

DONOR PRACTICES

OECD<<

DAC TASK FORCE ON DONOR PRACTICES

**EXPERIENCES AND PERSPECTIVES
ON AID REPORTING
AND MONITORING PRACTICES:
The Case of Mozambique**

Report by

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ACRONYMS

BS	Budget Support
CIDA	Canadian International Cooperation Agency
DCI	Department for International Cooperation
DAC	Development Assistance Committee
DFID	Department for International Development (UK)
DGIS	Dutch Ministry of Foreign Affairs
ECDPM	European Centre for Development Policy Management
EU	European Union
GdE	<i>Gabinete de Estudos</i> (Policy Research Unit within the MPF)
GNP	Gross National Product
GoM	Government of Mozambique
GTZ	Germany Technical Cooperation Agency
HIID	Harvard Institute for International Development
IMF	International Monetary Fund
MADER	Ministry of Agriculture and Rural Development
MINED	Ministry of Education
MISAU	Ministry of Health
MPF	Ministry of Planning and Finance
MTEFF	Mid-Term Expenditure and Fiscal Framework
NGO	Non-Governmental Organization
ODA	Overseas Development Assistance
OECD	Organization for Economic Cooperation and Development
PATA	Pooling Agreement for Technical Assistance (Health)
PESS	Health Sector Strategic Plan
PROAGRI	Agricultural Sector Programme
PRSP	Poverty Reduction Strategy Paper
PSR	Public Sector Reform
R&M	Reporting and Monitoring

RRV	Swedish National Audit Office
SPA	Special Programme Assistance for Africa
Swap	Sector-Wide Approach
TA	Technical Assistance
TC	Technical Cooperation
TdC	<i>Tribunal das Contas</i> (Portuguese Accounting Court)
UK	United Kingdom of Great Britain and Northern Ireland
UN	United Nations
UNDP	UN Development Programme
UNFPA	UN Population Fund
UNICEF	UN Children Fund
USAID	US Agency for International Development
WB	World Bank

EXECUTIVE SUMMARY

This study has been commissioned by the Swiss Agency for Development and Cooperation (SDC) with the objective to report to the Sub-Group on Report and Monitoring (R&M) of the DAC/OECD Task Force on Donor Practices on the ongoing practices on the experiences and perspectives on aid R&M and harmonization of donor operating policies and procedures in Mozambique.

The immediate motivation for the study was to identify and document donor practices, which could cost-effectively reduce the burden on the capacity of partner countries to manage aid and lower the transaction costs involved. However, behind such motivation lies a broader and, undoubtedly, more important reason for this type of work. That is, the end result of improving aid effectiveness is to maximise development impact and goals and, in particular, the value for money of aid assistance to countries like Mozambique.

The findings and conclusions provided here are drawn from the interviews carried out with bilateral and multilateral donors, as well as government representatives of ministries and other relevant institutions. The interviews have been complemented with the analysis of available documents. Throughout the present report some extracts and summaries drawn from such documents are provided to illustrate the range of main approaches, methodologies, practices and achievements, directly or indirectly, relevant to R&M.

In short, this study shows that the experience of Mozambique in terms of harmonization of aid management in general, and R&M practices, in particular, far from a mere technical and administrative matter. First and foremost, this is a political matter both for donors and for the recipient country. On the one hand, donor nations must decide whether they want to use projects and aid assistance in general to pursue their own interests, or to address more the real needs of poor countries and, thus, contribute towards achieving development goals. The answer to this issue influences significantly the coherence of operating policies and procedures implemented by development agencies in a given country, as well as donor's willingness to either collaborate with other donors through development frameworks in support of partner country-priorities, or act very much in isolation with the objective to achieve unilateral objectives. On the other hand, achieving greater coherence and harmonization in donor's policies and procedures presupposes the enhancement of recipients' ability and, above all, leadership to design and implement adequate policies and procedures.

In Mozambique, harmonization of R&M associated with aid assistance is in progress, at least in certain social and economic areas, as part of a comprehensive and broader effort to achieving greater coherence in policies affecting the development of the country.

The following general findings and conclusions may be drawn from the study that follows:

1. Donors' financing and technical assistance have been undertaken through programs and projects set up usually outside of, or at best, only partially integrated into Government's priorities and sector reform programs. A rough estimate indicates that as much as 90 percent of externally financed outlays are spent through an arrangement comprising stand-alone projects, uncoordinated and parallel forms of R&M, normally executed outside the normal budgetary, procurement and reporting requirements, and therefore not captured by the public accounting system.
2. Poverty reduction has become increasingly central to the Government of Mozambique (GoM), particularly following the consolidation of peace and political stability from 1994 onwards. The PARPA (or the Mozambican PRSP) is now a key operational document, which deserves to be singled out from several other strategy documents because it provides the core development framework for many relevant aspects concerning many financial and non-financial R&M issues;
3. In spite of the widespread stand-alone, uncoordinated, multiple and parallel forms of aid assistance, over the past years Mozambique has experienced a significant shift in the way both the GoM and Donors approach aid assistance and partnership. From a direct management of aid financing and technical assistance, provided mainly as direct delivery of goods and services, there has been a shift towards a focus on building up the required institutions and the overall system needed to respond to the national priorities and needs of the country;
4. Experiences of harmonization processes existing currently in Mozambique can be found in three main areas: macroeconomic planning and financing the agriculture and rural development, and the educational sector. The former is associated with budgetary support (e.g. the "G10" and SISTAFE); the latter are part of has become known as the Sector-Wide Approach (SWAP);
5. These three harmonization arrangements offer interesting insights and solid empirical basis for discussions in the DAC Task Force on Donor Practices. The harmonisation process is particularly

advanced in the National Programme for Agricultural Development (PROAGRI), a SWAP scheme in the agricultural sector;

6. In the educational sector there is a similar, but not as advanced and detailed scheme as PROAGRI: the Five-Year Education Sector Strategy Plan (5Y-ESSP). Collaboration is now considered as being established on firmer ground. A common pool fund, intended to finance a broad range of expenditures contemplated in the strategic plan, has not yet been established;
7. In the health sector there has been talks aiming at establishing some sort of a pooling scheme, but so far nothing like PROAGRI or the 5Y-ESSP has yet been achieved. In other sectors, such as in public works (water, housing, roads) no experience of harmonization and pooling scheme has been found;
8. Overall, nobody seems to have strong arguments against the need and usefulness of harmonization. On the contrary, there is a widespread consensus among Government officials and donors that harmonization leads to lower transaction costs and administrative burdens placed on national partners, at least in the long run;
9. In the short run, harmonisation seems to entail a first stage in which increased investment and spending, in terms of negotiation, time consuming and coordination among stakeholders, are necessary. A crucial factor for a successful harmonisation endeavour is a signed agreement encompassing policies, strategic objectives, common flow of fund mechanisms, and donor's coordination principles on R&M procedures. Such an agreement provides the basis for mutual obligations and therefore enhances mutual trust and commitment between the Government and Donors. PROAGRI appears, in this regard, as the model so far with most potential to be replicated and applied in other sectors;
10. Any attempt to channel the overall ODA currently provided to Mozambique through the existing on-budget governmental system would most probably lead to a collapse of the financial system. It does not mean that Mozambique has more aid than it needs. On the contrary, what happens is that Mozambican public institutions are unable to hand significant amounts of aid financing properly and effectively;
11. In Mozambique the harmonisation process seems to be usually donor-driven. However, the general and sectoral agreements that are emerging enhance a higher level of transparency, coordination and coherence of development policy in Mozambique (particularly

with respect to conditionalities and empowerment of national institutions), which enable the government to have a better overview of the development process in the country and strengthen its leadership and ownership;

12. Harmonised practices reduce the quantity of information needed for monitoring and managing aid, and actually improve its quality due to the already mentioned enhanced transparency and coherence on agreed policy objectives and mutual obligations;
13. In the existing agreements and schemes set up between the Government and Donors an enormous emphasis has gone to financial R&M regulations. Only recently the non-financial dimension of R&M on aid handling and spending started to be dealt with (e.g. in monitoring of PARPA and the MIS under preparation in the context of PROAGRI);
14. The ongoing Public Sector Reform and the additional support capacity building and human resource development need, appear to have become crucial for the success, and above all, sustainability of existing and new harmonization arrangements expected to emerge soon;
15. There is still a long way to go regarding harmonization of operating policies, mechanisms, principles and arrangements associated with financial and non-financial R&M. However, if the new partnership approach to development around achieving development goals, rather than pursuing unilateral and stand-alone objectives, became dominant, the existence of alternative donor-funded activities may become a useful and healthy complement to the harmonized schemes. The more so, if such projects and activities are framed within the government's sector policy framework and priorities, even though they remain somewhat alone and relatively independent from one another (e.g. relying on bilateral management systems, R&M, etc.).

