2004. In 2004, ODA disbursements represented 24% of GNI and bilateral funding accounted for 60% of these contributions.

Table A2.2: Aid Receipts, Bilateral Share and Percentage of Gross National Income

	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
Total ODA [1] (USD m)	1,255.44	1,275.30	956.66	959.38	1,106.58	1,646.84	1,096.33	992.47	2,330.26	1,092.22	1,289.13
Bilateral share of ODA	62%	70%	61%	68%	68%	44%	74%	76%	76%	67%	60%
Net ODA as % of GNI	60%	50%	33%	30%	28%	21%	25%	30%	65%	25%	24%
Net private flows (USD m)	64.26	56.16	5.02	-3.00	86.87	85.33	103.21	115.14	70.46	-55.62	39.5

Source: OECD DAC International Development Statistics (online database) (OECD DAC 2005–2006).

Note: [1] Total ODA calculated as Total Grants disbursed plus Total Loans extended.

A2.14 Table A2.3 shows the relative importance of the main multilateral and bilateral donors over recent periods. The high recent shares for Italy and France reflect debt cancellations.

Table A2.3: Aid, and Shares of Aid, by Principal Donors 1990–2004

	Totals (USD million)			Percentage of Total		
	1990–94	1995–99	2000–04	1990–94	1995–99	2000–04
BILATERALS						
Australia	49.98	40.83	28.72	0.8%	0.7%	0.4%
Austria	16.25	32.72	37.02	0.3%	0.6%	0.5%
Belgium	9.69	11.48	34.46	0.2%	0.2%	0.5%
Canada	139.24	52.79	84.93	2.2%	0.9%	1.2%
Denmark	151.88	221.51	282.15	2.4%	3.7%	4.1%
Finland	96.46	66.75	78.41	1.5%	1.1%	1.2%
France	380.58	266.88	553.84	6.0%	4.5%	8.1%
Germany	450.53	329.39	396.38	7.1%	5.5%	5.8%
Ireland	1.69	28.13	152.05	0.0%	0.5%	2.2%
Italy	689.66	369.06	514.71	10.9%	6.2%	7.6%
Japan	138.61	219.21	180.80	2.2%	3.7%	2.7%
Netherlands	265.88	235.15	302.18	4.2%	4.0%	4.4%
Norway	325.51	244.91	224.67	5.1%	4.1%	3.3%
Portugal	456.58	400.29	279.59	7.2%	6.7%	4.1%
Spain	59.14	69.71	141.54	0.9%	1.2%	2.1%
Sweden	513.58	252.78	258.66	8.1%	4.3%	3.8%
Switzerland	121.87	111.66	118.57	1.9%	1.9%	1.7%
UK	217.25	257.44	445.80	3.4%	4.3%	6.6%
USA	358.00	353.04	612.40	5.7%	5.9%	9.0%
Others	28.63	37.78	115.75	0.5%	0.6%	1.7%
<i>Total Bilateral</i>	4,471.01	3,601.51	4,842.63	70.6%	60.6%	71.2%
MULTILATERALS						
AfDF	137.27	218.36	273.69	2.2%	3.7%	4.0%
EC	458.46	389.54	541.14	7.2%	6.6%	8.0%
IDA (WB)	500.20	1,425.90	835.47	7.9%	24.0%	12.3%
SAF/ESAF/PRGF(IMF)	161.17	81.29	95.33	2.5%	1.4%	1.4%
UNDP	83.39	51.82	33.43	1.3%	0.9%	0.5%
UNHCR	105.05	46.19	7.49	1.7%	0.8%	0.1%
UNICEF	104.35	55.39	38.36	1.6%	0.9%	0.6%
WFP	276.66	25.04	25.42	4.4%	0.4%	0.4%
Others	33.61	49.79	107.48	0.5%	0.8%	1.6%
<i>Total Multilateral</i>	1,860.16	2,343.32	1,957.81	29.4%	39.4%	28.8%
TOTAL	6,331.17	5,944.83	6,800.44	100.0%	100.0%	100.0%

Source: OECD DAC International Development Statistics (online database) OECD DAC (2005–2006).

A3. The Evolution of Partnership GBS in Mozambique

Introduction

A3.1 This chapter traces the evolution of donor coordination and of forms of programme aid in Mozambique. The story is complex and a more detailed account of the origins and design of PGBS is provided in Annex 3C. Bilateral donors led the development of PGBS. There was early collaboration of the “like-minded group” (the Nordic countries, Canada, the Netherlands and Switzerland) in times of civil war, coordination of their import support and food aid programmes, and the division of sectoral leadership roles between Sweden (education) and Switzerland (health). A wider group of bilateral donors supported the IMF's Structural Adjustment Facility (SAF) in the form of balance of payments (BOP) support from 1990. Two rounds of HIPC debt relief from 1996/97 and the discussion and then eventual approval by the World Bank of the PRSP (PARPA) in 2001 created the conditions for donor alignment on an agreed poverty reduction strategy. The bilateral donors began to formulate plans for a common programme of GBS in 1998. The IMF switched its loans from Enhanced Structural Adjustment Facility (ESAF) to PRGF conditions aligned with the PARPA from 1999, but it was not until 2004 that the World Bank began a PRSC to support the PARPA and the bilateral donors' budget support programme.⁶

Aid Modalities

A3.2 Much aid is “off-budget” and often unknown to government (see explanatory note at Annex 4B). This particularly applies to project aid, which accounts for a large part (perhaps 80%) of investment expenditure in Mozambique. Given this qualification, while overall official aid flows have remained at a broadly similar level since 1994, their composition has changed with a shift from isolated projects to basket and sector funding, and from BOP support to GBS. Factors influencing the forms of aid at different periods are noted in Box A3.1.

A3.3 The key donors from independence were from the Soviet Bloc (in the form of technical assistance and loans) and also from the Nordic countries (Denmark, Finland, Norway and Sweden) that were quick to support Mozambique as part of their southern African strategy. They were later joined by the Netherlands, Switzerland and Canada to form the “like-minded group” of donors that were present in Mozambique during its civil war, and which remained at the core of the later development in aid relations. They gave technical assistance and project aid, but recognised the necessity of financing the import of essential goods in a country that lacked the conditions to raise revenue to fund its own budget. Emergency food aid was added during the 1980s in the face of the disruption of agriculture caused by drought and war.

A3.4 The Government of Mozambique (GOM) became a member of the IMF in 1984, and in 1987 introduced an economic and social rehabilitation programme without prior agreement but which was eventually supported by the IMF, World Bank and western donors. This was followed in 1990 by agreement with the IMF for a more conventional ESAF which exerted tighter restrictions on subsidies and social expenditure, and then a second ESAF from 1996 (Aguilar 1996). The World Bank engagement released a major increase in the flow of aid funds also from bilateral donors, in the form both of BOP support, as co-financing for IMF/World Bank-led structural adjustment programmes, and of project aid. By 1990 BOP and import support together accounted for about 26% of total aid inflows (Abrahamsson and Nilsson 1994). White (1999: 4) indicates that programme aid in the form of import support, food aid, debt relief and sector

⁶ An inventory giving details of GBS and related programmes in Mozambique is provided in Annex 3A.

support accounted for more than 20% of total aid between 1989 and 1996, and in 1992 over 50%.

Box A3.1: Factors Influencing Aid Modalities over Time

Various factors have shaped the modalities and instruments used to channel aid in different periods. National policies, policy choices within the donor countries and international fashions have greatly influenced the pattern of aid flows, with the following shifts in emphasis:

- **Independence (1975–82):** In accordance with the national policy, aid flowed chiefly from the eastern block and Nordic countries in the form of technical assistance (TA) and import support aimed at financing development projects. However, there was also an important flow of skilled professionals from all over the world.
- **War and drought (1983–86):** Emergency food aid.
- **Economic collapse (1987–90):** The shift to the market-oriented economy with the introduction of the Structural Adjustment Programme (SAP) was followed by a doubling of food aid from 1985 to 1987. Balance of payment and import support also became important aid modalities, accounting for up to 26% of total aid inflows in 1990 (Abrahamsson and Nilsson 1994). There was an increasing presence of donors, NGOs, bilaterals and multilaterals; International NGOs increased from 7 in 1980 to 70 in 1985 and 180 in 1990; national NGOs went up from 4 in 1984 to 200 in 1996. Earmarked Swiss budget support begins.
- **Preparation for peace (1991–95):** Emergency and food aid dropped off sharply between 1993 and 1994. Balance of payment and import support continued. However, the rehabilitation projects to replace destroyed infrastructure induced increased investment flows. Increased role of multilateral donors, UN playing a crucial role in coordination of donor support to the reconstruction programmes, much of which was channelled through international NGOs. In 1992 40% of food aid was channelled through the government body DPCCN and 60% through NGOs. In 1994, these proportions changed to 20% by the government and 80% the NGOs.
- **Normalisation of life (1996–2000):** Gradual decrease in the roles of multilateral agencies and NGOs. While the bilateral contribution to ODA increased more than twofold from 1998 to 2002, multilateral contribution has remained at the same level. This period was also marked by growing donor participation in financing recurrent expenditure, and an increased attention to provinces, leading to geographic concentrations: the Danish international development agency Danida in Tete, Finnish aid in Manica, Irish aid in Niassa and Inhambane, the Netherlands in Nampula, and the European Commission (EC) in Zambézia. An important evolution was the shift from project to sector aid, establishing pools to support sectors as a whole.
- **Strengthening the core government processes (2000–):** The “new General Budget Support” is introduced in 2000.

A3.5 International NGOs became much more active in this period and especially after the Peace Settlement in 1992. UNDP played a crucial role in coordinating donor support to the reconstruction programme for post-war resettlement and the replacement of infrastructure, much of which was channelled through NGOs as project aid (Rebelo 1998). In this resettlement period (until around 1995) food aid, which had been channelled mainly through government, was also switched mainly (around 80%) to NGOs. Even now, this huge proliferation of projects organised by NGOs as well as bilateral donors is still apparent and, while it has merits in promoting direct service provision, has important effects in weakening the coherence of the national budget (White 1999:12, Hodges and Tibana 2004). Francisco (2002) identified 22 significant bilateral donors with a string of smaller partners that made specific contributions. In addition, 25 multilateral agencies and up to 150 international NGOs offered grants, loans or technical assistance (Annex 3D includes a list of current official donors).

A3.6 White describes how pre-GBS forms of programme aid have been associated with detailed earmarking of the use of funds. During the 1980s this was in the form of import support tied to specific sectors or enterprises (White 1999:6). From 1992, BOP support went to the central bank which sold to commercial banks which, in turn, sold it on at the secondary market

rate of exchange. Donors were concerned with influencing the use of countervalue funds. Countervalue is generated by import support and debt relief, where the recipient pays for the foreign exchange in local currency which is credited to a government account. In the 1990s, countervalue was in most cases tied to specific uses in the State Budget (principally social expenditures), although donors (through the Strategic Partnership with Africa [SPA] Working Group in 1996) had adopted the principle that it should be untied (White 1999:12). In 1994, the Swiss Development Corporation decided to apply simplified disbursement procedures, leaving both forex and countervalue untied. Denmark, Norway and Sweden then adopted the “Swiss model”.

A3.7 From about 1996, in a further development of the aid relationship, sector programmes focused aid on priority sectors through two channels: (i) on the one hand, separate donor projects are loosely amalgamated within the framework of a sector policy; (ii) on the other, donors pool their funding in a common basket actually or nominally earmarked to expenditure in a particular sector. The first form has been predominant but there is some shift to the second, in which the policy dialogue is at sector level but finance is channelled through the Treasury. The PGBS that developed from 1998 takes this further by channelling finance through the Treasury and, at least in principle, detaching it from donor-imposed requirements about its allocation. This evaluation addresses the question whether the transfer of funds via the budget has changed the nature of the dialogue and conditionality in such a way as to strengthen government systems, increase national “ownership” and accountability, leading to more pro-poor policies and effects.

Developments in Aid Management and Coordination

A3.8 With their joint presence in Mozambique during the civil war, the “like-minded group” of donors took early steps in the late 1980s to collaborate, supporting the establishment of a national body (DPCCN) to coordinate emergency and food aid, and designating lead donors in education (Sweden) and health (Switzerland). As described in the previous section, they agreed on shared approaches to the untying of countervalue funds and the adoption of simplified disbursement procedures. As Dijkstra (2003:13) points out, basically the same group (Denmark, Norway, Sweden together with Ireland, the Netherlands and the UK) also got together in 1996 to organise multilateral debt relief in the interim before HPIC completion. They contributed to a Multilateral Debt Fund held in an account of the Bank of Mozambique from which debt service payments could be made. According to Dijkstra’s account, this was one form of programme aid that, unlike the others, was practically free of conditions other than that it should be used for this purpose.

A3.9 Other broader forms of coordination continued in parallel. At the most general level and outside Mozambique, the Paris Club of creditors from 1984 organised a series of agreements about common terms to grant rescheduling or cancellation of debt service on bilateral development assistance loans, export credits and commercial loans (Dijkstra 2003). Nationally, a very inclusive forum for coordination of the “international donor community” has existed since the time of the 1992 peace agreement. Its membership was practically the same as the World Bank’s Consultative Group and, at national level, the two effectively merged under the joint chairmanship of the UNDP and the World Bank. At the time of the 1994 elections, this became known as the Elections Monitoring Group, and then transformed successively into the Aid-for-Democracy Group, the Donor Policy Group and, from 1997, the Development Partners Group. The latter signalled a shift from donor coordination to partnership with government. Until 2005, there was a monthly Heads of Mission meeting, chaired by UNDP or the World Bank, and a series of specific working groups reflecting donor interests (Batley 2002). However, this structure has now in practice been subsumed into the structure of the PGBS dialogue process.

A3.10 From the mid-1990s, the bilateral presence grew and became more assertive regarding the need to redress the focus of structural adjustment on inflation reduction and to give more emphasis to poverty reduction, public services, reconstruction and investment. In 1995, some

donor ambassadors (supported by government) signed a letter criticising the IMF's threat to declare Mozambique off-track (Aguilar 1996, Hanlon 1996, White 1999). This could be taken as a "watershed" between a period of clear leadership by the international financial institutions to something nearer a balance, in which bilateral donors have taken a lead in harmonising their operations and in aligning with government priorities.

A3.11 The early cases of donor harmonisation at sector level were in health programmes and took the form of common pool or basket funding. The first pool was established in 1996 when donors agreed to amalgamate their funding of overseas hospital doctors, under the management of UNDP; this arrangement ceased in 2000. A drug pool was established in 1997 and remains in being, although some donors have decided now to channel these funds through GBS. In 1999 Ireland and Norway joined the Swiss in earmarked budget support to the health sector, establishing the Fundo Comum Provincial (FCP). Since then many other donors have joined the scheme and in 2002 the funding through this scheme was about USD 3.3m. Pooled donor funding to the Ministry of Health is now being brought fully on-budget. In November 2003, the Ministry of Health and donors signed a memorandum of understanding (MOU) establishing the earmarked on-budget Fundo Comum Geral (known as PROSAUDE) starting in 2004.⁷ The FCP has been made part of PROSAUDE, but the two will be merged only when the conditions are judged appropriate.

A3.12 The first sector-level programme of budget support was developed in 1998 for the Ministry of Agriculture; the external funds (about USD 200 million over five years) were earmarked for agriculture, paid into a Bank of Mozambique account and disbursed to the Ministry of Agriculture through the Treasury. This arrangement was formalised first in an MOU in 1999, which was renewed in 2001 and 2005. The second MOU was formative in establishing the principles of cooperation, financial management and reporting that were to become a model for other sector-wide approaches in the health (PROSAUDE) and education (FASE) sectors, and to be influential on the principles of the GBS agreement. (Box A3.2 lists donor participants in basket funds, earmarked budget support and GBS.)

A3.13 Four factors propelled the move towards GBS. First, as the economy was liberalised and controls on importation and on access to capital were abolished, donors had replaced specific import support with debt relief and BOP support to meet the general gap in external payments. With the move to a market-determined exchange rate, BOP support, in its turn, became inappropriate since the exchange rate would now operate as the ultimate balancing mechanism. Second, HIPC debt relief (see Box A3.3) freed the government of much of the debt burden, allowing donors to release funds into GOM's budget, with greater confidence that they would be used for development expenditure. Third, in September 2001 the IMF and the World Bank approved GOM's 2001–05 PRSP (PARPA), which provided the formal basis for donor alignment on a governmental poverty reduction strategy, and facilitated the first donor agreement on "macrofinancial support".

A3.14 Fourth, the development of Mozambique's poverty reduction strategy enabled the IMF (from 1999, even before the final PARPA had been approved) to shift its new loans from the terms of the SAF to those of the Poverty Reduction and Growth Facility (PRGF). The IMF and its PRGF play a key role in agreeing targets for the fiscal framework in Mozambique. The IMF holds macroeconomic consultations prior to the formulation of the budget, setting expenditure limits which include broad poverty programme expenditure targets. The PRGF links into the medium term expenditure framework (MTEF) and the PARPA, by creating a practical resource constraint which creates pressure for prioritisation. In 2003, the World Bank decided to "move with other donors toward providing assistance through budget support linked directly to the

⁷ Hodges and Tibana (2004: 43) report that only USD 5m of the projected USD 25m of PROSAUDE resources were in fact included in the state budget for 2004.

PARPA, through a PRSC, despite some cautionary signals from its own analytic work in government procedures and systems" (World Bank and IMF 2005).

Box A3.2: Programme-Based Approaches in Mozambique

Sector	Basket funds	Earmarked budget support	General Budget Support
National budget			Belgium, Canada, Denmark, EC, Finland, France, Germany, Ireland, Italy, Netherlands, Norway, Portugal, Spain, Sweden, Switzerland, UK, World Bank. <i>Observers:</i> USAID, UNDP, Japan, AfDB.
Agriculture (PROAGRI)		Denmark, EC, Ireland, Netherlands, Sweden, UK, USA, World Bank/IDA, Italy,	
Education (FASE)	ADB, WB, FAO, UNESCO, UNICEF, UNFPA, Islamic Bank, Austria, Canada, Denmark, EC, Finland, France, Germany, Ireland, Italy, Japan, Netherlands, Portugal, Spain, Sweden, UK, USA.		
Health (PROSAÚDE)		Denmark, EC, Finland, Germany, Ireland, Netherlands, Switzerland, UK, Canada, France, UNFPA and Global Fund.	
Public sector reform	Ireland, Norway, UK, World Bank.		
School building	Denmark, Ireland, Netherlands, Sweden, UK		
Policy research unit, Ministry of Planning and Finance	Norway, Sweden and Switzerland.		
Drugs and medical supplies	Denmark, Ireland, Norway, Switzerland, UK, France, DFID, Netherlands, Finland and EC.		
Fundo Comum Provincial	Denmark, Ireland, Norway, Switzerland, EC, France, Spain and Catalunya.		
Police training	Netherlands, Spain, Switzerland. TA by Portugal and Spain.		
Ministry of State Administration training	Ireland, France, Sweden, Switzerland.		

Source: Based on Pavignani and Hauck (2001) with elaboration.

Note: The list is illustrative rather than complete.

Box A3.3: Debt Relief and the HIPC Initiative

Since 1996, Mozambique has gone through two rounds of debt relief under the Heavily Indebted Poor Countries (HIPC) Initiative, bringing its debt-to-exports ratio down from 709% in 1997 to 131% in 2001. This level is regarded as sustainable by the IMF and the World Bank (World Bank 2003a, Malchow-Moller 2005).

Mozambique's development plans in the immediate post-independence years involved running up substantial foreign debt. When war and drought led to serious growth deterioration in the mid-1980s, the debt load became unsustainable. The war also led to a high military debt to the Soviet Union.

By 1998, Mozambique's total foreign debt, even after repeated rescheduling and write-offs by various bilateral creditors, stood at USD 5.5bn in nominal terms. Complex negotiations eventually resulted in the World Bank and IMF declaring in April 1998 that Mozambique was eligible for debt relief under the HIPC initiative. In June 1999, some USD 1.7bn of Mozambique's debt was waived.

After the floods, several creditors – including the UK, US, Finland, Spain and Portugal – agreed to suspend all or part of the debt payments by Mozambique. The World Bank and the IMF offered a moratorium such that Mozambique would not have to service international financial institution (IFI) debt in 2000, but the money would still be claimed later. In view of the floods, Mozambican and foreign NGOs campaigning for total debt cancellation described this as immoral, and demanded the elimination of all of Mozambique's debt burden.

In order to qualify for HIPC relief, Mozambique prepared a Poverty Reduction Strategy Paper (PARPA), and agreed to certain targets for "pro-poor expenditure" through the Government of Mozambique (GOM) budget. The World Bank and IMF undertook influential diagnoses of the ability of GOM systems to manage and track this expenditure (see Annex 4A).

A3.15 Apart from these preconditions for the shift to PGBS, the new model of aid partnership was built on the previous experience of donor coordination and collaboration with government. Underlying it were a history of trust based on the "like-minded" groups' long relationship with government, the increasing emphasis of conditionality on social and governance priorities while also still respecting the IFIs' commitment to stabilization and economic reform, the experience of coordination in the Development Partners Group, and the new forms of collaboration and pooling that were emerging at sector level.

The Evolution of Partnership GBS

A3.16 Annex 3B gives a summary of total PGBS disbursements between 1994 and 2004, in comparison with total government expenditure and other forms of aid funding including total ODA, PGRF and HIPC. It also shows international partners' individual commitments of aid related to budget support. Annex 3C provides a detailed account of the development of PGBS in Mozambique, and of its current design. A review of options for macrofinancial support by four bilateral donors in 1998 (Denmark, Norway, Sweden and Switzerland – the G4) and then with the UK in 1999, led to a common framework agreement with GOM, signed in 2000. An original group of six donor signatories rapidly expanded to nine – Belgium, Denmark, the EC, Ireland, the Netherlands, Norway, Sweden, Switzerland and the UK – and France joined in 2002.

A3.17 The 2000 agreement ran into difficulties relating to the (un)predictability of the GBS programme that was at the core of the government's finances, funding around 18% of its recurrent expenditure in 2001. This was partly a matter of the "mechanics" of donor behaviour: while they disbursed into a common account, their individual timing for doing so was uncertain. But it was also a matter of donor interpretation of the conditions for disbursement. This was highlighted in 2002 when, in response to the banking crisis of 2001 and associated violations of human rights, some donors temporarily withheld or threatened to withhold disbursement (Dijkstra 2003: 41). In the face of the damaging effect of unpredictability on macrofinancial management, the government (supported by IMF) asked that the conditions for disbursement should be set out more transparently.

A3.18 A new MOU was signed in March 2004, now with 15 partners. (The original G4 has since expanded to G17.) This MOU was much more explicit about the objectives and the mechanisms of the partnership. It agreed that the shared overall objective was "to contribute to poverty reduction in all its dimensions by supporting the evolution, implementation and monitoring of the PARPA". Intermediate objectives were:

- to build a partnership based on "frank and open dialogue" about the PARPA and the budgetary and planning instruments for operationalising it;
- to provide "financing for poverty reduction, clearly and transparently linked to performance, in a way which improves aid effectiveness and country ownership of the development process, reduces transaction costs, allows allocative efficiency in public spending and predictability of aid flows, increases the effectiveness of public administration, improves monitoring and evaluation and strengthens domestic accountability".

A3.19 The MOU set out the objectives, principles and commitments, and the processes for reporting, monitoring and dialogue, dispute resolution and disbursement, which are detailed in Annex 3C. The inventory at Annex 3A describes similarities and differences between PGBS and related programmes. Annex 3B and Table A3.1 below show the scale of donor partners' commitments to GBS. GBS increased from about 2.7% of net ODA in 2000 to about 14.1% in 2003 and 18.6% in 2004.

Table A3.1: Budget Support Programme Disbursements 2000–04 and Commitments 2005

Donor	Disbursements (USD m)					Pledges
	2000	2001	2002	2003	2004	2005
		(G9)	(G10)	(G11)	(G15)	(G17)
Belgium	0	0	0	0	3.65	2.62
Canada	0	0	0	0	0	2.00
Denmark	0	8.50	9.6	8.8	0	10.00
EC	0	23.00	35.0	71	70.00	56.86
Finland	0	0	0	3.2	4.80	5.14
France	0	0	1.3	3.2	3.75	3.96
Germany	0	0	0	0	4.20	4.51
Ireland	0	3.44	5.4	6.6	7.15	7.84
Italy	0	-	0	0	3.78	8.14
Netherlands	6.40	15.30	12.3	17.8	22.5	23.42
Norway	8.80	9.30	7.8	10.5	9.41	10.85
Portugal	0	0	0	0	1.50	1.50
Spain	0	0	0	0	0	3.60
Sweden	0	9.38	10.6	11.7	13.86	17.60
Switzerland	0	4.85	4.5	5.3	7.41	7.70
UK	14.75	14.40	14.2	15.6	27.40	56.56
World Bank	0	0	0	0	60.00	60.00
Total	29.5	88.17	100.70	153.70	239.41	282.31

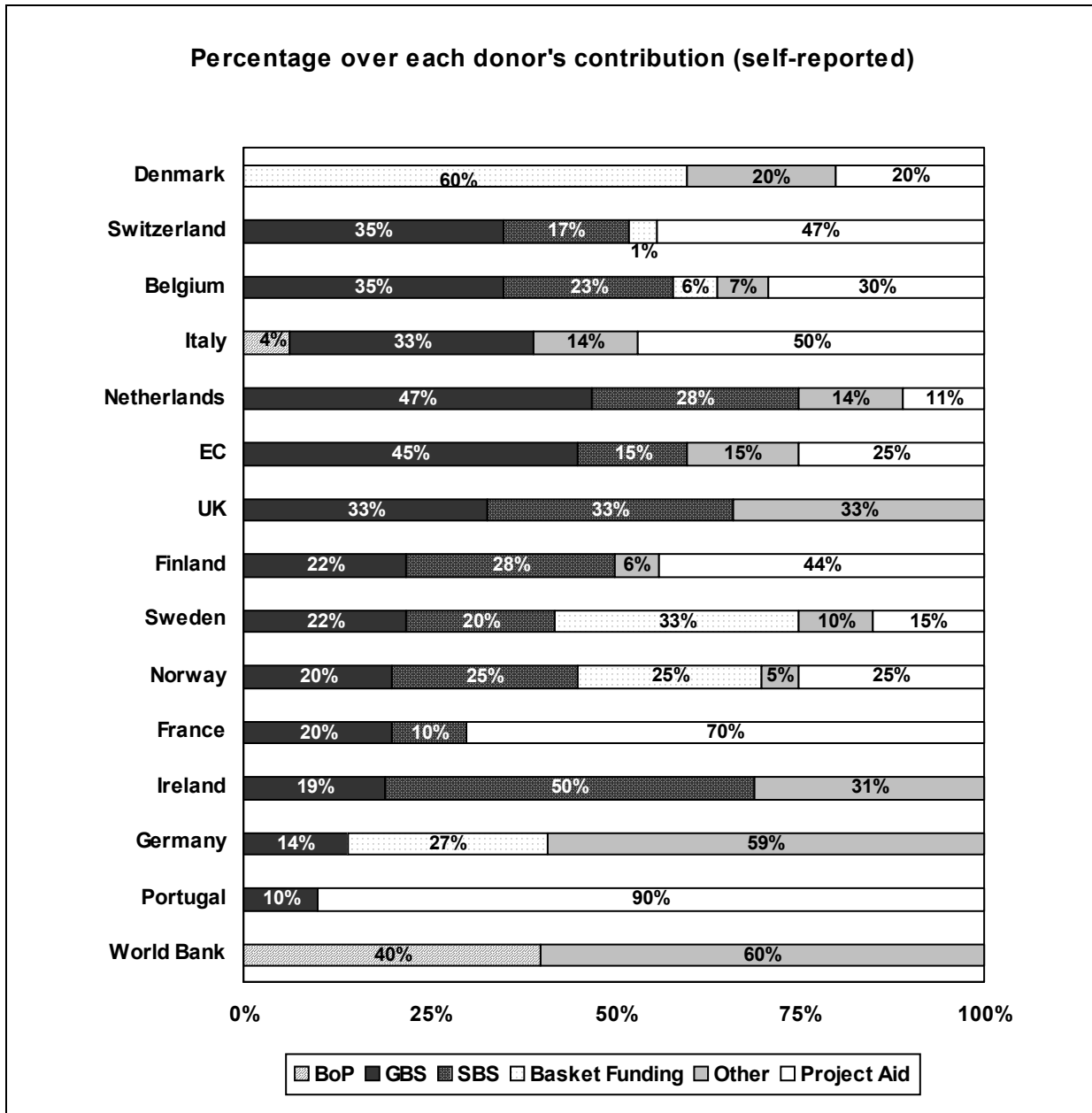
Source: PAP Secretariat.

Note: EC's pledge for 2005 comprises EUR 30m fixed plus EUR 18m variable tranches. Switzerland's pledge for 2005 comprises CHF 5m fixed plus CHF 5m variable tranches.

A3.20 However, the growing importance of PGBS does not mean that any other form of aid has disappeared. Figure A3.1 (and Annex 3D Box 3D.2) represents the aid portfolios of the main contributors to GBS in 2004, showing how they retained a wide range of other commitments, including a large "other" category which consists of support to NGOs, the private sector, debt

relief, provincial support, etc. The same applies to other GBS contributors not represented in the figure but which are now also contributors: Canada and Spain. Japan's portfolio in 2003 included import support, food aid and project aid. The USA gave earmarked sector budget support (SBS) in health and agriculture and basket funding in education, as well as project aid. For most donors, PGBS was a complement to other forms of aid (see also Annex 3D, Box 3D.2). For the UK it was the focus of expansion; while Ireland's aid also expanded but principally into sector support.

Figure A3.1: Share of Aid Modalities 2004



Source: Harding and Gerster (2004) and updated in 2006 for missing data by authors based on donor self-reporting.

Note:

- A) Spain and Canada only started to provide GBS in 2005 and therefore are not included in this graph.
- B) Denmark did not disburse any GBS in 2004 but has been a member of the GBS donor group since 2000.

A3.21 All the large donors and many of the smaller bilaterals now participate (even if only as observers) in the principal donor grouping – now the Group of 17 (G17) – that have joined together to provide GBS. Two major donors – the USA and Japan – collaborate with the Group, coordinating aspects of their aid and participating in some working groups without contributing to budget support. For a more detailed analysis of different positions among the donor community, see Annex 3C.

PART B: EVALUATION QUESTIONS: ANALYSIS AND MAIN FINDINGS

B1. The Relevance of Partnership GBS

How does the evolving PGBS design respond to the specific conditions, strengths and weaknesses of the country, to government priorities and to the priorities and principles of the international partners?

Introduction

B1.1 This chapter considers the **relevance of the design** of Partnership GBS in the context of Mozambique. That context has been reviewed in the previous chapters of this report, while the evolution and design of PGBS is described in more detail in Annex 3C. The evaluation question for this chapter does not involve a causality chain as such, but focuses on the relationship between Level 0 (entry conditions) and Level 1 (inputs) of the Enhanced Evaluation Framework (EEF).⁸ The next section highlights the main features of the design before we turn to the specific evaluation criteria.

Relevant Facts: The Design of PGBS

B1.2 All the design elements of GBS anticipated in the EEF are present in the Mozambican case: harmonisation and alignment (considered principally in Chapter B2), funds (Chapter B3), policy dialogue, conditions, technical assistance (TA) and capacity building. This chapter will suggest that the TA and capacity building are the weakest elements in this otherwise very strong case.

Objectives and Intent of PGBS

B1.3 The group of donors that originally began PGBS with the common framework agreement in 2000 (see ¶A3.16) were mainly concerned to coordinate their macrofinancial support. The revised MOU signed in 2004 (¶A3.18 and details in Annex 3C) provided a more elaborate and explicit rationale. It agreed that the shared overall objective was "to contribute to poverty reduction in all its dimensions by supporting the evolution, implementation and monitoring of the PARPA". Intermediate objectives were:

- to build a partnership based on "frank and open dialogue" about the PARPA and the budgetary and planning instruments for operationalising it;
- to provide "financing for poverty reduction, clearly and transparently linked to performance, in a way which improves aid effectiveness and country ownership of the development process, reduces transaction costs, allows allocative efficiency in public spending and predictability of aid flows, increases the effectiveness of public administration, improves monitoring and evaluation and strengthens domestic accountability".

⁸ The EEF is depicted in Annex 1A, Figure 1A.1.

Level and Nature of PGBS Funding

B1.4 Details of PGBS funding by donor are in Table A3.1 above. Funds are unearmarked grants and, under the 2004 MOU, are supposed to be committed ahead of the next year's GOM budget. Annual totals rose steadily (figures in USD million, including pledges for 2005):

Table B1.1: PGBS Annual Totals

2000	2001	2002	2003	2004	2005
29.5	88.17	100.70	153.70	239.41	282.31

Source: Table A3.1.

B1.5 Subject to satisfactory performance (see the discussion of conditionality below), most donors make a single annual payment. However, the EC, Switzerland and Sweden operate “split-response” mechanisms with a fixed tranche committed, as in the case of the other donors, and variable tranches paid against specific Performance Assessment Framework (PAF) indicators. Sweden is to cease to operate this mechanism, at least partly because it is seen to be not in the spirit of the Paris Declaration or of PGBS.

Policy-Focused Dialogue and Conditionality

Dialogue

B1.6 There is an elaborate structure of dialogue forums linked to an agreed annual calendar (see Annex 3C, ¶13–14). Coordination on the donor side is by a rolling “troika” of Programme Aid Partners (PAPs), supported by a joint secretariat. Meetings and reviews follow a calendar that is designed to fit GOM's annual planning and budgeting cycle. High-level meetings are supported by more specialised working groups.

Conditionality

B1.7 Conditions are expressed in general terms through the MOU, and more specifically through the PAF. The MOU involves general commitments/conditions for both government and IPs against which each was to be assessed (see Annex 3C, ¶13). The government is committed to underlying principles which include: peace and democratic political processes; the rule of law and human rights; good governance and probity (anti-corruption) in public life; combating poverty in line with the PARPA; and sound macroeconomic policies (with a reference to IMF programme “on-track” status). Only if these underlying principles are offended may PAPs not disburse committed funds within the current year. For their part, PAPs commit themselves to alignment on government systems, predictable funding, transparent conditions, harmonisation and capacity building.

B1.8 The PAF crystallises government priorities across the PARPA into measurable indicators (see the 2005 PAF at Annex 7). It serves as the shared instrument for dialogue, for assessing government's performance in the previous year and for donors' support commitments for the following year. Most donors (14 out of 16 in 2004) have multi-year agreements in place. They make their commitments for the following year (beginning in January) within a period of four weeks from the end of the annual Joint Review, confirming by the end of August in time for the preparation of the forthcoming budget. All but three donors make their commitments on the basis of the collective overall donor–government assessment of the government's performance against the PAF indicators. A minority of IPs (EC, Switzerland and Sweden) that operate a “split-response” tranche mechanism commit a fixed portion on the basis of the collective judgement, but their variable tranche is based on assessment against specific, selected indicators. For example, Sweden suspended its variable tranche in 2004 subject to the contracting of an audit company to carry out a forensic audit of the Banco Austral, and eventually paid it in December 2004 when this was done. In 2005, Switzerland withheld commitment to the second tranche

because of poor performance in revenue collection. For the majority of donors, therefore, their only individual room for manoeuvre occurs when their multi-year agreement comes up for renegotiation. This can itself create uncertainty, especially when several multi-year agreements come up for renegotiation at the same time. In 2005, for example, this applied to six donors.

Harmonisation and Alignment

B1.9 Joint action by donors, with common review mechanisms, agreed forums and Joint Review missions constitute a strong element of harmonisation, aligned to GOM's strategy (the PARPA) and a common PAF, and disbursing unearmarked funds through the GOM system. As discussed in Chapter B2, the PGBS mechanisms play a role in coordination and dialogue that extends beyond the PGBS funds and the PGBS donors.

Technical Assistance and Capacity Building

B1.10 There is little explicit linkage of technical assistance (TA) and capacity-building programmes to the PGBS programme, although the capacity-building effects of operating through GOM systems are part of the rationale. However, PGBS donors have supported the more important initiatives (e.g. SISTAFE – Integrated System for State Financial Management) in coordinated capacity building in public finance management, and monitor their implementation. Donor coordination in capacity building is an emerging issue among PGBS partners (see C3 and Annex 3E).

Assessment against Evaluation Criteria

Relevance to the Context

The extent to which the strengths and weaknesses of the financial, economic, social, political and institutional context are taken into account in the evolving PGBS design. ⁹		
Level: **	Trend: +	Confidence: ***

B1.11 The original PGBS donors assessed the readiness of the government for such a programme on the basis of its performance in macroeconomic performance, public finance management, foreign exchange management and public sector reforms. As Nilsson (2004: 24) points out, there is ambiguity about whether progress in these respects is a precondition or the intended outcome of support. The assessment of the original donors seems to have been a balance of these two perspectives: that there had been sufficient improvement to give confidence that budget support could promote further improvement. The end objective of the programme, as stated in the 2000 Common Framework Agreement between donors and government, was poverty reduction by supporting the PARPA (PRSP). The focus of the analysis leading to the agreement was largely “technical”: strengthening the public budgetary process would work through to a reduction of poverty by enabling implementation of the PARPA. There was no separate analysis of the wider country context beyond government (e.g. the level and nature of poverty, the structure of the economy or the distribution of political power), nor of why budget support might be better than other aid modalities at addressing poverty in this context.

B1.12 The programme could have been designed with more attention to the fragile conditions in which it operates, making a more calculated judgement about the organisational arrangements that would suit the capacity of government as well as donors, and about how to support government's participation. More attention might have been given to the development of government's planning and budgeting systems to complement the additional funding passing through the budget.

⁹ For a description of the ratings applied see Annex 1A.

B1.13 Whether the design of the joint programme is appropriate to the capacity of government is a major issue (Harding and Gerster 2004: 27). What began, in 1998/99, as an attempt to coordinate the general and sector budget support programmes of five donors, in order to reduce the burdens on government and strengthen its planning and financial management systems, has grown in several respects. On the donor side, it has grown to include 17 partners and also observers including Japan, USA, IMF, the UN Development Programme (UNDP) and the African Development Bank (AfDB). It has developed its own organisational structure and secretariat (admittedly only one staff member working to the troika chairperson). The annual Joint Review process effectively embraces all aid modalities, though its particular focus is GBS. The Joint Review and standing government–donor working groups cover practically all aspects of government and donor policy that could be relevant to the poverty reduction strategy (see list in Chapter B5, ¶B5.8).

B1.14 It would be difficult to argue that this is not a span of issues that is relevant to country conditions and the priorities of government and donors. The question is whether it is so comprehensive and organisationally complex as to be beyond the capacity of government to match. The 1999 Joint Donor Review of Programme Assistance noted at least two major doubts about capacity at the heart of government. The first was the weakness of financial management. The conclusion was that "donors will be reluctant to use ... the State Accounts and Government budget and planning procedures" unless efforts were made to reconcile and report on cash flows from bank accounts in the state payment system. The deficiency of the treasury system is currently being addressed by the introduction of a financial management system (SISTAFE). Budgeting and planning systems remain weakly integrated (Hodges and Tibana 2004), but reforms are under way.

B1.15 The second major deficiency was in the number of skilled staff, and the quality of civil service organisation and human resource management. Again, these are being addressed but are far from being resolved. For example, a recent functional review of the Ministry of Planning and Finance (MPF)¹⁰ found that only 8% of its 2,738 staff held university degrees. In MPF's directorate of planning and budget, which is the principal focus of government participation in GBS, the proportion was much higher: 35% (CESO 2004). Capacity development in MPF has remained fragmented and projectised (to cite just a few documentary sources: Gustafsson and Disch 2001, Fozzard 2002, USAID 2004, Harding and Gerster 2004. See also Chapter C3). The 2004 mid-year review and the 2005 Aide Memoire have proposed to address this problem with a joint approach. In the meantime, government has to spread its scarce capacity across the whole range of joint working groups as well as "doing government". Government officials often recount how they find themselves outnumbered by ten or twenty to one (Strategic Partnership with Africa 2004, Christian Aid and Trócaire 2005).

B1.16 These deficiencies were among the reasons why donors proposed to coordinate their support, but they do not seem to have been factored into the design of the programme itself. The improvement of financial management, civil service reform and capacitation are ends of the programme. But, these are also limitations on the means.

¹⁰ The MPF was split into two ministries by the incoming government in 2005: Ministry of Finance and Ministry of Planning and Development.

Dialogue, Conditionality and Ownership

The extent to which PGBS policy dialogue and conditionalities are consistent with high levels of ownership by government and sensitivity to country constraints.

Level: **

Trend: +

Confidence: **

B1.17 PGBS was originally a donor initiative, but it has increasingly responded to government's concerns, particularly about predictability, and evolved into an arrangement that is more nearly owned by government, using government's planning instruments, with shared poverty-related targets providing the basis for assessment and dialogue, and with mutual accountability for performance.

B1.18 The government's priorities and ownership of the process came to be more fully represented in the redesign of the Joint Programme that took place from 2002. Paradoxically, this was in response to a demonstration of fiduciary risk occasioned in 2000 and 2001 by the failure and then recapitalisation by the government of two semi-privatised banks which had previously contracted bad debts when they were in full public ownership. Failure to bring debtors to account and associated human rights abuses led some donors to seriously delay their disbursements into the budget. The government responded by requesting greater transparency and predictability of budget support. This was recognised in the 2004 MOU's clarification of donors' conditions, in their guarantee that committed disbursement would take place unless stated underlying principles were offended, and in their commitment to aligning with the government budgetary cycle and systems and to making indicative multi-year funding arrangements. It also led to the development of the common PAF from June 2003 (Aide Memoire 2003). This provided the criteria for performance assessment (and decisions about donors' commitments for the forthcoming year) that were:

- clearer than had been possible through the earlier broad reference to the PARPA;
- simpler in the sense that the same set of criteria would be used by all partner donors and government;
- drawn from the government's own PARPA and annual planning;
- monitored through the government's own budgetary review mechanism, and therefore also a direct instrument of accountability to parliament.

Since the PAF indicators are now the focus of the working group discussions between government and donors in the Joint Review process, they could also be said to have engaged the programme more directly in the realities of poverty.

B1.19 The Government of Mozambique has made it clear that it favours more programme aid (sector and general budget support) up to the level of two-thirds of all aid.¹¹ To our knowledge, it has not clarified how it wishes aid to be distributed between general and sector support, although several donor-commissioned evaluations assert government's (and parliament's) preference for GBS (Aide Memoire 2005: 24, Killick et al 2005: 33, Gerster 2005: 18).¹² The most recent Aide Memoire (2005: 24) called for a statement of government aid policy, declaring that consultation with government and civil society indicated a strong preference for GBS, while recognising that it should be introduced gradually in parallel with the development of government capacity:

Assim, argumentou-se a favor de um aumento gradual do apoio ao orçamento em paralelo com o reforço dos sistemas do governo (e.g. SISTAFE). Afirmou-se que a pesar da desigualdade na negociação, os indicadores do PES/QAD reflectiam as prioridades tanto do governo como dos doadores.

¹¹ Prime Minister Luisa Diogo at the signing of the MOU, 5 April 2004.

¹² Hodges and Tibana (2004: 78) state that "the pressure for GBS is almost entirely on the donor side".

(Thus, the argument was in favour of a gradual increase in budget support in parallel with the strengthening of government systems [e.g. SISTAFE]. It was affirmed that in spite of the inequality in the negotiation process, the indicators used in the social and economic plan and in the PAF reflected the priorities of government as well as the donors.)

B1.20 In this quote the donors and government recognise the problem of the imbalance of capacity between the two sides both in terms of the process of negotiation and of the ability of government to accept a rapid shift to GBS. It concludes that, nevertheless, the targets that are set for the programme are mutually agreed.

B1.21 To what extent were the indicators based on the government's own analysis? In principle, the PAF consisted of policy actions and performance indicators drawn from the government's poverty reduction strategy and from proposals made by ministries to MPF about indicators that were relevant to their sector (Aide Memoire 2003). In practice, they were also strongly influenced by donor officials, including those operating in sector ministries and those who interacted with government in drawing up the shortlisted indicators. Donors were dissatisfied with the usefulness of the existing PARPA assessment matrix as a management tool for assessing government performance and deciding their disbursements. Gerster (2005) points out that the indicators related to fiduciary risk would hardly have been included except by donor insistence. Indicators for the following three years are adjusted through annual review and negotiation. For example, donors have insisted on the inclusion of indicators of progress on external audit; government has agreed in principle but so far failed to come up with proposals (Aide Memoire 2005).

B1.22 The Strategic Partnership with Africa (2004) warns of the proliferation of indicators, and Nilsson (2004) describes the danger of a new results-based conditionality displacing policy dialogue. This is not our conclusion. The PAF approach was itself a result of government's request for shared clarification and simplification of targets. The government itself successfully insisted on a shortlist of no more than 50 indicators, and, as illustrated above, it seems that the indicators themselves both arise from, and have become the focus of, dialogue. Moreover, at GOM's request in 2003 (Gerster 2005: 21), the PAF is now matched by a similar framework for the assessment of donors' individual performance, with regard to harmonisation, alignment and the reduction of burdens on government, that in turn provides the basis for dialogue.

B1.23 By comparison with structural adjustment programmes, the terms of the dialogue, the conditions and the assessment of performance are agreed by government with donors, according to stated national priorities (interviews with donors and government). By comparison with project aid, the goals and terms of aid are more within government's influence if not control. The Programme Aid Partners (PAPs) have carefully avoided the choice between sector and general budget support, broadly seeing the case for pursuing both while requiring that members of the G17 make at least some commitment to budget support. Most donors favour some continued sector or provincial support on the grounds of the fiduciary risk of GBS, limited capacity to manage the budget, and the need to secure sector lines of finance. GBS is seen by them as a progression towards "normalising" government, but only incrementally as capacity develops.

Poverty Orientation

The extent to which the PGBS design reflects objectives and strategies related to all the dimensions of poverty reduction.

Level: **

Trend: +

Confidence: ***

B1.24 Poverty reduction has been pursued by PGBS's support for PARPA priorities rather than through a separate strategy. However, this commitment has become more focused through the PAF, and through the amplification of the scope of the Joint Review's working groups. The PARPA focuses somewhat more on service delivery than on the income-generation and empowerment aspects of poverty reduction, but the process of dialogue associated with PGBS has increasingly extended in the latter directions. The question of balance in poverty reduction strategy and achievements is considered further in Chapters B8 (poverty impact) and C1 (cross-cutting policy issues).

Coherence and Consistency of the Design

Coherence and consistency of the PGBS design, taking into account the extent to which the different partners (various IPs and Government) show differences in expectations and approaches related to PGBS or some of its components.

Level: ***

Trend: =

Confidence: ***

B1.25 The question of consistency is important: the initial impetus for PGBS came from the donors, and the initial group of PGBS donors has become much larger and more varied (see Annex 3C's discussion of the partners). We have already described the ways in which the design evolved to take more account of GOM capacities and expectations (¶B1.18). We discuss below the consistency of approach among donors.

B1.26 The donors that joined later were affiliating to a club with its own existing rules. Some undertook separate analyses – for example the Irish and Canadians. The latter gave particular attention to Mozambique's performance and CIDA's contribution in regard to cross-cutting issues (gender, HIV/AIDS and environment) (CIDA 2004). USAID (2004) made a broadly favourable assessment of the level of government ownership of GBS and the PARPA, the quality of dialogue, government capability, planning, accountability and corruption, but decided against joining. Most later joiners were attracted by the opportunity to influence policy dialogue through a joint donor–government review process that was increasingly institutionalised and where, as the group snowballed, it was increasingly odd to be outside it (see USAID 2004: 22). Whether their contributions were large or small, whether they were principally committed to project, sector or general budget support, and whether they were sceptical or committed to GBS, the Programme Aid Partnership was an inclusive forum that gave them voice. However, the notion that smaller contributors are simply “buying a seat at the table” (Nilsson 2004) and that the price (in levels of contribution) should be raised (Killick et al 2005), ignores the fact that many local donor offices are committed and have had to work hard to persuade their headquarters to allow an experimental case. CIDA (2004: 9) explicitly adopted a learning strategy.

B1.27 The size of the membership and the heterogeneity of members' stances on GBS is an issue that was raised in the 2005 PAP performance review (Killick et al 2005) and is raised in the 2005 Aide Memoire as an issue for discussion. However, it seems unlikely that any action can now be taken to reduce the size or heterogeneity. As one international official commented in an interview:

We had to decide whether we were getting into a Porsche or a tanker. The G17 is a tanker – less flexible and fast. But it is good to have more donors in. It would be worse if we were all operating separately, giving contradictory advice and creating policy confusion.

B1.28 The GBS design in Mozambique has been successful in responding to the priorities of different donors and, perhaps, in advancing their own national aid policy and the decentralisation of aid management to country offices (based on interviews with all partner donors). Interviews with all PGBS donor partners indicate that the organisational structure of the Programme Aid Partnership is felt to be inclusive, with its elaborate system of working groups that first evolved and were then consolidated in the 2004 MOU and in a set of terms of reference (Programme Aid Partners 2004). Inclusiveness has been balanced by the “troika” system which has maintained coherence of leadership in an ever-enlarging group while avoiding the dominance of particular donors. In practice, it is the larger donors (UK, Switzerland, Sweden, Netherlands) that have so far taken the chair because only they have the organisational capacity to manage the Joint Review process.

B1.29 Overall, a highly coordinated and coherent structure for government–donor collaboration has been developed, inclusive of different aid modalities, of different donors' priorities and perspectives on the speed of advance to GBS, and providing a basis for government–donor agreement about priorities.

Response to Previous Weaknesses in Aid Management

The extent to which the PGBS design responds to analyses of previous weaknesses in aid management systems and processes.

Level: ***

Trend: =

Confidence: **

B1.30 As Chapter A3 showed, the development of GBS was in the first place a donor-led initiative that followed international trends in aid policy. However, the four donors that made the original case for a joint approach in 1998 had been associated with support to Mozambique almost since independence and were building the proposal on the strength of an established relationship with government and experience of coordination among themselves. The 1998 and 1999 Joint Reviews made the case for coordinating “programme assistance” (including both general and sector support) to a large extent on the basis that this would improve the administration of aid to the advantage of government – reducing administrative burdens, improving transparency of procedures and conditions, and developing the government's own financial management. Bilateral donors had been critical of the effects of structural adjustment loans in increasing debt, reducing social expenditure and adversely affecting the poor. But it was not so much that they criticised earlier forms of programme aid as that they saw the opportunity to move on to directly supporting the national budget, now that Heavily Indebted Poor Countries (HIPC) debt relief and economic growth were creating greater stability and budget liquidity (assessment based on interviews).

B1.31 PGBS was thus a response to analysis of earlier aid experience and has continued to evolve through a deliberate process of learning. The Joint Review process has, moreover, provided a framework within which other aid modalities are also considered. The 2005 Aide Memoire proposed that the proper balance between general and sector support be debated.

Principal Causality Chains

B1.32 This chapter does not review a causality chain as such, but has examined the consistency between the “entry conditions” of the EEF's Level 0, and the inputs at Level 1. Both the context and the design have evolved: the original design of PGBS responded to the national context and created a framework that has allowed it to broaden its poverty focus and to increase government's participation.

Counterfactual

B1.33 Chapter A3 indicated the previous experience of donor coordination and collaboration with government. Project aid has diminished the coherence of government planning, budgeting and management. Earlier forms of programme aid, including debt relief, were associated with very specific forms of earmarking of the use of aid funds. Structural adjustment lending had focused on economic reform and monetary stabilisation rather than poverty reduction and reconstruction. HIPC and Paris Club debt relief, and then the IMF's Poverty Reduction and Growth Facility (PRGF) and the World Bank's Poverty Reduction and Support Credit (PRSC), were increasingly linked to poverty reduction policy and the monitoring of government's performance in this respect. Sector-focused support also represents a growing move to donor harmonisation and alignment on government policy at sector level. It seems clear that PGBS has built on this experience and designed a more complete structure of engagement with and response to the national context.

B2. The Effects of Partnership GBS on Harmonisation and Alignment

Has PGBS contributed to greater harmonisation and alignment of the aid process?

Introduction

B2.1 The **evaluation question** this chapter addresses is whether Partnership GBS has contributed to greater harmonisation and alignment of the aid process. The **causality chain** to be explored is whether the measures taken to harmonise and align (1.5)¹³ – together with the other PGBS inputs, particularly dialogue and conditionality – have in practice contributed to harmonisation between donors and their joint alignment on government systems (2.6). The chapter is organised according to the evaluation criteria set out in the Inception Report (IDD & Associates 2005).

Relevant Facts

B2.2 An elaborate framework for harmonisation among donors and their alignment with government strategies and systems has developed, and is described in Annex 3C. PGBS built on earlier planning and coordination efforts, and the framework it has developed also embraces a range of non-PGBS aid and non-PGBS donors.

Assessment against Evaluation Criteria

Policy Alignment

The extent to which PGBS has contributed to increased IP alignment with government policies at national and sectoral levels through:

(a) aligning aid objectives and conditions with government objectives and targets;

General Situation:	Level: **	Trend: +	Confidence: **
PGBS Influence:	Effect: ***	Efficiency: ***	Confidence: ***

B2.3 Approval in September 2001 by the IMF and the World Bank of the 2001–05 PRSP (PARPA) provided the formal basis for donor alignment on a governmental poverty reduction strategy. Its preparation facilitated the first donor agreement for the coordination of budget support. The PARPA committed government to allocating 67% (now 65%) of state funds to support priority areas: education, health (including HIV/AIDS), agriculture and rural development, basic infrastructure, good governance, and macroeconomic and financial management. Gender equality was defined as an integral component of poverty reduction.

B2.4 The PARPA is often described by international financial institutions (IFIs) and donors as an effective and strongly government-owned document (e.g. World Bank and IMF 2005: 53). However, the PARPA has certain limitations as a basis for alignment. It was based on the pulling together by MPF of existing plans of line ministries and this had the virtue that it could claim to have been “government-owned” from the outset (Gustafsson and Disch 2001 Annex E: 8). However, a downside of this rather internally oriented process was that it involved limited real consultation with the wider public (McGee 2001, IDS and T & B Consult 2002). Another was that the PARPA was not updated, even though the sectoral plans on which it had been based were

¹³ Numerical references are to points on the Causality Map in Figure A1.1.

changed over time. It was presented to parliament only for information and never became a key document of reference within the central or provincial institutions of government. Furthermore, while there was a PARPA performance assessment matrix, it provided few clear targets as a basis for monitoring progress.

B2.5 The documents that are more deeply entrenched in the Mozambican planning system are the government's five-year programme, the annual economic and social plan (PES) and the state budget. These carry legal status and are approved and monitored by parliament. With donor support, the MPF's Directorate of Planning and Budget has sought to combine these various instruments of planning into a unified process, though this was disrupted in 2005 by the separation of MPF into separate ministries of planning and development and of finance. From a donor perspective, the PES is seen as the annual operational plan for implementing the PARPA; government probably sees the government programme and the PES as the more fundamental documents (Hodges and Tibana 2004: 44). Progress against the plan is reported annually to parliament at the end of the first quarter of each fiscal year, in the *balanço do PES* (report on the plan's achievements in the previous year).

B2.6 Furthermore, from 2003, GBS donors (and from 2005, the World Bank) have linked their assessments of performance into a single PAF to coincide with the government's *balanço do PES*. The PAF sets out a series of measurable poverty reduction, service delivery and institutional reform objectives, strategic actions, indicators and targets for the following three years (see Annex 7). The report on progress in 2004 against the PAF targets was appended to the *balanço do PES* that goes to parliament, legitimising it as fully part of the Mozambican planning process. One set of PAF indicators is related to Millennium Development Goals (MDGs)/PARPA poverty and service outcomes; another set focuses on reforms in the areas of financial management, planning and monitoring systems, public sector reform, banking and legal sector reform. These targets are updated each year by the government as part of the economic and social plan, and then agreed by the donors as essential for poverty reduction. Donors have clearly influenced the targets selected by government, but it was the Minister of Finance (later Prime Minister) who insisted on a single agreed policy matrix with no more than 50 indicators.

B2.7 There has been increasing convergence on government documents and processes over time. While the PARPA is the formal basis of alignment, the G17 donors have now aligned themselves through the government's own planning processes – the economic and social plan (PES) and the matrix of performance targets (the PAF) that is reported with the PES to parliament. This is seen by government and donors as a major advance towards alignment and national ownership because it unites donors behind a planning and assessment process led by government (interviews). Moreover, by setting indicators, the PAF “concretises” shared objectives which were otherwise only qualitatively stated (if at all) in the PARPA. The PAF and the Joint Review process, which uses the PAF as the main focus of dialogue and as the basis of GBS commitments, have the effect of aligning donor and government goals both in the annual setting of targets and in their monitoring.

B2.8 The PARPA was revised during 2005. It is intended that it should be produced through a more widely consultative process, involve parliament more, and become a more strategic document that will be operationalised through a clearer relationship with the Medium Term Fiscal Framework (MTFF), the annual plan and PAF, and annual budget.

Government Leadership

(b) increasingly relying on government aid coordination, analytic work, TA management.			
General Situation:	Level: *	Trend: +	Confidence: **
PGBS Influence:	Effect: **	Efficiency: ***	Confidence: ***

B2.9 The broad pattern since 1994 has been for aid management first to become more concentrated in sector ministries and then, increasingly, in the Ministry of Planning and Finance (MPF). The latter shift can be dated particularly to the establishment in 2000 of the Joint Donor Programme for Macro-Financial Support, i.e. GBS.

B2.10 The PGBS funds, review process and dialogue have been fundamental in elevating the status of the MPF as a focal point for national planning, though the sector ministries retain a high degree of autonomy owing to their links with aid agencies (see Chapter B4). PGBS has also had a powerful role in developing common instruments of planning and prioritisation both within government and between government and donors. A review by the Strategic Partnership with Africa (SPA) Budget Support Working Group (2004) picked out the strengths of the Mozambique case as being the joint nature of the review process on which it is based. Harding and Gerster (2004) describe the 2004 Joint Review as:

... 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...
Harding and Gerster (2004: 12).

B2.11 Alignment goes in both directions. The Joint Review process has had a direct effect in suggesting a model for the government's approach to the development of a new PARPA for 2006–09. The government decided to adopt the same structure of thematic and working groups (with donor, government and civil society representation) to develop PARPA proposals and consider drafts during the period from May to September 2005.

B2.12 There has been little change in the management of technical assistance: it is still primarily managed by individual donors and is the least well-integrated of the PGBS inputs.

Alignment with Government Systems

Government planning and budget cycles

The extent to which PGBS has contributed to increased IP alignment with government systems at national and sectoral levels through:			
(a) aligning fund commitment and disbursement with government planning and budget cycles;			
General Situation:	Level: *	Trend: +	Confidence: ***
PGBS Influence:	Effect: **	Efficiency: ***	Confidence: ***

B2.13 The Joint Review is timed to coincide with the government's annual budgetary cycle, with the annual retrospective Joint Review taking place in April/May, donors' funding commitments for the following year being made within four weeks of the end of the annual review, to be in time for the budget process, and confirmed by 31 August; while the mid-year review in August/September occurs at the end of the period of preparation of the PES and budget.¹⁴ Sector reviews have followed a different timetable (Strategic Partnership with Africa 2005: 9) but are now being drawn into the same cycle, partly as a result of their participation in the Joint

¹⁴ See Annex 3C, ¶14 for a summary of the annual calendar.

Review process. In 2005, the Ministry of Education undertook its sector review in April following the framework as well as the timing of the Joint Review and budget.

B2.14 There is room for reservations about the achievement. There are issues about the gap between plan and reality. Disbursements have often not been made according to plan or have been made so late in the year as to cause disruption to government planning (Chapter B3). However, an independent assessment, commissioned by donors, of the performance of Programme Aid Partners (PAPs) against their commitments in 2004 reported progress (Killick et al 2005). At the request of government, it rated donors individually as well as collectively. It found that the situation by comparison with 2003 was broadly “good and improving” with regard to harmonisation, alignment, and predictability of disbursements:

- 6 of 16 partners aligned fully and 9 substantially with government processes and documentation;
- 8 fully (and 7 substantially) followed the government's budget cycle – “twice as many as in the last report”;
- only two undertook independent bilateral evaluations;
- 14 of the 16 had indicative multi-year arrangements in place;
- 12 disbursed according to the promised schedule – twice as many as in 2003.

The weakest point, as also noted by the PAPs in their self-assessment (Aide Memoire 2005), was in regard to their quarterly reporting of the release of aid (not just programme aid): one-third of donors failed to meet this MOU commitment. There had also been limited reduction in the administrative burden on government, imposed particularly by separate missions.

Government implementation systems

(b) increasingly relying on government cash management, procurement, implementation, monitoring, reporting and auditing.			
General Situation:	Level: *	Trend: +	Confidence: ***
PGBS Influence:	Effect: ***	Efficiency: ***	Confidence: ***

B2.15 PGBS funds are disbursed through GOM systems, despite legitimate concerns about the weaknesses of public finance management in Mozambique (see Annex 4). Moreover, the volume of PGBS has been increasing, as has the share of PGBS in total official development assistance (ODA). This in itself represents a strong trend towards reliance on GOM systems, and it has also had some effect in encouraging (PGBS and non-PGBS) donors to make more use of government systems when implementing projects and sector programmes

Harmonisation among Donors and Modalities

The extent to which PGBS has contributed to improving overall coordination and complementarities of IPs' programmes.			
General Situation:	Level: **	Trend: +	Confidence: ***
PGBS Influence:	Effect: **	Efficiency: ***	Confidence: ***

B2.16 As Chapters A3 and B1 have shown, there are carefully worked-out procedures for harmonisation between the G17 donors, and these arrangements also involve all other large donors and international agencies as observers. The G17, with the government, are committed to:

- a shared set of objectives;

- a set of underlying principles on which their agreement is based;
- an agreed basis for assessing government's performance;
- strengthening domestic accountability;
- strengthening donor accountability against their commitments to harmonisation, alignment, predictable funding, transparency and capacity building.

Harmonisation between donors is achieved partly by their own organisation but also by their joint alignment on government systems.

B2.17 The World Bank moved from observer status to full membership in 2004, and in 2005 adopted the PAF matrix as the basis to "trigger" its Poverty Reduction Support Credits. At the time of this study, there was still doubt about precisely how the Bank would apply the PAF evaluation to its credit releases. It appeared to be arguing that, while the overall assessment undertaken by PAPs collectively (¶B1.18) would determine the level of allocation to budget support in the following year, performance against specific, priority targets would affect the level of disbursement in the current year. Other PAPs felt that this undermined the commitment to predictability. The IMF has harmonised its PRGF programme at least in the sense that it "allows for adjustments to its performance criteria in the event of unforeseen shortfalls (or increases) in GBS" (Killick et al 2005: 44). A USAID report (2004:18) concluded that "the sheer size of the donor group results in bilateral donors taking the lead in many discussions, unlike other country situations where the World Bank and IMF dominate".

B2.18 Indeed, the level of harmonisation of GBS donors may be a cause for concern for the government (Hodges and Tibana 2004: 63, 78). There is the possibility that they might all act together in withholding aid, or the risk of a domino effect whereby if one donor withholds their disbursement then this may lead other donors to follow suit. This occurred in 2001 when ten donors delayed disbursement in the face of government's use of public funds to resolve a banking crisis, and again in 2002 when Sweden and Norway delayed disbursement until government had produced adequate plans to address the crisis (Dijkstra 2003: 41). The 2004 MOU introduced measures to ensure predictability in the current year.

B2.19 It is now at least as likely that the risk works the other way: the consequences of joint non-disbursement are so catastrophic for government that such action can never be taken, as indicated by the short-lived moratorium in 2001 (ibid). There is a question how donors collectively as well as individually can maintain the possibility of a graded response to signal dissatisfaction. The variable-tranche mechanism presents the possibility of individual judgements, but only against previously anticipated criteria (European Commission 2005). The collective approach to managing mutual risk "in a partnership they have to make work" is by compromise (Hodges and Tibana 2004: 64). However, it has occasionally been difficult for donor partners to accept collective decision. A Swedish International Development Cooperation Agency (Sida) report commented, with regard to the response to the banking crisis: "In practice this has led to Sweden (and Norway) being subject to hard pressure to get in line" (in Nilsson 2004: 45). Some donors have found the constraints of the MOU and of the slimmed-down 49 PAF indicators too restrictive on their own freedom to decide. The most significant case in 2004 was Denmark which, shortly after signing the MOU, retracted its commitment to be bound to disbursement based on the previous year's performance. The problem of achieving unity of commitment and practice has increased as the size of the group has grown from 5 to 17.

The extent to which there have been specific complementarities between PGBS and other forms of aid.			
General Situation:	Level: **	Trend: +	Confidence: ***
PGBS Influence:	Effect: **	Efficiency: ***	Confidence: ***

B2.20 There has been continuing evolution in coordination among donors and in their use of GOM systems. The first shift in responsibility for aid management began in the early 1990s, with Swiss budget support to health being channelled through the provinces, and implemented by provincial and district health authorities. 1996 saw the emergence of donor pools and sector-wide approaches (SWAp) in the ministries of health, agriculture and education. Between 1996 and 2002, more information and control of financial allocations was transferred to key line ministries. An agricultural SWAp (PROAGRI) paid donor funds into a Bank of Mozambique account held in the name of the Ministry of Agriculture and Rural Development, and pooled funds were held in bank accounts for specific functions undertaken by the ministries of health and education. Health, education and agricultural sector strategies were developed to correspond with this greater local ownership. Donor sector specialists were drawn into strong relationships with sector ministries, often matched also by the special provincial focuses that each separate donor maintained.

