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Government-Donor Partnerships: Mozambique as a Model of Donor Coordination

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Mozambique's model of donor coordination has considerably improved aid effectiveness, holding lessons for sub-Saharan Africa. In 2006, the Mozambican government formulated its second poverty reduction strategy (PRS)—entitled in Portuguese the *Plano de Acção para a Redução da Pobreza Absoluta* (PARPA II)—which sets out goals and performance indicators for 2006–09.[1] Since 2000 an increasing number of donors have agreed to common financing schemes that support the government's poverty reduction strategies in an efficient, predictable, and noncumbersome way. This chapter sheds light on how this framework, referred to as the "Mozambique model," has evolved into an institutional setup that is often praised internationally as a best practice.

The next section reviews the theoretical and empirical literature on donors' role in promoting aid effectiveness through the aid modalities they choose and their ability to coordinate aid delivery among themselves and with the government. The section ends with a discussion of the Paris Declaration on Aid Effectiveness as the model to follow.[2] The section "Donor Coordination in Mozambique" measures the country's perfor-

[1]PARPA II was finalized in 2006. PARPA I, formulated in 2001, spanned 2001–05.

[2]The Paris Declaration is an international agreement endorsed by over 100 ministers and other senior officials on March 2, 2005.

mance against the indicators established under the Paris Declaration, regrouped under the criteria of "ownership," "harmonization," "alignment," and "managing for results." Where possible, we compare Mozambique's performance with that of other countries. The section is followed by a discussion of the challenges the Mozambican government and donors face in increasing aid effectiveness. The last section draws lessons for other sub-Saharan African countries.

Literature Review: Donor Coordination and Aid Effectiveness

There has been growing recognition of the role donors play in promoting aid effectiveness, based not only on their choice of modalities for aid delivery but also on their ability to coordinate delivery with other donors and with recipient governments. Well aware that such choices can affect aid outcomes, the development community has designed best principles to guide recipient governments and donors as they work together so as to maximize aid effectiveness. This section reviews the theoretical and empirical literature on this subject and provides background on the relevance of donor practices in promoting or deterring aid effectiveness.[3] It also introduces the major yardsticks against which the Mozambique model, described in the following section, will be assessed.

The Current Debate

An influential view in academic and policy circles is that the effectiveness of foreign aid in promoting development is highly conditional on country-specific factors and the circumstances surrounding aid delivery. The effectiveness of foreign aid in promoting development, while always a contentious topic in academic and policy circles, has become particularly polarized, with aid enthusiasts on one side, arguing that aid has worked and should be scaled up (Sachs, 2005; and UN Millennium Project, 2005), and aid skeptics on the other side, saying that the role of aid in fostering development should be downplayed, given all that has gone wrong (Easterly, 2006). Controversies aside, following the influential work of Burnside and

[3]There is a vast literature on the determinants of aid effectiveness. This chapter will touch on a smaller but fast-growing subset of the literature that looks at the role played by government and donor interactions in enhancing aid effectiveness. Clemens, Radelet, and Bhavnani (2004) and Tarp (2008) provide comprehensive updated surveys of the empirical literature. A more theoretical survey can be found in Drazen (2000).

Dollar (2000)—who contend that aid effectiveness should be conditioned on "good policies"—most of the academic and policy discussions have centered on identifying the necessary and sufficient conditions for aid to have a positive effect on development. As reviewed in Clemens, Radelet, and Bhavnani (2004), this strand of the literature can be split into two subcategories: (1) studies arguing that aid effectiveness is conditioned on recipient country characteristics and (2) studies arguing that donor practices and procedures are the relevant conditioning factors.

Most of the attention has gone to *recipient country characteristics*. Country characteristics shown to affect aid include the degree of vulnerability to terms of trade shocks (Collier and Dehn, 2001); post-conflict economics (Clément, 2004); institutional quality (Burnside and Dollar, 2004); policy and warfare (Collier and Hoeffler, 2002); and geographical location (Dalgaard, Hansen, and Tarp, 2004).[4] Aid effectiveness has also been shown to depend on the type and duration of the foreign aid intervention (Clemens, Radelet, and Bhavnani, 2004).[5]

Donor Practices and Aid Effectiveness

More attention has recently been devoted to the role of *donor practices* in promoting aid effectiveness. The literature has focused, in particular, on three issues: (1) the criteria used to allocate foreign aid; (2) the commitment to timely, predictable, and stable aid disbursements; and (3) the modalities of aid delivery.

Donor Motives

Aid ineffectiveness in achieving growth and development objectives may be simply the result of strategic and political considerations among donors that did not allocate aid based on effectiveness considerations in the first place. There is ample statistical and anecdotal evidence that aid is not always delivered for purely developmental reasons. Humanitarian, military, and commercial interests have also come into play,[6] as confirmed

[4]However, most of these studies were not resilient to modest robustness checks, as shown by Roodman (2004).

[5]Aid effectiveness is divided into three groups: "no impact" (humanitarian aid); "early impact aid" (transport, communications, business services, construction); and "late impact aid" (for example, health care and education).

[6]The pattern of aid flows to developing countries during the cold war was based largely on such countries' alignment with then Communist countries. Other examples are the

by cross-country empirical work attempting to uncover specific country characteristics that help explain the allocation of bilateral and multilateral aid flows. Studies have shown that most donors give more aid to poorer countries, but that the underlying motives behind such aid vary considerably. For example, former colonial ties have been an important determinant of bilateral aid patterns, and voting behavior at the United Nations can affect allocation both bilaterally (Alesina and Dollar, 2000) and through the multilateral system (Andersen, Harr, and Tarp, 2006). Commercial and other strategic interests have also been shown to affect aid allocation (Berthélemy, 2006). However, this trend may have changed somewhat in countries where aid is allocated on the basis of a well-defined and homegrown poverty reduction strategy guided by the Millennium Development Goals (MDGs) and supported by the Heavily Indebted Poor Countries (HIPC) Initiative and the Multilateral Debt Relief Initiative (MDRI).[7]

Timing, Predictability, and Stability of Aid Disbursements

A nascent literature shows that donors' inability to commit to timely, predictable, and stable aid disbursements hampers aid effectiveness. Aid-dependent countries are particularly prone to large external shocks, yet they face inherent liquidity constraints and lack the countercyclical policy tools needed to weather such shocks. Foreign aid has been shown to be highly volatile, unpredictable, and procyclical (Bulíř and Hamann, 2003) and to have a sizable impact on aggregate growth and consumption (Lensink and Morrisey, 2000; Pallage and Robe, 2003; and Arellano and others, 2005).[8] Bulíř and Hamann (2006), updating earlier work, find that aid disbursement practices remain erratic and procyclical, despite various initiatives to improve country ownership and aid coordination.

Aid Modalities: Conditionality and Financing Channels

A number of studies have also looked at the links between aid effectiveness and different aid modalities. Aid can be channeled to specific proj-

substantial aid flows directed by the United States for political reasons to Israel and Egypt and, more recently, to the Islamic Republic of Afghanistan and Iraq.

[7]See IMF (2005a).

[8]Aid volatility refers to the variance of aid disbursements in different years, while aid unpredictability refers to unanticipated deviations within a given year in aid commitments and disbursements.

ects, sectoral programs, or general budget support. Aid modalities can also differ according to the conditions that apply to the disbursement of aid.

Most of the initial theoretical and empirical research on aid modalities has focused on the *conditionality of aid disbursements,* a common feature of most aid agreements. The literature, however, has focused mostly on loans granted by international financial institutions such as the World Bank and the IMF for macroeconomic policy reforms and structural adjustment. While policy conditionality in this case has usually been associated with improved macroeconomic stability, the literature has been somewhat mixed on the role conditionality plays in promoting structural reforms (Dollar and Svensson, 1998; World Bank, 1998; and IMF, 2001). Conditionality has been said to undermine aid effectiveness by (1) not encouraging structural reforms because of distortions resulting from its enforcement and the implied lack of country ownership (Svensson, 2000); (2) focusing on inputs rather than outcomes (Killick, 1997) or on measurable but less relevant outcomes (Azam and Laffont, 2003); and (3) demanding excessive administrative resources to monitor compliance (Berg, 1997). The streamlining of structural conditionality at the IMF was a response to such findings; by focusing related actions on a small number of growth-critical reforms, it has helped build greater country ownership. Initial evidence points to observed improvements in structural reform implementation, particularly in low-income countries.[9]

Recent research has started to look at the impact of different *financing channels for aid delivery,* particularly the role of project versus general budget support (Box 7.1). Theoretical, empirical, and case study research has in general favored general budget support over project support as the financing channel most conducive to aid effectiveness. In spite of delivering faster, more visible, and easily monitorable results and ensuring lower fiduciary risk, donor-financed projects have been shown to compromise recipients' control of expenditure programs and tax efforts, weakening accountability channels and leading to spending allocations and domestic revenue mobilization levels incompatible with recipient countries' poverty reduction strategies (Devarajan and Swaroop, 1998; and World Bank, 2003). These problems tend to increase, as shown below, with the number of donors working in individual and isolated projects in the recipient country. By relying on recipient countries' own public finance institutions, aid channeled directly to the budget avoids these problems, thus enhancing country ownership, facilitating donor coordination, and improving aid

[9]IMF (2002) summarizes the new guidelines, while IMF (2005b) reviews the implementation record following the enactment of such guidelines.

Box 7.1. Why Many Aid Agencies Prefer Giving Project, Rather Than General Budget, Support

Aid agencies have usually granted more project financing than general budget support for several reasons:

1. Aid agencies often want to be able to identify their own contributions, often through distinct projects, to increase the visibility of their efforts and sustain political support for aid flows. A new hospital, for example, is easier to showcase than the outcome of policy reform or budget support.
2. Aid agencies facing disbursement pressures need to show taxpayers and other stakeholders quick results. This is easier when donors are in charge of interventions.
3. Spending preferences of donors and recipients differ. For instance, taxpayers in donor countries may prefer social sector projects or humanitarian aid over capacity building or infrastructure projects. A donor's geographical allocation of aid within the recipient country might not fit with the recipient country's priorities.
4. Fiduciary concerns often cause donors to monitor inputs and processes. Monitoring is easier with project aid because the donor controls the design and implementation of each intervention.

effectiveness. However, budget support is no panacea, and its appropriateness has been shown to be conditional on, among other things, previous agreement among donors and recipient governments on development objectives and budget allocations, and a reasonably sound policy and institutional framework, including transparent and adequate budget planning mechanisms and public financial management arrangements (Cordella and Dell'Ariccia, 2003). Recent evidence of the greater effectiveness of general budget support comes mostly from case studies stressing that the quality of countries' public financial management systems is critical for its success (World Bank, 2006a).[10]

Donor Coordination and Donor Practices

A growing literature has looked at *donor coordination failures*. The common conclusion is that lack of coordination compromises aid effective-

[10]A number of case studies evaluate the effectiveness of general budget support without comparing it explicitly with the effectiveness of other modalities (Batley, Bjørnestad, and Cumbi, 2006; and OECD 2005b).

ness by inducing the choice, and amplifying the effects, of weak donor practices. Donors' inability to coordinate has led them to concentrate on projects and less-concerted financing schemes to finance government activities (World Bank, 2003), increasing transaction costs for recipient countries (OECD, 2003) and leading to declines in the administrative quality (Knack and Rahman, 2004) and planning capacity of their governments. Ultimately, donor coordination failures have been shown to weaken the accountability of both public officials (Devarajan and Swaroop, 1998) and donors (Easterly, 2003, 2006) in ensuring the effectiveness of donor interventions (Box 7.2).[11] History provides some counterfactual support to the donor-proliferation hypothesis—examples of aid success (Marshall Plan, Taiwan Province of China, Botswana, and Korea) have usually been marked by the presence of a single dominant donor (Brautigam, 2000; and Azam and Laffont, 2003).[12]

The implications of donor coordination for aid effectiveness have been formalized using a common-agency framework. Dixit (2003) and Murshed (2002, 2006) have looked at the implications of donor coordination for aid effectiveness by extending the multitask agent model developed in Holmström and Milgrom (1991) to a common-agency framework.[13] They demonstrate that, in the absence of coordination, the presence of multiple principals and multiple tasks leads to suboptimal efforts, compounding the moral hazard distortions already imposed given the unobservability of effort. Failure to coordinate weakens incentives to perform any one task when the various activities of the agents do not reflect the principals' real interests. Weak incentives, in turn, lead to suboptimal effort levels and, ultimately, to suboptimal project outcomes. The appendix contains the model in more detail. This model has two clear policy implications for donor practices to improve aid effectiveness. The first is that it is in donors' own interests to coordinate more with one another regardless of their preferences, particularly as the number of donors increases. The second is that

[11]Fischer (2006) also shows that lack of donor coordination, as well as the loss of institutional knowledge in donor agencies because of the high turnover of expatriates, has played into the hands of rent-seekers in Tanzania.