1. INTRODUCTION

1.1. Objectives

1. This study was commissioned by the Switzerland with the objective to report to the Sub-Group on Reporting and Monitoring (R&M) of the OECD/DAC Task Force on Donor Practices on the experiences and perspectives on aid R&M in Mozambique. The study has three main specific objectives, namely:
 - a) To map the range of different systems and information requirements for R&M in Mozambique;
 - b) To analyse the burden and problems for partners and donors regarding multiple R&M systems;
 - c) To document experiences of success and failure in donor cooperation and donor practices.
2. The present work emerged in the context of the increasing efforts made in recent years by developing countries and donor agencies towards a better harmonization of the multiple and often very different R&M systems used in development assistance. The Sub-Group on R&M is part of a broader work, in which the OECD/DAC Task Force has established three subgroups to examine particular areas of interests, namely: financial management and accountability, the pre-implementation phase of a project and programme cycle, and reporting and monitoring. In this context, the harmonization of policies and procedures is expected to reduce the administrative burden and transaction costs of development assistance to the recipient countries and, in this way, improve the effectiveness (“are we doing the right things” – do we have the priorities right?) and the efficiency (“are we doing things right” – is implementation efficient?) of donor practices of assistance (ECON, 1998; OECD, 2001a, 200b).
3. Fifteen developing countries have been associated to the work of the OECD/DAC Task Force, with the view to make sure that the experiences, ideas, and problems they are actually facing are duly integrated into its ongoing discussions. In this context, Bolivia, the Kyrgyz Republic, Mali, Mozambique and Vietnam are the countries selected to integrate the Subgroup of R&M.

4. The present study has been prepared by a local and independent consultant, who has carried out a survey commissioned by SDC on the local efforts in the area of harmonising R&M practices (see the Terms of Reference in Annex 1 attached).¹ The study is intended to be presented at the meeting held on the 22 April 2002 at the OECD Headquarters in Paris. Following this meeting, the Task Force is due to produce a Good Practice Reference Paper by the end of 2002 to be finally submitted to the DAC High Level Meeting in 2003 for discussion and approval.²

1.2 Methodology

5. Following the terms of reference for this study, information was gathered through interviews with selected representatives of ministries and other governmental institutions, development agencies and civil society. The interviews were focused on relevant experiences, opinions and suggestions likely to improve the harmonization of R&M aid assistance.
6. Based on the information gathered the consultant has identified and analysed main problems and damage caused by different multiple R&M systems, as well as issues associated with the harmonizing procedures and processes in general.
7. The consultant has analysed, in particular, the usefulness of the PRSP approach regarding R&M and assess to what extent donors and partners are willing to harmonize procedures around results-oriented performance management systems.
8. The present study has benefited, on the one hand, from a three days visit made to Maputo by two members of the DAC Subgroup on Reporting and Monitoring.³ On the other hand, a preliminary draft submitted by Consultant on 22 March 2000 has been distributed for comments to the people interviewed and other stakeholders. So, this

¹ Professor at the Faculty of Economics, Eduardo Mondlane University, invited by the Swiss Agency for Development and Co-operation (SDC) as independent consultant for this particular study.

² For further details on the scope and the work programme of the Task Force and its Subgroups see the OECD/DAC Task Force website www.oecd.org/dac/donorpractices.

³ Christoph Graf, SDC, Evaluation and Controlling Division, and Paolo Janke (JAP), SDC, Development Policy Unit. The objective of the mission was to gain insights in the local reality and exchange ideas with regard to relevant issues on the subject matter under consideration.

final report has benefited from additional comments and suggestions provided by a some, though relevant, Government officials and donor representatives.

2. CONTEXT AND BACKGROUND

9. The present study emerges in an interesting, though somewhat controversial, international context for two reasons: one technical, at least in part or apparently and, the other, more political and substantial. On the one hand, over the recent years, developing countries and donor agencies have increasingly improved the effectiveness and the efficiency of international assistance; they are doing so in different ways, namely through an increasing harmonization of their multiple and often differing operating policies and procedures, which tax the administrative capacity of developing countries and increase the transaction costs of development assistance.

10. On the other hand, while this report has been prepared leaders of rich countries assembled in Monterrey, Mexico, on 22 March 2002, promised to increase aid to the world's poorest nations. However, this promise and the conference in general were not without controversy. The Monterrey conference was anticipated by a public quarrel about the effectiveness of foreign international aid. Already in December 2001, when Gordon Borwn called for a new Marshall Plan for the world's poorest countries, urging rich countries to double their aid spending, the response from the US treasury secretary, Paul O'Neill, was that trillions of dollars had been spent on international aid since the war, with preciously little to

Box 1: Getting aid right

... Several conclusions stand out from this research. The most important is that policy matters. Foreign aid tends to work well – that is, it helps to reduce poverty – in countries with good economic policies. In countries with bad policies, it is inefficient at best. Second, aid is better at reducing poverty if it is spent in very poor countries, rather than in less-poor ones. And third, not all aid is equal. Money spent in certain ways – such as on campaigns to eradicate river blindness and smallpox, or to raise rice yields – has been spectacularly successful. Other spending, such as food aid (which helps rich country farmers) or tied aid (which must be spent on services from the donor country) is much less use.

... America may be the most egregious hypocrite in the aid debate, but it is not the only villain. For all their fine words, many rich countries – with a few notable exceptions such as the Netherlands, Norway and, increasingly Britain – focus more on foreign-policy concerns than on reducing poverty when designing their aid budgets.

(The Economist, March 16th 2002: 16-17)

show for it.

11. Whatever the reason, the fact is that the pledges of the rich countries at the Monterrey Conference seem to have fall well short of the doubling of assistance to \$100 billion, which international agencies say is needed to make a serious start on tackling the problem of poverty (Cornwell, 2002; Denny and Borger, 2002; *The Economist*, 2002: 16-17.⁴
12. The referred international quarrel is, directly or indirectly, relevant for the subject of the present work. After all, the work undertaken by the OECD-DAC on donors practices, of which this study is part, has been motivated by the increasing awareness that certain schemes of aid assistance work better than others; that there are good and bad aid experiences; and that some donors spend their aid rather badly, from the poverty-reduction point of view, and this alone should prompt them to make radical reforms of their bilateral aid programmes (see Box 1).
13. The claim that there is scant evidence that foreign assistance has worked well poses a particular challenge to the core subject of this study. That is, the need of a comprehensive and adequate R&M system; or, better still, a monitoring and evaluation (M&E) system, seen as a broader system than the one provided by a simple R&M. This is important particularly if one intends to assess whether aid impacts are declining and how far and, in which ways donor-supported activities have contributed to such impacts.
14. Moreover, the questioning of the existing body of evidence on the effectiveness of aid assistance takes the issue of R&M far beyond a mere routine, daily description of ongoing activities, and episodic reporting of overall progress. In the end, the search for good practices is not only to find out an answer to questions, such as “What are we doing?” but know as well: “What have we

Box 2: Aid and Poverty

... In its comprehensive review Twenty-Five Years of Development Cooperation, which covers the period 1960-85, the ECGD's Development Assistance Committee (DAC) concluded that "the most troubling shortcoming of development aid has been its limited measurable contribution to the reduction – as distinguished from the relief – of extreme poverty, especially in the rural areas of both middle-income and poor countries"

Word Bank, 1990: 127

⁴

The iconoclastic economist William Easterly estimates more than £700 billion has been disbursed in aid since 1950 – yet in many parts of sub-Saharan Africa and south Asia, living standards are now lower than they were 30 years ago (Denny and Borger, 2002)

achieved?” or “What impact have we had?”

