

Perfect Partners?

The performance of Programme Aid Partners in Mozambique, 2004

A report to the Programme Aid Partners
and Government of Mozambique

by

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List of acronyms

BoPs	Balance of payments support
BS/DBS	Budget support/direct budget support
CG	Consultative Group
CSOs	Civil society organisations
DAC	Development Assistance Committee
DCI	Department of International Co-operation (GoM)
DNPO	National Directorate for Planning and Budgeting
DPG	Development Partners Group
EC	European Commission
G16	Group of 16 (= PAPs)
GoM	Government of Mozambique
IMF	International Monetary Fund
JR	Joint review
MAS	Mozambique Assistance Strategy
MoU	Memorandum of Understanding
PAF	Performance assessment framework
PAP	Programme assistance partner
PAPPA	Programme assistance partners' performance assessment
PARPA	Action Programme for the Reduction of Absolute Poverty
PRGF	Poverty Reduction and Growth Facility (of the IMF)
PES	Plano Económico e Social (Economic and Social Plan)
SISTAFE	Sistema Integrada de Administração Financeira do Estado (Integrated system for State Financial Management)
SWAp	Sector-wide approach
TBs	Treasury Bills
UNDP	United Nations Development Programme

Summary

In this report we provide an assessment of the performance of the PAPs during 2004, report on Mozambican perceptions of donors' activities, make suggestions for improving the assessment of donor performance and discuss how the principles of the *Paris Declaration* might be applied to the totality of aid to Mozambique.

Principal points from the *assessment of PAP performance* include:

- The questionnaire-based survey and the PAPs' PAF reveal that, overall, the situation is good and improving, with Mozambique's donors in advance of their counterparts in most other countries.
- More donors now provide at least two-thirds of their aid as programme aid and more aid is coming on-budget. Overall, PAPs are well aligned with GoM processes. Predictability of disbursements has been improved, and a high proportion of disbursements occurs in the early months of the fiscal year. There seems little tendency for donors to seek to enforce conditionality over and above that in the MoU.
- A system of scoring of individual donor performances is introduced. This shows only one PAP classified as a 'strong' performer, but none was 'weak'. The rest were in an intermediate group but with four donors at the bottom end of that category.
- Among the principal remaining weaknesses, reporting to DCI is still patchy, as is delegation of authority from head offices. Progress in harmonising bilateral agreements with the terms of the MoU is slow; there has been limited progress in reducing administrative burdens on the GoM, with modest increases in joint missions and an increase in the total number of missions. The indicators and target values chosen for the PAP-PAF have been unambitious and should be made more demanding.

As regards *Mozambican perceptions*, we found clear and strong support for increasing the share of DBS in total aid. However, there was awareness of some risks in this and the desirability, therefore, of a gradual transition. The predictability of DBS was seen as having improved but less so than our PAP evidence indicated. Much the same was true with respect to harmonisation and alignment. The MoU's PAF for the government was regarded as capturing GoM priorities reasonably well but as still too elaborate and unfocussed. The MoU was seen as having reduced transactions costs but the overall burden was still viewed as excessive, relative to departmental capacities. Partly as a result of donor encouragement, interactions between the GoM and CSOs has been improving but the capacities of the latter remain weak and donors should be more active in this area. We caution against assuming the existence of a

consensus from the apparent absence of controversy about the policies associated with the MoU and PAPs,

Suggested ways of *strengthening the assessment of PAP performance* include:

- The GoM should be more actively involved.
- PAPs should adopt a more proactive strategy for building mutual accountability to a wider range of stakeholders. This report should be made publicly available and should be used as a basis for a workshop with Mozambican stakeholders.
- The existing distinction between Parts I and II of the PAP-PAF should be abolished and a consolidated set of targeted criteria should be established. Specific target values to 2008 are suggested.
- PAPs should accelerate the harmonisation of bilateral agreements with the terms of the MoU, find ways of ending or reducing the number of 'exceptions' under the MoU Annex 10, and strengthen procedures for resolving any remaining conflicts.
- After 2006 the parties should consider only doing a limited, questionnaire-based, exercise every other year, or in two years in every three, but in the other years commissioning a more substantial review which can go into greater depth. If so, it would be desirable for the interested parties and a past consultant to agree the methodology to be followed. This should include the methods used for categorizing individual donor performance.

With programme aid accounting for only a third of total aid and Mozambique still suffering from the well-known limitations of project-based approaches, we consider *how the principles of the Paris Declaration might be extended*. A brief review of some sectoral experiences suggests that, while the development of SWAps should still be promoted, to rely on this alone would offer limited medium-term prospects. We argue the importance of the GoM offering stronger leadership and suggest that this might be a good time for moves in that direction. Specifically we suggest that:

- The GoM should take the lead in working out with donors a *Mozambique Assistance Strategy*, containing a clear statement of GoM preferences and priorities, a set of reciprocal commitments and machinery for implementation and monitoring. This should be thought of as a basic document and an adjunct to PARP II.
- The GoM and donors should come together to negotiate a *super-MoU* covering all incoming assistance and providing all parties with an instrument of pre-commitment, as a device for building mutual trust and for reducing transactions costs.

1. Introduction

The Government of Mozambique (GoM) has been receiving direct budget support (DBS) from the beginning of the 1990s, with the donors in question creating a framework for co-ordination in 2000. The parties subsequently agreed that it would be desirable to introduce changes in their relationships and to systematise these in the form of a Memorandum of Understanding (MoU) between the GoM and the donors providing this form of support. This MoU was signed by the GoM and a group of 15 donors (now 16 - henceforth referred to as the PAPs or G16) in April 2004. Preparatory to this, the parties had commissioned a 'Learning Assessment' on how the processes of joint review that had been in place since 1998 might be strengthened (Harding and Gerster, 2004). The MoU hence not only continued provision for joint review of the performance of the GoM in terms of the commitments contained in the MoU but also included a number of commitments on the part of the donors. The parties subsequently commissioned the same consultants to undertake a survey of partners' performance in 2003, which was to serve as a baseline for assessing future performance (Gerster & Harding, 2004). This report was used as the basis for agreement on a Programme Aid Partners Performance Assessment (PAPPA) framework, with the MoU requiring donors to report annually on progress in terms of the PAP's commitments.

Underlying and to some extent motivating the above developments, the heads of all major donor countries and institutions adopted the *Rome Declaration on Harmonization* (February 2003), setting out in greater detail than previously a code of good donor conduct. This has now been taken further by the *Paris Declaration on Aid Effectiveness* agreed at a high-level forum in March 2005. This latter document sets out a set of specific indicators of progress under the headings of 'ownership', 'alignment', 'harmonisation', 'managing for results' and 'mutual accountability'. The indicator under 'mutual accountability' looks to partner countries to undertake mutual assessments of progress in implementing agreed commitments on aid effectiveness, including those in the *Paris Declaration*.

Our present report is firmly in the spirit of the ideal of mutual accountability. Indeed, the timetabling of our work was set in order to ensure that it would be available at the time of the joint GoM-PAP review of progress under the terms of the MoU, scheduled for May 2005. Our terms of reference require us to provide an independent review of donor performance in 2004, against the commitments and indicators set out in the PAPPA matrix and compared with the 2003 baseline survey. We were also asked to (a) propose an up-dated PAPPA matrix, proposing targets for 2006-08, (b) to review the process of developing donor accountability frameworks at the sector and provincial levels and (c) to

recommend possible improvements in the process for monitoring donor performance.

Our main work in Mozambique was timed also to culminate with a presentation of preliminary conclusions to a high-level meeting on 'Harmonisation and Aid Effectiveness in Mozambique', which focussed on ways of carrying forward the agenda set by the *Paris Declaration*. Given this focus and what we understood to be desired from us, we interpreted (b) and (c) of our ToRs (above) somewhat broadly, in order to set the achievements of the PAPs in the context of donor performance in Mozambique generally and to be able to make suggestions about how the principles of the *Paris Declaration* might be applied more widely to all development assistance to the country.

We adopted a three-pronged approach to carrying out our work. First, we administered a detailed questionnaire to be completed by each of the PAPs, designed around the PAPP matrix. Section 2 below sets out the aggregated results of the questionnaire responses. Second, we studied relevant background documents and, third, we interviewed as many of the relevant parties as we could manage in the brief time available to us. Drs. Castel-Branco and Gerster undertook interviews and other field-work from 7th to 24th March 2005 and they were joined by Prof. Killick for 14-24 March. We would, however, like add that we were conscious of the superficiality of what we were able to do, given the time and other constraints under which we worked. For example, we were not in a position to follow up on more than a few individual donor questionnaire returns, to ensure that there had been a reasonable uniformity of application by the various agencies and to explore issues arising in greater depth. We were similarly only able to skim the surface in our contacts with civil society and other stakeholders. Our report should be read with this in mind.

The remainder of our report is structured as follows. Section 2 presents the results of the questionnaire-based survey described above and Section 3 sets out what we learned about Mozambican perceptions - official and non-official - of donor performance. Section 4 suggests ways in which the PAPP framework could be improved for future assessments, while Section 5 sets the PAP situation in the wider context of development assistance at sectoral and other levels, making a case for the development of a *Mozambique Aid Strategy* and a '*super-MoU*'. Annexes provide details of the data utilised for categorising donor performance, proposed PAP-PAF targets for 2005-08, our ToRs, people interviewed and documents consulted. A separate computer file provides questionnaire-based tables for each individual PAP donor, and also sets out the questionnaire itself.¹

¹ This file is available at papsecretariat@yahoo.co.uk or at richard.gerster@gersterconsulting.ch.

2 Survey findings for 2004 and changes since 2003

2.1 Survey findings and conclusions

(For easy reference, the figures in brackets refer to the tables in the computer file, which are based on the numbers used in the questionnaire (→ XX). Canada has been marked with an asterisk throughout, since it did not make any payment for General Budget Support in 2004. It was therefore not formally part of the group and only had observer status. This situation may well have affected some of Canada's performance indicators as recorded in this section.)

Portfolio overview

PAPs make use of a broad range of *aid modalities* in Mozambique. All of them provide general budget support as well as project aid. Almost all provide sector budget support (12) as well as basket funding (11) and support to other activities (11). While in the last report eight donors explicitly mentioned providing support to NGOs, this is now mentioned by only five donors. Otherwise the specifications given under "Other" are quite varied. (→ 1.1)

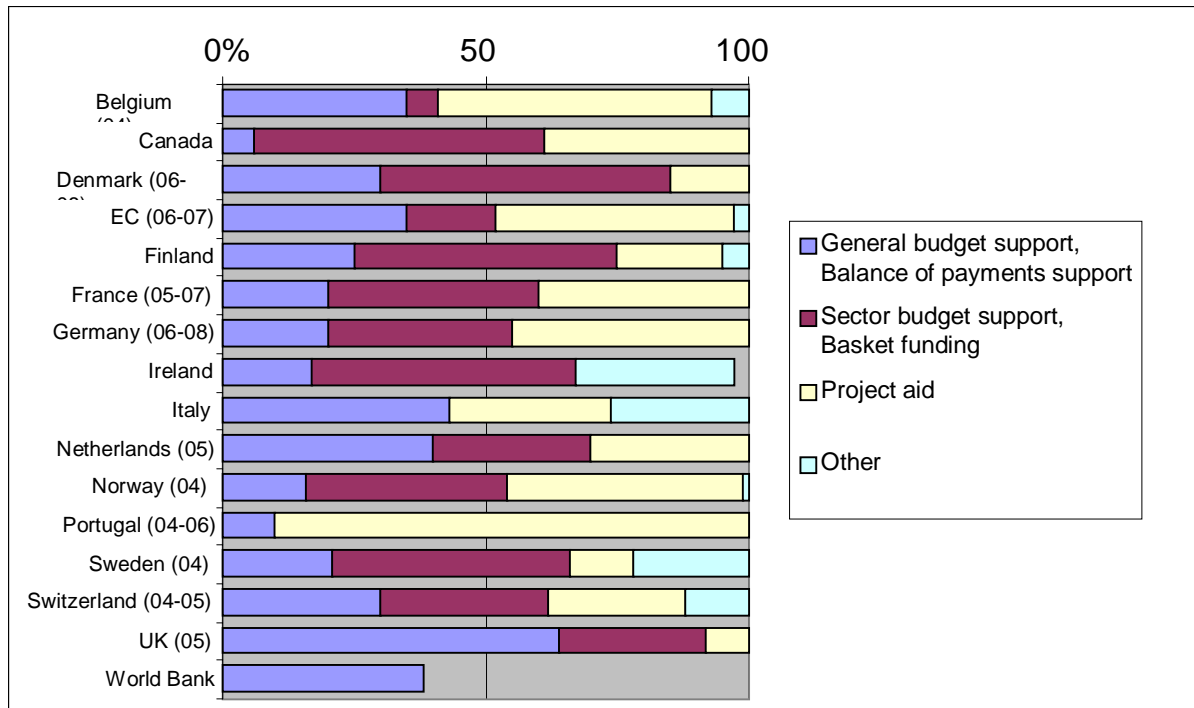
The information received makes it possible to comment on the *relative weight of aid modalities*². For eight PAPs (Canada*, Denmark, Finland, France, Ireland, Netherlands, the UK and Switzerland), the share of programme aid (BS/BOPs, sector budget support, basket funding) is between 60% and 95%. For Belgium, the EC, Germany, Norway and Italy this share is between 40% and 55%. For two donors (Portugal and Sweden) this share is less than 20%. The World Bank reports only incomplete numbers. Overall, this is an increase (almost doubling from four to seven PAPs) in the number of donors which meet or go beyond the GoM target of two thirds as programme aid's share in total development assistance³. Another noticeable contrast with the last report is that fewer donors report contributions in the category "Other" (only four, compared to nine)⁴.

² Since there were some uncertainties regarding the dates in the question, the data provided are from different years. The year for which the data is valid is indicated in brackets behind each donor.

³ Prime Minister Luisa Diogo in her address on the occasion of the signing ceremony of the Memorandum of Understanding on April 5, 2004.

⁴ However there is also a certain contradiction in the returned questionnaires – when reporting on current types of support (→ 1.1), eleven PAPs state to provide "Other" support, but when commenting future trends allocated to different aid modalities (→ 1.3. (2), only five include the same category).

Graph 1: Shares of aid modalities, different years

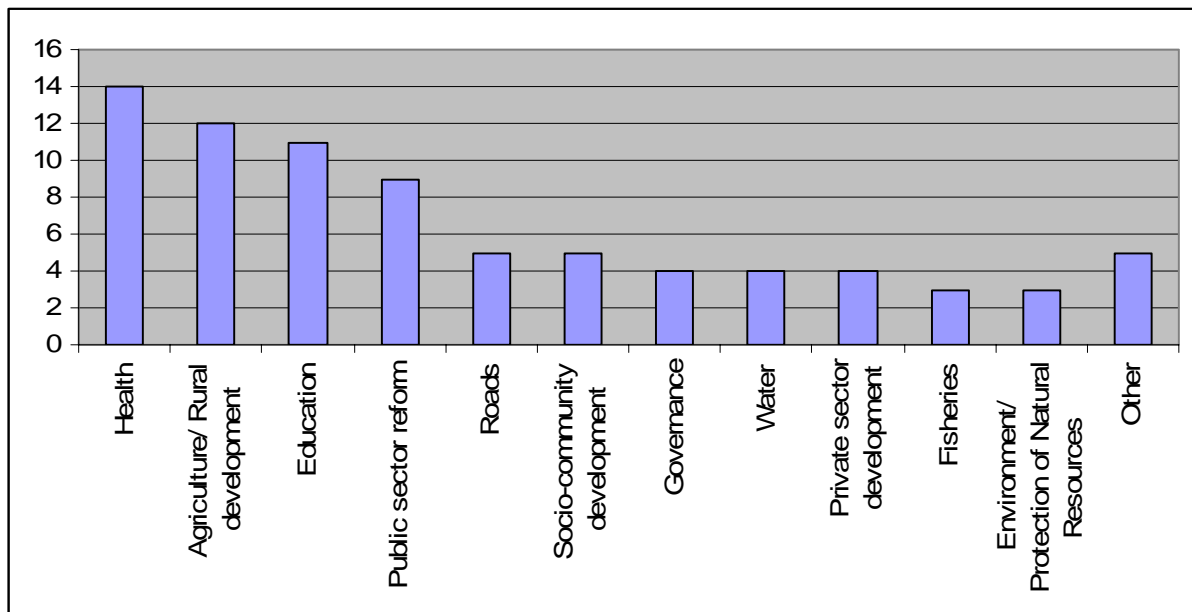


In terms of *future perspectives* for the overall portfolio, the picture is positive. Six donors state that there will be some increase (Belgium, Finland, Netherlands, Sweden, Switzerland and the UK); others present an increase as a possibility (Canada* and Germany, both saying that performance is an influencing factor). France and Norway will maintain their current level. The only predicted decrease is by Italy (no quantification). Where concrete numbers are given, the foreseen increases range between 2% (Switzerland) and 40% (Finland and Sweden). No donor gives information beyond 2008. (→ 1.3 (1))

The question of channeling aid *on- and off-budget* remains an issue. The EC, Denmark, Finland, Germany and the UK indicate an overall increase towards common funding arrangements, while other donors, such as Switzerland, indicate an increase in specific sectors. Overall it can be said that the awareness which was observed in the last survey has translated into activities, as all donors report having taken measures to move more aid on-budget. Two (Germany, Netherlands) comment that there still is some lack of clarity as to what “on-budget” includes. (→ 1.3 (3))

When *mapping the sectors* of the PAPs, health is still the sector which is emphasised most (all donors but the World Bank and Germany are engaged in the health sector). Similar attention is given to agriculture/rural development (12) and education (11). Other sectors with considerable engagement are: public sector reform (9), roads and socio-community development (both 5), governance, water and private sector development (4 each), as well as fisheries and environment/protection of natural resources (2 each). There are a few sectors in which only one donor is engaged (culture, research, energy and infrastructure). The following graph reflects three categories of engagement: those with more than two thirds of PAPs engaged, those with some engaged and those where only one donor is engaged (summarised in the category “Other”): (→ 1.4)

Graph 2: Priority sectors
(‘Other’ includes Culture, Research, Energy and Infrastructure)



Portfolio reporting to the Department of International Cooperation (DCI) is increasingly standardised. The reports of ten donors are almost identical. An important detail is that the Netherlands and Belgium have an additional entry which distinguishes on/off budget. In addition to these standardised reports both Switzerland and Portugal provide information to DCI. However, neither of these reports are standardised and Portugal’s reports are not on a quarterly basis. Canada, the EC, Finland and the World Bank do not provide quarterly reports, although the government has access to the World Bank’s real-time disbursements data for each project. In the case Canada, their mode of reporting is related to their observer status. Compared to 2003, there is progress but a lot remains to be done. (→ 1.2 (1) and (2))

Conclusions on portfolio overview: In terms of future perspectives of the overall portfolio, the outlook is again positive, despite the already high levels of aid. The share of programme aid has increased, with just under half the donors meeting the GoM's target of a two-thirds share. Measures are also reported to bring more aid on-budget. Sector mapping shows that the diversity of sectors reported has increased since the last survey. Aid effectiveness can therefore be further improved by more concentration and delegation. Those donors that do report to DCI now do it almost exclusively in the standardised format. This is an improvement on the previous situation. However the number of countries which do not provide statistical information has only decreased by one. Further progress is urgently required in this field.⁵ Donors should explicitly report on/off budget flows in their own financial management systems.