B2.21 Line ministries continue to be important focuses of sector and project aid (Hodges and Tibana 2004: 77).¹⁵ However, three principal changes are occurring: the first further enhances sector ministry control, but the other two strengthen the coordinating role of the MPF. First, pooled funds for specific uses are being grouped into common funds for more general use according to health and education strategies. Second, sector support arrangements are increasingly being brought on-budget and the PAPs have established a task force with government to advance this agenda. The funds of the agricultural and health SWAps (PROAGRI and PROSAUDE) are now earmarked for those sectors but held in a central bank account in the name of the treasury and disbursed according to a plan agreed with MPF. The education sector's common fund (FASE) continues to be managed separately outside the treasury. Some donors are going a step further, decreasing their funding to the pool funds (e.g. the drugs fund of the Ministry of Health) to increase their contribution into the general budget. Third, increased GBS is focusing responsibility for financial management on MPF, although there are reservations among sector ministries, donors and even the MPF itself about how quickly this should happen (interviews, and Hodges and Tibana 2004).

B2.22 Apart from sector programmes, other forms of programme aid – import support, balance of payments support and debt relief – and the World Bank's PRSC and the IMF's PRGF are all negotiated and channelled through the MPF. This role has been strengthened by GBS. The institutions for donor–donor and donor–government dialogue over GBS have the effect of raising the status of the MPF to that of linchpin in the new focus of aid discussions. One symptom of this is that sector specialists among donors are increasingly being drawn into these debates and away from their purely line ministry focus. At least as interpreted in Mozambique, where the Joint Review process integrates most aspects of policy and both sector and general budget support, GBS is at the core of a framework of donor–government collaboration that is influential both above and at sector level and, probably, in project aid too.

B2.23 There are two continuing “dissonances”. First, sector support programmes remain managed largely in isolation from GBS. Second, a good part of bilateral and all NGO project funding remains off-budget, unknown to government and difficult to coordinate between donors. Scanteam (2004: 13) estimates that “over half of all public expenditure is financed off-budget,

¹⁵ Special credence can be attributed to the judgement of Roberto Tibana and Tony Hodges. Hodges has worked in the Ministry of Planning and Finance as a technical assistant; Tibana is a national consultant.

with about 80% of the investment budget financed off-budget by donors". Around 27% of external grants are unrecorded by government (Hodges and Tibana 2004: 37).

Principal Causality Chains

B2.24 PGBS has developed mechanisms for harmonisation and alignment that have been effective in practice; the mechanisms of dialogue and shared conditions have been more important than the funds, except that the latter are the precondition for the former. The key mechanisms have been formal written agreements between donors and government, a set of commitments and agreed principles, a clear organisational apparatus for collaboration, integration with the budget cycle, the use of the government's own systems of planning, and their development by joint agreement on common objectives and performance targets. These arrangements have extended harmonisation and alignment beyond GBS to affect the whole of aid.

Counterfactual

B2.25 This level of harmonisation and alignment has not occurred through any other aid instrument although, as Chapter A3 shows, there is a rich history of donor coordination and collaboration with government. The assessment matrices of PRGF and the PRSC, as instruments of single agencies, could not have achieved this alignment of government and donors on common systems. Sector support can only operate at sector level, with the danger of creating a series of parallel systems. Previous systems of donor–government partnership have sought coordination and consultation but without the same level of organised engagement and without the same range of dialogue covering all aspects of poverty. It has created a framework for donor coordination and alignment and a more collaborative approach to conditionality than had previously been achieved.

B3. The Effects of Partnership GBS on Public Expenditures

How efficient, effective and sustainable has been the contribution of PGBS to the performance of public expenditures?

Introduction

B3.1 The **evaluation question** addressed in this chapter is how efficient, effective and sustainable has been the contribution of PGBS to the performance of public expenditures. This chapter focuses on the relationship between Level 2 (immediate effects) and Level 3 (outputs) of the evaluation framework. The chapter investigates two **causality chains** which hypothesise that:

- an increased proportion of funds subject to the national budget (2.2) with increased predictability (2.3) will empower the government to strengthen systems (3.2) that increase operational (3.5) and allocative (3.6) efficiency of public finance management (PFM) systems;
- policy dialogue and conditionality focused on key public policy and public expenditure issues and priorities (2.4), with appropriate technical assistance and capacity building (2.5), contributes to increased resources for service delivery (3.1).

Relevant Facts

B3.2 PGBS has been provided in Mozambique since 2000. Table B3.1 summarises trends in public expenditure over that period. Against the background of rapid economic growth, total state expenditures have grown very rapidly (36% over the period 2000–04). Tax revenues have grown even faster (57%), increasing the share of the budget that is domestically financed. Recurrent expenditures have grown significantly faster than investment expenditure. External financing fluctuated over the period (reflecting, notably, the surge in aid after the floods of 2000), but external financing of the budget in 2004 (nearly USD 750m) was well above the 1999–2000 average (about USD 600m). The PGBS share of the GOM budget grew from about 2.5% in 2000 (its initial year) to about 17% in 2004 – and was projected to decline to about 12% in 2005. As a share of external budget finance, it grew from 5% to 32% over the same period. Budget composition is discussed in more detail later in this chapter, but the broad picture is that GOM has adhered to the targets for shares of pro-poor spending within the budget, resulting in large absolute increases in expenditures classified as pro-poor.

B3.3 Public expenditure data in Mozambique need to be used with care. Very significant amounts of public expenditure that are financed by aid remain off-budget (see Annex 4B). It is estimated for example that 30% of expenditure in the health sector is off-budget (Cabral et al 2005). This makes it impossible to be sure of the precise allocations of aggregate expenditure, because the budget is not a comprehensive measure of resource allocations. Moreover, efforts to bring more aid on-budget mean that increases in the state budget are partly a genuine increase in total spending, but partly the result of improved transparency of aid. In addition, weaknesses in PFM systems (see Annex 4A) mean that reporting on actual expenditure is not adequately detailed, rapid or reliable, and there is uncertainty about the extent to which the executed budget matches the approved budget.

Box B3.1: Definition of Pro-Poor Expenditures and Tracking in Mozambique

Pre-PARPA expenditure patterns: During the civil war from the late 1970s to 1992, military expenditure alone accounted for 26–28% of government expenditure (Brück 1997 in Dijkstra 2003). The remainder of the government expenditure was biased in favour of the industrial and agro-industrial sectors. Mozambique had abandoned its socialist orientation by 1983 in favour of market reforms, including a commitment to increase funding to the social (health and education) and other key sectors such as agriculture and infrastructure, to rebuild the post-war economy. Expenditure rates increased rapidly. From 1987 GOM was committed to a Structural Adjustment Programme (SAP), gross public expenditure was contained in line with IFI conditionality, and poverty-related social expenditure received relatively little attention (White 1999: 28). Bilateral donors urged increased social expenditure from the early 1990s, and from around 1995 increasingly linked their aid to targets for social sector spending.

Transition: In April 1998, Mozambique reached the Decision Point for the first HIPC initiative, with a commitment from GOM in both 1996 and 1997 to spend released resources from debt relief on health and education, though the proposals were not carried out (Dijkstra 2003). However, a clear shift towards a pro-poor policy had begun. The government prepared its own interim poverty action plan in 1998, anticipating the requirement of the “enhanced” HIPC-2 initiative that it should have a PRSP (PARPA) in place. A revised poverty reduction strategy was then prepared and endorsed by the international financial institutions in August 2001, as a basis for targeting funds released through debt relief on “priority sectors”. Even before it was completed, Mozambique became eligible for HIPC-2 relief in March 2000 and reached completion point in April. Following the HIPC initiative, the Paris Club bilateral creditors also made it a condition that resources freed by debt relief be devoted to “priority areas identified in the country’s poverty reduction strategy” (Paris Club 2001 in Dijkstra 2003: 15).

Pro-poor expenditure (PPE) under PARPA: Mozambique’s poverty reduction strategy, or PARPA, is founded on the idea that there are certain key sectors that should be favoured in allocation and protected from expenditure cuts in the case of liquidity shortages. The policy has been to focus expenditure heavily in favour of social and welfare sectors not only for their direct benefits but also, it is argued, because they contribute to high and sustained rates of growth and thereby result in poverty reduction. Mozambique defines poverty as “The incapacity of individuals to ensure their or their dependants’ minimum basic needs for their subsistence and participation in society” (Republic of Mozambique 2001).

The priority sectors have been identified in Mozambican policy documents (the interim PARPA 2000–04 and PARPA I 2001–05, Plano do Governo 2000–04) as: education, health, roads, water and agriculture. Together, government expenditure on these sectors should not be less than 65% (originally 67%) of the total executed budget figure. Mozambique’s definition of PPE is based on broad sectoral categories, and is criticised for giving too little attention to allocations within priority sectors, to territorial distribution, and to the division between current and capital expenditure. It is a very indiscriminating definition of pro-poor spending, which includes, for example, spending on tertiary education and city hospitals. The draft of the second PARPA was completed in December 2005. It is expected that the 65% minimum will be abandoned and productive sectors will now also be considered as priority sectors.

Monitoring: Public expenditure in Mozambique is linked to a medium-term fiscal “scenario” (CFMP – Medium Term Fiscal Framework – 1999–2004) and tracked through a variety of mechanisms and also by studies commissioned by donors and government. The government publishes quarterly budget execution reports and an annual budget execution report. Public expenditure reviews were conducted by the World Bank in 2001 and 2003. A value-for-money (VFM) study of the drugs pool in the health sector was undertaken in 2002. A number of public expenditure tracking surveys (PETS) have been undertaken in health and education. Other VFM and PETS studies are in the pipeline. The GBS programme is tied to the goals of PARPA I, principally the achievement of high rates of growth and increasing resource allocation to priority sectors. In 2003, the government and programme aid partners developed a Performance Assessment Framework (PAF), which was intended to create more measurable reform and output/outcome targets based on PARPA goals. Progress is reviewed and targets are revised in an annual Joint Review. PAF results are made public and are reported to parliament with progress reports on the government’s economic and social plan.

Against this background, this chapter focuses particularly on expenditure shares and priority sectors as represented by the allocations to priority sector line ministries. These readily available data are taken as a proxy for trend in priority expenditures as a whole. Annexes 3B and 3C review overall expenditures in more detail, including an analysis of all budget support-related transfers to Mozambique.

Table B3.1: Overview of State Budget Composition and the Influence of PGBS

	1999	2000	2001	2002	2003	2004	2005
in USD million	CGE	CGE	CGE	CGE	CGE	OE	budget* IMF
							% increase 2000-04
Budget overview							
Total budget (without internal borrowing)	919.08	1,003.45	1,032.85	1,044.23	1,196.15	1,421.87	42%
Total budget (with internal borrowing)	919.08	1,080.39	1,145.44	1,182.81	1,216.07	1,468.77	36%
Total tax revenue	491.00	480.30	457.30	480.30	613.00	755.60	57%
Recurrent budget	495.61	489.81	499.58	571.06	661.95	841.69	72%
Investment (A +B)	482.79	519.84	531.83	479.44	487.85	570.38	9%
(A) Internal investment	124.93	144.56	149.28	140.03	136.25	180.41	25%
(B) External investment	357.86	375.28	382.55	339.41	351.60	389.97	4%
liquid borrowing	0.00	76.94	112.59	138.57	19.92	46.89	-39%
external financing total	610.30	597.70	495.60	690.80	592.70	748.90	25%
Significance of PGBS							
PGBS grants (a)	0.00	29.50	88.20	100.7	153.7	179.41	222.31
PGBS credit [PRSC] (b)	0.00	0.00	0.00	0.00	0.00	60.00	60.00
Total PGBS (a + b)	0.00	29.5	88.20	100.7	153.7	239.41	282.31
PGBS as % of total external financing	0.00	4.9	17.8	14.6	25.9	32	34.20
PGBS as % of total budget (inc. borrowing)		2.7	8.5	9.6	12.6	16.8	12.20
PGBS as % of recurrent expenditure		6.0	17.6	17.6	23.2	28.4	24.24

Source: Ministry of Planning and Finance and G17 database and authors' own calculations.

Notes:

- These figures have not been adjusted for inflation.
- CGE (Conta Geral do Estado) is the executed budget; OE (Orçamento do Estado) is the planned budget; 'IMF' represents use of IMF figures.
- * The figures for 2005 are from the state budget and will only be confirmed after the execution of the budget.

Assessment against Evaluation Criteria

Influence on Expenditure Allocation

The influence of PGBS funds on the levels and shares of pro-poor expenditures.			
General Situation:	Level: ***	Trend: =	Confidence: **
PGBS Influence:	Effect: **	Efficiency: ***	Confidence: **

Overview of pro-poor total expenditure

B3.4 PGBS has financed a growing share of the state budget (as demonstrated by Table B3.1), and it is implausible that GOM expenditure would have grown as much without PGBS funding. The net effect of PGBS in increasing aggregate pro-poor expenditure (PPE) is more difficult to assess precisely. Much of the increase in PGBS funding for the budget represents a move of funds on-budget that would have been given anyway¹⁶ (and trends are disrupted by the effects of extraordinary expenditures, e.g. those related to the floods).

B3.5 GBS, by definition, is not earmarked, so there is no question of tracking the PGBS funds to particular uses. It is nevertheless possible to draw some broad conclusions about what PGBS has financed. Two important effects are (a) in financing higher absolute levels of PPE, and (b) in supporting an increase in the level and share of recurrent expenditures (see 'Efficiency of Expenditure' below). PGBS funds can be seen, also, as having helped to maintain levels of pro-poor spending in spite of the large unanticipated cost to the budget of the bank recapitalisation.¹⁷

Effects on pro-poor allocation

B3.6 GOM is committed to maintaining high shares of PPE. The commitment is expressed in the PARPA and reinforced in the PAF targets, which GOM and the Programme Aid Partners agree. GOM's original commitment to maintain 67% (revised down to 65% in 2001) of the executed state budget expenditure is a policy established by the PARPA (Republic of Mozambique 2001). PGBS donors were heavily involved in the development of the PARPA and the dialogue surrounding the level of expenditure which ought to be allocated to PPE was influenced by the PGBS donors. The overall allocation to PPE did increase from 61.9% of the executed state budget in 1999 to 68.1% in 2000 before declining, but only to 65.8%, in 2001; however, this is a result of GOM policy objectives supported by PGBS donors.

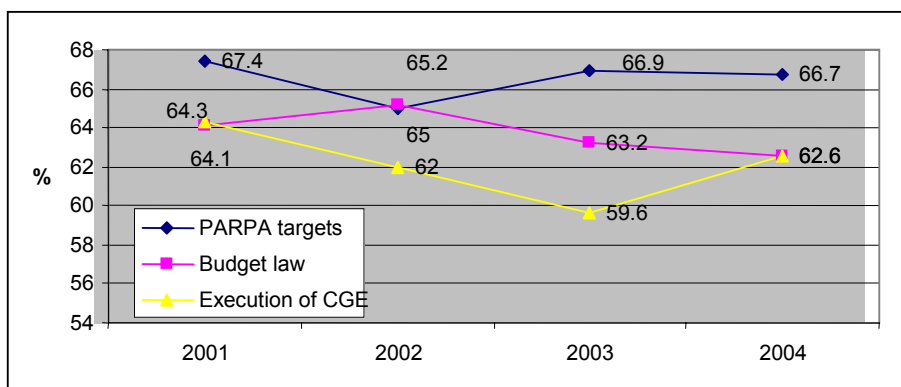
B3.7 The agreed shares for PPE have been broadly achieved (see Figure B3.1 and Table B3.2). Given that the budget is itself growing (an increase of 41% in unadjusted USD between 2000 and 2004, see Table B3.1), the volume of resources allocated to priority sectors has grown at least in the same proportion. Education in particular, with 21% of the state budget, has been a beneficiary of the policy of privileging certain sectors, while health's share has remained more or less constant at around 12% (Table B3.2). Proof of the effectiveness of this policy is the widespread concern in other parts of government (for example, justice and agriculture) that the privileging of the social sectors contributes to neglect of their own sectors! Two caveats are in order. First, the concept of "pro-poor" spending is rather crude. It relates to very broadly defined sectors (see Box B3.1), and does not take account of the allocations within sectors, which are given insufficient attention in PARPA I. Second, given the volume of off-

¹⁶ Most donors who have moved into PGBS have shifted their portfolio into PGBS rather than increased it overall. However, since disbursement rates for budget support are much higher than for project aid, a shift towards budget support is likely, other things being equal, to raise disbursements even if commitments are not increased. On the other hand, state budget execution rates have been lower than non-budget execution rates.

¹⁷ The cost of bank recapitalisation in 2001 and 2002 was roughly in line with the amount disbursed for PGBS funds.

budget flows generated by unreported donor projects and “own revenues”, it is not clear precisely how the overall envelope of resources disbursed is prioritised – although, since project aid generally funds priority sectors, it is likely that, if off-budget flows were included, official PARPA targets would be exceeded (Hodges and Tibana 2004).

Figure B3.1 Priority Sectors' Share of Total Budget 2000–04
(percentage share of total budget, including interest payments)



Source: MPF (2000, 2001, 2002, 2003, 2004, 2005).

Table B3.2: Priority Sectors' Share of Total Expenditure
(percentage of total state budget expenditure, excluding interest payments)

	1999 CGE	2000 CGE	2001 CGE	2002 CGE	2003 CGE	2004 OE
Education	16.1	19.8	23.3	18.0	17.8	21.3
Health	13.4	12.9	9.9	12.6	14.9	11.1
HIV/AIDS	0	0	0.5	0.8	0.3	0.7
Infrastructure	13.3	15.7	17.4	16.5	11.8	13.8
Agriculture and rural development	5.2	6.3	3.4	5.5	6.9	6.3
Governance, security and judicial system	8.9	7.8	7.7	7.7	8.9	9.7
Other priority sectors	5	5.6	3.6	4.5	5.1	2.1
Total	61.9	68.1	65.8	65.6	65.7	65.0

Source: IMF (2004).

Notes: CGE (Conta Geral do Estado) is the executed budget; OE (Orçamento do Estado) is the planned budget.

Discretionary Expenditure

The extent to which the PGBS funds have contributed to the increase in the proportion of external funds subject to the national budget.

General Situation:	Level: *	Trend: +	Confidence: **
PGBS Influence:	Effect: **	Efficiency: ***	Confidence: ***

B3.8 As discussed in Annex 4B a significant proportion of external aid in Mozambique is managed and executed outside the national budgetary systems. This has significant consequences for all aspects of the government’s planning and budgeting systems, as it undermines fiscal efficiency, transparency, and domestic accountability.

B3.9 In this chapter we consider whether PGBS has the effect of increasing GOM's discretion over budget allocations. Later chapters consider whether such discretion is then used in ways that also help to strengthen planning and budget systems (B4) and to improve service delivery (B7). On the basis of the expenditure data already reviewed, it is clear that PGBS has significantly increased the proportion of funds subject to the national budget. The net effect of PGBS in increasing the proportion of funds which is subject to the national budget is therefore judged to be positive (but see footnote 17). PGBS has made a bigger difference to the total state budget than to total public expenditure inclusive of off-budget spending (see ¶B3.2 and Table B3.3). The growth in external financing from USD 600m in 2000 to USD 750m in 2004 is due to the introduction and increase in PGBS funds. The World Bank PRSC has not increased the share of total external financing, as a similar level of funding was provided on-budget through its previous structural adjustment loans, which were converted into PRSC loans in 2004. The World Bank disbursed USD 70m in 2003 for an Economic Management Private Sector Operation loan which ended in the same year, and USD 60m in 2004 for the PRSC.

Table B3.3: PGBS as a proportion of external financing to the state budget

1999	2000	2001	2002	2003	2004	2005
0	4.9	17.8	14.6	25.9	32.0	30.8

Source: Table B3.1.

B3.10 PGBS is one of the few aid modalities that are fully on-budget. As we have shown in Chapter A3, much of the funding that goes to PGBS has been a shift from other aid modalities rather than a pure growth in the size of aid budgets. However, some of this funding was previously given off-budget and from this perspective the effect of increasing the proportion of external finance that is subject to the national budget has been positive. PGBS donors have also, as a matter of policy dialogue and focus, taken up the issue of off-budget funding since 2001 (see Annex 4B), resulting in the funding of studies and technical assistance in this area, the creation of a government–donor task force on off-budgets, and mutual pressure for sector funding to be put transparently through the budget. Nonetheless, all PGBS donors also provide some level of off-budget funding, and therefore some of the benefit of PGBS funding going through the budget is negated.

Predictability

The extent to which the scheduling and delivery of PGBS funds have contributed to the overall predictability of aid flows and public expenditures.			
General Situation:	Level: **	Trend: +	Confidence: **
PGBS Influence:	Effect: **	Efficiency: **	Confidence: **

B3.11 Historically, aid in Mozambique has not been very predictable. This has affected execution rates of the capital budget (which is in effect a project budget comprising both recurrent and capital expenditures). When the disbursement of programme aid funding is late, or not forthcoming at all, it contributes to delayed project implementation by reducing the government's ability to make its counterpart contribution to medium and large externally financed projects. However, the overall trend is improving, with donors signing MOUs in all priority sectors receiving sector budget support, committing themselves to reducing the volatility of programme aid flows.

B3.12 Predictability of PGBS is a key issue for GOM planning and financial management. It includes timeliness of disbursements and also adherence to disbursement at committed levels coinciding with GOM's planning cycle. It has short-term and long-term dimensions (funds may

be much more predictable over the long term than over the short term if the uncertainty is about *when* rather than *whether* they will be disbursed).

B3.13 Predictability improved in 2004 compared with the period 2000–03 (see Table B3.4). Nonetheless, disbursements were higher than planned between 2002 and 2004 and lower in 2000 and 2001. Commitment and execution of disbursement is improving, but with room for further improvement. There is a remaining issue of the timing of disbursements within the year: tax revenue is low in the first quarter owing to the seasonality of revenue collection, yet in 2004 only 25% of PGBS funds were disbursed in the first three months of the year. A major achievement is therefore that over 50% of total committed funds were disbursed in the first quarter of 2005.

Table B3.4: PGBS Commitments and Disbursement Patterns 2000–05

Year	Committed USD million	Percentage of total disbursements made per quarter				% of committed funds disbursed
		Jan–Mar	Apr–Jun	Jul–Sep	Oct–Dec	
2000	98.0	0	0	0	100.00	30.1
2001	109.1	39.40	0	8.00	52.92	80.8
2002	90.0	53.48	8.53	19.23	13.58	112.1
2003	137.9	45.77*	5.12	4.33	44.78	113.6
2004	166.89	24.03	11.77	60.14	4.06**	134.4
2005	282.31	53.78***	28.27			

Source: PAP Secretariat; authors' own calculations.

Notes:

* includes EUR 31.65m from the EC which was disbursed in 2003 but pledged for 2002.

** includes USD 4.89m from the Netherlands which is front-loaded for 2005.

*** includes variable tranche from Switzerland of up to USD 3.75m additional.

Efficiency of Expenditure

The extent to which the scheduling and delivery of PGBS funds have contributed to the overall efficiency of public expenditures and aid flows.			
General Situation:	Level: *	Trend: +	Confidence: **
PGBS Influence:	Effect: **	Efficiency: **	Confidence: **

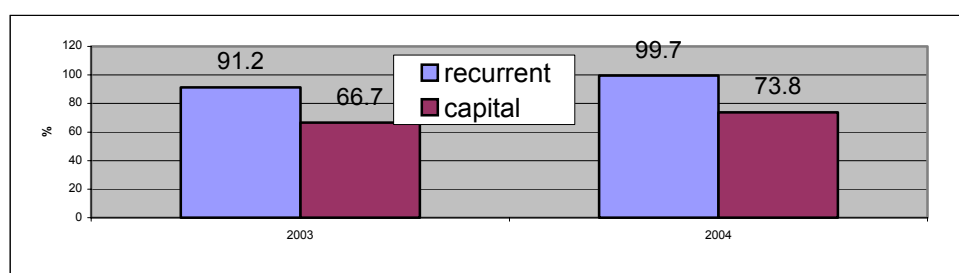
B3.14 As shown in Table B3.1, PGBS has helped to finance an increase in the share of recurrent expenditures (from 2000 to 2004 they grew from 49% to 59% of the total budget excluding interest payments). The increased share is even more significant in a context where more aid-financed investment expenditures have been coming on-budget. One of the most serious inefficiencies associated with off-budget project aid is the bias towards capital expenditures and the failure to allow commensurate increases in the recurrent costs of public services. PGBS appears to be playing an important role in enabling a more appropriate balance between recurrent and capital expenditures. As PGBS has become more predictable it has also enabled public expenditure to become more efficient by providing readily available financing in a country where liquidity crises have been the norm. This has probably contributed to improvements in execution of the investment budgets.

B3.15 Figure B3.4 shows total execution rates for priority sectors for the recurrent and investment expenditure in the past two years. The pattern is a typical one: near 100% expenditure of the recurrent budget, coupled with significant under-expenditure on the investment budget. Two aspects of the investment implementation rate are, however, of special concern:

- (a) There are significant variances across sectors. In 2004, only 28% of the budget for water projects was spent by comparison with 57% for education and 79% for health investments (Table B3.5). As a result, the actual balance of expenditures differs significantly from what was planned.
- (b) Because of cumbersome tendering processes, shortages of materials, capacity weaknesses, etc, execution rates for investment projects are generally low. The levels of execution are even lower through the state budget, due to liquidity shortages and over-commitments to contributing internal funds to external projects and because of the duodecimal disbursement mechanism.¹⁸ In the duodecimal system, the total funds budgeted for a year are divided into 12 payments and disbursed each month. This works deficiently for bulk payments that are concentrated, as in the case of construction work or drug purchase, rather than distributed regularly throughout the year. This is one of the reasons why donors have been reluctant to channel investment funds through the state budget as the execution rates would be even lower. However, it is expected that this will change with the introduction of SISTAFE.

B3.16 A consequence of the budgetary system, which has not been addressed by national policy, is that it produces a highly skewed provincial distribution of both approved and executed expenditure under the state budget. The budget is overwhelmingly for recurrent expenditure (mainly salaries) and it is largely spent. Because it is adjusted incrementally from year to year, it persists in favouring those provinces that already have existing large establishments. Hodges and Tibana (2004: 32) conclude that "the distribution of per capita expenditure tends to be in inverse relationship to the incidence of poverty" and that this has persisted at least since 2001. However, most expenditure on investment and equipment at provincial level is undertaken outside the state budget separately by line ministries, deploying donor funding. At the local level, recurrent and investment expenditure therefore complement each other only inasmuch as line ministries can anticipate donors' sector and project allocations and put appropriate bids to the MPF to match state budget allocations.

Figure B3.2: Priority Sector Budget Expenditure 2003–04 (%)



Source: Quarterly Budget Execution Reports 2003, 2004.

¹⁸ In certain cases, such as for the pharmaceutical sector, disbursements for investment expenditure for large and essential projects may be undertaken in advance and in excess of the duodecimal disbursement.

Table B3.5: Execution of Priority Sector Budget Expenditure 2003–04 (%)

Sector	2003		2004	
	Recurrent	Investment	Recurrent	Investment
Social Action	96.0	39.7	100.0	40.4
Agriculture and Rural Development	75.1	36.3	95.2	51.7
Good Governance and Justice	80.3	85.1	100.0	65.9
Public Order	95.8	38.8	100.0	98.0
Public Administration	92.3	69.8	100.0	62.6
Education – General	102.0	102.9	100.0	56.6
Education – Higher	85.3	67.8	100.0	46.3
Employment	98.7	9.4	100.0	23.7
Energy and Mineral Resources	94.2	85.5	100.0	251.3
Roads	110.1	133.3	100.0	124.2
Water	100.0	6.0	100.0	28.2
Public Works	104.9	52.2	95.3	117.1
Health	74.6	60.0	99.7	79.3
Total Priority Sectors	91.2	66.7	99.7	73.8
Total Expenditure	94.8	66.0	99.8	71.8

Source: Quarterly Budget Execution Reports 2003, 2004.

Transaction Costs

The influence of PGBS on the reduction of transaction costs of the budget process and utilising aid.			
General Situation:	Level: *	Trend: =	Confidence: **
PGBS Influence:	Effect: **	Efficiency: **	Confidence: **

B3.17 In principle, transaction costs arise from the costs of negotiating and monitoring an aid contract, and also during the process of implementing the activities that the aid finances. These costs may be increasing, decreasing or negligible and they may have positive, negative or neutral effects. In Mozambique the number of aid modalities and the high level of aid dependency has implied significant costs for the negotiation, management and monitoring of aid. It is foreseeable that with a growing commitment to programme aid many of these costs could be declining over time.

B3.18 We cover transaction costs in some detail in chapter C4. Here we focus on the flow-of-funds effects of PGBS in reducing the transaction costs of the budget process and of aid utilisation. We note the following:

- The costs associated with establishing and maintaining the partnership structure within which PGBS operates are high, especially in terms of demands on the scarce time of GOM staff.
- There are significant increases in up-front transaction costs to MPF. However, since project and sector aid have not decreased, transaction costs have spread to include MPF rather than shifted from line ministries to the MPF.
- Anticipated savings in transaction costs depend significantly on a shift to more efficient aid modalities, and may not be realised if new and older modalities continue in parallel.

- In regard to disbursement, the up-front transaction costs of PGBS are almost certainly lower than for other forms of aid.
- PGBS certainly has lower transaction costs for GOM at the disbursement stage (since it is able to use its own procurement and disbursement procedures instead of a multitude of donor procedures). However, the benefit is reduced by the weaknesses in GOM disbursement and procurement procedures to which we have already referred.

B3.19 On balance we assess many transaction costs to be start-up costs and many of these costs will exhibit positive externalities. This is a topic that would merit further study and review by the partnership, particularly as regards the relation between transaction costs and the composition of aid portfolios.

Principal Causality Chains

B3.20 With respect to the causality chains set out in ¶B3.1, we conclude that PGBS funds have:

- substantially increased the proportion of funds subject to the national budget;
- thereby facilitated a more efficient allocation of GOM expenditures;
- helped to finance an increased level of expenditure on pro-poor service delivery;
- in so doing, supported the maintenance of the expenditure share targets that are part of national strategy that PGBS supports;
- been sufficiently reliable to facilitate possible systemic and institutional improvements (whether this potential is fulfilled is investigated in later chapters).

Counterfactual

B3.21 By comparison with sector and project aid, PGBS in Mozambique has contributed to the size of the budget under the direct control of GOM. It has been consistent with maintaining high levels of funding to pro-poor sectors. PGBS also appears to play a role in mitigating rigidities in other aid modalities and reducing fragmentation of aid. We conclude that PGBS has had significant positive effects on public expenditures that would not plausibly have been achieved by project-focused or sector-focused aid alone.

B4. The Effects of Partnership GBS on Planning and Budgeting Systems

How efficient, effective and sustainable has been the contribution of PGBS to improving government ownership, planning and management capacity, and accountability of the budgetary process?

Introduction

B4.1 Chapters B1, B2 and B3 have indicated advances in GBS's promotion of harmonisation between donors and alignment with government systems, in its support for policy dialogue and agreed policy priorities, and in the efficiency of public expenditure. There was less indication of strong technical assistance and capacity building. The **causality chain** to be examined in the present chapter is whether these advances have empowered government to strengthen its core budgetary and decision-making systems (point 3.2 on the Causality Map), so as to:

- increase the operational and allocative efficiency of public expenditure (3.5, 3.6);
- strengthen incentives within government to adhere to policies and reporting lines (3.7);
- enhance democratic accountability (3.8).

Relevant Facts: Weaknesses of the Budgetary Process and Outcome

B4.2 Budgeting and planning in Mozambique suffer from systemic weaknesses (Hodges and Tibana 2004: 33–38, Scanteam 2004, Foster 2002: 22–26; see Annex 4A for an overview and assessment against the Public Expenditure and Financial Accountability [PEFA] indicators):

- (a) Weak linkage between planning and the budget: Chapter B2 showed that there were uncertain relationships between planning documents (the state budget, the five-year poverty reduction strategy, the government's five-year plan and the annual economic and social plan). The introduction of the Performance Assessment Framework (PAF) is helping to address this. However, fundamentally, there is no satisfactory way of expressing plans through the state budget since this is not results-based but simply shows how inputs and expenditure are allocated between government bodies. Budgeting is by incremental extrapolation of these allocations. There is also no effective medium term expenditure framework (MTEF) but rather a medium term fiscal forecast that "projects the global resource envelope" (Hodges and Tibana 2004).
- (b) Weak linkage between the approved budget and actual expenditure: Frequent changes are made in budget allocations during the year, mostly by the Ministry of Planning and Finance (MPF) without reference to parliament.¹⁹ The budget is prepared on an incremental basis, and programmes and activities are not properly costed. Changes are made as costs are re-estimated, projects are added or fail to be realised. Provincial governors re-distribute their allocations often without respecting budgetary ceilings or informing the MPF, donor disbursements are delayed and, given liquidity problems, payroll commitments are prioritised over investment. As a result, the investment budget in particular is systematically underspent.

¹⁹ We will use the ministry's old title although in 2005 it was divided into a Ministry of Planning and Development and a Ministry of Finance. The distribution of functions was unclear at the time of writing.

- (c) The off-budget problem: As Annex 4B recounts, a large proportion of public expenditure is not recorded in the budget, executed through the Treasury or recorded in government accounts – or one or other of these. A small part of this is due to government bodies' own off-budget revenue. Most is due to external grants for projects. The state accounts for 2003 estimated that 27% of all external grants were unrecorded (Hodges and Tibana 2004: 37); the Joint Review in 2005 suggested that 48% of investment grants were not recorded (Aide Memoire 2005: 10). Not knowing fully what else is being financed, the government cannot allocate its own resources optimally.
- (d) Plural budgets: The MPF controls only the state budget, which is funded from the government's tax income and from direct support by donors and IFIs. This pays the greater part of government recurrent expenditure. The components of government (line ministries and provinces) present their budgetary priorities to the MPF and receive their allocations. However, line ministries, directorates of line ministries and provinces also receive considerable (mainly investment) funding through project aid or basket funds directly from donors, particularly in the PARPA priority areas.
- (e) Parliamentary oversight: Parliament debates and approves only those documents that are presented to it: the government's five-year plan, the state budget, the annual economic and social plan, and reviews of progress against the annual plan. It does not approve the Medium Term Fiscal Framework, the PARPA, sector strategies, or agreements between government and donors. All the weaknesses mentioned in points (a)–(d) above also limit the possibility of holding government or other agents of public expenditure to account: much expenditure is not exposed to parliamentary scrutiny, and the way that funds are used is unclear.

B4.3 Throughout the 1990s, sector ministries were the focus of donor attention, in the form both of projects and of sector support. Given that donor support has been the primary source of funding for investment, it is not surprising that line ministries have looked outwards to donors rather than inwards to the normal government processes of planning, budgeting, monitoring and accountability. Financial support and technical assistance were (and are) focused on the key spending ministries – education, health, agriculture and infrastructure. Projects were and are undertaken with funding managed directly by the donor. As pooling arrangements and sector-wide approaches (SWAps) grew up from the mid-1990s, these strengthened the identity of the aid-favoured ministries, and led to the development of distinct planning and funding mechanisms across government. Associated with the SWAps was the development of strategic plans by the key spending ministries (agriculture, health and education) with donors. Four negative effects have been suggested (in documents and interviews):

- the development of “fiefdoms” of power and disjointed systems across government;
- the absence of hard budget constraints at sectoral level;
- the relative neglect of other sectors;
- the centralising tendency of sector-based programmes where donor resources are focused on ministries (Fozzard 2002, Foster 2002, Hodges and Tibana 2004).

B4.4 The line ministries are relatively strong but their internal coherence remains weak. Control over resources is divided by donors between different directorates so there is limited control of expenditure allocation even within ministries. Their submissions to the state budget, mainly for staff costs, are organisationally detached from the negotiations that their specialist units have with donors about development or programme expenditure, so schools are built but teachers not recruited. The state budget itself separates capital from recurrent expenditure for

the same programme, meaning that the ongoing implications can be ignored when investment is undertaken.

Assessment against Evaluation Criteria

Systemic Effects on the Budget Process

Ownership

The extent to which an increase in predictable and discretionary resources has helped to increase ownership of the budget process and commitment to improved budgeting.			
General Situation:	Level: *	Trend: +	Confidence: ***
PGBS Influence:	Effect: **	Efficiency: ***	Confidence: **

B4.5 We will use the term “ownership” in this chapter to mean the empowerment of national systems and specifically of the MPF at the core of government. In a literal sense, the government of course owns the state budget. Changes associated with PGBS are bringing line ministries into a stronger engagement with national policy. Even if the PARPA was built on sector priorities, it was a breakthrough inasmuch as it gave all ministries the same point of reference in drawing up their annual budget claims and PES statements, and it gave the MPF a basis for cross-sectoral monitoring and assessment.

B4.6 As Chapter B3 has shown, PGBS funds have contributed a growing but not overwhelming proportion of the state budget – at the maximum, 17% in 2004. Part of the growth in its share in 2003 and 2004 was due to the fact that some major donors (the European Commission [EC] and the UK’s Department for International Development [DFID]) increased the overall level of aid and the proportion allocated to PGBS, and part was due to the fact that other donors joined the club and reallocated their funding. The World Bank began to provide poverty reduction strategy credits in association with PGBS. Together with the growth in domestic revenue (Chapter B3), this signifies an increase in the availability to the government of funds for discretionary expenditure on national priorities – by comparison with earmarked sector and project funding.

B4.7 The increased volume of budget support and the associated dialogue and conditions of GBS have drawn sector ministries further into common strategic processes. Also, as Chapter B2 showed, more sectoral funding is now earmarked via the Treasury. The joint donor–government PAF sets targets that are shared across government and against which ministries have to report in the Joint Review process led by the MPF. Planning and review by the key sector ministries is being drawn into the state budget cycle. Donor influence is now being used to reinforce cross-government planning and assessment rather than just the separate activities of line ministries. Although the PAF output targets are derived from proposals by sector ministries, these are matched by reform targets that constitute an agenda for government as a whole. Failure by any one ministry to achieve targets constitutes a threat to all ministries that donor disbursements may be reduced.

B4.8 Certain other technical reforms associated with PGBS (and featured as targets in the PAF) should strengthen the MPF’s information and therefore its capacity to plan and budget:

- Studies are being undertaken of off-budget expenditures in the health sector (2005), and planned for education (2006) and remaining sectors (2007).
- PGBS partners and government have set up a task force to bring donor funding on-budget.

- The PAF expects that the recording of off-budget funding will lead to the introduction of programme budgeting under the financial system reform (SISTAFE). The Joint Review Aide Memoire for 2004 expected programme budgeting to be introduced in five of the major sectors by 2006, but we understand that this has been postponed.
- Already under SISTAFE, a computerised financial system, with technical support from IMF and basket funding from some leading GBS donors, is being extended from the MPF (and its provincial offices) in 2004 to the Ministry of Education in 2005 and thereafter to other ministries. This requires all accounts held by government bodies to be registered and approved by the Treasury, and facilitates payment transfers from the state budget.²⁰
- Systems of decentralised planning and budgeting are being developed in 7 of the 11 provinces, advised by the UN Capital Development Fund in the MPF's directorate of planning and budget (DNPO), and supported by several PGBS donors. The most advanced case, in Nampula Province, has demonstrated that districts can develop properly budgeted local plans even though they directly control only a small part of the resources flowing into their area. This is achieved by the joint identification of priorities between district administrations and local offices of sector ministries together with local populations, the pooling of information about available resources, and the development of a jointly costed plan. DNPO and the associated donors see this as having a bottom-up demonstration effect, and the 2005 Joint Review recommended its adoption as a model (Aide Memoire 2005: 9).

Accountability

The extent to which the increased use of government systems and processes helped to improve the accountability of public expenditures.			
General Situation:	Level: *	Trend: +	Confidence: **
PGBS Influence:	Effect: **	Efficiency: ***	Confidence: **

B4.9 All the weaknesses characteristic of the budgetary process in Mozambique are also inhibitions on democratic accountability. Above all is the fact that a large part of public expenditure is off-budget and therefore not subject to comprehensive parliamentary scrutiny or national audit procedures. Although some large donor projects are subject to parliamentary approval this is on a piecemeal basis rather than as part of the review of budgetary allocations. Furthermore, although most donors will subject their projects to external audit, the audit is according to donors' requirements rather than those of the national government and parliament. There are also deficiencies within national systems that obstruct accountability. It is difficult if not impossible for the public or parliament (Assembly of the Republic) to trace connections between what government plans and what it spends or what actually happens to approved budgetary allocations.

B4.10 The scope for parliamentary accountability has increased to the extent that the state budget has grown as a proportion of all public expenditure, and that a higher proportion of donor funds has been brought into the state budget. The Joint Review/GBS process has also delivered a new instrument of accountability, the PAF, which is now presented to the Assembly as an attachment to the annual plan. This provides a basis on which to know and evaluate more concretely the planned targets and achievements of both government and donors. In interview, the head of the Assembly's commission for planning and budget said that it was pressing the government to bring more aid into the budget (or at least recorded in the budget) and to restrict

²⁰ Interviews in sector ministries and Nampula Province indicated that salary payments are now made on time where delayed payments, e.g. to teachers, had often been a serious problem.

project funding (see also Gerster 2005: 18). She argued that the Assembly's scrutiny role was seriously devalued as long as it could only approve the portion of public expenditure that was in the state budget.

B4.11 One interviewee described a failure on the “demand side”: of parliamentarians and particularly the opposition party to use their access to information to press government. There may also be problems of capacity on the part of parliamentarians to exercise the powers of scrutiny that are available to them (Hodges and Tibana 2004: 39–45). The specialist commissions have no technical or research support and a weak understanding of the mechanisms that they are asked to review and approve. Parliamentary debate therefore tends to avoid strategic questions. There is some recognition by donors of the need for stronger support to the legislature to counter-balance the strengthening of the executive (Harding and Gerster 2004). However, there are reservations on the Assembly's part about being the object of an aid programme agreed between governments.

B4.12 Commentators, including donors themselves, sometimes suggest that accountability to donors has developed at the cost of domestic accountability (e.g. Killick et al 2005, Hodges and Tibana 2004: 43). However, off-budget project aid and earmarked basket funding, by their nature, have been managed much more autonomously between donors and line ministries. GBS and the Joint Review process are at least open and transparent, lead to published agreements and have created instruments that are also useful to parliament. Parliamentary commissions have been invited to meet Joint Review working groups as well as to engage in developing the forthcoming PARPA, but have adopted the view that they should maintain their distance from the executive, permitting parliamentarians to engage only privately. Lastly, although the principle of domestic accountability is fundamental, it might be suggested that accountability to donors is also a virtue that might be more pro-poor in its orientation.

B4.13 The Administrative Tribunal, although also assertive of its autonomous status and resistant to donor intrusion, has been more fully engaged with the Joint Review process. The Tribunal receives technical support from the national audit offices of Sweden and Portugal. Established in 1997, it pursues citizens' complaints against public bodies, is the ultimate court on tax and customs, approves governmental contracts, audits the state accounts, and audits the accounts of up to 800²¹ public bodies with the capacity of criminal processing. In principle, it can audit all finances in the public sector, including from external sources, but in practice it focuses on domestic accounts, while private companies audit donor-funded projects. Through the Legal and Judicial Reform Working Group, donors have raised the need to separate the Tribunal's role as auditor/regulator from its role in “signing off” governmental contracts – but the amended constitution of 2005 has consolidated this combination of roles. Donors have attempted to involve the Tribunal in “reform dialogue” and to subject it to PAF indicators relating to the number, timeliness and quality of its rulings. The Tribunal eventually agreed the application of PAF indicators in 2005.

B4.14 To be a useful instrument of parliamentary accountability, the audit of the state accounts needs to appear promptly. The law now requires it to be presented by the government to the Assembly by the end of May, five months after the end of the previous financial year. In practice, the first audit for 2000 was delivered only in 2002, for 2002 in mid-2004, for 2003 by October 2004. The 2004 audit was presented on time. The audit of the state accounts is a fundamentally important service to the public and to parliament, but it is also important to the GBS donors because they transfer their funds into this account. In this way, it might be suggested that donors' involvement in the core budgetary process can have spin-off benefits also for domestic accountability.

²¹ In 2004, 437 bodies were audited for “no objection certificates” and 8 received supplementary audits; 39 supplementary audits will be undertaken in 2005.

Durability

The extent to which PGBS supports government in internalising such improvements (ensuring the sustainability of the whole process).			
General Situation:	Level: *	Trend: +	Confidence: **
PGBS Influence:	Effect: *	Efficiency: **	Confidence: **

B4.15 The changes in the systems of budgeting and planning so far remain modest but are beginning to have an impact throughout the government system. There are certain practical changes that are being internalised. The form of the budget is beginning to be adjusted to support a more coordinated and directive government strategy. New functional classifiers have been introduced into the budget to enable a clearer identification of poverty-reducing expenditures (Scanteam 2004:16). "Investment expenditure allocations are to decrease with the duration of a project, in order to create an incentive to conclude those projects in a more timely manner" (Harding and Gerster 2004). As the SISTAFE system to improve financial payments and accounting is "rolled out", it is having an effect on expectations within government. Ministries (and donors) will have to register accounts that have until now remained off-budget. In Nampula, we heard that, at provincial and district level, salaries paid out of the state budget were arriving more promptly.

B4.16 The officials that we spoke to in the health, education and agriculture ministries could see a change in the nature of the inter-ministerial dialogue. The annual planning process in which the MPF (directorates of planning and budget, and finance) meets with each sector ministry to prepare budget submissions and payment schedules is becoming more serious. In the health ministry, we were told, "the MPF used to just decide what funding went to each province and district. This year they listened to us." In education, "the alignment between DNPO [the directorate of planning and budget] and line ministry planning is improving". In the MPF, "there is a discernible shift, the scales are tipping, ministries look less to donors and increasingly to MPF".

B4.17 In interviews, officials of line ministries asserted their commitment to the principle of GBS, as a way of strengthening and rationalising governmental systems. At the same time, there was widespread concern about the speed of the transition from a situation where they had some control of donor funding allocated directly to the sector or to projects, to one where funds are channelled through the Treasury. They were not convinced that their own sector would be prioritised in the budget or that sub-sectors (e.g. drug procurement) hitherto protected by donors would retain their funding. Above all, they were doubtful whether the MPF had the capacity to disburse an increased volume of funding efficiently, and whether liquidity problems at the national level would lead to delays and diversions. Most donors, too, felt that it was necessary to protect key sectors with earmarked support while moving towards the adoption of national budgetary systems.

Capacity development

The extent to which PGBS is supporting capacity development in PFM.			
General Situation:	Level: *	Trend: =	Confidence: **
PGBS Influence:	Effect: *	Efficiency: *	Confidence: **

B4.18 Within the MPF, the planning and budgeting directorate had weak links to the treasury and accounting directorates. This seems likely to be exacerbated by the government's decision to divide them into separate ministries. There appears to be no established system for coordination between MPF managers; in fact management, as a process of taking plans through to realisation by mobilising financial and human resources, seems itself to be largely absent.

Many of the donors and government officials interviewed for this study nominated planning and financial management, human resource management and capacity building as the key constraints which had to be addressed, within the existing programmes for public sector and financial management reform (see ¶B4.8).

B4.19 The technical reports to the donor–government Mid-Year Review of September 2004 indicated that, while key ministries were now planning and coordinating more closely with the MPF, the links remained weak, contributing to late disbursement by the MPF and failure to report or track expenditure. In interviews, both the MPF and line ministries reported that their relationship was obstructed by the fact that the MPF lacked staff who could understand sectoral priorities, while line ministries lacked staff who were financially competent.

B4.20 This is partly a problem of the “distance” between the experience of staff in ministries. However, the problem relates also to the capacity of government to attract and retain good staff. Fewer than 3% of all ministry officials are said to have university degrees (USAID 2004), 8% in the MPF (CESO 2004), and 4% in the Ministry of Health (Pavignani and Hauck 2001), and the skill level falls sharply at provincial and district levels. The exception was the planning and budget directorate of the MPF, where 35% of staff were said to have a degree. On the other hand, 80% of all government staff have only primary education or less (CIRESP 2004). We were told that the MPF lost 25 of about 150 professional staff in 2003. Some go to the private sector where salary levels for technical staff are said to be around 50% higher (World Bank 2003c: vi). Others are attracted to work in donor project teams within a ministry (for example on the SISTAFE project), where they can expect to be paid more and in USD, while holding their own post for future return. This may help to explain why civil servants, including in the MPF, often profess a commitment to GBS in principle, while also finding that projects are better in practice. We were told that up to one-half of a civil servant’s salary would have to be spent on housing in Maputo. A proposal for comprehensive pay reform, linking pay to performance, is being prepared by the public-sector reform unit (UTRESP).

B4.21 In the absence of qualified staff, ministries have depended heavily on technical assistance. In the case of the MPF, the development of SISTAFE, of the future PARPA and of planning and budgeting systems are all supported by foreign technical advisers or consultants. The sector ministry planning and budget departments that liaise with the MPF on the development of the budget, the PES and the PAF indicators, are also supported by advisers under donor project funding. The problem is not the foreign origin of the advisers, but the fact that they are there on a short-term project basis and that they do not form part of a coherent programme to support and build the ministry. There are also stringent government labour laws limiting the appointment of foreigners on long-term contracts. However, the Joint Review Aide Memoire of 2005 agreed on the development of a strategy to develop capacity in public finance management, and we understand that the donors are proposing to establish an untied common fund for coordinated technical assistance and a longer-term programme of staff development. This explicit attention to capacity-development for PFM in the context of PGBS is only recent, which is why we have judged its effect so far as weak.

Principal Causality Chains

B4.22 Partnership GBS does appear to be operating through the causality links hypothesised in ¶B4.1. PGBS has been influential on planning and budgeting, not only through its relatively modest funding but also through the impetus it has created to focus dialogue on the national budget and shared policy objectives. Its most important effect is that it is beginning to change the relationship and reporting lines between core government and line ministries, and between line ministries and donors. These changes also create conditions for greater accountability. However, this is from a low base of budgetary integration and accountability, and continued weak levels of management and planning capacity.

Counterfactual

B4.23 Some other forms of programme aid and debt relief have put donor and IFI funding directly through the budget (Chapter A3), but there has not previously been the same level of coordinated engagement with core government systems of planning and budgeting. Indeed this engagement has itself made international partners more aware of how weak these systems are. Aid operating at a sectoral or sub-sectoral level, though it has strengthened the funding of specific services, has bypassed these core systems. Crucial to budget support has been its participatory element: the dialogue in the Joint Review and working groups, and the development of shared objectives and performance targets between donors and government. Certain other associated measures – SISTAFE, the development of budgetary mechanisms, decentralised budgeting, support to the Administrative Tribunal – have been funded through project or basket funding but were complementary to GBS and affirmed by it.

B4.24 Among those interviewed (in government and donor agencies), almost all saw PGBS as preferable to other aid modalities in its empowerment of government and its potential (under the conditions of the new MOU) to provide an environment of predictability and transparency for national planning and budgeting. The questions were about the pace of change and the need to maintain other aid modalities for specific ends.

B5. The Effects of Partnership GBS on Policies and Policy Processes

How efficient, effective and sustainable has been the contribution of PGBS to improving public policy processes and policies?

Introduction

B5.1 This chapter considers whether PGBS has contributed to improving public policy processes and policies. The causality chain to be explored is whether policy dialogue focused on key policy priorities (point 2.4 on the Causality Map), together with capacity development (2.5) and donor support through harmonisation and alignment (2.6), have encouraged and empowered the government to strengthen pro-poor policies (3.3) and resulted in sector policies that are more pro-poor (4.4) and more supportive of private sector development (4.2).

Relevant Facts: The Policy Process

B5.2 The Mozambican policy process retains some roots in the pre-liberalisation model (see Chapter A2). Emerging from colonialism abruptly and late (1975), the governing party at independence, FRELIMO, adopted a centralist command economy and a strategy of modernisation through planning and mobilisation (Gustafsson and Disch 2001). It nationalised private companies and large farms, and sought to organise and “raise the consciousness” of the mainly rural population. Regional loyalties and antagonism between the governing and the opposition force (RENAMO) were confirmed by the ensuing civil war. Although much changed with the liberalisation of the country that began in the mid-1980s, the background seems to remain strongly characterised by: the continued dominance of FRELIMO and many of its original party cadres, regionally based party loyalties, the interpenetration of FRELIMO with the government administration, and the quiescence of the private sector and of civil society. The multi-party constitution and institutions of a market economy only began to be formalised from 1990 onwards.

B5.3 In their recent study of the political economy of the budget process, Hodges and Tibana (2004) describe the following characteristics of the modern policy community:

- two rival parties which, nevertheless, have weak capacity for policy development, though FRELIMO can call on members among ministers and the higher echelons of the civil service to prepare policy positions;
- weak parliamentary capacity to examine legislation, to scrutinise the executive and to question government officials;
- a political executive that is coherent in its party loyalty but which tends to avoid hard strategic choices about resource allocation. Potentially damaging in-fighting about access to funds has been avoided by direct access to donor funding at sector level;
- line ministries with a high degree of autonomy based on their historical access to donor funding for their particular sector or for projects within it;
- civil society which is "essentially an urban phenomenon, constituted by organisations with a very small membership among formal workers, professionals and businesses, plus the private media, which reaches only a small proportion of the urban population. Exceptions are the religious denominations and traditional authorities, which have a much broader social base, but these are not usually concerned with issues such as budget policy and performance" (Hodges and Tibana 2004: 66);

- donors are key actors in the budget and therefore the policy process.

B5.4 As a result of the dominance of the key line ministries and their concentration of donor-supported technical expertise, national policy has been strongly influenced by donor–government dialogue at sector level. The 2001–05 PARPA was built on the submissions of ministries and not debated widely across government (Gustafsson and Disch 2001). The economic and social plan (PES) and the state budget have been composed by the MPF annually from ministerial contributions and updating. In principle, this process depends on informed dialogue between the MPF and the ministries. In practice, as was repeated to us in interviews with both donors and government, the two sides have lacked the shared experience and mutual understanding that would allow them to negotiate, and line ministry priorities have normally been followed. The MPF has not been equipped to challenge their priorities or costings; and, as one official of a sector ministry said, “we don’t have enough information on needs or costs to do more than ask for increments”.

B5.5 Hodges and Tibana (2004: 77) suggest that this is not just a matter of technical capacity but of political and administrative convenience. Ministers (and officials) have preferred to avoid "hard debates on resource allocation at the level of the Council of Ministers and the Economic Council", and access to donor funds at sector level has enabled them to do so. Without hard budget ceilings and with incremental budgeting, budget formulation can only to a very limited extent be driven by policy objectives and cross-sector prioritisation. To the extent that the majority of aid in Mozambique remains in the form of projects and basket funds, the authority of the MPF vis-à-vis the line ministries and the policy process as a whole is limited (Chapter B4).

Assessment against Evaluation Criteria

Influence on Reform Process

Ownership and effectiveness

The extent to which PGBS (allowing for the time lags of its operations) has helped (is helping) to establish/maintain a comprehensive, coherent and effective pro-poor reform process, owned by the government.			
General Situation:	Level: *	Trend: +	Confidence: **
PGBS Influence:	Effect: **	Efficiency: ***	Confidence: ***

B5.6 The instruments through which PGBS has contributed are the working groups and the annual Joint Review process through which dialogue is maintained, agreements about goals and targets reached, and performance measured by donors with government. The earlier Joint Donor Reviews until 2003 (i) involved government as participants but were led by donors, and (ii) focused on a range of themes which was narrow, though only by comparison with what was to come. They assessed the previous year’s progress on poverty reduction, economic growth and macroeconomic management, and set out a programme of reforms for the following year, on areas that had been identified at the outset in 1998 and 1999. Reforms were about the internal working of government and public management: planning and budgeting, resource mobilisation, financial management and audit, procurement, debt management and public sector reform. These earlier reviews raised concerns essentially from a donor perspective, e.g. donors proposed an international accounting standards assessment of the four largest banks: "The donors are pleased that Mozambique has accepted this recommendation, and look forward to implementation of an action plan ... with the World Bank and IMF."

B5.7 These core reform areas have remained but since 2003 the agenda has expanded and the Joint Reviews are done in the name of the government and donors. The 2003 Joint Review

noted the government's call for greater “coherence, transparency and predictability” between government and donors, and proposed to “broaden dialogue with GOM beyond the range of issues currently specified” and to promote domestic accountability. Donor–government working groups were set up to develop the Performance Assessment Framework (PAF) and redraft the MOU. Line ministries became actively engaged in ensuring that the PAF indicators reflected their interests, and the draft PAF went to the Council of Ministers for approval. Beginning in 2004, the agenda of the Joint Review has been extended to include reforms within sectors of government activity. This does not add new reform requirements to those already in line ministries' agendas but brings them into wider intersectoral consideration. Advantages identified by government and donor interviewees were:

- exposing sectors' progress to comparison and mutual learning;
- increasing pressure for change in sectors by making them part of the overall PAF rating;
- focusing government attention on the big policy issues;
- coordinating donor approaches and influence;
- reinforcing the position of the reform-minded constituency within government.

B5.8 The standing donor–government working groups and biannual (April–May and August–September) Joint Reviews now cover practically all aspects of government and donor policy that could be relevant to the poverty reduction strategy:

- poverty and growth issues with working groups on macroeconomic growth and stability, and poverty analyses and monitoring systems;
- public finance management with working groups on budget analyses, tax reform, procurement reform, financial systems, and audit;
- governance with working groups on public-sector reform, decentralisation and local governance, and legal and judicial reform;
- private-sector development with working groups on the financial sector, private sector, agricultural and rural development, infrastructure services, roads, and energy;
- service delivery with working groups on HIV/AIDS, health, education, water and sanitation;
- MOU implementation and aid effectiveness with working groups on reporting requirements, and programme aid partners' performance assessment;
- Cross-cutting working groups on gender, environment and HIV/AIDS.

B5.9 We have argued that this imposes a heavy demand on government capacity (Chapter B1) but, on the other hand, it supports government ownership in several senses:

- The chair of the PAF coordinating committee was taken by the government.
- Government instruments are used as the basis of assessment: PARPA, the economic and social plan, PAF, and sector reviews.
- Sector reviews are aligned with each other and with the budget cycle.
- Strategy is developed across government as a whole.
- The government now intends to increase its own coherence in negotiation by having cross-ministerial meetings before the meeting with donors.

Participation

... in which, an appropriate range of stakeholders is involved in policy formulation and review.			
General Situation:	Level: *	Trend: +	Confidence: **
PGBS Influence:	Effect: **	Efficiency: ***	Confidence: **

B5.10 Any direct involvement in policy formulation and review would be through the working groups and Joint Review process. These were initially restricted to the PGBS donors and officials of the MPF and Central Bank, and particularly to economists. As described in Chapter B1, donor participation grew rapidly to include not only the increasing number that contributed to PGBS but also observers who were involved only in sector or project support. From 2003, government participation grew to include representatives of all the many sectors covered by the Joint Review (¶B5.8) and began to engage a wider group of professions than economists (although these remain in the lead). At the same time this became a Joint Review and not a Joint Donor Review, and government assumed a more equal if not leading role, though constrained by its staff capacity (Chapter B1). The 2005 Review proposed that future reviews should also involve representatives of provincial and district governments.

B5.11 Non-official involvement is restricted. Political leaders participate only in the last formal stages of the Joint Reviews when the new Aides Memoire are affirmed. Parliament has resisted direct involvement in the dialogue as inappropriate to its status (see Chapter B4). The most significant new development was the establishment of a Poverty Observatory – a forum of government, donors, parliament and civil society organisations – created in 2003 to monitor and discuss the PARPA. In 2004, it was called after the Joint Review to receive and discuss a report by government. In 2005, it met before the Joint Review and participated in some of the working groups.

B5.12 There is room for scepticism about the Observatory: it is managed by government, meets infrequently and according to interviews with some participants had a very limited input into the Joint Review discussions (see also Christian Aid and Trócaire 2005: 14). However, it has potential to become more significant. A group of 20 organisations was set up in 2004 to coordinate and strengthen the influence of civil society in the Poverty Observatory. It also prepared its own Poverty Report (Group of 20 2004). Its membership includes a women's forum, two trade unions, four religious organisations, business groups, a land forum, an HIV/AIDS network and others. According to Hodges and Tibana (2004: 87): "...There is potential here for the development of an important lobby that could influence government policy."

B5.13 More sceptically, it could be questioned: Who really makes policy – government or donors? How distinguishable are their policy processes? One donor questioned "what ownership really means in a poor aid-dependent country with weak capacity". As indicated in Chapter B2, there are risks that donors become so organised as to be over-intrusive (Fozzard 2002, Nilsson 2004). Some donors suggested in interview that donor economists should work with government on the formulation of the budget between May and September. Is this support or intrusion?

Learning

... in which, policy processes encourage both government and IPs to learn from experience and adapt policies to country circumstances.			
General Situation:	Level: **	Trend: +	Confidence: **
PGBS Influence:	Effect: ***	Efficiency: ***	Confidence: **

B5.14 There is a number of ways that have already been described in which this could be described as a successful learning process:

- the evolution and adaptation of the design of PGBS;
- the growing harmonisation and alignment between donors and government;
- the increasing but still relatively weak engagement of line ministries in planning and budgeting;
- parliament's weak but growing capacity (or at least instruments) for holding government to account;
- the increasing engagement of wider aspects of government and of civil society in the Joint Review process;
- government's adaptation of the Joint Review Structure for the development of the PARPA;
- government's decision to coordinate strategy between ministries before future Reviews;
- government's instigation of the revised MOU and PAF as a response to disbursement uncertainties;
- the building into the Joint Review process of independent sources of learning: e.g. the Learning Assessment carried out in 2004 and the assessment of the performance of the international partners in 2005.

Influence on Policy Content

Public and private sectors

... in which, policies address major market failures, the regulatory environment and the appropriate balance between public and private sectors.			
General Situation:	Level: *	Trend: =	Confidence: **
PGBS Influence:	Effect: *	Efficiency: *	Confidence: **

B5.15 In Mozambique there is plenty of evidence that the market fails in various ways, such as the high transaction costs of production and trade attributed to undeveloped infrastructure, lack of access to markets, weak informational links, limited insurance markets, lack of contract enforcement mechanisms, etc. Business conditions in Mozambique are generally worse than the regional average: difficulty in attaining a business licence, labour laws, procedures to secure rights to property, and absence of private-sector coverage of creditworthiness (World Bank 2004a). In the African Competitiveness Report (World Economic Forum 2004), Mozambique ranked 20th out of 25 countries.

B5.16 Mozambique undertook a major programme of privatisation in the 1990s, shedding 840 public companies between 1989 and 1997, 90% of them acquired by Mozambican companies and individuals (UNECA 2003). This should have improved the private-sector environment, both by increasing the productivity of the businesses themselves, and by sending a signal to potential

investors that the government was committed to market reforms. The major focus of current reform is to reduce the cost of doing business and enhance the competitiveness of local production (World Bank 2004a). On the part of government this has meant clarifying property rights (for example, land title in the agricultural sector, and contract enforcement in the business sector), making the regulatory environment more business-friendly, creating formal and informal dispute-resolution systems, and facilitating access to credit. Some bilateral donors – e.g. USAID, the German technical cooperation agency GTZ and Sweden – have been particularly active in these fields though not until recently in a coordinated way.

B5.17 The PARPA has been an effective vehicle for general aid mobilisation, leading to a large-scale expansion of social services, particularly in health and education, with corresponding impacts on poverty reduction. Yet, the heavy focus on social sectors has come at the cost of inadequate attention to creating enabling environments in which the poor can reduce their own poverty through income-generating employment. The PAF has 24 out of 49 items labelled as "creation of a favourable environment for private-sector action". These include action on labour laws, the commercial code, better regulation of the banks, and anti-corruption measures. But many of the remainder concern the reform of public finance management, and other actions which relate only indirectly to the private sector. However, PGBS in Mozambique is increasingly oriented to addressing the hard issues which will affect employment generation in the productive sectors. It has the potential to contribute to long-run growth, poverty reduction, and gains in social indicators more forcefully than project aid because it is accompanied by a commitment to support the GOM over a longer time horizon, which is critical for the development of market-supporting institutions.

B5.18 Under the Joint Review process, a thematic group on private-sector development was created in 2003 with a number of working groups that meet throughout the year (see ¶B5.8). Constraints on the market listed by the Private Sector Group of the G17 include: fines and inspections, non-marketability of land, VAT refunds, procurement regulations, customs clearance for imports and exports, electricity (high cost, and interruptions of supply), the telecommunications law, regulatory agencies, inadequacy of social security, retention of government shares in privatised companies, government monopolies, and late payment by government to suppliers. However, as reported by interviewees and as is evident from the Joint Review Aides Memoire, this is an area of relatively weak progress. This area of reform is complicated by the fact that it straddles so much ground; there is no single government agency responsible for reforms that affect the business environment, making policy dialogue more difficult.

B5.19 One of the major areas of attention of the Joint Review donors, since the banking crisis of 2000–01, has been the reform of the financial sector: strengthening banking supervision, encouraging the government to withdraw from equity participation in banks, proposing reviews of banking practices against international standards and a forensic audit of the Banco Austral, and proposing a bankruptcy law. Progress on all fronts was slow, and by the 2005 Joint Review, government was still in the process of withdrawing from banks, the forensic audit had not begun and the bankruptcy law had not been presented to parliament.

B5.20 The second main Joint Review theme in the sphere of private-sector development has been the question of the business environment: reducing the time and cost of registering a business, making the inspection regime less onerous and discretionary, accelerating customs clearance, revising the labour law, and developing a commercial code. The 2005 Joint Review rated progress in 2004 as "mixed but improving", though the business environment remained poor. New registration regulations and inspection rules were in force, and the labour law and commercial code were in preparation.

B5.21 The agricultural sector was subject to a major reform under Mozambique's first SWAp (known as PROAGRI), preceding PGBS. This was essentially an institutional reform of the Ministry of Agriculture, based on a redefinition of the state's role to that appropriate to a market economy: enabling and regulating producers rather than directly acting as a producer itself. To our knowledge, in Mozambique there has been no other equivalent review by government or donors of the appropriate balance between the public and private sectors. PGBS and the Joint Review process cannot claim to have initiated or strongly influenced reforms in the agricultural sector. Rather the Joint Review has monitored progress in service provision, land titling, and access to markets and credit, and pressed for improvements in project management and budget execution and for the development of the new sector strategy.