2.1. Snapshot of aid financing in Mozambique: facts and figures

15. Mozambique was, in the last quinquennium of the 20th Century, the largest single recipient of foreign assistance in Africa, amounting to US\$4.7 billion. At least half of Mozambique’s public sector budget is externally funded, while more than two-thirds of its total investment expenditure is donor funded. This share has been declining in recent years (from 78 percent in 1998 to 66 percent in 2000) because the Government increased its own contribution. In spite of this, nowadays external assistance to Mozambique’s public sector budget and total investment continues to be as one of the most important foundations for social and economic development in the country (Pavignani and Hauck, 2001: 8; World Bank, 2001).
16. The Official Development Assistance (ODA) to Mozambique consists of concessional financial flows disbursed from bilateral and multilateral sources. The data on foreign aid available from Government and foreign sources are often not compatible. This is so, in part due to definitional and methodological reasons, and in part due to weak sharing information between and within Government and Donor’s institutions. In any case, in their fundamental way, the available data sources allow to draw some useful inferences about current aid volume, channels and allocations.
17. According to the Department for International Cooperation (DCI) from the MPF, in 1999 financial aid pledged amounted US\$ 1.162 million, of which 98% for public sector and the remaining 2% for the private sector [namely, from France (PROPARCO) and UK (CDC)]. In turn, the actual disbursement still in 1999 was US\$921 million for the public sector and US\$16 million for the private sector.
18. As Table 1 shows, one of the striking features of ODA to Mozambique is the multiplicity of its sources. A total of 46 partners are reported to have supported Mozambique in 1999, through two main channels: bilaterally (23) and multilaterally (23). Besides the donors listed in Table 1, there are also tens, perhaps more than 150, according to some sources, of international NGOs active in Mozambique (DCI, ECON, 1998: 29).
19. In 1999, bilateral donors represented about 55% of the disbursed funds, while multilateral donors represented 43% (of which 6% from United Nations system agencies) and private institutions the remaining 2%.

Table 1. Bilateral and Multilateral Donors in Mozambique	
Bilateral Donors	Multilateral Donors
1. Australia	1. BAD
2. Austria	2. BADEA
3. Belgium	3. BID
4. Canada	4. IDA
5. China, R.P.	5. EU
6. Denmark	6. BEI
7. Finland	7. FAD
8. France (MCF/AFD)	8. IFAD
9. Germany (GTZ/KFW)	9. KUWAIT FUND
10. Iceland	10. NDF
11. Ireland	11. NTF
12. Italy	12. OPEC
13. Japan	UNITED NATIONS AGENCIES (11):
14. Netherlands	13. FAO
15. Nigeria	14. UNCDF
16. Norway	15. UNDP
17. Portugal	16. UNESCO
18. South Africa	17. UNFPA
19. Spain	18. UNHCR
20. Sweden	19. UNICED
21. Switzerland	20. UNIDO
22. United Kingdom	21. UNV
23. USA	22. WFP
24. Several other partners in cooperation or in process of negotiation with the MPF, namely: Brasil, Cuba, India, Yugoslavia, Madagascar, Mauritio, Malawi, Russia, Tanzania, Zambia, Zimbabwe	23. WHO

Source: DCI, 2001

- 20.** Table 2 comprises a set of small tables, drawn from data recently made available by the OECD; together, the tables depict an interesting snapshot of Mozambique's international aid, including: the bilateral share of gross ODA between 1998 and 2000, the net ODA as proportion of Gross National Income (GNI), the top ten donors of gross ODA, and the bilateral ODA by main sector in 1999-2000.
- 21.** Two features are particularly noticeable from the data in Table 2. On the top ten donors of gross ODA Portugal emerges in second place, immediately after the IDA. This relatively high contribution of Portugal, as compared to several often more directly visible donors in the public arena, has come as a surprise for several observers. This may, in part, be due, as pointed out above, to weaknesses regarding sharing information among donors. However, perhaps even more interesting, the data discrepancies call attention for an issue somewhat relevant for the purpose of this study, which is concerned with the way aid funds

are channelled, managed and spent by donors. As the Portuguese advisor for cooperation at the Embassy of Portugal in Maputo explained, Portugal's aid programme remains characterised by the heritage of its former colonial relations. The somewhat informal relations between Portugal and Mozambique, at least as compared to other major donors, are largely based on institutional and personal relationships, highly decentralised and spread among most of the ministries and several agencies, universities, hospitals and municipalities of the two countries.

22. The other feature in Table 2 refers to how donors channel their funds across main social and economic sectors. In 1999, the sectors that benefited more from donor assistance are agriculture (9%), public works and water (8%), health (7%), education (6%), mineral resources and energy (6%), industry, and commerce and tourism (5%).

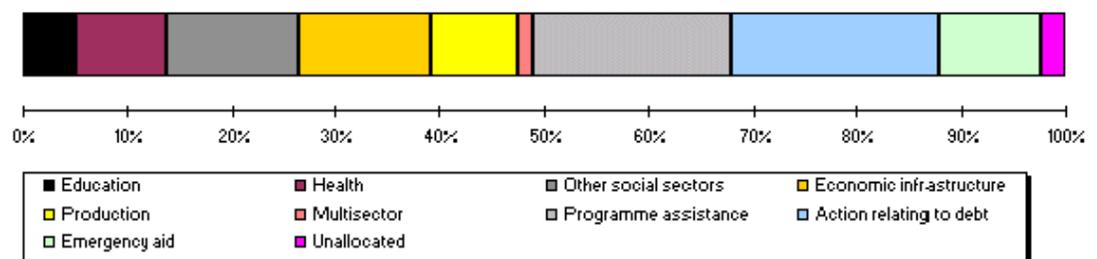
Table 2: Aid financing in Mozambique: facts and figures

Receipts	1998	1999	2000
Net ODA (USD million)	1 040	804	876
Bilateral share (gross ODA)	67%	43%	73%
Net ODA / GNI	28.7%	22.0%	24.8%
Net Private flows (USD million)	87	85	103

For reference	1998	1999	2000
Population (million)	17.0	17.3	17.6
GNI per capita (Atlas USD)	200	220	210

Top Ten Donors of gross ODA (1999-2000 average) (USD m)	
1	IDA 434
2	PORTUGAL 154
3	UNITED STATES 93
4	EC 86
5	UNITED KINGDOM 66
6	NETHERLANDS 53
7	GERMANY 50
8	DENMARK 49
9	SWEDEN 49
10	IMF 44

Bilateral ODA by Sector (1999-2000)



Sources: OECD, World Bank.

<http://www1.oecd.org/dac/>

2.2. Harmonised and non-harmonized aid: definitions, volume and features

2.2.1. Harmonization versus non-harmonization: operational definitions

23. The concept of harmonization stands, in the context of this study, as perhaps the most instrumental and relevant concept. However, after browsing the background material from the OECD-DAC Task Force (i.e. room-documents, progress reports and other papers), made available to the Consultant, no explicit and clear operational definition of harmonization is found. However, such an operational definition seems important, particularly if one discusses “harmonization operational policies, procedures, and practices” in terms of “good” and “bad” practices, as a World Bank’s (2001a) recent discussion drafts puts it; it is important for a clear identification and analysis of key issues, as well as adequate conclusions and recommendations.