Alignment and harmonisation

When making decisions about BS/BOPs, six PAPs state they have fully aligned in 2004 to *GoM processes and documentation*, nine others have aligned substantially, while one reports to have aligned to a partial extent only. Compared to the last report, this is a slight overall increase. Most of the donors who report substantial alignment also made use of additional documents, such as a report on fiduciary risk or IMF statements. (→ 2.1)

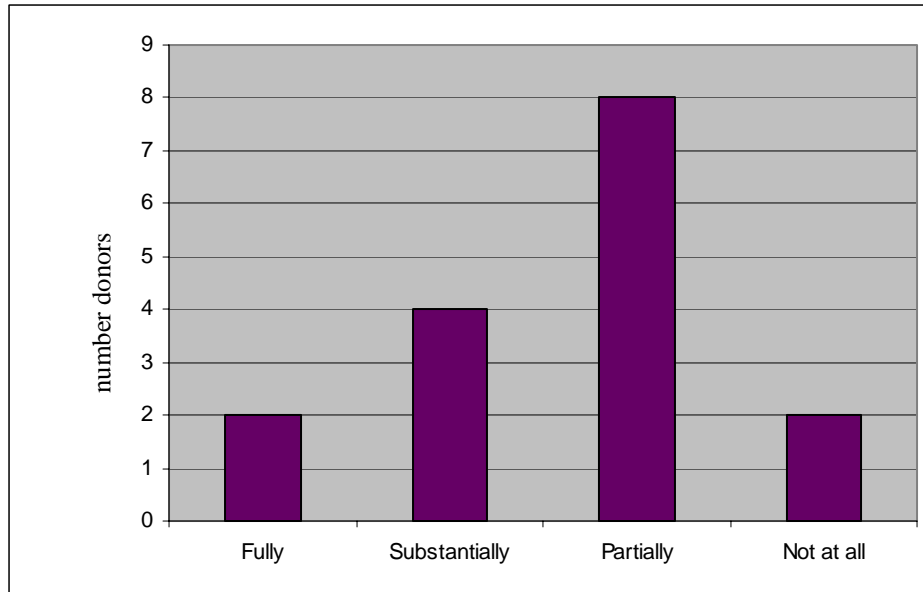
For planning, implementation, monitoring, reporting and funding eight PAPs declare to have fully followed the *GoM cycle*. That is twice as many as in the last report. Seven more aligned to a substantial extent, two were only partially on board and one donor (Norway) states that its extent of alignment depends on the kind of support and ranges itself on the three lower levels. (→ 2.2)

With respect to the *delegation of decisions* related to disbursements and conditionality for BS/BOPs the picture is less positive. Only two donors report full delegation to the respective country offices (Denmark and France). Four countries declare substantial delegation, while half the PAPs say that there is only partially delegated decision making in their offices. For Finland and the

⁵ We would like to reiterate the conclusion of the baseline report 2003 (pp.10/11): "The reporting requirements of DCI/MPF are somewhat unclear. Current MPF usage of financial reporting by donors on their aid programmes should be explored. It would be of particular interest to know whether the information currently submitted to DCI is being used effectively by other parts of the Ministry (DNPO for budget formulation and MTEF projections; DNCP for monitoring budget execution, particularly of on-budget, off-execution projects). Based on a needs assessment, a revised common standard reporting format should be defined. This needs to be followed up by both the PAP's and the Government."

World Bank the decisions are not at all delegated.⁶ Compared to the last report, this distribution remains more or less the same. Looking at the comments of the donors it is likely to remain similar in the future, as only one donor (Sweden) reports plans with respect to decision making and four donors say that no changes are foreseen. (→ 2.3)

Graph 3: Extent of delegated decision making



In 2004 two donors undertook *bilateral evaluations* on BS/BOPs (Denmark - appraisal of new budget support programme; Norway - independent assessment of the budget support programme. Norway is obliged to undertake its own independent assessment but this is based on existing reviews and studies, and hence does not generate additional work for the GoM. The other fourteen donors all declared to have done no bilateral evaluations. (→ 2.4 (a))

With respect to **future bilateral evaluations**, twice as many, i.e. four, PAPs report plans for 2005/2006 (Canada*, EC, Germany, UK). Canada* is trying to see how its overall review of its support to Mozambique can be organized to take advantage of the multi-donor evaluation process. The UK will undertake a country programme evaluation in 2006. In the last review, the EC and Finland reported plans for bilateral evaluations in 2004 and 2005 but the data from this survey do not confirm these plans in the case of Finland. (→ 2.4 (b))

Portugal, Sweden and the World Bank are the only donors who report no *other measures for alignment*. All other donors describe some activities and processes which they consider supportive of alignment, e.g. planning of disbursement

⁶ Interestingly in the last report these two donors reported partial and substantial delegation of the decision making.

according to the wishes of GoM, or programme design in alignment with Mozambican structures. Some of them report full or almost full alignment in some areas (Ireland at sectoral level or the Netherlands in programme aid). (→ 2.5)

Eleven PAPs describe *further measures* which they intend to take in 2005 and 2006 in order to further align with Mozambican instruments, processes and systems of financial management. However, some remain rather general or vague (Belgium, France and Ireland). The Netherlands plans to discuss ways to align multi-annual commitments. The EC is working on strengthening integration between PAPs and the sector working groups and the UK is working on strengthening the link integration between DBS and sector-level activities. Germany plans measures in different sectors. Four donors (Canada*, Italy, Portugal and Switzerland) plan no further measures. (→ 2.6)

Almost half (seven) of the donors say that *bilateral arrangements prevented full harmonisation in 2004*. This is a slight increase from the last report, which is notable considering that the MoU was signed in 2004. The following barriers were experienced:

- Bilateral conditions: EC (see Annex 10), Finland (in bilateral agreements there is an auditing clause) and the World Bank (PRSC1 in 2004 had to follow the Bank's operational policies for structural adjustment lending which prevented full harmonization).
- Bilateral administrative and reporting requirements: Canada* (internal administrative requirements), Norway (non-compliance of the GoM with auditing requirements)⁷, Switzerland (internal administrative requirement) and the World Bank (as above).
- Bilateral legal and statutory requirements: Sweden (see annex 10) and the World Bank (as above). (→ 2.7)

Of those donors that experienced bilateral barriers, only Canada* reports planned activities for the *elimination of remaining bilateral barriers*, but the EC,

⁷ Norway notes in its questionnaire: „There appears to be different interpretation among partners with respect to implications of GoM not meeting reporting and auditing requirements, compare the non complete audit of budget support 2000-2002. Norway interprets that non-compliance of such auditing requirements in the agreement imply that Mozambique has broken the agreement and that as a consequence Norway is not bound by it including previous pledges. It should further be noted that the above referred bilateral requirements content-wise are built on the corresponding paragraphs in the MoU.”

Sweden and the World Bank expect improvements due to new programmes, changes in decision making structures or new operational policies. (→ 2.8)

Conclusions on alignment and harmonization: Overall, PAPs are well aligned to GoM processes in BS/BOPs. Improvement has been made in aligning to the GoM cycle, with twice as many donors now fully aligned for planning, implementation, monitoring, reporting and funding. Significant room for improvement remains with respect to delegation of decision making to country offices, although there are some indications that some of these structures will change in the near future. The fact that the number of donors reporting that bilateral arrangements prevented full harmonisation has increased is worrying, and even more so that different interpretations of the MoU emerge. There were two bilateral evaluations, despite the commitment to refrain from such exercises, and four are planned for 2005. Further measures for alignment continue to be an issue for a majority of donors who report ongoing and future activities in this respect.

Predictability

Fourteen out of the sixteen donors have *multi-year arrangements* in place. The duration of the agreements varies between two and four years:

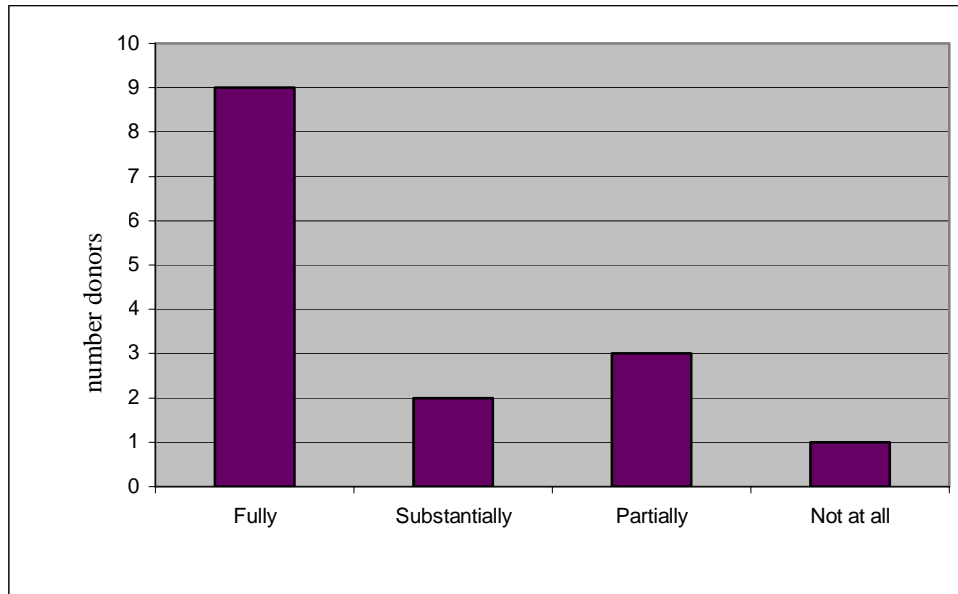
- *Two years:* Belgium, Canada*, Finland, France, Germany
- *Three years:* Ireland, Italy, Netherlands, Norway, Portugal, Switzerland, UK
- *Four years:* EC

A number of agreements come to an end in 2005 (Belgium, EC, Finland, Germany and Netherlands). Follow-up programmes are planned. In addition, Denmark is negotiating a new agreement. Sweden is in the process of switching to a multi-year decision making formula. While the Executive Board of the World Bank makes annual decisions, the PRSC was framed as a series of three annual operations. (→ 3.1)

Nine PAPs (EC, Finland, France, Germany, Ireland, Italy, Portugal, Switzerland and the UK) report that in 2004 the *response mechanism* produced fully predictable results in the form of a planned disbursement schedule which allowed incorporation into the GoM budget. This is almost double the number of PAPs who reported the same result in the last survey. Due to special circumstances, Denmark which reported fully predictable response mechanisms the last time, reports no predictability at all this time (the only donor to do so).

Norway, which previously reported full predictability, ranks itself only at 'substantial' predictability this time (together with the World Bank). Three (Belgium, the Netherlands and Sweden) rate their produced results as partially predictable. Reasons for delays were of an administrative nature or delayed signing of agreement. (→ 3.2)

Graph 4: Predictability of disbursements in 2004



For a majority of donors (twelve), *disbursements in 2004* took place according to schedule. Reasons for delays were an overdue audit and concerns about non-performance (Sweden), internal procedures (Canada*), the lack of a new government agreement (Denmark) and late decisions by the national government (Sweden). This is an enormous improvement over the last report, when only six donors reported disbursements according to schedule. Both the EC and the Netherlands, which did not have a clear schedule in place at the time of the last survey, report timely disbursements now. (→ 3.3 (a))

All but one donor (Norway) expect the *2005/2006 disbursements* to be on time. The reason given by Norway is non-fulfillment of auditing/reporting obligations by the GoM but we understand that the outstanding report has now been delivered. Canada* states the possibility of a national election in 2005 or 2006 could lead to delays. Belgium reports that some of its disbursements are expected to be on time, while for others short delays are possible due to administrative requirements at HQ. (→ 3.3 (b))

More than half the donors say that there are no *obstacles preventing disbursement early in the budget cycle* (Belgium, France, Germany, Netherlands, Norway, Portugal and the UK), consider the question not applicable (Canada* and Denmark) or give no answer (Finland, Italy). If there are difficulties they

arise from internal administrative procedures (decisions at HQ, administrative delay or cash flow problems). Even donors indicating difficulties are sometimes able to disburse in the second quarter. (→ 3.3 (c))

Since most donors state that there are no obstacles to early disbursement or that they are already doing so, it is not surprising that only a few measures are planned to *move towards undertaking disbursements in the first half of the fiscal year*. For Finland, the prerequisite is that a bilateral agreement must be in force. (→ 3.3 (d))

Similarly, very few donors *report measures to increase the predictability of disbursements in 2005/2006*. Canada* reports on efforts to seek multi-year approvals, the Netherlands and Norway comment on the relevance of the GoM's contributions to early disbursement. Germany and Portugal stress that so far their disbursements have been 100% predictable. (→ 3.4)

Conclusions on predictability: Multi-year arrangements are widespread but many of these are limited to two-years. The duration of such arrangements therefore remains a point for improvement in the future. Six of the thirteen multi-year agreements come to an end in 2005. This accumulation raises the question whether donors should consider the possibility of rolling agreements of three years (or more), to create a bottom line of predictable support.

Considerable improvement has been achieved with respect to predictability. Both the predictability of the response mechanisms and of disbursements according to schedule is now at a high level for half to three-quarters of the PAPs. It is important to sustain and increase that level. Another positive feature is the relatively high proportion of disbursements in the first half of the fiscal year. The expected increase has taken place and many donors do disburse early or have plans to do so. Early disbursement is often hindered by centralized decision making at HQ, which again indicates that there is room for improvement with respect to delegated authority.

It should be noted that predictability achievements are perceived less positively by the GoM (Section 3). We recommend putting the issue of predictability on the agenda for discussion between the GoM and PAPs on the occasion of the JR, in order to sort out the differences of perception.

Transparency

No donors report issues related to the *transparency of BS/BOPs conditionalities or funding arrangements*. Therefore, there are also no plans for improvement.

The Netherlands commented that this question can be interpreted in different ways. (→ 4.1)

Ten donors provided *quarterly reports on the release of programme aid* on time. Those who did not do so were Belgium, Denmark (who did not provide reports on time last year either), Finland and Sweden. Norway questions the capacity of the GoM to make use of the information supplied in an efficient manner, which reduces the incentive for filing the reports on time. No plans for improvement are given. The World Bank released a single tranche, as agreed. (→ 4.2)

The PAPs report fifteen *country analytic studies* in 2004. Eight countries (Belgium, Denmark, Finland, France, Netherlands, Norway, Portugal and Switzerland) say they did not do any such work or give no answer. Of the seven countries which undertook analytic work, five did so with 100% government involvement and three did all of their work jointly with other donors. Thirteen of the fifteen studies were made available in Portuguese. (→ 4.3)

Conclusions on transparency: Transparency related to conditionality and funding arrangements has remained a non-issue for donors. It can be assumed that the detailed rules of the MoU and the creation of the PAF have increased transparency related to conditionality. The provision of quarterly reports on the release of programme aid has been mandatory since the MoU came into force. It is a weak result that only eleven out of sixteen PAPs fulfilled this reporting requirement in 2004. The mixed picture on portfolio reporting to DCI has already been mentioned. As mentioned in Section 3 on Mozambican perceptions, the GoM officials did not think that the information flow from the G-16 to the GoM had improved as much as the information provided by the GoM to donors. As far as country analytic studies are concerned, the government and other donors were involved in only half of them. There is considerable room for improvement, therefore, for the participation of both the government and donors. Availability in Portuguese was much improved in 2004.