Sector policies

... in which, appropriate sector policies complement public expenditures.			
General Situation:	Level: **	Trend: =	Confidence: ***
PGBS Influence:	Effect: **	Efficiency:***	Confidence: **

B5.22 The influence of PGBS on public expenditures has been addressed in Chapter B3. Policies and reforms at sector level were not initially covered by the Joint Review process, although the 2000 framework agreement and the 2004 MOU were about “programme aid” which, from the outset, was seen as embracing sector as well as general budget support. However, as already noted, line ministries became much more directly involved when in 2003 it was decided to draw up a Performance Assessment Framework (PAF) as the basis on which donors would determine their funding commitments to PGBS. They were keen to join the working groups that decided on the indicators and that now assess progress, at least partly because they knew that donor funding was likely to move from sector towards GBS (Hodges and Tibana 2004: 62). Sector ministries see PGBS as a serious potential threat to their own secure lines of funding.

B5.23 Line ministries (Health, Education, Water and Sanitation, Roads, Agriculture and Justice) have become participants in the Joint Review process with their own donor–government working groups. Chapter B4 showed how the review and planning schedules of the sectors themselves – beginning with Education in 2005 – are being timed to coincide with the Joint Review and the national budget cycle. Gender, HIV/AIDS and environment working groups were created for the 2005 Joint Review.

B5.24 The health and education sectors already had pooled donor funding and a group of donors with whom they were used to working out strategy and spending priorities. For them, participation in PGBS working groups and the Joint Review probably does not mean the development of new sector policies and reform proposals; the donors at sector level are almost all participants in the G17. What the PGBS process has added is a more open and collective pressure to meet service targets and to undertake promised reforms.

B5.25 Working group and Joint Review reports adopt this pattern in these two sectors: first, a report on service performance against PAF targets and, second, a commentary on sector reforms. Health has generally received better ratings on service performance. Education is faulted for poor financial and human resource management, weak budget execution and slow completion of its revised sector plan. Influences that could be attributed to PGBS are:

- The education ministry's proposal to use the PAF indicators also in the revised PARPA and as performance indicators in its own sector strategy;

- The health ministry's determination to bring more of its funding on-budget, to undertake financial management training at all levels, and to achieve a better dialogue with the MPF in the planning process (Joint Donor Mid-year Review 2004).

B5.26 Paradoxically, the sphere in which greater policy influence by PGBS can be discerned is the one which is criticised in recent Joint Reviews for its weak progress: the legal and judicial sector. These are areas which have received little donor attention in the past, and what they have received has been weakly coordinated (World Bank 2004c: 65). Support has been principally from Denmark, but also the UN Development Programme (UNDP), USA, Sweden, France and Portugal (the latter three on the Administrative Tribunal). The PGBS framework (the G17, the working groups, the Joint Review and the PAF) have therefore been able to provide a basis for coordination and pressure. A Danish review of human rights in 2004 reported: "During the recent joint review of the General Budget Support the justice sector came under scrutiny which echoes a general discontent by the public regarding the services of the sector."

B5.27 The legal and judicial sector has been found in all recent joint reviews to provide poor services and to delay reforms. The PGBS process has probably had a strong influence in getting commitment to the development of a strategy for the sector, a study of corruption, and the approval of an anti-corruption law. It has also provided a basis in the PAF indicators against which progress can be assessed. A Coordinating Council for Legality and Justice has been set up with donor funding to provide a basis for coordination within the sector and dialogue with the MPF and the donors. The Administrative Tribunal has been a particular target for reform (see Chapter B4).

Principal Causality Chains

B5.28 PGBS is operating through the causality chains hypothesised in ¶B5.1. It has brought about a policy dialogue which is more focused on policy priorities, more cross-sectoral and more inclusive of stakeholders than previously existed. Government has increasing participation if not control. This dialogue has not displaced the dialogue at sector level but has reinforced pro-poor policies by subjecting them to wider scrutiny, especially through the Joint Review and PAF. As indicated, where (e.g. in the justice sector) there was no previous donor–government coordination and pressure for change, it has instigated it; Chapter C1 indicates a similar influence in the sphere of HIV/AIDS. It has been less successful in bringing about policies that address market failures in the productive sectors. There is a danger, which is being addressed, that the heavy public-sector focus on social sectors crowds out the private sector's role in developing income-generating activities.

Counterfactual

B5.29 Project aid and technical assistance have contributed (for example, Danish support for the coordination of the legal and judicial sector). Policies agreed by government and donors at sector level have often been the focus of support by the PGBS apparatus. However, the PGBS apparatus was itself indispensable in providing the structure and the pressure in which these other forms of aid could be successful. The gain was from the dialogue and the conditions that surrounded it. PGBS funding was important as a condition for the dialogue/conditionality; credibility may depend on there being a discernible, progressive shift towards GBS.

B6. The Effects of Partnership GBS on Macroeconomic Performance

How efficient, effective and sustainable has been the contribution of PGBS to macroeconomic performance?

Introduction

B6.1 This chapter analyses relationships from Level 2 (immediate effects) through to Level 4 (outcomes) of the evaluation framework. The chapter addresses two hypothesised **causality chains**, namely:

- whether more external resources for the GOM budget (2.1 on the Causality Map) and an increase in proportion of funds subject to the national budget (2.2), together with an increase in predictability of external funds subject to the national budget (2.3), have resulted in improved fiscal discipline (3.4) and therefore a favourable macroeconomic environment, leading to investment and growth (4.1 and 4.6);
- whether policy dialogue and conditionality focused on key public policy and public expenditure issues (2.4), a similar focus of technical assistance and capacity development (2.5) and international partners moving towards alignment and harmonisation around national goals and systems (2.6) lead to improved fiscal discipline (3.4) and therefore a favourable macroeconomic environment, leading to investment and growth (4.1 and 4.6).

Relevant Facts: Macroeconomic Performance²²

B6.2 Rapid and sustainable GDP growth is a necessary but not a sufficient condition for the reduction of poverty. GDP growth in Mozambique has been extremely favourable since the mid-1990s, averaging 8% per annum. Growth has been led primarily by: a small number of “mega-projects” (which are capital- and import-intensive as well as natural resource-intensive, receive tax concessions, and employ relatively few people); investment from neighbouring countries; high levels of donor aid flows; and growth in the agricultural and service sectors.

B6.3 Growth in Mozambique started from a very low base and it was at first relatively easy to achieve rapid rates of economic growth. Mozambique was recovering from a long period of economic decline caused by a prolonged civil war and a centralised planning system. Once recovery has been achieved and growth extends beyond previous levels of GDP per head, growth is typically much harder to sustain and is highly dependent on a government’s ability to carry out tougher “second generation” reforms. The World Bank Country Economic Memorandum (World Bank 2005b: xxiv) suggests that Mozambique’s growth experience may not be sustainable, given that: it faces meteorological and other risks; growth spurts rarely extend more than a few years; the agricultural catch-up is now exhausted and the sector is growing at a lesser rate than it did before; most of the “easy” growth-enhancing reforms have been done. This leaves the more challenging institutional reforms such as judicial reform; and aid will fall as a share of GDP.

B6.4 We have argued in Chapter B3 that PGBS is an additional financial input as regards the state budget since its contribution to the budget has increased from roughly USD 600m in 2000 to USD 750m in 2004. On the other hand we have argued that, because most donors have

²² Supporting data on macroeconomic performance are in Table B6.1.

substituted PGBS funding for other aid modalities at the national economy level, PGBS is a substitute for other aid flows and not additional (¶B3.4). There are many factors affecting GDP growth rates, which are outside the control of the GOM. Analysing the effects of aid on macroeconomic management and growth is notoriously difficult. Identifying the impact of one component of aid flows (PGBS) is even more so. At the economy-wide level, even if it was the case that PGBS funds were additional, it would be problematic to conduct rigorous analysis of the impact of PGBS funds specifically on monetary indicators. There are several factors that make this difficult:

- During the period that PGBS was provided there was a major national natural disaster in 2000 which resulted in an abnormally high surge in aid flows and associated public expenditure.
- Economic growth shrank to 1.6 % of GDP and inflation rose to 22% in 2001.
- In 2001/02 the economy was affected by a banking crisis and floods in the central provinces in the country.
- The analysis for this chapter is further constrained by data difficulties. As noted in Chapter B3, information on sources of financing and the linking of planned allocations to real expenditures under the state budget is limited.

B6.5 Monetary policy in Mozambique has historically been the subject of a discrete policy agenda of the Central Bank of Mozambique (CBM), the Ministry of Finance and the international finance institutions (IFIs). This had little explicitly to do with poverty objectives until the adoption of the PRGF. PGBS donors align themselves to the IMF's PRGF, although the influence and causality of this relationship is being redefined. Monetary policy in IMF-supported countries is almost everywhere tight and counter-inflationary, reflecting broad IFI agreement that a stable macrofinancial environment is a prerequisite for growth and poverty reduction. In Mozambique, the inflation rate averaged 47% between 1988 and 1996. It was brought down to single digits between 1997 and 1999, rising again to 32.5% in 2001 (year- end inflation), partly as a result of the floods (shortages and abnormally high levels of aid inflows) and the cost of dealing with the banking crisis. Inflation has since been brought under control. It was below the IMF target of 11% for 2004, but at the cost of high nominal interest rates (over 35% at end-2002), with negative implications for private-sector growth. Increased outlays for interest repayments on domestic borrowing have increased the GOM budget deficit. High levels of external assistance do not appear to have resulted in a sustained real appreciation of the Metical or other symptoms of aid-induced "Dutch disease".²³

B6.6 Fiscal policy is less discrete and there is broader scope for dialogue with PGBS donors, but it is still constrained by IMF agreements. The fiscal deficit before grants in Mozambique, as in most aid-dependent countries, remains high, averaging about 12% of GDP between 1997 and 1999 and about 16% between 2000 and 2004 (see Table B6.1). Current expenditure was very high as a percentage of GDP following the end of the civil war but then declined in the late 1990s. Since 2000, supported by very high levels of donor aid and domestic borrowing, it has grown faster than domestic revenue. Fiscal discipline worsened over 2001–02 but has since been brought back in line with agreed targets.

²³ The real effective exchange rate has slightly depreciated since the 1990s. Even though aid payments have amounted to 12–19 % of GDP, this has not caused a significant appreciation of the currency.

B6.7 The level of public spending is much higher than it would be without aid, since aid finances half of the budget and more than half of all public expenditure. The fiscal deficit is sustainable as long as aid flows do not decline and the GOM restricts further expansion of expenditure. The GOM's focus needs to shift to improving the quality of allocation rather than the quantity of spending and to mobilising more funding through tax revenue.

Table B6.1: Overview of Monetary Aggregates

	Pre-PGBS Years										PGBS Years			
	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004			
Growth (annual growth rates)	7.4	4.3	7.1	11.3	12.6	7.5	1.5	13.1	7.8	7.0	7.2			
Total Revenue (% of GDP)	14.5	11.3	10.6	11.5	11.4	12.0	12.7	12.5	13.2	12.8	12.3			
Total expenditure as percentage of GDP	37.7	24.2	20.7	23.9	21.6	24.7	26.6	32.1	30.65	26.5	23.7			
Current expenditure as a % of GDP	18.2	10.3	9.4	10.8	11.2	12.2	13.5	14.5	15.8	13.8	13.8			
Overall balance before grants				-11.7	-10.5	-13.2	-14.0	-21.4	-19.7	-11.6	-13.1			
Overall balance after grants				-2.6	-2.4	-1.5	-4.5	-4.9	-2.9	-4.2	-3.8			
Inflation (average)	70.1	57.0	16.2	5.9	-1.0	6.2	11.4	21.9	9.1	13.4	9.1			
Exchange rate Meticais/USD – average	5,918	8,890	11,140	11,395	12,366	12,689	15,689	20,707	23,666	23,782	22,581			
Commercial bank lending rate (average)					24.09	22.58	22.35	28.63	37.0	24.0				
Deposit rate					8.2	7.86	9.7	15.14	18.73	10				
Central Bank rediscount rate					9.95	9.95	9.95	9.95	9.95					
Foreign exchange reserves		225	383	532	431.6	469.3	725.1	715.6	819	998	1,130.0			

Sources: Republic of Mozambique Statistical Appendix 2004; 2005 EIU Country Report March 2005; MPF Mapa Fiscal 2005; World Bank (2000) and (2001a).

Note: *: GDP figures have been revised; however, total revenue figures as a percentage of the revised GDP figures are not yet available for earlier years.

Assessment against Evaluation Criteria

Macroeconomic Effects

Fiscal discipline and macroeconomic stability

The extent to which PGBS has contributed to fiscal discipline and macroeconomic stability.			
General Situation:	Level: *	Trend: +	Confidence: ***
PGBS Influence:	Effect: **	Efficiency: **	Confidence: **

Macroeconomic stability

B6.8 Mozambique has long suffered from macroeconomic imbalances, which the central bank has tackled relatively successfully through monetarist policies but at the cost of high real interest rates. This policy has largely been supported by PGBS donors both through dialogue and through the linking of PGBS to the IMF's Poverty Reduction and Growth Facility (PRGF). Nonetheless, it is likely that the high rate of interest in part reflects the high volume of inflows of foreign-denominated currency (aid flows), including PGBS funds, since the Bank of Mozambique has sometimes chosen to sterilise aid flows through the issuance of treasury bills to reduce the volatility of these flows, contributing to an increase in the cost of domestic finance.²⁴

B6.9 Notwithstanding the fact that PGBS funding does not in itself constitute an overly large proportion of total ODA financing, unpredictable and late funding of PGBS can have a negative impact on monetary and exchange rate stability, arising from defensive responses by both the GOM and the central bank (for example the incentive to increase external reserves to the point of squeezing the economy)²⁵ (Killick et al 2005). PGBS until 2004 remained quite unpredictable, and the GOM has in the past relied on the issuance of treasury bills to cover for liquidity shortages resulting from the late disbursement of PGBS, thereby accumulating payment backlogs and delaying internal financing of investment projects. This has created risks for the GOM, undermined macro-stability and led to deviation from set targets. The development of a coordinated budget support framework in the 2004 MOU (see Chapter A3) in Mozambique has improved the intra-annual disbursement patterns and in this sense is an improvement over the typical "year-end rush" associated with other aid types.

Fiscal discipline

B6.10 Aggregate expenditure is constrained by domestic fiscal policy, reinforced by international conditionality, to limit budget deficits. Analysis of fiscal discipline in Mozambique is hampered by chronic lack of information and the "rearrangement" of budget figures to meet budget targets. The commitments agreed with the IMF for the domestic primary balance, for example, regulate budget ceilings for recurrent costs and lead to distortions in classifying expenditure in the state budget (Cabral et al 2005). A recent study of the health sector found that in 2003, approximately 77% of total health sector resources (and 66% of its external financing) were used to finance recurrent costs, which is much higher than the agreed rate of 50% approved by parliament.

B6.11 The inclusion of all off-budget funds in the state budget, with the correct expenditure classification, would have revealed a greater deficit in the domestic primary balance than previously calculated (-5.4% instead of -3.5% of GDP in 2004) (Cabral et al 2005). Fiscal

²⁴ The Bank of Mozambique uses two main choices for sterilisation: it either sells foreign exchange or issues treasury bonds. The former may result in an appreciation of the exchange rate and the latter in a rise in interest rate levels.

²⁵ Mozambique has tended to maintain high levels of foreign reserves in order to maintain the stability of the Metical exchange rate against major currencies and to protect against shortfalls in donor aid flows.

discipline in Mozambique is therefore greatly affected by the level of off-budget flows, which are not under the direct control of the MPF. PGBS dialogue and PGBS conditionality regarding fiscal discipline may constrain the government's desire to increase domestic financing of the budget beyond agreed targets. Conditionality in this area precedes PGBS but its emphasis on PFM reforms, including moving more aid "on-budget" and adherence to budget deficit ceilings, is certainly a factor which should lead to improvements. In addition, because PGBS is linked to the IMF's PRGF, the risk to government of not meeting PRGF targets is financially much greater than it would be in the absence of PGBS funds. In this sense, IMF conditionality is supported by the PGBS modality. The fact that PGBS funds are on-budget makes it easier to monitor, and therefore to maintain, fiscal discipline.

B6.12 Policy dialogue, technical assistance and harmonisation do not in themselves lead to improved fiscal discipline. This depends on GOM's own commitment to meeting agreed targets. The fact that donors have harmonised their dialogue around this issue with significant financial consequences for non-compliance has probably encouraged and enabled government to adhere to spending commitments.

Cost of budget finance

The extent to which PGBS funding has reduced the cost of budget financing.			
General Situation:	Level: *	Trend: +	Confidence: ***
PGBS Influence:	Effect: **	Efficiency: ***	Confidence: ***

B6.13 The cost of budget finance has been decreasing as there has been an on-budget shift to a greater proportion of grant financing. Since nominal interest lending rates fell from 37% to 24% from 2003 to 2004, the cost of government borrowing during the PGBS period has reduced. The cost of financing is nevertheless still very high. Overall deficit financing of the budget grew over the period that PGBS was provided, owing to a growth in financial outlays for the bank recapitalisation, the social security pension system and large increases in the wage bill.

B6.14 PGBS funds are dominated by grants (although the PRSC is on International Development Association [IDA] credit terms). For any given level of expenditure, PGBS is a cheap source of budget financing, particularly by comparison with credit aid and government deficit financing/borrowing. The growing cost of domestic interest payments demonstrates that this is an important consideration for Mozambique, given that liquid borrowing has increased from nothing in 1999 to an estimated USD 172m in 2005.

B6.15 Nonetheless, PGBS funds have at times been disbursed late and even into the following financial year. This has raised the costs of budget finance when the GOM has resorted to the issuance of treasury bills to cover expenditure and therefore negated some of the benefits of PGBS as a cheap source of budget finance.

Table B6.2: Government liquid borrowing in USD million

1999	2000	2001	2002	2003	2004	2005
0	76.94	112.59	138.57	19.92	46.89	171.41

Source: Table B3.1

Private Investment

The extent to which PGBS funding of public expenditures has adversely affected private investment.			
General Situation:	Level: *	Trend: +	Confidence: **
PGBS Influence:	Effect: Not found ⁱ	Efficiency: Not applicable*	Confidence: **

ⁱ i.e. overall adverse effect not found and “efficiency” is not applicable

B6.16 A large majority of firms in Mozambique state that the lack of access to finance, and its high cost, are severe problems for their growth. Interest rates are higher in Mozambique than in countries at a similar level of development (World Bank 2005a). We have argued that shortfalls in disbursement of PGBS have led to higher government borrowing costs and may have contributed to crowding-out of domestic investment at the same time as reducing the availability of funds for public investment. In addition, domestic borrowing by the GOM increased significantly as a result of the government’s recapitalisation of two state-owned banks, Banco Austral and Banco Comercial de Moçambique, leading to a growing burden of interest rate payments.

B6.17 To the extent that the problem is mostly one of government borrowing, and owing to the fact that PGBS funds have become much more predictable over time, we conclude that, on balance, PGBS funds into Mozambique have had a limited negative impact on the cost of finance available to the private sector. To the extent that GOM borrowing has gone to pay for bank recapitalisation, PGBS has probably helped to reduce the GOM’s need to rely on domestic financing to cover the financial outlay. To the extent that further crises in the banking sector could have had greater negative impacts on private sector development, the effects of PGBS can be seen to be positive, and to have led to an environment for private investment more positive than it would otherwise have been.²⁶ As already noted (¶B6.5), high levels of external assistance, including PGBS, do not appear to have stifled private sector growth through exchange rate appreciation (“Dutch disease”). On balance, the positive benefits of PGBS overall on the private sector outweigh any negative effects it may have had on the cost of finance.

Domestic revenue

The extent to which PGBS funding of public expenditure has adversely affected domestic revenue collection.			
General Situation:	Level: **	Trend: =	Confidence: ***
PGBS Influence:	Effect: Not found ⁱ	Efficiency: Not applicable*	Confidence: **

ⁱ i.e. overall adverse effect not found and “efficiency” is not applicable

B6.18 Mozambique has implemented a large overhaul of the tax system with a view to long-term fiscal sustainability (World Bank 2005b).²⁷ PARPA committed the government to raise

²⁶ It is arguable that providing PGBS funds into a state budget at the same time that a government is using budgetary funds to recapitalise former state-owned banks creates a problem of moral hazard. However, we argue that, given the limited scope of the Mozambican banking sector, the collapse of two of the largest banks, with large-scale national coverage, would have been highly detrimental to economic growth and poverty reduction prospects. Additionally, PGBS donors have tightly monitored issues around the collection of non-performing loans, and have pressed for legal action against debtors.

²⁷ A value-added tax was introduced in 1999 and is now the largest single taxation item. A large taxpayer unit was launched in 2001. A new income tax law was passed in 2002, rationalising corporate and personal income taxes, reducing the corporate tax from 35% to 32%, and broadening the tax base. A new code of fiscal incentives was approved, establishing standard concessions and transparent rules for foreign investors.

revenue from 11% of GDP in 1998 to 15.4% of GDP by 2005; revenue rose to only 12% in 2004 (revised GDP figures). In 2004 there was a worrying slackening of the revenue effort, possibly associated with the elections in that year (World Bank 2005b). Government agencies regularly charge user fees, some of which are illegal, and both legal and illegal user fees are not reported to the central authorities or accounted for in the national budget (World Bank 2003e). User fees represented about 13% of off-budget flows in 2003 (Cabral et al 2005). PGBS partners have increasingly emphasised the need to reduce illegal user charges and to make user fees transparent and legal (see Annex 4B).

B6.19 Domestic revenue mobilisation has been a pillar of PGBS dialogue and conditionality. Revenue performance is monitored as part of the Joint Review and there is a tax revenue working group. However, certain PGBS donors enjoy a longstanding relationship with the GOM in this area, which precedes PGBS. For example DFID has been funding a reform programme in customs, which was initiated in the mid-1990s. SDC and the IMF have been providing funding and technical assistance for reform of the internal tax system over the same period. The area of internal and external tax reform has remained somewhat auxiliary to (or out of the direct domain of) the G17 as a whole in comparison with public finance management reforms, for example.

B6.20 It is possible only to estimate the effect that increasing levels of PGBS funds have had on tax collection efforts. The major tax reforms that have been introduced have been implemented over the same period that PGBS has been provided. The overall high and sustained growth rates in Mozambique supported by donor aid (World Bank 2005c) have been associated with rising incomes for the poor. In turn, economic growth has been associated with higher tax revenues. The current downturn in tax revenue performance gives cause for concern, but on balance this is more likely to reflect various short-term factors than to represent a substitution of tax collection efforts by a growing volume of PGBS funds. Nonetheless, Mozambique's domestic revenue performance (tax revenue as a proportion of GDP) remains well below the sub-Saharan average of 18%. Large portions of the economy operate informally and are untaxed and future growth in revenue generation is highly dependent on maintaining broad-based growth and creating badly needed employment opportunities to generate a tax base.

Facilitating Institutional Change

The extent to which such improvement has been stable over the years and has allowed changes in institutional behaviour (private sector investment, central bank decisions, etc.).			
General Situation:	Level: **	Trend: +	Confidence: **
PGBS Influence:	Effect: **	Efficiency: ***	Confidence: **

B6.21 Many of the “first-generation” reforms associated with market liberalisation have been implemented and macroeconomic stability has been largely attained, although it is only one of the relevant factors. PGBS has arguably played an important role in supporting and facilitating the reform programme of the GOM as outlined in the PARPA. PGBS and its accompanying support to Mozambique has been a factor for stability in macroeconomic management, albeit against a background of shocks and crises (see ¶B6.4). In the short term (see ¶B6.9) the central bank has still had to make adjustments for the volatility of PGBS flows. Concerning longer-term private investment decisions, the overall business climate in Mozambique remains relatively unfavourable. In the Africa Competitiveness Report 2004 (World Economic Forum 2004), Mozambique ranked 20th out of 25 countries covered (see Chapters B5 and C2 for more on this issue).

Principal Causality Chains

B6.22 An increasing volume of resources has been made available in the form of PGBS funds subject to the national budget (Level 2 of the evaluation framework). However, this has not by itself resulted in improved fiscal discipline (Level 3). While a more favourable macroeconomic environment has been largely achieved (except for interest rates), this is more a product of monetarist policies linked to the IMF and supported by PGBS donors. PGBS has tended to be unpredictable and hence to have short-run destabilising impacts for macro-fundamentals. However, over the period, PGBS funds have become more reliable as the problem has been duly acknowledged and acted upon with a commensurate commitment to produce multi-annual agreements for PGBS. The fact that so many donors have “bought in” to the Mozambican story may send a positive message to foreign investors about the security of doing business in the country (Level 4). Thus overall, the non-financial inputs that complement PGBS funds have been at least as important as the funds themselves.

Counterfactual

B6.23 If less aid, and/or less on-budget aid, had been provided it would have been more difficult for the Mozambican authorities to achieve the same degree of fiscal and monetary stability, and the consequences for economic growth would have been unfavourable. Compared with other aid modalities (project aid and other forms of sector support), PGBS is more explicitly designed to support macroeconomic objectives. PGBS dialogue, financing and conditionality are aimed at enhancing the macroeconomic environment, whereas sector aid focuses on one area of the government's programme, and project aid focuses on a limited activity in a country. The relationship between PGBS and the IMF's PRGF reinforces the robustness of this relationship.

B7. The Effects of Partnership GBS on the Delivery of Public Services

How efficient, effective and sustainable has been the contribution of PGBS to improving government performance in public service delivery?

Introduction

B7.1 The **evaluation question** considered in this chapter is how efficient, effective and sustainable has been the contribution of PGBS to improving government performance in public service delivery. The **causality chains** to be considered are whether:

- strengthening of policies for pro-poor services and targeting (3.3) lead to appropriate sector policies (4.4) and so to more pro-poor, accountable service delivery (4.7);
- increased operational and allocative efficiency of public expenditure (3.5/3.6) leads to appropriate sector policies (4.4) and so to more pro-poor, accountable service delivery (4.7);
- increased resources allocated to service delivery (3.1) lead to more resources flowing to service delivery agencies (4.3) and so to more pro-poor, accountable service delivery (4.7).

B7.2 PGBS has existed only since 2000 and from 2001 to 2004 has annually contributed between 9% and 17% of the growing state budget, and between 9% and 19% of net official development assistance (ODA). In financial terms it is increasingly important but not overwhelming. However, we have concluded (Chapter B3) that PGBS has played a significant role in supporting the continued rapid expansion of expenditures for pro-poor service delivery since 2000, and has, in particular, made it easier for the GOM to finance the recurrent costs of public services.

B7.3 At the same time, donor engagement is still principally at sector level through projects and sector support, and earlier chapters have established that much of the influence of PGBS is indirect. The dialogue associated with PGBS is influential beyond the scale of the finances, precisely because the dialogue it has generated is not exclusively about PGBS, but covers other forms of aid and particularly sector funding. For these reasons, it is difficult to trace specific influences of PGBS at the level of service delivery and access. Nevertheless, we can draw logical inferences about the relationship between PGBS (funds, dialogue and conditions) and outcomes.

B7.4 Our analysis is based on documents, interviews at national level and in one province (Nampula), and a small survey. A brief questionnaire was sent out to provincial branches of the Grupo Moçambicano da Dívida, a national NGO which is an important member of the Poverty Observatory (see Chapter B5). The survey asked them to comment on the trends in service delivery and what explained these; the intention was to find whether the causal factors identified had anything to do with the sorts of intervention associated with PGBS. Responses were obtained from seven civil society groups from four of the eleven provinces (two in the south, two in the centre, and three in one northern province). The survey questionnaire and tabulated results are at Annex 6. It is not claimed that this survey is representative or should carry much weight in the analysis. It provided insights from the “grass roots” in a study that was otherwise bound to operate mainly through the official apparatus. It offered a counterweight of opinion that

could be explored in other interviews and specifically in the study team's visit to Nampula Province.

B7.5 For reasons of space, this chapter focuses on the health sector, but makes comparisons with education.

Relevant Facts

B7.6 The National Health Service and the National Education System are managed at the following levels: (i) the central bodies (Ministry of Health [MOH] and Ministry of Education), which have the responsibility for allocating resources to provinces, establishing norms, fixing targets and goals and inspecting; (ii) the provincial authorities, which replicate the ministries' structures and are responsible for allocating resources within the provinces, deploying staff, supervising activities, etc; (iii) services, which are provided at district level.

B7.7 The MPF annually sets allocations (in the state budget) for key sectors including education and health, while sector ministries have set ceilings for their provincial levels. The degree of detail of these allocations tends to change; in the 1990s, the MPF established a global ceiling for the MOH, which in turn proceeded to fix global ceilings for the provincial level. In the 2006 budget, the state budget established ceilings both for the central level and also for each provincial authority, but it was not clear whether this would continue to be the case. At provincial level, key sectors run their planning exercises through the provincial government planning process. In the health sector, since the 1990s there has been a participatory planning process known as the Integrated Planning Exercise. This was introduced with sector budget support as a means of strengthening provincial and district planning and managing capacities. It also aimed to increase coordination among provincial and district health authorities and with donors and NGOs. Resources are allocated at central level and the provinces undertake operational decisions, by programming activities and distributing funds within the fixed budget headings. Provinces and districts have also a limited discretionary power to reallocate funds. Parallel to this there is also the participatory planning pilot initiative (¶B4.8) started in 1997.

B7.8 The public sector provides most health (and education) services for the poor and the non-poor. Private for-profit care which was re-introduced in 1991 has a limited presence in Maputo City, but outside the capital is almost non-existent. There is also a sizeable not-for-profit network managed by missions, almost always in collaboration with government entities, and it receives most of its resources (personnel, salaries, drugs and other funds) from the public sector. Overall, the not-for-profit sub-sector provides health services in line with government-defined policies.

B7.9 In the aftermath of independence a wide range of pro-poor policies were introduced to extend social services to remote rural areas: primary health care, primary health care-oriented health professionals, pro-poor pharmaceutical policy, which comprises an essential drug programme to guarantee a continued availability of drugs at peripheral health units, and at the same time to protect them from shortages. Civil war led to a drastic collapse of service provision in rural areas. Dijkstra (2003: 53–55) indicates that the decline in social expenditure as a percentage of GDP continued until around 1994. Service output, coverage and service consumption have expanded from the mid-1990s and have continued to increase until the present.

B7.10 The main causes of improvements in the “quantity” of service provision pre-dated PGBS: post-war recovery, NGO support for local services, the redeployment of teachers and health workers back to devastated rural areas, and large increases in aid funding through projects and sector support as well as PGBS. Earlier chapters have shown that the pro-poor orientation of

government policy also is not new (World Bank and IMF 2005: 53). Indeed government since independence has claimed a pro-poor focus that may have weakened under the pressures of civil war and then, in practice but not by intention, of structural adjustment (Dijkstra 2003, Gustafsson and Disch 2001 Annex E: 11, Abrahamsson and Nilsson 1994). As shown in Chapter A3, a commitment to increasing social sector spending was a condition for the receipt of HIPC debt relief and access to enhanced HIPC (from 2000) was linked specifically to implementation of a poverty reduction plan (White 1999: 17, 28) with commitment of debt relief to “priority sectors” (Dijkstra 2003: 42). A commitment to the allocation of 67% of the budget to priority sectors, with half to education and health, was expressed as government policy in the PARPA. The PARPA itself then became the point of reference for government and all aid programmes, whether they took the form of the IMF's PRGF, the World Bank's PRSCs, project aid, basket funding and SWAps or GBS. In this broad sense, there is nothing unique about PGBS's contribution to the development of institutional capacity; it is one among other supports for service expansion and pro-poor targeting.

Assessment against Evaluation Criteria

Pro-poor Public Service Delivery

The extent to which PGBS has contributed to increasing the efficiency and effectiveness of pro-poor public service delivery and improving the access of poor people.			
General Situation:	Level: *	Trend: +	Confidence: ***
PGBS Influence:	Effect: *	Efficiency: *	Confidence: **

B7.11 Selected health indicators (Table B7.1) illustrate the pattern of growth over a period of 10 years. Growth was fastest in the 1990s when most ground was to be made up. Most of the reported growth took place in rural areas and in the least favoured provinces where there was most scope for recovery. In the period from 1993 to 1996 the key elements were: (i) re-establishment of peace, with population resettlement, (ii) massive rehabilitation of peripheral health units, mainly led by NGOs, and (iii) redistribution of health personnel, mainly from hitherto safer urban settings (provincial capitals) to the rural health units under rehabilitation. In the period between 1997 and 2000, the sector continued to expand at the same speed, thanks to substantial increases in domestic and external funding of the state and sector budgets, and project funding of staff and the rehabilitation of the health facilities. In the period 2001 to 2004 health activities continued to expand, although at a lower rate. Although PGBS cannot be said to have accelerated the expansion of health service delivery, an otherwise unsustainable post-war upward trend has been extended and consolidated through PGBS by maintaining the commitment of funding to PARPA priority sectors and assessing poverty reduction effects through the PAF. In terms of outcomes, the Joint Reviews have reported an almost continuous improvement in PRSP (and PAF) health indicators until 2005: rates of outpatient utilisation, child vaccination, and infant mortality.

B7.12 The education system has also maintained a continuous expansion, with an annual growth rate of between 9% and 11% in the number of students (since 1999) and 5 to 8% in the number of schools at primary and secondary level (since 2000). Net primary school enrolment rates reached 76% for all students and 73% for girls, thus exceeding the target levels for the eligible population in 2004 of 72% for all students and 69% for girls respectively (Governor de Moçambique 2005). But inequalities are much greater in higher-level education. The major problem in education has been one of quality, particularly because of insufficient growth in the number of trained teachers to match the expansion of the system, contributing to high rates of students repeating years and dropping out altogether (World Bank 2004b and Joint Reviews). The Ministry of Education is currently proposing to address this problem by reducing the duration of teacher training by one year.

Table B7.1: Selected Indicators of Health Service Delivery 1993–2004

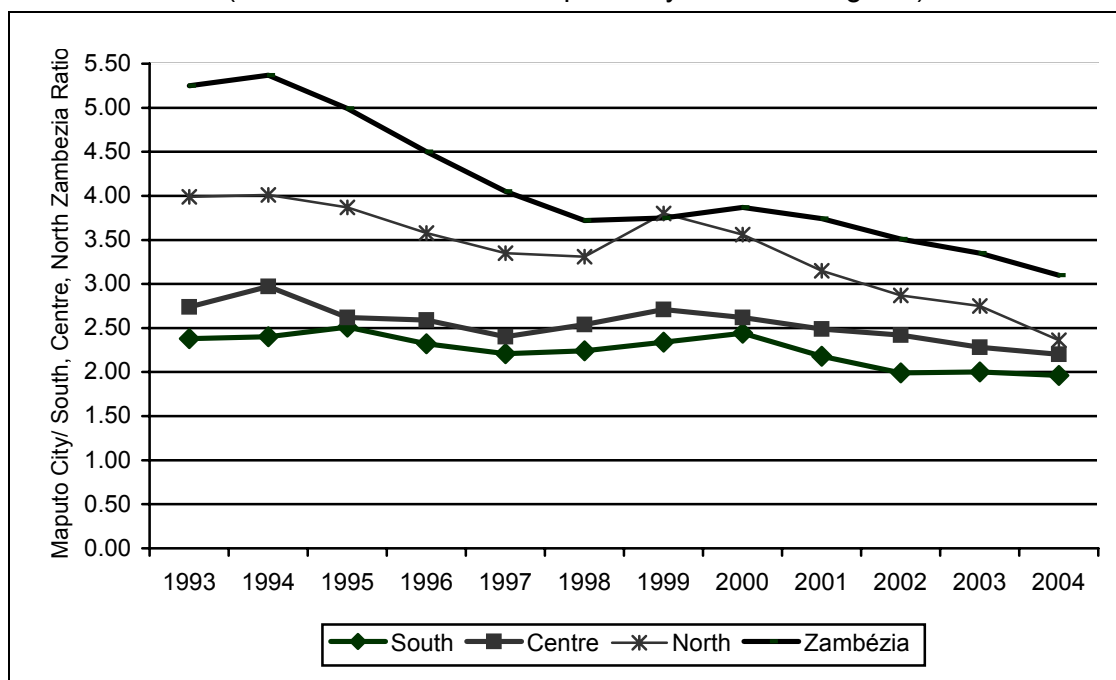
	1993–96		1997–2000		2001–04	
	Cumulative growth	Annual average growth	Cumulative growth	Annual average growth	Cumulative growth	Annual average growth
Output						
Total Service Units	21.4%	6.7%	21.2%	7.0%	8.9%	3.7%
Available infrastructure						
Total Health Facilities	20.4%	6.4%	12.7%	3.8%	7.3%	1.5%
Total Hospital Beds	9.2%	3.0%	9.3%	2.3%		0.9%
Total Health Personnel	12.8%	4.1%	8.8%	3.1%		7.0%

Sources: Ministério da Saúde, Informação Estatística (1993, 1994, 1995, 1996, 1997, 1998, 1999, 2000, 2001 and 2002 issues and Ministério da Saúde (2005)

Notes:

- (i) Compiled using data from Ministério da Saúde - Informação Sumária (various years), and Ministério da Saúde (2005).
- (ii) The indicator of **service units** is the following weighted sum: $\sum (\text{inpatient days} \times 9) + (\text{hospital deliveries} \times 12) + (\text{vaccination doses} \times 0.5) + (\text{outpatient consultations} \times 1) + (\text{Maputo Central Hospital consultations} \times 1)$.
- (iii) For hospital beds, figures are available only up to 2003; for personnel up to 2002.

Figure B7.1: Health Service Units per Capita
(ratio of units between Maputo City and other regions)



Sources: Compiled using – Ministério da Saúde, Informação Estatística (1993, 1994, 1995, 1996, 1997, 1998, 1999, 2000, 2001 and 2002 issues) and Ministério da Saúde (2005).

B7.13 Geographical inequalities in funding and service levels are very large in both health and education (Hodges and Tibana 2004: 31–32). The resource allocation distortion follows the developmental gap within the country, and has proved difficult to redress. Chapter B4 showed how national budgeting decisions are incremental and therefore tend to favour the already more favoured. As a result, accessibility and consumption of services in the central and northern provinces and the rural areas in particular tend to be much lower. Total funding (including off-budget) per capita for goods and services (excluding salaries and drugs) in the health sector in Maputo was five times larger than in Zambézia province in 2000 (Pavignani et al 2002). Service

expansion has been associated with a reduction in geographical inequalities, but they remain high. Figure B7.1 shows the inequality in total health service consumption between Maputo City and other regions in the country from 1993 to 2004: biggest reductions in inequality were observed between Maputo City (better-off) and the northern provinces and Zambézia (worse-off). Total service consumption measured in services units in Maputo in 1993 was 5.25 times higher than in Zambézia, 4.05 times in 1997, 3.87 in 2000 and 3.10 in 2004. The gap between Maputo City and the better-off southern and central provinces has been slower to close.

B7.14 Our survey through the Grupo Moçambicano da Dívida found that all seven respondent civil society organisations in southern, central and northern provinces had some role in monitoring government service provision. They reported a generally positive view of service improvements. In almost all cases, the numbers of children entering and completing the first (EP1) and second (EP2) levels of basic education, and the proportion of girls, were increasing. With slightly more reservation, they reported that the quality of basic health units was improving, and salaries of teachers and medical staff had recently (post-SISTAFE) begun to arrive on time. The main reservation expressed was in Inhambane Province where health service quality and girls' access to EP2 education were found not to have improved. Four respondents referred to the administration of justice, which they believed had not improved.

B7.15 We discussed in Chapter B3 the extent to which PGBS may be credited with financing the continued rapid expansion of pro-poor service delivery. In the present context, it is worth reiterating the warning against assuming too easily that allocation according to PARPA sectoral priorities has the intended pro-poor effects. Doubts arise from the weaknesses in the budgetary and planning process that have already been observed:

- A high proportion of public expenditure remains off-budget (about 30% in the health sector) so government cannot allocate its state budget funds in complete knowledge of how non-PGBS donor funding is being allocated.
- For similar reasons, it is not possible for government rationally to match recurrent funding (mainly on-budget) with investment funding (often off-budget and beyond government control).
- The PARPA priority areas are defined broadly by sector (health spending is “pro-poor”) regardless of the activity or social group which is supported. Within a sector such as health care, spending may be allocatively inefficient if efficiency is defined by the extent to which it really reaches poor people. For example, 42% of total recurrent funding in the health sector is estimated to be absorbed by hospitals (Pavignani et al 2002).
- Budgets are allocated on an incremental basis, favouring existing facilities, rather than planned against efficiency criteria.

B7.16 However, these are precisely the problems that PGBS addresses by attaching reforms to the funding package. In principle, PGBS, being on-budget, permits the Government of Mozambique to plan the allocation of funds rationally, according to agreed policy goals, across sectors and between capital and recurrent spending. Owing to the way that it is committed and disbursed through the Joint Review process by public agreement on the basis of multi-annual indications, PGBS also gives government a greater guarantee of long-term commitment – even if disbursements are still not wholly predictable. The dialogue and conditions associated with PGBS and the Joint Review process directly or indirectly support bringing more aid on-budget whether in the form of GBS or earmarked sector budget support. It does so both directly and by supporting SISTAFE's programme of incorporating ministerial accounts.

Capacity and Responsiveness of Service Delivery Institutions

The extent to which PGBS has contributed towards developing the sustainable capacity of service delivery institutions.			
General Situation:	Level: *	Trend: +	Confidence: **
PGBS Influence:	Effect: *	Efficiency: **	Confidence: **

B7.17 We are not aware of overt technical assistance or capacity building programmes aimed at improved service delivery that could be attributed specifically to PGBS. Such programmes have been pursued through sector support and projects, often by donors who also contribute PGBS funds, as well as by other donors and NGOs. PGBS's contribution to service delivery capacity has been more indirect, by supporting the development and implementation of systems in ways which should make the allocation of funds to services more efficient:

- supporting pro-poor policies and performance-monitoring in line ministries (Chapter B5);
- reinforcing budgetary prioritisation and allocation (Chapter B4);
- strengthening financial management systems (SISTAFE) throughout the governmental system (Chapters B3 and B4);
- pursuing the issue of low budget execution rates (Chapter B3) in the Joint Reviews and working groups;
- supporting the development of programme budgeting.

B7.18 More recently, PGBS has begun to engage more directly with planning, budgeting, and service delivery at local level. From 2005, the Joint Review gave special attention to the experiences of district level budgeting and planning supported in several provinces by donors outside the framework of PGBS, taking them as a model of local level results-based budgeting (Chapters B4 and B10).

The extent to which PGBS has contributed towards service delivery institutions becoming more responsive to beneficiaries.			
General Situation:	Level: *	Trend: +	Confidence: **
PGBS Influence:	Effect: *	Efficiency: *	Confidence: **

B7.19 Our small survey of civil society opinion in four provinces (Gaza, Inhambane, Zambézia and Cabo Delgado) asked organisations to what did they attribute the improvements in health and education services that they observed. For both education and health, they found the main cause to be the increase in the number and quality of schools and health units. In the case of education, they also mentioned the abolition of matriculation fees and the promotion of girls' rights; in health, the training and motivation of health staff. One mentioned, for both education and health, debt cancellation and the conditions introduced under HIPC. Otherwise, there was no feeling that specific aid modalities had anything to do with the improvements.

B7.20 Nevertheless, PGBS has supported general developments of institutional capacity in distinct ways. First, it is the only aid modality that supports the PARPA process as a whole by considering sectors together in the budget. Without PGBS, investment funding would be financed overwhelmingly through SWAp and project aid, focusing investment only on certain sectors. Second, it has reinforced line ministries' commitments to sector targets agreed through the budgetary process and through the Joint Review. This has not signified the development of new policies and institutional reforms at sector level. Health and education policies have been

developed with the participation of donors at sector level and laid down in other documents: Government Plan, Social and Economic Plan (PES), the Triennial Public Investment Plan (PTIP), the PARPA, the MTEF, Sector Strategic Plans linked to sector provincial plans. What the PGBS process has added is a more open and collective pressure to meet service targets and to undertake promised reforms. What is distinctive about this process is that:

- It has the force of collective agreement between government and international partners (now including the World Bank) in support of these policy priorities.
- It is influential at all levels of donor–government collaboration, whether in PGBS, sector support or, probably, in project aid too.
- It has created a framework for collective monitoring of policy implementation as well as of planning and budget allocation, with an instrument of assessment in the form of the PAF.
- PAF assessments are the basis on which donors make their disbursement commitments.

Principal Causality Chains

B7.21 PGBS's contribution to the improvement of service delivery has not been to invent new policies and targets, nor to create new programmes of capacity development. It can be seen as maintaining support for policies and targets already agreed at sector level, and has had a powerful effect in channelling expenditure through the national budget. This has enabled it to reinforce commitments by making them a matter of collective donor and government agreement, exposing them to transparent monitoring, and working to improve the link between plans, budget allocations and execution. The Mozambique case seems to demonstrate a possible causality link between PGBS and service delivery which is more about developing and sustaining systems than about making specific inputs to strengthen efficiency and capacity.

Counterfactual

B7.22 Service funding and delivery were rising (indeed, rising faster) before PGBS existed. In a country where at least 50% of public spending has been financed by aid throughout the period 1994–2004, it is unimaginable that the rapid recovery from civil war and the growth of service delivery could have been achieved without aid. Through most of this period, project aid and then basket funding at sector level were the modalities of support. Many officials at sector level, some donors and some officials of most donors would argue that sector support is the most efficient way of getting aid through to service delivery. Some fear that over-expanded GBS could put these gains at risk by breaking established lines of financing and over-stretching the capacity of the MPF. Sector support is likely to continue but it needs (as is intended by government and donors) to be brought on-budget, so that allocations under state and sector budgets can be made rationally in the knowledge of what the other is doing. The G17/government Joint Review dialogue is based on GBS but embraces sector aid, promoting coherence between them. Ultimately, PGBS offers the possibility of achieving integrated cross-sectoral prioritisation and implementation, and sustained support for the development of systems in a way that is not achievable through project-focused or sector-focused support by themselves.

B8. The Effects of Partnership GBS on Poverty Reduction

How far has PGBS strengthened government impact on poverty?

Introduction

B8.1 In this chapter, the **evaluation question** we look at is the extent to which PGBS has strengthened or is strengthening the impact of government on the different dimensions of poverty reduction. The **causality chains** to be considered are whether PGBS has contributed to:

- strengthening government systems and accountability in such a way as to lead to the empowerment and social inclusion of the poor (3.7/3.8→4.5→5.3 on the causality map);
- creating an environment more conducive to growth, leading to the reduction of income poverty (4.1→4.6→5.1);
- developing more responsive and pro-poor service delivery, leading to reductions in non-income poverty (4.7→5.2/5.3).

Relevant Facts

Poverty Reduction Strategy

B8.2 Large-scale poverty reduction is a long-term and complex process in countries such as Mozambique which are starting from an extremely low income threshold. Poverty in Mozambique is compounded by a number of issues: for example, the majority of the population is occupied in subsistence agriculture, human resource capacity is extremely low, mortality is high, and the threat of economic shocks is continuous. The main poverty reduction policy in Mozambique since 2000 is the GOM's PARPA. PGBS is the only aid modality that directly provides financial support for the implementation of this strategy by the government itself (as opposed to specific sectors of government). PGBS dialogue has also contributed to the evolving structure and quality of the poverty reduction approach, since it focuses on:

- reforming PFM, which should improve the “value for money” of public spending;
- improving domestic accountability;
- maintaining high levels of revenue and aid for social sector spending with a view to achieving rapid and large-scale poverty reduction through increased social service delivery.

B8.3 The donor partners now share with government a Performance Assessment Framework (PAF), which assesses progress against poverty indicators. The results achieved in terms of increases in service delivery (school enrolment, access to health services, water, roads and agricultural services) can be partially attributed to PGBS since corresponding targets and monitoring indicators are part of the PAF. Increased service access constitutes a reduction in non-income poverty. PGBS has also improved coordination of donors' conditionalities through the 2004 MOU and the PAF, focusing them on, among other things, “GOM's commitment to fight poverty (with reference to the Millennium Development Goals and PARPA)”.

B8.4 On the other hand the PARPA, as discussed in previous chapters, has done little to address a number of serious issues that affect poverty and its potential reduction over time. It

does not attempt to redress historical territorial inequalities or to create the conditions necessary for large-scale rural employment opportunities, which will be crucial for future rural income poverty reduction.

Non-income Poverty

B8.5 Socio-economic indicators show a reduction of non-income poverty. In education the net primary (grade 1–5) enrolment rate stood at 75.6% in 2004 compared with 67.9% and 50.5% in 2003 and 2000 respectively. In health, the infant mortality rate decreased from 147 per 1,000 live births in 1997 to 124 in 2003 (Table A2.1). However, the HIV/AIDS prevalence rate is very high and increasing rapidly; it rose from 8.2% of adults (15–49 years of age) in 1998 to 14.9% in 2004. By 2010, it is forecast that life expectancy will be 14 years less than it would have been without AIDS (36 years versus 50) (World Bank 2004b).

B8.6 Table B8.1 gives an overview of Millennium Development Goals (MDGs) and the likelihood of achieving them. Notwithstanding the impressive results, several of the targets are quite ambitious and unlikely to be met. The targets for poverty eradication, gender equality in education, maternal health, and access to safe water in rural areas are likely to be met. Those relating to universal primary education, child mortality and malaria control are unlikely to be met, on the basis of current trends.

Income Poverty

B8.7 The National Household Surveys (IAFs), undertaken in 1996/97 and 2002/03, show a spectacular fall in the incidence of poverty as measured by consumption, from 69% to 54% of the total population (Table B8.3). This represents an extraordinary reduction in six years. Households between the 5th and 95th percentiles increased consumption by an average of 4% a year. As a result, the poverty reduction target as set out in the PARPA²⁸ has easily been reached. The greater than 15 percentage point reduction in poverty (based on a flexible bundle approach – Table B8.2) during the six-year period is very impressive, especially compared with other countries in Sub-Saharan Africa.

B8.8 Poverty reduction has been greater in rural than in urban areas (Table B8.3). Between 1996 and 2003 poverty fell by 10.5 percentage points in urban areas versus 16 percentage points in the rural areas. Nevertheless, the reduction in poverty in the urban areas is still remarkable over such a short period, and the difference between the urban and rural areas, in terms of percentage of the population living below the poverty line, was sharply reduced.

B8.9 Against this positive trend in poverty reduction, however, one should note that at the national level, inequality increased slightly, as shown by an increase in the Gini coefficient from 0.40 to 0.42 during the years between the two household surveys. The biggest increase in inequality, as measured by the Gini coefficient, was in Maputo. Inequality in the North and Central regions of the country was absolutely lower and increased by a smaller amount, as compared with the increase in inequality in the South, and in Maputo.²⁹

²⁸ The poverty objective of the PARPA is to reduce the incidence of absolute poverty from 70% in 1997 to less than 60% by 2005 and less than 50% by the end of this decade.

²⁹ Given that rapid economic growth is frequently associated with an increase in inequality for an extended period, before it eventually declines, Mozambique's Gini coefficient, especially for the North and Central regions of the country, appears rather better than might have been expected by the literature.

Table B8.1: Overview of MDGs

MDG	Target	Indicator	Comments
Goal 1. Eradicate extreme poverty and hunger	2015 target = proportion of people living in extreme poverty halved over 1990	From about 69% to 33.5%	IAF (Household Survey) 2002–03 results indicate that the goal is likely to be met.
	2015 target = proportion of people who suffer from hunger halved over 1990	*	Unlikely to be met.
Goal 2. Achieve universal primary education	2015 target = net enrolment to 100%	From 46.8% to 100%	Unlikely to be met. Despite the efforts and growth in admission rates challenges remain (especially in terms of EP2).
Goal 3. Promote gender equality	2015 target = education ratio to 100% (primary education by 2005)	From 72.9% to 100%	Likely to be achieved for primary education if the trends are maintained. In terms of EP2 the performance is still very low.
Goal 4. Reduce child mortality	2015 target = reduce under-5 mortality by two-thirds	From 240(200)/1,000 to 160(67)/1,000	The under-5 mortality rate In 2002: 198/1,000. Unlikely to be achieved.
Goal 5. Improve maternal health	2015 target = reduce maternal mortality by three-quarters	From 1083/100,000 to 271/100,000	The PARPA target for intra-hospital maternal mortality (from 175/100,000 in 2000 to 160 /100,000 2005) is likely to be achieved.
Goal 6. Combat HIV/AIDS and other diseases	2015 target = halt and reverse the spread of HIV/AIDS	*)	A National Plan for Fighting HIV/AIDS is being implemented. It is too early to indicate its impact.
	2015 target = halt and reverse the incidence of other diseases	*)	In 2003: 4,478,215 malaria cases and 3,212 deaths. Malaria goal unlikely to be achieved.
Goal 7. Ensure environment sustainability	Integrate the principles of sustainable development into country policies and programmes and reduce the loss of environmental resources	-	Political commitment exists. In 2001 Commission for Sustainable Development created to deal with this goal.
	Access to safe water Target 2015 = halve the proportion of people without safe drinking water	From 35% to 67% (urban) From 25% to 62.5% (rural)	In the urban areas the rate of increase is lower than in urban areas (partly owing to migration). New urban and sanitation projects are expected to bring about improvements.
Goal 8. Develop a Global Partnership for Development	Strategies for productive work for youth	-	
	Access to affordable essential drugs	-	
	Available new technologies	-	

Source: authors' compilation from various sources (<http://www.undp.org/mdg/countryreports.html>).

Note: *): for some goals there exists no reliable (or contradictory) information for quantitative indicators in 1990, a fact that makes it difficult to estimate the target for 2015 MDGs.

Table B8.2: Change in poverty measures between IAF 1996–97 and IAF 2002–03

	Poverty Headcount		Poverty Gap	
	Fixed Bundle Approach	Flexible Bundle Approach	Fixed Bundle Approach	Flexible Bundle Approach
Niassa	-9.4	-18.5	-8.3	-14.3
Cabo Delgado	14.9	5.8	8.3	1.8
Nampula	-0.8	-16.3	0.5	-9.1
Zambezia	-9.5	-23.5	-4.9	-12.0
Tete	-10.7	-22.5	-4.8	-12.7
Manica	-2.4	-19.0	2.1	-7.4
Sofala	-39.5	-51.8	-32.6	-38.5
Inhambane	-2.5	-1.9	2.7	3.6
Gaza	-6.0	-4.5	-3.3	-2.4
Maputo Province	1.3	3.7	1.1	3.3
Maputo City	-2.3	5.8	-0.3	4.4

Source: MPF 2004

Table B8.3: Poverty reduction in urban and rural areas

	Poverty Headcount		Poverty Gap	
	1996/7	2002/3	1996/7	2002/3
National	69.4	54.1	29.3	20.5
Urban	62.0	51.5	26.7	19.7
Rural	71.3	55.3	29.9	20.9

Source: MPF 2004.

Sources of poverty reduction

B8.10 Taking into consideration the results of the IAF (Household Survey) 2002/03 and preliminary results of regression analysis based on these data, the reduction of rural as well as urban poverty can be attributed to economic growth, improved education levels and improved access to roads and public transport (Arndt 2004).

Assessment against Evaluation Criteria

Basic Services for the Poor

The extent to which PGBS (allowing for the time lags of its operations) has strengthened – or is strengthening – the impact of government on the different dimensions of poverty reduction, including:

(a) the use of health, education and other basic services by poor groups.

General Situation:	Level: **	Trend: +	Confidence: **
PGBS Influence:	Effect: *	Efficiency: **	Confidence: **

B8.11 PGBS is given on the basis that the recipient government has an established prioritised strategy (the PARPA in Mozambique) to increase spending levels with the overarching objective of engendering pro-poor GDP growth and reductions in poverty. PGBS funds have served to increase the proportion of funds subject to the national budget and to this extent have helped to finance the extension of services in all the PARPA priority sectors. Policy dialogue and conditionality are highly focused on key public policy and public expenditure issues and priorities, which reinforce the GOM's commitment to maintaining high levels of funding to the social sectors.

B8.12 Chapter B7 showed that health and education indicators had consistently improved, but from a very low base, since 1994. The rate of expansion of services was higher in the earlier period (pre-PGBS) when recovery from the war-time situation was most rapid. Chapter B7 concluded that PGBS had made a modest positive contribution to the improvement of service delivery, principally by maintaining the commitment to increasing social expenditure and supporting for policies and targets already agreed at sector level. Redirecting funding through the national budget has helped to reinforce service delivery commitments by making them a matter of collective donor and government agreement, exposing them to transparent monitoring, and working to improve the link between plans, budget allocations and execution.

B8.13 We have rated PGBS's effect as low because, while it has contributed positively to broader processes affecting service delivery and take-up, there have clearly been other more important factors in improving service use.

Income Poverty

The extent to which PGBS (allowing for the time lags of its operations) has strengthened – or is strengthening – the impact of government on the different dimensions of poverty reduction, including:

(b) the improvement of the macroeconomic environment, leading to increased incomes and economic opportunities for the poor.

General Situation:	Level: **	Trend: +	Confidence: ***
GBS Influence:	Effect: *	Efficiency: **	Confidence: *

General

B8.14 Mozambique has achieved high and sustained rates of growth for more than a decade; recent literature and empirical studies provide a strong consensus that growth reduces poverty (Dollar and Kraay 2000; Foster and Szélely 2001).³⁰ As discussed in Chapter B6, from the outset PGBS has been linked to the PRGF and its goal of attaining macroeconomic stability, which has largely been achieved. Macro-stability helps to create a growth-enhancing environment, but is by no means a sufficient condition for sustained growth. The PGBS dialogue has included key policy issues such as maintaining high levels of funding to social sectors, which have contributed to reducing poverty in Mozambique.

B8.15 A virtuous circle may be inferred: the expansion of the state budget due to economic growth, rising tax revenue and budget support has allowed government to increase the level of spending which, owing to the multiplier effect, is likely to represent a significant contribution to the growth of GDP (see Chapters B3 and B6). The overall high and sustained growth rates in Mozambique have been associated with rising incomes for the poor. In turn, economic growth has been associated with higher tax revenues. Over the period 2000–04, tax revenues grew faster than the overall state budget, although at a lower rate than had been planned (see ¶B3.2 and ¶B6.16). Together with these other sources of sustained budget growth, PGBS also has contributed to the expansion of the domestically financed investment budget, which can have impacts on the productive sectors and on employment generation. Together they have also sustained the expansion of recurrent expenditure – the salaries of public servants and current

³⁰ Productivity growth has been found to account for changes in poverty better than the more commonly used general indicator of GDP growth. This suggests that developing countries, in attempting to reach their poverty reduction objectives, should pursue policies that foster productivity increases. This does not diminish the importance of governments providing a social safety net to ensure that adjustment costs, associated with productivity gains, do not fall disproportionately on the poor and that all members of society realise the gains of enhanced growth.

spending on priority sectors – which should improve the productivity and well-being of citizens, including the poor.

B8.16 Agriculture: findings from the 2002/03 household survey suggest that agriculture has benefited from good weather (post-2000 floods) and probably also from improvements in rural infrastructure, and from growth of urban markets for agricultural products. It is likely that increased GOM spending with contributions from PGBS and also the agricultural SWAp (PROAGRI) have enlarged the opportunities for rural people to earn income, through formal and informal employment generation, the sale of agricultural goods, and the sale of other goods and services to teachers, health workers and construction workers. There is no definitive evidence for these findings, but income poverty has certainly declined in rural areas. The agricultural sector was subject to a major reform under PROAGRI which preceded PGBS. PGBS and the Joint Review process cannot claim to have initiated or strongly influenced reforms in the agricultural sector. Rather the Joint Review has monitored progress in service provision, land titling, and access to markets and credit, and pressed for improvements in project management and budget execution and for the development of the new sector strategy.

B8.17 Roads: Improved access to roads has been shown to have an important impact on poverty reduction (MPF 2004). Roads received roughly 7% of executed total public expenditure in 2003, including the financial contributions of PGBS and the roads basket fund. The main objective in this sector has been to ease farmers' access to national markets. Substantial improvements have been achieved in recent years.

B8.18 We have rated PGBS's contribution as low because, although it has contributed positively to broader processes affecting the economic environment and poverty reduction, it is not a primary factor.

Empowerment

The extent to which PGBS (allowing for the time lags of its operations) has strengthened – or is strengthening – the impact of government on the different dimensions of poverty reduction, including:

(c) the empowerment of poor people because of improvements in the accountability of government, greater participation in processes of decision-making, or improvements in the administration of justice.

General Situation:	Level: *	Trend: +	Confidence: **
PGBS Influence:	Effect:*	Efficiency: **	Confidence: **

B8.19 Waste, ineffective control of public expenditure and de-linked project aid have been major factors behind the poor performance of public services in Mozambique. PGBS as well as being fully on-budget and linked to GOM's policy instruments uses dialogue to put a strong focus on the monitoring and accountability of public finance management. The GOM is committed to developing measures to address these issues in line with donor support (Chapters B3 and B4). However, public accountability and the parliamentary scrutiny of the budget remain weak. Success in this area will depend on donors' commitment to move more of their funding on-budget, so that GOM systems will not be by-passed and the budget becomes more comprehensive and more open to public scrutiny. Chapter B4 found that there were developments in this direction. Chapter B5 found that policy formulation was becoming more open and cross-sectoral with PGBS donors actively supporting the GOM.

B8.20 Mozambique is currently developing its PARPA II and the strategy is expected to be grounded in more specific understanding of the nature and causes of poverty and of the links between public actions and the many dimensions of poverty than was achieved in PARPA I. The

government intends to undertake wider consultation than in the development of the first PARPA. Broader consultation is expected to help build a stronger sense of ownership of the country's strategy.

B8.21 The Poverty Observatory has been created as a forum for discussion between GOM, donors and civil society on the implementation of PARPA. It meets once a year and provides a forum to voice the opinions and concerns of civil society. The Observatory was originally created as a monitoring organ, but has also undertaken its own poverty analysis and now brings into the Joint Review process its own policy ideas. To give weight to its perspective, 20 civil society members of the Observatory undertook their own survey of poverty reduction issues, looking in particular at how poverty is perceived by the population (Group of 20, 2004). The Observatory is also to be involved in the development of II, which will employ many of the same working groups for donor–government and civil society–government dialogue as were created for the Joint Review. Chapter B5 noted the importance of this development but also expressed some doubts about the range of “civil society” which it represents and how fully it has been engaged in policy dialogue.

B8.22 The administration of justice is an area of poor performance and weak reform. This was described in Chapters B5 and B7. Questions of human rights, corruption and the effects of gender on access to justice are addressed in Chapters C1 and C5 (cross-cutting issues). The provincial NGOs we surveyed (Annex 6) reported that there had been improvements in health and education but not in access to justice. National surveys undertaken by another NGO, *Ética*, showed a widespread public perception of poor performance and corruption in the police, prosecution service and courts (World Bank 2004c). While Mozambicans have strong legally embedded human rights, the practice is often different.

B8.23 The government has recently pursued a series of reforms strongly supported by donors. A few bilateral donors have been particularly committed to reform of the administration of justice, but it seems that progress has been slow. PGBS has added impetus by raising the issue, monitoring through the PAF, and pressing for progress in the context of the Joint Review. A Coordinating Council for Legality and Justice has been set up with donor funding to provide a mechanism through which reform in the sector as a whole can be negotiated. An anti-corruption law was passed in 2004, a study of corruption was due to be published in 2004 but postponed to 2005, a Family Law granting greater protection and rights to women and children was promulgated in 2004, a strategy for legal and judicial sector reform and another for police reform have been developed, new training/education programmes for legal personnel have been mounted, and a system for monitoring progress has been instituted. However, it seems unlikely that these will yet have produced much improvement that is visible to citizens.

B8.24 We have rated PGBS's contribution as “weak” because, although it has contributed positively to broader processes affecting empowerment, the overall effects seem marginal.

Principal Causality Chains

B8.25 It is not possible to isolate or to quantify the effects of PGBS on poverty reduction. Many other factors intervene, poverty reduction has long been the focus of the GOM, and, at the aggregate level, expenditure on priority areas has not altered. PGBS, however, has resulted in better alignment of external support with the GOM's objectives under PARPA. With regard to all the causality chains highlighted at the beginning of the chapter, we can say that PGBS is contributing towards the outputs and outcomes at Levels 3 and 4, but that its impacts at Level 5 cannot be quantified.

Counterfactual

B8.26 PGBS has provided roughly USD 240m in 2004, which is a sizeable amount of unearmarked aid going into the state budget. The multiplier effects arising from this spending must be a significant contributor to the growth of GDP. Non-GBS forms of aid have also contributed to economic growth which, as argued, has important implications for poverty reduction. Project finance pays particularly for capital costs and construction; in some cases donors pay only the import costs. PGBS, on the other hand, contributes to the full range of government spending, including recurrent costs, which consist mainly of salaries and the purchase of goods and services with a higher local content. Moreover, the extension of health and education to remote rural areas, and the building of rural roads, create income and spending in rural areas and further opportunities for poor and remote people. Donors in Mozambique have also shifted from project finance to SWAps, and this is likely to continue. We judge that PGBS has been a useful complement to efforts at poverty reduction through other aid modalities, and that its effects would not have been achieved solely through other modalities.

B9. The Sustainability of Partnership GBS

Is the PGBS process itself sustainable?

Introduction

B9.1 The **evaluation** question this chapter addresses is whether Partnership GBS is itself sustainable. The **causality chain** to be explored is whether there are “feedback loops” and learning processes that would allow the partnership to adjust to changing realities, experience and results. This chapter first reviews the learning systems that exist (or not) in the design of PGBS, the arrangements for harmonisation and alignment, and the experience of implementation. It then assesses the case according to the evaluation criteria set out in the Inception Report (Annex K).