24. For the purpose of the present study the term *harmonization* (or its associates, e.g. harmonized or semi-harmonized schemes and R&M procedures) comprises arrangements which represent a move away from stand-alone projects, involving a certain type of pooling of bilateral and multilateral funds and execution mechanisms, commitments and mutually agreed obligations between Recipients and Donors.

25. Following from the above definition of harmonization, it may also be useful to explicitly state the other side of the coin. That is, by *non-harmonization* or *non-harmonized* schemes and procedures it is meant here the stand-alone projects, often involving a strong national identity

Box 3: Harmonization versus Non-harmonization

The term *harmonization* comprises, in the context of this study, all arrangements or schemes that represent a move away from stand-alone projects, involving a certain type of pooling of bilateral and multilateral funds and execution mechanisms, as well as mutually agreed obligations between the Government and Donors.

On the contrary, by *non-harmonization* or *non-harmonized* schemes and procedures it is meant here the stand-alone projects, often involving a strong national identity of aid origin and a direct management of the project execution and monitoring by the donors themselves, as well as operational and institutional procedures defined between the Government, or one of its institutions, and a single donor.

of aid origin and a direct management of the project execution and monitoring the donors itself, as well as operational and institutional procedures defined between the Government, or one of its institutions, and a single donor.

26. From the above two definitions, when speaking of harmonization in the context of this study, at least two features can and need to be taken into consideration. First, the issue of harmonization is equally relevant for both bilateral and multilateral donors, which renders that such a classification is of little use, as far as the issue of harmonization of operational policies, procedures and practices is concerned. On the one hand, these two channels of funding are increasingly seen on a continuum or interchangeable manner; they often share the same vision and policy framework of aid assistance. On the other hand, the diversity and multiplicity of policies, procedures and practices affect both bilateral and multilateral donors. Thus, the efforts and difficulties to achieving common standards or good practice principles, that must reflect and accommodate differences in donors' operational and institutional environment, affect as much multilateral as bilateral donors.
27. The third aspect drawn from the definition of harmonized as opposed to non-harmonized arrangements or schemes refers to the degree of consistency among processes, procedures and practices, namely: whether the harmonization process stands on well-defined, explicit and agreed memorandums of understanding established between the Government and Donors, on the one hand, and among donors themselves, on the other.

2.2.2. Mapping the range of ODA channels in terms of harmonized and non-harmonized schemes

28. Since the classification between bilateral and multilateral donors is of little use for this particular study, an alternative is to map the range of ODA channels in terms of harmonized as compared to non-harmonized schemes. Mapping R&M systems and information requirements that donors and partners have in Mozambique, for managing existing aid transactions, brings about a relative complex composite array of situations, involving many sectors and donors. Table 3⁵ depicts main

⁵ Table 3 draws upon a table elaborated by Pagnani and Hauch (2001) on pooling schemes of pooling external funds for technical assistance (TA), according to the degree of tiedness and to whom is or seems to be the main force behind each arrangement. However, Pagnani and Hauch's table has been modified according to the definition of harmonization used in this study. The terms used by Pagnani and Hauch, such as un-coordinated and coordinated, capture part but not the most important aspects involving the process of harmonization.

areas of aid funding allocation by row, namely: macroeconomic planning and financing, agriculture, education, health and other sectors. The arrangement of these areas obeys a certain degree of hierarchical order, from top to bottom; starting from the areas that can currently be considered more advanced, in terms existing or potential for further harmonization, and ending with the less harmonized areas. This ranking is somewhat subjective, for it depends very much on the judgement criteria used at a certain point in time. However, the ranking is useful here because it helps to capture relevant experiences of harmonization in Mozambique and to highlight areas with potential for harmonization in the next future.

29. The area called “Planning and Finance”, is currently experiencing substantial reforms, in terms of setting up a system able to absorb increasingly more donor financing in the so-called on-budget and untied system, as opposed to the most widely system, the off-budget and tied system. In the past, the Government's own budgetary processes and documents have not captured a substantial part of donor financing, and this has created serious problems for the management of the macro-economy (ECON, 1998: 2). However, the harmonization process of donor financing implies substantial reforms in the administrative and financing system aiming at promoting greater coherence in the national institutions.
30. In turn, when considering Table 3 by column, one sees the type and degree of ODA harmonization, and two major groups of arrangements or schemes can be identified: non-harmonized and harmonized (or semi-harmonized) schemes. Non-harmonized schemes refer to a wide range of projects which, as the definition provided above stresses, comprise stand-alone projects, often directly managed by donors themselves, including the direct management of operational, executive, monitoring and institutional procedures defined between the Government, or one of its institutions, and a single donor. Overall, this scheme leads to a stronger relevance provided to national identity of aid origin than of national identity, ownership and empowerment of the country recipient of aid.
31. It is hard to estimate the amount of aid financed through non-harmonized schemes. However, the World Bank (2001b) estimated recently that as much as perhaps 90 percent of the externally financed outlays are executed outside the normal budgetary procedures, following donor-specific disbursing channels, classifications, procurement and reporting requirements, and therefore are not captured by the public accounting system (World Bank, 2001b: 42-43).

Table 3: Mapping Non-harmonized and Harmonized Schemes

		Non-harmonized and Parallel Schemes	Harmonized or Semi-harmonized Schemes		
Areas and sectors of aid financing	Planning and Finance	<p>Comprises bilateral or multilateral stand-alone projects, financed by funds in a more or less tied aid system, directly managed by donors themselves, including the direct management of operational, execution, monitoring and institutional procedures, defined between the Government, or one of its institutions, and a single donor. Overall, this type of scheme leads to a stronger national identity of aid origin and provider than an increasing ownership and empowerment of aid recipient.</p>	Budget and SWAP-oriented	Belgium, Denmark, European Commission, Ireland, Netherlands, Norway, Sweden, Switzerland, United Kingdom	
	Agriculture (PROAGRI)			European Union, DFID, World Bank, USAID, the Netherlands, Denmark, Ireland Sweden, more donors showing interest to join	
	Education (Lusa)			Strategic planning strongly owned by GoM; supported by Canada, Denmark, DFID, Netherlands, Ireland, Sweden, World Bank. A financing scheme is to be introduced soon	
	Security (Pala)			Recently launched by the GoM; a pooled financing arrangement is a likely option	
	Public Sector Reform (MPP)			Supported by Norway, Sweden, Switzerland; TA provided by Harvard University end by December 2001, and new arrangements are in progress	
	Health (PATA)			Financed by the Netherlands, Norway, Switzerland; administered by UNDP; closed down in 2000	Health Strategic Plan (PESS), supported by DFID, the Netherlands, Ireland, Denmark, Finland
	Health (policy formulation)				Switzerland, Spain (Guarda Civil), UNDP, Spain, Portugal, UNDP, the Netherlands
	- Police Academy				
	- In-service training				
	Finance (Tribunal das Contas)				Portuguese TA, financed by Sweden
Other Sectors (Water, Sanitation, Housing, etc.)					

32. From the 90 percent of externally financed outlays, one can roughly estimate that about 70 per cent are allocated through non-harmonized arrangements. According to the World Bank (2001b: 43), the great majority of the investment expenditures are reported in the budget at the aggregate level, it is almost always the case that donor funding in specific functional areas (e.g. higher education, housing or basic health care) and to the provincial level is not fully reflected in the budget.
33. In turn, the group of donor channelling their funds through harmonized or semi-harmonized schemes comprises several arrangements; from budget support provided to the MPF, to the pooling of funds into the so-called Sector Wider Approaches (Swaps), and other pooling funds more restrictive than the Swaps.
34. Rather than pretending to be exhaustive, the mapping in Table 3 is intended to identify the range of main schemes of different nature and settings, which hopefully capture at the most important harmonization processes and schemes.