[12]Studies looking at the origins of the donor coordination problem have argued that the lack of coordination lies in the origins of aid agencies (Martens, 2005; and Kanbur and Sandler, 1999). Coordination of agencies accountable to different constituencies and created with different development strategies is inherently difficult.

[13]They consider a situation where the aid recipient government is an agent receiving several conflicting tasks commissioned by different principals or donors. Conflicting tasks may be seen as donor-financed projects with different objectives and conditionalities, as a result of donors' different preferences.

Box 7.2. Donor Coordination Failures: Implications for Aid Effectiveness

1. **Donor-financed projects proliferate.** Divergence of objectives increases and the visibility of efforts is blurred in countries with multiple donors, leading to growing reliance on projects in the absence of coordination mechanisms.
2. **Transaction costs are compounded.** Different donors adopt different management practices, such as numerous and diverse donor rules and procedures for evaluating aid projects and programs; different fiscal calendars and disbursement schedules, and financial accounting requirements; multiple missions, reports, and country-specific analytical work (for example, poverty assessments, public expenditure reviews, fiduciary analysis).
3. **Bureaucratic quality is further compromised.** Donor competition for scarce human resources halts and even reverses the development of public sector capacity as donor hiring practices increasingly (1) rely on expatriates instead of promoting on-the-job training or capacity building for local officials, and (2) poach qualified government officials.
4. **Planning and absorptive capacity is reduced.** Lack of donor coordination in aid delivery further compromises the control of recipients' policymakers over expenditure programs, leading to spending allocations and service provision incompatible with poverty reduction strategies and absorptive capacity. The latter is a consequence of uncoordinated actions resulting, for instance, in (1) excessive spending in social sectors (health care, education) to the detriment of infrastructure; and (2) prioritization of investment projects that, in the aggregate, imply unrealistically high recurrent expenditures or are not in line with absorptive capacity in future years (for example, roads that will be too costly to maintain, value-added-tax provisions that require excessive counterpart funding on the part of the government, schools or hospitals without enough personnel to run at full capacity).
5. **Government and donor accountability for aid effectiveness weakens.** In a country in which the bulk of public expenditure allocation, finance, and management reflects primarily donor preferences for individual projects, local citizens cannot hold elected officials directly responsible for the individual or overall outcome of such projects. Nor can they hold donors responsible, if aid delivery is provided by multiple donors and is fragmented. In such cases, each donor will be responsible for only a small part of development assistance; responsibility for success or failure is diffused; and any single donor will likely not have much stake in the country's economic and social development.

in order to promote country ownership of development projects, donors should try to allocate aid to projects (programs) that are more complementary with other donors' projects and, above all, with the preferred projects of the recipient governments. Donors can improve complementarities or synergies, for instance, by financing projects that the government is willing to pursue in the first place and, as such, that complement rather than compete with already existing government projects.

Best Donor Practices to Improve Aid Effectiveness

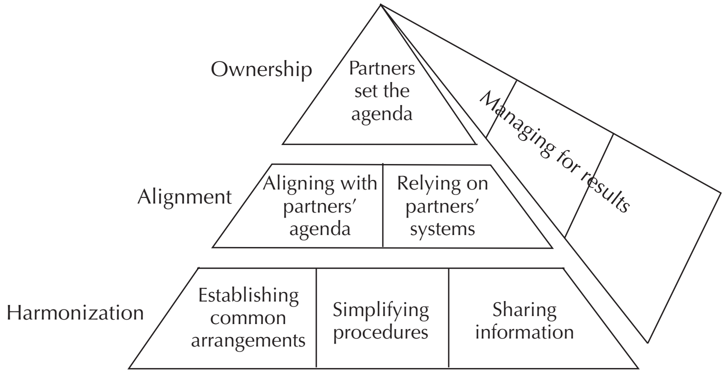
The development community's answer to improving donor practices so as to promote country ownership and donor coordination illustrated in the previous section came in the form of the "development partnership model" implemented through the Harmonization and Alignment (H&A) operational guidelines and monitored through indicators agreed under the Paris Declaration of Aid Effectiveness in 2005.

The development partnership model

The development partnership conceptual framework can be graphically summarized in the following pyramid structure (Figure 7.1).[14] At the top of the pyramid is the principle of *country ownership and partnership*, which states that recipient governments should take the lead in setting the development agenda with the support of donors, civil society, and other partners. The principles of *harmonization* and *alignment* form the base of the pyramid and are meant to provide support for the principles of *country ownership and partnership*. The principle of harmonization advocates increasing coordination and streamlining activities among different aid agencies. It comprises three main best-practice guidelines: (1) the development of a common arrangement for planning, funding, disbursing, monitoring, evaluating, and reporting on aid delivery (for example, increased use of common fund–based modalities); (2) the gradual simplification of procedures and specific requirements to reduce the burden these place on recipient governments (for example, by reducing the number of missions and reviews); and (3) the sharing of information among development part-

[14]The original concept of development partnership dates back to Lester (1969). It was relaunched in the late 1990s by the Development Assistance Committee (DAC) at the Organization for Economic Cooperation and Development (OECD, 1996), the government of the United Kingdom (U.K. Secretary of State for International Development, 1997), and the World Bank (World Bank, 1999). De Renzio and Mulley (2006) provide a detailed historical background.

Figure 7.1. Partnership for Greater Aid Effectiveness



Source: OECD (2005b).

ners to promote transparency and improve coordination. The principle of alignment is twofold, comprising guidelines to increase (1) donors' reliance on recipient countries' systems (for example, public financial management, accounting, auditing, and procurement systems); and (2) donors' attention to recipient countries' development strategies (for example, donors' financial and analytical support could be linked to recipient countries' strategies). Both sets of guidelines expand the reach of harmonization best practices while providing more direct support to the improvement of country ownership. For instance, donors' increased alignment with the recipient countries' systems and strategies should stimulate the use of common-fund arrangements that would improve donor coordination and promote country ownership. The principle of *managing for results* reflects the cultural shift in the aid system from an emphasis on input delivery and compliance with individual institutional requirements to a focus on the performance and management strategies in place for the achievement of outputs, outcomes, and impacts.

Implementing the development partnership model

The development partnership model came into being with the PRS required of governments seeking debt relief under the HIPC Initiative of the World Bank and the IMF (IMF, 2007). To be eligible for debt relief, governments need to draft Poverty Reduction Strategy Papers (PRSPs) with input from civil society in their own countries, enhancing country ownership of the PRS, and the coordinated participation of active donors.

The principles of harmonization and alignment were operationalized into the H&A guidelines and monitored against indicators agreed under the Paris Declaration of Aid Effectiveness. The H&A operational guidelines were led by OECD's DAC and formalized in general best practice commitments set in 2003 by the Rome Declaration on Harmonization. They contain a set of best practices on how donors can best deliver program support as the preferred aid modality and guiding principles and strategic frameworks, while stressing the need for effective and accountable public financial management (PFM) systems (OECD, 2006).[15] H&A guidelines also recognize that donors often work with a mix of various other aid modalities and that circumstances determine which modalities and instruments are chosen. H&A guidelines were further refined in a number of monitorable indicators under the Paris Declaration on Aid Effectiveness in 2005 (OECD, 2005a, 2005b, and 2006) (Table 7.1).

In the remainder of this chapter, we assess the Mozambican donor coordination framework against the partnership model and the H&A operational guidelines. Where possible, we refer to available quantitative results to measure any impact of improved donor coordination on aid effectiveness.

Donor Coordination in Mozambique

Mozambique's approach to the coordinated donor provision of direct budget support, referred to here as the Mozambique model, is often praised, both nationally and internationally, as a model for donor coordination. To provide insight into its strong points as well as the challenges it faces in the short and medium terms, we compare it in this section with the model that the OECD-DAC proposes for donor coordination, by assessing the degree to which the Mozambique model observes the main elements (ownership, harmonization, and alignment) and overarching goal of the OECD-DAC model, namely managing for results. The Mozambique model encompasses 19 bilateral and multilateral donors, organized in Mozambique in a group referred to as the G19,[16] providing general budget support, which at year-

[15]While the preferred aid modality of the G19 (see definition in footnote 16) for Mozambique is general budget support (GBS), the OECD-DAC prefers program aid, comprising both GBS and sector-wide approaches (SWAPs).

[16]Austria, Belgium, Canada, Denmark, Finland, France, Germany, Ireland, Italy, the Netherlands, Norway, Portugal, Spain, Sweden, Switzerland, the United Kingdom, the

end 2006 accounted for 86 percent of aid in Mozambique registered in the database Official Development Aid Mozambique, or ODAMOZ (95 percent, if observers USAID and Japan are included).[17] This section first lays out the history and institutional setup of the donors providing direct budget support, which is an essential background for understanding the Mozambique model. The section then focuses on some key OECD-DAC success indicators in more detail to illustrate donor coordination.[18]

At the outset it is important to highlight some of the caveats of this analysis. As shown below, at times it is not possible to measure improvements in compliance with the DAC model. This is due to the lack of consistent time series, the ever-changing definitions of concepts, and the inconsistent application of these concepts, resulting in some contradictory empirical results. Evaluating the donors providing budget support, Castel-Branco (2007) notes the lack of clarity and precision of definitions as an impediment to a thorough analysis.

Furthermore, even if improvements are demonstrated, there are no counterfactual studies that would show improvements in compliance with the DAC model if a different donor coordination model was used. Therefore, many of the conclusions remain intuitive and have to be taken with caution. Caveats aside, this analysis provides an important contribution to understanding how ideal donor practices derived from the development partnership model and operationalized through the Paris Declaration are taking shape in the field and to what extent they may be improving aid effectiveness.

The Mozambique Model

History and main principles

In the late 1990s many of Mozambique's donors began to provide some of their assistance in the form of program support in order to overcome

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African Development Bank, the European Commission, and the World Bank are members of the G19. Japan, the IMF, the United Nations Development Program, and USAID are observers.

