

*The survey sought to measure objective evidence of progress against 13 key indicators of progress on harmonisation and alignment (see Foreword). A four-point scaling system was used for all of the “Yes/No” questions:*

1. “Yes without reservations” represented here as: **YES!**
2. “Yes with reservations”: represented here as: YES
3. “No with reservations” represented here as: NO
4. “No without reservations” represented here as: **NO!**

*Specific technical criteria were suggested to guide responses (See Annexes). Respondents were also invited to provide a brief explanation when they expressed reservations (Categories 2 and 3 above). The qualitative information they provided has informed this chapter.*

The conclusion of a memorandum of understanding (MoU) between the government and 15 budget support donors in 2004 represented significant progress towards harmonisation and was proof-positive of the government’s commitment to take a strong lead. To facilitate increased alignment around government ownership, capacity-development needs will need to be properly identified and addressed in a more focussed manner to build on the progress made to date. The poverty-reduction strategy (PRS) provides a good basis upon which donor-government partnership can be based, as well as a strategic framework for harmonisation and alignment. An improvement in knowledge and communication management, both across government departments and between donors, is required to reduce overlapping, fragmented approaches and to lessen their negative impact on government resources and capacity. Harmonisation needs to be extended within the framework of the PRS, beyond the agreement of documentary procedures. Concerns about the high level of fiduciary risk in public financial management (PFM) will also need to be addressed collectively to encourage further harmonisation.

## OWNERSHIP

### A CLEAR AGENDA ON HARMONISATION

There is no single document from the government of Mozambique setting out its strategy for aligning development assistance, but rather a proliferation of bilateral agreements. However, the lead taken by government in the conclusion of a MoU with 15 budget support donors, which commits parties to a joint performance review for budget support, provides a clear example of how a wider strategy to better align donor support can be developed.

One bilateral donor comments that:

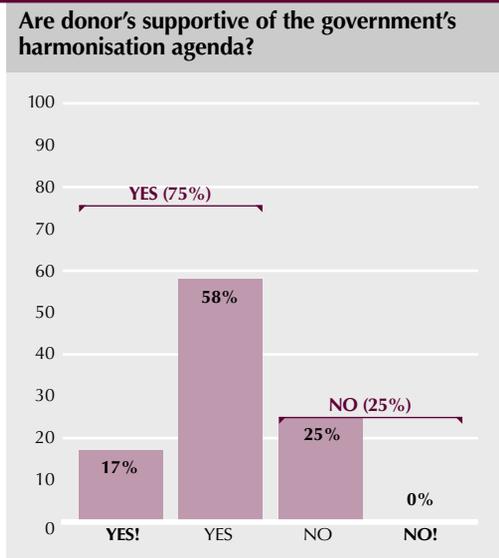
... the MoU for general budget support is a result of a discussion process involving all partners (though still donor driven) and it defines commitments for all donors for harmonisation and alignment on the basis the principles of the Rome Declaration.

[...]

The implementation of the MOU is also raising interest in other sectors (on the part of both donors and government) for coherence and compatibility on the alignment agenda.

Respondents to the 2004 Survey on Harmonisation and Alignment indicated that there are several areas where greater alignment and harmonisation could occur. For example, information about donor activities is currently widely dispersed across various departments of the government and could be better systematised. The need to reduce the overlap between sector reviews and the technical teams of the joint review is critical if the high transaction costs facing government are to be reduced.

**FIGURE 9.1**  
**INDICATOR 1**



**TABLE 9.1**  
**INDICATOR 2**

Is government co-ordinating aid?	
Is there a formalised process for dialogue?	NO
Is government proactive?	NO
Is government in the driving seat?	NO
Do donors' rules support harmonisation?	YES
<b>65%</b>	
<b>% of donors who take part in co-ordination</b>	

Respondents indicate that donors continue to operate in isolation from each other in many activities, particularly in areas of institutional support (see Figure 9.1 – Indicator 1).

The government comments that:

There are too many small overlapping technical support projects that result in little overall coherence. UN agencies are particularly guilty of this approach. Too often in their desire to be “visible” and “main players”, they promote projects or activities with the government that exclude other donors (hence leading to replication), that are ill-thought out, and which require too much management by core government staff relative to what is gained.