3. THE SCOPE OF REPORTING AND MONITORING

3.1. Non-harmonized schemes

35. As point out above, donor community in Mozambique are multiple and very diversified. Many donor agencies have established their presence in Mozambique, at least as far back as the inception of the economic reforms in the middle of the 1980s; others, have been attracted by the country's post-war positive record or, more recently, by the severe floods in 2000 that affected badly the economic activity [ECON, 1998, DCI, 2002; Pavignani and Hauck, 2001].
36. In general, both bilateral and multilateral donors have set up stand-alone projects, within what in this study is seen as the group of non-harmonized arrangements. Because donors act more or less in isolation, and chiefly in line with the foreign-policy concerns of their own countries, they often channel their aid assistance through their own NGOs, and impose to the recipient country a parallel managerial system, including bank accounts, staff, and reporting and monitoring procedures.

- 37.** Bilateral and multilateral donors with parallel systems of direct management and R&M systems can be grouped into two main groups. One group comprises donors who do not join pooling schemes and harmonized arrangements. This group demands direct management and complete R&M control of their aid assistance. In this case, financial assistance is provided, together with technical cooperation, with the intention to transfer technology to recipient institutions. Funds are disbursed directly by the donor to the recipient and the system for accounting and reporting is a donor's internal one. In terms of supervision, financial reporting is made directly to the Donor. Often, separate auditing is not realized; only the general central audit of the donor can be in-charge of monitoring and reporting processes. Moreover, they usually demand not only financial reporting, but also non-financial result-oriented information.
- 38.** The issue of inability, or perhaps better, difficulty to ensure the best value for money of aid funds spent does not affect national institutions only. To give an example, some estimates indicate that only 40% of the rural water points are currently in working order in Mozambique. Part of this is because provinces receive negligible funds for rehabilitation and maintenance work, associated with the centralist financial management. Another reason refers to the insufficient skilled staff in provinces..
- 39.** While most bilateral donors have some sort of parallel systems, for one or more of the reasons identified above, others assume strict formal positions, declaring explicitly their readiness to act in isolation only allegedly because of restrictive domestic regulations.. Among multilateral donors, agencies like the World Bank stand out for their insistent advocacy of joint and harmonized R&M mechanisms. However, their involvement in sub-sector pools and harmonized schemes is so far negligible.
- 40.** The second group of donors, led mainly by Nordic countries, Canada and, increasingly Britain, while it continues to use some sort of parallel system and stand-alone projects, it is increasingly embracing a new partnership approaches to development and gearing aid programmes around achieving the result-oriented international development targets and goals. On this perspective, R&M procedures used by donors are increasingly flexible in terms of sharing information; financing is implemented jointly by local executing units and donors; when donors' accounting systems are not the same, they are similar or are substituted by systems mutually defined by donors and governmental institutions.
- 41.** Within a non-harmonized arrangement donor countries or development agencies set their own requirements based on statutory legislation that

make mandatory to report periodically on the “good-use” and destination of ODA resources. Such requirements imply permanent monitoring processes undertaken by the donor, and thus specific portfolio set up for each project or program.

42. However understandable and necessary parallel systems for aid execution may be, interviewees from both sides – the recipient country and donors – acknowledged that such arrangements stand on, or give priority, to donor’s concerns than to the improvement of government’s accountability towards their own constituency and the international community in general. Besides the burden that parallel systems generate - in terms of time, financing, and staffing - they lead to several other negative effects, including the rather cynical view some partners express about the true motivations for donors’ aid assistance. It is enough to recall here the view expressed by one interviewee:

Lack of credibility and trust on our institutions and ability? Yes. May be. There is a point on that, though it is only part of the justification for the existence, and above all, the strong demand some donors make in favour of parallel systems of management and R&M. To be frank, we all know that in this business of foreign aid, there is another side of the coin as well. Many countries, or at least some important donors, while they are busy preparing the disbursement of their aid, they make sure that someone goes quickly to the recipient country and does his or her best to take the money disbursed back to their country.

43. There are other explanations for parallel systems. From what some interviewees have said, perhaps more important than lack of credibility and trust on national institutions is the fact that Mozambique has currently more aid money than is able to spend adequately. It does not mean that Mozambique has more money than really needs. On the contrary! What happens is that the ability of the national financial system to absorb and handle adequately the overall foreign aid is still extremely weak. Indeed, if all aid funds currently pledged or disbursed in Mozambique were suddenly transformed into on-budget funds, the Mozambican financial system would most probably collapse.

3.1.1. Information requirements by non-harmonized schemes

44. R&M requirements have no fundamental differences in terms of content, but very much so in terms of forms of financial and non-financial tracking (i.e. frequency and calendars of reports requested, forms, procedures, indicators). Often the scope of the R&M depends on the program size, donors working experience, and the recipient

institution's record of accomplishment. Donors have statutory legislation restrictions as well as completely different R&M procedures and monitoring cultures.

45. The following is a list of various information requirements of most of the donors:
- i. Periodic (quarterly or annually) monitoring program/project report, including physical advance, problems identification, and expenditures submission to be used by donor and GoM institutions for decisions on program implementation;
 - ii. Some, such as U.N agencies have result-oriented annual reports to establish program/project objectives, targets, goals, and activities achievement to be used by headquarters and local representation;
 - iii. Annual project and recipient institution financial audit statements; An annual consolidated operations report, with detailed description of supported sectors and co-financing programs, to be used by Ministers of Cooperation and headquarters;
 - iv. An annual condensed activities report that includes the portfolio performance;
 - v. In case of some multilateral donors more specific analyses may be undertaken, such as: costs and benefits (project implementation report), of borrower and lender performance under the credit; report on project goals achieved; and several appraisal (ex -ante / ex -post); Annual project and recipient institution financial audit statements;
 - vi. A quarterly or monthly monitoring report that includes financial and physical program advances; and In-site annual monitoring reports.

3.1.2. Problems of non-harmonised regarding R&M

46. The main problems identified are the following:
- i. A donor's delivery of aid assistance in isolation from other donors and outside of a framework in support of partner country-led priority strategies, such as the poverty reduction, makes it hard, if not impossible, to improve aid effectiveness and maximization of development impact. This is so because such an arrangement strengthens more the national identity of aid origin than the institutional ability and power of the recipient country.

- ii. The stand-alone projects, isolated and tied financing implies that public support for aid on the donor side rests more on national identity and concerns than on its contribution towards achieving development goals, in this case, in Mozambique;
 - iii. Local aid recipient institutions often invest more efforts and resources in creating their own R&M instruments than support the improvement of local capacity to set up an adequate R&M system.
- 47.** Main damages identified are the following:
- i. Ownership principle is weakened by foreign R&M requirements;
 - ii. Partnership is more difficult to achieve;
 - iii. Many projects need to hire additional personnel to attend different donor requirements, which leads to low institutional strengthening, increase of project expenses, duplicated efforts, reduced efficiency, and increasing transaction cost;
 - iv. No adequate of transfer R&M know-how and institutionalisation experience.

3.1.3. The other side of the coin: advantages of multiple aid channels

- 48.** There is wide consensus within donors and GoM partners that multiple R&M practices are still widespread in Mozambique. Though such practices cause several problems to local aid recipients, some interviewees called attention that harmonization should not be taken as the panacea for all the ills of weak aid effectiveness and high transaction costs.
- 49.** A mix of harmonised and non-harmonized programmes seems warranted from a point of view of risk-management, both from a Mozambican and a donor perspective. As one commenter pointed out, imagine all programmes were harmonized and there is a political earthquake, or a major bank- or corruption scandal. What would be the consequences of such external shocks for the programmes (especially the foreign financing component), and for the beneficiaries? Thus, while some interviewees agree that harmonization is a step forward, in the right direction, a certain variation of non- harmonized programmes may contribute positively to the robustness of (sectoral) development cooperation.