Relevant Facts

B9.2 The first point is that PGBS is a product of learning. It emerged out of 20 years of experience of aid in Mozambique, and was seen by the donors who first designed it in 1998/99 as a more effective successor to other forms of programme aid. They built on previous experience of coordinating import support and food aid, and on a longstanding relationship with government. Structural adjustment, economic growth and debt relief had created conditions for the development of a national budget which could now be directly supported. With a joint approach to budget support, they intended to reduce the administrative burdens on government by agreeing on common conditions and approaches. The development of PGBS coincided with IMF's shift from Enhanced Structural Adjustment Facility (ESAF) to Poverty Reduction and Growth Facility (PRGF) conditions for loans, allowing an alignment of PGBS with the IMF's macroeconomic assessments. The Government of Mozambique's preparation of the PARPA provided the poverty reduction strategy on which PGBS, PRGF and the World Bank's PRSC could all be based.

B9.3 PGBS has not been a vehicle for an expansion of the total volume of aid, except for some individual donors (particularly the UK's Department for International Development [DFID]). Official assistance has oscillated around USD 1 billion per annum since 1992. However, PGBS did mark a shift from the predominance of multilateral support to bilateral support in terms at least of the volume of funding. Bilateral donors took a (if not “the”) new lead in the aid relationship. In 2005, the World Bank itself joined with the partner donors and government in their shared conditionality. The point should not be over-stated: it is still the IMF that leads on macroeconomic management, and many of the World Bank's conditions (for example on banking reform) have been adopted by PGBS.

B9.4 PGBS in Mozambique also marked a shift between aid modalities: from project and sector basket support. However, the Joint Programme was never exclusively about GBS but an array of instruments. From the outset, it was concerned with “programme aid”, including balance of payments support and sector support, although the basic condition of membership was that partners contributed to PGBS, and this has been the principal focus. It also includes in its membership donors (e.g. Portugal and France) that mainly give project aid, and observers (Japan and USA) that give project aid and other forms of non-general budget support. Donors with different mixes of aid modalities can participate, gain experience and decide their future aid modality mixture. For five donors (Belgium, EC, Italy, *Netherlands*, *Switzerland* and UK) PGBS accounted for more than 30% of aid in 2004. Several had a much bigger commitment to sector support and they were likely to retain this balance: Canada, *Denmark*, Finland, *France*,

Germany, Ireland, Norway and Sweden. Several donors (those in italics) have a strong focus on supporting particular provinces.

B9.5 This mixture has positive and negative effects in terms of sustainability. Positively, it allows flexibility and differentiated judgements about which form of aid is most appropriate; and within the Joint Review process, it brings strong sector and local experience into debates that might otherwise focus too much on macrofinancial and economic management. Negatively, it means that PGBS is just one more aid modality that government has to accommodate: almost all the donors that give budget support also continue to give off-budget project aid (while also urging government to budget transparently!). However, against the negative view, the Joint Review process (because its discussions cover all forms of aid) helps to harmonise aid modalities on a common set of priorities and assessments of performance based on those of the PARPA.

B9.6 The Joint Programme has built into its organisation and procedures various instruments of learning that were described in Chapters A3 and B1. A set of policy-related working groups review government's and donors' commitments and performance. The annual Joint Reviews assess government's (and now also donors') performance against targets as a basis for decision about future commitments; a mid-year Review contributes to planning and budgeting for the forthcoming year. Formal "learning assessments" have periodically been undertaken by individual donors or, in 2004 and 2005, by donors and government collectively. The Joint Programme also showed a capacity to react to the 2000/01 financial crisis and the consequent withholding of disbursements. These provoked a demand by government for transparency of conditions and the response was the new MOU and the Performance Assessment Framework (PAF).

B9.7 The Joint Programme with PGBS at its core has constructed an elaborate system of donor–government collaboration with an organisational and leadership structure that has proved capable of managing an expanded membership and range of issues. It has melded previously separate donor conditions and processes into a formally stated set of agreed principles and conditions. Different practices between donors continue but, under pressure, are continually becoming more harmonised; donors are at least considering whether they can share missions and focus their attention more rationally on specific sectors (Killick et al 2005). One could question whether the arrangement risks becoming too sustainable or permanent, almost as if donors had become part of government. Nevertheless, there are also risks to sustainability in the comprehensive and elaborate nature of the Joint Programme. The continuous expansion of donor membership to include donors who make a small contribution to PGBS risks the introduction of tensions and organisational problems; on the other hand, we argued earlier (Chapter B1) that it could also enable donor learning. Harmonisation on common principles and conditions can also suppress donors' separate opinions to a level they find unacceptable. While they are free to decide each year how much they will commit for the following year, and can adopt tranche mechanisms to give a modulated response (as Switzerland and EC) against specific conditions, they currently make a common judgement about the government's performance against those conditions. Harding and Gerster (2004) have suggested the possibility of donors making separate judgements, but this would re-open uncertainty for government.

B9.8 The risks to government are, on the one hand, of uncertainty if donors use different criteria or make different judgements and, on the other, of vulnerability to unified donor action to withhold aid. We suggested in Chapter B2 that the threat to government of unified suspension was so great that, as PGBS grows, it becomes increasingly unlikely that donors will be prepared to take such action. We would judge that donors and government are, therefore, locked together! However, risks remain for the GOM in terms of delayed disbursements, which can have substantial macroeconomic impacts.

B9.9 Harmonisation and alignment come together inasmuch as donors' align on government systems. This appears to be increasingly the case in Mozambique. The Joint Programme is oriented to PARPA priorities, the government's economic and social plan (PES) as the operational plan, the PES progress report to parliament, and a set of agreed performance targets (the PAF) derived from government priorities. The Joint Review process and, progressively, the sector review process are timed to coincide with the budgetary cycle. Donors are increasingly making their disbursements more predictable. PGBS is therefore contributing increasing resources aligned with government's own systems and strategies, and is, in that sense, helping to build sustainable national institutions. The main sustainability question is whether national capacity and institutions are actually developing or being overwhelmed by PGBS.

B9.10 The budget, planning and accounting systems on which donors are aligning are weak. Mozambique is a country with a high level of fiduciary risk, owing more to the weakness of its public finance management (PFM) system than to deliberate corruption or gross misuse of funds. There are serious and justified concerns over the effectiveness of unearmarked aid flows entering a budget that is incremental in nature, de-linked from costed outcomes, exhibits little improvement in operational efficiency over time, depends on vulnerable and non-transparent procurement practices, and remains an ineffectual indicator of how money is spent and allocated. Joint Reviews annually identify such failures in governance and PFM, as well as slow progress in legal and judicial reform. However, Chapters B3 and B4 identified a number of signs that the situation is improving: increased domestic revenue mobilisation, customs reform, improved internal and external audit, the introduction of improved financial accounting and control systems, efforts to bring more aid on-budget, and improved dialogue between the MPF and sector ministries about budget priorities. PGBS has contributed to these reforms, which are targets of the PAF, and has supported the government's continued budgetary commitment to its social sector priority areas.

B9.11 Limits of organisational and human resource capacity remain important threats to the sustainability of PGBS on the government side. They affect government's ability to engage in dialogue with donors, to undertake reforms and to execute budgets. They also affect parliament's scope for scrutiny and contributing to the "feedback loop" back into policy-making. These points are developed further in Chapter B10.

Assessment against Evaluation Criteria

Shared Learning between Government and Donors

The extent to which PGBS allows a shared learning process between government and IPs with flexible mechanisms for adjusting to experience (including adjustment to maximise the complementarities among different forms of aid).

Level: ***	Trend: =	Confidence: ***
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B9.12 The previous section has identified numerous mechanisms of shared learning offering the opportunity of feedback at different points in the causality chain, for example:

- Level 1 (inputs) back to Level 0 (entry conditions): the original design of PGBS was based on experience and assessment of entry conditions. It evolved in response to government demand for fuller recognition of its concerns.
- Levels 1, 2 (immediate effects) and 3 (outputs) back to Level 0: inclusion of a large variety of donors with commitment to other aid modalities (project, sector and provincial support) brings real-life conditions into a PGBS debate that could otherwise focus too much on mechanics and macro-issues.

- Levels 2 and 3 back to Level 1: commissioned learning assessments of government performance (through the Joint Review) and of donor performance (through the donor accountability framework) have exposed the PGBS organisation and inputs to formal review
- Levels 2, 3, and 4 (outcomes) back to Level 1: the joint working groups and Joint Review force recognition by donors of government's policies and procedures, and expose government and donors to review the effectiveness of PGBS inputs.
- Levels 3 (outputs), 4 (outcomes) and 5 (impacts) back to Levels 2, 1 and 0: the joint application of PAF produces shared learning about the effectiveness of PGBS in reforming systems and producing outcomes and impacts.

B9.13 The inclusive nature of the Joint Programme brings into the debate awareness of the possibility that alternative aid modalities present complementary advantages. However, we would suggest that there have been some limitations on the degree to which opportunities for learning have been seized:

- Although donors and government measure performance against the PAF output, outcome and effect indicators, so far as we know, they do not consider the mechanisms by which PGBS specifically can support government in achieving these targets.
- More generally, it seems that different aid modalities are tolerated or understood rather than being compared for their respective advantages and the proportion of funds that might be allocated through each. The decision under the Joint Review 2005 that government would develop an aid policy may open up this issue.
- Accountability to domestic stakeholders (parliament and civil society) is recognised by donors and government to be important, including as an instrument for policy feedback. Steps have been taken to strengthen both, but they remain weak (Chapter B4).

Comprehensive and Effective Review and Adjustment

The extent to which such a process encompasses all the three main flows of PGBS (funds, institutions and policies) with adjustments related to actual results at all stages in the chains of causality (from quality of inputs to overall poverty impact).

Level: ***

Trend: +

Confidence: ***

B9.14 An increasing volume of resources has been made available in the form of PGBS funds subject to the national budget. It has become a significant but not dominant proportion of all official aid (3% in 2000, 9% in 2001, 4% in 2002, 15% in 2003 and 24% in 2004) and the total state budget (3%, 9%, 10%, 13% and 17%). It is not a big enough proportion of gross national income (GNI) (maximum 6%) on its own to have a significant positive impact on the macroeconomy. Indeed, in periods where PGBS has been unpredictable, untimely, over- or under-executed, it has contributed to defensive responses by the government and the central bank, leading to real but limited negative short-term impacts on macro indicators (Chapter B6). However, the level of PGBS funding has been significant enough to have a greater effect through the dialogue it has engendered. It has “leveraged” greater influence because it is linked to (i) IMF with its influence on the government's macro strategy, and (ii) all other aid owing to the fact that the Joint Review process has been the encompassing framework in which all aid and the entire government budget are discussed.

B9.15 As indicated in the “relevant facts” section, institutional effects run through the levels of analysis identified in ¶B9.12:

- the development and evolution of the joint approach to programme aid;
- the response to crisis in its reformulation to respond to the government's requirements for greater predictability;
- the drive to harmonise aid practices and align them with government systems;
- the response to learning assessments about the functioning and effects of PGBS;
- the development of organisational arrangements to accommodate wider membership and broader agendas;
- the development of systems of performance assessment that drive the reform agenda and have the potential to develop feedback from national accountability.

Institutional reforms have been a strong focus of PGBS, but institutional and capacity weaknesses have also been a serious constraint on their implementation.

B9.16 PGBS focused on financial management and institutional reforms in its earlier years, although these were all ultimately targeted on poverty reduction. As described in Chapter B5, one response to demands by government for greater predictability was to develop performance indicators that implicated sector ministries and donor officials more strongly in the assessment of performance and therefore the organisation of the Joint Review. Development of the financial sector had always been important, but this expanding agenda brought more direct concern with the promotion of business and agriculture, employment generation, cross-cutting issues and the delivery of services. On the whole, it engaged more with the business of monitoring and pressing for improved policy outcomes than with making policy. However, in certain previously insulated sectors (particularly the judiciary and external audit) it became the principal source of pressure for institutional and policy reform.

Feedback to Stakeholders

The extent to which the process provides appropriate and timely feedback to all stakeholders so as to ensure the continuity and durability of PGBS.

Level: **

Trend: +

Confidence: ***

B9.17 The learning processes we have described do not exist in order to ensure the continuity and durability of PGBS. Indeed, we would judge it a mistake to see their value in those terms. However, they have made the Joint Programme a resilient model in terms of the robustness of its organisation, its capacity to include an expanding membership, and its increasing alignment on government systems, reform priorities and policy concerns. In terms of stakeholder inclusion, it has successfully attracted an increasing number of PGBS contributors. It has also been open to the participation of donors that are principally involved in other aid modalities, and to observers that do not give PGBS at all but that nevertheless participate in the review process and working groups. The USA currently chairs the private-sector working group. In the last two years, the Joint Programme has also engaged more fully with sector ministries and created forums for discussion and mainstreaming of cross-cutting issues (gender, HIV/AIDS and environment). From 2006, it is likely that provincial government representatives will be involved in the Joint Review process.

B9.18 “Civil society representatives” have become involved through the Poverty Observatory. Their participation seems to us to be on the terms set by government, but the independence of their voice and the depth of their engagement seem to be growing (see Chapter B5). They

complained in interviews that in 2004 and 2005 they were brought into the review process and the working groups late and in a token way, except for the gender working group which involved them substantially, perhaps because of its own commitment to mainstreaming gender issues. Parliament has its own reservations about being co-opted into policy formulation by being invited to directly participate in the Joint Review and in the reformulation of the PARPA, preferring to retain an independent scrutiny role. Given the essential role that domestic accountability (substituting for accountability to donors) plays in the PGBS model, this is an area that requires more attention in Mozambique.

Principal Causality Chains

B9.19 Effective feedback loops have been demonstrated to exist. The main limitations are:

- The Joint Review process measures government against targets but could also consider how best to support it in achieving them.
- Donors' proximity to the core processes of government made it clear to them that governmental systems were not adequate to deliver the poverty reduction strategy. Much of the effort of PGBS has therefore focused on building the processes of government, and particularly public finance management. It is more realistic, therefore, to expect shorter feedback loops, i.e. to look for learning from the effects on government systems rather than outputs and outcomes.
- The comparative advantages of different aid modalities could be considered more systematically by government and donors.
- Domestic accountability should be the key feedback mechanism but is so far weakly developed.

Counterfactual

B9.20 It is possible that a “no aid” counterfactual would lead to greater domestic accountability or to its not being outweighed by accountability to donors. In the Mozambican context, this is unimaginable; the choice is between aid modalities. The mechanisms of accountability and feedback developed by donors with government seem not to have been exclusive but to have drawn in other government and non-governmental actors, and to have developed instruments that are available to domestic stakeholders. PGBS was developed by donors, then government, because other forms of aid were too fragmented to allow lesson-learning between donors and to encourage the development of national systems. The open Joint Review process offers unique opportunities to develop lesson-learning across aid modalities and sectors. Sector-based approaches may create a tighter lesson-learning relationship between specialists, but this is not displaced by the model of PGBS developed in Mozambique.

PART C: CROSS-CUTTING ISSUES

C1. Cross-Cutting Policy Issues

Introduction: Distinguishing the Role of PGBS

C1.1 Certain cross-cutting issues (CCIs) were intrinsic to PGBS from its inception – those that dealt with issues of aid burdens, governance and financial management: transaction costs, fiduciary risk and corruption, ownership and conditionality, accountability, government capacity building, public–private balance, and decentralisation. These were addressed by PGBS precisely because they were found to have been either undermined or not dealt with by project aid, structural adjustment, and uncoordinated programmes of balance of payments support. However, the policy-related CCIs – gender, environment, HIV/AIDS and human rights – were not initially addressed by PGBS, except inasmuch as they were concerns of the government's poverty reduction strategy which PGBS was intended to support. These policy CCIs remained almost exclusively matters for project aid and sector -level programmes, until 2004 when the new agreement between the Government of Mozambique and the Programme Aid Partners extended the concerns of PGBS. The IMF's PRGF and the World Bank's economic management reform programme (until 2003), have not addressed the policy CCIs except inasmuch as the IMF and Bank are also committed to supporting the poverty reduction strategy.

Gender

C1.2 In terms of women's formal rights and representation in public life, Mozambique has been an advanced case since before independence. The principle of equality between women and men was defended by FRELIMO during the armed struggle. A Women's Detachment was created in 1971 and an Organisation of Mozambican Women in 1973, both as part of FRELIMO. The first Constitution of 1975 enshrined equality before the law and the revised constitution of 1990 declared “equality in all spheres of political, economic, social and cultural life” (UNDP 2001: 34–35). The proportion of parliamentarians who were women increased from 28% in the 1994 election, to 30% in 1999 and 42% in 2004 – one of the highest proportions in the world. In 2004, 3 of 25 ministers and 5 of the 18 vice-ministers were women. The PARPA embraced measures to increase gender equality in the spheres of education and health, though it has been criticised for not extending this concern to economic spheres.

C1.3 Formal rights can be compared against realities in practice; however, it should be noted that the achievement of formal rights is a step towards changing practice. Women's relative position is said to have worsened during the period of the civil war and then by the loss of formal-sector employment and expenditure on social services that followed structural adjustment policies (UNDP 2001, CIDA 2004). UNDP's Gender Development Index (GDI) rated women's position 139th out of 144 countries in 2004. There is a clear distinction in GDI scores between the better-off southern provinces and the rest; the northernmost provinces (Cabo Delgado, Niassa, Nampula and Zambézia) have lower HDI and GDI scores and, with Sofala, lower rates of improvement in the relative position of women to men (UNDP 2001). There is a particular gap between constitutional rights and legal practice: lack of access to the courts, the discriminatory administration of justice (UNDP 2001), legal and customary barriers to ownership of or access to productive resources, the non-recognition of domestic violence as a crime and difficulties in access to legal support (World Bank 2004c, UNDP 2001, CIDA 2004). Some of these disadvantages have been formally addressed in a new Family Law passed in 2003 and promulgated in 2004, which grants greater protection and rights to women and children, including those in common-law relationships.

C1.4 Discrimination in girls' access to education persists but the situation is improving. School enrolment has increased and available data show a reduction in the difference between boys' and girls' enrolment. Literacy has also improved among women but there is still a wide gap between women and men. Health status indicators to a certain extent follow the international "pattern"; men having higher death and mortality rates than women, and women having higher life expectancy. Nonetheless, this pattern may be reversed, owing to the effects of the HIV/AIDS epidemic. Women are more vulnerable to HIV/AIDS and show higher mortality rates (Cumbi 2001). However, child health status indicators do not show female disadvantage.

Table C1.1: Indicators of women's relative position

	1990	1995	2000-01	2002-03	2004
Ratio of girls to boys in primary education (%)	73	70	77	83	
Ratio of young literate females to males(% aged 15-24)	48	55	62	64	
Proportion of seats held by women in parliament (%)		29	28		41

Sources: UNDP 2001, World Development Indicators database 2004, World Bank 2004b, Denmark 2004

Note: Figures rounded up.

Table C1.2: Female/male health statistics

	1997		2003	
	Female	Male	Female	Male
Children fully vaccinated (12-23 months) (%)	47	48	63	64
Children with diarrhoea treated by oral re-hydration (%)	53	45	74	67
Chronic malnutrition (%)	36	36	39	43
Infant mortality rate (per 1,000)	141	153	120	127

Source: Inquérito Demográfico e de Saúde (INE 1998 and 2005).

Note: Chronic malnutrition for 1997 is under 3 years and 2003 under 5 years. Figures rounded up

C1.5 Gender issues have been pursued by some aid agencies, particularly CIDA, UNDP and UN Population Fund (UNFPA). Donors pay for 60% of the salary bill of the five staff and the entire rent of the women's directorate of the Ministry for Women and Coordination of Social Action. However, PGBS has only since 2003 begun to explicitly address gender issues, except inasmuch as it contributed to general improvements in the economy, legal rights, judicial reform and service delivery. The creation of a gender working group led on to the very active participation of this group (with the participation of the national Women's Forum) within the Joint Review process of 2005. A meeting by the research team with the gender group indicated that they saw this as a breakthrough in getting gender into core discussions about the macroeconomy, governance and legal reform. The Aide Memoire for 2005 proposed that a national gender action plan and policy be developed.

Environment

C1.6 Among all the CCIs that we were asked to address in this evaluation, this seems to have received least attention under PGBS. As in several of the other CCIs described above, Mozambique does well at the formal level. A World Bank assessment (Bojő et al 2004) of the

degree to which PRSPs mainstream environmental factors ranked Mozambique third out of 53 countries for:

- its description of environmental issues
- analysis of links between poverty and environment
- policy and programme responses
- the level of participation and inclusiveness in the identification of issues.

C1.7 Mozambique did particularly well in respect of the third bullet point above: the development of “response systems” – legal and regulatory standards, programmes for natural resource management and the human environment, and systems for monitoring outcomes. However, in 2002/03 it performed worst of all the countries subject to PRSP progress reports on the *implementation* of environmental measures: “The first implementation report was assessed to be particularly weak in view of the high score for the environmental proposals in the full PRSP” (Bojö et al 2004:19). The assessment improved in the progress report of 2003/04 but implementation in all but one country (Albania) was found to be weak.

C1.8 Similarly, a Canadian government assessment concluded that Mozambique “has excellent environmental assessment legislation and policies” but “lacks the capacity to implement this legislation” (CIDA 2004). There were laws and policies guiding environmental management, environmental impact assessments, forestry and wildlife, but little information on their application. In the last two years, the Joint Reviews have monitored the introduction of further legislation and strategies on land planning, sustainable development, medical waste disposal, and environmental aspects of district planning. There are PAF indicators on access to land rights, approval of applications for natural resource management and small-scale irrigation. But, the PGBS dialogue has not given this CCI as serious attention as the others.

HIV/AIDS

C1.9 HIV/AIDS affected around 14.9% of the population aged between 15 and 49 in 2004 and this is expected to reach 16.8% by 2010 (MISAU 2004). Fifty-nine per cent of those affected are women. As a result:

- Life expectancy, instead of rising from 43 years in 1999 to 50 in 2010, is now expected to fall to 36 (World Bank 2004b).
- Infant mortality rates are expected to be 25% higher than they would otherwise be (World Bank 2003c).
- There were 228, 000 orphans as a result of AIDS in 2004, and the number will rise to more than 500,000 in 2010 (World Bank 2004c).

Apart from the immediate effect on the population, HIV/AIDS implies indirect costs in a reduced GDP growth rate (which will be 1% less per annum by 2010 than it would otherwise be) (Arndt et al 2003) and major new expenditure on health treatment and in replacing lost staff. It is estimated that 25% more medical staff will need to be trained just to maintain numbers; a similar percentage probably applies in education.

C1.10 Hodges and Tibana (2004: 92–100) describe relatively early government recognition of the problem with the establishment of a prevention and control programme in 1988. However, civil war diverted attention and resources, and it was not until 2000 that the Council of Ministers approved a National Strategy and a National Council to Combat AIDS (CNCS). It centred on prevention until, in 2002, resources from the Global Fund to Fight AIDS, the Clinton Foundation, USAID and others became available for free treatment. The World Bank also set up the Multi-Sectoral AIDS Programme in Africa and the Treatment Acceleration Programme, in which

Mozambique was a pilot case. Hodges and Tibana take this as a case study of the policy agenda being driven by donor initiatives with the result that the anti-AIDS programme took the form of separate projects and a joint Common Fund in the Ministry of Health (PROSAUDE). It was this ministry, and not the cross-sectoral CNCS, that at first took the lead nationally – making the anti-AIDS programme a matter for health as a sector.

C1.11 Especially since 2003, with the broadening of its agenda, the Joint Review process became an important vehicle for assertion of the need for a cross-sectoral approach to HIV/AIDS so as to meet the original purpose of the National Strategy. Until then, the response had been organised mainly from the Ministry of Health, with specific responses also in Education. There was weak progress on the revision of the National Strategy to recognise the scale of the challenge and of the available resources for both prevention and treatment. The Aides Memoire of 2004 and 2005, approved by government and donors, pressed for the coordinating role of CNCS to be strengthened, for it to receive strong political support and for the establishment of what came to be known as the “Three Ones” approach:

- One national strategy
- One mechanism of coordination – i.e. the CNCS
- One national system for monitoring and evaluation.

They added two further “Ones”: there should be a single Common Fund and a single Grant Management mechanism to harmonise donor funding through CNCS. These proposals were pressed further in March 2005 by a mission of the executive heads of the Joint UN Programme on HIV/AIDS (UNAIDS), the World Bank Africa office, Swedish and British aid, and the Norwegian Minister for Development.

Democracy and Human Rights

C1.12 The issues of democratic accountability will be covered in Chapter C5 under “political governance”. The question of human rights is broad-ranging and is also covered above as a matter of gender rights, and in Chapter C5 in relation to corruption. A major survey of the legal and judicial sector by the World Bank (2004c: 1) commented that, in the face of rapid political and economic change, this was the sector that had adapted most slowly. Focusing on human rights issues, this World Bank report and an internal report on the human rights situation in Mozambique by the Embassy of Denmark (the lead donor in this sector) identified the following characteristics:

- The government has ratified the basic human rights conventions on civil and political rights, death penalty, torture and degrading punishment, racism, gender discrimination, rights of the child and protection of refugees. It has also signed up to most human rights instruments. However, it has failed to comply with its reporting obligations under the conventions.
- Prisons are a major continuing sphere of concern. While there is no evidence of systematic torture, maltreatment, overcrowding and exposure to AIDS are prevalent. Most people in prisons (60–65%) are detainees awaiting trial – for up to two years or more.
- Lack of access to justice results from the weak and tardy functioning of the sector. There is a widespread public perception that the sector (police, prosecution service and courts) is corrupt and more so than other public institutions. Legal assistance is hardly available to the disadvantaged.
- Freedom of the press and of association are guaranteed by the Constitution. However, civil society is weak, part of the press is state-owned, and self-censorship operates.

- Mozambique has ratified most International Labour Organization (ILO) conventions regarding labour rights and the Constitution guarantees the right to unionise and to strike. However, there are cases of police violence against strikers.

C1.13 Legal and judicial sector reform and the recognition of human rights have been important focuses of government attention in the 2004 revision of the Constitution, the development of a strategic plan for the sector and law reform. A few donors have had a long-term engagement in the sector, principally: the Danish International Development Agency (Danida) on strategic planning, law reform, strengthening the judiciary, and promoting access to justice; UNDP with Portugal and Ireland on prison reform; USAID on commercial law reform, support for the office of the Attorney-General and support for an NGO (Ética) to promote accountability.

C1.14 Similarly to the other CCIs, the contribution of PGBS through the Joint Review process has been to bring together different reform initiatives, give them the force of donors as a whole, and open up areas that were otherwise insulated as sectoral issues. Because the sector is itself disparate and therefore difficult to maintain a dialogue with, a national Coordinating Council for Legality and Justice was set up with donor funding to provide a basis for coordination within the sector and for dialogue with the MPF and international partners.

C1.15 The legal and judicial sector has been found in all recent Joint Reviews to provide poor services and to delay reforms. Through the PAF indicators, PGBS has provided a systematic basis against which progress can be assessed. The PGBS dialogue process (a legal and judicial working group, feeding into the annual Joint Review process, culminating in annual Aides Memoire) has probably had a strong influence in getting commitment, in principle, to:

- the completion of an overall strategy for the sector;
- a strategy specifically for police reform;
- new training programmes;
- a system for monitoring progress;
- improved planning and financial management in the sector.

C2. Public and Private Sector Issues

C2.1 Mozambique has fully abandoned its former Marxist orientation in favour of a modern market–capitalist economy. Large-scale privatization including the selling of some 840 public companies between 1989 and 1997 (90% of them acquired by Mozambican companies and individuals) and the implementation of market liberalization policies have been associated with high rates of economic growth and reductions in poverty levels. Nonetheless, the legacy of colonialism³¹ and central planning significantly contribute to the existing regional and organisational structure of the economy. They are reflected in the fact that infrastructure is limited to major cities and the three east–west corridors from Maputo, Beira and Nacala and the fact that the majority of the population remain employed in the agricultural sector, despite the fact that the agricultural sector only accounted for 19.4% of GDP in 2003. In line with the government’s objective of reducing the high levels of absolute poverty in Mozambique, with international partners (IPs) it has sought to redress imbalances and contribute to a sustained, market-oriented, economic growth strategy.

PGBS, Growth and the Private Sector

C2.2 The government’s policies are expressed in the PARPA I (2001–05). The PARPA is a policy document oriented towards shifting large volumes of donor funds and tax revenues into the public sector apparatus, education, infrastructure, health (and HIV/AIDS) and to a lesser extent agriculture. It has been an effective vehicle for aid mobilisation, leading to a large-scale expansion of social services, particularly in health and education with corresponding impacts on poverty reduction. With regard to economic development, the underlying assumption was that education, health and infrastructure were the preconditions of growth. In addition, the government has succeeded in attracting a number of very large-scale projects which have significantly contributed to GDP growth without accruing much tax revenue for the government or providing jobs for the Mozambican population. Apart from these mega-projects, direct attention to the productive sectors and the development of the private sector has not been pronounced or effective. This raises an important question for PGBS – an instrument whose key objective is to support sustainable pro-poor growth – as regards the appropriate balance between policy for the public and private sectors. In Mozambique, as in many PRSP countries, the direct effect of the PARPA and its key funding modality PGBS has been to promote public-sector development rather than growth-creating and labour-absorbing sectors. This could create an unsustainable pattern of expansion in the wake of predicted declining aid transfers in coming years (World Bank 2005b).

C2.3 PGBS design originally focused principally on reform of financial management and then went on to develop a focus on the extension of social services (see Chapter B1). Progress has been achieved, for example in increasing life expectancy, school enrolment, and rates of adult literacy and in reducing infant mortality. PGBS and government policy have given less emphasis to economic development. However, achieving accelerated and sustained economic growth, particularly in rural areas, is likely to be the principal contributor to job creation and hence reduced income poverty. The PGBS dialogue is increasingly addressing these issues (see Chapter B5 on legal reform and business promotion), while continuing to maintain its emphasis on social sector spending. Finding a balance between these two focuses is critical for Mozambique’s continued growth; the balance of attention clearly remains on social services. Mozambique is influenced by a plethora of bilateral and multilateral policy concerns and recommendations in all sectors. Even to the extent that this problem has been reduced through the focus on Performance Assessment Framework (PAF) targets, there has been little space for

³¹ Trade and exploitation under the Portuguese did not result in the development of a very significant infrastructure or industrial sector.

policy and funding to promote the productive sectors. PGBS and the PARPA are at risk if these issues are not more seriously addressed.

C2.4 In general, recognition is high among both government and IPs that more attention needs to be given to investment in and policy for productive sectors; investment in human capital should also be a key ingredient of Mozambique's growth strategy. The Joint Staff Assessment by the World Bank and IMF has generally endorsed the approach taken by the government, but identifies three areas relating to the private sector where additional action is suggested. These are: the overall business environment for both domestic and foreign investment, uncertainties over land rights, and corruption. Regarding the latter, the Joint Staff Assessment of 2003 notes that the PRSP is the first widely disseminated government document to identify the problem as serious, and to suggest – though without much concreteness – future directions to remedy the problem (Fox 2004).

C2.5 In effect, recognition and policy focus have not translated into strong action in many of the areas to which the GOM is committed. An illustrative example can be found in the agricultural sector. Promotion of rural development through the provision of basic infrastructure, agricultural extension, and assistance with credit and marketing are evidence of important interventions in a country where dependence on subsistence agriculture applies to three-quarters of the population. However, the PARPA has not sufficiently addressed the key constraints to investment and growth in this sector, including uncertainties over land rights, high transportation costs, limited access to markets and credit and other supply-side constraints. The second PARPA which was being developed in 2005 and will be implemented from 2006 is therefore intended to address these issues more strongly as well as to consider a more coherent marrying of the two policy spheres.

C2.6 Even with this refocusing, there may still exist a conflict between the current focus of the PRSP and realisable productive and private sector development. This is because donors providing unearmarked funds tend to wish to ensure that their money is being used for poverty reduction purposes, which has to date translated into soft conditionality for increased spending for health and primary education (see Commission for Africa 2005). This is compounded by the fact that the role of the state in a laissez-faire economy is restricted, and donors might not be interested in giving financial support to investment spending through recipient governments in areas that would constitute a statist or interventionist approach to economic development. On the other hand, introducing market-supporting institutions does not in itself require a substantial financial outlay; and this is an area that has anyway been historically less responsive to financial incentives and structural adjustment forms of conditionality in less-developed countries.

PGBS Macroeconomic Instability and the Private Sector

C2.7 Private sector development in Mozambique is negatively affected by the fact that the country has long suffered from macroeconomic instability, which the central bank has tackled relatively successfully through monetarist policies, though at the cost of high real interest rates. High interest rates reflect in part the high volume of inflows of foreign-denominated currency (aid flows), including PGBS funds, resulting in a reliance on sterilisation (issuing treasury bills) to reduce the volatility of these financial flows but contributing to an increase in the cost of domestic finance. High interest rates have resulted in government borrowing crowding out private sector borrowing as commercial banks prefer the safety and high returns of lending to government rather than to small-scale private and agricultural sector borrowers. On the other hand, PGBS does not constitute an overly large proportion of government spending and is aimed at reducing overall borrowing requirements of the public sector, thereby contributing to reducing interest rates. Mozambique has tended to maintain high levels of foreign reserves in

order to protect the competitiveness of the Metical.³² “Dutch disease”, promoting a loss of competitiveness in the export sector, has not emerged in Mozambique. On balance the benefits of PGBS funding outweigh the sometimes negative impact of its financing on the private sector. Moreover, since PGBS has over time become more predictable, associated negative costs have actually been falling since 2000.

Non-government Service Providers

C2.8 There have been limited opportunities for non-government service providers in Mozambique, with the exception of some health service provision in major cities, which largely cater for foreign workers and the Mozambican élite. Yet, the public sector in Mozambique is very large in relation to its long-term tax revenue mobilisation potential. A number of government/donor programmes, for example in health, public sector training and the development of infrastructural systems such as roads and water supply, require additional capacity. This could be achieved with private sector participation such as through public–private partnerships, which are managed by private entities but funded through tax revenue and donor aid. This would also have beneficial monetary effects since the usability of funding is limited if it is restricted to the public sector.

Policy Conclusions

C2.9 PGBS has engaged directly with the question of private sector development only since the broadening of its agenda and the development of the Performance Assessment Framework (PAF) in 2003/04 (Chapter B1). The PAF itself includes a cluster of indicators under the general label “creation of a favourable environment for private sector action”. Indicators include action on labour laws, a commercial code, and better regulation of the banks and insurance, but most of the indicators under this heading relate only indirectly to the business environment (public sector reform, social expenditure, improved public finance management). As part of the Joint Review process, a private sector thematic group, with working groups for aspects of the private sector, was set up in 2004 and monitors progress on the private sector, agriculture, infrastructure, roads and energy. However, these have not yet been a major focus of attention in the PGBS dialogue (Chapter B5). In future, growth policy should increasingly be oriented to industries that will absorb excess rural labour supply and provide income opportunities. Critically, it is only through broad-based private sector growth that Mozambique will develop a tax base that, in the long term as aid dependency declines, can support the public sector programmes that PGBS supports. IPs should be careful not to promote an unsustainably large public sector. The private sector should become more involved in providing a solution to the large social and infrastructural problems in Mozambique for which there is PGBS financing available.

C2.10 Finally, there is a separate issue as to when, and in what circumstances, aid may promote private sector development more effectively through projects, or through assistance that is not directly to government at all, rather than through PGBS. The issue of the appropriate balance between aid modalities is beyond the scope of this evaluation, but is now a focus of attention by IPs and donors (see ¶C4.9 and ¶D2.5).

³² As aid flows represent a significant inflow over the foreign exchange equivalent of six months of imports the central bank uses monetary sterilisation to prevent excessive appreciation of the currency.

C3. Government Capacity and Capacity Building

Centralism and Decentralisation

C3.1 Chapter A2 outlined the structure of intergovernmental relations. This is a highly centralised national system across a large territory (1.5 times larger than France; 86% of the size of Nigeria). Some key points about the structure and relationships are that:

- Apart from national government and 33 municipalities (with weak powers), there is no other level of elected government. The 11 provincial governors are appointed by the president, district administrators by the governor, and heads of sub-district “postos” by the district administrator. This is, therefore, largely a case of deconcentrated administration rather than political devolution. However, provincial assemblies are due to be elected in 2007.
- A system of dual subordination runs vertically through the levels of government. District directors of line agencies (health, education, agriculture, water and roads) are accountable not only to the district administrator but also to the provincial directorates of health, education and agriculture. In their turn, the provincial directorates are accountable both to the governor and to their respective line ministry.
- The principal role of the provincial government is territorial and sectoral planning. The district administrator is responsible for “territorial management”, licensing and regulating local activities and the sector offices for delivering services.
- Most provincial and district resources come from central government allocations, whether from the state budget through the MPF (mainly for recurrent costs) or from line ministries. They also have a small amount of own-source revenues; total provincial own revenue averaged 2.8% of all national revenues between 1995 and 2001 (World Bank 2003a: 20).
- Budget allocations are territorially inequitable, and distribution erratic (Chapters B3, B4 and B7).
- The provincial governor's office, the provincial directorates, and (since a recent change in the law) the district administrator's office each have separate budget lines within the state budget. Disaggregated budgets are difficult to integrate into cross-sector provincial and district plans.
- Given that recurrent expenditure, mainly on wages, is largely fixed and that investment is largely determined by sector ministries (whether through their influence on state budget allocations or through the allocation of donor resources), provinces have a very small and declining level of discretion over their spending. Several authors argue that it has been restricted by the centralism implicit in commitment to centrally managed PARPA priority commitments and by sector-based support to central ministries (World Bank 2003a, Fozzard 2002, Harding and Gerster 2004).

C3.2 Inefficiencies in public financial allocations have been one consequence of this centralised model. One of the key issues for effective provision of PGBS in reaching its objective of achieving poverty reduction and pro-poor growth is that money should be allocated through the budget in an equitable and pro-poor fashion. As discussed in Chapters B4 and B7, Mozambique has historically experienced an inequitable pattern of public expenditure distribution. Although this inequality is decreasing, total public service consumption is still more than three times greater in Maputo than in Zambézia. There are also significant interregional

differences in per capita income and rates of poverty incidence, which ongoing policy commitments propose to reduce. Financing to the provinces did increase from 34.8% in 1998 to 45.5% in 2001. PGBS dialogue is increasingly focused on this issue, which was a main theme during the 2005 Joint Review.

The Government of Mozambique is committed to a programme of gradual decentralisation, with the aims of widening participation, reducing corruption, promoting accountability and improving service delivery (Chichava 2002). Some key steps are:

- the constitution of the 33 municipalities in 1997, though this is said to have been at the cost of the financial viability of several districts (World Bank 2003a);
- the passing of a law on local state organs in 2003 which slightly increased the powers and influence of governors and district administrators and made districts into budget units (Hodges and Tibana 2004: 49);
- the development of district-level planning, beginning with a pilot case in Nampula Province which, with UN Capital Development Fund (UNCDF) support, has gone on to demonstrate the possibility of linking planning and budgeting through cross-sector teams operating at district level. Similar approaches are being extended to eight provinces, leaving only Maputo City, Maputo and Gaza without;
- the development of a government strategy for decentralisation in 2005;
- the proposed allocation of district development funds by the MPF direct to each district as from 2006.

C3.3 At first independently of PGBS, several donors have taken responsibility for supporting the development of services and decentralised government in the eight poorer provinces. From 2003, the Programme Aid Partnership has become more involved in supporting decentralisation. PGBS increases the “resource envelope” that the government has available to increase allocations to provincial and district levels, potentially countering the centralising effect of sector funding. However, whether funds are used this way depends on government's and donors' support (Harding and Gerster 2004: 30). The PAF includes indicators of progress in the development of the policy and strategy for decentralisation and for the establishment of criteria for distributing funds to districts. The Joint Review and working group on decentralisation have monitored and pressed for implementation of the local government law, revenue retention at district level and the creation of the district development fund. From 2005, it decided to bring a district and provincial perspective into the Joint Review, and to share experience between separately funded donor programmes. This is an area in which the Programme Aid Partners (PAPs) can claim influence, given that there was previously no donor–government grouping to support decentralisation.

Technical Assistance and Capacity Building

C3.4 Following the struggle for independence, an experiment in creating a command economy and a long civil war, the Government of Mozambique (GOM) faced a severely run-down economy and devastated public services. The country's capacity to deal with these issues was limited by the structure of its economic institutions, systems of public sector management and human resources (Chapter A2). These problems have been recognised and addressed by government and donors since the mid-1980s, but progress has been uneven. The World Bank's four country assistance strategies since 1995 “have all identified weak capacity in the public sector as a key constraint to poverty-reducing growth” (World Bank 2005a: ii). The original designers of PGBS in Mozambique also recognised these capacity constraints and saw programme aid as a way of reducing administrative burdens on government; the 2004 MOU

expressly saw capacity building as one of the main commitments of the programme aid partners (Chapter B1 and Annex 3C).

C3.5 However, donor activities are frequently cited as being among the causes of reduced government capacity, and not only by more radical commentators such as Hanlon (2002). In the 1990s, peace, liberalisation and economic restructuring brought in a massive proliferation of bilateral donors and NGOs with separately managed projects that either bypassed government or created separate cost centres within ministries and at provincial level (Wuyts 1996 cited in Dijkstra 2003). Steep declines in public sector wages during the war period were sustained by public expenditure containment under structural adjustment, and have only marginally improved since the late 1990s (World Bank 2005a: 7). Wage “top-ups” paid by donors and the World Bank attracted civil servants or ex-civil servants to work on technical assistance projects and “had a negative effect on government capacity building” (World Bank 2005a: 6). Donors competed among themselves for staff and for government’s attention (World Bank 2005a: 42).

C3.6 The World Bank’s review of capacity-building programmes over the ten years from 1995 also looked at its interaction with bilateral donors’ programmes and the government’s own initiatives. It considered three components of capacity: institutional, organisational and the development of human resources, and identified:

- substantial achievements in institutional reform: macroeconomic stabilisation, monetary and fiscal policy, privatisation, the development of PFM instruments, and sector strategies;
- less successful organisational strengthening undertaken in sector ministries, in the core public finance management institutions (MPF and central bank) and through a general programme of public sector reform. Except in the roads sector, changes were assessed as “slight to marginal”;
- mixed experience in human resource development with skills upgrading linked to almost all projects, but most effective in the rare case of the roads sector where it was linked to a structured human resource management system.

C3.7 An Interministerial Commission for Public Sector Reform (CIRESP) was established in 2000 but seems to have made slow progress. A management unit (UTRESP), funded by a pool of donors, was established but came up to full strength only at the end of 2003. Much of its effort has been focused on undertaking “functional reviews” of ministries as a basis for reorganisation, and in developing a pay policy whose implementation stalled during the pre- and post-election period between 2003 and 2005.

C3.8 Table C 3.1 summarises the main fields of donor-supported technical assistance and capacity-building specifically directed at the Ministry of Planning and Finance since 1995. These are set out in more detail in Annex 3E. The table and annex are probably incomplete, which in itself illustrates the fact that much of this support is uncoordinated or coordinated by sub-pools of donors. Much of it is in the form of technical assistance (TA), targeted at particular departments of the ministry. Although it would usually have a skills development element, most TA is offered on a “gap-filling” basis where expatriates substitute for the lack of local qualified staff. This ad hoc, gap-filling approach has been criticised by the government and others as a constraint on effective capacity building (MPF/DNPO 2004, OECD DAC 2004). Moreover, the MPF in particular suffers from a loss to the private sector, donor organisations and projects within the ministry of those staff who do acquire training (MPF/DNPO 2004, Franz and Komich 2003, Muggeridge and Byaruhanga 2002). The World Bank (2005a: 43) notes the government’s perception that it gets better value from technical assistance where government rather than IPs contract and manage consultants.

C3.9 The lack of coordination of the abundant technical assistance and capacity building provided to the MPF (and public finance management [PFM] across government) is now widely recognised as a problem that has to be addressed (OECD DAC 2004, World Bank 2005a). The OECD report identified the lack of coordination of aid as the main failing in support for capacity building in PFM (Table C3.2).

C3.10 In the 2005 review of performance of programme aid partners (Killick et al 2005), all but 4 of the then 16 partners reported that they were offering capacity building linked to PGBS. As Table C3.1 and Annex 3E show, some of this is jointly funded support, the most significant current example being SISTAFE. This is developing financial information systems in the MPF and progressively throughout line ministries in conjunction with skills development (Chapter B4). SISTAFE is supported by several PGBS donors and monitored through the Joint Review and PAF. A new jointly funded sector-wide programme for financial sector technical assistance (FTSAP), to begin in 2006, emerged from discussions within PGBS working groups. The World Bank review (2005a) notes the trend to harmonisation and alignment in Mozambique and in particular the increasing impact of the PGBS partnership including with regard to the coordination of capacity building.

Table C3.1: Policy areas of donor support for capacity building in the Ministry of Planning and Finance 1995–2005

Policy Area	Capacity building through ...	
	... individual donors	... joint support arrangements
Improvement of budgeting process (FOPOS)	UK	
Overseas Development Institute (ODI) Fellowship scheme	UK	
Accounting and auditing	Sweden, Switzerland, Portugal, France	
Monetary and exchange rate policies	IMF, African Development Bank, Denmark, UK	
Debt management	Switzerland	
Tax reform	IMF, UNDP, Switzerland, Denmark, France, Portugal, UK	
Customs reform	UNDP, IMF, World Bank, DFID	
Administrative Tribunal	Sweden	
PARPA monitoring	UNDP	
Poverty analysis and monitoring – pooled since 1999		Switzerland, Denmark, UK and recently EC
SISTAFE		Switzerland, Netherlands, IMF Joint fund: Denmark, EC, Norway, Sweden, UK and Belgium
Statistical capacities	World Bank, UNDP	Norway, Denmark, Sweden, later joined by Portugal and Italy
Macroeconomic management and policy analysis		Funding from Switzerland, Norway and Sweden, with TA from Harvard University
Decentralised planning	World Bank	UNCDF, UNDP, Netherlands, Ireland, Norway and Switzerland
Coordinated capacity building for financial management at decentralised level (municipalities)	Coordination among separate donors: Switzerland, Ireland, Sweden, Netherlands, Norway, UNCDF	
Financial sector reform	IMF, Sweden	African Development Fund, IDA/World Bank, Germany (GTZ/KfW [German technical cooperation agency / German Development Bank]), UK and Sweden (the FSTAP due to start in 2006)

Sources: African Development Fund (2005), Byiers B. (2004), MPF/DNPO (1998), MPF/DNPO (2004), Gerster and Harding (2004), Jorgensen and Aarnes (1999), Killick et al (2005), MPF (1999), World Bank (2005a).

Table C3.2: Capacity development in public finance management: OECD assessment

	Weaknesses ...		Support ...
	... have been identified?	... are currently being addressed?	... for capacity development is appropriate?
PFM and procurement	√ Yes, but	√ Yes, but	√ Yes, but
Budget execution	√ Yes, but	√ Yes, but	√ Yes, but
Coordination of aid	x No, but	x, No, but	xx No

Source: OECD DAC (2004).

C4. Quality of Partnership

Ownership and Conditionality

C4.1 The inter-relationship between ownership and conditionality has been addressed throughout previous chapters. Over a long period, Mozambique has been an extreme case of lack of ownership, in the sense that it has been extremely dependent on foreign assistance, owing to the abruptness of its independence, disruption of the civil war, and inadequate government systems. Until the mid-1980s, aid had been managed by a small group of donors with the UN. From the beginning of the structural adjustment programmes in 1987 and then the peace settlement in 1992, aid came flooding in through NGOs as well as official agencies. According to OECD DAC data, aid reached 87% of gross national income (GNI) in 1993; alternative figures suggest that it exceeded 100% from 1992–94 (White 1999: 2). The largest proportion of aid was “off-budget” to one degree or another (Annex 4B). Most of it bypassed government systems and, even when it worked through government agencies, created its own policies, management and accounting systems. As we were told by the minister of health in 2002, ministries were “ministries of projects” where the minister had little control, government officials each reported to the project managers to whom they were really accountable, and their pay was differentiated by the terms of that particular project (Batley 2005).

C4.2 In this report, we have defined “ownership” as the empowerment of cross-sectoral national systems over which government exerts collective control; we have explored whether and how PGBS contributes to this in several respects. In Chapter B1, we examined whether the design of PGBS reflected national conditions and who did the designing. Chapter B2 looked at the level of its alignment with national systems and how far government has assumed leadership. Chapter B4 explored whether the national budget and budgetary process had been strengthened, and Chapter B5 examined whether a more coherent and cross-sectoral process of reform and policy-making was emerging. Here we consider whether the form of conditionality has changed to give greater space for government ownership.

C4.3 From the late 1980s until the late 1990s, Mozambique was subject to a variety of specific conditions imposed by international financial institutions (IFIs) and donors (White 1999 chapters 2 and 3):

- “...project aid has given the donor community undue prominence in setting Mozambique’s budget priorities”; the time of government officials is diverted into aid management; donors set up separate project management systems and employ local staff on higher salaries than government can afford.
- Import support during the 1980s earmarked funds for specific sectors or enterprises, with donor restrictions on procurement and detailed reporting requirements. In 1992 donors switched their support to be channelled through a liberalised foreign exchange secondary market which would, in principle, leave importers free to access foreign exchange without restrictions on specific uses. But many donors continued to try to tie their support to specific uses and government imposed its own procurement rules. The countervalue (payments in domestic currency for the value of the foreign exchange) was also commonly tied to be used to finance specific uses in the state budget.
- Structural adjustment lending under IMF and World Bank programmes between 1987 and 1998 emphasised reform of the foreign exchange system, fiscal policy and the financial sector, and the privatisation of state-owned enterprises. Spending on social sectors and “what are commonly seen as poverty-related issues” was neglected (White 1999: 28).

- Sector aid which developed in Mozambique from about 1996 (see Chapter A3) was of two broad types: (i) donor agreement to coordinate their separate projects, (ii) pooling of donors' contributions into a basket fund for all or part of a sector. Chapter A3 showed that, until recently, the former was the more common type. White concludes that, while the minimum requirement of all such programmes is that they cohere around the government's sector plan, individual donors (particularly in the first type) are likely to press for their favoured projects and to impose their own administrative and procedural requirements on government. Moreover, many such programmes with separate practices may not be "within the capacity of both donors and government to manage in a useful way" (White 1999: 16).
- Bilateral debt relief under a series of Paris Club agreements from 1984 to 2001 and multilateral (HIPC) debt relief from 1998 also imposed conditions. The most fundamental of these is that the government should have an agreement with IMF and be on track with structural reform requirements. The HIPC and later Paris Club agreements also required government to increase the quantity and quality of social spending, and to earmark the countervalue funds (the domestic currency freed by debt relief) for social expenditure (White 1999: 17) or, slightly more generally, for "priority areas identified in the country's poverty reduction strategy" (Paris Club 2001 in Dijkstra 2003: 15).

C4.4 Both White and Dijkstra suggest that, while these conditions have clearly been derived from the agendas of the international partners and pushed by them, the GOM has complied more or less willingly. According to White (1999: 27, citing Ottaway 1988 and Bowen 1992), the ruling party – Frelimo – willingly embarked on the path of economic reform, and favoured investment in small-scale agriculture and industry. It was prepared to “sign up” to the privatisation of public services and market opening, but had increasing reservations about the negative effects of stabilisation policies on growth and the IFIs' restrictions on public expenditure.

C4.5 What if anything is different about the nature of PGBS conditionality and its effects on “ownership”? Dijkstra (2003: 40–43) suggests that from 1999 Mozambique entered "a post-conditionality regime of mutual dependence of donors and government". In brief, donors may be critical of government but are not prepared to expose failures publicly because to do so would expose the frailties of a country that has become a model case for aid success. On the other hand, she also argues that HIPC and GBS have generated more policy conditions, have become more explicit about measures, and monitor them more closely.

C4.6 Our own conclusion is that conditionality under PGBS is following a positive tendency with regard to ownership:

- It has maintained continuity from other recent forms of conditionality. In particular, it has brought into one envelope structural reform and macroeconomic requirements on the one hand, and pro-poor sector policy on the other.
- It has made a real shift in content from the very particular requirements of import support, structural adjustment, and debt relief to a much wider cross-governmental agenda of policies and targets.
- It has embraced nearly all large donors in a single agreement to put untied support into the national budget with common conditions (with few exceptions).
- The nature of the conditionality is new because it is based much more clearly than before on shared agreements with government and a permanent and evolving policy dialogue about policy objectives, targets and the measurement of performance.

C4.7 The depth and reality of all these innovations has been questioned in earlier chapters: Does government have the capacity to engage with donors in policy and target-setting? Who really leads? How much of this is internalised in government? How far has ownership extended beyond government to parliament and civil society? However, our overall finding is that there has been a real shift towards greater national ownership. Moreover, we would suggest that the term “conditionality” itself has become questionable when the dialogue between government and partners has become so wide-ranging, with discursive debates on policies, mutually agreed targets, and mutual assessment of performance. Table 3C.1 (Annex 3) illustrates the point. We found it difficult to give a true representation of PGBS in this table because the “conditions” that operationalise the 2004 MOU between government and partners evolve from year to year in the annual PAF and the donors' performance targets.

Interplay between Aid Modalities

C4.8 This issue has been covered extensively in previous chapters. PGBS in Mozambique is characterised by a relatively high degree of inclusiveness of other aid modalities in its dialogue and conditions:

- Chapters A3 and B1: PGBS emerged out of the experience of other forms of programme aid and was designed to coordinate “programme assistance” (general and sector support). It was intended to address the pro-poor agenda of the PARPA, which had been omitted from the structural adjustment agenda. One of the conditions of PGBS is that the government's macroeconomic performance be approved by IMF.
- Chapter B2: PGBS and other aid modalities generally claim alignment on government policy, but PGBS's alignment with government systems (budget, planning cycles and performance assessment) is extending also to sector support under influence of the mechanisms of policy dialogue. The World Bank is now a full member of the PGBS partnership and uses the same measures to trigger its credits.
- Chapter B4: PGBS's strengthening of the budget and of financial information systems is increasing the coordination of sector programmes with the budget. PGBS fora (the Joint Review and working groups, and now a specific task force) are a source of pressure on donors to report their non-GBS funding more systematically to government.
- Chapter B5: The PGBS dialogue has extended to cover sector policies with two relevant effects: (i) line ministry and donor officials with a sector interest are being drawn into the same dialogue, timing their review and planning cycles to coincide with the Joint Review, and using the same performance assessment indicators, (ii) the PGBS dialogue and performance assessment helps reinforce commitments agreed at sector level.

C4.9 However, the gain should not be exaggerated. PGBS represented 17% of the national budget in its highest year. It is estimated that over half of all public spending, and 80% of investment, was still financed off-budget by donors until 2003 (Scanteam 2004). Earmarked sector programmes and individual projects remain managed largely in isolation. Nevertheless, the tendency is towards making donor funding more transparent and to creating a more rational relationship between aid modalities: for example, (i) the SISTAFE reforms and a Joint Review task force are acting to bring more aid on-budget (or at least known to the budget), and (ii) the government agreed in the 2005 Aide Memoire to develop an aid policy considering the balance between different aid modalities.

Transaction Costs

C4.10 We have discussed some of the different components of transaction costs (TCs) in Chapter B3, concerning the influence of PGBS on TCs from a flow-of-funds perspective, in terms of reducing the cost of the budget process. This section develops some of the issues touched on in Chapter B3 and expands the range of issues to include non-flow-of-funds effects. TCs associated with PGBS arise in general from the costs of negotiating and monitoring an aid contract; the process of implementing the activities that the aid finances; the coordination costs of negotiating and managing relations with donors; the conversion costs of moving from one form of aid instrument to another; the risks of failure inherent in alternative aid instruments; and finally the costs of assurance management to mitigate risks associated with PGBS (Batley 2005). In theory, TCs associated with PGBS may increase in the short term because they are essentially start-up costs, which can be expected to diminish as experience is gained and systems are developed and institutionalised. Additionally, it is important to consider that many of the TCs associated with the provision of PGBS are expected to provide benefits and can exhibit positive externalities (i.e. a benefit that comes about as a result of PGBS which would not otherwise have taken place and which applies more generally). For example, coordination between the MPF and line ministries may be improved, monitoring and evaluation systems may be developed, and procurement and accounting systems may be put into place that limit the misuse of funds and could lead to improvements in domestic accountability.

C4.11 TCs may increase, decrease or remain unchanged with respect to the situation which existed before PGBS was provided, and they may exert positive, negative or neutral influences. Costs may be borne equally or unequally across various agencies and different actors (individuals/groups) within agencies. For example, at the donor level the set of actors who might be affected would include: (i) local and headquarters staff; (ii) project and programme aid managers; and (iii) economists and financial managers, and sector specialists. At the government level individuals and groups that may be affected include: (i) the MPF (MOF) and line ministry staff; (ii) central and local level staff; and (iii) financial management and front-line staff.³³

C4.12 Using the above-mentioned classification, here we identify five of the most salient primary effects of PGBS on TCs. This analysis is based on our conclusion that, in Mozambique, PGBS funds are not additional but represent a shift in funding from other aid modalities, and that donors who provide PGBS also provide project and/or sector aid.

(i) The cost of coordination and harmonisation of PGBS for GOM and donors as the risks and volatility of the resource envelope changes

C4.13 PGBS donors have harmonised and coordinated their PGBS programmes which have led to decreased TCs vis-à-vis other aid modalities. Mozambique's PGBS programme is one of the best examples of harmonisation and coordination in the developing world. On the other hand, as the group has grown in size, donor harmonisation and coordination has required the design and development of a substantial structure to manage the whole PGBS programme and increasingly to act as an overarching coordinating body for sector aid. The GOM's costs have been reduced to the extent that it dialogues with one group rather than 17 donors. On the other hand, the amount of time needed to interact with such a large group of donors and their PGBS superstructure may outweigh some of the benefits from the increased proportion of funds that are disbursed through PGBS, particularly in cases where the amount of financing actually provided by some donors in the PGBS group is small in proportion to their overall aid portfolio. We note that the GOM still has to dialogue with all PGBS donors about their projects and their sector support (although sector aid is increasingly moving under the PGBS superstructure). TCs in this case are predominantly start-up costs. As the organisational structure is institutionalised

³³ These subsets are meant to be illustrative rather than exhaustive.

over time, and provided that donors continue to reduce the use of non-PGBS funding, the costs for donors and government will decline.

C4.14 Harmonisation could also potentially imply that the risk of collective non-disbursement increases for GOM, and therefore the TCs associated with PGBS could also increase. However, we argue that the risks may have actually been transferred to the donors as the GOM's reliance on PGBS has grown, reaching such a level that it would be unfeasible to pull out of PGBS in Mozambique even in cases of full non-compliance. The impact on social spending and hence on citizens would be too severe.

C4.15 It is likely that many of the costs associated with harmonisation and coordination are start-up costs, and that in the medium term the benefits to both donors and government of pursuing such an organisational structure is beneficial and will increasingly lead to cost saving. The MOU has had the effect of significantly reducing the risk to government, although this has come at the expense of reducing flexibility and possibly increasing risk on the donors' side. Some (three originally but now two – see Chapter B1) donors seek to reduce this effect by making use of a tranche system of disbursement.

(ii) The costs of disbursement of aid and implementation of aid-funded activities

C4.16 The costs of following donor-specified planning, disbursement, accounting, procurement and reporting procedures can be onerous in themselves, and these costs are exacerbated when many different donors' procedures have to be followed. This is acknowledged as one of the primary drawbacks of project aid, which is also generally unharmonised. There is no doubt that the TCs for PGBS at the implementation stage are much lower for GOM than they would be for the equivalent volume of project-tied aid. The value of the TC savings may be reduced, however, by some of the rigidities and deficiencies in GOM's own PFM systems that are described in Annex 4.

C4.17 TCs associated with aid implementation are lower for PGBS than for project aid and, to a lesser degree, sector programme aid. The key benefits for both donors and recipient governments result from the savings in the administration of disbursements and other purely administrative issues surrounding the implementation of aid.

iii) The cost of unpredictable and untimely PGBS

C4.18 The cost of unpredictable and untimely disbursement of PGBS can be burdensome for government. Costs for recipient governments can also be unnecessarily high when PGBS funds are disbursed above or below the committed level, as this requires defensive action on the part of the Treasury and the central bank to cover liquidity shortages or absorb large volumes of unplanned additional foreign exchange.

C4.19 PGBS best practice suggests that medium-term resource planning, with consistent judgement criteria and resource plans being rolled over annually, should be adhered to. Donors need to provide timely and accurate information to the government and to synchronise with the budget cycle. This applies to all funds being provided by PGBS donors; otherwise the budget cannot be comprehensive and PGBS funds are being provided at cross-purposes with other aid modalities. In Mozambique, 15 of 17 donors have multi-year agreements of two to three years for the provision of PGBS, which contributes to reducing the administrative burden of PGBS for the GOM. On the other hand, the volume of PGBS funds provided and the mix of aid modalities employed in Mozambique remains donor-driven. The GOM as such cannot control much of the TCs related to the absorption of PGBS. There is an increasing attempt to align PGBS to the GOM cycle. However, Killick et al (2005) report that only 10 donors provide quarterly reports on the release of programme and project aid on time, which is costly for the GOM.

C4.20 As PGBS has become more predictable, TCs associated with unpredictable and untimely PGBS have decreased. The same applies as a growing number of donors adopt multi-year PGBS agreements. However, best-practice behaviour on the part of international partners (IPs) has to apply to all modalities; otherwise the positive effects may be negated. Moreover, best-practice behaviour for IPs may imply increasing TC in the short run as reporting standards are expected to improve, which translates into more work for PGBS managers.

(iv) The conversion cost of a shift of emphasis and conditionality resulting from the introduction of PGBS

C4.21 It is generally assumed that TCs will arise from the introduction and implementation of the PGBS modality as a result of the transfer of human resource outlay from line ministries to the MOF. That is, TCs for line ministries will decrease and TCs for the MPF (MOF) will increase. In reality, the situation in Mozambique is more complicated. Firstly, project aid and sector programme aid continue to exist in parallel with PGBS. Thus TCs have spread rather than shifted to the MPF. Secondly, PGBS has also implied the introduction of new forms of conditionality in the sphere of good governance. Thus TCs have not only spread to the MPF but also to the Ministry of Justice and to other national institutions dealing with audit, the banking sector, etc.

C4.22 In effect, introducing a new aid modality without restricting the use of others broadly increases TCs (and the scope of conditionalities) on the recipient government. The more aid modalities a country is responsible for executing, the higher will be the TCs associated with aid. However, this is not due to PGBS more than to other aid instruments. Indeed, many TCs associated with the introduction of PGBS have potential positive benefits for the recipient government. Moreover, if over time project aid decreases in favour of PGBS, TCs will decrease as the onus of management and the scope of conditionalities will shift from line ministries to MPF and governance-related agencies, rather than just spreading to include them.

(v) The costs associated with losses and gains in ownership resulting from a move from project or sector programme aid to PGBS

C4.23 A final aspect we have considered is whether TCs have fallen as a result of increased ownership for the recipient government subsequent to the introduction of the PGBS modality. It is realistic to conclude that, if donor conditionality is in line with recipient government's objectives, TCs are reduced. Since 2000, the number of conditionalities linked to PGBS has been reduced significantly to 50 in the PAF (though many conditions are actually multilayered and contained within a broad condition – see Table 3C.1 in Annex 3). In addition, the enhanced levels of dialogue have led to joint commitments which reduce strict (imposed) conditionality. We conclude that TCs have probably fallen with the gain in government ownership of the aid process. However, in the short term, the involvement of the MPF and line ministries in the development of the PAF and their participation in the Joint Review process make significant demands on their time and manpower. Also, it cannot be said that these are fully GOM-owned instruments.

C4.24 An increase in ownership associated with PGBS is a clear outcome of the PGBS process (see above). TCs associated with the gain in ownership may decrease further over time as the process is institutionalised and becomes progressively more nationally owned.

Box C4.1 Main conclusions

- The costs associated with establishing and maintaining the partnership structure within which PGBS operates are high, especially in terms of demands on the scarce time of GOM staff.
- There are significant increases in up-front transaction costs to the MPF. However, since project and sector aid have not decreased, transaction costs have spread to the MPF rather than shifted from line ministries to the MPF.
- Anticipated savings in transaction costs depend significantly on a shift to more efficient aid modalities, and may not be realised if new and older modalities continue in parallel.
- In regard to disbursement, the up-front transaction costs of PGBS are almost certainly lower than for other forms of aid.
- PGBS certainly imposes lower transaction costs on the GOM at the disbursement stage (since it is able to use its own procurement and disbursement procedures instead of a multitude of donor procedures). However, the benefit is reduced by the weaknesses in GOM disbursement and procurement procedures to which we have already referred.

C5. Political Governance and Corruption

Democratic Accountability

C5.1 Strengthening domestic accountability is one of the objectives of the MOU between the government and programme aid partners. This emerged as an objective partly in response to the criticism that the mechanisms of Joint Review were placing accountability to donors over accountability to domestic stakeholders. As Chapters B4 and B5 have described, PGBS and the surrounding Review process have contributed by supporting the development of instruments that can also strengthen accountability to parliament and citizens. The accountability demands of donors may not be at odds with the accountability needs of domestic stakeholders (such as parliament) and may actually be at least as “pro-poor”, if not more so. As more funds are included in the state budget, the budgetary process is improved and public expenditure becomes open to scrutiny. As the instruments of performance assessment and audit are developed with PGBS support, parliament also has greater scope, if not ability, to use these instruments to strengthen its own scrutiny and to contribute to the “feedback loop” back into policy-making. The Poverty Observatory is a body that brings some civil society organisations into dialogue with government and donors about aid and the budget, as well as about the poverty reduction strategy. It is significant that well-informed independent commentators (Hodges and Tibana 2004) see it as having the potential to act as an important lobby.