[17]Source: ODAMOZ as of June 2007. Total aid excludes donors such as the Millennium Challenge Corporation, the Islamic Development Bank, and the Arabic Development Bank, as well as donors such as China, Iceland, India, and South Africa. There are few data on aid outside those provided by the program aid partners that would enable us to assess the success (or failure) of the Mozambique model from the perspective of its impact on the other donors.

[18]For a more exhaustive analysis of Mozambique donors' compliance with the Paris Declaration, see OECD-DAC (2007a, 2007b) and World Bank (2006b).

Table 7.1. Paris Declaration of Aid Effectiveness: Commitments and Indicators

<table>
<tr><th></th><th>Ownership</th><th colspan="2">Target for 2010</th></tr>
<tr><td>1</td><td>Partners have operational development strategies—Number of countries with national development strategies, including poverty reduction strategies (PRSs), that have clear strategic priorities linked to a medium-term expenditure framework and are reflected in annual budgets.</td><td colspan="2">At least 75 percent of partner countries have operational development strategies.</td></tr>
<tr><th></th><th>Alignment</th><th colspan="2">Targets for 2010</th></tr>
<tr><td>2</td><td>Reliable country systems—Number of partner countries that have procurement and public financial management (PFM) systems that either (a) adhere to broadly accepted good practices or (b) have a reform program in place to achieve these.</td><td colspan="2">(a) Public financial management—Half of partner countries move up at least one measure (i.e., 0.5 points) on the PFM/CPIA (Public Financial Management/Country Policy and Institutional Assessment) scale of performance.
(b) Procurement—One-third of partner countries move up at least one measure (i.e., from D to C, C to B, or B to A) on the four-point scale used to assess performance for this indicator.</td></tr>
<tr><td>3</td><td>Aid flows are aligned with national priorities—Percent of aid flows to the government sector that is reported on partners’ national budgets.</td><td colspan="2">Halve the gap—Halve the proportion of aid flows to government sector not reported on government budget(s) (with at least 85 percent reported on budget).</td></tr>
<tr><td>4</td><td>Strengthen capacity by coordinated support—Percent of donor capacity-development support provided through coordinated programs, consistent with partners’ national development strategies.</td><td colspan="2">50 percent of technical cooperation flows are implemented through coordinated programs consistent with national development strategies.</td></tr>
<tr><td rowspan="5">5a</td><td rowspan="5">Use of country PFM systems—Percent of donor and aid flows that use PFM systems in partner countries that either (a) adhere to broadly accepted good practices or (b) have a reform program in place to achieve these.</td><td>Score[1]</td><td>Target</td></tr>
<tr><td colspan="2">Percent of donors</td></tr>
<tr><td>5+
3.5 to 4.5</td><td>All donors use partner countries’ PFM systems.
90 percent of donors use partner countries’ PFM systems.</td></tr>
<tr><td colspan="2">Percent of aid flows</td></tr>
<tr><td>5+
3.5 to 4.5</td><td>A two-thirds reduction in the percentage of aid to the public sector not using partner countries’ PFM systems.
A one-third reduction in the percentage of aid to the public sector not using partner countries’ PFM systems.</td></tr>
</table>

5b	*Use of country procurement systems*—Percent of donors and of aid flows that use partner country procurement systems that either (a) adhere to broadly accepted good practices or (b) have a reform program in place to achieve these.	Percent of donors	
		A	All donors use partner countries' procurement systems.
		B	90 percent of donors use partner countries' procurement systems.
		Percent of aid flows	
		A	A two-thirds reduction in the percentage of aid to the public sector not using partner countries' procurement systems.
		B	A one-third reduction in the percentage of aid to the public sector not using partner countries' procurement systems.
6	*Strengthen capacity by avoiding parallel implementation structures*—Number of parallel project implementation units (PIUs) per country.	Reduce by two-thirds the stock of parallel PIUs.	
7	*Aid is more predictable*—Percent of aid disbursements rebased according to agreed schedules in annual or multiyear frameworks.	Halve the gap—Halve the proportion of aid not disbursed within the fiscal year for which it was scheduled.	
8	*Aid is untied*—Percent of bilateral aid that is untied.	Continued progress over time.	
	Harmonization	Targets for 2010	
9	*Use of common arrangements or procedures*—Percent of aid provided as program-based approaches.	66 percent of aid flows are provided in the context of program-based approaches.	
10	*Encourage shared analysis*—Percent of (a) field missions and/or (b) country analytic work, including diagnostic reviews, that are joint.	(a) 40 percent of donor missions to the field are joint. (b) 66 percent of country analytic work is joint.	
	Managing for results	Target for 2010	
11	*Results-oriented frameworks*—Number of countries with transparent and monitorable performance assessment frameworks to assess progress against (a) the national development strategies and (b) sector programs.	Reduce the gap by one-third—Reduce the proportion of countries without transparent and monitored performance assessment frameworks by one-third.	
	Mutual accountability	Target for 2010	
12	*Mutual accountability*—Number of partner countries that undertake mutual assessments of progress in implementing agreed commitments on aid effectiveness including those in this Declaration.	All partner countries have mutual assessment reviews in place.	

Source: OECD (2005a, 2005b, and 2006).

[1]Scores for Indicator 5 are determined by the methodology used to measure quality of procurement and PFM systems under Indicator 2 above.

the disadvantages of traditional project assistance. This program support was initially in the form of untied common funds within individual line ministries, and the funds were linked to sectoral strategy plans. In view of the Rome and Paris Declarations on aid effectiveness, aid was increasingly being channeled in the form of general budget support (GBS). While the use of sectoral common funds reduced the fragmentation caused by project financing in line ministries, the non-earmarked GBS was channeled directly to the government of Mozambique using the government's own allocation, procurement, and auditing systems.

In this context, donors started to harmonize their actions and agreed on a coordinated approach for budget support in 1999, which was formalized in 2000 with a Common Framework Agreement for a Joint Donor Program for Macro-Financial Support between the government and bilateral donors. This agreement was updated and replaced in 2004 by a memorandum of understanding (MOU) between the government of Mozambique and the subscribing donors, referred to as Program Aid Partners (PAPs), for the provision of direct budget and balance of payment support. The MOU lays out the mutual responsibilities of the donors and the government as well as their corresponding monitoring mechanisms. The original PAP group consisted of four bilateral donors (G4),[19] but it expanded rapidly to 19 in 2007, including the World Bank and the African Development Bank. While the MOU covered GBS, in practice, the G19 used its platform to align and harmonize other aid modalities, including sector-wide approaches (often via common funds), sector development programs, and projects.[20]

In the joint MOU, the government and the PAPs commit to improving the quality of development cooperation and provision of aid through alignment with the government's instruments, processes, and systems of financial management:

[19]Denmark, Ireland, Norway, and Switzerland.

[20]General budget support (in this chapter also referred to as program aid) is defined by OECD-DAC as "a method of financing a partner country's budget through a transfer of resources from a donor to the partner government's national treasury. The funds thus transferred are managed in accordance with the recipient's budgetary procedures. Funds transferred to the national treasury for financing programs or projects managed according to different budgetary procedures from those of the partner country, with the intention of earmarking the resources for specific uses, are therefore excluded from this definition of budget support" (OECD, 2006, p. 26). In the context of the G19, general budget support under this definition includes non-earmarked budget support provided to the government but excludes SWAPs, common funds, and sector budget support, since these do not (fully) follow the recipient's budgetary procedures.

> Government and PAPs declare their commitment to the modality of Program Aid, given the potential to improve aid effectiveness and country ownership of the development process through increased donor harmonization, increasing recipients' institutional capacities in planning, implementing, monitoring, and evaluating their programs; strengthening domestic accountability; reducing transaction costs; allowing allocative efficiency in public spending, and increasing predictability of aid flows (Government of Mozambique and Program Aid Partners, 2004b, p. 3).

The government further commits itself to the reduction of absolute poverty, as spelled out in the PRS, while the donors engage for greater transparency, predictability, and harmonization, as well as for a reduction of the administrative burden for the government.[21]

Monitoring arrangements

Dialogue and monitoring under the Mozambique model is conducted on the basis of the government's planning and fiscal institutions (Box 7.3). Consistent with the MOU, progress in poverty reduction in the PARPA priority sectors[22] is assessed twice a year—during the joint review of the government and development partners in April/May, following the drafting by the government of the annual PRS progress report *(Balanço do PES)*, and a lighter midyear review in September prior to submission of the annual Economic and Social Program (PES, or annual PRS) and the budget to parliament (Box 7.3). In the joint review, the government and PAPs come to a joint view on the government's performance in the previous year, measured against the indicators and targets to which the government committed itself in a performance matrix. The midyear review has an important forward-looking component in which the donors analyze plans for the following year, and the government and PAPs agree on the performance matrix for that same year. Since 2005 civil society representatives have also participated in these assessments.

The joint steering committee of the government and the donors has become the main mechanism for policy dialogue and donor harmonization, using as a reference the government's Performance Assessment Framework (PAF). The PAF is a multiannual matrix of priority targets and

[21]See http://www.pap.org.mz

[22]PARPA I priority sectors included health care, education, roads, agriculture and rural development, basic infrastructure, good governance, and macroeconomic and financial management. PARPA II priority pillars are poverty and macroeconomic management, governance, economic development, human capital, and cross-cutting issues.

Box 7.3. Planning and Fiscal Accountability Systems Under the Mozambique Model

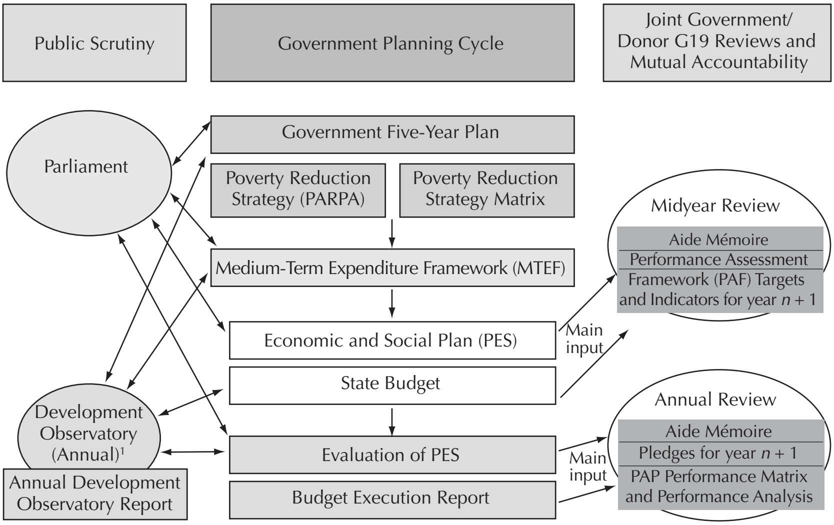
The government and PAPs rely on a number of planning and fiscal institutions or systems to ensure accountability under the Mozambique model. They include (1) the PARPA; (2) the medium-term fiscal framework (*Cenário Fiscal de Médio Prazo*—CFMP); (3) the Economic and Social Plan (*Plano Económico e Social*—PES, or annual PRS) and its progress report (*Balanço do PES*); (4) the annual state budget (*Orçamento do Estado*—OE) and its quarterly execution reports; and (5) the final state accounts (*Conta Geral do Estado*—CGE) and the report of the Controller and Auditor General (*Tribunal Administrativo*). The PARPA is developed through interactive and consultative processes with Mozambican political and economic stakeholders, including the private sector and civil society. The annual PRS (PES) operationalizes the PARPA annually by listing the activities that the government intends to undertake in a given year and its targets. The OE is approved by parliament as a law.

indicators based on the PARPA, updated annually following the publication of the annual PRS (PES) and negotiations between the donors and the government. The PAF now contains 40 indicators out of the more than 200 indicators of the annual PRS. The PARPA matrix, including the 40 PAF indicators, is annexed to the annual PRS (PES) and submitted to parliament to keep it informed about the government's performance. The subset of 40 PAF indicators is the centerpiece of the donors' assessment of the government's performance. Unlike PARPA I, PARPA II includes a strategic performance framework as a tool for tracking poverty reduction in the four priority pillars.