### FORMAL GOVERNMENT-LED FRAMEWORK FOR DIALOGUE AND CO-ORDINATION

Although a formalised national co-ordination process has been developed for budget support, no overall agenda exists to cover all aid modalities. Respondents indicate that the government takes a more pro-active approach in some areas than others, but that there is “much room for improvement” (see Table 9.1 – Indicator 2). In the case of budget support and some sector programmes, the government has started to articulate when it considers that agreed principles have been broken. However, this is not the case in all dialogue fora and much depends on the relevant individuals concerned.

The government comments that:

... while the developments in direct budget support show the government’s commitment to take a strong lead, direct budget support is only one aid mechanism. The signing of the MoU with 15 donors should help the government to take a stronger lead, not only on direct budget support issues but in other areas of donor support. Nevertheless, the proliferation of projects across the ministries and provinces, as well as outside of the government, makes this extremely difficult.

With all approaches to development aid represented in Mozambique, it is clear that it is in direct budget and sector support that co-ordination processes are most developed. With other aid modalities, the role that the government plays in donor co-ordination varies by sector. Overall, co-ordination initiatives appear to be mainly donor-driven.

### CAPACITY DEVELOPMENT

Considerable efforts have been made to create a single pool for supporting capacity building in PFM through support to the public financial reform unit UTRAFE (*Unidade Técnica de Reforma da Administração Financeira do Estado*) and

the rolling-out of SISTAFE, the new state financial administration system. Other capacity-building efforts continue to take place outside these mechanisms (see Table 9.2 – Indicator 3).

Respondents report that several small and frequently overlapping technical support projects persist in budget formulation, execution, reporting and review and that no overarching plan exists to build capacity in this area. Further, they report that it is not clear that everyone realises the full extent of the challenges in the area of aid co-ordination and, to date, no plan has been developed to address critical weaknesses in this area, despite some ideas having been suggested. An example given is the need to work more on off-budget funding mechanisms, about which there appears to be considerable confusion.

Diagnostic reviews have been undertaken to assess the extent of PFM and budget process weaknesses and the government and donors are, in general, working together to address them.

With the exception of the co-ordination explained above in the case of budget support, there is generally a lack of focus on capacity building for aid co-ordination. The government comments that “it should be noted that the lack of aid co-ordination is not only due to scarce capacity, but also to the way donors operate.”

The need for longer-term technical assistance programmes is recognised by both donors and the government and capacity shortages are unlikely to be overcome in the short term. The government makes the point that the issue of sustainability is often given insufficient consideration in the provision of technical assistance.

There has been a significant level of diagnostic activity in Mozambique and this has resulted in potentially competing initiatives. If the government is to be able to take a stronger lead and ownership, then the sequencing and prioritising of implementation activities needs to be carried out with care. There are several potential benchmarks that have been set, with some overlap. The challenge now is to implement and measure progress, and identify actions that lead to measurable results.

Capacity development			TABLE 9.2 INDICATOR 3
► <b>Have weaknesses been identified?</b>			
In public financial management	YES	NO	
In budget planning and execution	YES		
In co-ordination of aid			
► <b>Are weaknesses being addressed?</b>			
In public financial management	YES	NO	
In budget planning and execution	YES		
In co-ordination of aid			
► <b>Is the level of support appropriate?</b>			
In public financial management	YES	NO!	
In budget planning and execution	YES		
In co-ordination of aid			

## ALIGNMENT

### RELIANCE ON PARTNERS' NATIONAL DEVELOPMENT STRATEGIES

The government's PRS, called the *Plano de Acção de Redução da Pobreza Absoluta* (PARPA) 2001-05, provides a good basis upon which donor-government partnership can be based and provides a strategic framework for harmonisation and alignment.

PARPA's central objective is a reduction in the incidence of absolute poverty from its 1999 level of 70% to less than 60% by 2005 and less than 50% by 2010. The plan's definition of poverty is multidimensional, encompassing access to health, education and other services as well as income. The PARPA concludes that key determinants of poverty are economic growth, levels of education of the economically active population (particularly women), dependency rates, agricultural productivity, employment opportunities, and basic infrastructure in rural areas.