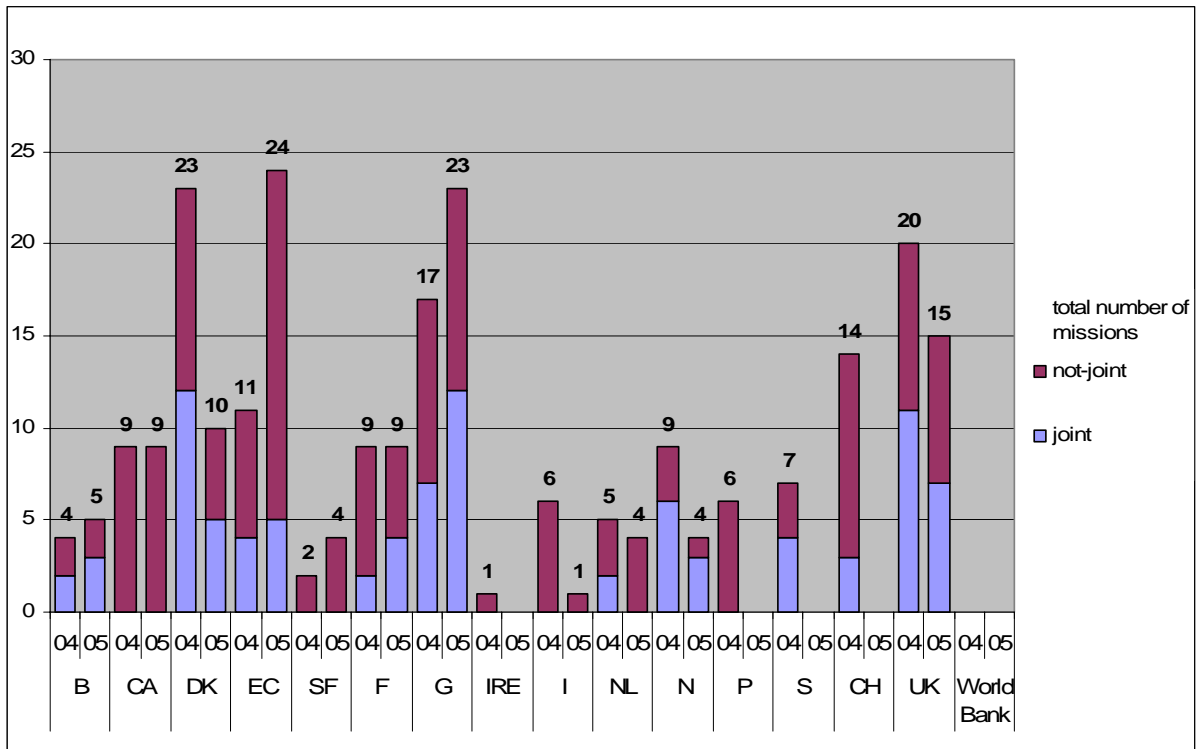
Administrative burden

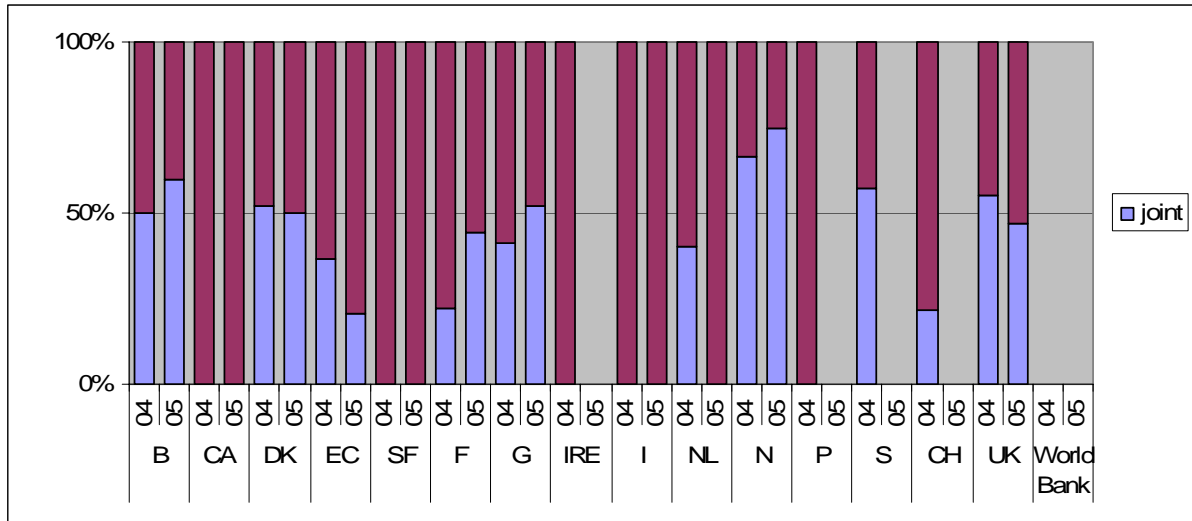
(Note: the following numbers are at best indicative, since the World Bank did not provide numbers. Considering that their missions constituted 40% of last survey's total, their inclusion would change the overall picture considerably.)

Out of 143 reported missions in 2004, 54, or 37%, were declared as *joint missions* with other donors. This total represents an average of more than 2.5 missions per week from just 16 donor agencies – without including World Bank missions! The last survey did not indicate an increase for 2004 but a considerable increase must be assumed (142 missions were planned for 2004, including the World

Bank). This can be partially attributed to the fact that some donors did not give any forecasts for 2004 (similar to the situation today, where a number of donors have not yet planned their missions for 2005) – this category accounts for an additional 45 missions. Furthermore Canada (nine missions) was not part of the last survey and the UK conducted 12 more missions than planned. Therefore the planned missions for 2005 should be taken as a vague indication only: 108 missions are planned, with slightly less than in 2004 being joint missions (36%). Four donors give no numbers with respect to their plans in 2005. The following graph shows that the increase of 17% joint missions in 2003 to 37% in 2004 is due to an overall increase of joint missions. For 2005 the ratio seems to remain the same. (→ 5.1)

Graph 5: Total missions for 2004 and 2005



Graph 6: Share of joint missions 2004 and 2005 (relative)

In 2004 only four donors conducted 50% or more of their missions jointly with others. This share is likely to remain the same for 2005. (→ 5.1)

In 2004 a majority of donors practiced mostly *joint analysis with the GoM and other donors* (ten countries report mostly joint analysis with both the GoM and other donors: Belgium, Canada*, Denmark the EC, Ireland, the Netherlands, Norway, Sweden, Switzerland and the UK). Most countries report an unchanged level of cooperation with the GoM and other donors. Exceptions to this include the World Bank, which reports mostly joint analysis with the GoM and only some with other donors, and Germany, which also reports some joint analysis with other donors but little with the GoM. Italy is the only country to report little joint analysis with either. Switzerland's level of joint analysis depends on the specific project. Finland does not report any analytic activity. (→ 5.2)

Joint procedures are slightly less popular than joint analysis: eight donors report mostly joint procedures with both the GoM and other donors (Belgium, the EC, Ireland, the Netherlands, Norway, Sweden, Switzerland and the UK). Italy, Portugal and Switzerland (which again differentiates the extent of its cooperation according to project) indicate some joint procedures with both the GoM and other donors. Denmark indicates mostly joint procedures with the GoM and some with other donors, Germany some with other donors and few with the GoM. The World Bank is the only PAP which lists few joint procedures with either the GoM or other donors. Canada* and France report only joint procedures with the GoM, while Finland reports only joint procedures with other donors. (→ 5.3)

Delegated cooperation is slightly less used than reported in the baseline survey: only three donors (compared with four last time) report managing funds for other agencies (Norway, Switzerland and the UK). Neither the Netherlands nor Ireland, which both considered the option the last time, has started the practice. In addition, Denmark and Finland report written agreements to perform specific tasks on behalf of other agencies. With respect to fund management for others, Germany and Ireland as well as the initial three countries indicate plans for delegated cooperation in 2005/2006. Canada* also indicates being open to explore opportunities. The EC has ongoing discussions with some member states with respect to delegated cooperation in agriculture. As in the baseline study, Switzerland is still interested in discussing rotation in delegated management. Norway and Finland will continue their current mode of cooperation, while Belgium and Sweden have no plans to use delegated cooperation. (→ 5.4)

Most donors (except Canada* and Finland) mention some *other forms of inter-donor cooperation*, which mainly revolves around activities in specific sector working groups, engagement at the multilateral level, agreements with other donors and efforts to develop and implement common procedures. Furthermore, the Netherlands and France mention that they reduced the numbers of sectors in which they are active, and Denmark reports the intention to do the same. Belgium plans to focus its new programme almost exclusively on general budget support. (→ 5.5)

Conclusions on administrative burden: Overall, the situation is unchanged. The evidence reported above suggests a significant untapped potential for reducing administrative burdens on the GoM. The percentage of joint missions seems to have stabilised but the figures are very incomplete and therefore unreliable. However, the absolute numbers of missions seems to have increased, which is a cause for worry. Joint analysis is done most frequently while the adoption of joint procedures has more or less stagnated. More important, from an initially low level, delegated cooperation has actually slightly decreased. This result is consistent with the analysis in 2.1 above, revealing increased diversity of sectors reported. Therefore, the conclusion of the baseline survey has to be repeated: the PAPs will have to make a deliberate effort to reduce administrative burdens. It is not enough to do so case by case, as indicated by a number of other forms of inter-donor cooperation. The reduction of administrative burdens should be declared a strategic objective by donors and an action plan developed accordingly.

Capacity building

Four donors (Canada*, Finland, France and the Netherlands) do not report any *capacity building measures in 2004* related to the provision of budget support.

SISTAFE constitutes a major effort: Denmark, the EC, Norway, Sweden and the UK, already mentioned in the last report, are joined by Belgium. Furthermore, joint supports to statistical capacity-building continue (Denmark, Italy, Norway, Portugal and Sweden)⁸. Decentralised planning and financial management is supported by Ireland, Norway, Switzerland and the World Bank. Poverty analysis and monitoring in DNPO is supported by Denmark, the EC, Switzerland and the UK. Other specific support which is mentioned includes:

- Enhancing dialogue between the PAPs and GoM (Germany);
- Reinforcement of the Documentation Center at DNPO (EC);
- e-government initiative (Italy);
- Gabinete de Estudos (Norway, Sweden and Switzerland).

This listing is most likely incomplete, as a number of initiatives which are supported by several donors were sometimes only mentioned by one, suggesting that some donors did not list their activities in full detail. (→ 6.1)

Only two donors (Canada*and Finland) do not mention any intention to support *new capacity building initiatives in 2005/2006*. Seven PAPs (EC, Germany, Ireland, Italy, Norway, the UK and the World Bank) indicate that their support for the coming years will be more or less the same as in 2004. In addition the following new plans are described:

- Belgium might contribute to technical assistance if requested by the GoM and in consultation with other donors;
- The Netherlands will, among others, be more closely involved in the study of fiduciary risk;
- Portugal is designing a small training programme in public finance management;
- Sweden plans a Monitoring and Evaluation framework in Niassa. (→ 6.2)

Conclusions on capacity building: Capacity building continues to be done in many areas related to budget support provision and the continuous commitment of donors in specific fields is an indication of their understanding that institutional development and capacity building are long term endeavours. While appreciating the efforts to strengthen GoM capacity, technical assistance as an aid modality is not yet up to the standards of the *Paris Declaration*. Based on a GoM long-term vision, consideration should be given to the establishment of joint funding arrangements, such as a Common Fund for Technical Assistance, to which all PAPs would contribute. Contributions to this fund could be committed at the same time as commitments for general budget support. The

⁸ Interestingly “Statistics” is not mentioned as a sector in the table 1.4, where it was mentioned in the baseline survey.

uses to which such funds could be applied would need to be carefully defined and agreed with government.

2.2 Monitoring the PAPs' PAF

The PAPs' PAF is a unique and innovative step, intended to contain the PAPs' main obligations in a nutshell. The PAF matrix was agreed at the September 2004 Mid-Year Review as the result of a period of consultation with the GoM and among the PAPs. It is based on the results of the 2004 Baseline Survey of PAP performance in 2003, which was performed by an independent team of consultants (Gerster and Harding, 2004). The first section of the matrix reflects commitments PAPs signed up to in the MoU. The second section reflects broader aid effectiveness objectives to be monitored. These are not specifically set out in the MoU but reflect the determination declared by PAPs in the MoU to work in the spirit of NEPAD, the Monterrey Consensus and the Rome Declaration on Harmonisation.

The PAPs' PAF matrix – a mirror of 2004 performance

1. Indicators on core MoU donor commitments

Areas of Concern	Objectives	Activities	Indicators	2003 actual	2004 target	2004 actual	2005 target	2006 target
Predictability	Short-term predictability of BS/BOPs improves	<ul style="list-style-type: none"> Donors agree with MPF on disbursement schedules for year n+1 by 31 December of year n 	1. Share of donors disbursing according to agreed schedule of disbursements and commitments (subject to no breach of underlying principles)	40%	>60%	80%	>80%	100%
			2. Same as (1) but in terms of the % of total BS/BOPs		>60%	89%	>80%	100%
		<ul style="list-style-type: none"> Donors inform GoM of commitments within four weeks of the annual review and do not change the size of commitments afterwards Donors confirm commitments for year n+1 by 31 August (exceptions exist in MoU Annex 10) 	3. Number of instances of agencies NOT meeting these commitments as stated in the MoU (taking account of MoU exceptions)	n.a.	0	1	0	0
	Medium-term predictability of BS/BOPs improves	<ul style="list-style-type: none"> Donors commit funds on a multi-year basis 	4. Share of donors with a multi-year indicative commitment	60%	>70%	81%	>80%	>90%
Alignment & Harmonisation	Full alignment and harmonisation of BS/BOPs in the spirit of the 2004 MoU	<ul style="list-style-type: none"> Reduction of bilateral conditions, bilateral administrative and reporting requirements, and bilateral legal and statutory requirements 	5. Share of donors strictly adhering to the common conditionality framework (PES PAF matrix)	87%	87%	87%	>90%	>95%
			6. Share of donors with bilateral exceptions in the MoU (Annex 10)	n.a.	53%	50%	<55%	<55%

Areas of Concern	Objectives	Activities	Indicators	2003 actual	2004 target	2004 actual	2005 target	2006 target
		<ul style="list-style-type: none"> Harmonise response mechanisms 	7. Number of donors NOT using the core MoU response mechanisms (disbursement in year n+1 based on performance in year n-1)	n.a.	3	3	3	2
Administrative burden	The administrative burden on GoM related to the number of visits on BS/BOPs and overlapping activities is reduced.	<ul style="list-style-type: none"> The number of missions related to BS/BOPs is reduced Donors increasingly use joint missions 	8. Number of missions related to BS/BOPs is reduced	?	2 (JR & MYR only)	? ⁹	2	2
Transparency	PAPs fulfil their information requirements according to obligations (MoU Annex 3, §3)	<ul style="list-style-type: none"> Provision of quarterly report on release of Programme Aid within 2 weeks of the end of each quarter 	9. Number of instances of donors NOT meeting these commitments	n.a.	0	3	0	0
Capacity building	Capacities to design, implement, monitor and evaluate GoM PARPA are strengthened	<ul style="list-style-type: none"> Explore the possibility for a long term joint strategy for Technical Assistance 	10. An issues paper exploring the possibility for a long term joint strategy for Technical Assistance is drafted in 2005 and discussed with GoM	n.a.	/	/	yes	/

	On track or better than targeted
	No data, not applicable
	underperformance

⁹ Could not be assessed due to lack of data. Question 5.1 of the questionnaire covers all missions, not only those for BS/BOPs.

2. Monitorable indicators

Areas of concern	Objectives	Activities	Indicators	2003 actual	2004 target	2004 actual	2005 target	2006 target
Predictability	Short-term predictability of BS/BOPs improves	<ul style="list-style-type: none"> Based on performance in year n-1 donors commit funds for year n+1 at the start of the GoM budget preparation cycle 	11. % Total BS/BOPs committed for year n+1 within four weeks of the year n Joint Review and for which disbursement in year n+1 is guaranteed unless there is a breach of underlying principles ¹⁰	n.a.	55% (estimate)	62%	tbm	tbm
	Medium-term predictability of BS/BOPs improves	<ul style="list-style-type: none"> Donors commit BS/BOPs in line with GoM planning horizon 	12. Number of donors providing indicative multiyear commitments of BS/BOPs on a rolling basis in line with the MTF	0	tbm	0	tbm	tbm
Portfolio composition	Donors make use of the most effective aid modalities	<ul style="list-style-type: none"> PAPs and GoM evaluate the effectiveness of BS/BOPs as a modality in terms of the objectives stated in section 1 and 2 of the MoU Where appropriate donors increase volume of BS/BOPs and turn other aid modalities into BS/BOPs 	13. Share of BS/BOPs in PAPs' total aid (excl. aid to NGOs and private sector)	35% ¹¹	tbm	32% ¹²	tbm	tbm
Administrative burden	Donors contribute to reduction of GoM burden	<ul style="list-style-type: none"> Donors manage funds for other donors or conclude agreements to perform tasks for other agencies 	14. Number of examples of delegated cooperation among donors	4	tbm	3	tbm	tbm
		<ul style="list-style-type: none"> Donors co-ordinate sector work 	15. Number of sectors with 10 or more PAPs is decreasing	3	tbm	3	tbm	tbm
		<ul style="list-style-type: none"> Donors pool project funding 	16. Pooled funding/stand alone projects ¹³	1.2 ¹⁴	tbm	0.3 ¹⁵	tbm	tbm

¹⁰ Taken to be total BS/BOPs minus the variable tranches and WB BOPs

¹¹ The percentage does not exclude aid to NGOs and the private sector as part of total aid because of a lack of data. Belgium, Germany and Portugal are excluded as they did not yet disburse budget support in 2003. Denmark is excluded from the calculation because the required information was not provided.

¹² The percentage does not exclude aid to NGOs and the private sector due to lack of data. Canada and Denmark are not included as they did not disburse budget support in 2004.

Areas of concern	Objectives	Activities	Indicators	2003 actual	2004 target	2004 actual	2005 target	2006 target
		<ul style="list-style-type: none"> Sector aid is made more harmonised, aligned, and predictable 	17. Number of sectors with an MoU containing comparable donor commitments as the PAP's MoU	0	tbm	0	tbm	tbm
			18. Number of sectors with a donor performance matrix	0	tbm	0	tbm	tbm
		<ul style="list-style-type: none"> Donors respect GoM core business 	19. Donors agree 'quiet periods' with GoM	/	tbm	no ¹⁶	tbm	tbm
Transparency	Donors' BS/BOPs related analytic work on Mozambique is shared with GoM	<ul style="list-style-type: none"> GoM participates in study Analytic work is done in Portuguese or translated into Portuguese 	20. Share of studies timely available in Portuguese	69%	tbm	87%	tbm	tbm
	Transparency on aid flows is improved	<ul style="list-style-type: none"> Donors & GoM negotiate & agree on aid reporting standards PAPs report aid flows to DCI 	21. Share of PAPs reporting aid flows to DCI based on an agreed format and definitions	60%	tbm	56%	tbm	tbm

tbm = to be monitored

na = not applicable

BS/BOPs = Budget support and Balance of Payments Support

	On track or better than 2003
	Not applicable, no change
	Underperformance related to 2003

Overall assessment

The PAPs' performance, as expressed in the PAF matrix, demonstrates progress on the aid effectiveness agenda in 2004. These improvements are particularly noticeable in predictability, alignment and harmonisation. New country analytic work is increasingly available in Portuguese. However, it is recorded in Section 3 that the GoM does not perceive as much progress in predictability as donors

¹³ Ratio in financial terms.