Donors disburse aid if the government has successfully complied with the performance matrix and if the underlying principles are not violated. For the former, donors' disbursements in year $n + 1$ depend on the assessment made in year n of the performance criteria set in year $n - 1$. Hence, in the event of unsatisfactory performance, GBS would be affected only in year $n + 1$, allowing the government to implement corrective measures between year n and $n + 1$. Nonetheless, aid disbursements can be interrupted at any time if the government violates the following governance principles:

> (1) peace; (2) promoting free, credible, and democratic political processes; (3) independence of the judiciary; (4) rule of law; (5) human rights; (6) probity in public life, including the fight against cor-

Figure 7.2. Donors' Alignment and Harmonization with Government Planning Cycles



Source: IMF staff.
Note: PAP = Program Aid Partners.
[1]Previously called the Poverty Observatory, for which an Annual Poverty Observatory Report was produced.

ruption; (7) Millennium Development Goals, including through a pattern of public expenditure consistent with PARPA priorities; and (8) sound macroeconomic policies (Government of Mozambique and Program Aid Partners, 2004b, p. 5).

The performance of donors is also assessed annually on the basis of harmonization and alignment with national instruments, processes, and systems, as well as in terms of donors living up to their commitments. Figure 7.2 illustrates the G19's alignment and harmonization with the government's planning cycles.

Alignment and harmonization by the IMF

The IMF-supported programs and policy recommendations are fully aligned with the government's PARPA and medium-term expenditure framework (MTEF). Given its track record of macroeconomic stability, policy performance, and comfortable level of international reserves, Mozambique was able in June 2007 to graduate from a program supported by the IMF's Poverty Reduction and Growth Facility to a program supported by the IMF's Policy Support Instrument. Only a few good performers in sub-Saharan Africa are benefiting from the Policy Support Instrument, which demonstrates increased ownership. Under this facility, the country does not draw any resources from the IMF.

The IMF has joined the 19-member GBS donor group as an observer and participates in macroeconomic-relevant coordination meetings at all levels. The IMF has been synchronizing the timing of its missions with the timing of the semiannual joint donor-government reviews. This has allowed donors to increasingly rely on the IMF's analysis for their macroeconomic assessment during the semiannual reviews and reduce the number of missions and meetings with the government. In 2006 and 2007, for example, donors refrained from an analysis of the draft budget and relied on the findings of the IMF budget-preparation mission instead. Recognizing its role, it is customary for the IMF to have its missions meet with the donor community three times during IMF review missions. Through these meetings, development partners become, among other things, involved in specific policy discussions on the structural reforms that they are supporting. The IMF is also teaming up with the World Bank for its review missions and missions of joint interest—for example missions providing technical assistance to the government for a new fiscal code covering mineral resources. More generally, the over 1,000 staff hours of technical assistance provided by the IMF per year are coordinated with the government and donors providing technical assistance in the same area.

Benchmarking the Mozambique Model

In this section we assess the Mozambique model against the indicators and criteria mentioned in Table 7.1 (see previous section) and which are sub-grouped into ownership, alignment, harmonization, and managing for results. Selected related PAP indicators are also discussed. As the analysis shows, Mozambique scores well on most counts and has been improving steadily without significant setbacks.

Ownership

OECD-DAC defines ownership as respecting the right—and responsibility—of the partner country to establish its development agenda and set out its own strategies for poverty reduction and growth (Indicator 1, OECD, 2005b).

The literature on four years of donor coordination experience in Mozambique supports the view that the government is increasingly owning the development process (OECD, 2004a, 2004b; Batley, Bjørnestad, and Cumbi, 2006; and de Renzio and Sulemane, 2006). For example, while the influence of donors was rather prominent when PARPA I was drafted, the government's leadership strengthened significantly in the formulation and approval of PARPA II. The formulation of the two Poverty Reduction Strategy Papers is perceived to have helped the authorities set policy priorities for growth and poverty reduction and has strengthened the strategic budgeting process, with a strong focus on the improvement of public financial management systems.

This improvement also holds true from an international perspective. A survey by the Strategic Partnership with Africa (SPA) reveals that only in five other African countries are the annual PRS and the annual PRS implementation report sent to parliament for discussion (SPA, 2007). The World Bank highlights Mozambique as an example of a country that developed a PRS through which the government has taken a more assertive role in leading the process of deriving priority measures from PRS policy matrices resulting "in a much more prioritized set of actions directly linked to the PRS, which all budget support donors use as a joint framework to draw disbursement triggers and to assess performance" (World Bank, 2005, p. 52). The World Bank also praises Mozambique for its "long-term holistic vision," given that it has developed action plans that are tied to the MDGs. Out of a sample of 20 countries in the World Bank study, 8 countries—4 of which are in Africa (Mauritania, Mozambique, Tanzania, and Uganda)—have taken such an approach. Mozambique is also among the 15 percent of 59 countries where long-term vision has produced a set of well-developed targets.[23] The strong evidence of leadership and progress has put Mozambique, together with Tanzania and Uganda, in the "best performers group" (World Bank, 2005).

Mozambique also scores well in the implementation of the PRS process. The World Bank assessed the progress achieved in 20 categories underpinning the implementation of the PRS in 20 countries that have had a PRS process for more than two years (World Bank, 2005). The 20 categories can be divided into four main groups: holistic vision, country ownership, country-led partnership, and results focus. Mozambique has largely developed processes in 8 of the 20 categories and has taken, or is taking, action in the remaining 12. This puts Mozambique in fifth place, after Uganda, Vietnam, Tanzania, and Rwanda (Table 7.2).

Mozambique is mentioned as an example of good practice with regard to country ownership and country-led partnership. Of the sample of

[23]The other countries are Cambodia, Kenya, Mauritania, Pakistan, Tanzania, Uganda, Vietnam, and the Republic of Yemen.

Table 7.2. Progress in 20 Categories Underpinning the Poverty Reduction Strategy Process[1]

	Number of categories per level of progress					
Country	Substantially in place	Largely developed	Action has been or is being taken	Elements exist or are being considered	Little or no action	Rank
Uganda	4	13	3	0	0	1
Vietnam	3	7	10	0	0	2
Tanzania	0	13	7	0	0	3
Rwanda	0	11	9	0	0	4
Mozambique	**0**	**8**	**12**	**0**	**0**	**5**
Ethiopia	0	7	13	0	0	6
Mauritania	0	6	12	2	0	7
Burkina Faso	0	5	14	1	0	8
Mali	0	2	12	6	0	9
Yemen	0	2	10	8	0	10
Malawi	0	1	15	4	0	11
Zambia	0	1	14	5	0	12
Honduras	0	0	20	0	0	13
Bolivia	0	0	17	3	0	14
Senegal	0	0	16	4	0	15
Nicaragua	0	0	13	7	0	16
Albania	0	0	12	8	0	17
Benin	0	0	12	7	0	18
Guyana	0	0	7	13	0	19
Sri Lanka	0	0	0	19	1	20

Source: World Bank (2005).

[1]The 20 categories underpinning the implementation of the PRS process are (I) holistic vision: coherent long-term vision (1); medium-term strategy derived from vision (2); country-specific development targets (3); holistic, balanced, and well-sequenced strategy (4); capacity and resources for implementation (5); (II) country ownership: government initiative (6); institutional mechanism for stakeholder involvement (7); civil society involvement (8); private sector involvement (9); parliamentary involvement (10); capacity to formulate strategy (11); (III) country-led partnership: government leadership of coordination (12); partner's assistance strategy alignment (13); financial and analytical partnership (14); coherent and coordinated capacity support (15); harmonization with country systems (16); partnership organization (17); and (IV) results focus: quality of development information (18); stakeholder access to development information (19); coordinated country-level monitoring and evaluation (20).

59 countries, only Cameroon, Ethiopia, Rwanda, Timor-Leste, Uganda, and Vietnam also have policy-level interministerial coordination mechanisms that help enhance the role of line ministries in strategy development. Mozambique, along with Pakistan and Uganda, is also mentioned as having made some progress in synchronizing local development-planning processes with national poverty reduction strategy processes, facilitating both local input nationally and national influence locally. In terms of country-led partnership, the governments of Ethiopia, Ghana, Rwanda, Tanzania, Uganda, and Vietnam take a correspondingly strong lead in

development assistance around a policy framework like Mozambique's. In this sample of 59 countries worldwide, Mozambique is one of seven countries (the others are Ethiopia, Mauritania, Rwanda, Timor-Leste, Uganda, and Vietnam) deemed to have considered all development elements within a vision with appropriate prioritization and sequencing over the medium term (World Bank, 2005).

In addition, the most recent cross-country OECD-DAC survey on monitoring the Paris Declaration for 2005 (OECD, 2007a, 2007b), in which the achievements of 34 countries worldwide are analyzed, recognizes that Mozambique's long-term strategy is largely set, that the country has made clear progress toward the achievement of the MDGs related to poverty reduction, and that the development strategy and the budget are increasingly connected.

The prevalence of budget support in Mozambique has contributed to stronger government ownership. Aid in the form of general budget support is perceived to have been influential in the improvement of the dialogue between the Ministries of Finance (MF) and Planning and Development (MPD) and the sectors on the national and sector budgets. The MF and MPD are increasingly playing a leading role vis-à-vis the line ministries through coordination and directives, and more and more funds are being channeled through the treasury as opposed to separate project bank accounts, which are often managed by temporary nongovernmental project staff. The improved planning and financial management capacity in the MF and MPD now needs to follow suit in the line ministries, where such capacity is still weak (de Renzio and Sulemane, 2006). Consequently, the latest OECD-DAC assessment for Mozambique rates government ownership as moderate, pending improvements in Mozambique's medium-term strategies across all sectors and levels of the government (OECD, 2007a, 2007b).

Some recent structural reforms have fundamentally strengthened the government's role in planning and budgeting public finance. The SISTAFE Law—a law governing public financial management—has institutionalized the medium-term fiscal framework (CFMP) as a fundamental planning instrument in budget formulation, setting out the main macroeconomic forecasts and defining the overall resource envelope and sectoral budget ceilings. In 2006, the CFMP 2007–09 was, for the first time, presented to and approved by the Council of Ministers, a significant step forward in the dialogue with the sectors and ministries and in garnering political support for the overall fiscal policy and strategy. The involvement of sector ministries in the negotiation on the budget is also being strengthened. For the CFMP 2008–10, the MF and MPD have, for the first time, requested the sectors to prepare their own sectoral CFMPs, which should form the basis for the formulation of the annual sector budgets and facilitate the budget preparation process.