C5.2 We identified limits on accountability in the fact that a significant part of public expenditure remains off-budget, parliament’s scrutiny role is therefore devalued, and its capacity to exercise that role seems to be weak (but improving). Also, the political parties appear to have a rather weak tradition of developing and presenting to the electorate clear programme choices. On the other hand, in spite of the fact that the two principal parties were previously warring rivals, Mozambique has managed three multi-party elections that have been regarded by international observers as acceptably conducted in broad terms. It has also held two sets of municipal elections. On the negative side, fraud seems to have become more apparent in the 2004 national election, and the opposition became a less likely alternative government as it lost its majority in three provinces that were previously its stronghold. Electoral turnout fell from 85% of the eligible population in 1999 to 36% in 2004, reflecting “widespread resignation to the inevitability of FRELIMO’s victory and scepticism about RENAMO’s chances of delivering real change” (Economist Intelligence Unit 2005: 14). Although donors (for example Canada, UNDP and the EC) have provided support to elections, it is clear that the deeper factors described above are largely beyond the influence of donors and PGBS.

Corruption

C5.3 Transparency International (2004) ranked Mozambique 90th out of 146 countries in worsening order for prevalence of corruption in 2004; this was an improvement over its position in 2000 when it was in 81st position out of 90. This is compared by some with the post-independence position when the civil service and leadership were said to have been characterised by honesty and to have been “seen as a paragon of integrity” (Hanlon 2002 and 2004). Hanlon suggest that the donors have themselves turned a blind eye to (or even “promoted”) corruption, so keen are they to identify a “success case” and reward it with further funding. Similarly, Dijkstra (2003: 38-42) argues that donors were prepared to turn a blind eye to corruption because they needed a “show case”. She indicates that the morale and ethical standards of the civil service were undermined by the income differentials that grew as a result of aid flows (see Chapter C3), and by the development of aid projects that bypassed the public sector but put pressure on government to finance their recurrent expenditure. White (1999: 26, citing Bowen 1992) is more cautious: “While government corruption was prevalent in the past, the advent of a capitalist market economy has given it new scope.”

C5.4 We are not in a position to offer an independent assessment, but corruption has been described as “a growing concern” by the World Bank (2003a: 12). High-profile corruption is described at several levels (Economist Intelligence Unit 2005, Gastrow and Mosse 2002, Hanlon 2002, Mosse 2004, World Bank 2004a and c, World Bank 2005b):

- the misappropriation of privatised firms in the 1980s;
- the theft of funds from state banks in the 1990s;
- the banking crisis that led to the withholding of PGBS funding in 2001, when debtors were bailed out by the government;
- assassinations associated with the banking thefts and crisis;
- the penetration of politics by criminal networks;
- corruption of personnel in the courts of justice;
- misappropriation of public-sector and donor funding;
- payment of bribes to officials;
- poor procurement rules and procedures resulting in abuse and corruption.

C5.5 In contradiction of the conspiracy of silence argument, PGBS donors have commissioned plenty of reports that wholly or partly address fiduciary risk (for example, DFID 2002a, Foster 2002, Lønstrup 2002, Scanteam 2004). Attention to fiduciary risk, if not fiduciary risk itself, has grown with PGBS. There is every reason why donors putting funds directly into the budget would be concerned with this issue and why their involvement in a direct partnership with government would make them more aware of it (World Bank 2005: 17b). Chapter B5 described also how the Joint Review process has given an increasingly strong emphasis to pursuing government to make progress on anti-corruption and justice-sector reform. In 2001, the government published a strategy against corruption and established an anti-corruption unit. An anti-corruption law was passed in 2004. The Administrative Tribunal has been a continuous target for reform (Chapter B4). A survey of corruption was initiated in 2003 (as the basis of a revised anti-corruption strategy), delayed due to electoral considerations in 2004, but published and presented widely in 2005. Indicators of progress in controlling fiduciary risk and corruption, improving audit and reforming the judicial sector are included in the Performance Assessment Framework (see Annex 7).

C5.6 Though there is progress at least in regard to formal statements of intent, this remains an area of concern to donors and government. The 2005 Joint Review Aide Memoire called for more political support to be given to the pursuit of reported cases of corruption. The revelation in 2004 of the diversion of Swedish scholarship funds led to the cessation of Sweden's disbursements to the education sector in 2005, and was followed by charges of corruption. According to interviews with Sida staff, sector and project funding are more easily misused than budget support because they involve parallel flows of funding (with different procedures and procurement systems) which are difficult to trace and, being off-budget, are not open to audit by the Administrative Tribunal or to scrutiny by parliament.

Conclusion

C5.7 We distinguished at the beginning of Part C between governance (or “process”) and policy (or “outcome”) cross-cutting issues (CCIs). The first set is of issues that concerned PGBS from the outset – transaction costs, corruption, ownership and conditionality, capacity building, accountability, the public–private relationship, decentralisation. Some of them were issues for which PGBS came into being in order to address. The second set came on to the PGBS agenda only in 2003 when the agreement with the government was revised. PGBS has had an impact on CCIs in three main ways:

- coordinating and giving collective impetus where previously donors were working separately with government: e.g. on conditionality and decentralisation, and potentially on capacity building;
- making links where themes are shared across sectors: e.g. public–private relationship, HIV/AIDS, gender, corruption;
- pressing for implementation where formal policies and legislation are in place: e.g. human rights, gender.

PART D: SYNTHESIS – OVERALL CONCLUSIONS AND RECOMMENDATIONS

D1. Overall Assessment of PGBS in Mozambique

D1.1 This chapter and Chapter D2 provide an assessment of the effects of PGBS, drawing on the component assessments in Part B, identifying what in the approach to PGBS in Mozambique has worked and what has worked less well, seeking explanations in the particular country context, and indicating the prospects for future PGBS development. The assessment is made with due recognition of the limitations of the study and the brevity of this analysis of complex issues by comparison with the considerable time and energy that the actors in the process (government, non-government and international partners) have dedicated to its development. This chapter outlines our assessment of the operation of causality links which are set out schematically and in more detail in Annex 5. Chapter D2 sketches significant developments in the application of PGBS in Mozambique, and their implications for the future development of PGBS.

D1.2 Our broad conclusion is that overall this has been a very successful case of donor–government collaboration, of learning from experience and of goodwill in the development of new approaches. It is in some respects an advance on other forms of programme aid and on project aid but, given donor commitments and sector ministry preferences, is not likely wholly to replace them in Mozambique.

D1.3 The country context has presented some particular difficulties that were indicated in Chapter A2 and throughout – a country left with few working institutions at independence in 1975; the attempted development of a command economy; 20 years of civil war ravaging the economy and public services; human resources and organisational systems ill prepared to support private sector development and manage service delivery. More specific to the case of budget support, public finance management (including planning and budgeting systems) is weak and fiduciary risk is high. Extraordinarily high levels of aid dependence in the 1980s and 1990s led to the development of parallel systems of expenditure management that bypass core institutions of government or bypass government altogether. Nevertheless, Mozambique is an African success story with almost continuous high levels of economic growth for 12 years, substantial poverty reduction, policy continuity, orderly leadership succession and the establishment of competitive politics and democratic institutions. An especially important factor in explaining the success of PGBS and other forms of programme aid has been the long-established relationship of trust between government and some core donors.

D1.4 With regard to the study's attempt to trace causality links between PGBS inputs, effects, outputs and outcomes, a particular research “problem” is that PGBS is at the heart of a broader “programme aid partnership” which embraces particularly sector support. The dialogue and conditionality are in common and indistinguishable, and funds are by nature fungible – particularly where, as in Mozambique, the budget allows little tracing of funds from their source to their application (Chapter B4). In real life, this is not a problem: the common framework of Joint Review, working groups and performance assessment ensures that all aid modalities are considered together.

D1.5 We found medium to strong causality effects running right through the levels of analysis (see Figure A1.1). They were more general and clearer at Levels 0, 1, 2 and 3. In other words:

- There was a strong and evolving relationship between the design of PGBS and the country context.
- The design elements of PGBS were all present in the Mozambican case: funds, harmonisation and alignment measures, policy dialogue, agreed conditions, and, in principle, technical assistance (TA) and capacity building. However, TA and capacity building have never really been developed as a coherent PGBS strategy (Chapter B1).
- Harmonisation between (now) 17 international partners was strongly developed and operationalised through increasing alignment on national systems (Chapter B2).
- PGBS has contributed an increasing proportion of public expenditure (from 3% to 17% between 2000 and 2004) going through a state budget which has itself increased by 41% (Chapter B3).
- PGBS has had a broad effect of strengthening planning and budgeting systems and policy processes (Chapters B4 and B5).

D1.6 At Levels 4 and 5, traceable effects were weaker. However, we concluded that there were broadly positive effects on macroeconomic performance (B6). Sector support and project aid have been the main external supports to improved service delivery, but PGBS has helped by adding collective donor support for service targets as well as funding and is helping to build the systems that should improve the reliability and quality of service funding in the future (Chapter B7). PGBS may have had a small positive effect on service use, income-poverty reduction and the empowerment of poor people. However, its medium-term effects can be expected to be greater, given that it supports underlying positive processes (service prioritisation and targeting, sustained government financing, strengthened PFM systems, and support for accountability and judicial reform) (Chapter B8). Lastly, PGBS in Mozambique has created very strong mechanisms for feedback and shared learning, particularly in relations between the government and international partners through the Joint Review. Mechanisms have also been set up to include civil society, and parliament has access to donor/government assessments – but these remain weakly developed or weakly exploited by stakeholders.

D1.7 However, while there were positive effects running through the chain, there were also weaknesses scattered throughout it. This not to say that the hypothesised causality links were false, but that either PGBS design or the national response have been inadequate. The following seemed to us to be the main deficiencies:

- Level 2: TA and capacity building; predictability of PGBS funding;
- Level 3: Fiscal discipline; domestic accountability;
- Level 4: Policies addressing market failure and private sector development, administration of justice, and respect for human rights;
- Level 5: Empowerment of poor people.

D1.8 We did not identify the hypothesised sequence from flow-of-funds effects leading to policy effects, in their turn leading to institutional change. Policy reforms and institutional changes were already under way before the arrival of PGBS, although the latter reinforced them. Donors have been active in Mozambique for 30 years, and the country first went through structural adjustment reforms, and then HIPC was linked to social spending and the implementation of a poverty reduction plan. PGBS did not unambiguously increase the volume

of aid but redirected a significant part through the state budget, but this was enough to generate conditions for a new sort of relationship between government and donors. The flow of PGBS funds was a necessary condition for policy dialogue and for the development of a “shared conditionality” between government and international partners. However, the dialogue and conditionality have been at least as important as the flow of funds to bringing about change.

D1.9 Public finance management and public sector reforms were cornerstones of the 2000 framework agreement (Chapter B1); indeed, engagement with government through PGBS made donors much more aware of the need for reform if the budget was to work (Chapters B3 and B4). Policy, in respect of government outputs as opposed to processes, has been a core concern of the Joint Review dialogue only since 2003. Until then, PGBS had the ultimate intent of supporting PRSP/PARPA policies, but mainly focused on reform of the government apparatus. From then, the Joint Review process has developed a much fuller policy agenda (Chapters B1 and B5). It has done this in three ways:

- (i) supporting policies proposed at sector level;
- (ii) recognising the cross-sectoral dimensions of CCIs that had been previously pursued only sectorally (particularly HIV/AIDS); and
- (iii) pressing for policy reforms in spheres (particularly the legal and judicial sectors) that had not been exposed to much pressure. The focus on deeper institutional reforms also developed from this point: for example, decentralisation, accountability, and service delivery.

D2. PGBS in Mozambique – Future Prospects

D2.1 This chapter picks out some more detailed lessons from the Mozambique experience, again following the main components of Part B's analysis but identifying particularly salient points. A governing factor in all that is described below is that, however well PGBS operates, it is only one part of the wider aid scene. Most important is to recognise that a large part of aid continues to be “off-budget” (see Annex 4B), not disbursed through the Treasury and often unknown to and unrecorded by government. The contribution of PGBS is that it is fully on-budget, but this is an island surrounded by a sea of off-budget aid in which all the PGBS donors swim. This is a primary area for donor attention since it affects all other aspects of budget management and accountability. Italics are used to signify recommendations.

D2.2 *International partners and government need to maintain the current impetus to bringing aid on-budget, sequencing this with the “roll-out” of the SISTAFE financial information systems to line ministries.*

Strong Design and Organisation but Problems of Scale

D2.3 The most striking features of the “programme aid partnership” are:

- the inclusiveness of its concern not only with PGBS but also with other forms of aid. Sector support programmes, in particular, are increasingly being brought into the same framework;
- its formality: the international partners and the government have signed up first to a framework agreement (2000) and then to an MOU (2004) to which they may individually add (an ever-reducing number of) special terms;
- its scale: rapidly increasing from five partners in 2000 to 17 in 2005, almost all the larger official international partners (IPs), including the World Bank, are now part of the programme aid partnership. Even those that are not members participate as observers;
- its organisation: evolving with the scale has been a clear organisational structure with a generally accepted leadership arrangement and a cycle of coordinating and working group meetings, culminating in the annual Joint Review process;
- the evolution of its organisation and agenda in response to changes in membership, to crises and to government demands;
- its scope: joint working groups and performance assessment between government and donors cover practically all aspects of development in Mozambique, including sectoral and cross-sectoral issues;
- the development of a framework of mutual accountability for performance. Government and donors are both independently assessed annually against their agreed commitments.

D2.4 These arrangements have proved resilient and flexible. The problems that present themselves are in maintaining coherent discussion in a wider group with more disparate interests, in the risk of overwhelming government in respect of its capacity both to participate in the Joint Review and to follow up agreed decisions, and in the danger of institutionalising a too permanent and intrusive “shadow government”. There are also issues of the capacity of donor staff to make the switch from managing project and sector aid, to supporting government's own reforms.

D2.5 *A more conscious strategy might have been adopted and might still be developed for the management of change in all these respects. More effort might also be made by government with donors to develop an aid policy that evaluates and takes into account the appropriate balance of advantage between different forms of aid. This is, in fact, now planned.*

Progressive Harmonisation, Alignment and Shared Conditionality

D2.6 Donors have come increasingly to speak with a common voice and not only in regard to PGBS. With government, they have agreed a common set of basic principles which, if respected by government, guarantee disbursement of committed funds, and an annually agreed set of rolling performance targets against which they each agree their future commitments. Donor harmonisation is formally aligned with the government's poverty strategy, its annual planning and budgeting processes, and the process and outcome targets set out in the Performance Assessment Framework (PAF). Alignment is a process that requires continuous pressure on donors. An assessment of their performance – a “donor accountability framework” – has been instituted.

D2.7 In a context where so many donors are acting together, these arrangements have reduced the vulnerability of government to (i) uncertainty about the conditions which donors individually and collectively will apply, and (ii) donors withholding disbursement within the current year. However, the quid pro quo is that individual donors lose flexibility; the need to go along with the majority could make the arrangement brittle. Moreover, it becomes increasingly difficult for donors to express concern in a measured way when they are locked into a collective response. The danger is of an all-or-nothing “nuclear option”.

D2.8 *There is a case for*

- *International partners to consider together whether, how and how far they can retain the benefits of harmonisation, alignment and predictability while also leaving space for (i) a graduated response to the partial achievement of performance targets and (ii) some variation in donor priorities.*
- *International partners and government to consider how to minimise the pressure on key government officials' time and capacity in the annual Joint Review and Mid-Term Review.*

Improving Public Finance Management and Predictability

D2.9 PGBS is the only aid modality that strengthens the whole of the GOM's financial management systems, reversing the damage of project aid. It makes use of the systems, opens them to public scrutiny, which increases accountability, and relocates dialogue to the monitoring and improvement of those systems. PGBS is also the only aid modality to fully support the objectives of the PRSP/PARPA since it is unearmarked and finances the whole strategy rather than a sector or an activity. However, there have been large transaction costs generated by late disbursements (whether within the year or even into the next financial year, and over- and under-disbursing within the year). The 2004 MOU and continuous pressure for alignment have resulted in greater predictability of aid flows, but predictability and phasing *within* the year remain serious problems for government.

D2.10 *Donors could consider:*

- *how to schedule their disbursements collectively throughout the year, with particular emphasis on releasing funds in the first quarter when tax revenue is low, so as to create a more regular cash flow for government. This would smooth the budget process and avoid the need for inflationary borrowing.*

Weak but Improving Planning, Budgeting and Accountability

D2.11 There are justified concerns over the effectiveness of unearmarked aid flows entering a budget which is incremental in nature, de-linked from costed outcomes, exhibits little improved operational efficiency over time, depends on vulnerable and untransparent procurement practices, and remains a fluctuating indicator of how money is spent and allocated in Mozambique. Public finance management (PFM) reforms (under the SISTAFE programme) have focused first on accounting and reporting mechanisms rather than on the link between planning and programme budgeting. Nevertheless, PGBS has been influential, not only through its funding but also through the impetus it has created to focus dialogue on the national budget and shared policy objectives across sectors. Its most important effect is that it is beginning to change the relationship and reporting lines between core government and line ministries, and between line ministries and donors. These changes also create conditions for greater accountability.

D2.12 The scope for parliamentary accountability has increased to the extent that the state budget (submitted to parliament) has grown as a proportion of all public expenditure, and that a higher proportion of donor funds have been brought into the budget. The instruments (e.g. the PAF) for strengthened accountability to donors are also available to the scrutiny of parliament and civil society. In that sense, there is not necessarily a trade-off between external and domestic accountability, although the first may demand a higher level of government attention. More important is the fact that the capacity, organisation, human resources, information and will of parliament and civil society to hold government to account are still weak. This is a fundamental limitation on the logic of PGBS, which depends on the idea that accountability shifts from external to domestic stakeholders.

D2.13 *International partners, government and parliament should consider how to give impetus to:*

- *the introduction of programme budgeting as part of a phased development in line with the roll-out of the new system for integrated financial management (SISTAFE);*
- *the development of institutions of domestic accountability in consultation with parliament and civil society (initially the Poverty Observatory).*

Government might consider whether it could strengthen its strategic engagement with international partners by preparing cross-ministerial positions prior to engagement with donors in Joint Review dialogue.

Inadequate Attention to Capacity Building

D2.14 The question of *government* capacity was identified in the original analyses leading up to the establishment of PGBS (¶B1.14 and ¶B1.15) and in the 2004 MOU (Annex 3C). However, capacity and capacity building have been inadequately addressed by PGBS, in terms of (a) government's capacity to accompany the Joint Review process, to handle an expanded budget and to implement reforms; (b) donors' capacity to switch from project management to policy analysis and support; and (c) the development of the institutions of domestic accountability. Capacity building in the context of PGBS is largely fragmented and projectised. While the donors have combined to provide PGBS and to improve the systems that handle it, they have not acted analogously with technical assistance (TA). TA is largely provided on an ad hoc basis through projects, whereas it could be supplied on the basis of a common government-owned plan. The exception is the pooled support for the development of an integrated financial management information system (SISTAFE). A new jointly funded sector-wide programme for financial sector TA (FTSAP), to begin in 2006, emerged from discussions within PGBS working groups (see Chapter C3).

D2.15 There are issues for donors as well as government:

- *Donors need to develop staff skills to support government in financial management, policy analysis and implementation.*
- *Government needs more systematic donor support in the development of capacities for policy analysis, planning, budgeting and implementation.*
- *Ideally, the government would have a staffing plan, identifying gaps, and the PGBS donors would agree through a joint programme to finance the filling of those gaps, whether by local people or by expatriates with sufficient training and experience. The government would choose the occupants of posts rather than having them supplied by donors. Similarly, the government would lead in the definition of broader capacity-building plans (e.g. for PFM).³⁴*

Support for Policies and Policy Processes

D2.16 PGBS has brought about a dialogue, which is more focused on policy priorities, more cross-sectoral and more inclusive of stakeholders than previously existed. Government has increasing participation if not control. The instruments through which PGBS has contributed are the working groups and the annual Joint Review process through which dialogue is maintained, agreements about goals and targets reached, and performance measured by donors with government. This dialogue has not displaced the dialogue at sector level but has reinforced pro-poor policies by subjecting them to wider scrutiny.

D2.17 One of the advantages of the approach to PGBS in Mozambique is that it has embraced other aid modalities and non-PGBS donors. The Joint Review has been able to use the collective weight of PGBS donors to support policy reforms in sectors that are well supported (agriculture, education and health), to give cross-sectoral recognition to those that are in danger of being treated at a purely sectoral level (HIV/AIDS), and to apply that weight to sectors that have less reform impetus (legal and judicial sectors and, potentially, the environment). It has been less successful in bringing about policies that address market failures in the productive sectors. There is a danger, which is being addressed in the context of the Joint Review process, that the focus on public services may be at the cost of support for the private sector's role in developing income-generating activities.

D2.18 More deliberate attention could be given by international partners and government to reforms which do not involve heavy public expenditure but which are essential to challenging the foundations of poverty, and particularly to the legal and judicial sectors, the improvement of the business environment, and rural employment generation.

Strong Macroeconomic Performance but Weak Support for Productive Sectors

D2.19 The question is whether PGBS has contributed to a favourable macroeconomic environment leading to increased investment and growth. Mozambique's national strategy as supported by PGBS has achieved quick wins. Growth has been high following years of economic disruption but has been highly dependent on a few mega-projects which provide limited employment opportunities. The PARPA has supported high levels of social sector spending and the coverage of social services has increased, generating a reduction in poverty measure. Government policy, backed by PGBS, has given less emphasis to productive employment generation than to social sector service extension, despite the fact that achieving accelerated and sustained economic growth, particularly in rural areas, is likely to be the principal contributor to job creation and hence reduced income poverty in the longer term.

³⁴ This echoes the DAC guidelines on capacity development for PFM (OECD DAC 2005)

D2.20 There are three big challenges for PGBS donors and the GOM in framing future policy to sustain the high rates of growth:

- *First is the need to reassess the existing balance between social sector spending and creation of conditions for investment in the productive sectors.*
- *Second, Mozambique has already carried out the “easy” reforms. International, regional and Mozambican experience has demonstrated that reforms in areas such as the banking sector and the judicial sector are much slower and harder to implement. Institutional development is a long-term engagement and PGBS needs to remain committed to institutional development once the quick wins are over and reform progress becomes less tangible.*
- *Third, PGBS donors could consider how to give the GOM more policy space. Mozambique’s policies are heavily influenced by PGBS and the group is heterogeneous. Policy recommendations tend to come together as a number of conditionalities, which do not add up to a strategy for economic growth.*

Maintaining Support for Investment in Public Service Delivery

D2.21 PGBS's contribution to the improvement of service delivery has not been to invent new policies nor to create previously unasserted targets. It can be seen as maintaining support for policies and targets already agreed at sector level. Its main effect has been not through new funding but in redirecting existing funding to flow through the national budget. This has enabled it to reinforce commitments by making them a matter of collective donor and government agreement, exposing them to transparent monitoring, and working to improve the link between plans, budget allocations and execution. What is distinctive about the PGBS dialogue and conditionality is that:

- it has the force of collective agreement between government and international partners in support of these policy priorities;
- it is influential at all levels of donor–government collaboration, whether in PGBS, sector support or, probably, in project aid too;
- it has created a powerful framework for collective monitoring of policy implementation, planning and budget allocation, and service delivery with an instrument of assessment in the form of the PAF;
- the collective PAF assessment is the basis of donors' decisions about their disbursements. For the majority, a positive collective judgement will signal disbursement in accordance with their multi-year agreements.

D2.22 There is need for discussion and planning between donors and between core government and line ministries about the relative balance between PGBS, sector and project aid. Many government officials, and some officials of most donors, would argue that sector programmes are the safest way of getting funds through to service delivery. Their concern is that budget support through a ministry of planning and finance³⁵ with a weak organisational structure and human resources could put at risk existing channels of funding. This fear and the weakness of the budgetary systems underlying it have not been adequately addressed. At present, if they are addressed, it is mainly by an incremental process of learning by doing rather than by a conscious strategy.

³⁵ The division of the MPF into separate planning and finance ministries, which took place after our study period, is an additional cause for concern.

Support for Progress in Poverty Reduction – with Omissions

D2.23 It cannot be claimed that PGBS is a primary explanation for Mozambique's success in poverty reduction. This began with the recovery from civil war, the re-installation of abandoned services, structural adjustment, HIPC debt relief, and the application of the government's PARPA priorities. It was strongly supported by aid in the form of projects and sector programmes. However, PGBS has helped to maintain the conditions of macroeconomic stability, service expansion and commitment to PARPA priorities that have created the conditions for poverty reduction. It is the only aid modality that has been fully deployable by government to serve its own poverty reduction strategy, and it has supported the development of financial systems that could bring more funds on-budget and facilitate their transfer to local levels.

D2.24 *PGBS has only recently begun to address the weaknesses in the existing development strategy: the relative neglect of the productive sectors, territorial inequalities, the mechanisms of transfer of funds to service delivery agencies, the judicial sector, the voice and empowerment of poorer service recipients, and the better integration of budgeting with planning. These need to be given sustained attention in PARPA II and PGBS dialogue.*

D3. Summary of Conclusions and Recommendations

D3.1 The main purpose of this study has been to describe and evaluate the relevance, operation and effects of PGBS in Mozambique. The core of our approach to the evaluation has been to apply and test a logical framework or causality map describing a possible sequence of effects from PGBS inputs to its effects, outputs, outcomes and impact. Chapter D1 and Annex 5 summarise how this logical chain works in the case of Mozambique. Chapter D2 goes on to pick out the most salient findings at each stage of the analysis and to indicate recommendations for government and international partners that flow from this analysis. Country-level recommendations are a by-product of the analysis rather than its main purpose. Our principal recommendations will follow from the comparative analysis of the experience of PGBS in our seven country studies and from other available material, and will be presented in the Synthesis Report.

D3.2 This chapter mainly consists of the matrix that is presented in Table D3.1. This gives a brief account of the *findings* of the Mozambique study, going through each of the analytic chapters of Parts B and C. From the findings it distils some key *conclusions* that are relevant to the performance of PGBS; this is far from being a comprehensive list, for which the reader is referred to the responses to each Evaluation Question chapter by chapter. From the conclusions follow some *recommendations* which we present for the consideration of domestic and international stakeholders in the PGBS process in Mozambique, indicating who might take action in what period. The derivation of these recommendations is spelt out more fully in Chapter D2. For the convenience of readers they are presented in the matrix format of Table D3.1, which indicates the paragraphs and chapters where they are more fully explained. They should be understood as strategic indications; many of them are already under consideration by government and international partners. It is not the place of this report to work out how they might be operationalised.

D3.3 The last column indicates who should be responsible for implementation of the recommendations. The timeframe for this to happen is also suggested, with the following key:

- I means for immediate action;
- ST means for action in the short term, that is roughly 6 months to a year;
- MT means for action in the medium term, that is it will take more than a year.

D3.4 The recommendations are grouped by Evaluation Question in the matrix. Another way of organizing them is by the focus of attention: aid strategy between government and donors; donor performance; government performance; civil society's engagement; the private sector and growth.

Aid strategy:

- R1 Design a shared strategy for the development of programme aid in parallel with government capacity.
- R2 Consider the advantages of different aid modalities and how each might be used.
- R3 Develop an aid strategy that specifies government's objectives with regard to different aid modalities.
- R4 Maintain commitment to bringing aid on-budget as financial information systems improve.

Donor performance:

- R5 Develop donor capacity to support policy analysis, planning and budgeting.
- R6 Continue to improve predictability and scheduling of intra-year and inter-year disbursements and release greater levels of funds in the first quarter of the year so as to combat cyclical tax revenue fluctuations.
- R7 Consider whether and how international partners can give graduated response to government performance.
- R8 Consider further how to minimise pressure on key government officials' time in the annual Joint and Mid-Year Reviews.
- R9 Adopt a strategy of giving the government progressively more “space” to develop and implement its own growth and poverty reduction approach.

Government performance:

- R10 Develop a pooled programme for technical assistance and capacity building in policy analysis, planning and budgeting.
- R11 Give skewed territorial distribution of budget expenditure more prominence in dialogue.
- R12 Support phased development of programme budgeting.
- R13 Give greater priority in dialogue to impact of growth on domestic revenue and decreasing dependence on aid.
- R14 Address the concerns of line ministries about the insecurity of their lines of funding in the transition to PGBS.
- R15 Maintain pressure to focus and implement strategies in areas of HIV/AIDS and the justice sector.
- R16 Consider whether and how environment should be more strongly addressed through PGBS.
- R17 Prepare cross-ministerial positions prior to engagement with donors in Joint Review dialogue.
- R18 Maintain Joint Review pressure for measures against corruption.

Civil society's engagement and accountability:

- R19 Develop a strategy for enhancing accountability with parliament and Poverty Observatory.
- R20 Maintain Joint Review pressure for measures against corruption.
- R21 Maintain pressure to focus and implement reform of the justice sector and audit systems.

The private sector and growth:

- R22 Enhance emphasis of dialogue and conditionality on banking, legal and judicial sector reforms.
- R23 Strengthen international partner dialogue with government on rural employment generation.
- R24 Strengthen international partner dialogue with government on the business environment.
- R25 Consider support for non-state provision of public services.

Table D3.1: Summary of Findings, Conclusions and Recommendations

Findings	Conclusions	Recommendations	Implementation (who/when)
<p>EQ1 Relevance of PGBS</p> <ul style="list-style-type: none"> PGBS was built on analysis of earlier experience of programme aid, and on a thorough analysis of the economy and of government's managerial strengths and weaknesses. But, the programme could have been designed with more attention to the capacity of government and the adequacy of its planning and budgeting systems. PGBS design has responded to government's concerns, particularly about predictability, and evolved into an arrangement that is more nearly owned by government. A highly coordinated and coherent structure for government–donor collaboration has been developed, inclusive of different aid modalities, of different donors' priorities and perspectives on the speed of advance to PGBS, and providing a basis for government–donor agreement about priorities. 	<ul style="list-style-type: none"> The organization of the partnership between IPs and government is clear, flexible, inclusive and robust (¶B1.29). Agreed principles and commitments are the basis for donors' and government's accountability for performance (¶B1.23). Dialogue also embraces sector aid (¶B1.13). Though initially weak, government ownership is strengthening (¶B1.17). There is a risk that the PGBS dialogue overwhelms domestic capacity (¶B1.14, ¶B1.15). 	<ul style="list-style-type: none"> Design a shared strategy for the development of programme aid in parallel with government capacity (¶D2.22). 	<ul style="list-style-type: none"> Government with IPs (1 and continuing)

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Findings	Conclusions	Recommendations	Implementation (who/when)
<p>EQ2 Harmonisation and Alignment</p> <ul style="list-style-type: none"> There are strong procedures for harmonisation between the G17 donors, and these arrangements also involve all other large donors and international agencies as observers. The World Bank has moved from observer status to full membership, and IMF has harmonised its PRGF programme. The PGBS funds, review process and dialogue have been fundamental in elevating the status of the MPF as a focal point for national planning and in strengthening planning instruments of prioritisation and performance assessment. However, sector ministries retain a high degree of autonomy owing to their links with aid agencies. Policy dialogue and fund commitments are aligned with planning and budget cycles, and the record on disbursement is improving. The G17 with the government have formally agreed their objectives, the underlying principles on which their agreement is based, a basis for assessing government's performance, and mechanisms for donor accountability against their commitments. 	<ul style="list-style-type: none"> There is increasing alignment with government policies and systems (¶B2.14). PGBS has created an effective system for aid coordination (¶B2.16). TA and capacity building remain the least harmonised and aligned element of PGBS (¶B1.10, ¶B2.12). Uncertain aid disbursement has been the main alignment problem; this is now mainly an inter-year rather than inter-year problem (¶B2.14, ¶B3.13). There is a risk that harmonisation and alignment become so strong as to limit individual donors' ability to signal dissatisfaction (¶B2.19). 	<ul style="list-style-type: none"> Develop an aid strategy that specifies government's objectives with regard to different aid modalities (¶D2.5). Develop a pooled programme for TA and capacity building in policy analysis, planning and budgeting (¶D2.13). Develop donor capacity to support policy analysis, planning and budgeting (¶D2.15) Schedule disbursements within year (¶D2.10). Consider whether and how IPs can give graduated response to government performance (¶D2.8). 	<ul style="list-style-type: none"> IPs and government (I and continuing) IMF/IPs with government (I) IPs (ST) IPs with government (ST) IPs and government (ST)

Findings	Conclusions	Recommendations	Implementation (who/when)
<p>EQ3 Public Expenditures</p> <ul style="list-style-type: none"> PGBS has had a positive effect in increasing the proportion of public expenditure subject to the national budget. It has also increased the share of recurrent expenditure. Policy dialogue and conditionality are focused on key public policy and public expenditure issues and priorities, as defined in the PRSP, government plans and agreed performance targets. PGBS disbursement predictability has improved. While the increasing allocation of budget funds to “priority sectors” cannot be directly attributed to PGBS but to the broader reform agenda and growing resource envelope overall, PGBS has supported GOM’s commitment. There remain deficiencies in the very broad categorisation of priority sectors as being “pro-poor”. Reforms are improving budget execution rates on investment, and reducing the uncertainty that surrounds the real application of budgeted funds. Transaction costs for the GOM may have increased in the period of transition but are expected to decline. 	<ul style="list-style-type: none"> PGBS funds are probably not additional (¶B3.4). The “priority sector” orientation of the PRSP1 (and hence PGBS) does not give a clear pro-poor focus, though the PAF helps in targeting priority objectives (¶B3.7, ¶B2.6). PGBS has a moderately positive effect on the efficiency of public expenditures, and enables a better balance between recurrent and capital expenditure (¶B3.14). PGBS/PRSC strengthen the budget and support bringing project funding on-budget (¶B3.9). Uncertain aid disbursement has been the main alignment problem; this is now mainly an inter-year problem (¶B2.14, ¶B3.13). The territorial distribution of the budget remains very skewed (¶B3.16, ¶B7.13, Chapter C3). 	<ul style="list-style-type: none"> The new PRSP (PARPA II) may correct this Maintain commitment to bringing aid on-budget as financial information systems improve (¶D2.2). Schedule disbursements within year (¶D2.10). Give territorial distribution issue more prominence in dialogue (¶D2.24). 	<ul style="list-style-type: none"> IPs (I and continuing) IPs with government (ST) IPs with government (I)

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Findings	Conclusions	Recommendations	Implementation (who/when)
<p>EQ4 Planning and Budgeting Systems</p> <ul style="list-style-type: none"> Budgeting and planning in Mozambique suffer from systemic weaknesses. PGBS has had a positive effect, not only through its funding but also through the focus of dialogue on the national budget and shared policy objectives. It supports changes in the relationship between core government and line ministries, and between line ministries and donors. In that sense, it has had a moderately positive effect in increasing the ownership of the budgetary process. Changes in systems of budgeting and planning are beginning to be internalised throughout the government system. However, while line ministries are now planning and coordinating more closely with the MPF, the links remained weak. This is partly a problem of the “distance” between the experience of staff in different ministries, and partly of the weak capacity of government financial management and planning. The weaknesses of the budgetary process are also inhibitions on democratic accountability. Moreover, a large part of public expenditure is off-budget and therefore not subject to parliamentary scrutiny or external audit. The scope for parliamentary accountability has increased as the state budget has grown, and more donor funds have been brought into the state budget. 	<ul style="list-style-type: none"> PGBS is strengthening the planning and coordination process between “core government” and line ministries (¶B4.4). The budgetary process remains an inadequate mechanism for receiving greatly increased PGBS funds (¶B4.2). PGBS is strengthening the possibility of government maintaining a coherent cross-sectoral strategy but this is countered by off-budget project and sector support (Chapters B3, B4, B5, C1). The potential for greater domestic accountability is increasing, but practice lags (¶B4.9–¶B4.14). 	<ul style="list-style-type: none"> Develop a pooled programme for TA and capacity building in policy analysis, planning and budgeting (¶D2.15). Develop donor staff capacity to support policy analysis, planning and budgeting (¶D2.15). Support phased development of programme budgeting (¶D2.13). Maintain commitment to bringing aid on-budget as financial information systems improve (¶D2.2). Develop a strategy for enhancing accountability (¶D2.13). 	<ul style="list-style-type: none"> IMF/IPs with government (I) IPs (ST) IMF/IPs with government (MT) IPs (I and continuing) Poverty Observatory with parliament supported by consultants funded by IPs (ST)

Findings	Conclusions	Recommendations	Implementation (who/when)
<p>EQ5 Policies and Policy Processes</p> <ul style="list-style-type: none"> The Mozambican policy process is focused on a very centralised government, line ministries with a high degree of vertical control, strongly influenced by donors, and with low levels of civil society participation. Access to donor funding at sector level has enabled government to avoid hard choices. PGBS has begun to change this by bringing sector ministries into a wider policy debate which is more cross-sectoral, and slightly more inclusive of civil society stakeholders. While the PGBS agenda initially focused on the improvement of government systems, since 2003 it has broadened to cover all aspects of government and donor policy relevant to the poverty reduction strategy. It has added its open and collective pressure to meet sector targets and carry out promised reforms. PGBS is increasingly oriented to private sector development but until now this has been relatively weakly pursued. 	<ul style="list-style-type: none"> PGBS has developed a strong forum for dialogue with government on policy priorities (¶B5.6- ¶B5.8). Government (including line ministries) participation is increasing (¶B5.10, ¶B5.23). Non-official involvement in policy dialogue remains weak (¶B5.11). PGBS dialogue and conditionality have comparative advantages in supporting sectoral and cross-sectoral reforms (¶B5.25 and ¶B5.26). PGBS has not yet given much attention to policies that can have an impact on levels of rural employment generation (¶B5.21). PGBS has not until recently given much attention to policies to minimise distortions in the private sector for the creation of greater income-generating opportunities for the poor (¶B5.18). 	<ul style="list-style-type: none"> Adopt a strategy of giving the government progressively more “space” to develop and implement its own growth and poverty reduction approach (¶D2.20). Develop a strategy for enhancing accountability (¶D2.13). Enhance emphasis of dialogue and conditionality on banking, legal and judicial sector reforms (¶D2.18). Strengthen IP dialogue with government on rural employment generation (¶D2.18). Strengthen IP dialogue with government on the business environment (¶D2.18). 	<ul style="list-style-type: none"> IPs (I) Poverty Observatory with parliament supported by consultants funded by IPs (ST) IPs with government (ST) IPs with government (ST) IPs with government (ST)

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Findings	Conclusions	Recommendations	Implementation (who/when)
<p>EQ6 Macroeconomic Performance</p> <ul style="list-style-type: none"> The economy has been growing fast since the end of the civil war and hence before PGBS. While a more favourable macroeconomic environment has largely been achieved (except for interest rates), this is mainly a product of monetarist policies linked to the IMF and supported by PGBS donors. PGBS has made an increasing volume of resources available to the national budget and contributed to the transparency of public expenditure, but this has not yet resulted in improved fiscal discipline. However, the fiscal deficit and instability would probably have been worse in the absence of PGBS. Institutional restructuring in areas important for private sector growth such as the judicial and financial sectors has lagged behind other reforms. 	<ul style="list-style-type: none"> PGBS has had a moderately positive effect on macroeconomic performance (¶B6.22). PGBS has a positive effect on fiscal discipline but ultimately this depends on GOM (¶B6.11 and ¶B6.12). PGBS has helped reduce the cost of financing the budget (¶B6.13). There is no evidence that access to PGBS funds reduces the mobilisation of domestic revenue (¶B6.18). 	<ul style="list-style-type: none"> Continue to improve predictability and scheduling of intra- and inter-year disbursements and release greater levels of funds in the first quarter of the year so as to combat cyclical tax revenue fluctuations (¶D2.10) Give greater priority in dialogue to impact of growth on domestic revenue and decreasing dependence on aid (¶D2.20) 	<ul style="list-style-type: none"> IPs (I and continuing) Government and IPs (I and continuing)

Findings	Conclusions	Recommendations	Implementation (who/when)
<p>EQ7 Delivery of Public Services</p> <ul style="list-style-type: none"> PGBS's contribution to the state budget has been associated with the increasing allocation of resources to priority sectors. However, PGBS funding is largely a reallocation of funds from other aid modalities which would themselves probably have respected the PRSP priorities. So, there is no gain in the efficiency of allocation to priority sectors. However, PGBS, being on-budget, permits GOM to plan the allocation of funds rationally, according to agreed policy goals and with a greater guarantee of long-term donor commitment. The dialogue (in the Joint Review) associated with PGBS is influential beyond the scale of the finances, and it is not exclusively about PGBS; it covers other forms of aid and particularly sector funding. It has not developed new policies and reform proposals at sector level, but added a more open and collective pressure to meet service targets and to undertake promised reforms. As an instrument for dialogue and technical assistance, PGBS is addressing the problems and helping develop the systems which have inhibited resource flows to service delivery agencies. 	<ul style="list-style-type: none"> PGBS has had a small positive effect on service delivery, mainly by adding collective pressure in support of sector priorities (¶B7.2). It is likely to have a longer-term positive effect through the development of systems and supply of more predictable (recurrent) funding (¶B7.17, ¶B7.20). However, line ministries fear unpredictability in the transition (¶B7.22). The territorial distribution of the budget remains very skewed (¶B3.16, ¶B7.13). 	<ul style="list-style-type: none"> Address the concerns of line ministries about the insecurity of their lines of funding in the transition to PGBS (¶D2.22). Give territorial distribution issue more prominence in dialogue (¶D2.24). 	<ul style="list-style-type: none"> Government with IP support (ST) Government with IPs (I and continuing)

Findings	Conclusions	Recommendations	Implementation (who/when)
<p>EQ8 Poverty Reduction</p> <ul style="list-style-type: none"> Between 1996 and 2003 there was a spectacular fall in the incidence of poverty as measured by consumption, from 69% to 54% of the total population. Socio-economic indicators also show a reduction of non-income poverty, in respect of access to education and health services. Many more important factors than PGBS intervene: poverty reduction has long been the focus of the GOM; and at the aggregate level expenditure on priority areas has not altered. PGBS, however, has resulted in better alignment of external support with the GOM's objectives under the PRSP. PGBS has helped to reinforce service delivery commitments by making them more monitorable against the PAF. But, it can so far claim to be only a minor contributor to the reduction of income poverty and to the strengthening of poor people's empowerment. 	<p>Main Conclusions</p> <ul style="list-style-type: none"> PGBS's effect on income and non-income poverty and the empowerment of poor people is, so far, small but positive (Chapter B8 as a whole). Nevertheless, we assess it as a relatively efficient aid modality whose longer-term effect is likely to be greater (Chapter B8 as a whole). 	<ul style="list-style-type: none"> Sustained attention needs to be given to factors that are relatively new in the PGBS dialogue (¶D2.18, ¶D2.20, ¶D2.24) <ul style="list-style-type: none"> - The business environment - Rural labour generation opportunities - Territorial inequalities - Mechanisms for transferring funds to service agencies - Empowerment of the poor - The better integration of planning and budgeting instruments - Legal and judicial reform. 	<ul style="list-style-type: none"> IPs and government in Joint Review (I)

Findings	Conclusions	Recommendations	Implementation (who/when)
<p>EQ9 Sustainability</p> <ul style="list-style-type: none"> There are numerous and strong processes of shared learning between government and donors with flexible mechanisms for adjusting to experience and for maximising complementarities through different forms of aid. These run through all levels of the evaluation framework from the design, periodic reviews of the partnership, and joint reviews of government and donor performance against agreed targets. Learning processes have been strong in relation to the flow of funds, institutions and policies. The level of PGBS funding has been sufficient to engender a well-structured dialogue which has been the main instrument of learning in regard to institutions: the development of the framework for the donor partnership and harmonisation, government–donor alignment, and performance assessment, and reforms in financial management and at sector level. Learning processes have been extended to a widening group of stakeholders, including donors with different degrees of commitment to PGBS, sector ministries of government and non-governmental actors. However, the participation of the legislature and of civil society organisations remains weak. 	<ul style="list-style-type: none"> PGBS has established strong mechanisms of review, shared learning, feedback and adjustment (¶B9.12 and ¶B9.15). Dialogue and conditionality are inclusive of other aid modalities (¶B9.4 and ¶B9.15) Dialogue is inclusive of non-PGBS donors (¶B9.4 and ¶B9.17). Accountability to parliament and civil society remains a relatively weak mechanism (¶B9.15 and ¶B9.18). 	<ul style="list-style-type: none"> A more deliberate effort could be made to consider the advantages of different aid modalities and how each might be used (¶D2.5) Develop a strategy for enhancing accountability (¶D2.13). 	<ul style="list-style-type: none"> IPs will have different stances, but open debate between IPs and with government could help (i) IPs frame their individual policies, (ii) government clarify its preferences for the balance between modalities (MT) Poverty Observatory with parliament supported by consultants funded by IPs (ST)

Findings	Conclusions	Recommendations	Implementation (who/when)
<p>C1 – Policy Cross-cutting Issues</p> <ul style="list-style-type: none"> • Cross-cutting issues (CCIs) have been addressed to different degrees within the PGBS process, but in general terms it has helped to give practical impetus to CCIs that were espoused formally: • Women have strong formal rights and political representation. However, in the spheres of economic participation, access to service and justice, women and girls remain disadvantaged. An active gender working group is pursuing these issues within the Joint Review process. • Environmental legislation is strong but practice is much weaker. PGBS and the Joint Review have dedicated little attention to environmental matters. • HIV/AIDS had been dealt with as a matter for the health sector, leading to an inadequate response to available funds for treatment and protection. The Joint Review has pressed effectively for a cross-sectoral approach. • Human rights are strongly established at a formal level, but less so in practice, particularly in regard to the performance of the courts, prisons and police. The Joint Review has given collective impetus to the pursuit of legal and judicial reforms. 	<ul style="list-style-type: none"> • PGBS has played a useful role in bringing collective IP pressure to bear in regard to gender, HIV/AIDS and human rights (¶C1.5, ¶C1.10 and ¶C1.12) • Environment has received little attention (¶C1.6) 	<ul style="list-style-type: none"> • Maintain pressure to focus and implement strategies in areas of HIV/AIDS and the justice sector (Chapter C1) • Consider whether and how environment should be more strongly addressed (Chapter C1) 	<ul style="list-style-type: none"> • IPs with government (I and continuing) • Government supported by IPs (ST)

Findings	Conclusions	Recommendations	Implementation (who/when)
<p>C2 – Public and Private Sector Issues</p> <ul style="list-style-type: none"> A major privatisation programme was undertaken in the 1990s. Mozambique's rapid economic growth owes much to a few large foreign investments; the business environment for smaller and domestic enterprises remains unfavourable. Growth and the private sector are given limited prominence in the PRSP (PARPA I). Some action has been undertaken through the development and implementation of legal, regulatory and judicial reforms. Until recently, PGBS has put little focus on improving the business environment, except inasmuch as it strengthens the macroeconomy, but it now gives some attention to this sector and these issues will be given greater prominence in the PARPA II. 	<ul style="list-style-type: none"> PGBS has only recently directly engaged with the strengthening of the private sector (Chapter C2) Donors have tended to support social service provision over the development of conditions for private investment (Chapter C2) 	<ul style="list-style-type: none"> In PGBS dialogue, give greater emphasis to the role of the domestic business and agricultural sectors for growth, income generation and the reduction of income poverty (Chapter C2, ¶D2.20). Give more attention to legal, judicial and banking sector reforms affecting the business environment (Chapter C2, ¶D2.20). Consider support for non-state provision of public services (¶C2.8). 	<ul style="list-style-type: none"> IPs and government (I) IPs and government (I) IPs and government (MT)

Findings	Conclusions	Recommendations	Implementation (who/when)
<p>C3 – Government Capacity and Capacity Building</p> <ul style="list-style-type: none"> The government is following a policy of gradual decentralisation, but this is still mainly a matter of administrative deconcentration from a highly centralised and vertically segmented base. This sustains a system of skewed territorial distribution of state budget expenditure. The PGBS Joint Review is now seeking to engage more directly with reform at provincial and district level. Capacity in government is weak and capacity development in core institutions of government (particularly the Ministry of Planning and Finance) has been fragmented, projectised and largely de-linked from PGBS. However, IPs and government are now discussing a more coordinated programme. The most significant capacity building probably occurs by “learning by doing” in activities that are changing practice (e.g. SISTAFE and PAF). 	<ul style="list-style-type: none"> PGBS increases the resource envelope for decentralised funding and is beginning to support decentralisation through dialogue and conditions (Chapter C3). Capacity development and TA have not been systematically addressed by PGBS (Chapter C3). 	<ul style="list-style-type: none"> Develop a pooled programme for TA and capacity building in policy analysis, planning and budgeting (Chapter C3, ¶D2.13). Develop donor staff capacity to support policy analysis, planning and budgeting (Chapter C3, ¶D2.15). 	<ul style="list-style-type: none"> IMF/IPs with government (I) IPs (ST)

Findings	Conclusions	Recommendations	Implementation (who/when)
<p>C4 – Quality of Partnership</p> <ul style="list-style-type: none"> Ownership, in the sense of the strengthening of cross-sectoral national systems over which government exerts collective control, has increased under PGBS with donor–government agreement on shared conditions and priority targets. PGBS dialogue has embraced other forms of aid (particularly sector support) and worked to strengthen complementarity between modalities within the framework of the budget and national policy. Off-budget aid remains very significant but PGBS donors (supported by financial sector reforms) are working to bring sector support on-budget and to improve project aid reporting to government. PGBS has initially increased transaction costs to government because of new dialogue requirements, new conditionalities, and unpredictable flows of PGBS funds. TCs have spread to include the MPF rather than shifting from line ministries. These costs may now be decreasing as government has adjusted and donors increasingly work through government systems. However, the persistence of other aid modalities reduces the net positive effect. 	<ul style="list-style-type: none"> PGBS has engaged more donors in a more coherent dialogue with government, based on a shared approach to “conditionality” than earlier forms of aid (Chapter C4) The government’s control of the process is becoming stronger and its participation has widened to involve line ministries (Chapter C4). Dialogue and conditionality are inclusive of other aid modalities (¶B9.14, ¶B9.15 and Chapter C4). Transaction cost associated with the transition to PGBS and with late disbursements are expected to decrease (Chapter C4). 	<ul style="list-style-type: none"> Adopt a strategy of giving the government progressively more “space” to develop and implement its own growth and poverty reduction approach (¶D2.20) Prepare cross-ministerial positions prior to engagement with donors in Joint Review dialogue (¶D2.13). A more deliberate effort could be made to consider the advantages of different aid modalities and how each might be used (¶D2.5). Consider further how to minimise pressure on key government officials’ time in the annual Joint and Mid-Year Reviews (¶D2.8) 	<ul style="list-style-type: none"> IPs (I) Government (I) IPs will have different stances, but open debate between IPs and with government could help (i) IPs frame their policies, (ii) government clarify its preferences for the balance between modalities. IPs (I)

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Findings	Conclusions	Recommendations	Implementation (who/when)
<p>C5: Political Governance and Corruption</p> <ul style="list-style-type: none"> The weaknesses of the budgetary and policy processes are also inhibitions on democratic accountability. Moreover, a large part of public expenditure is off-budget and therefore not subject to parliamentary scrutiny or external audit. The scope for parliamentary accountability has increased as the state budget has grown, and more donor funds have been brought into the state budget. Corruption has remained a problem but the Joint Review process is now pursuing the implementation of reforms. PGBS has made fiduciary risk a more central concern of donors and has probably made corruption more discernible by involving donors nearer the core processes of government. 	<ul style="list-style-type: none"> The potential for greater domestic accountability is increasing but practice lags (¶B4.9–¶B4.14). PGBS mechanisms for strengthening accountability may also strengthen parliamentary accountability (Chapter C5) Corruption and fiduciary risk remain serious but PGBS has led IPs and government to give them more attention (Chapter C5). 	<ul style="list-style-type: none"> Develop a strategy for enhancing accountability (¶D2.13). Maintain Joint Review pressure for measures against corruption (Chapter C5). 	<ul style="list-style-type: none"> Poverty Observatory with parliament supported by consultants funded by IPs (ST) IPs with government (I and continuing)

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JOINT EVALUATION OF GENERAL BUDGET SUPPORT 1994–2004
Burkina Faso, Malawi, Mozambique, Nicaragua, Rwanda, Uganda, Vietnam

Mozambique Country Report

ANNEXES

April 2006

Joint Evaluation of General Budget Support MOZAMBIQUE COUNTRY REPORT ANNEXES

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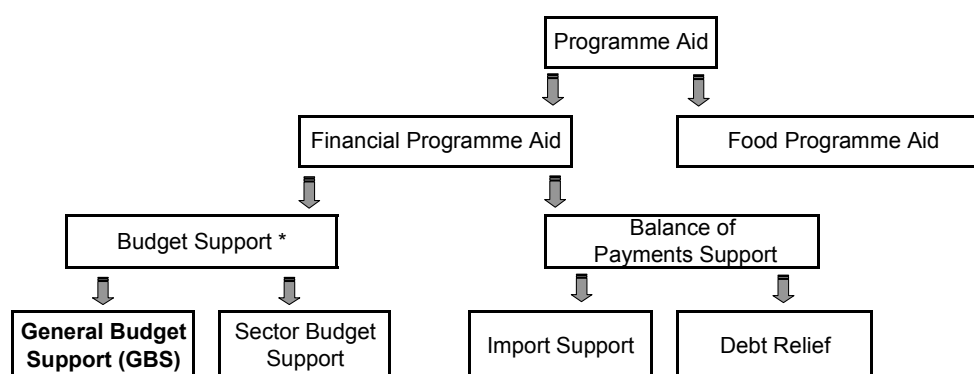
ANNEX 1: APPROACH AND METHODS

Annex 1A: Summary of the Evaluation Methodology

1. This Annex provides a short summary of the evaluation methodology. For full details please refer to the Inception Report (IDD & Associates 2005) (see also the Note on Approach and Methods which accompanies the Synthesis Report). Box 1A.1 shows how General Budget Support (GBS) relates to other forms of programme aid, while Box 1A.2 defines the Development Assistance Committee (DAC) evaluation criteria. Figure 1A.1 provides an overview of the Enhanced Evaluation Framework (EEF).

Box 1A.1: General Definition of Budget Support and GBS

As defined for the purpose of this evaluation, **programme aid** can be divided into food aid and financial programme aid. Financial programme aid includes both budget support and balance of payments support (such as debt relief and import support). Budget support in turn can be divided into sector budget support (SBS) and general budget support (GBS).



*Referred to as direct budget support in the *Evaluation Framework*

The general characteristics of **budget support** are that it is channelled directly to partner governments using their own allocation, procurement and accounting systems, and that it is not linked to specific project activities. All types of budget support include a lump-sum transfer of foreign exchange; differences then arise on the extent of earmarking and on the levels and focus of the policy dialogue and conditionality.

Sector Budget Support is distinguished from **General Budget Support** by being earmarked to a discrete sector or sectors, with any conditionality relating to these sectors. Additional sector reporting may augment normal government accounting, although the means of disbursement is also based on government procedures.

Source: IDD & Associates 2005: Box 2.1.

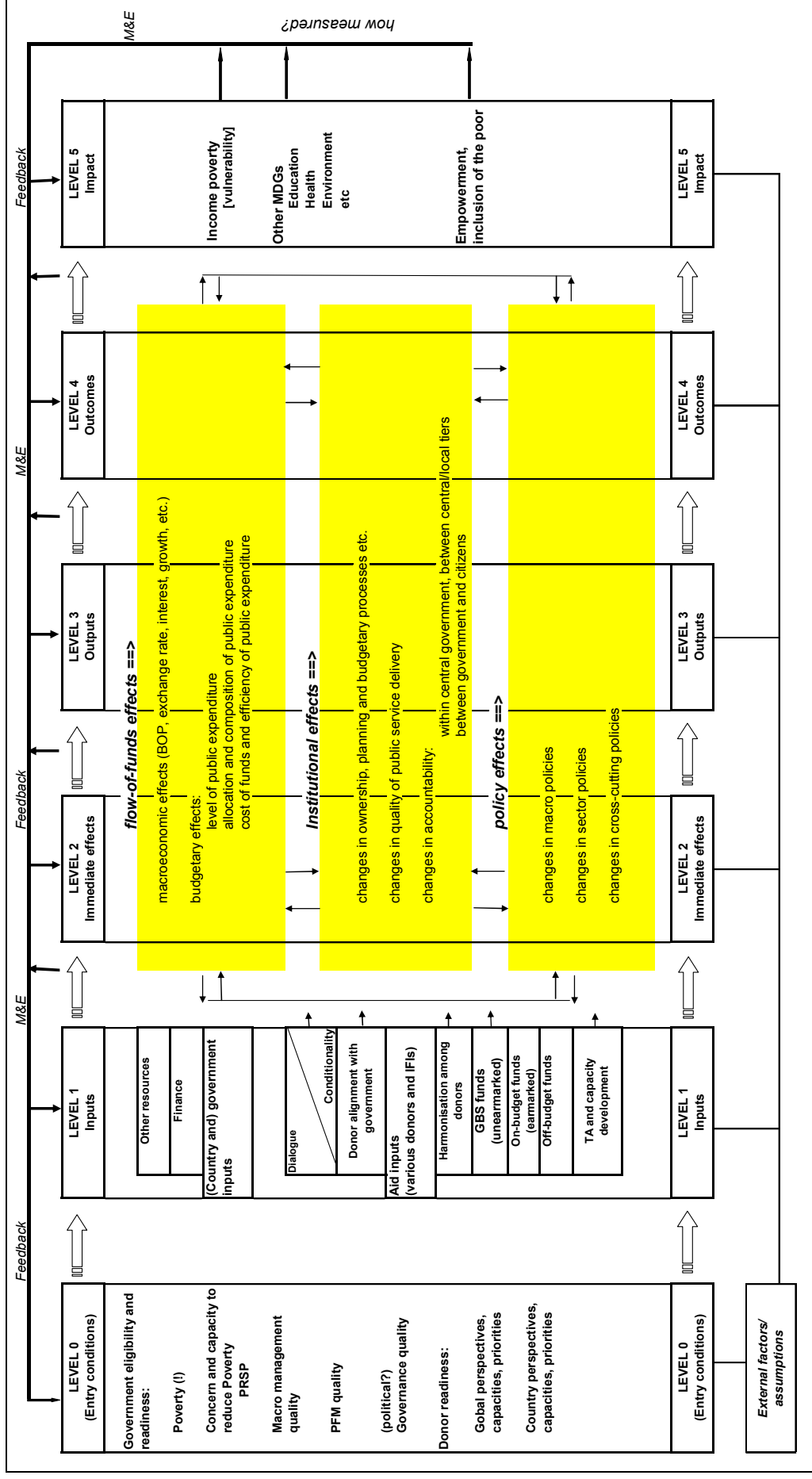
Box 1A.2: The DAC Evaluation Criteria

The five DAC evaluation criteria are:

- **Effectiveness:** The extent to which the development intervention's objectives were achieved, or are expected to be achieved, taking into account their relative importance.
- **Efficiency:** A measure of how economically resources/inputs (funds, expertise, time, etc.) are converted into results.
- **Relevance:** The extent to which the objectives of a development intervention are consistent with beneficiaries' requirements, country needs, global priorities and partners' and donors' policies.
- **Impact:** Positive and negative, primary and secondary long-term effects produced by a development intervention, directly or indirectly, intended or unintended.
- **Sustainability:** The continuation of benefits from a development intervention after major development assistance has been completed. The probability of continued long-term benefits. The resilience to risk of the net benefit flows over time.

Source: IDD & Associates 2005: Box 3.1.

Figure 1A.1: The Enhanced Evaluation Framework (schematic view)



2. Box 1A.3 shows, for each level of the logical framework, the main effects that are hypothesised to result from GBS. These hypothesised effects form the first column (the "logical sequence") of the detailed evaluation questions which are annexed to the Inception Report.¹

Box 1A.3: Enhanced Evaluation Framework – Logical Sequence of Effects

Level 1 (the design)
1. Adequate quantity and quality of inputs are provided by new GBS: <ul style="list-style-type: none">1.1 Funds1.2 Policy dialogue1.3 Conditionality1.4 TA/capacity building linked to<ul style="list-style-type: none">• Public finance management (PFM)• Pro-poor sectoral policies and good governance1.5 Alignment and harmonisation<ul style="list-style-type: none">• International Partners' (IPs) alignment to government goals and system• IPs' harmonisation
Level 2 (the immediate effects/activities)
<ul style="list-style-type: none">2.1 More external resources for the government budget (additionality)2.2 Proportion of external funds subject to national budget process increased (increased fungibility)2.3 Increase in predictability of external funding of national budget2.4 Policy dialogue and conditionalities focused on pro-poor policy framework and improved PFM2.5 TA/capacity building established to:<ul style="list-style-type: none">• improve PFM processes including budgeting, accounting, financial control, audit• improve the linkage between PFM and pro-poor sectoral policies and good governance2.6 Actions to ensure IPs' alignment are in place Actions and agreements to improve IPs' harmonisation are in place
Level 3 (the outputs)
<ul style="list-style-type: none">3.1 Increased resources for service delivery:<ul style="list-style-type: none">• External resources are treated as additional• Cost of funding budget deficit reduced3.2 Partner government is encouraged and empowered to strengthen PFM and government systems:<ul style="list-style-type: none">• To use the budget to bring public sector programmes into line with government goals, systems and cycles (Poverty Reduction Strategy Paper/Medium Term Expenditure Framework)• To set up performance monitoring systems to measure the effectiveness of public expenditure at the level of the final beneficiaries• To promote alignment and harmonisation by IPs3.3 Partner government is encouraged and empowered to strengthen pro-poor policies:<ul style="list-style-type: none">• To establish and execute an adequate sequence of reforms to ensure macroeconomic stability and private sector development• To establish and execute pro-poor policies and targeting in health, education, agricultural and rural development• To enhance social inclusion policies, through decentralisation and participation of the civil society, reform of the administration of justice and respect for human rights3.4 Improved aggregate fiscal discipline:<ul style="list-style-type: none">• More predictable funding flows• Incidence of liquidity shortfalls reduced, hence less use of Central Bank overdrafts and less accumulation of arrears3.5 Operational efficiency of public expenditure is enhanced:<ul style="list-style-type: none">• By reductions in certain types of transaction costs to partner government (e.g., non-standard procurement systems, brain-drain effects of parallel project management structures)• Better planning, execution and oversight reduces wasteful spending, controls corruption better, spreads positive lessons across the public sector

¹ See IDD & Associates 2005 Annex G for the full set of detailed evaluation questions.

3.6 Allocative efficiency of public expenditure is enhanced:

- By a more effective budget process: multi-year, results oriented, transparent, participatory; with effective execution and audit; with an adequate tracking system
- By increased capture of project funds in budget
- By stakeholders taking the domestic budget more seriously (because that's where the money is)

3.7 Intra-government incentives and capacities are strengthened:

- Official reporting lines are more respected (vertical through government to cabinet, not horizontal to IPs)
- Public-service performance incentives are strengthened, so that policies are made and implemented, audit and procurement systems work, and corruption is reduced

3.8 Democratic accountability is enhanced:

- Greater role of parliament in monitoring budget results
- Accountability through domestic institutions for IP-financed spending is enhanced
- Conditions for all-round democratisation are thereby improved, including the trust of people in their government and hence their level of expectations

Level 4 (the outcomes)

4.1 Macroeconomic environment is favourable to private investment and growth:

- Inflation controlled
- Realistic exchange rate attained
- Fiscal deficit and level of domestic borrowing sustainable and not crowding out private investment

4.2 Regulation of private initiative works to ensure business confidence, equity, efficiency and sustainability:

- Policies on corruption, property rights resolutely pursued
- Market-friendly institutions developed

4.3 More resources flowing to service delivery agencies

4.4 Appropriate sector policies include public actions to address major market failures, including those arising from gender inequalities

4.5 More effective and accountable government improves administration of justice and respect for human rights, as well as general confidence of people in government

4.6 More conducive growth enhancing environment

4.7 Public services effectively delivered and pro-poor:

- Service delivery targets met for key pro-poor services
- Evidence of increased use of services by poor (including poor women)

Level 5 (the impact)

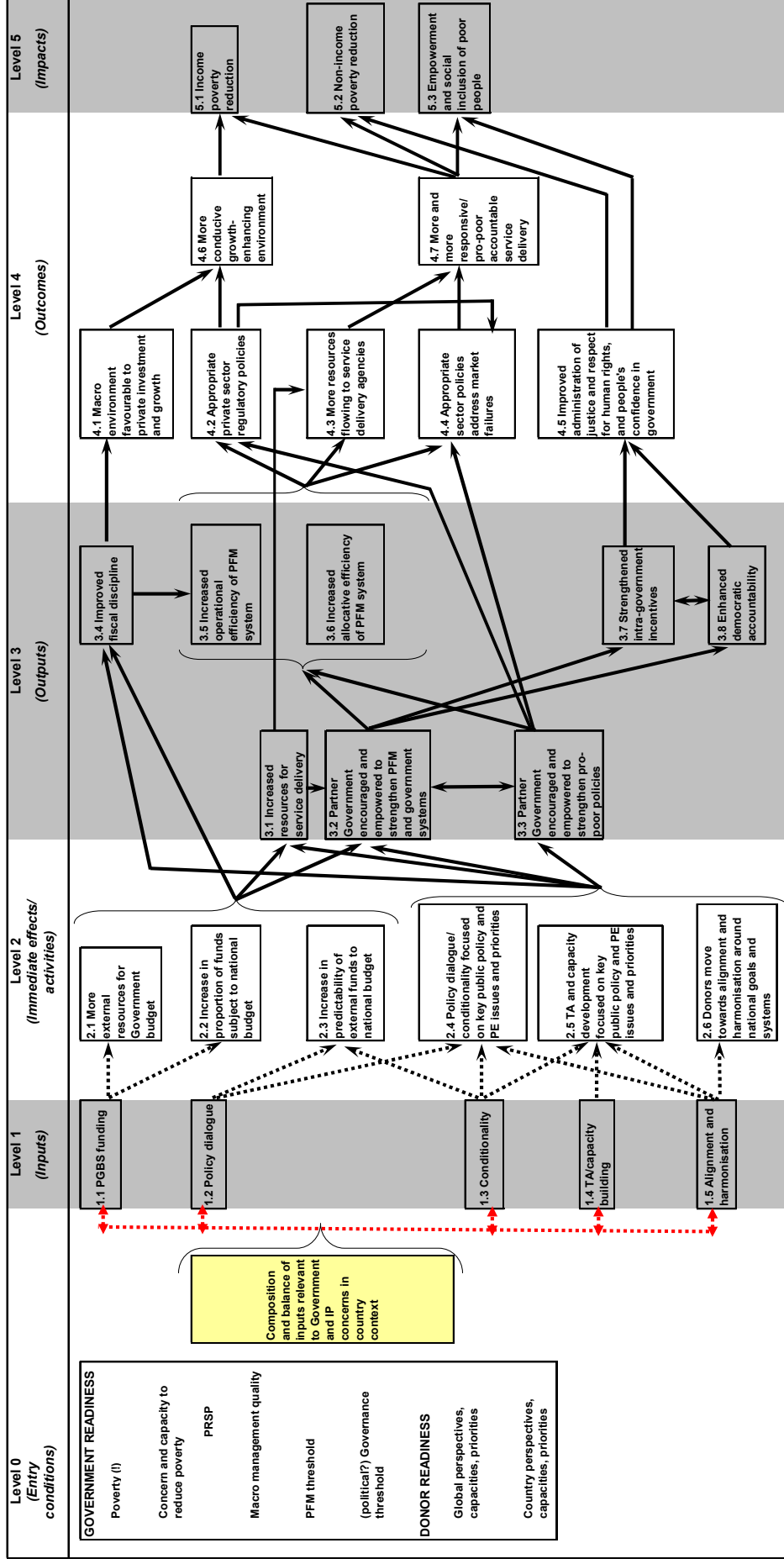
5.1 Income poverty reduction

5.2 Non-income poverty reduction

5.3 Empowerment and social inclusion of poor people

3. The main hypothesised links between inputs and subsequent effects at different levels are depicted on the causality map (Figure 1A.2). Note that these are not the only possible links; the evaluation teams also considered whether other links appeared important in particular countries.