50. Thus, complementary ways of some sort of parallel and informal alternative procedures and mechanisms of work may be healthy and needed. This depends also on the way a specific donor provides aid. For instance, some interviewees said that in the past certain the Parliament of certain countries (i.e. Sweden) set up a very strict "country frame" for their aid. This requirement has been changed; some country donors now allow more direct support, for instance, to the process of democratization or the private sector, without having to go through the Government of the recipient country. Such an alternative is advisable and useful when Governments want to influence or interfere too much on how civil society and private sector want to set up their priorities and undertake their daily work.
51. Moreover, too much harmonization on the donor side, without a simultaneous and increasing ability on the recipient side may be dangerous, as far as the issue of ownership of aid funds and local governance are concerned. As a commenter pointed out, probably the continuous and tremendous effort which have to be invested in harmonization to make it work and the necessary intensive dialogue with donors will jeopardize the dialogue of Government with its own electorate and taxpayer on public policies. Thus, one may argue, that harmonization might eventually alienate government from those governed, who may merely become those at the "receiving end", without voice. Voter apathy, lack of legitimacy of the political class alliances and in extreme cases of political crises might be long-term consequences of harmonization, in turn engendering the need for non-harmonized solutions in critical areas.
52. Another alternative is to invest more into the empowerment and capacity building of civil society, in general, and those national institutions that should be charge and take the lead on demanding accountability, transparency and combating bad practices. In this perspective, an important power shift from donors to national institutions should lead to an increasing empowerment of social institutions like the Parliament and the media.

3.2. Harmonized schemes of aid management and R&M in Mozambique

3.2.1. Joint Macro-Financial Support to the GoM: terms and procedures

53. One of the most important processes of harmonization in Mozambique is the generic budget support provided by ten donors to the GoM, which is linked to documented progress in implementing the government's

poverty reduction strategy. Poverty reduction is expected to be achieved by: a) consolidating high real economic growth by supporting economic reforms and sound economic policies, and b) providing a financial contribution for increased resource allocations to priority areas for poverty reduction (Gustafsson and Disch, 2001).

54. The Joint Macro-Financial Aid Programme to Mozambique is the result

Box 4: “The G10” - JOINT MACRO-FINANCIAL AID PROGRAM TO MOZAMBIQUE

This document sets forth the joint terms and procedures for Macro Financial Support to the Government of Mozambique from nine, initially, and now ten, donors. The Government of Mozambique and the group of donors have agreed upon issues, such as:

- 1. The long-term objective of the Programme: contribute to poverty reduction.**
- 2. Scope: The financing of Mozambique’s poverty reduction programme is undertaken as described in the following documents: The Government’s Five-Year Programme; Action Plan for the Reduction of Absolute Poverty (PARPA/PRSP); Poverty Reduction and Growth Facility (PRGF); Medium Term Fiscal Framework (MTFF); Economic and Social Plan (ESP); State Budget.**
- 3. Dialogue**
- 4. Implementation and monitoring schedule**
- 5. Disbursement mechanism**
- 6. Reporting requirements**
- 7. Conditions for the transfer and utilization of the funds**
- 8. Evaluation and review studies**
- 9. Auditing**
- 10. Termination**

Gustafsson and Disch, 2001

of a process that has spanned more than a decade. Its roots can be found in a range of import support programmes aiming to make available goods that were deemed critical for the functioning of the economy. Gradually the focus shifted to meeting a general import gap. The environment was, however, still one of fixed exchange rates and import control. To not overly distort the internal market benefiting importers were supposed to pay the counter-value in Meticaís of the goods received. That counter-value accrued to the government.

55. With the liberalisation of the economy beginning at the end of the eighties, the administrative rationing of imports ceased and importers

were gradually given a freer access to foreign exchange. As a consequence it became increasingly difficult and, effectively, illogical to attach the support to specific categories of goods or even to exclude certain categories of goods from the schemes; importers had access to free foreign exchange they would be imported anyway. With the move to a market determined exchange rate it even became nonsensical to talk of supporting the balance of payments, as, in a liberalised setting, external payments are always in balance, the ultimate balancing mechanism being the exchange rate.

56. In this context, nine European countries (Belgium, Denmark, Ireland, The Netherlands, Norway, Sweden, Switzerland, The United Kingdom and, most recently, France as well) and the Commission of European Communities have joined hands to provide direct support to the budget of the Government of Mozambique. This is done within the framework called Joint Macro-Financial Aid Programme (see Box?).
57. The modalities of the support are regulated by a general framework agreement, while the volume of the support and in some cases directly connected technical support is fixed in individual bilateral agreements. The committed total support for 2001 amounted to more than USD 100 million.
58. Regular dialogue between the signatories to the Joint Programme is considered critical for continued Donor Commitment to the Joint Programme. Key issues in this dialogue are the progress in poverty reduction, domestic resource mobilization and public financial management. The dialogue is based on instruments, such as:
 - i. Reviews of revenue and expenditure priorities, as set out in MTF and annual budgets;
 - ii. Quarterly reviews of budget execution, including developments in sectoral allocations and total domestic revenue, including and specifying donor funds;
 - iii. Reviews of progress in the implementation of the poverty reduction programme, including overall macroeconomic developments;
 - iv. Studies and reports on sectoral or cross-cutting, according to a schedule to be agreed between the Donors and the Government of Mozambique, as part of the annual review in March/April.
59. As far as implementation and monitoring schedule, the GoM in close co-operation with the Donors monitor the Joint Donor Programme. The GoM also provides the Donors with relevant information on macroeconomic and poverty reduction developments,

based on the indicators defined under the poverty reduction programme and mutually agreed upon. In particular the GoM provides:

- i. Quarterly reports on the financial execution of the Joint Donor Programme
 - ii. Quarterly reports on budget execution
 - iii. Annual audit reports 1) of the financial records of the Joint Donor Programme, 2) of State Budget execution and 3) of performance of the funds spent in relation to the results obtained (value for money).
- 60.** The reports on financial execution of the Joint Programme and budget execution are submitted to the Donors within two months after the end of each quarter, and are discussed in the Budget Working Group meetings.

3.2.2. The PROAGRI (National Programme for Agricultural Development)

- 61.** Negotiations to introduce a sector programme in the agricultural sector go started in 1992. The Government has requested Donors to provide financial and technical assistance through direct support of the Government Budget System (GBS) for the agricultural sector for the purpose of assisting the Government's expenditure program in its agricultural sector, according to the Agricultural Sector Five Year Public Expenditure, or PROAGRI.
- 62.** PROAGRI is now in its third year and eleven donor agencies have already accepted to join a "Common Flow of Funds Mechanism" guided by the provisions a specific Memorandum of Understanding (MoU). The objective of Memorandum is to further define and clarify the roles and responsibilities of the parties hereunder in accomplishing the mutual activities comprising the PROAGRI program.
- 63.** The parties have agreed on procedures for donor commitment of funds and disbursements and Government procurement, audit, and report, monitoring and evaluation, financial management, and the exchange of information and cooperation between them in respect of the implementation of PROAGRI and the achievement of the purposes of their financing made available in the terms of the MoU.

64. PROAGRI is carried out by the Government through its Ministry of Agriculture and Rural Development (MADER), while the eleven donors have established coordinating principles which guide the Manual of Procurement Procedures and the Management Information System have

Box 5: THE NATIONAL PROGRAMME FOR AGRICULTURAL DEVELOPMENT (PROAGRI)

**Common Flow of Funds Mechanism (CFFM)
Memorandum of Understanding**

Between

Republic of Mozambique

Ministry of Planning and Finance

Ministry of Agriculture and Rural Development

And

Royal Danish Embassy; Royal Netherlands Embassy;

Department for International Development DFID;

European Commission; International Development

Association IDA; Irish Embassy;

Swedish Embassy; USAID

Maputo May 21, 2001

1. Introduction to PORAGRI

The overall goals of the program are to improve the impact and the effectiveness of Mozambique's public agricultural programs and institutions in supporting environmentally sustainable and equitable growth in rural areas such that poverty is reduced and food security improved. PORAGRI will approach this objective through a set of investments and activities designed to: (1) reform MADER in such ways as to make it more efficient and effective, and to limit its activities to those legitimately belonging to the public sector; (2) support the execution of MADER's activities in the field; and (3) harmonize the support Donors towards agricultural development programs in Mozambique in such as way as to establish systematically greater Mozambican "ownership" over the processes and decision driving the programs.