Alignment: General principle

The OECD-DAC donor coordination model foresees donors aligning their development assistance with both the development priorities and the results-oriented strategies set out by the partner country. In delivering this assistance, donors would progressively depend on partner countries' own state-of-the-art (or soon to be state-of-the-art) systems, providing capacity-building support to improve these systems, rather than establishing parallel systems of their own. Partner countries would undertake the necessary reforms that would enable donors to rely on their country systems (OECD, 2005b). Seven of the twelve OECD-DAC indicators relate to alignment (see Table 7.1).

Overall, PAPs in Mozambique have fully aligned GBS and program aid with the government's annual planning processes—the budget law, the PES, and the PAF targets, which are reported with the annual PRS (PES) to parliament. For aid modalities other than GBS and program aid, alignment with government planning processes still needs strengthening. As a result, the OECD-DAC (OECD, 2007b) considered alignment in Mozambique to be moderate.

Alignment: Reliability of country systems

The first OECD-DAC indicator on alignment (Indicator 2) relates to the government's current public financial management and procurement systems. The quality of these systems has to be judged sufficient, or, at a minimum, the systems must be undergoing reforms to address deficiencies before donors can be asked to align their aid to them.[24] In Mozambique, although fiduciary risk is considered to be still relatively high under PEFA criteria,[25] the government is seen as committed to reforms to fur-

[24]See, in particular, World Bank (2006b), Chapter 10, "Reconciling Alignment and Performance in Budget Support Programs: What Next?"

[25]PEFA: Public Expenditure and Financial Accountability. The goals of the PEFA Program are to strengthen recipient and donor ability to (1) assess the condition of country public expenditure, procurement, and financial accountability systems; and (2) develop a practical sequence of reform and capacity-building actions in a manner that encourages country ownership, reduces the transaction costs to countries, enhances donor harmonization, allows monitoring of progress of country PFM performance over time, better addresses developmental and fiduciary concerns, and leads to improved impact of reforms.

ther reduce the level of fiduciary risk and strengthen PFM (Hodges and Tibana, 2004).

Arndt, Jones, and Tarp (2006) mention that, with the introduction of an integrated budget, treasury management, accounting, and internal control system (e-SISTAFE), Mozambique is addressing many of its initial systemic weaknesses, including (1) input-based budgets that are hard to relate to plans and programs; (2) a state budget that covers mostly recurrent costs, while investments are largely directly funded by donors operating at sector and provincial levels; and (3) weak linkages between approved budgets and actual expenditures. The new, modern public financial management information system has improved the quality of bank reconciliation and financial reporting, introduced a modern functional budget classification, established a disciplined budget preparation calendar, and provided budget controls. The successful rollout of e-SISTAFE to all sectors at national and provincial levels has made it possible for GBS and common funds to be directly executed through the single treasury account (CUT, for *Conta Única do Tesouro*), thus increasing transparency. In 2008, e-SISTAFE was rolled out to 37 of Mozambique's 128 districts, facilitating the gradual decentralization of resources. From an international perspective, the successful rollout of e-SISTAFE is particularly remarkable since such reforms have been politically difficult to implement and prone to setbacks in most sub-Saharan African countries (World Bank, 2006b).

With regard to the quality of the procurement system, the OECD-DAC 2007 report (OECD, 2007a, 2007b) mentions that in 2005 fewer than 50 percent of contracts above the national threshold for small transactions were awarded through an open and competitive process, and describes the procurement complaint mechanism as relatively ineffective. Hence, the OECD has not rated Mozambique's compliance with the alignment criteria for procurement. At the end of 2005, however, a new procurement code was approved; since then follow-up plans and guidelines, such as a procedures manual, standard bidding documents, and formal institutional procurement units, have been approved and implemented. A comprehensive monitoring and evaluation system is yet to be put in place. The PAPs report that the portion of official development aid using public procurement systems increased from about 42 percent in 2005 to about 52 percent in 2006.

Alignment: Reliance on country systems

For the remainder of the alignment criteria, we focus on aid flows reflected in the national budget (Indicator 3); aid disbursed through the government's budget execution, financial reporting, and auditing systems (Indicator 5a); and more predictable aid (Indicator 7).[26]

The bulk of foreign aid received by the government is currently reflected in the state budget (Indicator 3). Until recently, the high levels of off-budget spending, financed by departmental revenues (*receitas próprias*) and, more particularly, by external projects, have seriously limited the coverage of the budget and the effectiveness of treasury management systems, undermining the ability of the government to plan strategically and to assess recurrent and investment costs effectively. Joint efforts of both the government and the PAPs to strengthen the capability of the MF and the MPD for financial management have resulted in the inclusion of substantial aid funds in the budget. According to the 2007 OECD-DAC report, about 84 percent of government aid has been on-budget in 2005, against a target of 92 percent for 2010. The on-budget number for 2005 reported by OECD-DAC seems too high, considering that the common funds (SWAPs) and a large number of projects were brought on-budget only in fiscal years 2006 and 2007. The SWAPs alone represent some 20 percent of government aid in fiscal year 2006. Compared with the OECD-DAC, the PAPs report a considerably more moderate level of aid being on budget in 2005—59 percent of their development aid—with a subsequent increase to about 67 percent in 2006. Notwithstanding the discrepancies between the different databases, it is safe to conclude that the proportion of expenditures that are on budget has increased substantially in recent years and that systematic checks have been put in place to complete this process. Two recent initiatives are helping to increase the coverage of donor aid in the budget:

- *Alignment of aid commitments with the budget cycle.* According to the new practice, PAPs present their indicative commitments to the

[26]For the indicators not discussed in detail, the OECD-DAC (OECD, 2007a) reports the following results, measured against the 2010 targets. Indicator 4: 38 percent of technical assistance is delivered through coordinated programs, against a target of 50 percent. Indicator 5b: 22 of the 24 donor agencies, which provide 38 percent of the aid, (partially) use the country's procurement system. The target for this indicator is a reduction in the amount of aid not yet going through the procurement system. The PAPs report an increase in the use of the government's procurement system from 41.9 percent in 2005 to 52.2 percent in 2006. Indicator 6: by end-2005 there were 40 parallel project implementation units (PIUs) in Mozambique, placing it among the top third of the 34-country sample (OECD, 2007a). The target is to reduce this number by two-thirds. No data are available on previous stocks. Indicator 8: 89 percent of aid to Mozambique is untied, placing the country eighth in the sample of 34 countries (OECD, 2007a, 2007b). The target is "continued progress over time."

authorities and to the public for the next budget year in the first quarter of the current year, which is well in time for the government at national and sector levels to prepare the annual budget. The indicative donor commitments become firm four weeks after the joint review (second half of May)—or well before the budget is submitted to parliament at the end of September. The firm commitments include general budget support and a growing number of sector support funds. Commitments on the project portfolio are less firm.

- *Improved data collection and evaluation.* The ODAMOZ database provides an overview of the financial support from donors, including for projects, common funds, and GBS.[27] However, the database still contains inconsistencies, and data for the medium term are incomplete and less reliable. In an effort to make ODAMOZ a planning instrument for the government, a multiministerial task force has been created to lead improvements, following recommendations from this task force. The January 2007 ODAMOZ data collection round for the first time included budget reference numbers for all government aid. These reference numbers will help identify aid that is still off-budget and allow for consistency checks with government budget data.

Mozambique's improvement in alignment has also been highlighted in cross-country analysis. A report by the SPA shows that Mozambique is one of the three countries out of a sample of 15 countries where the PRS review is fully aligned with the budget cycle, in terms of both indicative MTEF preparations and the annual budget. This is the case not only for GBS but also for sector budget support and project support. Referring to the donors' annual reviews of budget support as well as to the timing of IMF and World Bank missions, the report considers Mozambique a country with an ideal calendar to facilitate harmonization and alignment (SPA, 2007).

The OECD concludes that progress in African countries has been uneven, and that less advanced countries can learn much from countries such as Mozambique, which is "more advanced in harmonization, alignment and managing for development results" (OECD, 2005b, p. 68). The World Bank refers to Mozambique as a country where significant progress is being made with donor coordination and harmonization (World Bank, 2005).

[27]The ODAMOZ database, created with help from the European Commission, gives a full listing of all aid that G19 donors and most observers are providing. The database was handed over to the government by end-2006. It is currently being extended to cover all donors and is updated on a quarterly basis. To increase accountability and the quality of data, heads of corporations are asked to sign the quarterly data submissions.

Some increase has been recorded in the use of country financial systems (Indicator 5a), although the current level of budget execution through the single treasury account remains low. Thanks to the joint efforts of the government and the donors, as well as the successive introduction of e-SISTAFE and the increasing share of GBS, notable increases were recorded in reported investment budget execution rates, albeit from low levels. The overall reported execution rate of the investment budget increased from 57 percent in 2002 to 86 percent in 2006 (Table 7.3). In addition, all of the local currency operations of the central level common funds were incorporated in the single treasury account on September 1, 2005, when the single treasury account was established.[28] The number and financial volume of these common funds have increased considerably over the years (Table 7.3). The use of the single treasury account for project implementation has remained modest owing partly to the late issuance by the government in June 2007 of the necessary guidelines on how to include external project funds in the single treasury account and e-SISTAFE. In September 2007, the government opened a multicurrency single treasury account to allow the use of country financial systems—initially for domestic payments in foreign currency—by those donors that are legally prohibited from converting their funds into local currency.[29]

The OECD-DAC survey (OECD, 2007b) ranks Mozambique exactly in the middle of the 34 participating countries in 2005. As the study indicates, "the use of national systems is limited largely to budget support, whereas the large proportion of aid delivered through projects remains untouched by this process" (OECD, 2007b, p. 1).

Alignment: Aid predictability

The OECD-DAC survey (OECD, 2007a) recognizes that donors' alignment with Mozambique's PRS advanced significantly in 2005, which has contributed to the comprehensiveness and realism of the government's estimates of donor contributions. Of the 34 countries in the survey, Mozambique ranked fifth, with 83 percent of the government's estimates accurately predicting actual donor disbursements.

OECD-DAC Indicator 7 aims at halving by 2010 the proportion of aid not disbursed within the fiscal year for which it is scheduled. The PAPs have

[28]The following central level common funds were incorporated in the CUT: ProAgri (agriculture), FASE (education), ASAS (water), and ProSaúde (health). Provincial common funds are not yet incorporated.

[29]Before the foreign-currency single account was available, foreign exchange transactions had to be handled outside the single treasury account.