The degree to which the PARPA is operationalised improved in 2004 with the development of a performance-assessment framework that all budget support donors will use to evaluate government performance in priority sectors. However, there continues to be room for improvement, in particular with the link between budgeting and planning.

The government’s annual evaluation of the PARPA document is submitted to parliament to report on progress in PARPA implementation and is used by 22% of donors to influence resource-allocation decisions (see Figure 9.2 – Indicator 4). One United Nations (UN) agency comments that it is “too general and macro to be helpful for detailed budget allocations”. Government and donors accept that there is room for the quality of the document to be improved. For example, in some cases values are presented against targets with little explanation for why the two figures differ and, more generally, the link between sector activities and outputs and outcome indicators could be better.

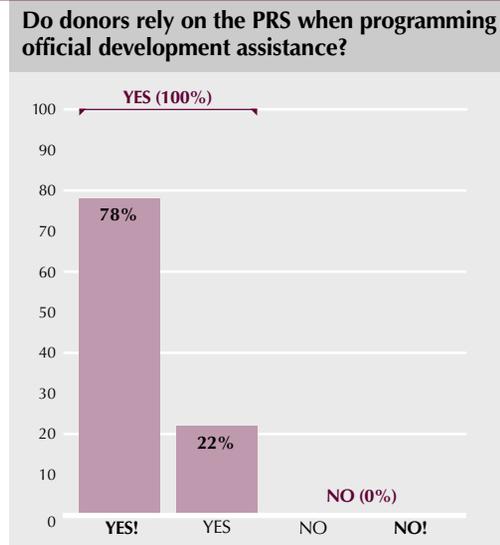
**BUDGET SUPPORT**

Budget support played a pioneering role in the establishment of a joint donor group (in 1997) and a joint dialogue mechanism.

Considerable progress has been made in the last year with the alignment of donors who provide budget support to government systems and in harmonisation among these donors. This culminated in the government and 15 budget support donors (13 bilateral donors, the European Commission and the World Bank) signing a MoU in April 2004. These donors have formed a common group (the G15) that in 2004 undertook a joint review of performance. The G15 use the government’s annual evaluation document to report on PARPA implementation and have agreed with the government a common performance-assessment framework to measure performance.

Indicator 5 measures the extent to which budget support is predictable and aligned with partners’ procedures (see Table 9.3). The government reports that there have been significant problems with the scheduling of budget support disbursements in recent years, with a number of serious problems continuing in this area in 2003. Particular reference is made to the back-loading of donor disbursements in the fourth quarter of 2003, which created difficulties for government

**FIGURE 9.2  
INDICATOR 4**



**TABLE 9.3  
INDICATOR 5**

Is budget support predictable and aligned?				
Are budget support donors making:	YES!	YES	NO	NO!
► multi-annual commitments?	Finland France Germany Portugal Switzerland United Kingdom European Commission	Belgium Italy Netherlands Norway	Spain United Nations	Austria
► timely commitments?	France Germany Italy Switzerland United Kingdom	Norway European Commission	Austria Belgium Netherlands Portugal Spain United Nations	
► timely disbursements?	Finland			Spain Switzerland

monetary policy and attempts to control inflation. The tightest liquidity periods for the government are the first two quarters of the year, yet a significant number of donors continue to disburse at the end of the fiscal year. This factor contributes to very low budget execution rates in key PARPA-priority sectors.

Scanteam's September 2004 report, "PFM Assessment, Mozambique", looked specifically at public finance management. It will be necessary to consider this alongside the other reports and findings so that progress can be made in agreeing the most appropriate and effective actions, and to prioritise the recommendations that have been made (see Box 9.1).