¹⁴ To avoid definition problems, 'pooled funding' includes 'sector budget support' and 'basket funding'. 'Stand alone projects' refers to 'Project aid' in the baseline study. Due to data problems (particularly clarity around what is meant with 'Other') the ratio is calculated based on information from 6 donors only.

¹⁵ For definitions, see note 15. Canada and Denmark are not included as they were not disbursing budget support in 2004. The ratio is calculated based on information from 11 donors; for Germany, Norway and Switzerland data were missing.

¹⁶ A dialogue on "quiet periods" took place in 2005 only.

claim in their self-rating. The PAFs' PAF also makes a number of weaknesses obvious, particularly in the area of transparency. About one third of donors are not meeting the MoU requirements on quarterly reporting and reporting on overall aid flows is weak. Efforts to relieve administrative burdens on the GoM did not gain momentum: delegated cooperation among donors, despite starting at a low level, decreased. Project aid modalities continue to dominate.

While acknowledging the innovative step to design a PAF for the PAFs, it should be noted that its structure, the indicators chosen and their target values do not constitute an ambitious framework. Splitting the PAF into two parts – Part I with “indicators on core MoU commitments” and Part II assembling broader “monitorable indicators” – weakens the overall thrust of the exercise. Trying to limit the outreach of the PAFs' PAF essentially to the DBS instead of extending it to the overall portfolio cannot be the way into the future. Why has the promising concept of a PAFs' PAF taken off but not yet reached cruising altitude? We see three main reasons:

- There is a limited ownership of the PAFs' PAF on the donors' side. The PAFs' PAF is hardly perceived and used as a strategic instrument among the donors to further improve the individual performance. Only one (Germany) explicitly mentioned the PAFs' PAF as an internal tool for debate.
- In other than formal terms, the GoM was not really involved in the construction of the PAFs' PAF for 2004 but simply took note of this new instrument. It is obvious that the PAF matrix will hardly contain ambitious targets measured by clear indicators if there is no real negotiation with challenging partners around the table.
- The basic asymmetry and power imbalance of the aid relationship cannot be overruled by a technical tool like the PAFs' PAF. A weak donor's performance is not followed up by sanctions comparable to the threat of interruption of funding if the GoM does not perform well.

Self-discipline among donors is, therefore, crucial to produce tangible results. Instead of limiting themselves to core MoU commitments, donors should construct an ambitious PAF covering their total portfolio, in line with the *Rome* and *Paris Declarations* on aid effectiveness which their governments have signed. Section 4 offers a number of proposals on how to go forward.

2.3 PAFs' performance categorisation

One of the basic differences between the PAFs of the GoM and the PAF is that the latter only applies to the donors' collectively. The GoM suggested last year

that the PAPPAs exercises should result in rankings of individual donors by the quality of their performance. For peer pressure to exert maximum leverage for improved performance there is, in principle, much to be said for this. The difficulty, of course, lies in the multi-dimensional nature of donor performance and the inevitable subjectivity of the weightings applied to the various criteria of performance. It seems appropriate to move forward on this, to categorise the donors, differentiating between weak, middle, and strong performers-harmonisers, and to establish at-a-glance performance profiles in pursuing the aid effectiveness agenda for individual donors. Criteria taken into account are – with the exception of one of eighteen elements – based on past performance and not on promises for the future, similar to the assessment of GoM performance. The criteria chosen permit judgements on aid effectiveness and the commitment to implement the *Rome* and *Paris Declarations*. The data source is the questionnaires completed by the PAPs.

We would like to emphasise the rather preliminary nature of the following. It should be viewed as a first attempt and is presented as a basis for discussion by all interested parties, including the GoM. It is clear from the many detailed comments we received on the equivalent presentation in the first draft of our report that this is an aspect in which individual donors, not surprisingly, have a very active interest and have views of their own on how such an exercise should be structured. We are pleased to say, however, that few objected in principle to the conduct of such an exercise. We recommend that the following results, and the rules from which they were derived, should be the subject of active debate, so that those who conduct the next PAPPAs exercise can be given guidance on how they might modify the procedures followed here. On the other hand, we are firm about the desirability of undertaking such assessments.

The rules we adopt are that for each criterion fulfilled one point is allocated. The maximum possible is 16 points. The categories created are (1) strong performers (13 –16 points); (2) middle performers (5-12 points; with two subcategories for upper and lower performers); (3) weak performers (0-4 points). The criteria used are as follows:

- (1) Portfolio: share of programme aid¹⁷ >66% of portfolio (1.3 (2));
measures taken to increase on-budget flows (1.3 (3));
involvement in three or less sectors (1.4).
- (2) Transparency: information delivered to DCI (1.2att);
full disclosure of portfolio according to DCI standards
(1.2att).

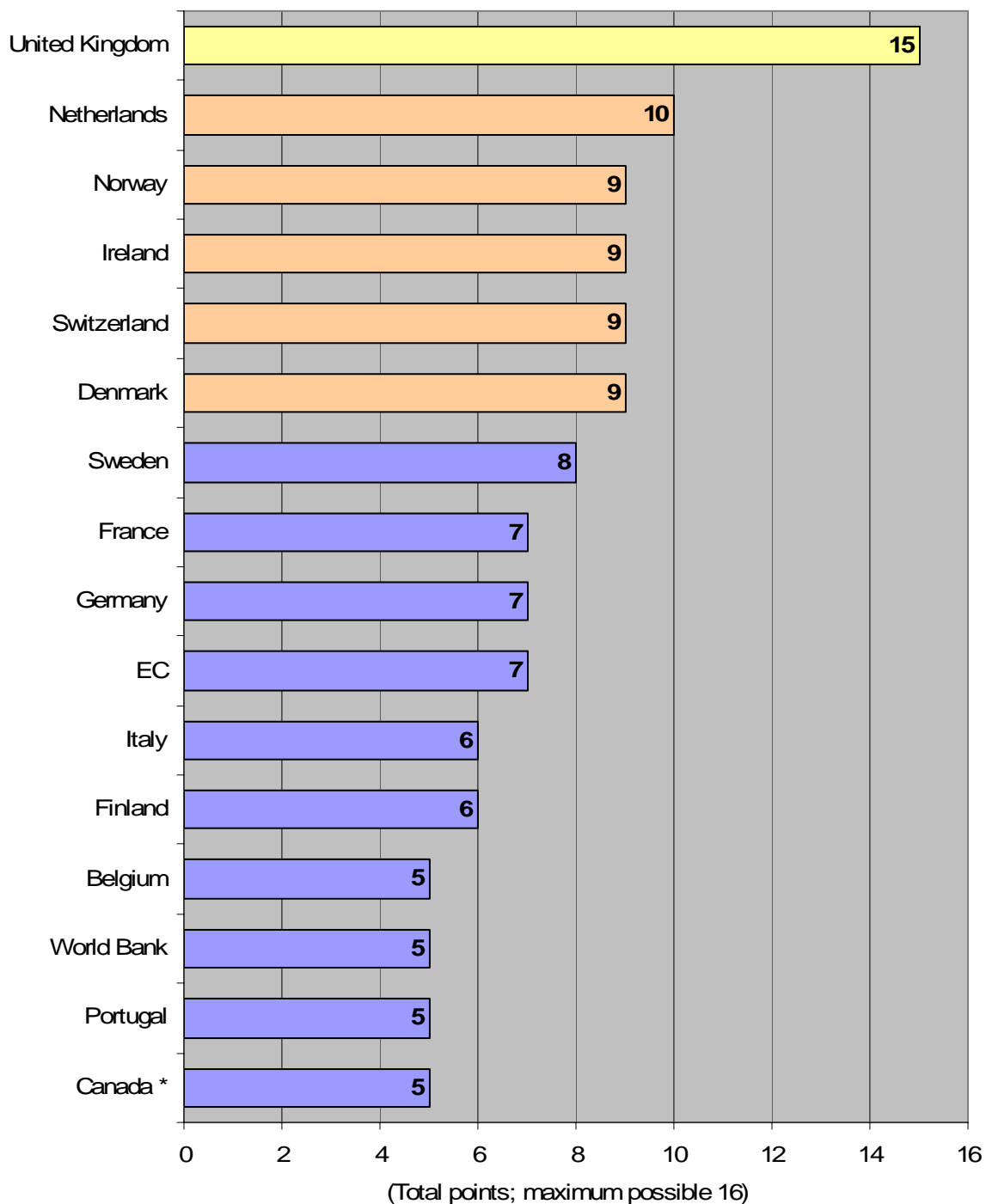
¹⁷ General budget support, balance of payments support, sector budget support, basket funding.

- (3) Alignment: donor follows fully/substantially GoM cycle (2.2);
no exceptions according to Annex 10 MoU.
- (4) Predictability: 'multi' (three or more) year agreement in force (3.1);
disbursements according to agreed schedule (3.3 (a));
early disbursements (1st quarter) (3.3c).
- (5) Admin burden: increase in joint missions from 2003 to 2004 (5.1);
delegated cooperation yes (5.4). leadership role¹⁸ in G-16
process.
- (6) Bonus: special efforts in capacity building (6.1);
share in overall DBS volume of PAPs >10%;
major steps taken for improvements 2005/06¹⁹..


¹⁸ Member of troika plus, and/or focal donor of working group.

¹⁹ This criteria refers to significant strengthening of programme aid in preparation for 2005/06 (1.3); Further measures to align for 2005/06 (2.6); move to multi-year agreements for 2005 and later (3.1); Firm commitment to improve reporting along GoM lines in 2005/06 (4.2/1.2); firm plans for delegated cooperation in 2005/06 (5.4 b+d).

Graph 7. Donor aid effectiveness performance in Mozambique 2004: categorisation by group²⁰



²⁰ Annex 1 displays the table with the detailed allocation of points according to the criteria mentioned.

 Strong performers (13 – 16 points)	 Lower middle performers (5 – 8 points)
 Upper middle performers (9 – 12 points)	 Weak performers (0 – 4 points)

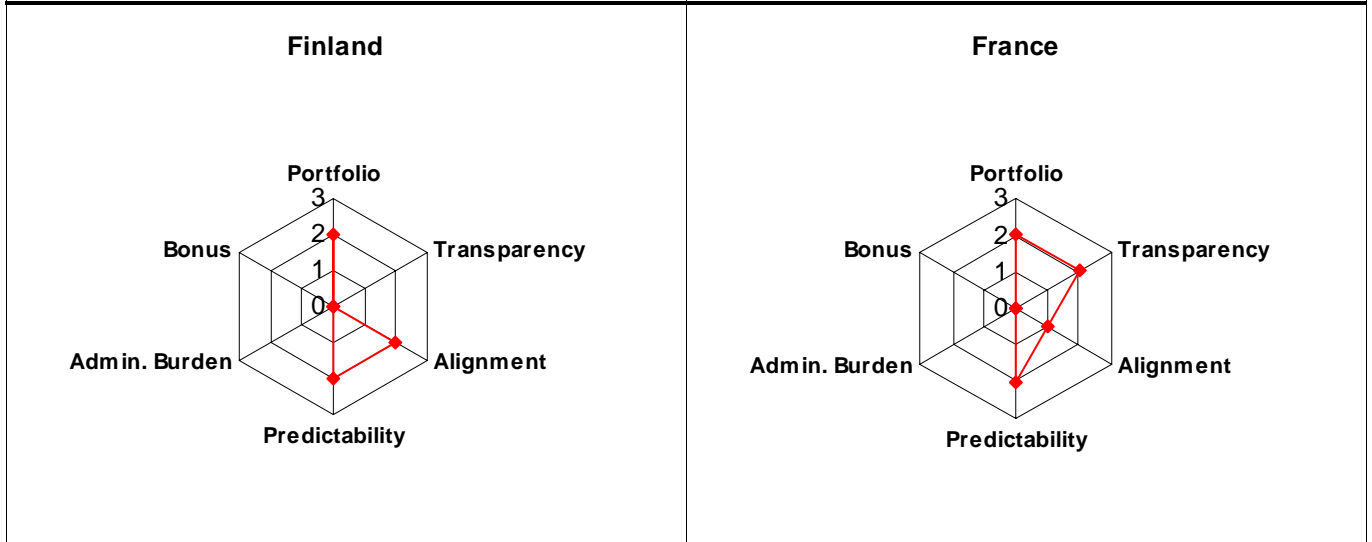
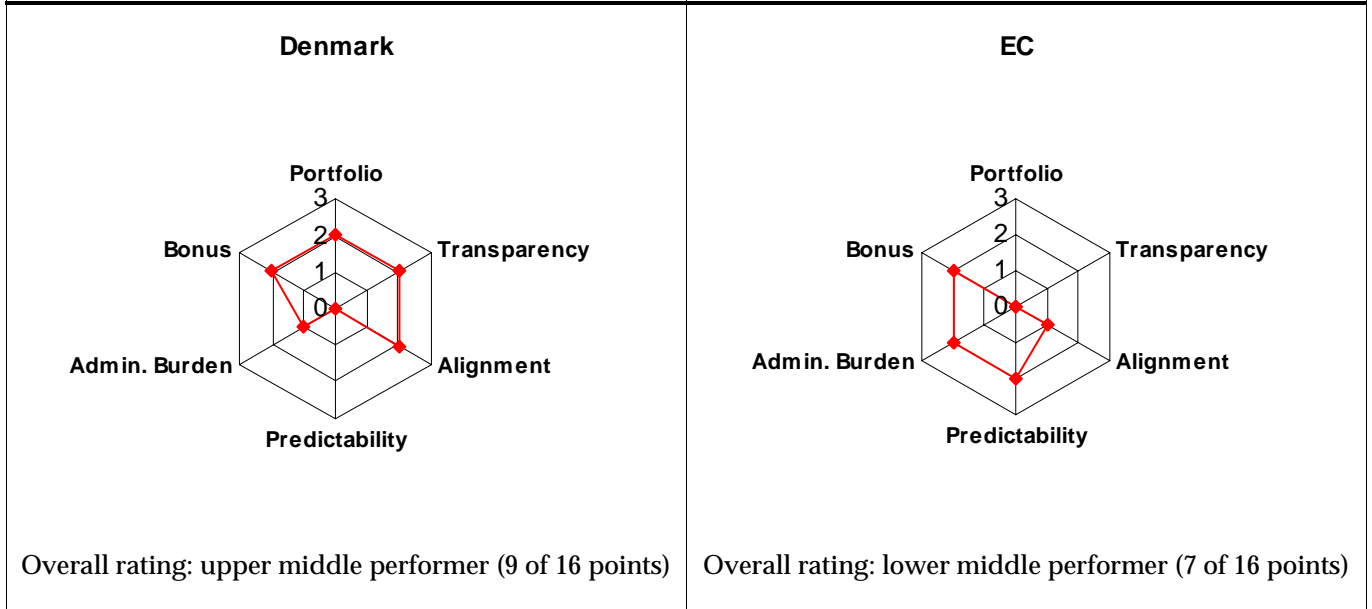
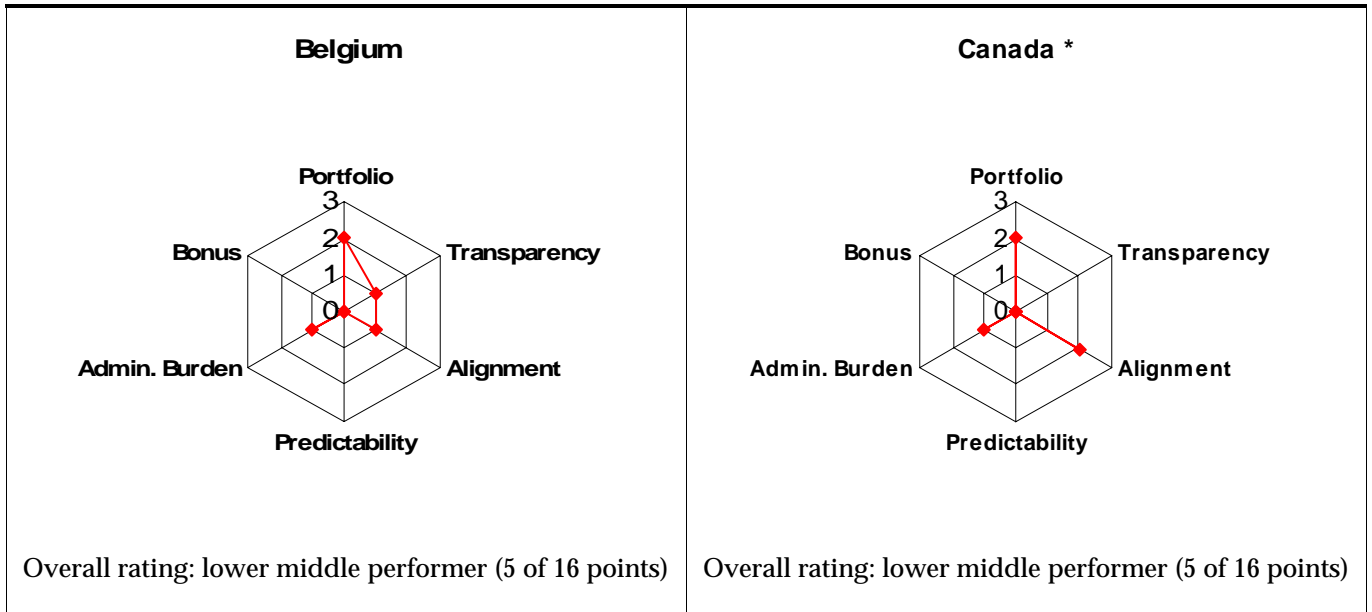
It is obvious that the criteria chosen as a yardstick to evaluate performance 2004 are ambitious. Even in the progressive environment of Mozambique, only the United Kingdom managed to reach the category of a 'strong' performer. The targets can be reached but they require ownership by the donors and deliberate efforts to pursue them. The rest of the PAPs fall into a large category of 'middle' ranking performers. Five (the Netherlands, Norway, Ireland, Switzerland and Denmark) constitute the group of upper-middle performers. The rest – more than half – are in the lower-middle category. No country falls into the category of a 'weak' performer.

The graph displays widely varying efforts across the different areas of aid effectiveness. It should be borne in mind that the average commitment to the aid effectiveness agenda by PAPs is likely to exceed the average commitment of those staying at a distance. Equally, the message is that there still is a long way to go and considerable space for improvement. The PAPs should analyse forthcoming steps collectively while, in addition, each donor individually should review what further steps are desirable.