Table 7.3. Investment Budget Execution Rates, 2000–06
(In millions of meticais unless otherwise specified)

	2002	2003	2004	2005	2006
Total investment budget					
Budgeted	14,136	14,783	14,332	19,001	21,791
Executed	8,067	9,763	10,293	12,594	18,635
Executed as percentage of budgeted	57	66	72	66	86
Internal component					
Budgeted	4,129	4,129	4,126	5,763	6,566
Executed	2,899	3,307	4,074	4,335	6,552
Executed as percentage of budgeted	70	80	99	75	100
External component					
Budgeted	10,007	10,655	10,206	13,239	15,224
Executed	5,168	6,457	6,218	8,259	12,084
Executed as percentage of budgeted	52	61	61	62	79
of which donations					
Budgeted	7,217	6,814	7,116	7,576	10,434
Executed	2,737	3,833	3,592	5,333	7,888
Executed as percentage of budgeted	38	56	50	70	76
of which credit					
Budgeted	2,790	3,840	3,090	5,662	4,790
Executed	2,431	2,623	2,626	2,926	4,195
Executed as percentage of budgeted	87	68	85	52	88

Source: Ministry of Finance, Budget Execution Reports, 2003, 2004, 2005, 2006.

made improved predictability probably the single most important objective; a third of the PAPs' indicators relate to predictability (see Table 7.4). After some initial difficulties, especially for in-year disbursements, donors are disbursing budget aid according to their annual pledges and the agreed treasury plan (Ernst & Young, 2006). Short-term predictability of foreign aid from the donors providing GBS improved substantially between 2003 and 2005, while medium-term predictability needs substantial improvement, as in other countries. A major strength of short-term aid predictability in the PAF MOU is the lagged response mechanism under which an ex post assessment in year n of the government's performance in year $n - 1$ forms the basis for disbursements in year $n + 1$. For the 2007 budget, the PAPs' commitments covered, for the first time, not only GBS but also common funds. Since 2006, the PAPs have publicly announced their budget contribution forecasts for the next calendar year early in the government's budget preparation cycle. For 2008, the PAPs have also committed to improving the coverage of project aid pledges through ODAMOZ.

Mozambique has the lowest aid volatility of eight African countries covered in a World Bank study.[30] Disbursements to Mozambique had the

[30]Benin, Burkina Faso, Ghana, Mali, Mozambique, Senegal, Tanzania, and Uganda.

Table 7.4. Mozambique: PAP Performance Indicators Related to Predictability of Aid

Activities	Indicators	2003 actual	2004 targeted	2004 actual	2005 targeted	2005 actual	2006 targeted	2006 actual
Donors agree with government on disbursement schedules for $n + 1$ by December 31 of year n.	Percentage of donors disbursing according to agreed schedule of disbursements and commitments (subject to no breach of underlying principles).	40	>60	80	>80	100	100	94 and 78[1]
	Same as above, but in terms of the percentage of total budget/ balance of payments support.		>60	89	>80	94	100	—
Donors inform government of commitments within four weeks of the annual review and do not change the size of commitments afterward. Donors confirm commitments for year $n + 1$ by August 31 (exceptions exist in MOU, Annex 10).	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	1
Donors commit funds on a multiyear basis.	Percentage of donors with a multiyear indicative commitment.[2]	60	>70	80	>80	100	100	72[3]
Donors harmonize response mechanism.	Number of donors not using the core MOU response mechanism (disbursement in year $n + 1$ based on performance in year $n - 1$).	n.a.	3	3	3	3	0	2
Based on performance in year $n - 1$, donors commit funds for year $n + 1$ at the start of the government's budget preparation cycle.	Percentage of total budget/ balance of payments support 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.[4]	n.a.	55 (estimate)	62	tbm	100 69 guaranteed	tbm	[5]

Sector aid is made more harmonized, aligned, and predictable.	Number of sectors with an MOU containing donor commitments comparable to the PAPs' MOU.	0	tbm	0	tbm	3	tbm	[6]

Sources: Killick, Castel-Branco, and Gerstner (2005); Ernst & Young (2006); and Castel-Branco (2007).

Note: PAP = program aid partners; MOU = memorandum of understanding; tbm = to be monitored.

[1]Indicator split in two. (1a) Two agencies did not disburse within the fiscal year to which they had committed: Denmark argued a breach of the underlying principles by the Mozambican government, and Italy disbursed ahead of schedule. (1b) Within the budget year, five agencies did not disburse according to schedule because of bureaucratic delays (Spain), delays in signing the new indicative cooperation program (Belgium), lack of response by government on one agreed trigger indicator (Sweden), and other reasons (Denmark and Italy, see 1a).

[2]In addition to the agreed disbursements (100 percent performance), three donors made disbursements without pre-agreed schedules.

[3]Indicator was tightened to multiyear agreements of not less than three years. Five donors have programs of less than three years: Finland, France, Germany, Sweden, and the African Development Bank.

[4]Taken to be total budget/balance of payments support minus the variable tranches and World Bank balance of payments support.

[5]One agency did not meet the criteria.

[6]Agriculture and education have a new MOU. Health is finalizing its MOU. All are now more harmonized and aligned with the PAPs' MOU.

lowest standard deviation from projections (0.58 against 1.25 for the whole sample), and the standard deviation was smaller than for tax revenues (0.63). Moreover, the standard deviation for Mozambique improved substantially from 1993 to 1999 (0.58 versus 3.60), and the improvement was more substantial for Mozambique than for any other country in a sample of eight African countries (World Bank, 2006a). Budget aid projections for 2000–04 were consistently below actual disbursements, an error that is less disruptive than overestimates for public finance. For 2005/06, out of a sample of 15 countries, only Mozambique's quarterly disbursements for budget support were made as planned (SPA, 2007).

This positive assessment is consistent with the PAPs' performance review for 2004 and 2005, a period in which their performance improved considerably. While in 2004, 80 percent of the donors disbursed budget aid according to the agreed schedule, or 89 percent in terms of the volume of budget support, in 2005 all donors disbursed according to the agreed schedule, or 94 percent in terms of the volume of budget support (Ernst & Young, 2006).[31] With the exception of one indicator in 2004, the PAPs consistently exceeded their objectives in improving budget aid predictability between 2003 and 2005 (Table 7.4). In 2005, all PAPs pledged, committed, and disbursed budget aid fully in accordance with the agreed schedule, while all PAPs had multiyear indicative commitments. However, the result for 2006 (Castel-Branco, 2007) shows a decline in predictability (two PAPs failed to disburse in the fiscal year committed to, and five PAPs did not disburse according to the schedule within the fiscal year). The report attributed this deterioration to the revision by most PAPs of their aid strategies, which led to delays in the approval of new strategies or agreements and, ultimately, to delays in disbursements. However, the report argues that the full benefit of these revised and more aligned strategies should be realized by 2008.

The OECD-DAC assessment of 24 bilateral and multilateral donors in Mozambique reports that for 2005, 70 percent of overall aid committed was recorded as disbursed by the government, which put the country tenth in the 34-country sample; Ghana, which saw 92 percent of its aid disbursed, was first (OECD, 2007a).

[31]This percentage is not 100 because three PAPs disbursed budget support without a pre-agreed schedule. Two of them were not PAP members at the time the schedule was agreed, and one did not have a bilateral agreement with the government in place on time (Ernst & Young, 2006).

Harmonization

The harmonization component of the OECD-DAC model for donor coordination entails good-practice principles in development assistance delivery; streamlining and harmonization of donor policies, procedures, and practices; intensified delegated cooperation; increased flexibility of country-based staff to manage country programs and projects more effectively; and the development of incentives within the donor agencies to foster management and staff recognition of the benefits of harmonization (OECD, 2005b). There are two OECD-DAC indicators measuring harmonization. Indicator 9 calls for the use of common arrangements or procedures by providing at least 66 percent of aid by 2010 using program-based approaches. Indicator 10 calls for joint missions and country analytical work by development partners to be done jointly (at least 40 percent of all missions and at least 66 percent of country analytical work). The PAPs, in addition to the percentage of program-based approaches (72 percent by 2007), called for increasing GBS to 40 percent of total aid to the government in 2006 and limiting joint donor missions related to GBS to two a year—the annual and midyear reviews.

Program-based approaches are estimated to have accounted for about half of total aid delivery in Mozambique since 2005.[32] It is worth noting that most of the sector common-fund arrangements have some sort of MOU—or are developing one—and efforts are being undertaken to move these MOUs closer to the terms of the MOU for GBS. The road sector is witnessing a shift from dispersed project support to sector budget support.

The SPA report (SPA, 2007) indicates that Mozambique, after Tanzania, Uganda, and Ghana, receives the highest levels of GBS; the remaining 11 countries in the sample have a much lower GBS component. Over the past three years, Mozambique has experienced a consistent but slow upward trend in GBS, from 31 percent to 34 percent, although the level has remained below the PAPs' target of 40 percent.

Two indicators, while not formally part of the OECD-DAC performance assessment, are good proxies for harmonization, the first being the number of donors that pool budget support and the second the government's satisfaction with donors. Mozambique excels by both indicators.

[32]According to the 2007 OECD-DAC report, 46 percent of the total aid of 34 donors was provided using program-based approaches in 2005, albeit with project aid increasing more rapidly than direct budget support (OECD, 2007a). From an international perspective, this puts Mozambique in the top third of the 34 countries ranked. According to the PAPs' review, program aid for 2006 was about 55 percent of total aid delivery, against 53 percent in 2005 (Castel-Branco, 2007).

- In the sample of 15 countries (SPA, 2007), Mozambique has the highest number of donors—19—coordinating their general budget support in one pool (with 13 donors, Tanzania has the second-highest number). The 19 donors as well as, increasingly, the countries with observer status, have streamlined their procedures (OECD, 2005a, 2005b; Batley, Bjørnestad, and Cumbi, 2006; Ernst & Young, 2006). Since the formalization of the government-PAP partnership for general budget support, common procedures have progressively been put in place for joint analysis and policy dialogue, as well as for streamlined conditionality, joint and harmonized assistance strategies, harmonized operational approaches, joint financing arrangements, enhanced focus on delivery of development results, and common procurement procedures. Mozambique is one of the five countries that have only one shared analysis mechanism. This means that Mozambique has only one joint review, in which the government, donors, and civil society participate, and no individual donor reviews, in contrast with 10 other countries in the SPA survey (SPA, 2007). A World Bank report highlights Mozambique as a good example of a country where alignment with national systems has been achieved and an annual report to parliament is the main instrument for assessing PRS implementation and also serves as the basis for an annual joint donor-government assessment of budget support (World Bank, 2006b).
- Mozambique has the highest level of average satisfaction with the group of donors with which satisfaction increased between 2005 and 2006. Out of the total sample of 15 countries in the SPA study, Mozambique scored third, after Tanzania and Benin. Moreover, Mozambique is the only country in the sample whose satisfaction has increased in each of the past three years. The main factors for government satisfaction in the survey are (1) coordinated selection of donor conditionalities, (2) joint donor missions or reviews, (3) minimized and coordinated donor reporting requirements, (4) coordinated support on public financial management reforms, (5) strengthened statistical systems, (6) minimized overall number of donor conditions, and (7) usefulness of donor conditionalities in implementing the government's PRS (SPA, 2007). On the last two criteria, it is worth noting that the total number of PAF targets has been reduced to a more manageable 40 and that there is no conditionality outside the common performance framework. Furthermore, in 2006 for the first time, all PAF indicators were a subset of existing monitoring indicators defined by the government for the implementation of the PARPA. Finally, there is no duplication of reporting requirements;

the annual PRS (PES), the evaluation of the annual PRS (BdPES), the budget, the budget execution report, the General State Account, and the annual audit reports are the sole documents used for the joint reviews. After Burkina Faso, Mozambique relies the most on the annual progress reports produced by the government as information for donors (SPA, 2007).