### Main findings of the "PFM Assessment, Mozambique 2004" (Scanteam, 2004)

The 14 donors/funding institutions ("G14") providing budget support asked that a PFM assessment be carried out, applying a standardised assessment approach. This was enriched by taking into consideration key framework conditions (political, legal and judicial dimensions, etc.), and the status of public sector reform processes. The main findings are:

1. Overall PFM risk in Mozambique remains high. Management of the economy has been quite satisfactory, but comprehensiveness and transparency of the budget is poor, the medium-term planning and budgeting is weak, while budget execution and accounting and reporting present quite serious weaknesses. The area of greatest concern, however, is external audit and accountability.
2. At the same time, PFM reforms are moving ahead in a very structured and comprehensive manner. The trend in PFM is therefore seen as quite positive, where successful implementation of the new financial management information system, SISTAFE, is intended to address many of the current weaknesses.
3. Furthermore, there are improvements in the fields of medium-term planning and budgeting, more comprehensive and accessible reporting, and continued strengthening of the Ministry of Planning and Finance's internal inspectorate, *Inspecção Geral de Finanças* (IGF). This is having wider repercussions as the IGF is taking on a "mentor" and quality assurance role *vis-à-vis* other ministry inspectorates.
4. Contingent liabilities may become important, so an important challenge is to get a comprehensive picture of them, and on that basis develop a risk-management plan.
5. The donors have been constructive partners in addressing PFM issues. They have worked towards harmonising disbursements in line with government-financing schedules, but predictability of donor disbursements and the volume of off-budget funding remain areas to improve.
6. Areas that are not moving well are those addressing larger systemic framework conditions. Public sector reform is extremely complex and demanding, yet critical to future development, and requires more support and action. Improvements in the judicial and legal sectors, the supreme audit institutions, and a real capacity to reduce and combat misdirection of funds and corruption are required in order for "horizontal accountability" within the state to be strengthened. Accountability of the state to civil society also remains weak.
7. Future PFM studies should track SISTAFE implementation, contingent liabilities, and overall accountability; identify potential "killer assumptions"; and improve local participation in the process.

The government of Mozambique is focusing on a limited number of instrumental reforms, notably public sector reform, revenues, SISTAFE, procurement, and IGF. This has rationalised a very extensive reform agenda: the assessment team found that donors and funding agencies during 2000-03 presented 280 recommendations covering planning, disbursement, accounting, audit, political accountability and capacity building.

### PROJECT SUPPORT

Indicator 6 measures the degree to which donors rely on country systems when providing project support (see Figure 9.3). In comparison with other countries surveyed, Mozambique's systems are used to an average extent.

New government procurement regulations are expected to be in place by the end of 2004, and several donors expect the percentage of projects using government procurement systems to rise once this has happened.

One bilateral donor comments that government audit systems are very weak and so it often has to use external assistance, although it tries to do this in collaboration with both the government and other donors. This appears to be typical of other donors.

Another bilateral donor explains that the extent to which government systems are used varies by sector, giving the example that government disbursement systems are used more in the health sector than in most others.

### SECTOR SUPPORT

Indicator 8 measures donor support to sectors in key policy areas (see Table 9.4). Good dialogues exist between the line ministries and the sector donor groups. However, these are reported to be poorly harmonised with the budget support process, with there being an overlap between sector reviews and the technical reviews which occur as part of the PRS review process. The government articulates the need to be stronger in demanding a more holistic process with a prioritisation (and harmonisation) of the national budget and plan over individual sector efforts. It is hoped that this will become easier as the performance-assessment framework becomes more institutionalised.

### Health sector

61% of donors are currently directly active in the health sector and a further 28% are involved in some other capacity, for example through delegated co-operation arrangements. Several common funding mechanisms exist to address various sub-sector issues, e.g. drugs. A performance monitoring system (PMS) exists but has