Individual PAPs' performance profiles

The donor categorisation permits us to identify the strengths and weaknesses of the 2004 performance in aid effectiveness for each PAP individually, based on the key criteria used to categorize the donors.²¹ These profiles provide a comparative picture and may be used as a strategic tool to formulate individual targets for improvement. The following cobweb diagrams provide a convenient way of summarizing the information donor-by-donor.

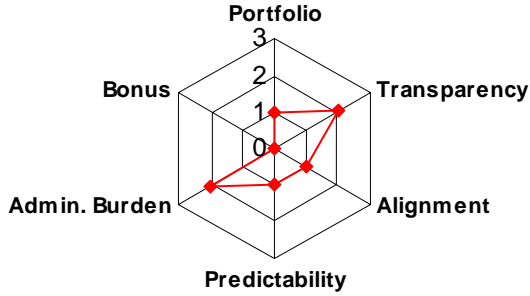
²¹ The data basis is to be found in Annex 1.



Overall rating: lower middle performer (6 of 16 points)

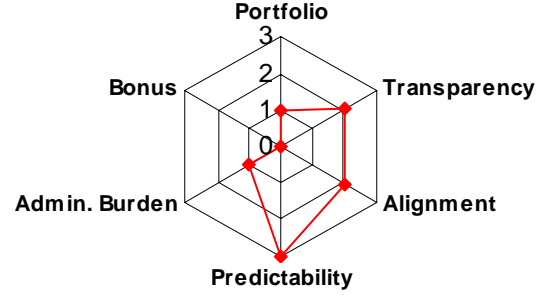
Overall rating: lower middle performer (7 of 16 points)

Germany



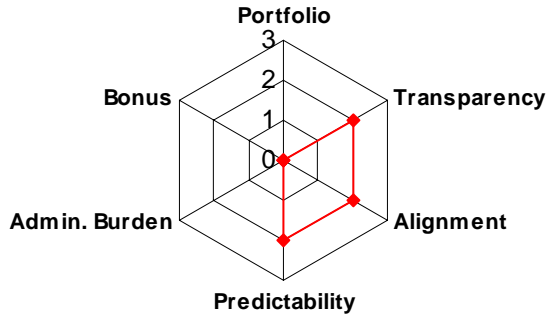
Overall rating: lower middle performer (7 of 16 points)

Ireland



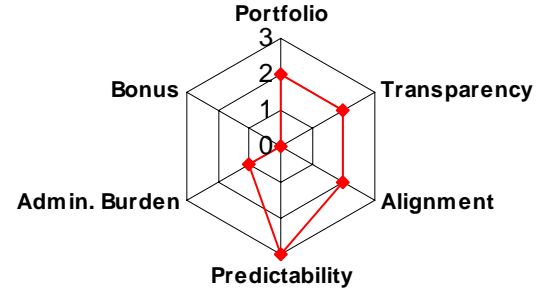
Overall rating: upper middle performer (9 of 16 points)

Italy

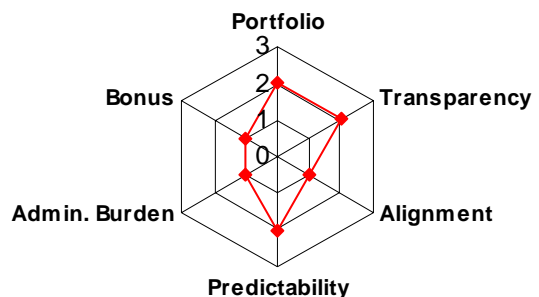
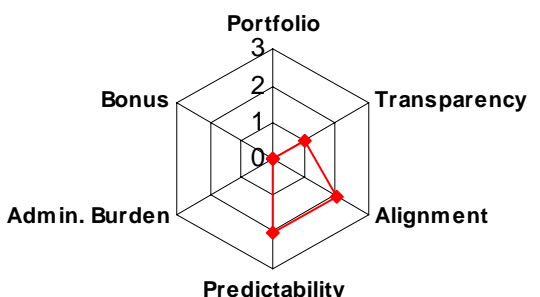
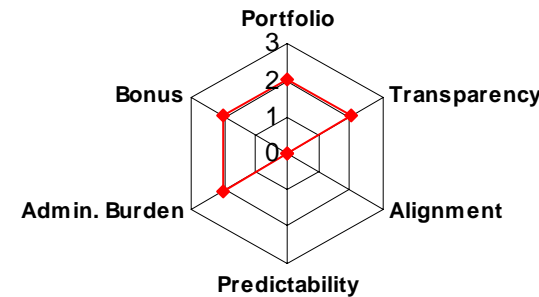
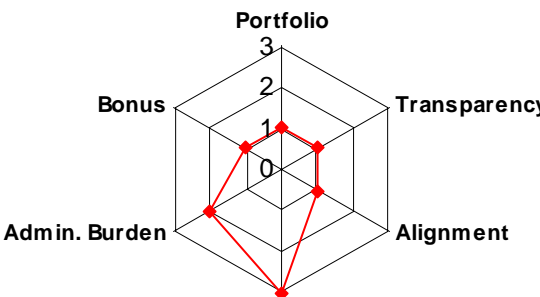


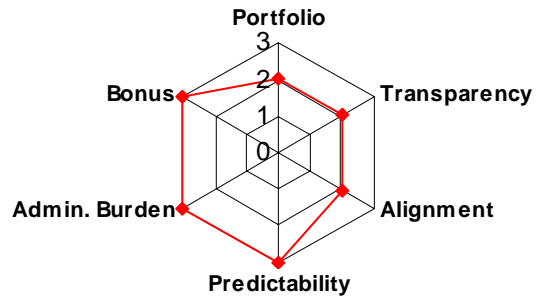
Overall rating: lower middle performer (6 of 16 points)

Netherlands

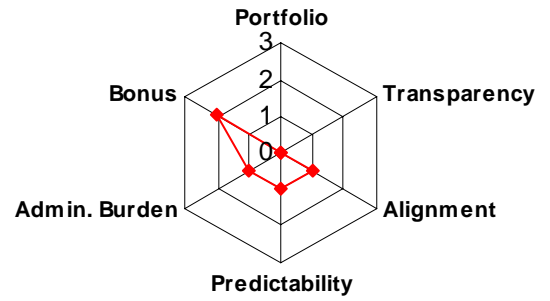


Overall rating: upper middle performer (10 of 16 points)

<p style="text-align: center;">Norway</p>  <p style="text-align: center;">Overall rating: upper middle performer (9 of 16 points)</p>	<p style="text-align: center;">Portugal</p>  <p style="text-align: center;">Overall rating: lower middle performer (5 of 16 points)</p>
<p style="text-align: center;">Sweden</p>  <p style="text-align: center;">Overall rating: lower middle performer (8 of 16 points)</p>	<p style="text-align: center;">Switzerland</p>  <p style="text-align: center;">Overall rating: upper middle performer (9 of 16 points)</p>

United Kingdom

Overall rating: strong performer (15 of 16 points)

World Bank

Overall rating: lower middle performer (5 of 16 points)

3. Mozambican Perceptions

While the bulk of this report's assessment of PAP performance is based on the more-or-less objective evidence provided by our survey, as augmented by interviews, it is desirable also to consider the view that is taken of the DBS mechanisms and donors within Mozambique - both at the official level and in civil society. In particular, it is important to get the views of GoM officials on how the DBS mechanisms are working and what they are doing to their own work-loads. We therefore conducted a, necessarily limited, number of interviews in order to solicit views on these and related questions, with the results reported below.

3.1 Views expressed

Direct budget support

In all interviews there was clear and strong support for increasing the share of aid going through DBS in accordance with rules set up by the MoU. The main reasons for this were: (i) DBS enables and facilitates accountability from government and donors to all interested parties; (ii) it facilitates harmonization of interventions and predictability of disbursements - both were regarded as having improved since MoU was adopted (and see Section 2 above), though they are still unsatisfactory; (iii) it strengthens in-government coordination, negotiation and planning, and the role of planning and the budget in governance, as government agencies learn to look inside government for solutions rather than looking to outside, parallel negotiations with donors; (iv) as a result, it strengthens the relevance of policy priorities and focuses policy; (v) it improves coordination of development aid; and (vi) it has the potential to lower transactions costs.

However, it was also emphasized to us that increasing the share of DBS aid holds some significant risks. First there is a perceived danger of "ganging up" by donors, as greater coordination among them strengthens their already powerful bargaining capability. There is the possibility of all disbursements being stopped in case of bad performance by government with respect to any of the underlying principles; and it is more difficult to use differences between donors to balance the unequal bargaining power between government and donors. Second, a higher share of DBS aid is seen as possibly exacerbating government management weaknesses, as alternatives outside the budget may be reduced. This may affect timely disbursements of funds to sectors and provinces, which could create serious friction between sectors if public revenue (aid and own revenues) falls short of expectations. As a result, line ministries have mixed

feelings about an increasing share of DBS aid: they can see its positive sides, but they do not trust the management system to the extent of feeling comfortable with limited and reducing options to negotiate with donors at sectoral level.

Hence, it was emphasized that increasing the share of DBS aid will have to be a gradual process during which government management and accountability capabilities, as well as its ability to coordinate and implement policy, plans and budget decisions, also improve very significantly. It was mentioned that the implementation of SISTAFE is a very important step in this process, but not the only requirement. There is need for a transition phase and a balance between government capabilities, donor harmonization and predictability, and the speed of movement towards DBS.

Predictability of disbursements

Although predictability of disbursements was regarded as having improved in 2004 relative to 2002-03, for both DBS and SWAp-based aid, it is still seen as unsatisfactory. According to government representatives, in 2004 funds were disbursed beyond expected levels, but only because of a large up-front World Bank disbursement towards the end of the year. This meant that for the first two thirds of the year there were limited disbursements. The first quarter of the year is always the period when tax revenue is low due to the economic cycle.

The fact that DBS accounts for only a third of total aid means that a very significant part of the external resources made available for public development programs are not necessarily in line with the MoU. Predictability was seen as a bigger problem with non-DBS aid.

Late and unpredictable disbursements were seen as having strong economic impacts, namely: (i) cuts in overall expenditure, particularly of investment; (ii) increasing domestic debt and debt service; (iii) the costly emission of Treasury Bills (TBs), which tends to give an incentive for domestic saving to be diverted from productive investment because of the higher returns obtainable from TBs; (iv) increase in interest rates; (v) monetary and exchange rate instability associated with defensive responses by both government and the central bank (for example, the incentive to increase external reserves to the point of squeezing the economy).

Some delays in disbursement were recognised as due to government not performing with respect to crucial indicators. However, often they were also seen as due to problems at donor level (weak management, uncertainty in periods of elections, and lack of clarity and harmonization with respect to criteria that have to be fulfilled by government for disbursements to take place).

Harmonization and alignment

Harmonization and alignment of donor intervention and criteria were seen as having improved since the MoU, because the signatories cannot impose bilateral conditionalities, procedures and performance indicators outside the MoU, apart from exceptions listed in its Annex 10. However, the mechanism to deal with differences in interpretation and evaluation amongst donors and between donors and government, with respect to performance indicators, is not yet seen as entirely satisfactory. In case of conflict, bilateral agreements apply but sometimes these are not totally in line with the MoU.

Additionally, it was suggested that individual donors have gone beyond the MoU and either delayed disbursement or not disbursed at all for reasons that are not clearly within the spirit or letter of the MoU. It was stated that in each of the last 3 years, at least one important donor has delayed or not disbursed in such unclear circumstances.

Ownership with respect to indicators of performance

The MoU's indicators of government performance were viewed as reflecting negotiations between donors and government and hence as capturing government priorities as well as donors'. Nonetheless, it was stressed to us that capabilities and power relations between donors and government are clearly asymmetrical in favour of donors. Thus, negotiations are not taking place on a level playing field. Nevertheless, there was recognition that the performance indicators for the government are related to desirable reforms, and to other activities that the government has to learn to do better. This said, the PAF matrix of indicators was regarded as still too elaborate and not well focused on the aspects that are crucial for the success of policy and reform, or for improving overall governance capabilities. Streamlining and simplification was regarded as being necessary, but that would require a clear understanding of what the crucial issues were for the success of the overall program.

Administrative burdens and transactions costs

The introduction of the MoU was seen as having reduced some of the administrative burden (with missions, evaluations, auditing, some harmonization of reporting and other evaluation instruments), but the overall burden on capacity-starved institutions is still excessive. The main reasons for the lack of significant progress in reducing the administrative burden were suggested as possibly including: (i) the high initial costs of establishing DBS mechanisms that are operational, tested and trusted; (ii) the co-existence of DBS with other modalities of aid, such that the full benefits of DBS with respect to

lowering transaction costs cannot yet be achieved, and will not be achieved before the share of other aid modalities is very significantly reduced in favour of DBS aid; and (iii) the large number of performance indicators and of individual donor exceptions.

Information flows between GoM and donors

It was claimed that reporting from government to donors has improved, as also to Parliament and civil society. Information sharing from donors to government, particularly with respect to non-DBS aid, was not seen as having improved as much. Information on DBS aid flows is captured by the Central Bank. Only a few donors comply with information requirements to DCI (see also Section 2 above).

The secretariat of the G-20 - an NGO umbrella organisation - emphasized that the role of civil society organizations is not only to monitor and evaluate, but to participate in the formulation and implementation of the programs. This did not happen with PARPA I but is expected for PARPA II, for which a plan of participation has been devised. Government officials emphasized that decisions that affect everyone have to involve the whole of the society, not only donors and the government.

Accountability and the role of Parliament

The criticism is sometimes expressed that Parliament has largely been left out of the processes associated with the DBS MoU. We pursued this with the Chair of Parliament's Committee for Planning and Budgeting and the responses threw a different light on the matter. It was asserted that Parliament has decided not to participate in specific forums in which government, civil society and donors negotiate and/or evaluate performance. Four reasons were presented for this: (i) such participation is not constitutionally defined as Parliament's mandate; (ii) Parliament thinks that the government should be held accountable to Parliament but should be allowed to organize itself and pursue its own lines of negotiation with its partners; (iii) past experience of participation of Members of Parliament in such forums has been embarrassing, as members tended to get involved in partisan discussions rather than focusing on the issues; (iv) Parliament does not negotiate with donors.

On this view, Parliament approves some government documents (e.g. the five year government program, the PES and the budget, sector policies, credits requested or paid by the government, specific reports, legislation) but only comments on others (PARPA, specific national programs). In the process of doing this, Parliament works through specialized committees, requests

information from the government, commissions external expertise and consults with civil society organizations, all according to its own agenda, but it does not as a Parliament participate in forums organized by the government and/or its partners.

However, these constitutional practices have not fully insulated Parliament from pressures arising from donor-government relations. Pressure has been felt in attempts to rush the approval of some legislation submitted by the government to the Parliament or to try to insinuate, occasionally, that after an agreement between the government and donors about a measure the role of the Parliament is only a formality. There have been disputes about forms or the speed of implementation of some reforms that have called into question the expected goals of the reform. One notable example was the apparently rushed programme of a large number of privatizations - about 40 in five years - which produced unsatisfactory results and created suspicions of cronyism or worse. The liberalisation of the cashew industry has been a bone of contention. There have also been controversies about specific current policies, as in the government's role in directly promoting rural trade and on the question of external debt cancellation.

Accountability and the position of civil society

Mechanisms have been devised to improve the participation of civil society organizations (CSOs) in the formulation, monitoring and evaluation of development programs. Examples of such improvements include the establishment of the poverty observatory (involving the government, CSOs and donors); the expected extension of such involvement to provincial and even district levels; the establishment of a mechanism and plan by which CSOs will participate in the formulation of PARPA II, instead of only being involved in monitoring and evaluation. In 2005, for the first time, CSOs will participate in the joint review undertaken under the terms of the DBS MoU.

Such improvements have resulted from CSO and donor pressures, as well as government willingness to support such changes. Information sharing and coordination between CSOs and government have improved. CSOs are trying to improve their capacities for participation - the recently created secretariat of the G-20, as a facilitating institution for information sharing amongst CSOs, is an example of an important, but as yet insufficient, step forward. Despite some positive moves, it is our impression that CSOs are still quite weak and that their ability to make a significant and consistent contribution to important issues of policy remain extremely limited. It was complained to us that donors talk a lot about the importance of CSOs but have not been clearly committed to supporting their development. We take up this issue later in this report (Section 5).

3.2 How much consensus about policy in Mozambique?

On the face of it, substantial and systematic conflict about policy orientation in Mozambique, and about the role of the donors, is significantly less than in other aid-dependent Africa countries that face similar external policy pressures. In our meetings with domestic institutions, the “fundamentals” of the economic approach, policies and program were not questioned, and the recorded cases of policy disagreement were on matters of detail or emphasis. Because this state of affairs differs from that in other African countries, we asked ourselves why this might be the case.

There are several possible answers. One is that there is truly a national consensus about the “fundamentals” of the economic policies and programs, because it is truly believed that the “established truth” about the current approach to economic reform is correct, or because it is believed that there is no alternative. Another possibility is that we interviewed the “wrong” institutions or people, from the point of view of coming into contact with alternative approaches that are substantially different from the “mainstream fundamentals” adopted in Mozambique – our choice of interviews may have been biased towards institutions and officials mostly concerned with the implementation of what has been decided, rather than with the direction of policy. Relatedly, the top officials of the institutions interviewed may have been so absorbed with the burden of executing reforms that they had no time and/or desire to question the policies they were implementing.

Another possibility is that we interviewed the institutions in the “wrong” context – we were evaluating performance of systems and mechanisms of implementation rather than of the policies being implemented and their overall socio-economic results. We did not specifically ask about such possible conflicts, because it was not our mandate or the focus of the study. Further, aid dependency and unequal bargaining power vis-à-vis donors make institutions and top officials cautious about using up political room for manoeuvre, time and energy in questioning what is, apparently, an established economic doctrine amongst donors that is unlikely to change in the short term. It is more likely that changes may occur during the implementation phase than on the conceptualisation one, because local institutions have power stemming from superior access to local information and because it is easier to make policy changes in response to reality.