Figure 1A.2: Causality Map for the Enhanced Evaluation Framework



4. A set of over-arching key Evaluation Questions (Box 1A.4) provides an organising framework for the country evaluation and a structure for the country reports.²

Box 1A.4: Key Evaluation Questions

1. How does the evolving Partnership GBS (PGBS) design respond to the specific conditions, strengths and weaknesses of the country, to government priorities and to the priorities and principles of the international partners?
2. Has PGBS contributed to greater harmonisation and alignment of the aid process?
3. How efficient, effective and sustainable has been the contribution of PGBS to the performance of the public expenditure process?
4. How efficient, effective and sustainable has been the contribution of PGBS to improving government ownership, planning and management capacity, and accountability of the budgetary process?
5. How efficient, effective and sustainable has been the contribution of PGBS to improving public policy processes and policies?
6. How efficient, effective and sustainable has been the contribution of PGBS to macroeconomic performance?
7. How efficient, effective and sustainable has been the contribution of PGBS to improving government performance in public service delivery?
8. How far has PGBS strengthened government impact on poverty?
9. Is the PGBS process itself sustainable?

5. Under each main evaluation question, a series of sub-questions (evaluation criteria) are posed (the shaded boxes within each of the chapters in Part B of the main report). To facilitate comparisons and consistency across the countries studied, symbols are used to give approximate ratings for the general situation and for the influence PGBS is judged to have had. The key to the ratings and symbols is as follows:

(a) Where the logic of the (implicit) question requires it – i.e. in Chapters B2–B8³ – the ratings distinguish between the general situation to which the question refers and the influence of PGBS upon it. For the general situation, the rating is expressed as a *level* and a *trend*.

(b) PGBS influence is expressed in two ratings:

- For *effect*. This assesses the difference that PGBS makes to the general situation.
- For *efficiency*: It is perfectly possible that PGBS will be found to have a weak or null effect not because PGBS is inherently ineffective, but because it is relatively small ("a drop in a bucket") vis-à-vis the general situation. "Efficiency" therefore assesses whether PGBS has a significant effect relative to the resources deployed via PGBS. (Roughly, has PGBS been a "value for money" way of pursuing this effect?)

(c) For both the general situation and the PGBS influence, a separate *confidence* rating is given.

(d) The same symbols are used against "level", "effect", "efficiency" and "confidence" ratings:

***	<i>strong/high</i>
**	<i>medium/moderate</i>
*	<i>low/weak</i>

² See Inception Report Annex K for the full matrix of key Evaluation Questions, including judgement criteria, evidence, data sources, counterfactuals. The final *Note on Approach and Methods* will note minor amendments and assess the experience of using the Enhanced Evaluation Framework.

³ The Evaluation Criteria in Chapters B1 and B9 refer directly to PGBS itself, so there is no separate "general effect" to consider.

null	<i>the level/effect is either zero or negligible</i>
nf [not found]	<i>we found no evidence either way</i>
na	<i>rating is Not Applicable to this question</i>

(e) The "trend" is the trend at the end of the evaluation period, and the options are:

+	<i>increasing/improving</i>
=	<i>stable (or no discernible trend)</i>
-	<i>declining/worsening</i>
na	not applicable if the accompanying level is rated null / not found / not applicable

(f) In the few cases where perverse effects are identified (a negative effect when the question implies a positive one is expected), this is shown as "perverse" (and is always be highlighted in the text explanation).

(g) As a rough guide to confidence ratings:

***	strong/high confidence: <i>We're sure what evidence is needed to answer this question, and the evidence we have appears robust and conclusive (so we would be surprised if more evidence changed the rating).</i>
**	medium/moderate confidence <i>There is some uncertainty whether the evidence we have is both robust and sufficient; more evidence might lead to a somewhat different rating.</i>
*	low/weak confidence: <i>There is uncertainty about what evidence is relevant to the question, and/or the evidence we have is limited or unreliable.</i>

(h) The ratings for "general situation" and "PGBS influence" may be based on different (though overlapping) sets of evidence; it is perfectly possible that confidence levels will differ, so they are rated separately.

(i) As a rough guide to ratings for effect

***	strong effect: <i>PGBS has made a definite and very significant difference to the general situation; it is not necessarily the only factor which has made such a difference, but it is an important one.</i>
**	moderate effect: <i>PGBS has made a definite and moderately significant difference to the general situation; but it may be a subsidiary factor, or one among a considerable number of significant factors.</i>
*	low/weak effect: <i>PGBS has made only a small difference to the general situation.</i>
null	<i>PGBS is assessed to have made no difference, or only a negligible difference, to the general situation.</i>
nf [not found]	<i>We did not find evidence either way of a PGBS effect.</i>
na	<i>The implied question is Not Applicable in this case.</i>

(j) As a rough guide to ratings for efficiency:

***	highly efficient <i>PGBS exerts a strong influence towards the effect in question, in proportion to the resources embodied in PGBS.</i>
**	moderately efficient <i>PGBS exerts a moderate influence towards the effect in question, in proportion to the resources embodied in PGBS.</i>
*	low efficiency <i>PGBS exerts only a weak influence towards the effect in question, in proportion to the resources embodied in PGBS.</i>
null	<i>PGBS is assessed to have exerted no influence, or only a negligible influence, towards the effect in question.</i>
not found	<i>We did not find evidence either way of a PGBS influence.</i>
na	<i>The implied question is Not Applicable in this case.</i>

6. The evidence used to assess ratings is explained in the text, and it follows general guidelines in Annexes G and K of the Inception Report (IDD & Associates 2005). The ratings have been checked for broad consistency across the country studies. At the same time, the study team recognises their limitations. It is neither possible nor desirable to reduce qualitative issues entirely to quantitative judgements. The ratings are only an adjunct to the text.

Annex 1B: Approach and Methods in Mozambique

Introduction

1. This annex describes and comments on the approach and methods for the study in Mozambique. Its purpose is to describe how the Mozambique country team applied the conceptual framework outlined in Chapter A1 and the general methodology applied by all teams as described in Annex 1A.

Team and Timetable

2. The Mozambique study was based on two field visits, a two-week inception period in October 2004, and a three-week study in May 2005. The purpose of the inception period was to undertake scoping studies of the partnership among and between government and international partners; the institutions of policy-making, budgeting, sector coordination, and service delivery; public expenditure management; the macroeconomy; and poverty reduction. The purpose of the second study was to focus on answering the Evaluation Framework questions agreed with the Management Group for this Joint Evaluation of General Budget Support. These questions are set out in detail in Annex K of the Inception Report, listed in Annex 1A Box 1A.4, and highlighted in Chapters B1–B9 of the Mozambique country report.

3. The study team on the first visit consisted of:

- Richard Batley – Team Leader, International Development Department (IDD), School of Public Policy, University of Birmingham, UK
- Amélia Cumbi – national consultant
- Albert de Groot and Corina Certan – Ecorys Research and Consulting, The Netherlands

4. For the second visit, the team was:

- Richard Batley
- Liv Bjørnstad – Mokoro Ltd, UK
- Amélia Cumbi

5. All but Corina Certan had previously worked in Mozambique on questions related to GBS. The team changed partly for reasons of availability but also because it was particularly important for the second visit that all team members spoke Portuguese, so as to be able to undertake more detailed studies.

6. The chair of the “Troika” that led the Programme Aid Partnership was the co-ordinating IP – first the Head of Cooperation of Switzerland and then of Sweden. They chaired an in-country steering group of programme aid partners (PAPs). The chair was supported by the PAP Secretariat. The government contact point was the Director of Planning and Budget in the Ministry of Planning and Finance (MPF).

7. An Interim Report was submitted in December 2004 outlining the preliminary findings of the visit. Following the second visit a Draft Country Report was submitted to the Steering Group in September 2005. Comments were received over the following six weeks, and the final country report was prepared in December 2005.

Research Methods

8. In the first visit, extensive interviews were undertaken with the IPs and the Government of Mozambique (GOM), and the team also participated in several meetings of the PAPs and their working groups. In the case of government, the focus was on the “core institutions” with regard to budgeting and financial management, mainly in the MPF but also in the planning departments of the Ministries of Education, Ministry of Health and Ministry of Agriculture. Many of these interviews were undertaken by the evaluation team operating together, because the sources of information were common although we each had our separate analytic focuses. In the second visit, the team more often divided to pursue interviews separately.

9. The list of 120 interviewees (65 national and 55 donor representatives) indicates the scale of the work in arranging and conducting interviews in such an elaborate case as that of Mozambique. We made a systematic effort to interview all IPs, non-governmental organisations (NGOs), parliamentary and GOM officials who had a relationship with the PGBS process. The representation of NGOs and political representatives is relatively weak, but this reflects the level of their participation in PGBS.

10. For the second visit in May 2005, the timetable was as follows:

- Week one: team meetings to assess material available from documents and information needs; interviews with MPF and IPs; participation in Joint Review approval of Aide Mémoire.
- Week two: interviews with line ministries, United Nations Development Programme (UNDP), United Nations Capital Development Fund (UNCDF) and NGOs; meeting with PGBS Economists Group; interviews and meetings in Nampula Province; interviews with MPF, central bank and International Monetary Fund (IMF).
- Week three: accompanied by Management Group representative (Alexandra Chambel Figueiredo), interviews with MPF, line ministries, IPs, parliament; meeting with Gender Working Group; and the debriefing and feedback workshop.

11. We benefited from contact with Richard Gerster (Gerster Consulting) who, apart from his previous work for the PAPs and the GOM, was undertaking a concurrent review of the Performance Assessment Framework (PAF) in Mozambique. We were also fortunate to have access to the recently published book by Anthony Hodges and Roberto Tibana on the political economy of the budget in Mozambique.

12. Team members drew on the material they found appropriate for their subject, sharing their knowledge of what was most useful. In general, we found that most of the directly relevant literature focused on the organisation of aid and PGBS in Mozambique, and on the reform of the governmental system. At the other end of the spectrum, there is also some material on the economic and social status of the country and on the incidence of poverty. There is much less on the processes linking the two except, for example, the Hodges and Tibana book. We therefore focused our effort on understanding the relation between, on the one hand, modalities of aid, practices and reforms in government and, on the other hand, outcome and end-impacts.

13. During the inception phase of the project a questionnaire was sent to all donors asking them to outline the aid instruments they had used over the study period with details of commitments and disbursements. The response to this was low, with only four questionnaires returned out of about 30, despite follow-up on the questionnaire by the local consultant over a number of months. As a result it was not possible to use the questionnaires to provide financial data on GBS by donor.

14. Preparations for both visits were made by the country team leader and the national consultant. The latter has extensive contacts among IPs and in government, having worked for both and having acted as a consultant on related themes. Most recently she has undertaken a study of the “off-budget” issue in the health sector. The focal points of the study in Mozambique were the National Director of Planning and Budgeting of MPF, and the “Troika” of three donors who led the Programme Aid Partnership (first UK, Switzerland and Sweden, and on the second visit Switzerland, Sweden and the Netherlands). The study team was also supported by the PAP Secretariat. The team benefited greatly from their goodwill and openness. While the national consultant led in the organisation of the team’s programme of interviews and workshops, she relied on the willing collaboration of donors, government officials and NGOs.

15. The team participated in Joint Review and working group meetings between donors and government. Briefing and debriefing workshops were held at the beginning and end of each of the two visits. However, participation in these was rather small – about 25 at each event – although they were advertised through the PAP Secretariat. Such meetings raise less enthusiasm in Mozambique than in some other countries, precisely because of the intensity of the dialogue between government and donors. Neither is keen on attending unnecessary meetings. Indeed, the GOM had appealed to its IPs for a “quiet period” following the April/May Joint Review, coinciding with our visit in May 2005.

16. We sought a “bottom-up” perspective on the causes of poverty reduction in Mozambique and their possible derivation from processes associated with PGBS. In other words, in addition to “tracing down” from PGBS inputs through their immediate effects to outputs and finally outcomes and impacts, we also tried to do a backward check on causality, so as to identify other causal factors. In principle, this is an important counterweight to the determinism implicit in tracing causal effects downwards. However, scope to achieve this was limited – given the time that had to be dedicated to understanding the processes occurring between donors and government. With more time, much more could have been achieved. However, the bottom-up view was the focus of:

- interviews with NGOs;
- our own brief survey of the experience of service delivery at provincial level (see Chapter B7), undertaken with the collaboration of the Grupo Moçambicano da Dívida;
- our visit to one province (Nampula) and a district (Rebáuè) where, apart from local officials, we met health workers and NGOs specialising in health and education.

Applying the Evaluation Framework

17. The five analytic areas of the first study visit were focused in practice on a limited number of key evaluation questions for each analysis, derived from the GBS Evaluation Framework. These provided the structure of the country inception report produced in December 2004. As a result of the lessons learned from the first-phase country studies, and the response of the Management and Steering Groups to the first draft Inception Report in January 2005, the Evaluation Framework was refined and enhanced in preparation for the second set of country studies that took place between May and July 2005. A hypothesised common causality framework was developed on the basis of which a detailed logical framework of questions and sub-questions was worked out. This was synthesised in a set of key evaluation questions, judgement criteria, relevant evidence and possible sources that were agreed between the country teams. A common report structure for all country teams was also developed.

18. In practice, in Mozambique, it was found necessary to reduce these frameworks and guidance notes to a unified document that could easily be operationalised by the country team.

The fact is that, once in the field, it is much easier to ensure a common approach between team members and to ensure that the ground is covered if there is a single, simple research protocol. We achieved this for the second visit by preparing one document based on the report structure and under each chapter heading setting out (a) the principal evaluation question and causality chain, (b) what we already knew from the previous visit and from available literature and (c) what we needed to know. We then divided principal responsibility for each chapter between the three team members.

19. This approach generally worked well, though the range of issues to be covered was immense and the time short. The two visits complemented each other inasmuch as the first one helped us to understand the broad dynamics of the development of aid and GBS in the context of Mozambique's development during the period 1994–2004. This provided a background on the basis of which we could identify our focus and contacts for the second visit. The period between the visits allowed some time to read background material while also contributing to the revision of the Inception Report and Evaluation Framework.

20. Interview notes were written up and exchanged between team members during and after the study visits. It was difficult to keep up with the pace of interviewing and the acquisition and reading of documentation during the period of study, so much also depended on discussion and exchange between team members during the study visits. The analysis of interview material and documentation occurred very largely during the process of writing, and this led to the exchange of drafts and corrections throughout June and July 2005.

Reflections

21. There is a massive amount of documentation on aid policy in Mozambique. This is in danger of becoming an over-studied case. Fortunately, our national consultant knew her way around the material and was able to collect, collate and distribute documentation among team members in preparation for both the first and second visits. We selected key documents (see Bibliography) on the basis of her guidance, each team member's professional judgement and the advice of our contacts in government and among donors. However, there may well be omissions in our grasp of everything that has been reported earlier.

22. In government and among IPs we met kind and helpful attention. However, as indicated in the previous paragraph, there was a widespread feeling that we were yet another among many overlapping evaluation teams. This led to the understandable and gracious refusal of the IPs to complete the PGBS evaluation's own questionnaire on their objectives, volume and distribution of aid. Except for a few (France, Ireland, Japan and Portugal), they appealed to "questionnaire fatigue", and left us to assemble our own data from existing materials. Similarly, as indicated above, there was not widespread enthusiasm in government or among donors for attending workshops on our interim findings. Perhaps most fundamentally, there was nobody in government who really saw themselves as a focal point for the study. This may indicate the case for some donor/government planning of jointly agreed evaluations.

23. The study team faced a massive range of evaluation questions on the relations between government and IPs, the internal functioning of government, its relation with line agencies and provinces, its accountability to parliament and civil society, and the impact on people and the economy. We had to cover this in two very brief visits to gather material and undertake interviews, and in back-up documentary searches. We did our best but in so doing went well beyond our paid-for time. Such studies need resources to match the scale of the exercise.

Annex 1C: Interviewees

Government and advisers

- José Sulemane, National Director of Plan and Budget, Ministry of Planning and Finance
- Pedro Couto, Gabinete de Estudos, Ministry of Planning and Finance
- Robert James, ODI Fellow, Ministry of Planning and Finance
- Tony Hodges, Technical Assistance, Ministry of Planning and Finance
- Carlos Jessen, UTRAFE, Ministry of Planning and Finance
- Mauro Fridman, Technical Assistance (SISTAFE), Ministry of Planning and Finance
- António Laice, DNT, Ministry of Planning and Finance
- Carolina Nguenha, DNCP, Ministry of Planning and Finance
- Eugénio Paulo, Technical Assistance, Ministry of Planning and Finance
- Xavier Modol, Technical Assistance, DNCP, Ministry of Health
- José Jaime Macuane, UTRESP
- Jorge Marcelino, IGF, Ministry of Planning and Finance
- Vitorino Xavier, Coordinator of Institutional Reform, PROAGRI, Ministry of Agriculture and Rural Development
- Rogéria C. Muianga, Director of Administration and Finance, Ministry of Agriculture and Rural Development
- Channing Arndt, Technical Assistant, Ministry of Planning and Finance
- Hélder Gany, DNPC, Ministry of Education
- Manuel Rego, Planning National Director, Ministry of Education
- Adriano Chamusso, Ministry of Agriculture
- Xavier Cirera, ODI fellow, Ministry of Industry and Commerce
- Andrea Alfieri, ODI fellow, GPSCAINA, Ministry of Agriculture
- Enrique Blanco Armas, technical adviser, FOPOS, Ministry of Planning and Finance
- John Gray, technical adviser, FOPOS, MPF
- Hermínio Sueia, Director, Customs
- Abdul C. J. Zacarias, Economist, Central Bank of Mozambique
- Alberto Herculano Manjate, Assistant to the Director, Central Bank of Mozambique

Nampula Province and advisers

Provincial Finances and Planning Directorate

- Arnaldo Wazir, Deputy Provincial Planning Director
- Tomás A. Nhane, Deputy Provincial Budget Director
- Massuhate Zacarias, Head of the Planning Unit
- Rachide Mimo, Contabilidade Pública
- Julião Carlos, Treasury
- Aniceteo Rapieque, Revenue Control
- Iván A. Vásquez, (District Planning) – Technical Assistance UNDP
- Dário Passo, (District Planning) – Technical Assistance UNDP

Provincial Health Directorate

- Flávio, Provincial Health Director
- Paulo Rapaz, Head of the Planning Unit
- António Amisse, Director do CHAEM
- Latifo Salimo Fajar, Human Resources
- Júlio Alberto da Silva, Finances
- Teresa Jaime Malhaule, Nampula City Health Director
- Marcelino Vasco, Head of the Training Unit
- Aissa Faqira Ali, Head of the Finances and Management Unit

Provincial Education Directorate

- Francisco Teodósio Nogueira, Head of the Planning Unit
- Francisco Armando José, Head of the Finances and Management Unit
- Adolfo Mendes Barrote, Head of the Human Resources Unit
- Ermelinda Eduardo M. Xavier, Finances

Ribáuè District

- Chale Ossufo, District Administrator
- Ricardo Lima, District Culture Director
- Fernando D. Muthete, Clinician – District Health Directorate
- Romeu Arlindo Dale, Head of the Human Resources Unit, District Education Directorate
- Celestino S. da Conceição Dimas, Head of the Finances Unit, District Education Directorate
- Elísio J. Juarte, District Agriculture Director

Non-Government

- Virgínia Videira, Parliament, Head of Commission on the Budget
- Kenneth Gunn, Director PODE
- Kenneth Robson, Consultant
- Carlos Oya, Consultant
- Roberto Tibana, Analítica
- Egas Mussanhane, Director, CTA
- Jim la Fleur (Private Sector) CTA
- Eufregina dos Reis Manuela, Grupo Moçambicano da Divida
- Silvestre Baessa Júnior, Grupo Moçambicano da Divida
- Sara Issufo, UDEBA Institute – NGO on Education in Nampula
- Avelino H. Lopes, CONCERN – NGO on Education in Nampula
- Sérgio Cambuile, Rede Osuwela – NGO on Education in Nampula
- Andy Kalala, Kulima – NGO on Education in Nampula
- Barbosa Morais, Teacher at the Catholic University and G20 Nampula

International Partners

- Éamon Cassidy, Head of DFID, Central Africa
- Simon Vanden Broeke, Economist, DFID
- Paul Wafer, Education and Health Adviser, DFID
- Anton Johnston, Head of Cooperation, Embassy of Sweden
- Carin Anderson, Economist Group, Embassy of Sweden
- Lis Rossenholm, Economist Group, Denmark
- Nina Berg, Denmark
- António Franco, World Bank
- Jolke Oppewal, Economist, Netherlands
- Adrian Hadorn, Head of Mission, Switzerland Cooperation
- Telma Loforte, Manager of Economic Programmes, Swiss Cooperation
- Julius Schlotthauer, USAID
- Gilberto [surname?] (Private Sector), World Bank
- Ishiro Muto, Japan Embassy
- Kenji Ohira, Japan Embassy
- Carlos Santos, Auditing Unit for Provincial Common Fund, Swiss Cooperation
- Cipriano Godinho, Auditing Unit for Provincial Common Fund, Swiss Cooperation
- Lars Ekman, First Secretary, Royal Norwegian Embassy
- Mette Masst, Minister Counsellor, Royal Norwegian Embassy
- Sylvie Millot, Economist Group, European Commission (EC)
- Ronald Meyer, Head of Cooperation, Germany Embassy
- Perry Perone, IMF
- Carsten Sandhop, Economist Group, Germany Embassy
- Caroline Rickatson, Governance Adviser, DFID
- Bridget Walker, Development Cooperation of Ireland
- Keith Grimstock, Head of Cooperation, Development Cooperation of Ireland
- Louis Robert, Head of Mission, Canada
- Andrea Cilloni, Economist, Italian Cooperation
- Federica Anfosso, Italian Cooperation
- Sissel Idland, First Secretary, The Norway Embassy
- Sam Bickersteth, Deputy Head DFID
- Ivo German, SECO
- Cristina Pucarinho, Head of Mission, Portugal Embassy
- Françoise Desmazierès, Head of Cooperation, France Embassy
- Marylène Spezzati, Resident Representative UNDP
- Israel Jacob Massuanganhe, UNDP
- Cyril Guillot, Deputy Director UNCDF
- Ronald McGill, UNCDF
- Petra Lantz, Representative, UNFPA
- Roger Dhliwayo, Economist, Swiss Development Cooperation
- Juan Pita, Spanish Cooperation

- Carlos Botella, Spanish Cooperation
- Jan Willem le Grand, Netherlands Embassy
- Guido Larch, Italian Embassy
- Olli Sotomaa, Head of Cooperation, Finland Embassy
- Kirsi Visainen, Health adviser, Finland
- Wim Ullens, Belgian Cooperation
- Nora Laet, Head of Cooperation, Belgium
- Julie Riviere, GTZ (Education)
- Gregor Binckert, Lead Specialist Macroeconomics, World Bank
- José Macamo, Public Sector Economist, World Bank
- Margriet M. Koelman, Policy Officer, Netherlands Ministry
- Marcia Colquhoun, Gender specialist, Canada
- Leontina dos Muchangos, Gender specialist, Canada

ANNEX 2: COUNTRY BACKGROUND

Annex 2A: Chronology of Development and Aid Relationships

Overview

1975	<ul style="list-style-type: none"> • Independence.
1977–1982	<ul style="list-style-type: none"> • Centrally planned economy adopted. • The Rhodesian Central Intelligence Organisation creates the Mozambique National Resistance (MNR) (to become later RENAMO); beginning of the destabilisation war. • Arrival of western European and Eastern block expatriates. Financial inflow, with credits obtained from East and West countries. • Major drought hits southern Mozambique. • USSR rejects Mozambique's membership of Comecon. FRELIMO (the Mozambique Liberation Front) reorients to the West and South Africa; initial moves towards market-oriented economy.
1983–1987	<ul style="list-style-type: none"> • Economic crisis and worsening of the war; social and economic infrastructure (health and education facilities, and bridges) become military targets. • USA agrees to drop its ban on bilateral aid. • Change to market-oriented approach. The country is admitted to IMF and World Bank (WB). • Government conceived structural adjustment programme launched without previous IMF approval. • Donor dependence increases: aid agencies and NGOs pour in and take the lead. • First initiatives in donor coordination. Establishment of coordinating national body (DPCCN) for emergency and food aid. Donor coordination with designation of sectoral focal donors (Sweden: education, Switzerland: health).
1990–1993	<ul style="list-style-type: none"> • Swiss cooperation provides earmarked budget support covering recurrent health expenditures. • Mozambique is declared the world's poorest country and the most aid-dependent. • The progressive removal of price subsidies induces strikes and protests. • Sector budget support funded by Swiss Cooperation is introduced. • A new multi-party democratic constitution is adopted. • IMF approves Enhanced Structural Adjustment Facility (ESAF) with tighter restrictions. • General peace agreement with political, financial, logistical and TA support mainly from USA, UK, France, Italy, Portugal and UN.
1994–1998	<ul style="list-style-type: none"> • First multi-party elections. • Serious flooding displaced over 200,000 people. • Progressive normalisation, economic recovery. • IMF demands further cuts in subsidies and social services. • FRELIMO objects to IMF demands. A joint government and donor statement criticising IMF is issued.
1995–2001	<ul style="list-style-type: none"> • Banking crisis: WB in 1995 and the IMF in 1996 condition aid on privatisation of two state-owned banks. Both banks collapsed. Fraud and bad loans were involved. Two murders occurred, of a prominent journalist in 2000 and a central bank official in 2001. • Heavily Indebted Poor Countries (HIPC) debt relief agreed in 1996 • Official Development Assistance (ODA) inflows increase from USD 933m in 2001 to USD 2,330m in 2002.
1999–2002	<ul style="list-style-type: none"> • Second multi-party national elections. • Joint donor reviews in 1998 and 1999 lead to proposal to coordinate budget support. • Early 2000: devastating floods in the south and centre.
2004	<ul style="list-style-type: none"> • Mozambique qualifies for Millennium Challenge funds. • New national constitution. • Third multi-party national elections.

Aid relationships

Various factors have shaped the modalities and instruments used to channel aid in different periods. National policies, policies choices within the donor countries, and international fashions have influenced greatly the pattern of aid flows.

- **Independence (1975–82):** In accordance with the national policy, aid flowed chiefly from the eastern block and Nordic countries in the form of TA and import support aimed at financing development projects. However, there was also an important flow of skilled professionals from all over the world.
- **War and drought (1983–86):** Emergency food aid.
- **Economic collapse (1987–90):** The shift to the market-oriented economy with the introduction of the Structural Adjustment Programme (SAP) was followed by a doubling of food aid from 1985 to 1987. Balance of payments (BOP) support and import support (IS) both became important aid modalities, accounting for up to 26% of total aid inflows in 1990 (Abrahamsson and Nilsson 1994). There is an increasing presence of donors, NGOs, bilaterals and multilaterals; international NGOs increased from 7 in 1980 to 70 in 1985 and 180 in 1990; national NGOs went up from 4 in 1984 to 200 in 1996. Earmarked Swiss budget support begins.
- **Preparation for peace (1991–95):** Emergency and food aid dropped off sharply between 1993 and 1994. BOP support and IS continued. However, the rehabilitation projects to replace destroyed infrastructure induced increased investment flows. Increased role of multilateral donors, UN playing a crucial role in coordination of donor support to the reconstruction programmes, much of which was channelled through international NGOs. In 1992, 40% of food aid was channelled through the DPCCN and 60% through NGOs. In 1994, these proportions changed to 20% through the government and 80% the NGOs.
- **Normalisation of life (1996–2000):** Gradual decrease in the roles of multilateral agencies and NGOs. While the bilateral contribution to ODA increased more than twofold from 1998 to 2002, multilateral contribution has remained at the same level. This period was also marked by growing donor participation in financing recurrent expenditure, and an increased attention to provinces, leading to geographic concentrations: Danish International Development Agency (Danida) in Tete, Finnish aid in Manica, Irish aid in Niassa and Inhambane, the Netherlands in Nampula, and the EC in Zambézia. An important evolution was the shift from project aid to sector aid, establishing pools to support sectors as a whole.
- **Strengthening the core government processes (2000–):** The “new General Budget Support” is introduced in 2000.

Annex 2B: Millennium Development Goal Profile for Mozambique

	1990	1995	2001	2002
1 Eradicate extreme poverty and hunger	<i>2015 target = halve 1990 \$-a-day poverty and malnutrition rates</i>			
Population below \$1 a day (%)	..	37.9	..	..
Poverty gap at \$1 a day (%)	..	12.0	..	..
Percentage share of income or consumption held by poorest 20%	..	6.5	..	..
Prevalence of child malnutrition (% of children under 5)	..	27.0	..	..
Population below minimum level of dietary energy consumption (%)	69.0	62.0	53.0	..
2 Achieve universal primary education	<i>2015 target = net enrolment to 100</i>			
Net primary enrolment ratio (% of relevant age group)	46.8	39.8	59.7	..
Percentage of cohort reaching grade 5 (%)	32.9	46.3	51.9	..
Youth literacy rate (% ages 15–24)	48.8	54.7	61.7	62.8
3 Promote gender equality	<i>2005 target = education ratio to 100</i>			
Ratio of girls to boys in primary and secondary education (%)	72.9	70.4	77.3	..
Ratio of young literate females to males (% ages 15-24)	47.9	54.7	62.9	64.3
Share of women employed in the non-agricultural sector (%)	15.2	..	..	..
Proportion of seats held by women in national parliament (%)	..	25.0	..	..
4 Reduce child mortality	<i>2015 target = reduce 1990 under-5 mortality by two-thirds</i>			
Under-5 mortality rate (per 1,000)	240.0	221.0	208.0	205.0
Infant mortality rate (per 1,000 live births)	150.0	139.0	130.0	128.0
Immunisation, measles (% of children under 12 months)	59.0	71.0	58.0	58.0
5 Improve maternal health	<i>2015 target = reduce 1990 maternal mortality by three-quarters</i>			
Maternal mortality ratio (modelled estimate, per 100,000 live births)	..	..	1,000.0	..
Births attended by skilled health staff (% of total)	..	44.2	..	..
6 Combat HIV/AIDS, malaria and other diseases	<i>2015 target = halt, and begin to reverse, AIDS, etc.</i>			
Prevalence of HIV, female (% ages 15–24)	..	..	14.7	..
Contraceptive prevalence rate (% of women ages 15–49)	..	5.6	..	..
Number of children orphaned by HIV/AIDS	..	..	420.0 thousand	..
Incidence of tuberculosis (per 100,000 people)	..	..	265.0	436.4
Tuberculosis cases detected under DOTS[spell out first – is it direct observation therapy systems?] (%)	..	53.0	68.0	45.2
7 Ensure environmental sustainability	<i>2015 target = various (see notes)</i>			
Forest area (% of total land area)	39.8	..	39.0	..
Nationally protected areas (% of total land area)	..	6.1	6.1	8.4
Gross Domestic Product (GDP) per unit of energy	1.0	1.5	2.4	..

General Budget Support in Mozambique

	1990	1995	2001	2002
use (PPP[spell out first] \$ per kg oil equivalent)				
CO ₂ emissions (metric tons per capita)	0.1	0.1	0.1	..
Access to an improved water source (% of population)	..	..	57.0	..
Access to improved sanitation (% of population)	..	..	43.0	..
Access to secure tenure (% of population)	..	..	..	..
8 Develop a Global Partnership for Development	<i>2015 target = various (see notes)</i>			
Youth unemployment rate (% of total labour force ages 15–24)	..	..	..	..
Fixed line and mobile telephones (per 1,000 people)	3.4	4.0	13.7	18.6
Personal computers (per 1,000 people)	..	1.0	4.0	4.5
General indicators				
Population	14.2 million	15.8 million	18.1 million	18.4 million
Gross national income – GNI (\$)	2.3 billion	2.2 billion	3.6 billion	3.6 billion
GNI per capita (\$)	170.0	140.0	200.0	200.0
Adult literacy rate (% of people ages 15 and over)	33.5	38.5	45.2	46.5
Total fertility rate (births per woman)	6.3	5.6	5.1	5.0
Life expectancy at birth (years)	43.4	44.6	42.4	41.1
Aid (% of GNI)	43.2	49.9	29.8	60.4
External debt (% of GNI)	200.4	349.7	142.1	135.2
Investment (% of GDP)	15.6	22.8	41.5	44.7
Trade (% of GDP)	44.2	55.1	57.2	61.7
Note: In some cases the data are for earlier or later years than those stated				
Goal 1 targets: Halve, between 1990 and 2015, the proportion of people whose income is less than one dollar a day. Halve, between 1990 and 2015, the proportion of people who suffer from hunger.				
Goal 2 target: Ensure that, by 2015, children everywhere, boys and girls alike, will be able to complete a full course of primary schooling.				
Goal 3 target: Eliminate gender disparity in primary and secondary education preferably by 2005 and to all levels of education no later than 2015.				
Goal 4 target: Reduce by two-thirds, between 1990 and 2015, the under-five mortality rate.				
Goal 5 target: Reduce by three-quarters, between 1990 and 2015, the maternal mortality ratio.				
Goal 6 targets: Have halted by 2015, and begun to reverse, the spread of HIV/AIDS. Have halted by 2015, and begun to reverse, the incidence of malaria and other major diseases.				
Goal 7 targets: Integrate the principles of sustainable development into country policies and programmes and reverse the loss of environmental resources. Halve, by 2015, the proportion of people without sustainable access to safe drinking water. By 2020, to have achieved a significant improvement in the lives of at least 100 million slum dwellers.				
Goal 8 targets: Develop further an open, rule-based, predictable, non-discriminatory trading and financial system. Address the Special Needs of the Least Developed Countries. Address the Special Needs of landlocked countries and small island developing states. Deal comprehensively with the debt problems of developing countries through national and international measures in order to make debt sustainable in the long term. In cooperation with developing countries, develop and implement strategies for decent and productive work for youth. In cooperation with pharmaceutical companies, provide access to affordable, essential drugs in developing countries. In cooperation with the private sector, make available the benefits of new technologies, especially information and communications.				
<i>Source:</i> World Development Indicators database, April 2004				

ANNEX 3: AID TO MOZAMBIQUE

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Annex 3A: Mozambique Inventory – GBS and related programmes

Types →	General Budget Support	Earmarked BS	TA for GBS or PFM	BOP Support
<p>1. Programmes Included</p>	<p>All unearmarked GBS budget support. (See Annex 3B for amounts committed by donor.)</p>	<p>All budget support earmarked to sectors.</p>	<p>Technical Assistance (TA) which (a) is explicitly linked to Budget Support (BS) or (b) affects public finance management (PFM)</p>	<p>Other unearmarked BS / balance of payment (BOP) support.</p>
<p>2. Intent of Programmes <i>What were/are the stated objectives of the programme (e.g. structural adjustment, poverty reduction, sector support)?</i> <i>What were/are the particular areas of focus? (e.g. public services, economic reforms, etc.)</i></p>	<p>In 1998 Sweden, Switzerland, Norway and Denmark developed a proposal for coordinated "macrofinancial support". They were joined by the UK's Department for International Development (DFID) in 1999 in proposing Joint Programme Assistance and in signing the first agreement in 2000. Between 2001 and 2005 many other bilaterals have joined this group including: Belgium, Canada, Denmark, EC, Finland, France, Germany, Ireland, Italy, Portugal and Spain, together with the World Bank. Observers include USAID, Japan International Cooperation Agency (JICA), African Development Bank (AfDB), the UN and IMF.</p> <p>In a Memorandum of Understanding (MOU) in 2004, GOM and PAPs committed themselves to the overall objective of contributing to poverty reduction by supporting the Poverty Reduction Strategy Paper (PRSP; PARPA in Mozambique). Intermediate objectives were to support poverty reduction by:</p> <ul style="list-style-type: none"> a) building a partnership based on frank and open dialogue; b) providing financing to the public sector for poverty reduction, linked to performance. <p>As underlying principles GOM agreed to peace, democratic political processes, independence of the judiciary, rule of law, human rights, good governance and probity in public life, including the fight against corruption, public expenditure consistent with PARPA priorities, and sound macroeconomic policies.</p>	<p>The first cases of formal donor harmonisation were in health: a pool to fund overseas hospital doctors in 1996, and a drug pool in 1997. In 1999 Ireland and Norway joined the Swiss in earmarked budget support to the health sector, establishing the Fundo Comum Provincial (FCP); funding was about USD 3.3m in 2002. Pooled donor funding to the MOH is being brought fully on-budget through PROSAUDE (health SWAp) as from 2004.</p> <p>The first sector-level programme of budget support was developed in 1998 for the MinAg; about USD 200m over five years was earmarked for agriculture, paid into a Bank of Mozambique (BOM) account and disbursed to the Ministry. This arrangement was formalised first in an MOU in 1999, renewed in 2001 and 2005. The second MOU was formative in establishing the principles for other sector-wide approaches in the health and education (FASE) sectors.</p>	<p>Members of the Joint Donor Programme provide institutional support in the areas of: macroeconomic management coordinated with the IMF; implementation of priority programmes under the PARPA; planning and budgeting instruments; monitoring and evaluation of the PARPA; and public finance management.</p> <p>Much more technical assistance has focused on line ministries than on the development of the planning and financial capacity.</p>	<p>Mozambique was the recipient of substantial amounts of BOP support before and after the initiation of structural reforms. As the economy was liberalised, donors replaced specific import support with debt relief and BOP support to meet the general gap in external payments.</p> <p>With the move to a market-determined exchange rate, BOP support, in its turn, became inappropriate since the exchange rate would now operate as the ultimate balancing mechanism.</p> <p>However, the IMF's Poverty Reduction and Growth Facility (PRGF) plays an important role in the overall system of budget support. The PRGF is supposed to differ from its Enhanced Structural Adjustment Facility (ESAF) predecessor in that poverty reduction becomes a prime consideration in macro policy rather than a by-product of a stable and enabling macro environment.</p>

Annex 3A: Mozambique Inventory – GBS and related programmes

Types →	General Budget Support	Earmarked BS	TA for GBS or PFM	BOP Support
<p>3. Alignment with National Strategies</p> <p><i>Is/was the programme aligned with a particular national strategy (e.g. the PRSP)?</i></p>	<p>GBS is aligned with PARPA (see above). The PARPA underlies all planning documents but the donor-GOM collaboration now unites on a more specific set of shared targets, set out in a Performance Assessment Framework (PAF). Progress is measured against the PAF each year and forms the basis of PAPs' commitments.</p> <p>The economic and social plan (PES) and the state budget are composed by the MPF annually from ministerial contributions and updating. In principle, this process depends on informed dialogue between MPF and the ministries. In practice, as was repeated to us in interviews with both donors and government, the two sides have lacked the mutual experience and understanding that would allow them to negotiate, and line ministry priorities have normally been followed.</p> <p>The WB moved from observer status to full membership in 2004, and in 2005 adopted the PAF matrix as the basis to "trigger" its Poverty Reduction Strategy Credits (PRSCs).</p>	<p>Alignment with PARPA (see above). The PARPA underlies all planning documents but the donor-GOM collaboration now unites on the PAF.</p> <p>Earmarked BS in Health, Education and Agriculture are in principle aligned with the PARPA and with sectoral plans.</p> <p>As a result of the dominance of the key line ministries, national policy has been strongly influenced by donor-government dialogue at sector level. The 2001-05 PARPA was built on the submissions of ministries and not debated widely across government.</p> <p>Line ministries continue to be important focuses of sector aid but:</p> <p>(a) pooled funds for specific uses are being grouped into common funds for more general use;</p> <p>(b) sector support arrangements are increasingly being brought on-budget.</p>	<p>Technical assistance for GBS and BS is broadly aligned with national strategies since it helps to strengthen the GOM's capacity to implement its PARPA. TA tends to remain fragmented and heavily projectised. Ownership of capacity building programmes is therefore relatively weak.</p>	<p>The later forms of BOP support were designed to support the government's structural adjustment policies which were aimed at enhancing economic growth and efficiency as well as transparency in resource allocation and provision of government services.</p> <p>The key features of the PRGF are:</p> <p>i) broad participation and greater ownership; ii) embedding the PRGF in the overall strategy for growth and poverty reduction; iii) budgets that are more pro-poor and pro-growth, ensuring appropriate flexibility in fiscal targets; v) more selective structural conditionality; vi) emphasis on measures to improve public resource management/ accountability; and vii) social impact analysis of major adjustments and structural reforms.</p>

General Budget Support in Mozambique

Types →	General Budget Support	Earmarked BS	TA for GBS or PFM	BOP Support
<p>4. Disbursement Procedures</p> <p>(a) <i>Is/was there any form of earmarking? Please give details.</i></p> <p>(b) <i>Tranches? (fixed/variable, etc.?)</i></p> <p>(c) <i>Any arrangements to align disbursement with the recipient's financial year (FY)?</i></p> <p>(d) <i>Route for transfer of funds (e.g. direct to central bank, to Treasury, via a special account, etc.)?</i></p>	<p>There is no general earmarking by PAPs in the MOU; however, there are donors who specify TA support to certain PFM, Monitoring and Evaluation (M&E), macro reform areas etc. PAPs make preliminary commitments in August. A disbursement schedule is agreed between GOM and PAPs before the start of the fiscal year at the December Budget Working Group meeting. GOM/PAPs are committed to establishing an agreed disbursement schedule, in order to assist GOM in implementing its PES/PAF commitments.</p> <p>Main features of GBS disbursement procedures and accounting are:</p> <ul style="list-style-type: none"> • Release of foreign exchange (forex) into a common account held by the central bank. • Transfer within two days into a Transitional Account held by the MPF of the Metical equivalent. • Transfers of funds from the Transitional Account into the Central Treasury Account as resources are required for release within GOM's annual budget. • PAPs commit to (i) using GOM processes and documentation; (ii) following GOM's cycle for planning, implementation, monitoring, reporting and funding; (iii) increasing predictability of aid funds, including by making multi-year agreements, and not interrupting in-year disbursements, unless underlying principles are violated, etc. But, some donors find the constraints of the MOU and PAF indicators too restrictive, and some simply disburse late because of bureaucratic delays. 	<p>Funds for PROAGRI are earmarked for agriculture, paid into the BOM account and disbursed to the MinAg via the Treasury.</p> <p>Funds from the health sector PROSAUDE are allocated to provinces by the Ministry of Health (MOH). Programming of funds is carried out by provincial health authorities in an integrated planning exercise (for all funds and partners). The arrangement has been considered on-planning but off-treasury. However, funds channelled through provincial finance departments mostly follow the rules of the state budget.</p> <p>Pooled funding in health is being brought on-budget. In November 2003, MOH and donors signed an MOU establishing the on-planning and on-treasury PROSAUDE fund to start in 2004.</p> <p>The education sector's common fund (FASE) continues to be managed separately outside the Treasury.</p>	<p>TA is project-based, and funds disbursed through separate bank accounts.</p> <p>A pooled donor fund for SISTAFE (Integrated System for State Financial Management) with a single bank account is drawn down for implementation of the reform programme.</p>	<p>Counter value [or countervalue?] funds disbursed under BOP arrangements were tied to specific budget sector shares.</p> <p>In the early 1990s BOP was disbursed to Mozambique through commercial banks. In 1994 Swiss Development Corporation simplified disbursement procedures for its united BOP support. Denmark, Norway and Sweden followed suit in the first step to creating the Foreign Exchange Interbank Market.</p> <p>There were many problems in Mozambique with late and unpredictable disbursements of BOP funds.</p> <p>Donors did not usually agree multi-annual agreements for BOP.</p> <p>The IMF's PRGF is still regarded as BOP support, rather than GBS, because it is provided to the central bank.</p>

Annex 3A: Mozambique Inventory – GBS and related programmes

Types →	General Budget Support	Earmarked BS	TA for GBS or PFM	BOP Support
<p>5. Framework of Conditionality and Performance Indicators</p> <p><i>(a) Is there an underlying MOU or similar agreement?</i></p>	<p>2000: "Joint Donor Programme for Macro Financial Support to the Government of Mozambique".</p> <p>2004: MOU between GBS partners and GOM.</p>	<p>PROAGRI's (Agriculture SWAp's) MOU was signed in 1999, and renewed in 2001 and 2005.</p> <p>An MOU was signed in 2004 for earmarked sector support to the health sector.</p>		<p>Donors held bilateral agreements for BOP support and contributions to the debt-alleviation fund. There were significant differences in agreements owing to lack of coordination. The shift to GBS was partly motivated by the need to standardise.</p> <p>Formal PRGF agreement between IMF and government.</p>
<p><i>(b) Performance indicators, including:</i></p> <ul style="list-style-type: none"> ➤ <i>Number of indicators</i> ➤ <i>Nature (e.g. process indicators, result indicators)</i> ➤ <i>Are they drawn from PRSP or other national policy documents?</i> ➤ <i>Are they linked to performance indicators for Sector-Wide Approaches (SWAps), etc.?</i> ➤ <i>Are special reports required? How often?</i> 	<p>Donors have committed to harmonise development assistance on the PARPA. The donor partners (PAPs), including WB for PRSC, have agreed a PAF. This expresses the key targets for which GOM agrees to be held to account.</p> <p>The PAF contains process and outcome indicators drawn from the PRSP, ministerial proposals and donor responses. At GOM request the total number of indicators is limited to 50.</p> <p>The PAF is a multi-year rolling matrix that describes key annual commitments made by GOM in order to achieve the objectives of the PRSP. These are amended following each year's Joint Review and Aide Mémoire. PAF targets and performance are reported to parliament with the report on the annual PES.</p>	<p>Sectoral indicators are derived from the PARPA and the PES. Sectoral indicators used as judgement criteria have been brought into the PAF and will come under the process of the Joint Review.</p> <p>Sectoral indicators are a mixture of process, input and output indicators.</p> <p>The PAF is to act as part of the monitoring system for sector-based programmes, helping to avoid cross-conditionality and overlapping arrangements. Each SWAp sector holds an annual sector review process. Sectors maintain their own accounting and monitoring procedures, although these are increasingly being standardised.</p>		<p>Under the PRGF arrangement structural conditionality builds on those of ESAF continuing to reflect areas of macroeconomic relevance, such as: strengthening tax administration; improving public expenditure management; and strengthening and development of the financial sector.</p>

General Budget Support in Mozambique

Types →	General Budget Support	Earmarked BS	TA for GBS or PFM	BOP Support
<p>(c) Types of condition, including:</p> <ul style="list-style-type: none"> ➤ Triggers for tranche release? ➤ Due process conditions (legally binding requirements for donors and recipients in giving and receiving money) ➤ Is satisfactory IMF status a condition? ➤ Other policy and performance conditions (cf. performance indicators) ➤ Political conditions (e.g. related to democracy, human rights, corruption, military spending and activity) ➤ Broader political conditionality (beyond the formal conditions, e.g. as revealed by interruptions and problems mentioned against Item 10) 	<p>PAPs may choose between making a single response based on the joint view of performance or a split response, with one part (fixed portion) being based on the joint view of performance and the other part (variable portion) being linked to specific, transparent commitments drawn from the PAF and agreed with GOM.</p> <p>The EC, Switzerland and Sweden operate split-response tranche systems with a fixed tranche committed as in the case of the other donors, and variable tranches paid against specific PAF criteria. Sweden is to cease to operate this mechanism.</p> <p>PAPs with a split response agree to:</p> <ul style="list-style-type: none"> • commit the fixed portion as above. • as other donors, make indicative commitments for year n+1 for the variable portion within four weeks of the end of the annual Joint Review and confirmed commitments not later than 31 August. <p>Commitments may change on the basis of further information about GOM performance on specific indicators in year n-1 and/or performance on specific indicators in year n until the moment of the mid-term review.</p> <p>Once confirmed, commitments cannot be changed, and committed funds will be disbursed, except when PAPs believe that there has been a violation of an underlying principle, or as a consequence of a parliamentary decision or when one of the specific conditions for individual PAPs applies.</p> <p>PGBS is provided on the basis that Mozambique remains on track with the IMF's PRGF (see last column).</p>			<p>The IMF and its PRGF play a key role in agreeing targets for the fiscal framework in Mozambique. The IMF holds consultations prior to the formulation of the budget on macroeconomic aspects, setting expenditure limits which are broad poverty programme expenditure targets set as a percentage of GDP, and also targets for military spending, overall deficit, and net credit to government arrears. The key determining factor in the setting of expenditure limits is the budget deficit, being the cornerstone of the PRGF agreement. The PRGF also links into the Medium Term Expenditure Framework (MTEF) and the PARPA, putting a practical resource constraint on the PARPA and forcing it to be implemented with respect to resource availability. There continue to be structural performance criteria linked to the PRGF, e.g. approval by Council of Ministers of the new code of fiscal incentives; approval by Council of Ministers of the new codes for the corporate and personnel income taxes.</p>

Annex 3A: Mozambique Inventory – GBS and related programmes

Types →	General Budget Support	Earmarked BS	TA for GBS or PFM	BOP Support
<p>6. Links to TA and Capacity building</p> <p>➤ <i>Is capacity building an explicit objective of this programme?</i></p> <p>➤ <i>Are any TA/capacity building conditions attached to this programme?</i></p> <p>➤ <i>Are the GBS donors providing relevant TA/capacity building support in parallel to this operation?</i></p> <p>➤ <i>Are other donors providing relevant TA/capacity building support in parallel to this operation?</i></p>	<p>GOM has severe capacity problems, both in its systems of PFM and in human resources.</p> <p>The Joint Review process sometimes overwhelms the capacity of GOM to engage in dialogue, undertake reforms and execute the increasing national budget. By adding another aid modality, PGBS could be said to have increased the burdens on government capacity. However, this is counteracted by the effect of the process in bringing PGBS, sector support and even project aid into alignment on common systems.</p> <p>Capacity development in the key PGBS ministry, MPF, has been fragmented and projected between donors, although there are now discussions about pooling it through a common fund.</p> <p>Capacity development has been more successful in a “learning by doing” mode. The SISTAFE system for accounting and payment transfers is being rolled out to ministries with an accompanying training programme. The PAF requires assessments of progress to be undertaken and shared between ministries. MPF and line ministries are developing a stronger dialogue about budget priorities. The Administrative Tribunal is undertaking better and quicker audits of state bodies and the state accounts.</p>	<p>Capacity building has been a key element of all sector budget support in Mozambique. Sectoral capacity building has arguably been better coordinated and effective in line ministries than in the MPF as a result of TA linked to PGBS.</p>	<p>Weaknesses remain in government’s capacity to plan, manage public finances and execute budgets. Donor–government collaboration may have got ahead of GOM capacity to perform core PFM functions. Provision of GBS and quasi BS has heightened awareness by donors of these deficiencies.</p> <p>Various donors provide TA to a number of departments and units in the MPF and to the administrative tribunal.</p> <p>A programme for reform of PFM systems has been developed and many donors providing GBS provide money for TA in this area.</p> <p>In terms of capacity building, more has focused on line ministries than on PFM.</p> <p>An Interministerial Commission for Public Sector Reform (PSR) and unit for PSR (UTRESP) were established in 2000 but seem to have made slow progress.</p>	<p>Donors and GOM are increasingly aware that the MPF needs urgent capacity building, probably in the form of pooled TA.</p>

General Budget Support in Mozambique

Types →	General Budget Support	Earmarked BS	TA for GBS or PFM	BOP Support
<p>7. Procedures for Dialogue</p> <p><i>What is the general context of dialogue (e.g. Consultative Group [CG] meetings, etc.)? Specific dialogue arrangements linked to this programme?</i></p>	<p>There are four main platforms for GBS dialogue:</p> <ul style="list-style-type: none"> (i) Annual review of performance over the previous financial year (FY) against the PAF. (ii) Mid-year review focusing on forward planning and budgeting for next financial year, and agreement on the basis of the following year's PAF (prior to submission of the PES and state budget to parliament). (iii) Joint Budget Working Group discusses budget execution and disbursement schedules. (iv) Thematic and working groups and PAF Coordinating Group meet to review performance. (v) A Poverty Observatory of GOM, donor and civil society representatives meets annually at the time of the Annual Review. <p>The annual review focuses on performance assessment, which serves as the basis for commitments. The mid-year review focuses on dialogue on forward planning and budgeting and agreement on the PAF.</p>	<p>Sector reviews have historically followed a different timetable from GBS but are now being drawn into the same cycle, partly as a result of line ministry participation in the Joint Review process. In 2005, the Ministry of Education (MOE) undertook its sector review in April, following the framework as well as the timing of the Joint Review and budget.</p>	<p>Dialogue for TA for GBS and for BS is generally undertaken on a needs basis.</p>	<p>Dialogue for BOP support took place in the context of CG meetings. However, CG meetings were frequently held outside Mozambique and therefore had limited Mozambican participation.</p> <p>IMF's PRGF discussions are separate from the PGBS dialogue, but coordination has increased.</p>

Annex 3A: Mozambique Inventory – GBS and related programmes

Types →	General Budget Support	Earmarked BS	TA for GBS or PFM	BOP Support
<p>8. Donor Harmonisation and Alignment (H&A)</p> <p><i>General context of H&A activities (e.g. is there a CDF[spell out first] pilot? Strategic Partnership with Africa [SPA] active?)</i></p> <p><i>Is H&A built in to the BS operation (e.g. common calendar, joint missions, common set of indicators, pooling of BS funds, delegated cooperation or silent partnerships)?</i></p> <p><i>Joint diagnostic and performance reviews (do these also incorporate non-BS donors, e.g. as part of SWAp, Public Expenditure Review [PER], etc.)?</i></p>	<p>Independent assessment shows that PAPs are increasingly mounting joint missions, undertaking joint analysis, using joint procedures and reducing the number of visits and overlapping activities.</p> <p>A “Troika” plus group consisting of previous and present future chairperson of the PAPs plus the EC and WB meets fortnightly and is mandated to act on behalf of Heads of Cooperation (HOC).</p> <p>A PAF coordination group meets monthly to consider GOM policy and performance and prepare for dialogue with government. It includes the Troika group and chairs of the sector working groups and the cross-cutting reform groups.</p> <p>A PAP economists working group meets fortnightly to analyse performance and implementation for the HOC.</p> <p>The monitoring and dialogue processes are joint and follow an annual review process aligned with GOM’s planning, budgeting and monitoring cycle.</p> <p>Monitoring and dialogue processes focus on the documents submitted by GOM to parliament. All formal performance assessments are normally undertaken jointly by GOM and PAPs and not bilaterally except when PAP legislation requires a national or institutional audit authority to undertake their own assessment.</p>	<p>The first cases of formal donor harmonisation were in the health sector and took the form of common pool or basket funding.</p> <p>In 1999 Ireland and Norway joined the Swiss in earmarked budget support to the health sector, establishing the FCP. Since then many other donors have joined the scheme</p> <p>GBS sector and cross-cutting working groups meet weekly or as defined by the group.</p> <p>UNDP was at the centre of aid coordination as it heads the Development Partners Group (DPG). Under DPG there is a monthly Heads of Mission meeting chaired by UNDP or the WB and a series of specific working groups reflecting donor interests. But this has effectively been taken over by the PGBS process.</p> <p>Outside the Group of 17 donors, Japan, USA, UN and AfDB are Observers. They coordinate aspects of their aid and participate in some working groups without providing GBS funding.</p>	<p>There is a common pool fund for SISTAFE which contains elements of capacity building. The donors jointly review progress in this area.</p> <p>All areas which fall under PGBS, e.g. tax, customs, banking sector, etc. would be jointly reviewed as far as they fall under the PGBS monitoring and evaluation mechanism. To the extent that capacity building is undertaken through a project(s), it is likely that this would be individually reviewed and monitored.</p>	<p>TA for BOP was provided on a project basis in an uncoordinated ad hoc way.</p> <p>Missions were not coordinated and the first example of a joint review of BOP was probably in 1998 “Joint Review of Balance of Payments support” Aide Mémoire.</p>

General Budget Support in Mozambique

Types →	General Budget Support	Earmarked BS	TA for GBS or PFM	BOP Support
<p>9. Experience in Implementation <i>If completed, how was it rated?</i> <i>Any particular problems, interruptions etc? Please give details.</i> <i>Any specific reviews or evaluations available?</i></p>	<p>The movement to integration of the PRSC and the GBS PAF matrix is a major move forward for GOM and GBS donors. Mozambique is today considered to be a forerunner in the utilisation of existing and the setting of new OECD DAC best-practice principles for donor harmonisation and coordination. Reviews by Strategic Partnership with Africa (SPA) (2004 and 2005; Killick et al 2005).</p> <p>GOM has welcomed the reduction in bilateral meetings and donor-specific reporting requirements, the focusing of dialogue and improved level of transparency in external financing.</p> <p>The 2000 agreement ran into problems relating to the unpredictability of GBS programme that is at the core of the government's finances, funding 25% of recurrent expenditure.</p>			

Annex 3B: PGBS Flows

Commentary on data

The data sources that were used for in the GBS study come from five primary sources:

- (1) The OECD DAC website of International Development Statistics Online (available from <http://www.oecd.org/dac>): table *Destination of Official Development Assistance and Official Aid – Disbursements (Table 2a)*. The OECD DAC data is in calendar years and in nominal terms. The OECD DAC total ODA data is new loans extended plus grants disbursed (OECD DAC 2005–2006).
- (2) Ministry of Planning and Finance.
- (3) The IMF website: www.imf.org
- (4) The World Bank website: www.worldbank.org
- (5) The PAP secretariat: www.pap.org.mz
- (6) The 2005 questionnaire which was circulated to international partners: “Questionnaire to donors, Evaluation of General Budget Support”.

The Standard Summary table which follows provides an overview of PGBS and other aid flows 1994–2004 using internationally comparable data (OECD DAC, IMF, GOM – MPF). Rows A, B, J and K are sourced from the OECD DAC database. Row C has been sourced from the PAP secretariat and row D from the IMF website and the OECD DAC website. Row E has been summarised from data collected through the 2005 donor questionnaire. These data should be treated with care, as they are not complete. Rows F and G are sourced from the MPF. All other calculations in this table are the authors’ own.

General Budget Support in Mozambique

Table 3B.1 Summary of PGBS Flows

	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	Source
(a) In USD million unless indicated otherwise												
Total ODA (actual) [1]	1,255.44	1,275.30	956.66	959.38	1,106.68	1,646.84	1,096.33	992.47	2,330.26	1,092.22	1,289.13	OECD DAC
Total ODA excl. emergency and food aid (actual) [1]	1,229.11	1,178.28	894.78	893.98	1,049.29	1,598.27	966.95	870.91	2,272.42	1,041.01	1,217.22	OECD DAC
Total Partnership GBS disbursements [2]	0	0	0	0	0	0	29.50	88.17	100.70	153.70	239.41	
<i>Donors providing PGBS</i>							Netherlands, Norway, UK	Denmark, EC, Ireland, Italy, Netherlands, Norway, Sweden, Switzerland, UK	Denmark, EC, Finland, France, Ireland, Netherlands, Norway, Sweden, Switzerland, UK	Denmark, EC, Finland, France, Ireland, Netherlands, Norway, Sweden, Switzerland, UK	Belgium, Denmark, EC, Finland, France, Germany, Ireland, Italy, Netherlands, Norway, Portugal, Sweden, Switzerland, UK, WB	PAP as cited Annex 3A Inventory
[ESAF programmes] followed by PRGF (disbursements) [3]	[21]	[0]	[18]	[35]	[25]	21.00	45.20	8.40	8.40	8.40	2.40	IMF (various) cited Annex 3A Inventory
Total other unearmarked programme aid (disbursements) [4]	-	-	95.63	168.96	128.49	197.85	24.40	50.42	110.88	94.23	16.35	
<i>Donors providing unearmarked programme aid</i>			Canada, EC, Italy, Japan, Sweden	Denmark, EC, Sweden, WB	Denmark, EC, Japan, UK	Finland, Sweden, UK, WB	EC, Netherlands, Norway, Sweden, UK	Denmark, EC, Ireland, Italy, Netherlands, Norway, Sweden, Switzerland, UK	Denmark, EC, Ireland, Japan, Italy, France, Netherlands, Norway, Sweden, Switzerland, UK	Denmark, EC, Finland, France, Ireland, Netherlands, Norway, Sweden, Switzerland, UK, WB	Belgium, Denmark, EC, Finland, France, Germany, Ireland, Italy, Japan, Netherlands, Norway, Portugal, Sweden, Switzerland, UK, WB	Annex 3A Inventory
HIPC funding	0	0	0	0	0	373.00	501.18	1077.63	523.00	347.96	484.00	MPF
Central Government Expenditure [5]	154.34	113.59	103.90	112.17	757.89	919.08	1,080.39	1,145.55	1,182.81	1,216.07	1,468.77	MPF
ODA as % of GNI	60.46%	49.89%	33.22%	29.46%	28.40%	21.31%	25.39%	29.79%	64.63%	25.17%	23.62%	OECD DAC
PGBS as % total ODA (%)							2.69%	8.88%	4.32%	14.07%	18.57%	
PGBS as % central government expenditure (%)							2.73%	7.70%	8.51%	12.64%	16.30%	
Notes												
[1] OECD DAC data is in calendar years. All other data is in financial years (1994 = FY1994/95)												
[2] In line with the Annex 3A (inventory). PGBS started in 2000												
[3] This includes financing disbursed under ESAF (1999–2001)												
[4] These data should be treated with care as they are not complete.												
[5] This data include liquid borrowing. 1999–2003 these figures correspond to the executed budget. 2004 the figures correspond to the programmed budget.												
Memorandum items												
Emergency Aid	no data	22.1	13.95	12.54	8.29	10.56	100.04	78.72	13.95	6.19	17.08	OECD DAC
Development Food Aid	26.3	74.9	47.9	52.9	49.0	38.0	39.3	42.8	43.9	45.02	54.8	OECD DAC
Government Expenditure (Meticais billions)	913.4	1,009.8	1,157.4	1,278.2	9,372.0	11,662.6	16,950.7	23,718.7	27,991.9	28,921.0	33,166.7	MPF
USD/MTs (Exchange rates refer to period averages)	5,918.0	8,890.0	11,140.0	11,395.0	12,366.0	12,691.0	15,699.0	20,707.0	23,666.0	23,728.0	22,581.0	MPF

Table 3B.2: GBS and Related Commitments by Donor 1996–2005 (USD million)

DONOR/PROGRAMME	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Belgium										
GBS									3.65	2.30
TA (SISTAFE common fund)									0.90	0.90
Canada										
BOP	0.15									
GBS										2.00
FASE								9.00	4.20	8.80
PROAGRI									3.00	4.20
PROSAUDE									2.50	5.00
Support for Educational Materials									4.50	14.00
CNCS Common Fund									1.00	2.10
Denmark										
BOP		6.23	8.96			30.00				
GBS						8.50	9.60	8.80	10.00	10.00
EC										
Import Support	10.20	10.10	67.80	10.58	13.50	5.34	13.38	23.53	6.35	9.78
GBS						23.00	3.00			
GBS – PRSP II							35.00	76.70	70.44	56.66
Fixed							35.00	39.80	36.66	38.87
Variable							0.00	8.31	10.99	17.96
Agriculture (PROAGRI)								5.46	6.80	10.87
Roads SWAp									5.00	
Health (PROSAUDE)									2.50	
Health Common Fund for Medication									7.50	
Health Common Fund (Provincial)									3.00	
Education (FASE)									12.50	
TA (SISTAFE common fund)									3.10	3.20
Finland										
BOP				4.68						
GBS								3.20	4.60	4.60
France										
SBS						0.88		3.68	0.70	
GBS							1.30	3.20	3.75	3.60
HIPC I and II			16.80	23.90	1.30	1.80	436.80	0.50		
Germany										
Education (FASE)							5.80	2.35		
GBS									4.20	4.20
IMF										
ESAF (1990–1995)										
ESAF (1996–1999)	36.70	36.70	36.70							
ESAF (1999–2001) USD 78.50m over 3-years				26.50						
PRGF (2000–2003) 122.91 includes 1999 commitments					30.72	30.72	30.72	30.72		
PRGF (2004–6) (3 year USD 16.6m arrangement)									5.33	5.33
Ireland										
SBS		0.58	1.38	3.45	5.98	9.20	19.55	20.70	23.00	
GBS						3.44	5.10	5.70	7.00	9.00
Italy										
BOP							13.00	0.10		
HIPC II							600.00			
Import Support	23.00									
GBS (2004–6)									3.80	3.80
Macroeconomic Support to GOM - Donor Monitoring										0.10
Agriculture (PROAGRI)								1.15	2.00	
Health (PROSAUDE)										
Japan										
BOP	15.00		15.00		15.00		5.00		10.00	

General Budget Support in Mozambique

DONOR/PROGRAMME	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Netherlands										
BOP						10.38	15.90			
Agriculture (PROAGRI)							3.08	1.73	2.07	
Education (FASE)									1.15	3.65
Environment (MICOA)							0.29		0.39	1.15
Health (PROSAUDE)								2.53		3.91
Water and Sanitation							1.27	1.38	3.80	
BS for SISTAFE							2.65			
BS for reconstruction (floods)					13.23			2.83	2.83	
GBS					6.40	17.60	13.69	20.70	11.50	16.10
Norway										
BOP						7.12	7.52			
GBS					10.12	10.70	8.97	10.35	10.24	10.35
Portugal										
GBS									2.16	1.73
Spain										
GBS										3.50
Sweden										
BOP	10.88	15.93		6.05	10.90					
MSAt					1.95	0.18	1.58			
Administrative Tribunal (MPF)					1.46	2.06	1.28			
Policy centre (MPF)						1.21	1.60			
MPF – general					0.44		0.83			
National Institute of Statistics					1.86	0.44	1.79			
General Finance Inspector-MPF										
SBS										
Agriculture (PROAGRI)										
Education (FASE)										
Provincial Budget support (Niassa)					0.49	0.49	0.79			
GBS						9.38	9.40	9.40	First tranche USD 9.3m and second tranche USD 4.5m	First tranche USD 9.3m and second tranche USD 4.0m
Switzerland										
Economic Management Support						4.70		1.60	1.50	1.50
TA for GBS reform for tax reform	0.75	0.80	1.30			0.35	1.40	0.58		0.60
PRU – MPF										
Health (PROSAUDE)								3.99	5.16	5.16
GBS						4.85	4.50	5.30	3.70	3.70
GBS 2 nd trache									3.70	3.70
Emergency aid – untied BS						2.81				
BOP/BS	4.85	4.85	4.85	4.85						
United Kingdom										
BOP			0.03	0.04						
TA										
Strengthen Plan & Budget (TC)					0.08					
Customs Reform					0.02					
Budget Support									0.01	0.01
Support to SISTAFE								0.05	0.15	0.10
PSR					0.01	0.01				
SBS									0.60	
Agriculture (PROAGRI)	0.45	0.45	0.45	0.24	0.14	0.33	0.31	0.18	0.15	
GBS					15.20	14.38	14.60	15.00	27.40	50.00
World Bank										
Financial sector capacity building				2.00	1.40	0.30				
SBS								22.50		
Health sector support - Health Sector Recovery Project (USD 98.7m 96)	98.70									
Education Sector Strategic Programme (ESSP) (for total programme)				71.00						
GBS										
Economic management reform operation				150.00						
Third economic recovery operation		100.00								
Economic management reform (EPMSO)							63.50	70.70		
PRSC (GBS)									60.00	60.00

Source: GBS Evaluation donor questionnaire, PAP Secretariat and donor interviews.