FIGURE 9.3  
INDICATOR 6

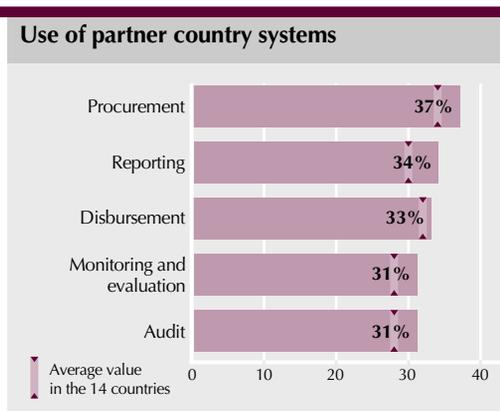


TABLE 9.4  
INDICATOR 8

Alignment with sector programmes					
	Health	Education	Water	Transport	Agriculture
► Are sector systems in place?					
Is government leading in the sector?	YES	YES	YES	YES	YES
Does a clear sector policy exist?	YES	YES	YES	YES	YES
Is a sector medium-term expenditure framework (MTEF) in place?	YES	NO	<b>NO!</b>	NO	NO
Is there sector co-ordination?	YES	YES	YES	YES	YES
Is a sector monitoring system in place?	<b>YES!</b>	<b>YES!</b>	<b>YES!</b>	<b>YES!</b>	NO
Are systems being harmonised?	<b>YES!</b>	YES	N/A	NO	<b>YES!</b>
► Are donors supporting the sector systems?					
Are the systems aligned with government policies?	<b>YES!</b>	<b>YES!</b>	YES	YES	<b>YES!</b>
Are funds integrated into the MTEF?	YES	YES	<b>YES!</b>	<b>YES!</b>	YES
Are donors using the government monitoring system?	YES	YES	YES	YES	YES

not yet been fully developed, however, formal elements exist for monitoring poverty reduction in relation to the PARPA and the specific monitoring systems in the Ministry of Health.

### **Education sector**

An education sector strategic plan exists, some elements of which are costed. It has not yet been fully integrated into a full medium-term expenditure framework (MTEF), however. Though a heavily supported common fund exists, some donors continue to operate outside of it and as it is off-budget, it is not harmonised with the government budget. Many donors regularly participate in donor co-ordination meetings (60%), and 38% use government PMSs.

### **Water sector**

A government water sector policy exists, with a comprehensive monitoring system, however there is no sector programme or MTEF. A few donors are active in the sector (20%) and they participate in a donor co-ordination mechanism.

### **Transport sector**

Road plans exist, and are to a certain extent costed, but they do not yet form the basis for a MTEF that is used in the budget process. Though a weakly supported common fund exists, major donors in this sector continue to operate outside it.

### **Rural development**

Sector strategic plans exist, some of which are costed, but these have not yet been institutionalised as a MTEF in the budget process. A vast number of indicators exist in agriculture, but they are not yet streamlined and thus do not constitute a very well-structured PMS.

### **Other sectors**

Other sectors enjoying donor support include justice, public financial management, private sector development, anti-corruption, energy and mine action.

Sector policies tend to be clear, but the link between these and budget priorities is not well established. This is partly because it is unclear who is setting the priorities – the government or the donors.

Efforts have been made to produce MTEFs, based on the sectoral strategy plans, as proposals for the overall document produced by the Ministry of Planning and Finance (MPF). However, this is done annually and tends not to be linked to the final budget allocation, due to the weak nature of the MTEF as an overall instrument, and time constraints in terms of proposal preparation.

The MPF annually sets initial budget limits (based on an MTEF) which projects the total both domestic and external resources available, and indicates in which sectors and provinces these should be allocated. Although this is theoretically a rolling instrument, in practice this has not been possible due to poor quality information and a lack of integration into the budget cycle both at the MPF and sector levels. Work is currently being carried out to address these issues and produce a corresponding methodology. It is anticipated that this will involve reducing the burden of information requested and trying to fit it into a logical framework linking resources with actions and policies. It is hoped that this will allow an increase in the quality of the information and forecasts, so that they become a more important instrument in the budget process.

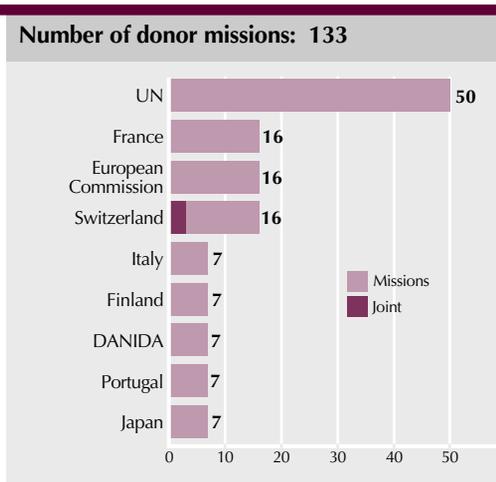
**TABLE 9.5**  
**INDICATOR 7**

Are donors streamlining conditionality?		
Direct budget support	YES!	
Health sector	YES	
Education sector	YES	
Water sector		NO
Transport/road sector	YES	
Rural development agriculture	YES	