Another possibility is that aid dependency is so high in Mozambique that it has created an attitude of “letting it go” with respect to policy orientation. As a result, local institutions and officials do not believe they could change fundamental policies even if they wished to do so. It is also possible that

interviewees did not sufficiently trust the independence of the evaluation exercise to be open about issues of fundamental controversy, and played safe by feigning alignment with established policy frameworks, even if they had preferences for other sets of approaches and policies. Lastly, local institutions and officials are likely to feel they neither have an alternative nor time or capacity to develop one solid enough to safeguard continuing inflows of aid. If capacity and time are limited, they may see no point in opposing or criticizing established policy frameworks.

We can only speculate about the likely relevance of such lines of explanation. Most likely, the reasons for the present lack of debate and controversy – if this impression is real – result from some mix of the possible answers given above. Or it may simply be that there really is a basic consensus. However, we would caution against assuming from an apparent absence of public controversy about economic policy that all is as harmonious as it appears. It would need a far more fundamental survey of opinions than we were in a position to attempt to establish the truth on this matter.

4. Strengthening donor performance assessment

4.1 General observations

In this section we review the adequacy of the MoU provisions for the assessment of donor performance, starting with issues of design and then taking up a miscellany of other issues. We should start by acknowledging that the DBS MoU, when compared with the situation in many other African countries, is relatively advanced, both in setting out donor commitments and in its provisions for the independent review of donor performance by the yardstick of those commitments. In this sense, Mozambique is in the vanguard of countries seeking to give practical meaning to the concept of mutual accountability. That should be a matter for real satisfaction. Our comments and suggestions below should not be interpreted as under-valuing what has already been achieved.

As a second preliminary remark, however, we urge all parties to recognise the fragility of the DBS arrangements. The value of the MoU to each party is the extent to which it constrains the actions of all in order to conform to a set of rules that regulate behaviour, increase predictability and set out ways of dealing with non-compliance on both sides. Especially in the early years of such an arrangement, it is extremely important that all parties behave in ways that are not only in compliance but which help to build the credibility of the processes and the trust on which, ultimately, programme aid must be based. We think a good beginning has been made in this regard but would like to urge all parties to

continue to bear such considerations in mind as the system establishes itself during the coming months and years.

The stakes are quite high because both the GoM and donors regard the move towards more DBS as relatively risky. For the GoM, there is the danger that major portions of budget revenues might suddenly be withdrawn or suspended, with major macroeconomic, fiscal and other implications. Achieving a high predictability of inflows is a crucial criterion in the eyes of the government. It is also conscious of the danger of excessive donor intrusion into policy-making through the PAF mechanisms. On the donor side, there is the danger that the GoM will not keep its side of the bargain, there are questions of 'fiduciary risk' and the possibility that aid feeding into general budget resources will not actually find its way to agreed high-priority beneficiaries.

4.2 Designing the PAPPA process

Turning now to issues of process, we are uneasy about the extent to which the PAPPA processes are seen as largely matters for the donors, with the GoM somewhat passive. We see an advantage in clarifying the status of the exercise in which we have been engaged, particularly as concerns the role of government and the transparency of the process. We suggest that the GoM should be involved in the selection of the independent consultants to undertake these assessments and that the consultants should formally be required to report to the GoM as well as the donors (although we appreciate that the reports do, in practice, go to the government). We would hope that GoM's ability and willingness to participate actively will increase as its capacities are strengthened.

We also recommend that, as a matter of routine, the PAP-PAF evaluation reports should be made publicly available, as was done with the baseline report on 2003. In order to increase the local credibility and transparency of the exercise and to bring a national perspective to the assessment, we also believe that at least one of the consultants should on all occasions be Mozambican (but independent of GoM), as was the case this year. At the same time, we strongly believe in the desirability of continuing with independent assessment of donor performance, as against a joint GoM-donor review. If it were to take the latter form, we fear that it would tend to become donor-dominated, thus reducing the credibility of the exercise.

We referred earlier to the superficiality of what we have been able to do, given the time and other constraints under which we have worked. Since the process is new, it is probably desirable to continue it as is for 2006, in order to let the system bed down and become accepted, although we below make suggestions for improvements to the questionnaire that was applied this year. But after next year, in the light of accumulated experience with the assessment of PAPs'

performance, the parties should consider the possibility of perhaps only doing a limited, questionnaire-based, exercise every other year, or in two years in every three, but in the other years commissioning a more substantial review mission which has the time to go into greater depth than was possible for us. Bearing in mind the newness of the process, if this suggestion were adopted it would be desirable before the more substantial review for the interested parties and perhaps one of the past consultants to sit down to elaborate on the methodology to be followed. This procedure might be linked with our earlier recommendation that the methods used in this report for categorizing individual donor performance, and the rules we applied, should be the subject of active debate, so that those who conduct the next PAPPA exercise can be given guidance on how they might modify the procedures followed here.

A final process issue relates to the transparency of the DBS and PAPPA processes. In line with our suggestions earlier about opening up the mutual accountability process, the PAPs should adopt a proactive strategy for building mutual accountability to a wider range of domestic and external stakeholders. As was recommended at the time of the 2004 baseline study, we think our own and subsequent reports should be widely disseminated and discussed at a workshop, to validate and discuss the issues in dialogue with Mozambican stakeholders.

4.3 Designing the PAPs' PAF

Another way in which performance assessment could be strengthened would be to develop a more demanding framework within which donor performance is to be assessed. As mentioned in Section 2, there is limited ownership of the PAPs' PAF on the donors' side at present. We find that the PAF is hardly used as a working instrument among the donors to further improve their performance. Only one donor explicitly mentioned the PAPs' PAF as an internal tool, although there may be others as we have been unable to talk to all. The PAPs need to give urgent consideration to how the norms implicit in the PAF can become mainstreamed in the work of local donor agencies. As suggested earlier, one desirable way of doing this is to move from a framework that merely sets targets for the PAP as a whole but not for individual donors, to one where specific performance targets are set for individual donors, as they are in the PAF for the GoM. The individual performance profiles have been developed to facilitate this.

Again referring back to Section 2, a further weakness of the PAPs' PAF is its division into two parts, with Part I setting out targeted "indicators on core MoU commitments" and Part II assembling broader "monitorable indicators" to which no targets are attached. The initial proposal did not make that differentiation and its introduction weakens the overall thrust of the exercise, reflecting

different degrees of commitment to the principles underlying the MoU. A desirable next step would be to abolish that distinction and to agree a single consolidated set of criteria, with targets set for all of these, as well as for each donor. Annex 2 of this report sets out specific suggestions to 2008. We also suggest that donors might revisit the suggested criteria in the baseline study report, as well as agreeing criteria and weights for the categorisation of donors (see below).

The strengthening of the PAPs' PAF could be taken further by making the GoM a more active partner in this. It was not really involved in the construction of the PAPs' PAF for 2004 but took rather note of this new instrument. It is unlikely that the PAF matrix will contain ambitious targets measured by clear indicators if there are not real negotiations with challenging partners around the table. When updating and revising the PAPs' PAF, the donors should not take advantage of a conciliatory and time-stressed partner government but be more disciplined and courageous in strengthening the matrix to measure their own future performance.

We suggest a number of ways in which the present indicators of donor performance could be improved. The PAF should in future incorporate a number of indicators currently in Part II, with specific targets attached. In particular, the share of DBS in total aid (indicator No. 13), the extent of delegated cooperation (No. 14), and the decrease in the number of sectors with 10 or more donors (No. 15). Further indicators could be added.

4.4 Revision of the PAPP questionnaire

We also suggest improvements for future use of the questionnaire that was administered as part of our work. Subject to the general principle that changes should not lead to any net increase in the burden involved in completing it, possibilities include:

- Examine the questionnaire in detail in the light of the PAPs' PAF (e.g. the present basket of indicators requires refinement or additional questions to monitor indicators no. 5,8,11,12,19), and the donor categorisation reported.
- Provide information on donors' full portfolios, displaying the shares of different aid modalities, with separate data on cooperation with civil society and private sector partners.
- Include indicators of progress in capacity building in the public sector and in civil society, extending the Paris principles to technical assistance.

- In order to evaluate the crucial efforts to bring more flows on-budget, ask for efforts made and planned, while differentiating the different levels on-budget, on-treasury, and on-accountability.
- Strengthen the link between DBS and programme aid at the sector level, e.g. by using sector-related PAF indicators also for sector disbursements, and increase the number of sectors mentioned when asking for an overview.
- To test for the strengthening of predictability, ask for data on disbursements in the first quarter and on *rolling* multi-year agreements.
- Review the questionnaire with a view to simplifying it, particularly the question relating to the total number of missions *vis a vis* joint missions.

Also take into account the specific comments made by individual agencies, as set out in the separate computer file linked to this report²²

4.5 Performance targets for 2005-08

Our terms of reference require us to suggest PAF targets to 2008. We therefore propose a set of targets, as set out in Annex 2. These work within the existing PAF format and are based on assumptions of linear progress. They should be regarded as presented as a basis for discussion, both among the PAPs and between them and the government. However, we hope that such discussions will not be exclusively confined to the specifics of Annex 2. In particular, we repeat here the desirability of eliminating the present distinction between Parts I and II of the PAF and of setting donor-specific targets for variables which are currently simply categorised as 'monitorable'.

4.6 Other issues

A specific question that was put to us was about how the work of the IMF relates to the DBS arrangements. There is, of course, a large area of common interest between the Fund and the PAPs, as regards macroeconomic management, the banking sector and the strengthening of public financial management. Moreover, the Fund is itself a major *de facto* provider of programme assistance, so what it does needs to be co-ordinated with that of the G16. It seemed to us that substantial efforts had already been made along these lines, although there do, of course, remain substantial differences of style and modality. We suspect there is further scope for harmonising the contents of the DBS PAF and of the Fund's PRGF programme, and for securing better synchronisation of review cycles. There may also be a case for revisiting the provision in the MoU which refers to

²² To order see footnote 1.

the GoM's "on-track" status with the Fund, for the point was made to us that "on-track" does not have a precise meaning in Fund parlance - although there may also be a case for retaining some imprecision on this point. In this connection, it is a positive feature that the local Fund representative attends PAP meetings. It is also a very positive feature that the PRGF programme allows for adjustments to performance criteria in the event of unforeseen shortfalls (or increases) in DBS. This reduces (but does not eliminate) the risks to government that arise from instability in levels of budget support.

One further area where we see the possibility of present arrangements being strengthened relates to the ever-present possibility that the terms of the MoU will conflict with the specifics of the bilateral agreement which governs the budget support of any given donor. No doubt, it is a reality that, in the event of a clash, these specifics will generally take precedence over the terms of the MoU. However, we are concerned that over the last two or three years difficulties have been created by a number of disputes over GoM compliance with specific bilateral provisions which largely fall outside the terms of the MoU. The MoU (Art. 13) commits donors to improve harmonization "by eliminating bilateral conditions and bilateral administrative and reporting requirements" but we have been unable to establish whether that provision is being systematically implemented or policed. The PAPs should give thought to establishing some oversight mechanism to give effect to this provision. They should also consider whether the MoU could be strengthened by inclusion of more specific provisions about how disagreements between MoU and bilateral provisions might best be resolved. Besides tackling a major source of potential difficulty, harmonizing bilateral agreements with the MoU would reduce the transactions costs for GoM officials, who have to deal with both MoU provisions and the additional demands of bilateral agreements. We were told by GoM officials that such demands remain heavy.

There are also some issues concerning the composition and organisation of the G16. First, we are uneasy about the difficulties that are apt to arise from the disparate attitudes of the PAPs towards budget support and the MoU principles. Recall from Section 2 that in 2004 the shares of DBS in donors' total aid to Mozambique varied between 95% and under 20%. We are clear about the need for those who have been driving the PAP arrangements to recognise the importance of carrying others with them and of not excessively forcing the pace or seeking to exert too large an influence. On the other hand, we are uneasy about the existence within the G16 of donors who subscribe only to a very limited extent to the desirability of the DBS modality and the principle of mutual accountability, and who pay only a minimal subscription in order to buy 'a seat at the table'. We were told that such seats are rather highly valued, in which case there is an argument for pricing them accordingly, and for establishing a somewhat more demanding (but still moderate) minimum qualification for

membership, defined in terms of a proportion of a donor's total aid programme going into DBS (say, 25 or 30 per cent?).

We recognize that there are persuasive arguments in favour of an open policy which encourages the broadest possible membership and which, over time, could induce initially reluctant countries to gradually embrace the desirability of DBS more fully. However, it is also a policy that may store up problems for the future, by increasing the potential number of disputes within the group, possibly spilling over into difficulties with the GoM, and with the danger of reducing progress to the pace of the slowest. It also seems likely that the present wide membership of the G16, and lack of a common view within it, has added to the complexity of the MoU and the proliferation of conditions in the government's PAF complained of by Mozambican representatives in Section 3. In Section 5 of this report we put forward recommendations for a '*super-MoU*' which, if adopted, could revive the importance of the Development Partners Group and reduce incentives for 'non-believers' to cling to membership of the G16.

However, we also recognise that this recommendation is bound to be controversial. Since the evidence for 2004 shows the problem was then largely confined to only two donors (Portugal and Sweden), a straightforward alternative would be for them (and any other donors who subsequently enter at a low level) to explicitly recognise that they cannot expect to exert the same influence on the decisions of the G16 as those with a larger revealed commitment and should not act in such a way as to slow down the progress of the larger group.

If the PAPs did re-examine the question of membership, it would be necessary also to consider the existence of 'Observer' status on the various specialized Working Groups. Raising the price for full membership may not be very meaningful if many of the benefits of membership could be gained by becoming an 'Observer'. On the other hand, it would not be desirable to exclude important donors if that would be at the expense of harmonisation and coherence. What the group should do on this would be influenced by the extent to which alternative avenues, such as the DPG, existed to achieve the same benefits, as well as the GoM's views on the matter.

We commented in Section 2 on the apparently low level, and minimal growth, of arrangements for 'delegated co-operation', where one donor acts also as the executing agency for one or more other donors in some aspects of their programmes of assistance. While it is easy to imagine that there are a lot of administrative and other obstacles to overcome, greater use of such co-operation holds much potential for dealing with the high transactions costs arising from the proliferation of donors in a given sector and for achieving a better division of labour. We recommend that the PAPs - or perhaps the DPG - should examine

how best this possibility could be carried forward in future. They should at the same time examine the potential for increasing the extent to which individual donors concentrate on interventions in a smaller number of sectors, and how this might be achieved in practice.

5. The PAPP in the broader context

5.1 The case for looking beyond direct budget support

However valuable it is, DBS has limited coverage, accounting for less than a fifth of budget receipts and about a third of total aid. There is, in any case, a positive argument for the GoM to retain a mixed portfolio, as was reflected in the views reported in Section 3. Exclusive reliance on DBS would expose the government to the special extent to which this form of assistance can be linked to wide-ranging policy conditionality, backed by the full weight of most of the country's donors acting in concert, and because of the macroeconomic and fiscal dangers arising from the well-known unpredictability of programme aid. In any case, on present indications, it is a fact of life that some major donors cannot, or will not, switch their aid to DBS in the foreseeable future.

At the same time, it is important to acknowledge the large proven disadvantages of traditional project-based approaches and to search for ways of minimising these. Project approaches are often donor-driven and hence do not reflect government priorities, resulting in an incoherent, unplanned patchwork of discrete activities. They generate high transactions costs from a multiplicity of different reporting and accounting requirements. They are often associated with tying, which substantially reduces the value of the "assistance" offered. They tend to have low sustainability. They are often associated with various forms of rent-seeking. They give rise to special staffing arrangements and parallel structures which undermine the development of state systems, a tendency accentuated by the high proportion of projects undertaken outside governments' regular budgetary expenditure-control arrangements.

This is a formidable set of detriments and it appears that Mozambique continues to be among the sufferers from these. A great deal of grant aid coming into the country is still spent off-budget, to an extent estimated to be equal to half or more of total public spending. Still a large proportion of total assistance coming into the country is made up of a multitude of uncoordinated, often donor-driven, development and technical assistance projects, which do not add up to a coherent whole, do not necessarily promote the GoM's priorities and of which the GoM has highly incomplete knowledge. Because of the continuing large scale of project assistance, line ministries tend to orientate themselves more to the attraction of project finance than to attempts from the centre to achieve a coherent overall strategy, e.g. through PARPA. Moreover, it was emphasized to

us that the efficacy of Parliamentary scrutiny of the budget has been adversely affected by the large inflows which bypass the budget.

It would therefore make a major contribution if means could be found of retaining a mixed portfolio of aid modalities which overcame at least some of the disadvantages just described. To put it another way, the PAP arrangements in Mozambique provide a means for applying the principles of the *Rome* and *Paris Declarations* to about a third of total assistance and what is now needed is an approach which brings the other two-thirds within the same agreed principles.

5.2 The situation at sectoral level

We take it that it was in this spirit that our ToRs asked us to review the development of donor accountability frameworks at the sectoral level. We therefore offer some comments below but would like to reiterate our earlier caution about the superficiality of what we were able to do in the time available. We offer comments on sectoral arrangements in agriculture, education, health and roads but in each of these cases our comments are mainly derived from just one or two interviews. In our experience, different individuals are likely to hold widely contrasting views (“where you stand depends on where you sit”), so that extreme caution has to be exercised in interpreting the content of just one or two interviews.

Bearing this in mind, we offer the following comments:

AGRICULTURE (PROAGRI): The PROAGRI arrangement is directed to the institutional strengthening of the Ministry of Agriculture and covers roughly three-fifths of the Ministry’s total budget. PROAGRI is not a real SWAp – it is rather a basket arrangement, in which some donors insist on earmarking within this fund and some also support individual projects falling outside it. Whereas donors and Ministry staff agree that significant improvements have occurred with respect to financial management and accountability, they also agree that this has been the only substantial positive impact of PROAGRI. A recent external evaluation portrayed a dismal picture of human resource development within the Ministry. Furthermore, PROAGRI has had no effect on the development of agricultural capabilities and had little impact on the Ministry’s performance in delivering core services (for example, after 5 years of PROAGRI, still there are no Sanitary and Phitosanitary systems in place). Rural development, which used to be a core area of the old Ministry of Agriculture and Rural Development, has not been part of PROAGRI I. This is mainly due to fragmented donor interventions and the continuing strength of established individual niches and of the interests (and rent-seeking) that such fragmentation often creates. There is a working group

to develop a set of performance indicators but there are no effective provisions for donor accountability in place. PROAGRI has lowered some transactions costs, e.g. by persuading donors to use a common financial reporting system, but there have been major problems with the unpredictability of promised inflows (only partly the fault of deficiencies on the ministry's side). Harmonisation, e.g. in the form of joint missions, has been weak. A second phase of PROAGRI is due to be negotiated shortly, with the aim of linking institutional capacity-building with *de facto* development of agricultural capacities and production. Under the new government, rural development is no longer a task of the Ministry of Agriculture, having been taken by the newly-created Ministry of Planning and Development. For some donors, the implications of this change for PROAGRI II are bleak and they are still thinking about their options. The added value of the parallel PROAGRI structure, compared to an integration scenario into DBS, remains unclear.