Annex 3C: The Design of PGBS in Mozambique

Introduction

1. Partnership GBS in Mozambique is unusually complex. Its present form owes much to the circumstances in which it was created and to a series of subsequent adjustments in response to formative experiences. This annex explains the present design of PGBS and how it evolved.

2. The evolution of donor coordination and of forms of programme aid in Mozambique derives from the collaboration of the “like-minded group” (the Nordic countries, Canada, the Netherlands and Switzerland) in times of civil war, coordination of their import support and food aid programmes, and the division of sectoral leadership roles between Sweden (education) and Switzerland (health). A wider group of bilateral donors supported the IMF's Structural Adjustment Facility (SAF) in the form of BOP support from 1990. Two rounds of HIPC debt relief from 1996/97 (decision point was reached in 1998, and approval given in 1999) and the discussion and then eventual approval by the WB of the PRSP (PARPA) in 2001 created the conditions for donor alignment on an agreed poverty reduction strategy. The bilateral donors began to formulate plans for a common programme of GBS in 1998. The IMF switched its loans from ESAF to PRGF conditions aligned with the PARPA from 1999; but it was not until 2004 that the WB began a PRSC to support the PARPA. Thus the bilateral donors were in the forefront of the development of a systematic approach to GBS.

The origin of PGBS

3. The first “act of creation” appears to have been a donor-led initiative. It began in 1998 with a Joint Review of BOP support by the “Gang of Four” (G4): Denmark, Norway, Sweden and Switzerland. BOP support averaged USD 50m in the late 1990s and the G4 were increasingly committed to harmonising and coordinating their BOP support, since this would improve fiscal management and the transparency of budget support, and reduce transaction costs for both government and donors.

4. The Joint Review by the G4 was led by a member of Danida's technical advisory services with three consultants and supported by a reference group from the G4 embassies. Its main concern seems to have been to reduce the administrative burden on government created by the different procedures of donors offering SBS and GBS. It assessed Mozambique's macroeconomic performance, revenues, PFM reforms, foreign exchange allocation model, and public sector reforms. It proposed that the donors should seek to standardise agreements for BOP support, adopt a two-pronged strategy of both GBS and SBS, set joint conditionalities, conduct joint annual reviews (JARs) and allocate funding on a multi-annual basis. A follow-up review was undertaken nine months later in 1999 with the participation of the UK. Similar analyses of Mozambique's performance and readiness were undertaken and the joint donors concluded by suggesting that donors and government:

Develop and implement a concept of a single facility for general budget support with a common set of conditions ... and common disbursement, accounting, reporting and auditing procedures. Similar efforts should be undertaken in cases of sector support and sector-specific import support (Aide Mémoire 1999: 5).

5. The question of whether GBS or SBS was more fungible in the context of deficient accounting and audit systems was “controversial” but it was resolved that the two were complementary. This remains a matter of discussion. However, it should be noted that, while GBS was the focus of the proposal, the donors were expressly seeking an “optimal mix” of the two modalities.

The first framework agreement

6. Coordination of GBS was agreed in 1999 and formalised in 2000 as a “common framework agreement” in a Joint Donor Programme for Macro-Financial Support between the GOM and bilateral donors. An original group of six donor signatories rapidly expanded to nine – Belgium, Denmark, the EC, Ireland, the Netherlands, Norway, Sweden, Switzerland and the UK – and France joined in 2002.

7. With regard to policy **conditionality**, the agreement required the government to prioritise poverty reduction according to the PARPA, and made Mozambique's “on-track” status the basis for judgement about the quality of macroeconomic management. However, signatories retained the right to add their own policy conditions.

8. The agreement set out mechanisms of **government–donor coordination and dialogue** which remain important, including:

- (a) quarterly reports on the financial execution of the Joint Donor Programme and on budget execution;
- (b) annual audit reports of the financial records of the Joint Donor Programme, of government budget execution and of the value for money performance of funds spent;
- (c) an annual “joint donor review” of the Programme in collaboration with the government, on the basis of which donors agreed a disbursement schedule.

The 2002 crisis

9. The 2000 agreement ran into difficulties relating to the (un)predictability of the GBS programme that was at the core of the government's finances, funding around 18% of its recurrent expenditure in 2001. This was partly a matter of the “mechanics” of donor behaviour: while they disbursed into a common account, their individual timing for doing so was uncertain. But it was also a matter of donor interpretation of the conditions for disbursement. This was highlighted when, in response to the banking crisis of 2001 and associated violations of human rights, in 2002 some donors temporarily withheld or threatened to withhold disbursement. In the face of the damaging effect of unpredictability on macrofinancial management, the government (supported by the IMF) asked that the conditions for disbursement should be set out more transparently.

The 2004 Memorandum of Understanding

10. The second “act of creation” was a new MOU signed in March 2004 by the government with 15 external partners (Programme Aid Partners – PAPs): the earlier 10, Finland and the World Bank⁴ (which had joined in 2003), Germany, Italy and Portugal. Observing external partners included Canada and Spain (which joined in 2004 and 2005 respectively), Japan, the USA, the UN, IMF and the AfDB. Between 2002 and 2004, a major part of the dialogue between government and the PAPs was about generating a common perspective that could be enshrined in the new MOU. Following a joint workshop in November 2003, the draft MOU was passed by the government's Economic Council and the Council of Ministers before being signed jointly with the donors.

⁴ The World Bank is committed to using the Joint Review process as the main evaluation and reporting mechanisms for its Poverty Reduction Support Credit (PRSC). But until 2005 it maintained its own assessment matrix.

11. The main rationale for the new agreement was:

To clarify further the roles of both government and donor agencies, and to build a more effective partnership-based approach to supporting the government's poverty reduction strategy. (Harding and Gerster 2004: 8)

12. The 2004 MOU was much more explicit than the earlier agreement. It agreed that the shared overall objective was "to contribute to poverty reduction in all its dimensions by supporting the evolution, implementation and monitoring of the PARPA". Intermediate objectives were:

- To build a partnership based on "frank and open dialogue" about the PARPA and the budgetary and planning instruments for operationalising it;
- To provide "financing for poverty reduction, clearly and transparently linked to performance, in a way which improves aid effectiveness and country ownership of the development process, reduces transaction costs, allows allocative efficiency in public spending and predictability of aid flows, increases the effectiveness of public administration, improves monitoring and evaluation and strengthens domestic accountability".

13. The MOU set out the objectives, principles and commitments, processes for reporting, monitoring and dialogue, and the dispute resolution and disbursement processes. Most significantly it defined:

(a) Government's commitment to "underlying principles" or conditions of the agreement:

- peace and democratic political processes;
- independence of the judiciary, and the rule of law;
- Human rights;
- good governance and probity (including anti-corruption) in public life;
- combating poverty consistently with PARPA objectives;
- sound macroeconomic policies, with reference to IMF programme "on-track" status.

This was the basis for addressing the government's uncertainties about when and why disbursements might be withheld. A central tenet is that, once funds are committed on the basis of the previous year's performance, disbursement should follow as scheduled unless there has been a breach of the underlying principles. The commitment of funds in advance of the preparation of the following year's budget means that they can be programmed into the government's expenditure plans. The dialogue and dispute processes would be expected to ensure that withholding of disbursement would not occur in the current year, and would not lead to a collective donor decision not to disburse.

- (b) The use of a PAF as the shared instrument for dialogue, for assessing government's performance in the previous year and for donors' support commitments for the following year. The PAF crystallises government priorities across the PARPA into measurable indicators (see the 2005 PAF at Annex 7).
- (c) PAPs' commitment to alignment on government systems, predictable funding, transparent conditions, harmonisation and capacity building.
- (d) Mechanisms to strengthen domestic accountability: (i) the PAF is reported annually and appended to the government's PES which is reported to parliament; (ii) the PAPs are committed to reporting to government on their performance against their commitments, as the basis for joint assessment.

The evolution of the mechanisms of dialogue

Review process and calendar

14. In addition to these formative agreements, the government and partners also go through a Joint Review (formalised in the MOU) which allows the continuous evolution of the dialogue. The review process is scheduled to coincide with the government's own fiscal year (based on the calendar year):

- April/May: Annual Review of performance over the previous financial year against the government's PES, the PAF and the state budget. The review leads to a joint Aide Mémoire describing performance and issues for the forthcoming year. The joint assessment of performance is the basis for donors' commitments for funding in the following year. Commitments are indicated within four weeks of the end of the annual review, to be in time for the budget process, and confirmed by 31 August.
- June: follow up meeting.
- August/September: The Mid-year Review focusing on setting the indicators and targets for the following year's PAF. The review also discusses GOM plans for next year based on the PARPA, the Medium Term Fiscal Framework (MTFF), headline information on the PES and budget and the PAF matrix. Progress of the government in year, is discussed on the basis of the budget execution report, the PAF and other available information. A discussion is also held on PAP commitments for improving aid effectiveness.
- December: follow-up meeting.
- A joint Budget Working Group meets, in combination with these review meetings, to discuss budget execution and donor disbursement schedules.
- A Poverty Observatory of government, donor and civil society (CS) representatives has been set up to meet annually at the time of the annual review.

Forums for dialogue

15. The coordination of donors depends on an organisational structure and meetings scheduled partly to coincide with the review process:

- Heads of Cooperation (HOC) meet monthly to discuss performance against the PAF and the commitments of the PAPs.
- A "Troika plus" group, consisting of the previous, present and future chairpersons of the PAPs *plus* the EC and the WB meets fortnightly and is mandated to act on behalf of the HOC. Effectively this is the donors' lead group and includes the larger donors. It periodically meets with government in a Joint Steering Committee to discuss and agree on key strategic issues related to the implementation of the MOU and the monitoring of the PAF.
- An Economists Working Group meets fortnightly to analyse performance and implementation for the HOC.
- Working groups on specific aspects of policy (22 at the time of the annual review in May 2005) are active throughout the year. They are joint with the government and open to all donors, including those who are not signatories of the MOU. Each has two co-leaders from government and donors.
- The working groups are clustered into thematic groups that report to the annual and mid-year reviews. At the time of the 2005 annual review, there were six thematic groups on poverty and growth, PFM, governance, private sector development, service delivery, MOU implementation and aid effectiveness. Cross-cutting groups on gender, HIV/AIDS and environment report separately.

- A PAF Coordination Group meets monthly to discuss performance and prepare for dialogue with government. It includes the “Troika plus” group, and chairs of the sector and cross-cutting groups.

The partners

16. All the large donors and many of the smaller bilaterals now participate (even if only as observers) in the principal donor grouping – now the Group of 17 (G17) – that have joined together to provide GBS.

17. While it is dangerous to caricature complex positions, the G17 could be described as containing four broad postures:

- (a) The UK, in particular, and probably also the Netherlands and the EC, have the clearest commitment to rapid progress towards GBS as their leading strategy. While they have sector programmes, this first group is concerned that support to sector budgets might stand in the way of unification in the national budget – “We can only improve the budgetary system by using it.” The country office of Belgium is probably in this category, but it faces reservations from its headquarters.
- (b) The WB initially disbursed its PRSCs on the basis of a separate performance matrix (also based on PARPA but distinct in its measures from the PAF). From 2005, it will fully align with the PAF matrix and the MOU procedures, and will henceforth describe this as a GBS programme rather than a BS programme.
- (c) The Nordic states, Switzerland, Ireland and France argue for a “building blocks” approach in which GBS and SBS go hand-in-hand towards a future in which both are integrated into a national financial management system. The concern of this second group is that too rapid a commitment to GBS will stretch the capacity of government ministries and present problems of fiduciary risk to donors.
- (d) Some members of G17 – for example, Germany, Portugal, Italy, Canada and Spain – have initially made small contributions, gaining a seat at the table from which their position may evolve. Several of these have negotiated with their headquarters in order to have the freedom to participate in the G17 as a pilot case.

18. Outside the G17:

- (a) Two major donors – the USA and Japan – collaborate with the Group, coordinating aspects of their aid and participating in some working groups without contributing to BS. USAID has considered the possibility of joining (USAID 2004) but rejected it mainly on grounds of fiduciary risk and because participation in GBS was not considered to be the best way of exercising influence in matters of concern to the USA – e.g. business competitiveness, private sector development, decentralisation, and health (where Congress requires funding to be only through projects). The Japanese Government, which offers IS and food aid as well as project aid, is currently considering its position. In the meantime it aims to work within the same frameworks as the G17.
- (b) UNDP is at the centre of another instrument of donor collaboration – the Development Partners Group (DPG). Under the DPG, there is a monthly Heads of Mission meeting, chaired by UNDP or the WB, and a series of specific working groups reflecting donor interests. However, the working groups have now largely been subsumed into the activities of the G17, and UNDP intends to recognise this by dissolving its separate arrangements.

Split tranches

19. One other distinction of design between G17 donor partners should be mentioned here. Based on the joint assessment of performance (but introducing their own separate judgement if necessary), most donors make a single decision about their commitment. However, the EC, Switzerland and Sweden operate “split-response” mechanisms with a fixed tranche committed as in the case of the other donors, and variable tranches paid against specific PAF criteria. Sweden is to cease to operate this mechanism.

20. The donors that have insisted on disbursement by tranches have tended to favour clear output or outcome indicators that leave no room for interpretation if targets are missed, arguing that a focus on results leaves the government free as to how to achieve them (European Commission 2005). The problem is that such targets (focused on social sectors) are not fully under the control of government which will, nevertheless, suffer the consequences of an automatic deduction (Foster 2002: 28). By contrast, most donors favour policy and process indicators (of reforms undertaken) on the grounds that these are fully under the control of government (Gerster 2005: 22).

Table 3C.1: GBS/PRSC/PRGF Recommendations, Structural Conditionalities and Benchmarks, and Prior Actions over Time

A. IMF – ESAF to PRGF

ESAF (1990–95) USD 26.10m
<p>The programme for 1990–995 was focused on:</p> <ol style="list-style-type: none"> 1. Reducing macroeconomic imbalances. <p>Liberalisation of the exchange rate, prices, and interest rates.</p> <p>Trade policies.</p> <p>Enterprise and financial sector reforms.</p>
ESAF (1996–99) USD 75.92m
<p>Medium-term strategy</p> <ol style="list-style-type: none"> 1. General objectives: raise gross domestic savings and improve the allocation of resources in order to create conditions for sustained economic growth and poverty reduction. 2. Macroeconomic objectives: (a) achieve real GDP growth of 4% by 1998; (b) reduce inflation to 10% by 1998; (c) increase international reserves to the equivalent of 4 months of imports by 1998. 3. Fiscal objectives: (a) reduce fiscal deficit (before grants) to 16.5% of GDP by 1996 through revenue and expenditure measures; (b) increase revenue by 1.9% of GDP through acceleration of customs reform and an increase in petroleum product taxes with a commensurate reduction in overall expenditure. <p>Structural reforms</p> <ol style="list-style-type: none"> 1. Focus on privatisation. 2. Financial sector reforms. 3. Export promotion. 4. Strengthening the revenue base. 5. Public administration reforms – including decentralisation and civil service reform. This includes promoting greater transparency and accountability in public finances and in the economic regulatory system. 6. Strengthening of the judicial sector. <p>Addressing social costs</p> <ol style="list-style-type: none"> 1. Development of the agricultural sector through market incentives. 2. Review of the existing social safety nets. 3. Development of a Poverty Assessment and Action plan. 4. Expansion of primary and secondary education. 5. Expansion of primary health care.
PRGF (1999–2003) USD 87.0m
<p>Medium-term strategy</p> <ol style="list-style-type: none"> 1. General objectives: (i) create the conditions for poverty-reducing sustainable economic growth while lowering the country's dependence on external aid; (ii) capitalise on gains achieved in both macroeconomic stabilisation and economic liberalisation to encourage rapid private sector expansion. 2. Macroeconomic objectives: real GDP growth 7%, end-period inflation 6–8% and net international reserves at 3 to 4 months of projected imports.

Structural policies

1. **External sector:** (i) rationalisation of import tariffs; (ii) improvement of efficiency of utilisation of aid funds, reduction of debt-service burden.

2. **Pricing policy:** ensure viability of industries with regulated prices.

3. **Fiscal policy:** (i) improve efficiency of financial management; and (ii) improve revenue mobilisation and tax reform.

4. **Governance and public administration:** (i) improve accountability; (ii) reform civil services; (iii) decentralise public administration; and (iv) support the electoral process.

Monetary policy: (i) Financial market development; (ii) central bank information base; (iii) interest rate policies; and (iv) payments system.

Financial sector reforms: (i) improve monetary control and the health of the financial sector.

Private sector development: (i) improve business environment.

Public enterprises: (i) restructure public enterprise sector.

Energy policy: (i) promote development of energy resources.

Agricultural policy: (i) improve allocation and monitoring of sectoral resources; and (ii) raise income and security of the poor.

Social policy: (i) rebuild health system in rural areas; (ii) improve quality of primary and secondary education; (iii) improve targeting and effectiveness of poverty reduction programmes; and (iv) improve food security.

Environmental policies: (i) improve the regulatory environment; and (ii) improve water and sanitation.

Transport and telecommunications: (i) eliminate road transport bottlenecks; and (ii) increase private sector participation.

Statistics: (i) improve quality of statistics; and (ii) improve dissemination of statistics.

PRGF (2004–06) USD 16.6m

Medium-term strategy

1. **General objectives:** consolidating macroeconomic stability and addressing remaining structural weaknesses to sustain and broaden growth, promote employment creation, and further reduce poverty.

2. **Macroeconomic objectives:** real GDP growth of 8%, year-end inflation of 11% for 2004 and 7% for 2005.

2003

Prior actions

1. Terms of reference prepared for diagnostic review of large banks.

2. Quarterly budget execution reports produced in less than 45 day of end of period.

3. GOM provides the Fund with data on monthly government revenues.

Structural benchmarks

1. Amendments to the Financial Institutions Law submitted to parliament.

2. Implementation of plan for Central Revenue Authority.

3. Submission of the Organic Law for Tax Tribunals to the Assembly of the Republic.

Structural measures

1. Progress in development of integrated financial management programme.

2. Develop computerised system for registration of personal and corporate income tax payments.

3. Develop a timetable for implementing loan-loss provisioning standards.

4. Approval by the Council of Ministers of a new statute transforming DNIA (National Directorate for Taxes and Auditing) into a general directorate.

5. Issue instructions to financial institutions for practical steps for consolidated supervision.

6. Issue instructions to financial institutions detailing the practical steps for consolidated supervision.

7. Implement the pilot SISTAFE in MOF and Ministry of Education and Culture (MEC).

2004

Structural performance criteria

1. Submit to the Assembly of Republic draft general tax law.
2. Strengthen the balance sheet of the BOM.
3. Keep in place the current supervisory regime for BOM until approval of financial statements.

Structural benchmarks

1. Submit to the Assembly of the Republic the draft law creating the Autoridade tributaria.
2. Complete the revision of the regulatory framework for microfinance activities.
3. Initiate the implementation of the three-year programme to strengthen balance sheets of the BOM.
4. Prepare budget execution reports on the basis of the accounting generated by the e-SISTAFE (Integrated System for State Financial Management) using new budget classifier.
5. Develop timetables to move gradually to IFRS.
6. Issue regulations of the anti-money-laundering law and establish financial investigations unit.
7. Implement the SISTAFE in the MPF, including provincial directorates.

2005

Structural performance criteria

1. Issue government securities to strengthen balance sheet of BOM.
2. Maintain current supervisory regime for BOM.

Structural benchmarks

1. Introduce foreign exchange auctions
2. Develop timetables to move gradually to IFRS in the commercial banking system and comply with international best practices on loan classification and provisioning.
3. Approve the internal regulations and the statute for the staff of the DGI.
4. Prepare the budget execution reports on the basis of the accounting generated by the e-SISTAFE, using new budget classifier.
5. Roll out the SISTAFE to the MEC and abolish the disbursement of funds.
6. Compile and disseminate preliminary data on the 2004 GDP by various approaches and disseminate final national accounts data.

B. PGBS (Macrofinancial Aid to GBS)

Macrofinancial Aid: 2001

Key areas for reform and recommendations from Joint Donor Review (JDR):

Macroeconomic and Financial Environment

1. Macroeconomic stability: (i) create conditions for a strong broad-based economic growth; (ii) control inflation rate and stabilise exchange rate; and (iii) set an appropriate post-HIPC debt strategy.

PRSP (PARPA)

1. Improve growth strategy and develop a more effective contingency mechanism to reduce the vulnerability of the economy to chronic shocks.
2. Improve the consultation process by fully involving the private sector, civil society in general and Assembly of the Republic.
3. Impact of AIDS on the macroeconomic and future growth prospects, human resources development and public sector capacity to delivery services.
4. Monitoring and evaluation: clear identification and selection of key performance indicators, which will facilitate assessment of policy and the impact on poverty reduction.
5. Building monitoring capacity. Set up a monitoring and evaluation mechanism, both within the government and through an independent specialised academic or other institution.

Financial Management Reform

1. Follow recommendations of Public Expenditure Review (PER), Country Financial Accountability Assessment (CFAA), Report on Observance of Standards and Codes (ROSC), Joint Donor Review (JDR).
2. Consolidate Technical Unit for Reform of State Financial Administration (UTRAFE), TA to the MPF.
3. Legal instruments: Public Finance Law and complementary legislation and regulation.
4. Implementation of the new budget classification.
5. Integration of various planning and budgeting instruments: PARPA, Medium Term Fiscal Framework (MTFF), Economic and Social Plan (ESP) and the state budget.
6. Comprehensive time-bound action plan that will include: a plan to co-ordinate activities in different directorates and government entities in terms of substance, timing and benchmarks; assessment of capacity to implement the new regulations; assessment of the need for financial and human resources.
7. Integration of off-budget funds into the budget, including some government and donor funds. This issue could be the subject of a thematic study.

Revenue Mobilisation

1. Revise tax system and strengthening tax administration, paying particular attention to the issues of equity, transparency and efficiency.
2. Broadening the tax base.
3. More transparent and predictable tax regulations. This should in particular be taken into account in the development of the legislation on tax exemptions. Code on Fiscal Incentives.
4. Strengthening the implementation capacity of tax administration and analytical and policy-formulation capacity.

Public Sector Reform

Implement public sector reform to ensure effective implementation of the PARPA.

Banking Sector

Financial situation (banking solvency problems): (i) define implications for the state budget and its impact on poverty reducing activities; (ii) implement proper and sustained legal action in relation to the recovery of non-performing loans; (iii) strengthen management, supervision and regulation of financial institutions; 4) minimisation of government exposure to contingency liabilities; and 5) deepening of the dialogue with the government on banking issues.

Macrofinancial Aid: 2002

Key areas for reform and recommendations from JDR:

Macroeconomic and Financial Environment

1. Elaboration and clarification of Growth Strategy including risk factors, e.g. HIV/AIDS, exogenous shocks, build-up of contingent liabilities in by the public sector.

PRSP (PARPA)

1. Elaboration and clarification of Growth Strategy including risk factors e.g. HIV/AIDS, exogenous shocks, build-up of contingent liabilities in by the public sector.
2. Updating of PARPA.
3. Development of annual benchmarks.
4. Strengthening of linkages between M&E system and line ministries.
5. Development of an Information system to reinforce compatibility with PARPA monitoring matrix and support harmonisation with ESP indicators. Formalise links between PARPA and ESP.
6. Harmonisation of M&E process to avoid parallel arrangements and discussion of scope for linking process with annual CG.
7. Establishment of PARPA observatory.
8. Strengthening of independent PARPA-related research.
9. Develop bottom-up approach to M&E at provincial and district levels.
10. Increase public access to PARPA-related information.
11. Increase national dialogue on poverty and gender issues.

Financial Management Reform

1. Improvement of integration between planning instruments.
2. Improvement in budget comprehensiveness including off-budget donor financing and government 'receitas proprias'. Incorporation of off-budgets into new financial management systems.
3. Strengthening of process of decentralisation to achieve better prioritisation and implementation at sector, provincial and district levels.
4. Review of objectives and operations with MPF of five sector programmes and institutionalisation of the budget cycle and streamlining through preparation of generic terms of reference for sector working groups.
5. Coordination of relationship and funding agreement between UTRESP (Technical Unit for Public Sector Restructuring) and UTRAFE.
6. Development of UTRAFE work plan to serve as a basis for coordinating technical assistance and the monitoring of consistency of indicators in the PRGF and the PER.
7. Clarification and elaboration of full implications of SISTAFE for line ministries at provincial and district levels. Improved efforts by MPF to ensure that parallel efforts in line ministries are in line with SISTAFE.
9. Implementation of SISTAFE seminar with donor community to assist in overall coordination efforts, and look into technical issues such as proposed Conta Unica with Banco de Mozambique. A discussion is needed to clarify and manage potential risks in rationalising the payments system.
10. Minimise fiduciary risk relating to financial management in Mozambique, as identified by CFAA and PER. Problems to be addressed over the medium term under SISTAFE.

Revenue Mobilisation

1. Implementation of new tax law system.
2. Upgrading of capacity and strengthening analytical and policy formulation capacity within the tax administration is critical, including provision of necessary information technology (IT). Continued and intensified training for tax officials and the private sector, and improved dissemination of public are needed.
3. Study the social impacts of fiscal instruments. A Poverty and Social Impact Assessment (PSIA) on the effects of the petroleum taxes is being undertaken and will help provide a basis for more general incidence studies.
4. Handover of a modern, sustainable customs department achieved in line within agreed strategy.
5. Finalisation of a Customs tribunal and the related legislation.

Programme Implementation

1. Implementation by National Directorate Treasury (DNT) and Central Bank (CoB) of technical problems identified by auditing firm.
2. Improved communication between GBS donors and government.
3. Improved predictability of flow of disbursements in line with budget cycle.
4. Streamlining of bilateral agreements including conditionalities and length of agreements.
5. Revision of Joint Agreement to reflect experience gained to date.
6. Development of mechanism in Joint Agreement to address non-fulfilment of government commitments.
7. Guidelines to clarify scope of work to be undertaken.
8. Formalisation of PARPA against PRGF implementation as primary reference for assessing Joint Programme (JP).
9. Improvement of administrative procedures to improve predictability of disbursements.

Banking Sector

1. Financial situation (banking solvency problems): (i) define implications for the state budget and its impact on poverty reducing activities; (ii) implement proper and sustained legal action in relation to the recovery of non-performing loans; (iii) strengthen management, supervision and regulation of financial institutions; 4) minimisation of government exposure to contingency liabilities; and 5) deepening of the dialogue with the government on banking issues.
2. Implementation of the agreed measures transparently and efficiently.
3. Improved information flows from government to G10 on progress of agreed measures.
Substantial and equitable loan recovery and publishing of collections in budget execution report.
4. Withdrawal of government equity shares from banking system within 18 months.
5. Banking supervision department has control over banking sector including non-financial institutions.
6. Continued strengthening of bank supervision department using full extent of powers to undertake its mandate.

GBS 2003–05

- The annual Joint Review is based as of 2003 on the work of 20 working groups, distributed over five thematic groups, completed detailed reviews in assigned areas.

The first thematic group focused on (i) growth and macroeconomic stability; (ii) poverty; and (iii) monitoring and evaluation (M&E) systems.

The second thematic group focused on public financial management (PFM) and included teams reviewing (i) taxation; (ii) budget formulation, execution and reporting; (iii) procurement; and (iv) the integrated financial management information system (SISTAFE).

The third thematic group focused on governance and included teams reviewing (i) public sector reform, decentralisation and corruption; as well as (ii) legal and judicial reform.

The fourth thematic group focused on private sector development and included teams reviewing (i) the financial sector; (ii) the investment climate; (iii) agriculture and rural development; (iv) the environment; (v) telecommunications; air and rail transportation; (vi) road transportation; and (vii) energy.

The fifth thematic group focused on service delivery and included teams reviewing (i) HIV/AIDS; (ii) health care; (iii) education; and (iv) water and sanitation.

- Recommendations are also made from the Joint Review but do not constitute strict conditionality.

- Conditionality has been extended to donor performance since 2002 but only formalised in the 2005 PAFs' PAF.

Selection of Priority Indicators (PAF/PRSC [2005] agreed conditionalities)

1. Poverty reduction through privileged focused populations: areas and sub-areas (education [primary education], health [mother and child, malaria], HIV/AIDS [National Council to Combat Aids – CNCS], infrastructures [roads, water, sanitation]).

2. Promotion of economic development with priority for the rural areas and reduction of regional imbalances: areas and sub-areas (agriculture [trading, natural resources]).

3. Creation of an enabling environment for the action of the private sector: areas and sub-areas (ad hoc legal reforms, macroeconomic and financial policies [financial system, SISTAFE reform, tax reform procurement, and planning and monitoring]).

4. Creation of an enabling environment for the action of the private sector: areas and sub-areas (good governance, legality and justice [fight against corruption], public sector reform).

5. Consolidation of peace, national unity, justice and democracy: (good governance, legality and justice [fight against corruption], justice reform).

World Bank PRSC1 : 2004

Focus areas: The focus areas of PRSC I are cross-cutting.

Macroeconomic stability

Building the public sector capacity and accountability through public finance reforms, including the design and implementation of a new integrated electronic financial management system (SISTAFE), budget comprehensiveness, improved accounting and accountability, strengthened internal controls, reform of the procurement process, and improved linkages between budgeting, planning and the delivery of services, decreasing aid dependency and strengthening monitoring and evaluation.

Enhancing the efficiency of the delivery of services through civil service reforms in health, education and water and sanitation.

Enhancing the investment climate for private sector development including reforms of the financial sector, improving the regulatory environment and expanding infrastructure services.

NB: The PRSC and PGBS

The WB found the constraints of the MOU and the slimmed-down PAF of 50 indicators to be too restrictive. Therefore the Bank's PRSC1 contained a Programme Matrix that was different from the PAF, even though the Bank had signed the MOU in 2004.

World Bank PRSC 2 : 2005–06 (2nd tranche PRSC)

The PRSC 2 **conditions** are based on the government's PAF matrix.

The focus areas of PRSC 2 are cross-cutting institutional reforms in line with PRSC 1.

Prior actions: PRSC 2 prior actions and second-tranche conditions are drawn from the government's PAF matrix.

Specific prior actions are:

1. Public sector capacity and accountability: (i) MOF will implement e-SISTAFE in the Ministry and its provincial directorates; (ii) the Council of Ministers will approve a new procurement decree that brings public procurement processes in line with international practice.
2. Improving the investment climate: (i) the government will present a new Financial Institutions Law to the Assembly of the Republic; (ii) making the hiring of foreign labour more flexible; and (iii) the government will present a new Commercial Code to the Assembly of the Republic.
3. Expansion of service delivery: 65% of budget expenditure to priority areas. Priority sectors have targets and indicators in the PAF for monitoring of this prior action (see PRSC results framework).

Key reforms: i) roll-out of e-SISTAFE to MOF and MEC; extension of budget coverage; a new procurement code based on international standards ; a new financial institutions law, a new commercial code, a decree to ease restrictions on hiring foreign labour, and new laws to simplify red tape and strengthen anti-corruption measures.

Triggers: there are no sector specific triggers. Only cross-cutting triggers.

C. PRSC Results Framework

Government Objectives	Government Program - PARPA Areas	Sub-area	Objectives	Priorities	Actions	Indicators	Reference No. to PAF	PRSC1 2004	PRSC2+ 2006	2007	
Poverty reduction through privileged orientation of public services to the most needy population	Education	Primary education	Universal education: -increase access and retention -increase quality of education reduce gender disparities	Approve, implement and assess the strategic plan for 2005-2009 -implement the program of low cost school construction -Implement the strategy of teachers formation taking into account the new curriculum -Approve and implement the gender strategy	EP1 net enrolment rate - total EP1 net enrolment rate - girls EP1 completion rate - total EP1 completion rate - girls	1a 1b 2a 2b	72% 69% 43% 36%	79% 77% 48% 41%	83% 81% 58% 52%	86% 84% 66% 62%	
	Health	Mother & Child	Maternal mortality reduced Infant mortality reduced Increase access to basic health services	Increase offer of obstetric care Increase coverage of the Extended Vaccination Programme Spread access to quality treatment of transmitted and non-transmitted diseases	Proportion of institutional deliveries among expected births T coverage <1year DPT3 e HB Utilisation rate - consultations per inhabitant per year	3 4 5	47% 97% 0.91	49% 95% 0.93	51% 95% 0.94	51% 95% 0.95	
	HIV-Aids	MISAU/ CNCS	Prevention and mitigation of the impact of people infected and affected by HIV-Aids	Reduction of vertical transmission	# HIV+ pregnant women receiving PMTCT Prophylaxis	6	8000	15000	25000	35000	
	Infra-structures	Roads	National network improved Access Increased	Rehabilitate and improve the national network Improve the execution of works and services Open well and make new connections	Kms. rehabilitated Kms. Periodic Maintenance Kms. Routine Maintenance % Population with access to potable water	9 10 11 12	813 1392 13578 41%	1091 1635 14343 44.20%	705 2001 15247 45.80%		
	Promotion of economic development, with priority to the rural areas and reduction of the regional unbalances	Agriculture and Rural Development	Agricultural Services	Promotion of agricultural production	Increase coverage of agricultural outreach services	% of farmers assisted explorations that adopted at least one new technique during the last 12 months % of processes received that are authorised in 90 days	14 18	20% 90%	28% 92%	30% 95%	32% 95%
			Management of Natural Resources	Access to land	Simplify mechanisms of obtaining the rights for land tenure						

Annex 3D: Additional Donor Information

Box 3D.1: Bilateral and Multilateral Donors in Mozambique

Bilateral Donors	Multilateral Donors/Lenders
<ol style="list-style-type: none"> 1. Australia 2. Austria 3. Belgium* 4. Canada** 5. China 6. Denmark** 7. Finland** 8. France (Service de Cooperation Française: SCF/French Development Agency: AFD)* 9. Germany (Deutsche Gesellschaft für Technische Zusammenarbeit – GTZ/ KfW)* 10. Generalitat Catalunya 11. Iceland 12. Ireland* 13. Italy* 14. Japan 15. Netherlands** 16. Nigeria 17. Norway* 18. Portugal* 19. South Africa 20. Spain* 21. Sweden** 22. Switzerland** 23. UK* 24. USA <p>Several other partners including: Arab countries, Brazil, Cuba, India, Korea, Yugoslavia, Madagascar, Mauritius, Malawi, New Zealand, Luxembourg, Poland, Russia, Tanzania, Zambia, Zimbabwe.</p>	<ol style="list-style-type: none"> 1. African Development Fund (AfDB)/African Development Fund (AfDF) 2. Arab Bank for Development in Africa (BADEA) 3. International Development Association (IDA) 4. Inter-American Development Bank (IADB) 5. EC* 6. European Investment Bank (EIB) 7. International Fund for Agricultural Development (IFAD) 8. IMF 9. Kuwait Fund (KF) 10. Nordic Development Fund (NDF) 11. Organization of the Petroleum Exporting Countries (OPEC) 12. WB* <p><u>United Nations Agencies:</u></p> <ol style="list-style-type: none"> 13. Food and Agriculture Organization (FAO) 14. UN Capital Development Fund (UNCDF) 15. UN Development Programme (UNDP) 16. UN Educational, Scientific and Cultural Organisation (UNESCO) 17. UN Population Fund (UNFPA) 18. UN High Commissioner for Refugees (UNHCR) 19. UN Children’s Fund (UNICEF) 20. UN Industrial Development Organization (UNIDO) 21. UN Technical Assistance (UNTA) 22. UN Volunteer Programme (UNV) 23. World Food Programme (WFP) 24. World Health Organization (WHO)
<p><i>Source:</i> based on Ministry of Planning and Finance, Development Cooperation Ireland (DCI) 2001 in Francisco (2002)</p> <p><i>Note:</i> ** the original “like-minded group”; * the current Group of 17.</p>	

Box 3D.2: Donor Involvement in Different Aid Modalities

	GBS	BOP	SBS	Basket funding	Project aid	Other (please specify)
Belgium	Yes	No	Yes (Programa de Reabilitação Pós-Emergência [Saúde])	Yes ⁵ (SISTAFE to be signed in June 2004)	Yes (3 projects on food security – Belgian Survival Fund)	Yes (Study Fund [to be signed], TA, local scholarships, micro-projects)
Denmark	Yes	No	Yes	Yes	Yes	Yes (CS, humanitarian support)
EC	Yes	No	Yes	Yes	Yes	Yes 1- NGO projects 2- Fisheries agreement 3- Trade preferences 4- Trade-related capacity building 5- Emergency aid 6- Support regional initiatives (such as African Union)
Finland	Yes	No	Yes	No	Yes	Yes (NGO support)
France	Yes	No	Yes	No	Yes	No
German	Yes	No	Yes	No	Yes	No
Ireland	Yes	-	Yes. GBS + SBS = 17%	Yes – 49%		Yes – 30% (provincial support, Niassa and Inhambane)
Italy	Yes	Yes	Yes	No	Yes	No
Netherlands	Yes	No	Yes	Yes	Yes	Yes (“Other” depends very much on definition of “project aid”; it might include: different investment support programmes; Dutch NGOs supporting partner organisations)
Norway	Yes	No	Yes (health)	Yes (public sector reform, health, SISTAFE)	Yes	No
Portugal – started 2004	Yes	No	No	No	Yes	Yes (debt relief)
Sweden	Yes	No	Yes	Yes	Yes	Yes (humanitarian, NGO, private sector)
Switzerland	Yes	No	Yes (health)	Yes (health and decentralisation planning, water)	Yes	Yes (NGOs)
UK	Yes	No	Yes	Yes	Yes	Yes (support to CS – projectised)
WB	No	Yes	Yes	No	No	Yes (investment projects)

⁵ Basket funding is funding to a sectoral pooled fund outside of the budget, e.g. medicines pool.

Table 3D.3: Official Development Assistance

	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	TOTAL BY DONOR
BILATERAL												
Australia	12.63	11.64	6.62	6.99	5.77	9.81	9.48	5.80	6.83	4.59	2.02	82.18
Austria	4.78	4.46	3.12	5.56	4.80	14.78	5.09	2.04	21.37	3.35	5.17	74.52
Belgium	3.36	1.09	7.37	1.38	0.68	0.96	2.54	9.86	2.76	8.72	10.58	49.30
Canada	17.38	5.76	13.39	9.11	12.87	11.66	7.99	13.88	9.02	26.70	27.34	155.10
Denmark	36.35	45.49	46.81	30.07	47.61	51.53	46.85	48.35	52.09	67.26	67.60	540.01
Finland	12.55	11.85	10.86	10.06	12.19	21.79	11.60	10.55	11.79	21.99	22.48	157.71
France	52.05	60.46	41.76	61.76	53.90	49.00	23.27	26.46	450.73	28.44	24.94	872.77
Germany	101.31	110.90	41.27	40.49	85.16	51.57	47.76	40.70	230.51	38.31	39.10	827.08
Ireland	1.15	2.27	2.37	6.48	7.67	9.34	15.39	18.70	29.37	39.90	48.69	181.33
Italy	104.99	191.74	34.81	20.39	110.56	11.56	13.09	13.08	446.46	15.09	26.99	988.76
Japan	44.70	41.26	32.17	39.98	41.53	64.27	20.99	34.27	70.03	35.67	19.84	444.71
Netherlands	41.70	54.45	45.66	42.68	48.46	43.90	61.64	86.60	51.97	47.27	54.70	579.03
Norway	72.17	52.23	51.79	54.73	49.49	36.67	38.21	32.61	38.68	54.11	61.06	541.75
Portugal	42.51	63.95	53.84	90.71	62.87	128.92	178.07	34.26	23.90	19.11	24.25	722.39
Spain	5.78	17.28	19.26	9.44	13.62	10.11	41.24	11.65	33.53	22.60	32.52	217.03
Sweden	73.53	54.15	61.25	52.05	33.91	51.42	46.27	42.62	45.29	56.53	67.92	584.94
Switzerland	30.08	27.02	27.09	18.13	21.80	17.62	25.09	23.37	21.64	20.82	27.65	260.31
UK	40.64	37.54	37.34	73.50	59.63	49.43	82.67	185.19	48.39	63.63	65.92	743.88
US	73.00	96.00	45.00	71.00	70.45	70.59	115.52	91.84	159.68	135.40	109.96	1,038.44
Others	7.94	5.96	6.36	5.94	6.74	12.78	17.39	26.29	9.92	22.75	39.40	161.47
TOTAL	778.60	895.50	588.14	650.45	749.71	717.71	810.15	758.12	1,763.96	732.24	778.13	9,222.71
MULTILATERALS												
AfDF	33.27	44.16	32.52	56.75	68.80	16.05	14.07	58.64	74.18	33.52	93.28	525.24
EC	101.35	78.96	62.67	71.85	85.59	90.47	81.22	74.52	138.71	91.67	155.02	1,032.03
IDA	176.31	160.13	220.90	148.20	131.62	765.05	101.29	57.65	302.83	167.73	205.97	2,437.68
SAF/ESAF/PRGF(IMF)	21.05		18.29		34.18	28.82	59.61	10.69	10.88	11.75	2.40	197.67
UNDP	17.68	9.26	9.14	9.98	14.62	8.82	5.54	6.45	4.02	8.91	8.51	102.93
UNHCR	55.16	43.52	0.36	1.01	0.77	0.53	0.82	1.05	1.88	1.54	2.20	108.84
UNICEF	19.72	17.95	14.44	9.42	7.00	6.58	7.14	8.42	6.49	7.80	8.51	113.47
WFP	47.70	15.99		3.67	3.15	2.23	3.37	2.34	5.73	8.77	5.21	98.16
Others	4.60	9.83	10.20	8.05	11.14	10.57	13.12	14.59	21.58	28.29	29.90	161.87
TOTAL	476.84	379.80	368.52	308.93	356.87	929.12	286.18	234.35	566.30	359.98	511.00	4,777.89
TOTAL BY YEAR	1,255.44	1,275.30	956.66	959.38	1,106.58	1,646.83	1,096.33	992.47	2,330.26	1,092.22	1,289.13	

Source: OECD DAC International Development Statistics (online database) (OECD DAC 2005–2006).

Annex 3E: Technical Assistance Received by the Ministry of Planning and Finance 1995–2004

Technical Area	Main Area of Support	Donor (not coordinated)	Donor (coordinated schemes)
DNPO	Economic policy and macroeconomic analysis	UNDP 1995–99	
	Planning and control of investment and integrated sector plans	UNDP 1995–99	
	Decentralised Planning and Finance Project (support to districts in Nampula and Cabo Delgado Provinces)*	UNDP ¹ 1995–99 UNCDF since 1998	UNCDF, UNDP, Netherlands, Ireland, Norway (NORAD) and Swiss Cooperation
	Decentralised Planning and Finance Project (support to districts in Manica, Sofala, Zambézia and Tete provinces)*	WB since 2001	
	Budget reform and management	WB 1995–99 Sida 1995–99	
	Poverty policy analysis; Medium-Term Fiscal Framework; sector programmes Poverty policy analysis	ODI 1995–99 Switzerland and Danida 1995–99	
	Poverty Analysis and Monitoring Project*		Switzerland, Danida and DFID since 2003
	Food security policies; nutrition programme	FAO 1995–99	
	Public investment analysis	GTZ 1995–99	
	Strengthening of planning and budget instruments (FOPOS)*	DFID since 2000	
	Support for the integration of demographic variables in the planning process	UNFPA 1986–2001	
	Project for Implementation of a Population Policy*	UNFPA since 2002	
DNPO/ DNCP	Fellowship scheme of ODI*	DFID since 1993	

General Budget Support in Mozambique

Technical Area	Main Area of Support	Donor (not coordinated)	Donor (coordinated schemes)
DPPFs	Niassa, Cabo Delgado, Nampula, Zambézia, Sofala, Gaza and Maputo	UNDP 1995–1999	
	Cabo Delgado	NORAD 1995–99	
	Tete	Danida 1995–99	
	Nampula	UNCDF 1995–99	
	Niassa	ACORD (Agency for Cooperation and Research in Development) 1995–99	
	Manica and Inhambane	GTZ 1995–99	
DNT	Establishment of a countervalue funds management system.	EC 1995–99	
	Development of treasury plans and gathering and processing of statistical information related to OE execution.	WB 1995–99	
DNA	Technical Unit for Customs Restructuring (UTRA)	UNDP 1995–99	
	Support in the formulation and management of contracts.	DFID 1995–99	
	Co-financing of the Customs management contract with Crown Agents.	DFID 1995–99	
	Legal support for conflict resolution in customs matters and in the drafting of new legislation.	IMF 1995–99	
	Financing of national staff (national consultants) at UTRA.	WB 1995–99	
DNIA	Review of tax system, fiscal burden analysis, formulation of draft diplomas on tax matters, reform of direct taxation.	UNDP 1995–99	
	Indirect taxes reform, introduction of VAT and reformulation of consumption tax.	Swiss Cooperation 1995–99	
	Computerisation of taxes.	France 1995–99	

Annex 3E: Technical Assistance Received by MPF

Technical Area	Main Area of Support	Donor (not coordinated)	Donor (coordinated schemes)
GE	Implementation of VAT, computerisation. Studies on the economic area, public expenditure framework, improvement of the social accounting matrix and advisory function to MPF.	Portugal 1995-99	Norway, Sweden and Switzerland 1995-99
DNCP	Functioning of the existing system for public accounting, new model for public accounting, computerised systems.	Sida 1995-99	
DCI	Evaluation of external funding disbursements and prospects; support to the elaboration of the balance of payments in coordination with the Bank of Mozambique.	UNDP 1995-99	
IGF	Regulations and manuals.	Sida 1995-99	
UTRAFE	SISTAFE		Switzerland, Netherlands, IMF Joint Fund: Belgium, Denmark, EC, Norway, Sweden, UK

Information sources: Period 1995-99 - MPF (1999); since 1999* - DNPO/ MPF (2004)

Notes: ¹ Regional planning and decentralisation

Key

DNPO = National Directorate for Planning and Budget

DPPFs = Provincial Directorates for Planning and Finance

DNT = National Directorate for Treasury

DNA = National Directorate for Customs

DNIA = National Directorate for Taxes and Auditing

GE = Research Department

DNCP = National Directorate for Public Accounting

DCI = Department for International Co-operation

IGF = Internal Inspectorate (of MPF)

ANNEX 4: PUBLIC FINANCE MANAGEMENT

Annex 4A: Status and Trends in Public Finance Management

Introduction

1. Budget support is always accompanied by a focus on public finance management (PFM). Donors considering disbursing through government systems have a special interest in the government's fiduciary standards. Moreover, one of the principal claims for budget support is that using government PFM systems can make a special contribution towards strengthening them. Hence a growth in the number of PFM diagnostic reports (Public Expenditure Reviews [PERs], Country Financial Accountability Assessments [CFAAs], Country Procurement Assessment Reports [CPARs], etc.), as well as donor-specific fiduciary analyses. In six of the seven GBS study countries, the donor demand for tracking of HIPC relief funding was pivotal, with Assessment and Action Plans (AAPs) as path-breakers; Vietnam, not in the HIPC group, is an exception.

2. The scope for collaboration and harmonisation in PFM analysis and PFM capacity development has been increasingly recognised. The second volume of DAC guidelines on *Harmonising Donor Practices for Effective Aid Delivery* (OECD DAC 2005) includes a chapter on capacity development for PFM. A PFM Performance Measurement Framework has been developed under the auspices of the multi-agency PEFA (Public Expenditure and Financial Accountability) programme (PEFA 2005).

3. The Performance Measurement Framework identifies the critical dimensions of performance of an open and orderly PFM system as follows:

1. **Credibility of the budget** – The budget is realistic and is implemented as intended.
2. **Comprehensiveness and transparency** – The budget and the fiscal risk oversight are comprehensive, and fiscal and budget information is accessible to the public.
3. **Policy-based budgeting** – The budget is prepared with due regard to government policy.
4. **Predictability and control in budget execution** – The budget is implemented in an orderly and predictable manner and there are arrangements for the exercise of control and stewardship in the use of public funds.
5. **Accounting, recording and reporting** – Adequate records and information are produced, maintained and disseminated for decision-making control, management and reporting purposes.
6. **External scrutiny and audit** – Arrangements for scrutiny of public finances and follow-up by executive are operating.

4. A set of 28 high-level performance indicators has been developed, as a basis for assessing improvements in PFM performance over time. Three further indicators assess aspects of donor performance. PEFA has developed a detailed scoring methodology (fully described in PEFA 2005), in which the assessment for each high-level indicator is based on a number of specified components.

5. There is an ongoing PEFA analysis being undertaken in Mozambique (2005) by the Overseas Development Institute (ODI); however at the time that this study was completed the PEFA analysis was not available for public reference. It is beyond the scope of this study to undertake a full PEFA analysis (and in any case the PEFA scoring system was not finalised until

2005). However, in the interests of standardisation and comparability, the PFM analysis of the GBS study has been oriented towards the PEFA indicator framework as far as possible. We have used a standard matrix to consider PFM issues against the principal dimensions defined by PEFA, drawing on the secondary sources available (these are listed at the end of this annex). This matrix also shows the HIPC AAP indicators and diagnostic results. Our main assessment is of the current state of PFM, although we also examine developments during the evaluation period and offer a judgement as to whether systems are improving. We do not attempt the detailed scoring prescribed by PEFA, but express our judgement as *good*, *moderate* or *weak*. Where insufficient information was available, no such judgement is offered. In the future, rigorous assessment and reporting according to the PEFA guidelines should provide a much more robust and transparent basis for assessing the quality of PFM systems than was available during the evaluation period. It will also allow progress in capacity development to be more systematically monitored.

Overview of PFM in Mozambique

Current status

6. Numerous PFM diagnostic studies have been performed during the period 2000–05 in Mozambique:⁶ two PERs; CFAA; CPAR; Report on Observance of Standards and Codes (ROSC) in two modules; four Joint Donor Review studies; two Fiduciary Risk reports; SISTAFE Quality Assurance Group monitoring report; reports on budget execution (Andersson 2003a-c) and the annual report on the state accounts by the Administrative Court (Tribunal Administrativo) to the Assembly of the Republic. Most recently a full PEFA analysis has been undertaken by ODI and sponsored by the PGBS donor group.

7. We draw heavily on the recent Scanteam Public Financial Management Assessment (2004), which concludes:

Overall PFM risk in Mozambique remains high although the situation is improving. Over the period that PGBS has been provided management of the economy has been quite satisfactory, but comprehensiveness and transparency of the budget remains poor, the medium-term planning and budgeting is weak, while budget execution and accounting and reporting present quite serious weaknesses. The area of greatest concern, however, remains external audit and accountability.

While this report was not acknowledged by the GOM, it was the most substantial analysis available to us. A full PEFA evaluation was made publicly available only in February 2006.

Trends

8. PFM reforms are moving ahead in a very structured and comprehensive manner. The *trend* in PFM is therefore seen as quite positive, where successful implementation of the SISTAFE is intended to address many of the current weaknesses. There are further improvements in the fields of medium-term planning and budgeting, more comprehensive and accessible reporting, and continued strengthening of the MPF's internal inspectorate, IGF.

9. A number of areas remain weak, particularly those related to addressing larger institutional reforms. Public sector reform (PSR) is complicated and challenging; however, it is the linchpin for the success of many other reforms and therefore needs continued support from donors and stronger commitment from the GOM. "Improvements in the judicial and legal sectors, the supreme audit institutions, and a real capacity to reduce and combat funds misdirection and corruption are required in order for 'horizontal accountability' within the State to be strengthened. Accountability of the State to CS also remains weak" (Scanteam 2004).

⁶ See the selected references at the end of this annex.

Overview of high-level PFM outcomes and concerns

Fiscal discipline

10. In the years 2000–01, the fiscal deficit widened and exceeded the approved budget deficit, due to the impact of bank restructuring operations and the cost of reconstruction after the floods. In the following years, fiscal discipline strengthened again and the actual fiscal deficit was reduced, and kept in line with the approved budget deficit. In 2004, an election year, no clear sign could be observed in that the GOM had loosened its fiscal discipline.

Composition of expenditure

11. It is very difficult to make a reliable comparison between the out-turns and the approved budget because of the absence of detailed classifications. For almost one-third of the budget expenditures, it is difficult to attribute them to specific budget lines. The improvements in the classifications in 2001, and also the preparation of Quarterly Budget Execution Reports (QBERs) by the MPF since 2000 have improved this situation, but it is still hard to make a reliable assessment.

Revenue performance

12. The broadening of the tax base, the introduction of new taxes and increased efficiency in tax administration improved the predictability and stability of the revenue out-turns. Revenue forecasts are currently quite reliable. Revenue collection was below target for 2004.

13. Over the last decade, the GOM has carried out significant tax administration reforms aimed at increasing domestic revenue and therefore reducing the medium-term dependence on foreign aid. A streamlining operation of the tax system started in 1993. The outsourcing of customs management to a private firm in 1997 and the introduction of value-added-tax (VAT) in 1999 were part of these tax reforms. In 2002, the GOM further simplified its tax system and its administration by reducing the marginal rates and by introducing a new tax law and a new fiscal incentive code. In 2003, it introduced new income taxes (individual and corporate income) and a motor vehicle tax, and increased the fuel tax. As a result of these reforms, government revenue as a share of GDP increased steadily from 12% in 1999 to 12.8% in 2003 and fell to 12.3% in 2004. Currently the GOM is preparing the legislative and institutional framework for the creation of a Central Revenue Authority (CRA).

Public expenditure

14. All donor funding for the public sector, whether fully on-budget or not, should in principle be reported and processed in QBERs. The GOM has stated its commitment to eliminate off-budget funding in the PAF for 2004 and 2005.

15. In the last few years, more off-budget funds (donor funds and own revenues) have been captured in the QBERs than in the previous years. The MPF estimated its capture of donor funding in the QBERs for 2003 at 38% (this was 0% in 2001), while it had information on a considerably larger amount. It is intended that SISTAFE will contribute to a further capturing of donor flows.

Budgetary classification

16. Government expenditures are presented on an organisational and economic basis. Furthermore, there exists a broad functional classification. In 2001, the GOM agreed on a plan of action to implement the UN-supported Classifications of Functions of Government (COFOG) and increased the numbers of key functional classifiers from 14 in 2001 to 25 in 2003. Linked to the discussions on the implementation of the PARPA, these functional classifiers enabled the GOM to track the poverty-related expenditures.

17. So far, the COFOG has been implemented only partially. In the period 2004–06, the GOM will further revise the functional and organic classifiers to improve consistency between the budgets on the one hand and budget execution reports on the other. In early 2004, the GOM intended to introduce programme-based budgeting by 2006, but this has now been postponed for an indefinite period (see also point 11).

Publication and public accessibility of key fiscal information, procurement information and audit reports

18. The GOM has taken a number of steps to increase the transparency of budgetary operations. In 2000, it started publication of QBERs that included detailed information on revenue, expenditure and financing. However, the public accessibility of these reports is still very limited. Furthermore, in November 2004, the GOM started the introduction of SISTAFE (see point 19). It was anticipated that this system will be rolled out to five line ministries and cover 60% of public expenditures by 2005, but this is now the likely target for 2006. The audits of the state accounts by the Administrative Tribunal are not accessible to the Mozambican public but made available only to the government, the National Assembly and the donors.

19. Up to now, the key fiscal information is also extremely difficult to access and understand and it is not electronically available. In 2005, however, the MPF intends to publish the QBERs on the internet in a more comprehensible format. Also the Medium Term Fiscal Framework (MTFF) should become a public document.

Fiscal planning, expenditure policy-making and budgeting

20. The budget formulation lacks a clear policy basis. An effective link between budgeting and strategic planning, as reflected in the PARPA and the PES, is missing. Budget formulation is mainly incremental with limited attention to allocative efficiency and policy priorities. The MTFF, (locally called CFMP) does not reach the political level. The MTFF is only used as a tool for fiscal discipline by fixing the ceilings for spending units in the early phases of the budget cycle. In practice it has no real meaning and application.

21. In the near future, the GOM intends to increase the role of the MTFF by formalising it at the strategic and policy level, and subsequently make it part of the budgeting framework, and publicly available. Owing to the lack of capacity in budgeting process, the upgrading of the MTFF into an allocative tool (such as MTEF) has in recent years received less attention than in the late 1990s. The limited budget comprehensiveness has discouraged this process. Consequently, large amounts of donor funds go straight to the line ministries or even to projects. If the GOM were able to strengthen its budgeting capacity in the coming years, the introduction of MTEF, together with some programme-based budgeting at a later stage, would be crucial steps towards improving the link between strategy, budget, outputs and impacts.

22. Furthermore, the different strategy and review documents of the GOM are intended to become more streamlined and consistent. First, the government plans that the PES will become more integrated and the link between the PES and the PAF matrix will be strengthened. Second, it is the intention to make the review documents (Balanço do PES – BdPES, budget execution reports, and various monitoring reports) more consistent. Such adjustments might contribute to improved coherence and ownership for these instruments, and might strengthen the link between planning, budgeting and monitoring.

Orderliness and participation in the annual budget process

23. The engagement of most line ministries in the budget process is very limited and their capacity for planning and budgeting remains weak. Dialogue between the MPF and the line

ministries seldom takes place. Line ministries have limited incentives to argue with MPF for their share in the available resource envelope, as it is still much easier to gather donor resources outside the framework (off-budget funds). Moreover, the limited sectoral expertise in MPF makes a fruitful dialogue even more unlikely. Nevertheless, in the context of PARPA, a slight shift in the direction of more integrated planning can be observed.

Coordination of the budgeting of recurrent and investment expenditures

24. The preparation of budgets for recurrent and capital expenditure is largely separated, although both are part of one integrated budget process. In line ministries, the finance directorate is responsible for recurrent expenditure while the planning directorate deals with investment expenditure. One result, with donor-financed projects, is that when donor funding runs out the project will close down or the MPF has to find recurrent expenditure for which it had no prior warning. Some linkages between these two processes are made at key points in the budget formulation process, especially towards the end of the budget preparation process, where both budgets are merged in one document. The introduction of an MTEF could solve these weaknesses, but the capacity is too limited to allow this to happen soon.

Planning and budgeting

25. Because of a seasonal pattern in the government's own income as well as delays and low predictability of donor disbursements, the GOM often faces cash-flow constraints, especially in the first six months of the year. As a consequence, the Treasury has to cut or postpone transfers to the spending units. This is why, especially in the first few months of the fiscal year, spending units have limited access to resources.

26. At the beginning of the fiscal year, the Treasury provides an advance to the spending units of 2/12 of the planned annual expenditure. Spending units have to report on their expenditures before they receive further disbursements. The Treasury affirms that the transfer of additional funding has often been delayed by irregularities and poor-quality reporting (in respect of the reporting requirements) and by slow delivery of the required justification. Spending units state that Treasury is slow in giving feedback on their reports.

27. Overall budget execution improved in 2004. Nevertheless, budget execution rates are still very low in some priority sectors, such as health and water, leading to inadequate outputs, while other sectors were over-spent.

Internal controls and audits

28. The quality of internal control and audits in the public sector is still underdeveloped, but the Internal Inspectorate (IGF) of MPF has been subject to significant reforms. This reform process started in 1996 with continuous technical and financial support, mainly from Sweden. Step-by-step IGF is implementing its own strategic plan and is building a control and audit culture within the public sector. In recent years, it has recruited larger numbers and better-skilled staff (current professional staff number 126) and has been training its existing staff. IGF also supervises and provides training and advice to the inspectorates of other ministries. It has recently prepared a strategic (5-year) and action plan for the strengthening of internal audit functions. This plan needs to be agreed in the new coordination council for control and audit.⁷ In the Joint Review 2004 it was agreed that the 2005 PES and PAF would contain measurable targets for progress with the implementation of this action plan.

⁷ This council was established under the SISTAFE decree of June 2004. It includes representatives of the inspectorates of the different ministries and the Supreme Audit Institution, the Administrative Tribunal (TA). It meets three times a year.

29. In the coming years, the further introduction of SISTAFE might lead to further and more efficient internal control and audits. A key concern with regard to SISTAFE, however, is the continuous revision of implementation deadlines.

Procurement systems and regulatory framework

30. The current procurement rules and regulations are weak and often not followed. Awareness within the civil service of these rules is also limited. The system is also vulnerable to corruption owing to lack of transparency.

31. A coherent and comprehensive reform of the central procurement system is required. In some line ministries, donors are providing support to introduce better procurement practices. Some training has been provided, but this has not resulted in a fundamental change in procurement practices. Recently, the GOM has started the drafting of a new procurement code, but overall progress in procurement reform has been slow.⁸

Financial audit

32. The supreme audit institution of Mozambique, the Administrative Tribunal, is a young (established in 1997) organisation that prepared its first audit of the state accounts in 2000. It is still a rather weak and understaffed organisation with insufficient resources to carry out the required tasks, although the quality of its auditing work has increased significantly in recent years, in terms of the time needed to perform the yearly audit of state Accounts as well as in the quality of audits.

33. The Administrative Tribunal presented its audit of the General State Accounts for 2003 to parliament in October 2004, much faster than in previous years. According to the new financial law, the MPF has to issue General State Accounts by May, five months after the close of the fiscal year, and the Administrative Tribunal has to deliver its audit report on these accounts to parliament by October the same year. This rescheduling (from 20 months in the previous law) was discussed during the Joint Review in 2004. The audit of the state accounts is extremely important for the GBS donors, because the flow of GBS funds is transferred into the principal state budget account to be audited annually by the Administrative Tribunal.

34. Mozambique is subject to Napoleonic law, meaning that the external auditing of the General State Accounts is the function of a court of law, not an auditor trained in accounting.⁹ Auditing (pre- and post-audit) is only one of the three specific responsibilities given to the Administrative Tribunal by the Constitution.¹⁰ The department within the Administrative Tribunal dealing with audits is responsible for the auditing of all 800 public accounting institutions but has fewer than 20 staff members. In 2004 (for 2003), the Administrative Tribunal gave “no objection certificates” on 437 bodies and undertook supplementary audits on just 8 of these (i.e. an extremely low ratio of only 1%). In all eight cases, problems were identified, but none of the processes has been finalised by the Administrative Tribunal’s presiding judges. In 2005, 39 supplementary audits were to be undertaken.

35. The Assembly of the Republic debates the reports on the state accounts and provides comments, but has poor technical skills to carry out this task. The Planning and Budget Committee of the Assembly of the Republic does not have a professional secretariat to support

⁸ In 2002, the Country Procurement Assessment Report (CPAR) of the World Bank made a series of proposals on how to address the current weaknesses in the procurement system.