**TABLE 9.6**  
**INDICATOR 9**

Who is delegating co-operation?			
YES!	YES	NO	NO!
Germany Iceland	Norway Spain Switzerland United Nations	Denmark	Australia Austria Belgium Finland France Italy Japan Netherlands Portugal United Kingdom European Commission

**FIGURE 9.4**  
**INDICATOR 10**



## HARMONISATION

### STREAMLINING CONDITIONALITY

Indicator 7 looks at the extent to which donors have streamlined conditionality when providing development assistance in a number of specific areas (e.g. budget support, sector level) (see Table 9.5).

The common approach to conditionality in the context of budget support has been discussed above. In the health, education and agriculture sectors, dialogue is sector ministry-donor group focused, however it is reported that neither the sector donors nor the line ministries sufficiently communicate these arrangements to the MPF and the Government-Donor Budget Support Joint Steering Committee.

In the water sector, there is one common fund in which the donors and government have set out basic principles. In practice, however, it is little supported and two of the largest water sector donor programmes are not incorporated in the fund.

### DELEGATED CO-OPERATION

Indicator 9 shows that 11% of donors in Mozambique claim to be party to an agreement to perform tasks on behalf of other donors (see Table 9.6). Arrangements tend to take the form of responsibility in given sectors being delegated to the lead donors.

### DONOR FIELD MISSIONS

In 2003, the number of donor missions to Mozambique exceeded 130 (not including the World Bank) (see Figure 9.3 – Indicator 10). Only 3% of all missions were undertaken jointly between donors.

## STREAMLINING DIAGNOSTIC REVIEWS

In the period 2001-03, at least 14 diagnostic reviews were undertaken in Mozambique (see Table 9.7 – Indicator 11), 4 of which involved more than one donor and 6 that resulted in the production of an action plan.

## DISCLOSING INFORMATION

A critical dimension of the harmonisation and alignment agenda is donors' ability to share information on aid flows (Indicator 12) and analytic work (Indicator 13).

Indicator 12a measures the extent to which donors provide multi-annual indications of aid flows – only 28% of donors provide three-year indicative envelopes on expected aid flows, with most planning over a shorter timeframe. Indicator 12b measures the extent to which donors notify the government about actual disbursements – 61% of donors claim to provide comprehensive and regular information about in-country disbursements. The government comments that parts of government (normally the relevant sector ministry) are usually notified about disbursements; however, this information often fails to reach all parts of the MPF and there is clearly a need for improvement in this area.

Only 13% of donors regularly shared information on their country analytic work on the country analytic Web site (see Table 9.8 – Indicator 13).

Are diagnostic reviews being streamlined?		TABLE 9.7 INDICATOR 11
Diagnostic reviews (2001-03)		
1 CFAA	3 IMF ROSCs	
2 PERs	1 World Bank PETS	
1 CPAR	6 donor audits	

Who is sharing country analytic work?				TABLE 9.8 INDICATOR 13
YES!	YES	NO	NO!	
Norway	France	Australia	Finland	
European Commission	Portugal	Austria	Japan	
	Switzerland	Denmark		
	United Nations	Germany		
		Iceland		
		Italy		
		Spain		

## ACRONYMS

CFAA	Country financial accountability assessment
CPAR	Country procurement assessment report
DANIDA	Danish International Development Agency
IMF ROSC	International Monetary Fund's Report on the Observance of Standards and Codes
MoU	Memorandum of understanding
MPF	Ministry of Planning and Finance
MTEF	Medium-term expenditure framework
PARPA	<i>Plano de Acção de Redução da Pobreza Absoluta</i> (Mozambique)
PEFA	Public Expenditure and Financial Accountability
PER	Public expenditure review
PETS	Public expenditure tracking surveys
PFM	Public financial management
PMS	Performance monitoring system
PRS	Poverty-reduction strategy
UN	United Nations