Initial progress was achieved in 2003–04 in encouraging shared analysis (Indicator 10). During that period, joint missions (excluding the World Bank) increased from 17 to 37 percent of total missions (Killick, Castel-Branco, and Gerstner, 2005). By 2005, the OECD-DAC (2007a, 2007b) ranked Mozambique as the best performer out of a sample of 34 countries, with 46 percent of its missions coordinated. Mozambique ranked second in the same group of countries in terms of coordinated country analysis (OECD, 2007a, 2007b). For 2006, the PAP evaluation counted 10 general budget support missions, 3 more than targeted (Castel-Branco, 2007). The report also identified 203 non-GBS missions, of which 10 percent were joint efforts. To facilitate government and donor planning, the IMF timed its mission around the government budget cycle and the donor-government joint review, facilitating the decision of the government and the PAPs' decision to rely since September 2006 entirely on the IMF's assessment of the draft budget for their midyear review rather than duplicating this analysis, as had been done in the past.

Managing for results

The OECD-DAC model envisages partner countries embracing the principles of managing for results at all stages of the development cycle—from planning through implementation to evaluation. Donors should rely on and support partner countries' own priorities and objectives, and work in coordination with other donors to strengthen partner-country institutions, systems, and capabilities to plan and implement projects and programs, report on results, and evaluate development processes and outcomes.

In Mozambique, the use of the PAF framework has meant a shift from a focus on inputs and outputs to a focus on results, outcomes, and impacts; highest-priority policies and actions; and monitoring of outcome indicators. By also using a framework that is a subset of the performance indicator framework of the country's poverty reduction strategy and that is linked to the yearly PRS (PES) and the budget, the PAF framework is a good example of integrated results management. According to SPA (2007), the perceived usefulness of donor conditionality among recipient governments decreased in a number of countries in 2006. In Mozambique, unlike in many other countries, donors choose indicators from the government-developed PARPA strategic matrix; thus, by definition, the indicators are considered important and useful.

Mozambique is cited for its well-developed national monitoring and evaluation systems, which not only are linked to the line ministries but also produce reports for domestic and external stakeholders (World Bank, 2005). Its intermediate indicators are considered manageable in number and relatively easy to monitor, although there is room for improvement of data reliability. The World Bank report reflects on the type of goals that countries have been developing (World Bank, 2005). Among the countries with more experience in PRS implementation, Uganda and Vietnam stand out; each has largely completed putting a set of goals in place. The Ugandan government has refined the indicators and linked them to the MDGs; it has also developed a detailed policy matrix linking the indicators to specific policy actions. The evaluation study states that similar efforts are under way in Mozambique and Tanzania. Also, the OECD-DAC survey for 2005 (OECD, 2007a, 2007b) concluded that the quality of development information had improved owing to regular household surveys and a national statistical development strategy. Nonetheless, the report mentions that more effort has to go toward disseminating development information, such as strategies, budgets, and policies; as a result, it ranked Mozambique as average in the sample of 34 countries.

In order to improve mutual accountability (Indicator 12), the PAPs contract external consultants to evaluate the PAPs' compliance with PAP targets. Such a review has been undertaken every year since 2005. In addition, starting in 2004, the OECD-DAC has analyzed on a yearly basis donors' compliance with the Paris Declaration. The 2006 OECD-DAC survey recognizes the well-developed mutual accountability framework for donors providing budget support and provides evidence of its positive effect on donor performance. It is worth mentioning that the PAPs have in their performance assessment indicators that relate to overall aid and that thus include aid modalities other than GBS, such as the percentages of program aid, aid on-budget, aid using the single treasury account, and aid using the government procurement system, and other items such as the number of non-GBS missions.

Furthermore, since 2006 the donors have been carrying out a joint analysis of their individual multiannual country strategies to improve consistency with the PARPA and the Paris Declaration, reduce transaction costs, and increase aid effectiveness. All these strategies have been mapped and analyzed in terms of complementarities, proposed modalities, and relationship to the government's priorities, with the ultimate aim of producing a road map for increased aid effectiveness (SIDA, 2006). This is the first comprehensive review in which the PAPs are sharing their strategies with the government and other donors.

Challenges Ahead

In the previous section we measured Mozambique's record against the OECD-DAC indicators for 2010. As shown, Mozambique scored well on most counts. Using data from the OECD-DAC cross-country analysis, out of a sample of 26 countries Mozambique ranks second on an aggregate level.[33] Table 7.5 gives the sample averages and Mozambique's score and rank for each individual indicator. As the table shows, there is room for improvement by both the Mozambican government and the donor community.

As noted in the previous section, Mozambique has been improving steadily in terms of ownership, alignment, harmonization, and managing for results. In this section, we focus on the challenges ahead and the continued improvements needed to make aid more effective. In most areas, projects have already been initiated toward this end. We use the same thematic sequencing as in the previous section.

Ownership

Looking ahead, ownership needs to be enhanced by increasing the involvement of line ministries, local governments, and civil society in the planning process.

Ownership in the Mozambique model can be enhanced by building capacity at the sectoral level and by increasing the involvement of line ministries in the elaboration of the MTEF. There is the frequent perception by line ministries that the elaboration of the MTEF is an exercise internal to the MF and MPD, and not a policy instrument for constructive dialogue with line ministries and other agencies (Arndt, Jones, and Tarp, 2006). Until sectors have built up the capacity to formulate output-oriented and well-costed multiyear spending plans that are reflected in the national MTEF, the elaboration process of a coherent MTEF with adequate sectoral

[33] Scores for Indicators 1, 2, 6, and 12 were converted into percentages, and all percentages of Indicators 1–12 were added up. The aggregate analysis excludes eight countries for which not all indicators were available. One of the countries excluded is Tanzania, which is among the best performers for many indicators. The rank for Mozambique does not change when rescaling the results by giving 0 percent to the worst observed and 100 percent to the best observed result in the sample.

Table 7.5. Mozambique's Performance in 2005 According to the OECD-DAC Criteria on Harmonization and Alignment

	Score	Unweighted average	Rank
Mozambique's overall rank for indicators 1–12 *(26 countries)*			2
Total aid reported in the 2006 survey *(in millions of US$)*	1,267	487	6
Indicator 1:			
Do countries have operational development strategies? *(29 countries)*[1]	C	C	6
Indicator 2:			
How reliable are country public financial management systems? *(29 countries)*[2]	3.5	3.4	10
Indicator 3:			
Are government budget estimates comprehensive and realistic? *(percent)*	83	65	8
Indicator 4:			
How much technical assistance is coordinated with country programs? *(percent)*	38	39	15
Indicator 5-1:			
How much aid for the government sectors uses country public financial management systems? *(percent)*	36	34	17
Indicator 5-2:			
How much aid for the government sectors uses country procurement systems? *(percent)*	38	34	17
Indicator 6:			
How many PIUs are parallel to country structures? *(number)*	40	55	12
Indicator 7:			
Are disbursements on schedule and recorded by governments? *(percent)*	70	63	13
Indicator 8:			
How much aid is untied? *(percent)*	89	76	11
Indicator 9:			
How much aid was program-based? *(percent)*	46	39	14
Indicator 10-1:			
How many donor missions were coordinated? *(percent)*	46	18	1
Indicator 10-2:			
How much country analysis was coordinated? *(percent)*	63	43	2
Indicator 11:			
Do countries have monitorable performance assessment frameworks? *(28 countries)*[3]	C	C–	3
Indicator 12:			
Do countries have reviews of mutual accountability?[4]	Yes		1

Source: OECD (2007b).

Note: Size of sample in parentheses if different from 34.

[1]No country has A (best); 5 countries have B; 18 countries have C and 6 countries have D; no country has E (worst).

[2]No country has 5 (best); 1 country has 4.5; 8 countries have 4; 11 countries have 3.5; 5 countries have 3; 3 countries have 2.5; one country has 2. No country is below 2.

[3]No country has A; 2 have B; 17 have C; and 9 have D. Six countries have no score.

[4]Yes, 15 countries; no, 19 countries.

input can be expected to be rather weak. However, the donor community can play an essential role in accelerating this process. Sectors will need technical assistance in drafting coherent multiyear strategies, making adequate financial plans, and lobbying for their sectoral budget allocations in the centralized planning process. As mentioned earlier, in 2007 sectors developed for the first time their sectoral MTEFs for 2008–10, which will in time become a core input for strategic planning by the MF and MPD.

The government should exercise stronger leadership in defining priorities and performance indicators. Ulens (2006) and de Renzio and Sulemane (2006) argue that the setting of priorities and performance indicators at central, sectoral, and provincial levels are still driven largely by donors, both individually and collectively. Many donors prefer to finance projects according to their own priorities, as long as the planning process of the MTEF is relatively weak. Furthermore, most of the recent donor-country strategies were formulated with little government input. To support the government in its efforts to strengthen its planning expertise, donors should use the sectoral and central planning mechanism in the selection of their aid portfolio. This would be easier to accomplish if the government developed an aid policy as well as an institutional setup for aggregate guidelines and responsibilities for aid management (SIDA, 2006).

Civil society participation could also be strengthened further. Civil society has been more engaged in formulating PARPA II than PARPA I, but there is room to further strengthen its role. While the government has formalized its relationship with the PAPs, it is fundamental that accountability and transparency vis-à-vis the Mozambican public are also strengthened and deepened.

Alignment: Reliance on country systems

In the years ahead, donors will need to align financial support at the provincial level (SIDA, 2006). The government's decentralization strategy, which will include policies on decentralized planning and financing, should become instrumental in this regard. The e-SISTAFE rollout to the districts should facilitate the process, since it allows districts to request the required funds via the e-SISTAFE system.

A growing number of projects will need to be disbursed through the single treasury account to allow for more accurate and transparent monitoring. This will also help strengthen data collection and improve clarity and consistency in the use of definitions. Projects are still covering a large amount of external funds; nearly all of these are financially managed outside the government's financial system. While foreign-financed projects are considered part of the investment budget, most projects also include recurrent costs such as salaries.[34] Several initiatives are being implemented to increase the level of funds being disbursed directly to contractors through e-SISTAFE:

- The government has finalized guidelines for donors on how to execute projects using the single treasury account. These guidelines will be instrumental in substantially increasing the current low level of development aid being executed through the single treasury account, considering that 45 percent of PAPs' development assistance to the government is in the form of project aid.
- An improvement to the aid database ODAMOZ being discussed is to include information about the financial execution of aid—that is, whether or not it is disbursed using the single treasury account, which would allow donors and the Ministry of Finance to reconcile their data. It would also make it possible to monitor progress in putting donor projects on the single treasury account.
- The introduction in September 2007 of e-SISTAFE's direct budget execution functionality in foreign currency is making it possible to record and analyze almost all donor funds.

Alignment: Aid predictability

To improve the government's planning capability, donors will need to make multiyear commitments. Although many of the donors have a two- to five-year country strategy, the medium-term predictability of available financial information is weak. At present, only one donor has committed to a five-year rolling budget, and 28 percent of donors have a commitment horizon of less than three years. Only 37 percent of the overall pledges for 2006–09 have a clear disbursement schedule (SIDA, 2006). Not surprisingly, however, the further one looks into the future, the weaker the predictability. Of the different aid modalities, budget aid is the most predictable, and project aid the least (Figure 7.3). This result makes sense, considering that budget support tends to be a more political commitment, whereas project support requires more detailed planning (for example, identification of project, costing of project components). Overall aid predictability could thus be most easily increased by upping the share of budget support in the overall aid envelope. In addition, a full costing of the PARPA and

[34]With the introduction of program budgeting, the monitoring and evaluation capability will further improve.

the MDGs would likely increase the predictability of project aid as well, because it would facilitate project planning and commitments.