2. Foundations for Participation in the Common Flow of Funds Mechanism

3. Annual PROAGRI Meetings

4. Eligible Expenditures

5. Common Flow of Funds Mechanism

6. Obligations with regard to the use of funds

7. Other obligations of the Government

been developed (see Table 4).

65. PROAGRI planned funding (over five years of life) is in the order of US\$200 million. In 2000, expenditure reached US\$23.4 million (of which investment accounts for US\$16.9 million) (MADER, 2002; Pavigani Hauck, 2001).

Table 4: Donor Coordination Principles		
Principles	Yearly Milestones	Status 2003
<p><i>Common Implementation Mechanisms</i></p> <ul style="list-style-type: none"> ◆ Donor undertake with GoM supervision missions, annual reviews to assess consistency with basic principles, implementation capacity, performance, available financing, and approve Annual Work Plan and Budget (AWPB) or Plano Annual de Actividades do Orçamento (PAAO) 	Evaluation of each year AWPB (PAAO) and assessment of PAAO for following year. Assessment of Financial Management mechanisms and available funding	Maintained
<ul style="list-style-type: none"> ◆ Management Information System (MIS) based on common budgeting /FM system adopted by donors 	MIS being implemented. Census and annual impact survey carried out	Operational
<ul style="list-style-type: none"> ◆ Donors' funds go into one account in MPF and unified FM system adopted. ◆ Donors accept common reporting and auditing 	<p>Core group of donors test agreed procedures</p> <p>Common reporting formats and audits agreed and implemented</p>	<p>All donors follow agreed procedures</p> <p>Maintained</p>
<ul style="list-style-type: none"> ◆ MADER manages donor financed vehicles and equipment 	New Asset management system / transport policy implemented	Maintained
<ul style="list-style-type: none"> ◆ Donors adopt common procurement procedures compatible with international standards of procurement 	Assessment of common procedures carried out and proposal for common procedures presented	Operational
<ul style="list-style-type: none"> ◆ Donors pool resources for procurement of short term Technical Assistance (TA) ◆ Donor support on-budget bonus system 	Agreement reached and procedures established. Parallel off-budget incentives end. Donors supporting Government's incentive scheme	<p>Maintained</p> <p>Maintained</p>

66. PROAGRI financial settings, eventually agreed after long and elaborate negotiations, are increasingly seen by several interviewees as the model to follow for other emerging SWAs. Opinions about PROAGRI implementation diverge quite dramatically, from the highly optimists to the more cynical and unqualifiedly sceptical. The former stress the substantial progress registered in recent years of hard work; important donor players were brought together to designing and introducing common activity-oriented planning and budgeting tools. For instance, USAID and Nordic representatives reported that the most advanced area

67. of the joint work is in the financial reporting and monitoring. Donors undertake annual auditing, together with the Ministry. The results are getting good, though the quality of the reports' content need to be improved. Another area still weak is the monitoring and evaluation of the Programme set up within the so-called MADER's Management Information System (MIS).
68. In turn, sceptics prefer to stress their doubts about some key issues for the long-run success of PROAGRI and the SWAps in general, namely:
- i. The centralist nature of the programme settings;
 - ii. Weak ownership and, even before that, leadership initiative from the recipient side;
 - iii. Unclear policy direction for agriculture and rural development;
 - iv. The question of long-run sustainability in terms of financial and technical capacity.

Box 6: PROAGRI – how far is it decentralising?

In the current situation, where decentralised activities are supposed to be implemented according to planning procedures, that include transfer of capital from central to decentralised level, it is necessary that these coping strategies are being taken seriously in the programme planning, so that the pursuing of these by the different involved actors becomes as little detrimental as possible ... a central problem in the current PROAGRI approach is that career opportunities are not sufficiently outlined for the involved people to pursue. It is thus important that a sort of career structure be part of the Ministry of Agriculture. At the moment there seems to be no guarantee that high level performance of the individual extensionist or bureaucrat will lead to promotion or wage increases. Transfers and promotion are very top-down and not very transparent. This at all levels within the ministry

Adam and Nielsen, 2001: 72

3.2. 3. *Five-Year Education Sector Strategy Plan (5Y-ESSP)*

69. The Education Sector Strategic Plan (ESSP) is another sort of harmonized scheme that is progress in Mozambique. The roots of the

Box 7: 5Y-ESSP - TOWARDS INTEGRATED PLANNING, BUDGETING, MONITORING AND REPORTING

1. Planning

- a) All partners will integrate their decision-making concerning new initiatives into the consultation mechanisms under the ESSP;
- b) MinEd and provincial directorates, with the assistance of co-operating partners, will continue to improve the quality of the activity plans which shall reflect the key policy and strategic documents;
- c) Support by co-operating partners will be guided by existing and evolving plans at central and provincial levels.

2. Reviewing and Monitoring

- a) An enlarged COPA meeting with the participation of all resident co-operating partners will take place in February of each year. The Terms of Reference (TORs) of the meeting are mainly to:
 - Agree on priorities for MinEd's Medium-Term Work Plan, expected to start in 2002, and for the MTEF exercise;
 - Confirm the Annual Activity Plan of the current year, and
 - For the co-operating partners to provide MinEd with indicative funding commitments for the duration of the Medium-Term Work Plan, using the forms provided by MinEd.
- b) The Annual Review Meeting (RAR) will be held in September of each year according to agreed TORs.
- c) A second enlarged COPA meeting with the participation of all resident co-operating partners will take place at the end of November of each year. The purpose of the meeting is to:
 - Enable co-operating partners to provide firm commitments of funding towards the implementation of the Annual Work Plan for the coming year, and
 - Agree on the indicative Annual Activity Plan for the coming year.
- d) COPA meetings and RAR will:
 - Review progress on the integration of activities in each programme area into the overall plan;
 - Review progress on integration of all contributions by co-operating partners into the planning and budgetary process of MinEd, and
 - Ensure that co-operating partners will work towards joint review missions in specific programmes and thematic areas through ESSP mechanisms.

3. Reporting

Although the present national accounting system does not yet allow the reporting of actual expenditures by activity the Ministry of Education is introducing a reporting system on activities and related disbursements that will allow the preparation of semi-annual and end-of-year reports. The Ministry will distribute these reports to the co-operating partners. The Signatories agree, however, that initially these will be the only two regular reports on the implementation of ESSP activities. The end-of-year report will contain the agreed performance indicators, as shown under 4 below.

4. Indicators

- a) The Signatories agree that the performance indicators agreed upon will constitute the common basis to monitor the outcomes of the ESSP. Any changes in such common indicators, to be effective, will need to be formally agreed upon at a RAR or COPA meeting. The Annual Statistical Yearbook issued by MinEd, and distributed to all co-operating partners, will continue to provide overall information on the education sector as such.

For the purpose of effective monitoring of the implementation of the ESSP, MinEd and co-operating partners will establish minimum process indicators to be reviewed on an annual basis. These process indicators will relate to the implementation of key programmes within the ESSP as well as to how the co-operating partners work in relation to the agreed SWAp framework.

ESSP can be traced back to 1995, when started the discussions leading to the formulation of the strategic plan for general education, which has attracted broad donor support.