EDUCATION: Education seems to sum up many of the weaknesses of traditional approaches to the provision of aid. No less than 26 donors work in the sector. Eighteen of these are members of a SWAp arrangement, of whom nine are classified as contributing to an associated basket fund (but not all of whom are actually contributing at present). Although the first education strategic sector plan (ESSP) began in 1998 and has brought a number of achievements, it has not gone according to plan. Intended to be superseded by an ESSP II in 2003, failure to agree on the second phase and other factors forced the extension of ESSP I. The basket fund covers only about 5% of total assistance coming into the sector (and this is not fully integrated with the GoM budget) and there remains a large plethora of individual donor projects. These weaknesses partly reflect the absence of strong leadership from the Ministry of Education and partly disunity among the many donors. An action plan has been agreed between the GoM and the SWAp donors but it is far behind schedule. There is also an agreed code of donor conduct but it is weak and unmonitored. Peer pressures are not effective. The education SWAp also illustrates an issue that arises for the G16: a 'broad church' approach has been maintained in order to bring in donors who do not at present really subscribe to the harmonisation agenda but this strategy has so far brought few benefits .

HEALTH (PROSAUDE): There are actually three basket funds in the health sector, covering programmes for the provinces and for pharmaceutical supplies, as well as a general fund. All are now administered by the Ministry of Health but only the general fund is fully 'on budget' in the sense of passing through the Treasury. As in the case of education, this reflects mistrust of the financial management abilities of the Ministry of

Finance. Between a third and a half of all aid into the health sector is covered by these basket funds, meaning that there remain large numbers of off-programme donor projects. These are supposed to be related to the sector's annual operational plan but often the connection is tenuous. Each of the funds is governed by a separate MoU. There is provision for a joint review of the whole sector. Hitherto, this has been conducted by external consultants but there are ambitions in future to conduct it jointly between the Ministry of Health and donors. However, again in parallel to Education, there are complaints of weak leadership from the Ministry. Donors have agreed a code of conduct. It is not clear whether this has yet had much impact but there are plans during 2005 to evaluate its effects. Overall, among the sectors reviewed here, health offered the greatest sense of forward progress.

ROADS: The roads sector has a rather special set-up within which donors operate. There is a semi-autonomous Roads Fund, with its own Board and Chairman, reporting to the Minister of Construction (curiously, not Transport). This has developed a strategic plan for the development of the road system which is reportedly well-regarded. Donors should relate their own specific projects to this plan but there is no SWAp *per se* and no basket fund (although there is an ad hoc pooling arrangement for a large Zambezi bridge project). There is a Roads Sectoral Group consisting of the Roads Fund Chairman and a small group of major donors but this is not regarded as very effective. Rivalries between donors and rapid turnover of agency staff have prevented much progress on harmonisation, and the state of dialogue within the sector seems quite unsatisfactory. Donors considered whether to adopt a code of conduct but decided against, reportedly because of disunity within the group.

The above paragraphs, of course, cover only a proportion of the sectors in which the GoM and donors are active. If the situation in those covered above is generally unsatisfactory, we can only assume it is as bad or worse in other sectors, where few attempts have been made to harmonise donor and ministry priorities and systems. Considered as a model, SWAPs offer a transitional modality between traditional projects and full-blown DBS. On the basis of our very limited information, it did seem to us that the arrangements in Health offered genuine possibilities in that direction. In varying degrees, the reality in the other sectors fell a long way short of the potential and it was not clear whether they were making serious inroads into the costs of the project approach. In all cases, much donor activity remains outside basket fund arrangements and 'mutual accountability' appears a rarity.

Moreover, it is clear (as is commonly the case) that line ministries and other sectoral authorities are reluctant to see their sectoral arrangements folded into a

general DBS scheme. They fear losing control of resources and they (and their donors) doubt the capabilities of the Ministry of Finance to understand their needs and deliver resources efficiently. Incentive structures cause some officials, especially below the top tier, to prefer a project-based approach. Given these facts, while the development of SWAps should continue to be promoted as a way of bringing sectors within the spirit of mutual accountability and the Paris norms of 'good donorship', to rely on this alone would offer limited medium-term prospects. We repeat that it seems inevitable that project aid will remain a large part of Mozambique's aid scene for a long time to come. The question then becomes how it might be possible to extend the Paris principles to aid as a whole? This question can be further extended to cover a more recent source of aid incoherence - the emergence of financially large 'special funds'.

5.3 The case for a Mozambique aid strategy and Super-MoU

An aid policy

In our view, the starting point for any positive answer to this question has to be the leadership offered by the GoM. To be frank, this appears weak at present, both at sectoral and central levels. In this respect, Mozambique appears like many (but not all) aid-dependent countries, with the government apparently believing that its undoubted reliance on assistance means that it is not in a position to insist on its own priorities. While there is no avoiding the truth that the bargaining position of the government *vis a vis* its development partners is, and will remain, highly unequal, we would like to stress that aid dependency does not have to entail subservience and that boldness by the government can go part way to redressing the asymmetry just mentioned. The GoM should recognise that it brings important assets to the negotiating table. First among these is its good record as a recipient country on a continent where there is a dearth of good examples and at a time when some donors are anxious to scale up their assistance to Africa. Donors will be anxious to maintain active and substantial programmes of assistance to Mozambique, a fact which gives the government genuine bargaining strength. A related factor is that aid agencies approve specific budget lines for utilisation in Mozambique. The existence of such provisions generates an imperative to spend because agencies defend their future budgets by making sure they spend their current ones. Moreover, the experience in those countries whose governments have been willing to be firm in insisting on their own priorities is that, no doubt after a good deal of grumbling, donors come to prefer this type of guidance, provided it is developed in a competent and reasonably consultative manner.

In our view, stronger leadership from the top levels of the GoM is essential for further major progress towards more effective aid, i.e. the articulation by the political leadership of a clear set of priorities concerning the content and

modalities of external assistance. The present time seems to us favourable for a move in this direction. There is a newly-elected government which is not necessarily committed to doing things in the same ways as its predecessor. A second poverty reduction strategy is to be prepared during 2005 and this should provide an ideal basis for the policy priorities to be implemented through an aid strategy and around which the various aid modalities could be co-ordinated. The apparent absence of large controversies about the desirable direction of development policy, both within the country and between the GoM and the donors, is another positive factor. Further, continuing progress with the SISTAFE programme for strengthening public financial management should, by general consent, be important in the GoM's ability to integrate aided activities into the country's budget systems and to direct these resources according to an agreed set of priorities. Lastly, it is one of the basic principles of the *Paris Declaration* itself that "Partner countries exercise effective leadership over their development policies and strategies, and co-ordinate development actions."

What is suggested, therefore, is that *the GoM should take the lead in working out with its development partners a Mozambique Assistance Strategy (MAS)*. The Government of Tanzania already has such a strategy and Rwanda is about to start preparing one. An MAS should have at least four major building blocks:

First, a clear statement is needed of the purposes for which aid is sought and of priorities among these purposes. These, of course, should be drawn from PARPA II and also from the annual PES. Specifying such priorities not only gives donors clear guidance but also provides a yardstick that can be used by the GoM to turn down low-priority offers of 'assistance'. In fact, an *MAS* should include a statement of areas in which assistance is *not* a priority, to make it harder for donors to come up with unwanted schemes. What this implies is that the GoM should be willing to say 'No' to donors promoting their own pet projects and schemes. This may be psychologically difficult but the government should bear in mind the dubious value of low-priority aid. It is worth quoting from a 2002 report on donor-government relations in Tanzania concerning the low costs of declining unwanted 'aid':

the authorities might ask themselves what they are losing if they turn down offers of this kind. Typically, these will consist of specific projects, often to be operated outside the budget and to be implemented on the basis of special implementation units manned by expatriate 'technical assistance' personnel provided as a condition for undertaking the project, probably aided by Tanzanian officials receiving special incentive payments to give priority to the projects in question. All that we know about such aid suggests that it contributes little to the balance of payments (because of high

project import content) and yields little or no net revenue to the budget and may well become a net drain upon the budget because of counterpart payments and consequential recurrent cost requirements. In addition, it contributes little to long-term development because it typically has low sustainability, i.e. it represents an investment with low, perhaps zero, returns; and, because of its enclave nature, it adds little to longer-term local human and institutional capacities. Instead, the parallel nature of such projects tends to undermine the already weak administrative machinery. The question arises, what is lost by refusing such assistance? Evidently not much. We believe that the fears that a lot of donor assistance would be foregone are not well founded.

A *second* building block for the aid strategy should be a clear statement of the government's preferences as between alternative types of assistance, e.g. as between programmatic and project forms, and also relating to technical assistance. In fact, the GoM has already indicated a preference for DBS, and for good reasons. Aid coordination through DBS strengthens within-government coordination and empowerment, as public activity and finance become a function of domestic priorities and internal structures, rather than reflecting the attractiveness of particular sectors to donors. Technical assistance also deserves special mention because it is typically the largest single form of assistance, in terms of value, and is often the least co-ordinated, most donor-driven of all the modalities.

Third, the strategy should include machinery for implementing and monitoring the priorities set out in the first two building blocks. Included here are provision of adequate channels for dialogue between the GoM and donors. An important aspect of this machinery is that it becomes a means for co-ordinating the activities of all donors and of integrating their work into the country's wider development efforts, going beyond the limited scope of existing DBS arrangements. An equally important aspect is that *the government should be in charge of it*. This is highly desirable, not only for the obvious 'ownership' reasons but also because the record has shown few examples of sustained successful donor co-ordination when this has been left to the donors themselves. The cliché here is that all donors are in favour of co-ordination but none wants to be co-ordinated. The MAS could also create a framework for achieving a greater division of labour among donors, to reduce the large numbers of donors working in any given sector and the high transactions costs arising from this. It could specify reporting requirements with which all parties should comply.

Finally, if it is to reflect the principle of partnership - and if it is to be acceptable to the donors - the strategy must set out reciprocal commitments to be met by the GoM, along the lines of the existing 'underlying principles' in the DBS MoU.

Although the above description may sound ambitious we would like to emphasise that we have a rather basic document in mind, essentially an adjunct to PARP II, setting out how external assistance can best contribute to the strategy and policies within that document.

A super-MoU

As a related recommendation, *we also urge the desirability of the GoM and its development partners coming together to negotiate what we will call a 'super-MoU'*. This would cover all incoming assistance (except that going to civil society and similar channels) and would set out basic principles to which all parties agree to conform. On the GoM side, these principles would be similar to the 'underlying principles' already set out in the DBS MoU. However, in that document these are asymmetrical, i.e. it does not set out any equivalent underlying principles to which donors commit themselves. The *super-MoU* we have in mind should be symmetrical, in that it should also set out basic principles of 'good donorship', derived, of course, from the *Paris Declaration*. We stress that we do not have anything elaborate in mind. On the other hand, the principles should not just be vacuous generalities. They should be sufficiently specific to be capable of being monitored and the MoU should contain provisions for periodic independent review of the parties' compliance with them.

The objective of this *super-MoU* would be to provide all parties with an instrument of pre-commitment to basic norms within which assistance would be provided, as a device for building mutual trust and for reducing the transactions costs of the aid provided. This document could either be an instrument for implementing the *MAS* recommended above or could alternatively be used as a first step towards the creation of such a strategy. A *super-MoU* would, of course, have the merit of bringing the totality of assistance within the broad principles of the *Paris Declaration* and of beginning to overcome some of the earlier-described disadvantages of the present fractured situation.

One of the symptoms of this fracturing is that the Development Partners Group (DPG), jointly chaired by the UNDP and World Bank, has been somewhat sidelined as an unintended consequence of the institutions that have grown up around DBS, notably the G16. While it does not seem that the DPG was a very effective instrument of harmonisation or policy dialogue, its decline may have left non-DBS assistance in an even less coordinated condition than before. It may also have complicated lines of communication between the GoM and the donors collectively, given that major donor countries such as Japan and the USA are

outside the G16. If the aid strategy and *super-MoU* recommended above were to be developed, one of the issues the GoM and its partners could then consider would be whether the DPG should be restored to a more central role as a senior-level forum for dialogue and overall harmonisation. This could bring back into the mainstream donors who are at present rather sidelined, including members of the United Nations family.

Matters arising

Were our recommendations for an aid strategy and a *super-MoU* to be taken up, the existing budget support MoU, and the associated work of the G16, would become an important instrument beneath the overall umbrella, along with existing and future SWAp arrangements, and Special Funds. All of these would then take the basic principles set out in the *super-MoU* as their starting point.

One of the stated intentions of the existing DBS MoU is that dialogue and monitoring should be conducted in ways which strengthen the accountability of the GoM to the Mozambican people. However, there is a danger that existing arrangements, as well as those suggested above, could have the effect of biasing accountability in favour of increasing the extent to which the GoM is answerable to donors, at the expense of accountability to domestic stakeholders. We therefore urge that both the suggested aid strategy and *super-MoU* should incorporate processes that are open and transparent, in the sense of involving a wide range of domestic stakeholders, in addition to the Ministries of Finance and Economic Planning and donors. Line ministries, other public agencies, the provincial authorities, the private sector and wider civil society should be included.

In this connection, we suggest that donor agencies should be more responsive than they reportedly have been in the past to the desire of civil society organizations and other stakeholders to raise their abilities to engage in constructive and well-founded dialogue with the GoM and donors. Strengthening civil society should be considered a strategic issue for the development of Mozambique and of a functioning system of accountability. However, donors should not simply throw money at the problem. If they do so, it is likely that such an action will have no effect in improving capacity and will consolidate and increase aid dependency – in terms of attitudes of relying on “donors’ generosity” and in practical financial and institutional terms.

If donors are to commit themselves to support capacity building in CSOs, this assistance: (i) should be very selectively focused on the type of capacities that CSOs cannot address in other ways and are crucially relevant for the quality and rigor of its participation in policy making and evaluation; and (ii) should be demand-driven, for CSOs which are merely the creatures of pro-active donor

initiatives are unlikely to satisfy the need for local accountability or to contribute much to local capacities. Support should take forms that leave CSOs as independent as possible to pursue the interests of their memberships. We are particularly thinking in terms of helping to develop policy-oriented, rigorous and independent research capacities, as well as the capacity to disseminate the results of such research and to use them to debate policy *vis-à-vis* government and donors, or in any other ways that would help CSOs to become more relevant in the substance, quality and consistency of their contributions to policy making, implementation, monitoring and evaluation.

Lastly, there is the question of the role of the Consultative Group. It is already said that much of the original purpose of the CG has been eroded by the development in-country of complementary channels for dialogue. Movements towards an *MAS* and *super-MoU*, as well as the institutional arrangements surrounding the PARPA and G16, would increasingly pose the question whether the CG any longer performs a useful purpose or whether it should be discontinued. The processes leading to the development of a *MAS* and/or a *super-MoU* could be used to take another look at the future of the CG. In the meantime, so long as it continues, we urge that all future meetings should be held in-country (as is increasingly the case in other African countries) and should be open to a wide range of domestic stakeholders. Opening it out in this way could help reduce the tensions inherent in aid dependency, between accountability to citizens and to external partners.

(end)

ANNEXES

Annex 1: Data basis for categorising donor performance, 2004

		B	CA	DK	EC	SF	F	G	IRE	I	NL	N	P	S	CH	UK	WB
(1) Portfolio																	
share of programme aid >66% of portfolio (1.3 (2))	1 point			1		1			1		1			1		1	
measures taken to increase on-budget flows (1.3 (3))	1 point	1	1	1			1	1				1			1	1	1
involvement in three or less sectors (1.4)	1 point	1	1			1	1				1	1					
Total Portfolio		2	2	2	0	2	2	1	1	0	2	2	0	2	1	2	0
(2) Transparency																	
information delivered to DCI (1.2 att.)	1 point	1		1			1	1	1	1	1	1	1	1	1	1	1
full disclosure of portfolio according to DCI standards (1.2 att.)	1 point			1			1	1	1	1	1	1		1		1	
Total Transparency		1	0	2	0	0	2	2	2	2	2	2	1	2	1	2	0
(3) Alignment																	
donor follows fully/substantially GoM cycle (2.2)	1 point	1	1	1	1	1	1	1	1	1	1	1	1		1	1	1
no exceptions according to annex 10 MoU	1 point		1	1		1			1	1	1		1			1	
Total Alignment		1	2	2	1	2	1	1	2	2	2	1	2	0	1	2	1
(4) Predictability																	
three or more years agreement in force (3.1)	1 point				1			1	1	1	1	1	1		1	1	
disbursements according to agreed schedule (3.3 (a))	1 point				1	1	1	1	1	1	1	1	1		1	1	1
early disbursements (1 st quarter) (3.3 (c))	1 point				1	1		1		1	?				1	1	
Total Predictability		0	0	0	2	2	2	1	3	2	3	2	2	0	3	3	1
(5) Administrative burden																	
increase in joint missions from 2003 to 2004 (5.1)	1 point	1	?	?	1	?		1				?		1		1	?
delegated cooperation (yes) (5.4)	1 point											1			1	1	
leadership role*** in G-16 process	1 point		1	1	1			1	1		1			1	1	1	1
Total Administrative Burden		1	1	1	2	0	0	2	1	0	1	1	0	2	2	3	1
(6) Bonus: Taking into account special efforts																	
special efforts in capacity building (6.1)	1 point			1								1		1	1	1	1
share in overall GBS volume of PAPs >10%	1 point				1											1	1
major steps taken for improvements 2005/06**	1 point	0	0	1	1	0	0	0	0	0	0	0	0	1	0	1	0
Total Bonus		0	0	2	2	0	0	0	0	0	0	1	0	2	1	3	2
TOTAL		5	5	9	7	6	7	7	9	6	10	9	5	8	9	15	5

* programme aid = general budget support, balance of payments support, sector budget support, basket funding

** This criteria refers to significant strengthening of programme aid in preparation for 2005/06 (1.3); Further measures to align for 2005/06 (2.6); move to multi-year agreements for 2005 and later (3.1); Firm commitment to improve reporting along GoM lines in 2005/06 (4.2/1.2); firm plans for delegated cooperation in 2005/06 (5.4 b+d), see below for details.