Although GBS has been increasing steadily in Mozambique with continued satisfactory government performance, there is considerable scope for raising the GBS share of total aid. According to a benchmarking exercise comparing the evolution of budget support and project aid in 2000–06, Burkina Faso, Tanzania, and Uganda have improved their portfolio composition more rapidly than Mozambique (Figure 7.4).

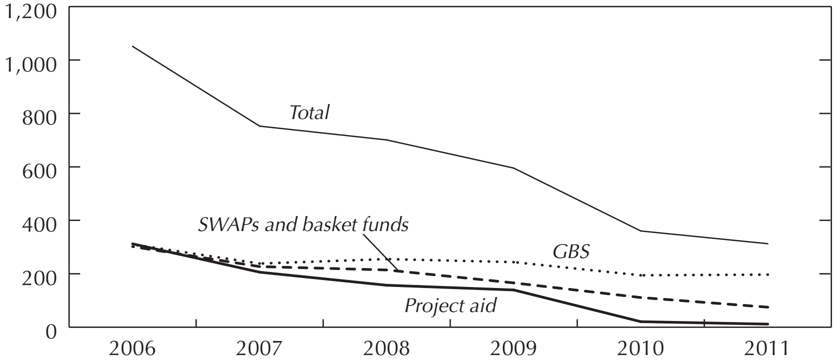
While the alignment of donor conditionality has improved the short-term predictability of aid, the criteria of nonviolation of the underlying principles for the purpose of aid disbursements referred to in the MOU can potentially lead to a sudden and massive aid reversal, with strong adverse macroeconomic consequences. Recognizing this risk, development partners are currently proactively discussing a response mechanism and early indicators that could lead to such an event.[35]

Harmonization

To improve shared analysis, there would need to be better monitoring of aid disbursements, more pooled missions for project aid, and more precise definitions of assessment criteria. The monitoring of progress in the context of increased program-based aid remains difficult; the weak data collection of projects and programs outside the single treasury account and the lack of clarity and consistency in the use of definitions make monitoring outcomes difficult. The OECD-DAC assessment for Mozambique argues that, while budget-support-related missions are coordinated more often, they alone will not get Mozambique to the harmonization target because the number of nonbudget support missions remains high (OECD, 2007b). In addition, challenges in alignment are particularly daunting for some institutions. For example, under some of its programs (such as the Poverty Reduction Support Credit), the World Bank requires a specific assessment of government performance over the past year before making a disbursement. Strict adherence to the MOU would entail using the joint reviews for analyzing the government's performance, conducting the World Bank board discussion within four weeks after the joint review of program aid, and subsequent pledging for the next year in accordance with the gov-

[35]Measures to address the inherent political risk of GBS are being formulated by the European Commission, which proposes increases over and above a stable foundation tranche as an incentive for good governance, as opposed to total withdrawal as a punishment for poor governance or condition performance (Oxfam International, 2007).

Figure 7.3. PAP Aid Commitments, 2006–11
(In millions of U.S. dollars)



Source: KPMG (2007, draft).

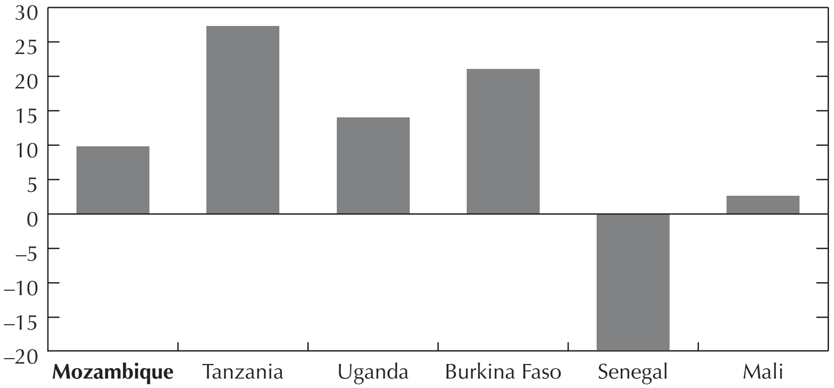
ernment's budgeting cycle. Booth, Christiansen, and de Renzio (2006) go even further and see the G19 reviews themselves as a violation of the principle of alignment, since they constitute parallel exercises to existing government performance reviews, such as the implementation report of the annual PRS, which is submitted to parliament.

Other exceptional treatments donors require include the supremacy of the Cotonou Agreement, compliance with the donor agency's financial rules for budget support (African Development Bank), or bilateral exceptions to the MOU allowing for an interruption of disbursements on the basis of additional rules besides the ones agreed in the MOU. In 2006, 7 of the then 18 donors had such exceptions, though with a view to eliminating them. Nonetheless, the government must make an extra effort to satisfy individual PAP requirements or additional rules of the game. To improve efficiency and harmonization, the United Nations Development Program (UNDP) recently decided to streamline UN work in Mozambique, to reach out to the G19 platform, and, increasingly, to harmonize UN activities with the PAP approach.

Managing for results

Improvements in results-based reporting are key to monitoring results. In the 2007 joint review, the PAPs (Government of Mozambique and Program Aid Partners, 2007) noted that the annual PRS (PES) and the annual PRS implementation report (BdPES) should be improved by aligning the PARPA implementation report with execution reports, by analytically link-

Figure 7.4. Mozambique and Comparators: Evolution in Budget Support, 2000–06
(Percent change in total aid)



Source: IMF staff estimates.

ing the program (PES) with the results (BdPES), and by reorienting and better organizing data collection and data analysis from the district up to the central level. Furthermore, the performance matrix for PARPA II needs to be translated into sectoral performance matrices as well as into the local governments' performance matrices. It is worth noting that the country's statistical capacity has been strengthened to enable the government to measure results against baseline data. While the existing budget classification system is mainly input-oriented and thus does not allow for inferences on expenditures and outputs/outcomes, a shift to the program-budgeting approach will allow for cost-benefit analysis of development programs. Program budgeting has been piloted in some sectors for the first time under the 2008 budget thanks to ongoing developments in e-SISTAFE, such as the introduction of sector-specific budget classifiers, which will allow for customized reporting and statistics. It is also worth noting that a second household survey was recently conducted; this survey tracks progress in social indicators since the first survey was conducted five years ago.

Conclusions and Lessons for Sub-Saharan Africa

The literature on aid effectiveness makes a strong case in favor of aid coordination and harmonization. The donor community has taken this forward with the Paris Declaration on Aid Effectiveness, which defines 12 indicators relating to ownership, harmonization, alignment, and managing for results. On many of these indicators, Mozambique ranks in the top 20 percent despite a number of factors that have made it difficult to harmonize and align aid in Mozambique (for example, the large amount of aid flowing in from a large number of donor agencies). Tanzania and Uganda have almost consistently exceeded Mozambique's scores, and the OECD-DAC has deemed Mozambique's compliance with the Paris Declaration as moderate. Nonetheless, there are a number of important lessons to be drawn for sub-Saharan Africa.

- First, Mozambique can be considered a model for other sub-Saharan African countries in terms of donor coordination and processes that lead to continuously improved aid effectiveness. Mozambique is the only country in which government satisfaction with donors has increased year after year, resulting in the substantial reduction of aid volatility in a short period of time and one of the lowest levels of aid volatility in sub-Saharan Africa.
- Second, Mozambique's experience confirms that budget support produces better outcomes than project aid. PAP donors—which deliver general budget support—have scored much better than the donor community as a whole on measures of aid predictability; strengthened budget planning, execution, and control capacity; and other indicators of aid effectiveness. Looking forward, PAP donor coordination could be the platform for donors not yet providing budget support (for example, China, India, and the United States), thereby improving Mozambique's overall efficiency in using aid. Mozambique's donors should set and implement more ambitious targets for budget support, which would improve the scores on a number of indicators simultaneously.
- Third, donors' increased reliance on government systems increases the government's responsibility for—and the urgency of—following through on needed reforms. Such reforms in Mozambique include improvements in good governance and the rule of law, public sector reform, and the rollout of integrated financial management information systems. Regarding the last, remarkable progress has already been achieved in Mozambique over the past few years with the rollout of e-SISTAFE to all line ministries at the central and provincial levels.
- Fourth, it is important that the national authorities lead efforts to get donors to comply with the Paris Declaration. The authorities should also avoid accepting the creation of parallel structures and instead require donors to use existing systems.

- Fifth, the IMF can play a catalytic role in facilitating compliance with the Paris Declaration. Its involvement in public financial management reforms, for example, lays the foundation on which donors can align their aid with government mechanisms; the timing of IMF missions also reduces duplication of policy analysis.

Appendix. Common-Agency Models of Donor Coordination and Aid Effectiveness

Consider the model developed in Dixit (2003) and Murshed (2002, 2006) of an aid-recipient government undertaking two projects referred to as x_1 and x_2 and financed by donors 1 and 2, respectively. Each project entails unobserved symmetric effort levels, which are also equal to its output. Donor 1 derives a benefit equal to B from project x_1, but none from project x_2; the reverse applies to donor 2. The cost to the recipient government of exerting efforts x_1 and x_2 for the two tasks is given by

$$C(x_1, x_2) = \varepsilon x_1^2 + \varepsilon x_2^2 + 2kx_1x_2, \tag{1}$$

where the parameter k determines the degree of substitutability of the two tasks. If $k > 0$, the tasks are substitutes because greater effort in one task increases the marginal cost of effort on the other. As such, achieving a greater marginal reward in one would require the recipient government to withdraw effort from the other. If $k < 0$, the two are complements.

A payment is made to compensate the recipient government for managing the project. The incentive payment made to the recipient government is w, and the payment schedule is linear on observed outputs x. Both principals will need to meet the participation constraint of the agent. Therefore, each principal's profit function will take the following form:

$$P_i = Bx_i - w[x_i + \varepsilon x_1^2 + \varepsilon x_2^2 + 2kx_1x_2] \quad \text{with } i = 1, 2. \tag{2}$$

In the absence of coordination, each donor would optimize its desired project level, taking the other donor project as given by maximizing equation (2) with respect to x_i. The optimal payment schedule in this case would equal

$$w^{nc} = \frac{B}{1 + 2x(\varepsilon + k)}, \tag{3}$$

where nc stands for noncooperative and $x = x_1 = x_2$ by the symmetry of the model.

If both donors decide to coordinate their actions, a solution could be derived by maximizing the donors' profit functions jointly (by summing equation (2) over i) with respect to x. The optimal payment schedule in this case would equal

$$w^c = \frac{B}{1 + x(\varepsilon + k)} \,. \tag{4}$$

Therefore, the model delivers three important results:

1. Coordination improves the recipient government's accountability (commitment) to project outcomes. A cooperative or coordinated equilibrium, by allowing donors to provide a better payment schedule for any given level of output, would increase the incentives of donors and recipients to exert optimal effort and deliver a corresponding optimal output.
2. Benefits from coordination increase with the number of donors, given that coordination failures increase with donor proliferation. Assuming a one-to-one relationship between donors and projects, equation (3) states that payments to recipient governments decline as the number of donors increases, given that the magnitude of the term 2 in the denominator rises with the number of projects.
3. The commitment of the recipient government to individual projects increases the more execution projects complement each other. A low degree of substitutability (lower k) delivers higher payment schedules, both in the cooperative and the noncooperative equilibria.

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