⁹ This is the same in other countries following Napoleonic law, such as Portugal, France and Spain. In countries with an Anglo-Saxon tradition, external auditing is a function of an auditor trained in accounting.

¹⁰ The other two are adjudication of legal controversies arising from administrative acts and procedures and adjudication of appeals against decisions of the State and its organs.

its supervising role. As a consequence, its review role is hampered and no further investigation can be done. In recent years, the MPF has become more responsive to both the Administrative Tribunal reports and comments from the Assembly of the Republic. During the donor–government Joint Reviews, the Administrative Tribunal has received significant attention. For instance, the 2004 Review discussed the resources allocated to the Tribunal, the follow-up of Tribunal recommendations and the reduction of the time lag in the preparation of the audits of the General State Accounts.

Aid and PFM

36. The donors continue to be constructive partners in working with the GOM to address PFM issues, and the particular focus of PGBS on improving this area has realised tangible results in the improvements of systems on the ground. On the other hand, TA and capacity building designed to affect this area have probably been the weakest element of the PGBS programme and PGBS donors and GOM are working to better address this issue. Donors have also worked towards harmonising disbursements in line with government budget. Predictability of donor disbursements has improved since 2000. The volume of off-budget funding remains an area of significant concern and requires further attention to reduce the negative impact of these funds for the development of a comprehensive budget process although, given the ongoing changes in the system, e.g. the coming on-line of SISTAFE, it is important that this shift takes places relatively gradually so as not to overwhelm the new system.

37. The GOM, in line with donor partnership, is focusing on a limited number of instrumental reforms, notably PSR, Revenue reform, SISTAFE, procurement, and the Internal Inspectorate (IGF). This has rationalised a very extensive reform agenda.

38. Our perception is that there are justified concerns over the effectiveness of unearmarked aid flows entering a budget which is incremental in nature, de-linked from costed outcomes, exhibits little improving operational efficiency over time, depends on vulnerable and non-transparent procurement practices, and remains a fluctuating indicator of how money is spent and allocated in Mozambique. PFM reforms have focused first on accounting and reporting mechanisms rather than on the link between planning and results-based budgeting. Nevertheless, PGBS has been influential, not only through its relatively modest funding but also through the impetus it has created to focus dialogue on the national budget and shared policy objectives across sectors. PGBS's most important effect is that it is beginning to change the relationship and reporting lines between core government and line ministries, and between line ministries and donors. These changes also create conditions for greater accountability.

39. Our perception is that the movement towards PGBS reflects changing donor attitudes towards Mozambique's PFM systems, and towards the use of government systems in the delivery of aid, reflecting a combination of trends:

- Improvements in the quality of PFM.
- A better appreciation by donors of the weaknesses of Mozambique's PFM systems, leading to a stronger focus on strengthening those systems. Indeed the use by PGBS donors of government's own financial management system has improved the accountability of those systems to both parliament and to CS but ensuring a more open and transparent budget process.
- Critically, in spite of the weaknesses of the systems themselves, PGBS has brought to the forefront the costs imposed by donors of operating outside of the system. This has made many more donors willing to consider channeling aid directly through the budget, since this: (i) provides impetus to identify weaknesses in the system; (ii) leads to identification of measures to strengthen the systems; and (iii) provides incentives for the GOM to implement these reform measures in a comprehensive manner.

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Table 4A.1: PEFA PFM Performance Measurement Indicators¹¹ for Mozambique

No.	Subject	Score 2001	Score 2004	Trend	Comments and Analysis
	A. PFM OUT-TURNS: Credibility of the Budget				
PI-1	Aggregate expenditure out-turn compared with original approved budget		Moderate	Stable	<p>Situation was seen as improving in the 1990s as part of GOM's reform package – key argument for Mozambique as a “success story”. In the years 2000–0 the fiscal deficit widened and exceeded the approved budget deficit, owing to the impact of bank restructuring operations and the cost of reconstruction after the floods. In the following years, fiscal discipline strengthened again and the actual fiscal deficit was reduced, and kept in line with the approved budget deficit. In 2004, an election year, no clear sign could be observed the first half year that GOM had loosened its fiscal discipline.</p> <p>In 2000 the situation was very difficult to assess – large shares of expenditures could not be attributed to specific budget lines, and classification so coarse as to be meaningless when comparing with stated political intents/priorities. Since 2003 there is a new classification scheme and improved expenditure reporting making situation much clearer, more transparent, though still a considerable way to go to.</p> <p>However, paucity of data still makes it difficult to provide clear assessment of the reliability of the budget. A new source of funds classifier has been introduced in 2005.</p> <p>The formal process undertaken by GOM for budget elaboration is quite comprehensive. The “top-down” spending cap imposed by the MPF is combined with the “bottom-up” expenditure detail given by line ministries. Like many other countries Mozambique presents a formal separation between the current and investment spending. Actual expenditure for recurrent investment is largely for personnel expenditures and is therefore generally executed at quite high levels. The investment expenditure execution on the other hand varies highly between sectors and regions of the country.</p> <p>The budget out-turn presented by the State General Report varies more than 5%, but less than 20% for 2003 and 2004.</p>
PI-2	Composition of expenditure out-turn compared to original approved budget		Weak	Improving	
3	<i>Reliability of budget as guide to out-turn (Level and composition of out-turn is “quite close” to budget)</i>	B	B	Improving	

¹¹ The PEFA indicators (PI-1 to PI-28 and D-1 to D-3) are taken from the June 2005 version of the PEFA PFM Financial Management Framework. The 16 HIPC AAP Indicators (2004 version) are included in italics.

Annex 4A: Status and Trends in PFM

No.	Subject	Score 2001	Score 2004	Trend	Comments and Analysis
PI-3	Aggregate revenue out-turn compared with original approved budget		Moderate	Improving	Customs, VAT successfully introduced, new tax codes introduced, revenue authority being prepared, revenue as percentage of GDP on track, collections close to targets although target of 15% for 2005 may not be reached.
PI-4	Stock and monitoring of expenditure payment arrears		Moderate / Strong	Stable	In Mozambique's public expenditure system, payment arrears are negligibly low. The system provides for replenishment of funds against documentation of the use of funds in the previous month – that is, monies are provided to spending units only upon production of the previous month's justified accounts. Since documentation of the past month's expenditures is often delayed or incomplete, allocations to ministries tend to lag, sometimes badly, leading to chronic under-spending. Mozambique has also not suffered from chronic liquidity shortages. This strong replenishment system, along with sufficient currency liquidity, generates very little stock of arrears.
8	<i>Level of payment arrears (Very few or no arrears accumulated)</i>	A	A	Improving	Mozambique is introducing a new payment authorisation process in which payments are being processed in the e-SISTAFE, overcoming the excessive administrative burden of the replenishment system, and underpayment phenomena. Under e-SISTAFE, spending agencies are given spending limits and this limit will be pre-registered in the e-SISTAFE.
	B. KEY CROSS-CUTTING ISSUES: Comprehensiveness and Transparency				
PI-5	Classification of the budget		Moderate	Improving	Government expenditures are presented on an organic and economic basis. Furthermore, there exists a broad functional classification. In 2001, the GOM agreed on a plan of action to implement the COFOG and increased the numbers of key functional classifiers from 14 in 2001 to 25 in 2003. Linked to the discussions on the implementation of the PARPA, these functional classifiers enabled the GOM to track the poverty-related expenditures.
5	<i>Classification of budget transactions (Functional and/or programme information provided)</i>	C	B	Improving	So far, the COFOG has only been partially implemented. In the period 2004–06, the GOM will further revise the functional and organic classifiers to improve consistency between the budgets on the one hand and budget execution reports on the other. In early 2004, the GOM intended to introduce programme-based budgeting by 2006, but this has now been postponed for an indefinite period.

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No.	Subject	Score 2001	Score 2004	Trend	Comments and Analysis
PI-6	Comprehensiveness of information included in budget documentation		Weak	Improving	<p>Process under way to increase donor fund coverage, now estimated at 38%. Coverage of "own receipts" also improving through structured programme. Major holes remain. Cross reference to off-budgets annex and indicator PI-7 and 2.</p> <p>Current fiscal reporting coverage in the GOM is well matched with the IMF's Government Finance Statistics, including the general government activities of state, regional and local governments in proposed budgets and its out-turn.</p> <p>The GOM has improved its fiscal reporting system in two phases. In 2001, reporting coverage and budget classification was improved. In June 2004, as a result of SISTAFE, a new budget coverage and classification system was introduced. The most important ones are: (i) a new functional classification, adopting the 2001 GFSM structure; (ii) source of resources classification; (iii) more detailed organic classification, including District Government level, and (iv) a new Chart of Accounts. The 2005 budget proposal was released consistent with these classifications.</p> <p>Mozambique has two main fiscal reports: the Budget Expenditure Report and the General Accounts of the State. The former is focused on the budget execution. The transactions made without budget support are supposed to be included in the second.</p> <p>Nonetheless, the General Accounts of the State show a very limited view of off-budget expenditures. A vast quantity of funds is reported in an annex presenting consolidated information instead of detailed information.</p>
1	<i>Composition of the budget entity (Very close fit to Government Finance Statistics [GFS] definition of general government)</i>	A	B		

Annex 4A: Status and Trends in PFM

No.	Subject	Score 2001	Score 2004	Trend	Comments and Analysis
PI-7	Extent of unreported government operations				<p>See Annex 4B for a discussion of the off-budget issue.</p> <p>Information on this indicator is limited but it is believed that off-budget flows are substantial. The only tangible information derived in this area has been from the health sector where it is estimated that roughly 30–40% of general budget activities are funded by extra-budgetary funds.</p> <p>The GOM is making significant progress in bringing the off-budget expenditures into the budget. For 2005 an important step was made: provinces and local government (Districts) were fully detailed and included in the budget proposal; revenues collected by public hospitals as well as taxes related to the issue of passports were both identified and as well included in the 2005 budget proposal.</p> <p>In spite of these efforts, several ministries have off-budget revenues and expenditures. Own-revenues of embassies, some donor-funded investments projects and the whole expenditure of the central bank are not yet captured in the budget. In the same way, the Social Security Institute, whose expenditure is closely related to poverty reducing, as well as part of the payroll of units of the MPF are not included in the budget.</p>
2	<i>Limitations to use of off-budget transactions (Extra [or off-] budget expenditure is not significant)</i>	C	C	Improving	
PI-8	Transparency of intergovernmental fiscal relations				Lack of information to make assessment
PI-9	Oversight of aggregate fiscal risk from other public sector entities		Weak	Improving	The bank crises showed the seriousness of addressing contingent liabilities; lack of medium-term debt strategy raises concern.
PI-10	Public access to key fiscal information		Weak	Improving	<p>The GOM has taken a number of steps to increase the transparency of budgetary operations. In 2000, it started publication of QBERs that included detailed information on revenue, expenditure and financing. However, the public accessibility of these reports is still very limited. Furthermore, in November 2004, the GOM started the introduction of SISTAFE, an integrated financial management information system (see point 19). It was anticipated that this system will be rolled out to five line ministries and cover 60% of public expenditures by 2005, but this is now the likely target for 2006. The audits of the state accounts by the Administrative Tribunal are not accessible to the Mozambican public but made available only to the government, the Assembly of the Republic and the donors.</p> <p>Up to now, the key fiscal information is also extremely difficult to access and understand and it is not electronically available. In 2005, however, MPF intends to publish the QBERs on the internet in a more comprehensible format. Also the MTFE should become a public document.</p>

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No.	Subject	Score 2001	Score 2004	Trend	Comments and Analysis
	C. BUDGET CYCLE C(i) Policy-based Budgeting				
6	<i>Identification of poverty-reducing expenditure (Identified through use of classification system)</i>	C	C	Improving	<p>The definition of “poverty-reducing spending” is broadly defined in Mozambique. Owing to this extremely broad definition, current broad definitional classification is able to identify poverty-reducing spending. The fact that only aggregate level information on poverty-reducing spending makes it almost impossible to assess whether the GOM’s public spending is effectively tackling poverty.</p> <p>The GOM categorises poverty-reducing spending by “Priority Areas” and “Complementary Areas”.¹² Priority areas consists of about 65% of total spending of GOM and “priority” and “complementary” areas make up about 90% of total spending. In fact almost all spending in priority sectors is regarded as being poverty-reducing spending.</p> <p>The current classification system of the GOM does not meet the requirement for this indicator.</p>
PI-11	Orderliness and participation in the annual budget process		Weak	Improving	<p>The engagement of most line ministries in the budget process is very limited and their capacity for planning and budgeting remains weak. Dialogue between MPF and the line ministries seldom takes place. Line ministries have limited incentives to argue with MPF for their share in the available resource envelope, as it is still much easier to gather donor resources outside the framework (off-budget funds). Moreover, the limited sectoral expertise in MPF makes a fruitful dialogue even more unlikely. Nevertheless, in the context of PARPA, a slight shift in the direction of more integrated planning can be observed.</p>

¹² The Priority Areas are: education; health; agriculture and rural development; basic infrastructure; good governance and macroeconomic and financial management. The Complementary Areas are: employment and business development; social action; housing; mines; fisheries; tourism; industry; transport and communications technology; the environment; and protection against natural disasters.

Annex 4A: Status and Trends in PFM

No.	Subject	Score 2001	Score 2004	Trend	Comments and Analysis
PI-12	Multi-year perspective in fiscal planning, expenditure policy and budgeting		Weak	Improving	<p>The budget formulation lacks a clear policy basis. An effective link between budgeting and strategic planning, as reflected in the PARPA and the PES, is missing. Budget formulation is mainly incremental with limited attention to allocative efficiency and policy priorities. The MTEF (CFMP) does not reach the political level. The MTEF is only used as a tool for fiscal discipline by fixing the ceilings for spending units in the early phases of the budget cycle. In practice it has no real meaning and application.</p> <p>In the near future, the GOM intends to increase the role of the MTEF by formalising it at the strategic and policy level, and subsequently make it part of the budgeting framework, and publicly available. Due to the lack of capacity in budgeting process, the upgrading of the MTEF into an allocative tool (such as MTEF) has in recent years received less attention than in the late 1990s. The limited budget comprehensiveness has discouraged this process. Consequently, large amounts of donor funds go straight to the line ministries or even to projects. If the GOM were able to strengthen its budgeting capacity in the coming years, the introduction of MTEF, together with some programme-based budgeting at a later stage, would be crucial steps towards improving the link between strategy, budget, outputs and impacts.</p> <p>Furthermore, the different strategy and review documents of the GOM are intended to become more streamlined and consistent. First, the government plans that the PES will become more integrated and the link between the PES and the PAF matrix will be strengthened. Second, it is the intention to make the review documents (Balanço do PES – BdPES, budget execution reports, and various monitoring reports) more consistent. Such adjustments might contribute to improved coherence and ownership for these instruments, and might strengthen the link between planning, budgeting and monitoring.</p>
7	<i>Quality of multiyear expenditure projections (Projections are integrated into budget formulation)</i>	B	B	Stable	

General Budget Support in Mozambique

No.	Subject	Score 2001	Score 2004	Trend	Comments and Analysis
	C(ii) Predictability and Control in Budget Execution				
PI-13	Transparency of taxpayer obligations and liabilities				Over the last decade, the GOM has carried out significant tax administration reforms aimed at increasing domestic revenue and therefore reducing the medium-term dependence on foreign aid. A streamlining operation of the tax system started in 1993. The outsourcing of customs management to a private firm in 1997 and the introduction of VAT in 1999 were part of these tax reforms. In 2002, the GOM further simplified its tax system and its administration by reducing the marginal rates and by introducing a new tax law and a new fiscal incentive code. In 2003, it introduced new income taxes (individual and corporate income) and a motor vehicle tax, and increased the fuel tax. As a result of these reforms, government revenue as a share of GDP increased from 12% in 1999 to 14.3% in 2003. Tax collection was below target for 2004. The GDP figures are being revised but the World Bank Country Economic Memorandum (CEM) 2005 estimates that tax collection for 2004 was 12% of GDP. Currently the GOM is preparing the legislative and institutional framework for the creation of a CRA.
PI-14	Effectiveness of measures for taxpayer registration and tax assessment				
PI-15	Effectiveness in collection of tax payments			moderate	
PI-16	Predictability in the availability of funds for commitment of expenditures		Weak	Stable	
					Because of a seasonal pattern in the government's own income as well as delays and low predictability of donor disbursements, the GOM often faces cash flow constraints, especially in the first six months of the year. As a consequence, the Treasury has to cut or postpone transfers to the spending units. This is why, especially in the first few months of the fiscal year, spending units have limited access to resources.
					At the beginning of the fiscal year, the Treasury provides an advance to the spending units of 2/12 of the planned annual expenditure. Spending units have to report on their expenditures before they receive further disbursements. The Treasury affirms that the transfer of additional funding has often been delayed by irregularities and poor quality reporting (in respect of the reporting requirements) and by slow delivery of the required justification. Spending units state that Treasury is slow in giving feedback on their reports.
					The introduction of SISTAFE is expected to address key weaknesses, but not clear if this is sufficient to overcome major weaknesses. GBS becoming more predictable since 2004.

Annex 4A: Status and Trends in PFM

No.	Subject	Score 2001	Score 2004	Trend	Comments and Analysis
PI-17	Recording and management of cash balances, debt and guarantees		Weak	Improving	Virtual unified accounts as of 2004 and continued work on establishing single account improved situation greatly.
PI-18	Effectiveness of payroll controls				First elimination of "ghost workers" carried out, more linking of skills to posts and to salary level, but overall little known about how good controls are.
PI-19	Competition, value for money and controls in procurement		Weak		Procurement rules and regulations are weak and often not followed. Awareness within the civil service of these rules is also limited. The system is also vulnerable to corruption owing to lack of transparency.
16	<i>Effective procurement (Procurement processes promote competition, transparency and value-for-money)</i>		C		<p>A coherent and comprehensive reform of the central procurement system is required. In some line ministries, donors are providing support to introduce better procurement practices. Some training has been provided, but this has not resulted in a fundamental change in procurement practices. The GOM has started the drafting of a new procurement code, but overall progress in procurement reform has been slow.¹³</p> <p>As detailed in the Mozambique CPAR conducted in May, 2002, Mozambique's procurement system has serious institutional, legislative, and human resource weaknesses which have a serious negative impact on the use of government resources and those from donor and international organisations. These weaknesses affect every sector of public procurement and commercial activities.</p> <p>The GOM has no adequate legal and regulatory framework for procurement. In addition, there are no regulations concerning procurement of services, apart from a few rules on the selection of consultants for design and supervision of civil works contracts. No new procurement laws and regulations have been released suitable to recent government decentralisation programmes, thus effectively postponing any effective transfer of authority to the Provinces.</p> <p>Consequently, corruption presents a serious problem in Mozambique. However, the GOM has made some progress in improving the transparency of public procurement system. For example, in April 2004, a procurement law enacted in 1996 which permitted bidders to make payments to procurement at the ministerial level are helping to inculcate pockets of better practice.</p>

¹³ In 2002, the Country Procurement Assessment Report (CPAR) of the World Bank made a series of proposals how to address the current weaknesses in the procurement system.

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No.	Subject	Score 2001	Score 2004	Trend	Comments and Analysis
PI-20	Effectiveness of internal controls for non-salary expenditure		Weak	improving	<p>The quality of internal control and audits in the public sector is still underdeveloped, but the Internal Inspectorate of MPF (IGF) of MPF has been subject to significant reforms. This reform process started in 1996 with continuous technical and financial support, mainly from Sweden. Step-by-step IGF is implementing its own strategic plan and is building a control and audit culture within the public sector. In recent years, it has recruited larger numbers and better-skilled staff (current professional staff number: 126) and has been training its existing staff. IGF also supervises and provides training and advice to the inspectorates of other ministries. It has recently prepared a strategic (5-year) and action plan for the strengthening of internal audit functions. This plan needs to be agreed in the new coordination council for control and audit.¹⁴ In the Joint Review 2004 it was agreed that the 2005 PES and PAF would contain measurable targets for progress in this action plan.</p> <p>In the coming years, the further introduction of SISTAFE, the new integrated financial management information system, might lead to further and more efficient internal control and audits. A key concern with regard to SISTAFE, however, is the continuous revision of change in implementation deadlines.</p> <p>The internal control system remains weak and very ineffective. Mozambique's internal control system, inherited from the Portuguese system, has very strong ex ante control system of payment. However, it is fair to say that overall internal control system suffers from lack of financial resources and human capacity of IGF, which is in charge of internal control, including internal audit. IGF suffers from a lack of qualified staff and a dearth of financial resources, transportation equipment and computers that undermine its proper functioning. Few staff hold international accounting qualifications.</p>
PI-21	Effectiveness of internal audit		Weak	Improving	<p>On the other hand, some improvements have been made. Since 2004, the IGF has its own budget line and therefore material and logistics conditions are expected to improve. IGF has been strengthened by hiring 30 new staff and it receives technical assistance from Sida. An action plan that seeks to enhance capacity and to assert IGF's role is being designed and implemented.</p>
9	<i>Quality of internal audit (Effective internal audit function)</i>	B	A		

Annex 4A: Status and Trends in PFM

No.	Subject	Score 2001	Score 2004	Trend	Comments and Analysis
	C(iii) Accounting, Recording and Reporting				
PI-22	Timeliness and regularity of accounts reconciliation		Weak	Improving	So far not much change, though SISTAFE provides potential for dramatic improvements.
11	<i>Quality of fiscal/banking data reconciliation (Satisfactory and timely reconciliation of fiscal and monetary data)</i>	C	B		<p>The GOM holds its bank account in the central bank as well as in numerous commercial banks. In the beginning of 2004, it was estimated that the GOM had almost 4,500 active bank accounts (of an estimated 12,000). Therefore, it is fair to conclude that satisfactory reconciliation of GOM bank accounts with accounting records does not occur, and thus the benchmark is not met. One of the reasons for the excessive proliferation is the lack of regulations for maintaining government accounts. Currently, the GOM is implementing a single treasury account.</p> <p>Another point which should be stressed is related to the lack of compliance with the central bank's rules of check compensation. In this case, besides practical difficulties given by the enormous amount of bank accounts, reconciliation takes a longer time because commercial banks often breach the regular compensation check period.</p> <p>With the expected implementation of SISTAFE, all treasury accounts (central and provincial levels) will be brought to the central bank; opening an account with be ordered only by the Treasury and therefore payments will be made exclusively by the e-SISTAFE. This will finally lead the GOM to have all its bank accounts reconciliation to be done on-line.</p>
PI-23	Availability of information on resources received by service delivery units		Weak	Improving	Antiquated "advances" system meant funds-flow through year very uneven, unpredictable. Coupled with frequent central cash-flow problems, this meant serious problems getting funds out to spending units. SISTAFE addressing this issue.
10	<i>Use of expenditure tracking surveys (Tracking used on regular basis)</i>	C	C	Stable	In 2002 an ETSDS was undertaken as a pilot survey of the primary health system to track the transfer of funds from the central government, to the provinces, districts and health posts. It was highly successful. However, to date, no additional public expenditure tracking survey (PETS) is scheduled in Mozambique and therefore, PETS is not yet a regular feature of expenditure management system. The benchmark is not met.
PI-24	Quality and timeliness of in-year budget reports		Weak	Improving	Reports more comprehensive, regular, still difficult to read, not fully consistent, not accessible to public.

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No.	Subject	Score 2001	Score 2004	Trend	Comments and Analysis
12	<i>Timeliness of internal budget reports (Monthly expenditure reports provided within four weeks of end of month)</i>	C	B		<p>The MPF publishes quarterly reports usually within 2 months of the end of the relevant quarters, which indicates that internal reports by spending units are not submitted to the MPF within 4 weeks. Besides the question of timeliness and regularity, the quarterly budget execution reports need to be further improved in usefulness for decision-making and coverage. These reports present actual expenditures, both current and investment, compared with the budget allocation according to the economic and territorial classifications. Actual expenditures are also reported following the functional and institutional classifications but with no comparison to corresponding budget allocations. It is not easy to assess budgetary performance since simple comparison with the budget figures published in the budget document may be misleading, owing to adjustments introduced in the fiscal year.</p> <p>These reports do not meet the criteria of the HIPC public expenditure tracking which stipulates that fiscal reports should cover at least 90% of line ministry spending by value since the budget coverage remains partial.</p>
13	<i>Classification used for tracking poverty-reducing expenditures (Good-quality, timely functional reporting derived from classification system)</i>	B	B	Improving	<p>Given the broad categorisation of poverty-reducing definition, the fiscal reports, which show functional classification only at aggregate level, can identify and report poverty-reducing spending on a functional basis. This broad categorisation is not sufficient enough to allow assessment of the extent to which the overall government spending is pro-poor. As detailed above for indicator 5 there are issues of accuracy and usefulness of sub-function-level information, for significant portions of expenditure classified as “others”.</p> <p>The quarterly budget execution reports present actual expenditures, both recurrent and investment, compared with the budget allocation (as modified during the year) according to economic and territorial classifications. Actual expenditures are also reported following functional and institutional classifications, but no comparison is provided for the corresponding budget allocation under these two classifications. Comparison with the budget figures published in the budget document may therefore be misleading, owing to adjustments introduced during the fiscal year. Regarding functional classification, a significant portion are classified as others since spending agencies categorise their spending only by organisation and Ministry of Finance reclassify them into function on ex post basis.</p> <p>Improvements are under way in 2005, with the implementation of the new function and sub-function classification and line ministries will be required to properly classify their expenditures. Only after the introduction of programmatic budgeting, which is in the pipeline, can real clarification be expected. The programme – instead of the agency – should be classified by functions and allow a better assessment of the extent to which the government spending is pro-poor.</p>

Annex 4A: Status and Trends in PFM

No.	Subject	Score 2001	Score 2004	Trend	Comments and Analysis
PI-25	Quality and timeliness of annual financial statements				
14	<i>Timeliness of accounts closure (Accounts closed within two months of year-end)</i>	A	B		As SISTAFE is being implemented the complementary period to close accounts was being limited to 2 months in 2003 and tentatively zero for 2004. The Budget Execution Report covers only about 70% of spending but this weakness is mostly to do with the reporting of donor-funded expenditures.
	C(iv) External Scrutiny and Audit				
PI-26	Scope, nature and follow-up of external audit		Weak	Improving	Response to audit now seen as much more serious, committed, with audit report providing first set of exchanges between parties, permitting monitoring.
15	<i>Timeliness of final audited accounts (Audited accounts presented to legislature within one year)</i>	C	C		The supreme audit institution of Mozambique, the Administrative Tribunal, is a young (established in 1997) organisation that prepared its first audit of the state accounts in 2000. It is still a rather weak and understaffed organisation with insufficient resources to carry out the required tasks, although the quality of its auditing work has increased significantly in recent years, in terms of the time needed to perform the yearly audit of state accounts as well as in the quality of audits. The Administrative Tribunal presented its audit of the General State Accounts for 2003 to parliament in October 2004, much faster than in previous years. According to the new financial law, the MPF has to issue General State Accounts by May, five months after the close of the fiscal year, and the Administrative Tribunal has to deliver its audit report on these accounts to parliament by October the same year. This rescheduling (from 20 months in the previous law) was discussed during the Joint Review in 2004. The audit of the state accounts is extremely important for the GBS donors, because the flow of GBS funds is transferred into the principal state budget account to be audited annually by the Administrative Tribunal.

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No.	Subject	Score 2001	Score 2004	Trend	Comments and Analysis
PI-27	Legislative scrutiny of the annual budget law		Moderate	Stable	Assembly and Committee remain resource constrained for this task – not much change.
PI-28	Legislative scrutiny of external audit reports		Moderate	Stable	Mozambique is subject to Napoleonic law, meaning that the external auditing of the General State Accounts is the function of a court of law, not an auditor trained in accounting. ¹⁵ Auditing (pre- and post-audit) is only one of the three specific responsibilities given to the Administrative Tribunal by the constitution. ¹⁶ The department within the Administrative Tribunal dealing with audits is responsible for the auditing of all 800 public accounting institutions but has fewer than 20 staff members. In 2004 (for 2003), the Administrative Tribunal gave “no objection certificates” on 437 bodies and undertook supplementary audits on just 8 of these (i.e. an extremely low ratio of only 1%). In all eight cases, problems were identified, but none of the processes has been finalised by the Administrative Tribunal’s presiding judges. In 2005, 39 supplementary audits were to be undertaken.
					The Assembly of the Republic debates the reports on the state accounts and provides comments, but has poor technical skills to carry out this task. The Planning and Budget Committee of the Assembly of the Republic does not have a professional secretariat to support its supervising role. As a consequence, its review role is hampered and no further investigation can be done. In recent years, the MPF has become more responsive to both the Administrative Tribunal reports and comments from the Assembly of the Republic. During the donor–government Joint Reviews, the Administrative Tribunal has received significant attention. For instance, the 2004 Review discussed the resources allocated to the Tribunal, the follow-up of Tribunal recommendations and the reduction of the time lag in the preparation of the audits of the General State Accounts.
D. DONOR PRACTICES					
D-1	Predictability of Direct Budget Support				From 2000 to 2003 predictability weak. Since 2004: improving.
D-2	Financial information provided by donors for budgeting and reporting on project and programme aid		Weak	Improving	Major donors, funding agencies provide quite complete data, but only some are recorded in budget documentation, in part because of problems classifying, recording properly.
4	Data on donor financing (Donor-funded expenditures included in budget or reports)	B	B	Improving	At the central government level most donor-funded expenditure has been included in the budget preparation every year. In some sectors such as agriculture these expenditures are almost fully included in the budget, but owing mainly to the fact that most of the financial mechanisms are controlled and monitored by donors providing the financing, the execution and recording of these expenditures is usually done off-budget. The GOM trying to remedy this situation uses a mechanism in which data are provided by

Annex 4A: Status and Trends in PFM

No.	Subject	Score 2001	Score 2004	Trend	Comments and Analysis
					<p>sectors and donors. Whenever receiving a donor disbursement, the Treasury advances cash flow to the sector. The sector, after having spent this cash flow, presents a balance which is then recorded in the accounting system. The information is then partially presented in the Budget Execution Report and in its totality in the State General Report – the final yearly accounting report presented to parliament.</p> <p>Since accounting is done manually, these donor-funded expenditures are not fully recorded in the different budget lines until the following quarter. On the other hand, at provincial and district levels, most donor-funded expenditure is not even recorded in the budget. The implementation of SISTAFE, jointly with efforts from the international partners of Mozambique, will continue to lead to further improvements in the recording of these expenditures.</p>
D-3	Proportion of aid that is managed by use of national procedures		Weak	Improving	Budget support increasing as share of total aid, and sector aid using national procedures is increasing. Reliable estimates on the volume of off-budget spending are not available and range from 30% to 50% of total aid volumes depending on the year.

Annex 4B: The Off-Budget Issue

1. **Definition of off-budgets:** A significant proportion of donor aid and local government expenditure (“donativos”) is “off-budget”, inhibiting efficient and effective government planning and budgeting. To be fully “on-budget” refers to funds that are recorded in the original government budget (OE) (on-budget), executed through the Treasury System (on-treasury), accounted for through the public accounting system (on-accounting) and audited by the Inspectorate General of Finance (on-audit). A project or programme, which is not included in the state budget book also cannot be on-treasury, on-accounting or on-audit. Thus the further along the project or programme proceeds through the budget cycle the larger becomes the proportion of projects/programmes that will not be subject to national budgetary and accountability mechanisms. Consequently, different levels of detachment from the state budget can be found: some funds are completely off-budget and others partially on-budget. Funds can also be considered to be on-budget in a purely nominal (informational) sense; donors do not have to commit to handing over the management of their funds to the GOM in order for the funds to be included in the budget book and the quarterly and annual budget execution reports.

2. **Understanding the off-budget phenomena:** There are a number of reasons why some funds remain off-budget (see Cabral et al 2005 for a full review of this issue in the health sector). For example, some funds remain off-budget because line ministries enjoy greater autonomy if they, and not the Ministry of Finance, control access to donor funding. Frequently also, the problem is one of information where a line ministry lacks sufficient or timely information to record the project/programme in the state budget or to transfer information to the accounting department once funds have been executed. In other cases funds are not included in the state budget as they lack a legal basis (as in the case of some collected user fees). The central government also may choose not to include all of the sector projects proposed by a line ministry if it is doubtful that certain projects will come to fruition or in cases where additional projects contribute to exceeding sector-spending ceilings agreed with the IMF.

3. The large amount of donor aid that is “off-budget” hampers both the comprehensiveness and the transparency of the state budget. For 2003, the MPF (2004) estimates that, out of overall public spending, external funding represents 53%, of which 31% is off-budget; other sources indicate that over half of public spending is financed off-budget and about 80% of the investment budget is financed off-budget by donors. However, these are only rough estimates; the real extent of the problem remains unknown.

4. Own-revenue collection and expenditure also continue to impose significant bottlenecks for aggregate fiscal discipline and allocative efficiency in Mozambique. It is the case that donor funding represents the bulk of off-budget finance. Nonetheless, some government institutions are able to collect sizeable fees that are not accounted for (World Bank 2001a, Ministério do Plano e Finanças, Direcção do Plano e Orçamento 1999) carried out a study that provides some information on the extent of the off-budget problem and sheds some light on the magnitude of the off-budget own-source revenues. More recently, it has been estimated that 13% of all off-budgets in the health sector are generated from user fees (Cabral et al 2005).

5. **Addressing the off-budget problem:** Recent initiatives including an MPF study in 2004 on the off-budget problem in the health sector; and the creation of an off-budget task force in 2005 which has led to a higher level of inclusion of central projects and programmes including all the common funds in the 2006 state budget. However, the problem remains acute, particularly for provincial level funding and for the inclusion of projects, which do not require contributions from the internal capital budget of the GOM. The problem is also much less studied once execution of

the budget commences. Owing to ongoing reforms in the state financial management system there is also consideration of bringing more information into the budget, but undertaking a more gradual approach to transferring management of these funds to Ministry of Finance authorities.

6. The government has taken action to reduce illegal user fees and reporting of the charging of those fees. It has, for example, produced a report on the size of the government's own-source revenues, and it has instructed line ministries to comply with the existing laws on own-source revenues (all revenues should be deposited in the central government accounts before they are spent). Yet, change will take time: line ministries are reluctant to transfer their funds to the centre because of their uncertainty that the funds can be accessed in a timely manner. Moreover, user fees are considered as essential to the line ministries, often going to cover salaries or other recurrent costs.

7. PGBS donors remain concerned about the on-off-budget issue and are committed to taking measures to improve the situation. One of their objectives (set out in their joint PAF) is to increase budget coverage. The initiatives described above should assist in both defining and tackling the problem, including the development of recommendations for incorporating funds on-budget in the short and medium term. Overall, officials in both line ministries and MPF think that it will be possible to incorporate the majority of off-budget sources, although there will remain cases where the opportunity costs for some projects are simply too high to bring them on-budget.

ANNEX 5: SUMMARY OF CAUSALITY FINDINGS

1. In the “Key to the Causality Map” (Figure 5.1), links between elements at the different levels have been “keyed”. The findings related to each link and PGBS effects on this link are recorded in Table 5.1 “Causality Map: Summary of Causality Findings” in an entry which refers to the “key” of the link on the map. Each entry in the table also indicates the chapters in which related findings are to be found (mainly in the “Principal Causality Chain” section of the chapters in Part B).

2. A few cross-cutting features affecting potentially all the causality chains have been “keyed” too, namely feedback loop and transaction costs. Corresponding entries in Table 5.1 present an overview of how these features have affected the causality chains and PGBS effects on these.

Figure 5.1: Key to the Causality Map

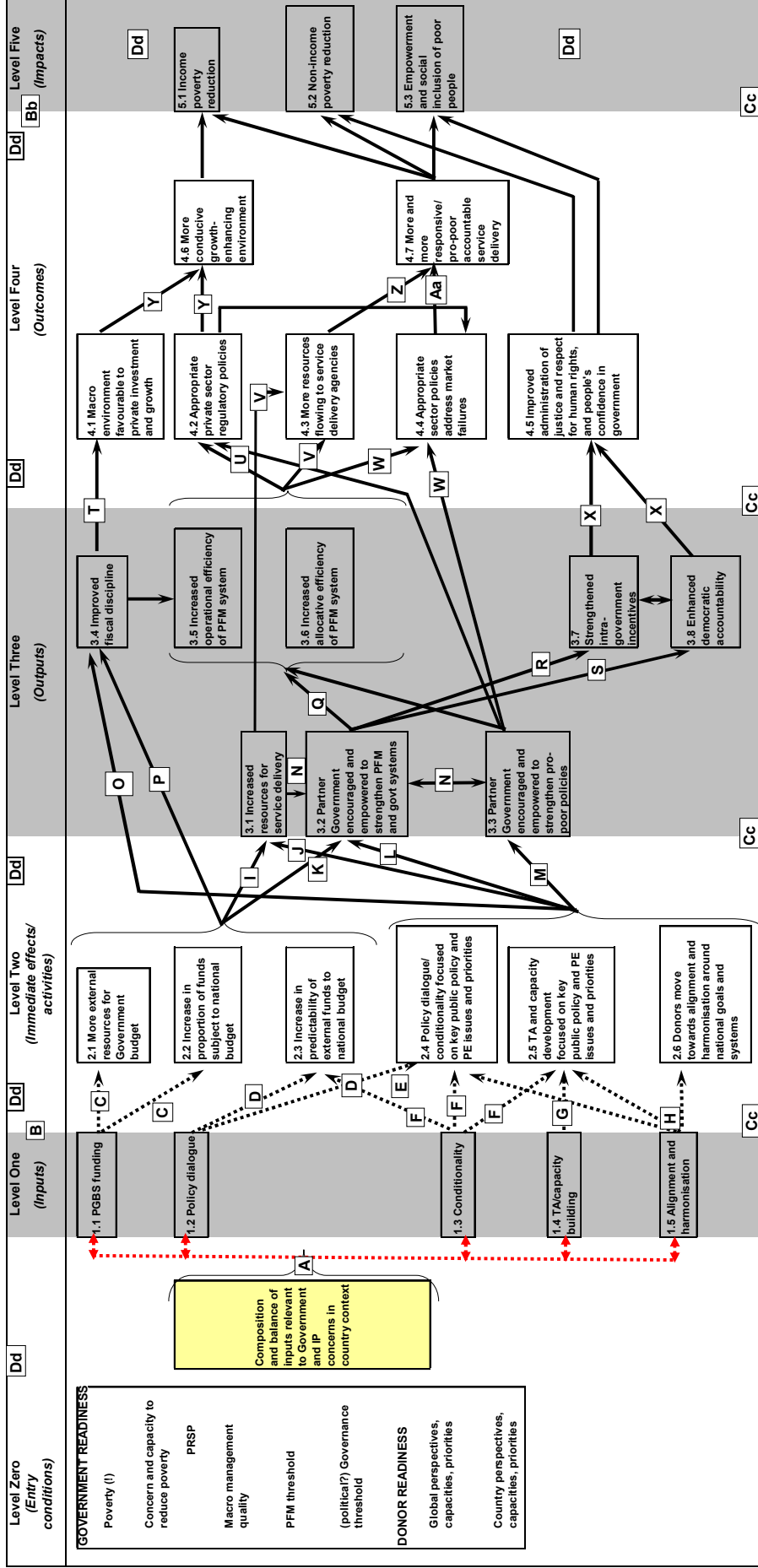


Table 5.1: Causality Map – Summary of Causality Findings in Mozambique

A	Level 0 → Level 1 <i>The design and its relevance</i>
	Relevant design, which has evolved particularly in response to government demands for greater predictability of IP commitment. Design included all programme aid and, while the heart is PGBS, dialogue has increasingly become inclusive, particularly of sector support. Initial analysis recognised weakness of government capacity and accountability but did not develop adequate associated support particularly on capacity. [Chapter B1]
B	Level 1 → Level 2 <i>Overview of inputs to immediate effects</i>
	Significant effects from all inputs except that there has not been a distinct PGBS approach to Technical Assistance/Capacity building (TA/CB). There are associated TA/CB projects given on a fragmented project basis to various directorates of the Ministry of Planning and Finance. A pool to support the technical reform unit of PFM systems (UTRAFE) represents the most sizeable pooling mechanism for TA/CB to strengthen PFM across government. But overall support for TA/CB lacks the comprehensiveness appropriate to PGBS.
C	1.1 → 2.1/2.2 <i>PGBS effect on total external resources for budget and the proportion of funds subject to the national budget</i>
	PGBS has become a sizeable share of ODA and has contributed significant funding to the GOM budget, but overall ODA has not increased and is falling in real terms. [Chapters A3, B1, B3]
D	1.2/1.3 → 2.3 <i>Effects of dialogue and conditionality on predictability of external funding to the budget</i>
	Initially PGBS disbursement suffered from low predictability (contributing to the GOM appeal which led to the development of a more concrete MOU). Dialogue and mechanisms for accountability of donors on their own performance, in conjunction with MOU, have led to much improved levels of predictability. [Chapter B1]
E	1.2 → 2.4 <i>Increased focus of dialogue on key public policy and expenditure issues</i>
	PGBS dialogue was always focused on public expenditure issues, particularly in the context of pro-poor allocations, but since 2003 it is more strongly focused on assessing the impact of expenditure. Dialogue (Joint Review and working groups) and PAF evaluation have supported sectoral and cross-sectoral pro-poor priorities. Hitherto relatively neglected sectors (private sector development, legal and judicial reform) are receiving more attention. [Chapters B1, B2]
F	1.3 → 2.3/2.4/2.5 <i>Influence of conditionality on predictability of funding, on focus of dialogue, and on TA/CB</i>
	Implicit political conditions initially created uncertainty. The 2004 MOU spelt out the fundamental principles of the relationship, and the performance expectations on both government and IPs. These have greatly improved predictability and clarified the focus of dialogue. Annual Joint Reviews and performance assessment clarify expectations on government. TA/CB are subjects of dialogue but (except for the implementation of SISTAFE) not of conditionality. [Chapters A3, B1, B3, B4, B5]
G	1.4 → 2.5 <i>PGBS immediate (direct) effect on TA/CB</i>
	There has not been a distinct PGBS approach to TA/CB. There are associated TA/CB projects given on a fragmented project basis to the Ministry of Planning and Finance and, given on a pooled basis (led by IMF with bilateral support), for the development of an Integrated Financial Management Information System (SISTAFE) to strengthen PFM across government. But support for TA/CB lacks the comprehensiveness appropriate to PGBS. [Chapters B1, B4, C3]

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H	1.5 → 2.4/2.5/2.6 <i>Moves towards harmonisation and alignment with national goals and systems, reflected in dialogue and TA/CB work</i> Strong H&A effects, including through demonstration effects on other aid modalities (e.g. wide use of PAF and the increasing alignment of sector programmes with the budget cycle). Harmonisation between PGBS donors mainly takes place through their alignment with GOM systems. The flaw is in the (in)adequacy of the budgetary systems and perhaps the coherence/ownership of national policy on which donors are aligning. H&A of TA/CB has extended somewhat: several donors provide TA/CB to the same directorates and also operate a pool to support SISTAFE which until now focuses principally on budgetary accounting rather than planning. [Chapters B2, B4, B10]
I	2.1/2.2/2.3 → 3.1 <i>Increased resources for service delivery (flow-of-funds effects)</i> More resources have been brought fully on-budget through PGBS funds themselves and also by the growing focus of PGBS donors on reducing the volume of off-budget flows more generally. PGBS funds are available for GOM's discretionary use to fulfil its PRSP commitments. The PAF annually makes these commitments more concrete and focused. PGBS funding has also increased availability of funds for recurrent expenditure. However, it is probably true that the same funding also used to go to service delivery but through other aid modalities. Line ministries are concerned at the threat to their direct lines of donor finance for sector priorities. [Chapter B3]
J	2.4/2.5/2.6 → 3.1 <i>Increased resources for service delivery (dialogue/TA/H&A effects)</i> GOM expenditure preferences (favouring "priority sectors", mainly education and health) were established in the PRSP, concurrently with PGBS and with strong influence of PGBS IPs. PGBS dialogue and conditionality have maintained PPE commitments, and made disbursement conditional on it. [Chapter B3]
K	2.1/2.2/2.3 → 3.2 <i>Flow-of-funds effects on empowerment to strengthen PFM etc. systems</i> By putting more funds on-budget, PGBS has helped to create conditions for the strengthening of PFM, but progress is modest and from a weak base. As a consequence of increased budget funding, MPF and line ministries are beginning to plan budget priorities more effectively and to strengthen budget accounting. However, continued predominance of donor funding through other aid modalities weakens this effect. [Chapters B3, B4]
L	2.4/2.5/2.6 → 3.2 <i>Dialogue/TA/H&A effects on empowerment to strengthen PFM etc.</i> Dialogue, shared conditions and joint performance assessment, within the framework of strong harmonisation and alignment, have greatly strengthened the pressure on government to improve PFM. This is backed by the SISTAFE reforms in budgetary accounting. However, TA/CB in the MPF and covering PFM generally are fragmented between multiple donors. [Chapters B2, B3, B4]
M	2.4 → 3.3 <i>Dialogue encourages and empowers strengthening of pro-poor policies</i> The commitment to pro-poor policies exists independently of, but supported by, PGBS. Dialogue in the PGBS Joint Review process and assessment using PAF have reinforced attention to pro-poor outcomes, made targets more concrete, made the pro-poor agenda more cross-sectoral, and embraced sectors which hitherto had less donor attention. GOM has been encouraged to commit to such policies. [Chapter B5]
N	3.1 → 3.3 <i>PGBS funding encourages and empowers strengthening of pro-poor policies</i> The effectiveness of the PGBS dialogue through the Joint Review process (see M) depends on the existence of PGBS funding. Although overall funding levels for services have probably not increased as a result of PGBS, the level of funds channelled through the state budget has increased because of PGBS. Channelling of funds through the state budget supports cross-sectoral dialogue, gives support to cross-governmental policy priorities as expressed in the PRSP, and gives some support to sectors (e.g. the judiciary) which previously received limited donor attention. [Chapters B3, B5]

Annex 5: Summary of Causality Findings

O	2.4/2.5/2.6 → 3.4 <i>Non-flow-of-funds effects on fiscal discipline</i> IMF policy is the strongest external influence on both GOM monetary and fiscal policy. However, PGBS dialogue and conditionality, linked to PRGF, have created pressure to sustain fiscal discipline. Fiscal discipline was not adhered to during early years of PGBS owing to bank recapitalisation and outlays for post-flood reconstruction. Low levels of tax collection in 2004 have also contributed to targets not being met. However, the general trend is positive. [Chapter B6]
P	2.1/2.2/2.3 → 3.4 <i>Flow-of-funds effects on fiscal discipline</i> Discipline is probably influenced by having more funds on-budget, limiting the need to borrow and reducing the deficit after grants for the same level of expenditure. However, late disbursements have had negative effects on budget discipline when the government has resorted to issuing treasury bills to cover liquidity gaps. Fiscal discipline is fully dependent on government behaviour, and flow-of-funds effects, regardless of their size, cannot control but only influence this dynamic. [Chapter B6]
Q	3.2 → 3.5/3.6 <i>PFM empowerment of government → improved allocative and operational efficiency</i> Allocative priorities are clear in the combined effects of PRSP, strengthened and made more specific by PGBS/PAF targets, and expressed also in sector plans. Confidence in the match between budgetary priorities and actual expenditure has been weak, though this is now being addressed by SISTAFE. Operational efficiency is still weak but the recurrent/capital balance is improving and salaries are increasingly being paid on time. [Chapters B3, B4]
R	3.2 → 3.7 <i>Government empowerment to strengthen systems → stronger intra-government incentives</i> PGBS dialogue and on-budget financing is strengthening line ministry incentives to operate through national planning and budget channels, but sector aid for key ministries and direct provincial level funding remain more important to them. District budgets still depend mainly on their relation with line ministries. [Chapter B4]
S	(2.2 →) 3.2 → 3.8 <i>Government empowerment to strengthen systems → enhanced democratic accountability</i> PGBS funds are fully on-budget, and together with new instruments for performance assessment and reporting on budget execution, have increased opportunities for democratic accountability, audit, and public information. Audit systems are strengthening with PGBS support and pressure, but systems of parliamentary and public accountability remain weak. [Chapter B4]
T	3.4 → 4.1 <i>Link from fiscal discipline to growth-enhancing macro environment.</i> A more favourable macroeconomic environment – except for high interest rates – has largely been achieved under the guidance of IMF guided monetarist policies supported by PGBS which is linked to the PRGF. PGBS has helped reduce the cost of financing the budget and hence the tendency for GOM borrowing to crowd out private investment. [Chapter B6]
U	3.3/3.5/3.6 → 4.2 <i>Better PFM system and government empowered to strengthen policies → appropriate private sector regulatory policies</i> There has been little evidence, until very recently, of an improvement of the regulatory environment or that reforms of the PFM system have contributed to this. However, PGBS has provided a forum for dialogue about this issue with a donor–government thematic group on private sector development that has considered, among other matters, the effect of government’s financial management. [Chapters B5, C2]
V	3.1/3.5/3.6 → 4.3 <i>Increased resources for service delivery and better PFM → more resources flowing to service delivery agencies</i> Allocations to service delivery agencies have increased since 1995. Policy commitment by government and donors to increasing resource flows to service delivery pre-date PGBS, but PGBS has maintained the commitment and made it more concrete by establishing more detailed targets for prioritising pro-poor services through the PAF. The allocation of increased funds through the budget and improving PFM systems enable better monitoring of budget execution according to policy priorities, and a more balanced allocation between recurrent and investment expenditure. [Chapters B5, B7].

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W	3.3/3.5/3.6 → 4.4 Better PFM system and government empowered to strengthen policies → <i>appropriate sector policies address market failures</i> PGBS has engaged directly with the question of private sector development only since the broadening of its agenda and the development of the Performance Assessment Framework in 2003/04. It has followed the priority orientation of the PRSP to public sector expenditure. However, more recently, under pressure of the PGBS dialogue, donors and government are now giving more attention to private sector development and to legal and regulatory constraints on it. [Chapters B5, B6, C2 and D2]
X	3.7/3.8 → 4.5 Government incentives/democratic accountability → <i>people's confidence in government, administration of justice and human rights</i> While there has been some adjustment to intra-governmental incentives (R) and the potential for greater domestic accountability (S), these changes have so far had little discernible effect on the administration of human rights, justice or people's confidence in government. [Chapter B8]
Y	4.1/4.2 → 4.6 Influence of macro environment and private sector policies on environment for growth The effects are weak. However, PGBS has contributed to a more favourable macroeconomic environment and, more recently, PGBS dialogue has given some attention to private sector development. [Chapters B5, C2]
Z	4.3 → 4.7 More resources reach service delivery agencies → <i>more and more responsive pro-poor service delivery</i> More resources are reaching service delivery agencies but this is still due more to sector than general budget support. In the short term, line ministries are concerned about the interruption of the flow of funds by their transfer to the budget. The quantity of services has increased; their quality and responsiveness is doubtful. [Chapters B3, B7]
Aa	4.4 → 4.7 Influence of sector policies on pro-poor service delivery The coverage of social services (education and health) has increased greatly over the last 10 years. Sector support and project aid have been the main contributing aid modalities. However, PGBS has maintained support for GOM's commitment to these sectors, has added collective donor support and pressure to the achievement of measurable targets, and has helped build the systems that will improve spending efficiency and improve the quality of service funding in the future. [Chapters B5, B7]
Bb	Level 4 → Level 5 PGBS outcomes → <i>poverty impacts</i> PGBS may have had a small positive effect on service use, income-poverty reduction and the empowerment of poor people. However, its medium-term effects can be expected to be greater, given that it supports underlying positive processes (service prioritisation and targeting, sustained government financing, strengthened PFM systems, and support for accountability and judicial reform). [Chapters B8]
Cc	(all levels) Transaction costs In the transition to PGBS, transaction costs for GOM and perhaps IPs are likely to have increased, especially as other aid modalities continue. Up-front transaction costs have spread from line ministries to MPF, rather than shifting from one to the other. However, PGBS certainly presents lower transaction costs for GOM at the disbursement stage. [Chapters B3, C4]
Dd	(all levels) Feedback Very strong mechanisms for feedback and shared learning exist, particularly in relations between GOM and IPs through the Joint Review. Mechanisms have also been set up to include civil society, and parliament has access to donor/government assessments – but these remain weakly developed or weakly exploited by stakeholders. At the official level, more attention could be given to (i) assessing poverty impacts (currently reliant on government reporting) and (ii) systematically considering the desirable balance between PGBS and other aid modalities. [Chapters B9 and D2]

ANNEX 6: SURVEY OF SEVEN CIVIL SOCIETY ORGANISATIONS

Introduction

The following questionnaire was sent out to provincial branches of the Grupo Moçambicano da Dívida, a national NGO which is an important member of the Poverty Observatory (see Chapter B5). The survey asked for comments on the trends in service delivery and what explained these; the intention was to find whether the causal factors identified had anything to do with the sorts of intervention associated with PGBS. Responses were obtained from seven civil society groups from four provinces (two in the south, two in the centre, and three in one northern province). The tabulated results are overleaf.

Box 6.1: The Questionnaire

1. Does your organisation (or any other that you share information with) monitor the performance of government services? Does it do this systematically? How?
2. Is there any evidence that finance is getting to the provincial and district levels better or worse than two years ago? For example
 1. Are teachers and doctors/nurses more or less likely to be paid on time?
 2. Are school buildings, clinics and hospitals being better or worse maintained?
 3. If there have been improvements, please describe what factors have led to these improvements
 - Do you think that anything that the national government has done has helped? What?
3. Is your general impression that public services are improving, remaining the same or getting worse, particularly in regard to education, health care, and justice? For example, please comment on:
 - a. Education
 - Primary and secondary school enrolment: Are they increasing? Are girls becoming more equally represented?
 - Primary and secondary completion rates: Are they increasing? Are girls becoming more equally successful?
 - If there have been improvements, please describe what factors have led to these improvements
 - Do you think that anything that the national government has done has helped? What?
 - b. Health care
 - Is it becoming easier to gain access to clinics and hospitals?
 - Is the service improving?
 - Are maternal and infant health services becoming more easily accessible?
 - If there have been improvements, please describe what factors have led to these improvements
 - Do you think that anything that the national government has done has helped? What?

Box 6.2: The Questionnaire Results

		SINTICIM, Inhambane	ADCR, Gaza	GMD Zambézia	OTM-CS Zambézia	Catholic Church, Cabo Delgado	Unions, Cabo Delgado	AEATUR, Cabo Delgado
Salaries received	Education		No	Mostly	Yes in last two years	Yes	From 2005	Yes
	Health		No	Mostly	Yes	Yes	From 2005	Yes
Maintenance	Education		Poor	Yes	Yes	Yes	Only by NGOs	Some
	Health		Poor		Some	Yes	Only in District HQs	Some
Service Improved?	Education	Yes	Yes	Yes	Yes	Yes	Yes	Yes
	Health	No	Yes	Yes	Yes	Yes	Yes	
	Justice	No	-	-	-	No	No	No
Numbers entering EP1 increased?	All	Yes	Yes	Yes	Yes	Yes	Yes	Yes
	Girls	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Numbers completing EP1 increased?	All	Yes	Yes	Yes	Yes	Yes	Yes	Yes
	Girls	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Numbers entering EP2 increased?	All	Yes	Yes	Yes	Yes	Yes	Yes	Yes
	Girls	No	Yes	Yes	Yes	Yes	Yes	Yes
Numbers completing EP2 increased?	All	Yes	Yes	Yes	Yes	Yes	Yes	Yes
	Girls	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Factors that led to improvements in Education		Government Plan and involvement of partners	Increase in number of schools; change in attitude of parents; abolition of school matriculation and book payments	Increase in number of schools, training of teachers, IMAPS system, Debt cancellation, HIPC measures	Public debates between government and civil society	Abolition of school matriculation payments	New school construction	Promotion of girls' education
	Government contribution in Education	Construction of schools and promotion of girls' education		New investments	Construction of schools		Construction of IMAP, secondary schools, language institutes and UCM	

Annex 6: Survey of Seven Civil Society Organisations

	SINTICIM, Inhambane	ADCR, Gaza	GMD Zambézia	OTM.CS Zambézia	Catholic Church, Cabo Delgado	Unions, Cabo Delgado	AEATUR, Cabo Delgado
Health access improved?			Yes	-		Yes	Yes
Health service quality improved?	No	Yes	Greatly	-	Yes	No	Yes
Factors that led to improvements in Health		Increase in health system and training of health staff	Increase in number of health units, training of health staff. Debt cancellation, HIPC measures	Public debates between government and civil society			Ambulances and medical staff in most districts
Government contribution in Health		Improvement of Health Units	Investment in health systems	Construction of health units	Construction of health units. Control and discipline of staff	New health units in districts; better means of transport	
Other comments	Need for more civil society participation in poverty strategy	Importance of support for roads, fisheries, housing, sanitation, energy, gender in agriculture, support for small farmers and trading			More literacy centres, especially for women; micro-credit support for small animal production	More literacy centres, especially for women; micro-credit support for small animal production	
Involvement in service monitoring	Yes	Yes occasionally	Meetings with provincial directorates every two months	Quarterly meetings about reports	Periodic meetings with education directorate	Meetings and negotiation with government	Yes

ANNEX 7: PERFORMANCE ASSESSMENT FRAMEWORK 2005

Government Programme – PARPA			Indicators		PAF 2005 targets				
Strategic Objectives	Areas	Sub-areas	Priorities	No.	2005	2006	2007		
			Objectives						
			Actions						
Poverty reduction through privileged orientation of public services to the most needy populations	Education	Primary education	Universal education: - increase access and retention - increase quality of education - reduce gender disparities	Approve, implement and assess the strategic plan for 2005-09 - Implement the programme of low-cost school construction - Implement the strategy of teachers formation taking into account the new curriculum - Approve and implement the gender strategy	1a	79%	83%	86%	
					1b	77%	81%	84%	
		2a		48%	58%	66%			
		2b		41%	52%	62%			
	Health	Mother and Child	Maternal mortality reduced	Increase offer of obstetric care	3	49%	51%	51%	
					4	95%	95%	95%	
				Infant mortality reduced	Increase coverage of the Extended Vaccination Programme	5	0.93	0.94	0.95
	HIV/AIDS	MISAU/ CNCS		Prevention and mitigation of the impact on people infected and affected by HIV/AIDS	Reduction of vertical transmission Strengthen capacity and partnerships and spread institutional support to the programmes	6	15000	25000	35000
						7	55%	65%	70%
		Roads		National network improved	Care and community and home-based support (orphans and vulnerable children)	8	20%	23%	25%
						9	1091	705	
Infrastructure			Rehabilitate and improve the national network	10	1635	2001			
				11	14343	15247			
			Improve the execution of works and services						

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Government Programme – PARPA				Indicators	No.	PAF 2005 targets		
Strategic Objectives	Areas	Sub-areas	Priorities Objectives			Actions	2005	2006
Promotion of economic development, with priority to the rural areas and reduction of the regional imbalances	Water	Water	Access increased	Open well and make new connections	% population with access to potable water	44.20%	45.8%	
			Access increased	Improved latrines, septic tanks	% population with access to sanitation services	37%	39%	
	Agricultural Services	Agricultural Services	Promotion of agricultural production	Increase coverage of agricultural outreach services	% of farmers assisted explorations that adopted at least one new technique during the last 12 months	28%	30%	32%
			Improve coverage of animal health services	Improve coverage of animal health services	% of cattle farmers that vaccinated their livestock	70%	72%	75%
			Stimulate market mechanisms	Stimulate market mechanisms	% of cereal production (maize, sorghum and rice) commercialised by the formal sector	16.10%	16.20%	16.60%
	Management of Natural Resources	Management of Natural Resources	Promote use of irrigation techniques	Promote use of irrigation techniques	Area (Ha) constructed and/or rehabilitated with public resources irrigation schemes	2,900	3,200	3,300
			Access to land	Access to land	Simplify mechanisms of obtaining the rights for land tenure	90%	92%	95%
			Promotion of sustainable exploration of natural resources	Promote sustainable commercial management of natural resources	% of concessions with application plan approved	37%	45%	50%
			Develop private sectors	Amendment of the Labour Law and Submission to the Assembly of the Republic of the Amended Labour Law	Law submitted			
	Creation of a favourable environment for private sector action	Develop private sectors	Strengthen job creation in the formal sector, modernise commercial practice to improve economic activities, simplify the process of business registration and reduce corruption	Revision of the commercial code	Revision of the commercial code	Implementation (subject to parliamentary approval)		
Strengthen accountability in the banking sector				Conduct a financial audit of Banco Austral commissioned through PGR	Measures taken	Finalised		
Macroeconomic and financial policies	Financial system	Strengthen accountability in the banking sector	Conduct a financial audit of Banco Austral commissioned through PGR	Measures taken	Finalised			

Annex 7: Performance Assessment Framework

Government Programme – PARPA			Indicators		PAF 2005 targets					
Strategic Objectives	Areas	Sub-areas	Priorities		No.	2005	2006	2007		
			Objectives	Actions						
Creation of a favourable environment for private sector action	Macroeconomic and financial policies		Improve financial intermediation including for micro, small, medium enterprises and unbanked households	Strengthen institutional capacity of BOM and other regulatory authorities	23	Approval and issue of LICSF regulation				
				Implementation of BOM strategy. GOM interest brought to point of sale	24	v				
			Improve insurance and social protection sectors	Improvement of social protection system	25	Submission of proposal of social protection law to parliament				
					26	Beginning of actuarial study of social security system	Conclusion of actuarial study			
			Upgrade efficiency and effectiveness of the management of State funds	Expenditure in PARPA priority sectors is at least 65% of total expenditure excluding interest payments on debts. At least half of this 65% is related to education and health	27		65%	Indicated in PARPA II	Indic. PARPA II	
					28	Increase the coverage of the budget as a prerequisite for establishing budgeting by programmes	Conclude the study on off-health sector and begin to implement the recommendations for the state budget cycle in 2006 in the health sector	Conclude the study for off-budgets in education and implement the recommendations for the state budget cycle in 2007	Remaining sectors (water, agriculture, and mineral resources)	
			Simpler and more covering, fair and balanced taxation	Implement SISTAFE	29		60% of the state budget in SISTAFE (subject to confirmation after QAG mission)	100 % of state budget (subject to confirmation by QAG mission)		
					30	Strengthening tax administration and creation of CRA by 2006	Approval of regulations and procedures for CRA	Establishing of CRA		
				Tax Reform	31	Total revenue as % of GDP	14.9%	15.1%	15.1%	

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Government Programme – PARPA		Indicators		PAF 2005 targets			
Strategic Objectives	Areas	Sub-areas	Priorities	No.	2005	2006	2007
			Objectives					Actions
Creation of a favourable environment for private sector action	Good Governance, Legality and Justice (fight corruption)	Procurement	Adoption of a transparent and efficient system	Implement a modern procurement system in accordance with the best international practices based on the new procurement regulation and in connection with e-SISTAFE	32	Beginning of implementation	Implementation
			Improve coverage and function of internal and external auditing	Implement priority components of the strategic plan in internal audit	33	✓	✓
		Planning and Monitoring	Revision of the functions of the external auditing institutions [see Aide Mémoire]	34			
			PARPA revision concluded through a consultative process	35	✓		
		Public Sector Reform	Single process of CFMP, PES and state budget formulation	36	Start	Start and systematise the monitoring of CFMP/PES/state budget	
			Prepare policy and strategy of decentralisation	37	Prepared	Approved	
		Rationalisation of structures and processes	Establishment of criteria for the distribution of financial resources to districts	38	Proposed/Prepared	Approved/implemented	
			FCA transferred to each municipality (planning and execution) and total revenue of each municipality/person (planning)	39	Value and Value/Person available	Value and Value/Person will be available	
		Combat corruption	Government approval of the salary policy for the medium term (salary reform) and implementation begun, starting with the harmonised database	40	Approval	Implementation	
			Restructuring plans agreed in accordance with MTEF/CFMP and implementation begun in MISAU, Ministry of Education (MINED), MADEF, MAE, MIC and MPF	41	Plans agreed and implementation begun	Implementation	
		Increase government resources (especially better employment of personnel) for the anti-corruption units	Study on good governance, corruption and service delivery completed and resulting anti-corruption strategy implemented	42	Strategy approval and beginning of implementation		
			A corruption survey in the justice system (with solutions proposed for procedural simplification and addressing other causes of corruption) and recommendations implemented	43	Publication of first study and identification of other institutions to be included	Follow-up of the study	
					✓	✓	✓

Annex 7: Performance Assessment Framework

Government Programme – PARPA		Indicators		PAF 2005 targets										
Strategic Objectives	Areas	Sub-areas	Priorities		No.	2005		2006		2007				
			Objectives	Actions		2005	2006	2005	2006	2005	2006	2007	2007	
Consolidation of peace, national unity, justice and democracy	Good Governance, Legality and Justice (fight corruption)	Justice Reform	Increase efficiency in the provision of services by the justice system	Increase the number of judicial verdicts reached (subject to change) (see Aide Mémoire) Decrease in number of prisoners that await accusation and trial	45	42% (Base year is 2002)	50% (Base year is 2002)	60% (Base year is 2002)						
					Simplification and faster processing	46	57%	50%						
						47	√	Implementation						
			Law reforms	48	√	Consolidate through POPEI a harmonised system of M&E								
				49a)		Revision of the Civil Process Code	Submission to parliament							
				49b)		Revision of the organic law of judicial courts including commercial sections	Submission to parliament							
				49c)		Revision of the Notary Code	Submission to parliament							
				49d)		Revision of the penal code	Submission to parliament							
				49e)		Revision of prison legislation	Submission to parliament							

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DFID
1 Palace Street
London
SW1E 5HE

and at:

DFID
Abercrombie House
Eaglesham Road
East Kilbride
Glasgow
G75 8EA

Switchboard: 0207 023 0000 Fax: 0207 023 0016
Website: www.dfid.gov.uk
Email: enquiry@dfid.gov.uk
Public Enquiry Point: 0845 300 4100
From overseas: + 44 1355 84 3132
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