*** member of troika plus, and/or focal donor of working group

? No quantification possible due to lack of data

Classifications

TOTAL POINTS POSSIBLE: 18

Classification

strong: 13 - 16 points

upper middle: 9 - 12 points

lower middle: 5 - 8 points

weak: 0 - 4 points

wea wea lowe lowe wea lowe lowe lowe wea uppi lowe wea lowe lowe stroi weal

Criteria for Bonus Element "Major steps 2005/2006"

significant strengthening of programme aid in preparation for 2005/06 (1.3)

further measures to align for 2005/06 (2.6)

move to multi-year agreements for 2005 and later (3.1)

firm commitment to improve reporting along GoM lines in 2005/06 (4.2/1.2)

firm plans for delegated cooperation in 2005/06 (5.4 b+d)

	B	CA	DK	EC	SF	F	G	IRE	I	NL	N	P	S	CH	UK	WB
TOTAL	1	1	3	3	1	0	2	0	0	2	2	0	4	1	3	1

one point for all donors with 3 or more points in total

0	0	1	1	0	0	0	0	0	0	0	0	0	1	0	1	0
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Annex 2. The PAPs' PAF matrix – targets, 2005-08

1. Indicators on core MoU donor commitments

Areas of Concern	Objectives	Activities	Indicators	2003 actual	2004 target	2004 actual	2005 target	2006 target	2007 target	2008 target
Predictability	Short-term predictability of BS/BoPS improves	<ul style="list-style-type: none"> Donors agree with MPF on disbursement schedules for year n+1 by 31 December of year n 	1. Share of donors disbursing according to agreed schedule of disbursements and commitments (subject to no breach of underlying principles)	40%	>60%	80%	>80%*	100%*	100%	100%
			2. Same as (1) but in terms of the % of total BS/BoPS		>60%	89%	>80%*	100%*	100%	100%
		<ul style="list-style-type: none"> Donors inform GoM of commitments within four weeks of the annual review and do not change the size of commitments afterwards Donors confirm commitments for year n+1 by 31 August (exceptions exist in MoU Annex 10) 	3. Number of instances of agencies NOT meeting these commitments as stated in the MoU (taking account of MoU exceptions)	n.a.	0	1	0*	0*	0	0
	Medium-term predictability of BS/BoPS improves	<ul style="list-style-type: none"> Donors commit funds on a multi-year basis 	4. Share of donors with a multi-year indicative commitment	60%	>70%	81%	>80%*	>90%*	100%	100%
Alignment & Harmonisation	Full alignment and harmonisation of BS/BoPS in the spirit of the 2004 MoU	<ul style="list-style-type: none"> Reduction of bilateral conditions, bilateral administrative and reporting requirements, and bilateral legal and statutory requirements 	5. Share of donors strictly adhering to the common conditionality framework (PES PAF matrix)	87%	87%	87%	>90%*	>95%*	100%	100%
			6. Share of donors with bilateral exceptions in the MoU (Annex 10)	n.a.	53%	50%	<55%*	<55%*	<40%	<40%

Areas of Concern	Objectives	Activities	Indicators	2003 actual	2004 target	2004 actual	2005 target	2006 target	2007 target	2008 target
		<ul style="list-style-type: none"> Harmonise response mechanisms 	7. Number of donors NOT using the core MoU response mechanisms (disbursement in year n+1 based on performance in year n-1)	n.a.	3	3	3*	2*	1	
Administrative burden	The administrative burden on GoM related to the number of visits on BS/BoPS and overlapping activities is reduced.	<ul style="list-style-type: none"> The number of missions related to BS/BoPS is reduced Donors increasingly use joint missions 	8. Number of missions related to BS/BoPS is reduced	?	2 (JR & MYR only)	? ²³	2*	2*	2	
Transparency	PAPs fulfil their information requirements according to obligations (MoU Annex 3, §3)	<ul style="list-style-type: none"> Provision of quarterly report on release of Programme Aid within 2 weeks of the end of each quarter 	9. Number of instances of donors NOT meeting these commitments	n.a.	0	5	0*	0*	0	
Capacity building	Capacities to design, implement, monitor and evaluate GoM PARPA are strengthened	<ul style="list-style-type: none"> Explore the possibility for a long term joint strategy for Technical Assistance 	10. An issues paper exploring the possibility for a long term joint strategy for Technical Assistance is drafted in 2005 and discussed with GoM 11. Implementation of TA strategy starts in 2006 and donors pool their TA increasingly.	n.a.	/	/	Yes*	/*		

	On track or better than targeted
	No data, not applicable
	underperformance

* targets set by G15

xx proposals set by independent team

2. Monitorable indicators

Areas of concern	Objectives	Activities	Indicators	2003 actual	2004 target	2004 actual	2005 target	2006 target	2007 target	2008 target
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²³ Could not be assessed due to lack of data. Question 5.1 of the questionnaire covers all missions, not only those for BS/BoPS.

Areas of concern	Objectives	Activities	Indicators	2003 actual	2004 target	2004 actual	2005 target	2006 target	2007 target	2008 target
Predictability	Short-term predictability of BS/BoPS improves	<ul style="list-style-type: none"> Based on performance in year n-1 donors commit funds for year n+1 at the start of the GoM budget preparation cycle 	11. % Total BS/BoPS committed for year n+1 within four weeks of the year n Joint Review and for which disbursement in year n+1 is guaranteed unless there is a breach of underlying principles ²⁴	n.a.	55% (estimate)	62%	tbm	tbm	80%	90%
	Medium-term predictability of BS/BoPS improves	<ul style="list-style-type: none"> Donors commit BS/BoPS in line with GoM planning horizon 	12. Number of donors providing indicative multiyear commitments of BS/BoPS on a rolling basis in line with the MTFP	0	tbm	0	tbm	tbm	5	5
Portfolio composition	Donors make use of the most effective aid modalities	<ul style="list-style-type: none"> PAPs and GoM evaluate the effectiveness of BS/BoPS as a modality in terms of the objectives stated in section 1 and 2 of the MoU Where appropriate donors increase volume of BS/BoPS and turn other aid modalities into BS/BoPS 	13. Share of BS/BoPS in PAPs' total aid (excl. aid to NGOs and private sector)	35% ²⁵	tbm	32% ²⁶	tbm	tbm	45%	50%
Administrative burden	Donors contribute to reduction of GoM burden	<ul style="list-style-type: none"> Donors manage funds for other donors or conclude agreements to perform tasks for other agencies 	14. Number of examples of delegated cooperation among donors	4	tbm	3	tbm	tbm	7	7
		<ul style="list-style-type: none"> Donors co-ordinate sector work 	15. Number of sectors with 10 or more PAPs is decreasing	3	tbm	3	tbm	tbm	2	2
		<ul style="list-style-type: none"> Donors pool project funding 	16. Pooled funding/stand alone projects ²⁷	1.2 ²⁸	tbm	0.3 ²⁹	tbm	tbm		
		<ul style="list-style-type: none"> Sector aid is made more harmonised, aligned, and predictable 	17. Number of sectors with an MoU containing comparable donor commitments as the PAP's MoU	0	tbm	0	tbm	tbm	2	2
			18. Number of sectors with a donor	0	tbm	0	tbm	tbm	2	2

²⁴ Taken to be total BS/BoPS minus the variable tranches and WB BoPS

²⁵ The percentage does not exclude aid to NGOs and the private sector as part of total aid because of a lack of data. Belgium, Germany and Portugal are excluded as they did not yet disburse budget support in 2003. Denmark is excluded from the calculation because the required information was not provided.

²⁶ The percentage does not exclude aid to NGOs and the private sector due to lack of data. Canada and Denmark are not included as they did not disburse budget support in 2004.

²⁷ Ratio in financial terms.

²⁸ To avoid definition problems, 'pooled funding' includes 'sector budget support' and 'basket funding'. 'Stand alone projects' refers to 'Project aid' in the baseline study. Due to data problems (particularly clarity around what is meant with 'Other') the ratio is calculated based on information from 6 donors only.

²⁹ For definitions, see note 15. Canada and Denmark are not included as they were not disbursing budget support in 2004. The ratio is calculated based on information from 11 donors; for Germany, Norway and Switzerland data were missing.

Areas of concern	Objectives	Activities	Indicators	2003 actual	2004 target	2004 actual	2005 target	2006 target	2007 target	2008 target
			performance matrix							
		<ul style="list-style-type: none"> Donors respect GoM core business 	19. Donors agree 'quiet periods' with GoM	/	tbm	no ³⁰	tbm	tbm	yes	
Transparency	Donors' BS/BoPS related analytic work on Mozambique is shared with GoM	<ul style="list-style-type: none"> GoM participates in study Analytic work is done in Portuguese or translated into Portuguese 	20. Share of studies timely available in Portuguese	69%	tbm	87%	tbm	tbm	100%	1
	Transparency on aid flows is improved	<ul style="list-style-type: none"> Donors & GoM negotiate & agree on aid reporting standards PAPs report aid flows to DCI 	21. Share of PAPs reporting aid flows to DCI based on an agreed format and definitions	60%	tbm	56%	tbm	tbm	100%	1

tbm = to be monitored

na = not applicable

BS/BoPS = Budget support and Balance of Payments Support

	On track or better than 2003
	Not applicable, no change
	Underperformance related to 2003

For 2005/06 no targets set by G15

xx target proposals set by independent team

³⁰ A dialogue on "quiet periods" took place in 2005 only.

Annex 3. List of persons interviewed

Michael Baxter, Country Director, World Bank
Gregor Binkert, Lead Economist, World Bank
Alexander Bohr, European Commission
Carlos Botella, Embassy of Spain
Heather Cameron, Counsellor, Canadian High Commission
Francisco Carreras, Counsellor, European Commission
Eamon Cassidy, Head of Office, DFID
Jonas Chambule, Health Adviser, Embassy of Ireland
Paolo Cuinica, Executive-Secretary, Group of 20
Antonio de Abreu, Bank of Mozambique
Anton Johnston, Head of Mission, Embassy of Sweden
Antonio Laice, Treasury, GoM
Telma Loforte, Head of Economic Management, Swiss Development & Cooperation
Carlos Rafa Mate, Programme Officer, Embassy of Norway
Argentina Maussa, Head, Department of International Co-operation (GoM) Ronald Meyer, Head of Development Cooperation, German Embassy
Françoise Millecam, Head of Food Security, European Commission
Ngila Mwase, Senior Economic Adviser, UNDP
Francisco Pereira, Chairman, Roads Fund Board
Perry J. Perone, Resident Representative, International Monetary Fund
Juan Ignacio Pita, Coordinator, Embassy of Spain
Niels Richter, Deputy-Head of Mission, Embassy of Denmark
Julie Riviere, Adviser, GTZ
Liz Rasmussen Rosenholm, Programme Coordinator, Embassy of Denmark
Luis A. Santos, Engineering Adviser, European Commission
Fernando Songane, Proagri Coordinator, Ministry of Agriculture and Rural Development
José Sulemane, Director, National Directorate for Planning and Budgeting (DNPO)
Simon Vandenbroeke, Economist, DFID
Virginia Videira, Chair, Parliamentary Committee for Planning and Budgeting
Paul Wafer, Human Development Adviser, DFID
Sylvi Millot Wathier, First Secretary, European Commission
Bernhard Weimar, Consultant

Annex 4. List of documents consulted

- Batley, Richard, Corina Certan, Amelia Cumbi, Albert de Groot and Charles Harvey, 'Evaluation of General Budget Support: the Case of Mozambique.' Draft, processed, December 2004.
- Gerster Richard and Harding Alan, 'Baseline Survey on PAP Performance in 2003.' Report to the G-15 Programme Aid Partners and the Government of Mozambique, Maputo, 2004
- Government of Mozambique and Programme Aid Partners, 'Joint Review, 2004: Aide Memoire'. Maputo. April 2004.
- Government of Mozambique and Programme Aid Partners, 'Mid-year Review Aide Memoire.' 27 September 2004
- Harding Alan and Gerster Richard, 'Learning Assessment of Joint Review 2004'. Final Report to the Government of Mozambique and Programme Aid Partners, Maputo, 2004
- High Level Forum *Paris Declaration on Aid Effectiveness: Ownership, Harmonisation, Alignment, Results and Mutual Accountability*, Paris, March 2, 2005
- International Monetary Fund, 'Staff Report for the 2003 Article IV Consultation.' Washington: IMF, November 2003.
- International Monetary Fund, 'Republic of Mozambique Letter of Intent.' Maputo, IMF, June 2004.
- OECD/DAC Survey in Progress on Harmonisation and Alignment, Paris 2005
- SPA/BSWG Report of mission to Mozambique, March-April 2004.
- SPA/BSWG Survey of the Alignment of Budget Support and Balance of Payments Support with National PRS Processes. Report by the BSWG Co-Chairs, final draft 7 February 2005.

Annex 5. Terms of Reference –Mozambique Programme Aid Partners Performance Assessment Framework (G15 PAF)

1. Background

Several bilateral donors (currently 14 and now the World Bank) have been providing Budget Support to Mozambique under a Joint Agreement in place since 2000, with progress reported on in successive annual Joint Donor Reviews. Following the 2003 JDR a new MoU for Programme Aid was developed which commits the Government of Mozambique (GoM) and the fifteen Programme Aid Partners (G15) to changes in their relationship and ways of working in order to enhance ownership, government–donor dialogue in key areas of PARPA implementation, alignment with GoM plans and processes, harmonisation of monitoring and assessment processes supported through ‘wiring up’ of multiple sector based and cross cutting working groups.

A new requirement in the MoU is a yearly report by the G15 on their performance against their commitments. A G15 Performance Assessment Framework (PAF) was agreed at the Mid Year Review. This PAF provides the basis for monitoring commitments made by the G15 in the MoU for Programme Aid. It is to be independently monitored annually, discussed during the Joint Review and performance reported on in the Aide Memoire. Commitments will be updated and agreed annually at the Mid Year review.

The PAF consists of one section reflecting specific and broad commitments PAPs signed up to in the MoU and one section reflecting broader aid effectiveness objectives to be monitored, which are not specifically set out in the MoU but reflect the determination declared by donors in the MoU to work in the spirit of NEPAD, The Monterrey Consensus and the Rome Declaration on Harmonisation. The G15 PAF is based on a baseline report, written by a team of independent consultants, on donor performance in 2003, in order to regularly monitor PAPs’ progress in the future.

The baseline report noted that, even though international cooperation practice in Mozambique was generally considered to be progressive, considerable room existed for improvement. The report also highlighted the need to apply the spirit of the MoU to the overall portfolio, rather than just general budget and balance of payments support. It was proposed that individual PAPs will indicate what contribution they will make to achieving the PAP PAF commitments, and that an effort be made to translating the spirit of the MoU to the sectoral and reform levels.

Following the MoU commitments an update of PAPs' performance must now be provided for 2004 in time for the 2005 G15 Joint Review, which is likely to occur in the May-June period.

2. Objectives

The main objective is to provide an independent review of donor performance in 2004 against the commitments and indicators set out in the PAPP matrix and compared with the 2003 baseline of performance set out in the study by Alan Harding and Richard Gerster.

Three related objectives for the team will be:

2. To propose an updated PAPP matrix. This implies identifying new targets for the outer years 2006-2008 of the first part of the matrix. As per GoM request, individual donor contributions against those aggregated commitments should also be identified. The team should also make suggestions for improving some of the objectives/indicators/activities focussing mainly on the second part of the matrix. Particular focus should be placed on identifying a better framework for monitoring administrative burden across the two parts of the matrix.
3. To review the process of developing donor accountability frameworks at sector level and to recommend ways of linking the G15 PAPP framework with sectoral or provincial initiatives.
4. To recommend possible improvements in the process for monitoring donor performance.

3. Competency and Expertise Requirements

A team of three consultants is required whom combine strong general background in donor practices and the DAC/SPA agenda on harmonisation and alignment, good knowledge of Budget Support programmes and SWAPs in Africa and specifically in Mozambique.

The division of work and responsibilities will be discussed and agreed once the team has been selected. The team will agree on a work plan before the start of the Review. The locally recruited consultant will be in charge of co-ordinating the meeting schedule.

4. Timing and expected deliverables

The total number of working days will be 17 for the team leader (9 days in Maputo (14-23/3) and 8 days for preparatory reading and report writing) and 16 days for the other two consultants (14 days in Maputo (7-23/3) and 2 days

preparatory reading and writing contributions to the report). The output will take the form of briefings and reports.

Preliminary timetable:

7/3-23/3: Structured interviews in Maputo and a presentation of preliminary findings against the four objectives sometime 21-23/3

A fully participatory process among the PAPs in relation to the formulation of the indicators is important to ensure that the proposed indicators are realistic and feasible.

4/4: Draft report (incl. proposed updated PAPP matrix) in two parts. Part 1 should deal with objective 1 and a separate part 2 should cover the other objectives.

30/4: Final report

5. Key Bibliographical References

- Baseline Study on PAP Performance in 2003 – September 2004 – Report to the G15 Programme Aid Partners and Government of Mozambique by Richard Gester and Alan Harding.
- 2004 Memorandum of Understanding between the Government of Mozambique and the Programme Aid Partners for the provision of Direct Budget and Balance of Payment Support.
- SPA BSWG – 2004 Survey of the Alignment of Budget Support and Balance of Payments Support with National PRS Processes
- Responses to 2004 DAC/SPA questionnaires
- OECD/DAC DBS evaluation – Mozambique case study (preliminary report)
- 2004 Joint Review and MYR aide memoires (which includes the PAPP matrix)
- The PAP website www.scm.uem.mz/pap
- Rome Declaration on Harmonisation