70. Collaboration is now considered as being established on firmer ground. A common pool fund, intended to finance a broad range of expenditures contemplated in the strategic plan, has not yet been established. Substantive preparatory work, however, has been done and the launching of the pool should be imminent. This pool should remain off-budget until proper measures are put in place to channel external funds in an effective yet flexible way through the state budget. At the start, the pool will be financed by a core group of donors, with other agencies continuing to support the implementation of the strategic plan outside the pool. Concerns about existing capacity (particularly at provincial level) are meanwhile fuelling discussions in the direction of hiring additional TA.
71. The MoE, however, is wary of relying excessively on TA to address its own capacity constraints. Partners are trying to find a trade off between too much TA (with the serious side effects easily identifiable in other sectors) and too little (with the ensuing inadequate capacity to implement agreed upon plans). Plans covering sub-sector crucial components, such as higher education and technical training (only sketched out in the original education strategic plan), are now being finalised and should be soon incorporated into the overall education programme of work.

3.2. 4. Health Sector: drug pool, provincial budget support and the NAC Common Fund

72. The Ministry of Health has implemented some pooling schemes, such as the pooling arrangement for drugs and medical supplies, the budget support to the provincial level through a pooling arrangement for recurrent expenditure, and a Common Fund in the National Aids Council.
73. A pooling system for the procurement of drugs and medical supplies (drug pool) was established several years ago. Under this scheme, several donors (Switzerland, Norway, DFID, Denmark, Ireland) have disbursed funds in a common pool. The Swiss Development cooperation (SDC), which used to be the focal donor for health in Mozambique, was chosen by the donors to act on their behalf in support of the drug pool arrangement. SDC has a formal agreement with the GoM specifying its contribution. Drug pool funds are channelled through a bank account of the Bank of Mozambique in Switzerland.
74. Budget support for recurrent cost to the health sector started late in the 1980s by the SDC. Since then many agencies have joined in a pool scheme guided by common management arrangements to support the provinces. Whereas SDC's budget support maintained national coverage,

most other agencies have provided support to a limited number of beneficiaries, or only one province. In some cases, financing has been tied to specific activities.

75. The provincial budget support has had a range of beneficial effects. Through the coordinated identification of gaps and imbalances and the distribution of untied external non-project funds to fill those gaps, a progressive reduction of funding imbalances has occurred. Inequities between and within provinces have been reduced. The budget support arrangement has enabled the provincial health departments (PHD) to overcome some of the rigidities of the state financing, such as the chronic lack of funds at the beginning of the year or lack of funds for big expenses. Budget support has contributed to greater transparency and accountability. Decision making processes have been strengthened across the health system, as provincial and national health authorities as well as donors have found themselves in a better position to take informed decisions. Planning and management capacity at provincial health departments has been strengthened. Besides the recurrent cost pool, some donors (e.g. Denmark, Finland) continue their own budget support outside the pool; several of them continue to participate in the integrated planning exercises at provincial/district level, which has led to more efficient resource allocation.
76. Several problems with the budget support to the health sector exist. Planning and financial management capacity in the PHD and the district health departments (DDS), while strengthened, is still relatively weak, and building this capacity involves a long process. Likewise, the institutional capacity of the provincial departments of the MPF (DPPFs) remains weak. The current pooling system, while following state procedures, still concerns a parallel system. Integration of the budget support into the state budget system is planned by 2003 when the current three-year period of the pool agreement comes to an end, in line with plans to move towards a full-fledged SWAP arrangement. It remains to be seen if all conditions to make this happen will be fulfilled.
77. In turn, there are still international agencies outside the pool that do not submit sufficient information on their allocation of funds and who follow their own procedures, which continues to be an obstacle to rational and comprehensive planning and allocation of available funds. Currently no complete overview exists of the total amount of budget support provided by non-pool donors.
78. Donor funds for HIV/AIDS activities are provided through the National AIDS Council (NAC). Within the NAC a Common Fund (CF) is being established under the AIDS Fund. In the CF funds are assembled from various sources, namely donors and state budget. The CF is seen as an important channel for funding NGOs. The CF applies common management and reporting procedures.

79. The pooling arrangements mentioned above show that the health sector, and in particular the Health Ministry, have already experienced some processes of harmonization of aid management practices. However, such experiences within the health sector itself are not themselves part of a comprehensive Sector Strategic Plan.
80. Recently, there has been talks aiming at establishing some sort of a broader and more comprehensive pooling scheme, but so far nothing like PROAGRI or the 5Y-ESSP has yet been achieved.

3.2.5. Towards a modern public finance management system

81. Over the 1990s, the Government has produced a number of strategy documents concerning national priorities and policies, namely:
 - i. *The Five-Year Plan*, respectively for 1995-1999 and 2000-2004 – It presents the Government's overarching *vision* and guidelines for national development, including the economy, education, health, culture, and specific social priorities;
 - ii. *The Economic and Social Plan* [PES] – an annual review of the previous year's goals and performance, as well as expectations for the coming one. It says little about the budget and touches on issues of external aid only in connection with the overall balance of payment situation;
 - iii. *The General State Budget* [OGE] – this is the budget document and uses the PES as a background;

- iv. *The Tri-annual Investment Program [PTIP]* – contains the donor-funded part of the budget, including an inventory of donor-funded activities, whether investment or recurrent cost;
- v. *The Policy Framework Paper (PFP)* – a rolling three-year policy activity plan. More than a single Government paper, the PFP is a document jointly prepared by the staff of the Government, the IMF and the World Bank;
- vi. *The Action Plan for the Reduction of Absolute Poverty [PARPA]* – it draws upon several documents that have been present to the donor community since 1990s and the most recent emphasis given nationally and internationally to poverty reduction
82. In addition to the above government strategy documents, there are other important strategic instruments and mechanisms, including the Consultative Group and donor’s meeting, as well as several more specific sectoral and regional strategy instruments.
83. The above strategy documents and mechanisms fill different roles and follow different cycles. A government official, interviewed pointed for this study, consider that such instruments provide a good basis for the improvement of R&M of government’s activity and performance, but they still lack consistency among themselves; chiefly with regard to the operationalization and institutional implementation. Already in 1998, ECON highlighted also this aspect, saying that the above documents lack links between policy guidance and resource planning documents, so there is not a coherent framework for resources programming” (ECON, 1998: 5-12).
84. Until 1997, reporting and monitoring of the State Budget system was not considered an important function; no reports on budget and

Box 8: Towards an increasing budget role in aid management

Increasing the share of external assistance that is disbursed and used through the normal budgetary procedures and avoiding the proliferation of parallel donor-driven arrangements, has been one of the major objectives of the government for a number of years. The advantages of such a move have been thoroughly discussed, in Mozambique and elsewhere, and are now generally accepted. However, while recognizing these advantages, donors remain cautious and stress the need to ensure that the fiduciary risks associated with increased budget support are dealt with. This is one of the reasons why government has decided to step up reforms of the budget management system, particularly those directly affecting transparency and accountability, to which the recommendations in this report will contribute.

(World Bank, 2001: 42-43)

financial government transactions were made available by the executive. In 1997 the need to report quarterly to the National Assembly on budget execution was established in the Budget Framework Law. In spite of some progress experienced in the recent years R&M remains partial and cannot be regarded an effective and articulated tool of policy planning, formulation, monitoring and evaluation. This should come as no surprise given the weakness of the existing accounting system, which is at the source of the budget, financial and planning information to be used in the reports (World Bank, 2001: 51).

85. In April 1999, the *Plano de Acção para a Redução da Pobreza Absoluta* (PARPA, or PRSP) was approved by the Council of Ministers and has increasingly become a reference document for both government and donor. Improving efficiency, transparency and accountability in the use of public funds, including aid financing, has become a clear top priority among the six priority areas in the PARPA. in.
86. As part of this new emphasis, the government has decided to improve the legal framework underpinning the whole budget system. A new public finance management law (*Lei da Administração Financeira do Estado*), was developed in 2001 and approved by the National Assembly. At the request of the authorities, the World Bank, in close coordination with the IMF and other donors, has provided technical advice for the drafting of this new law during 2001. A new technical unit for the financial reform of the State (*Unidade Técnica para a Reforma da Administração Financeira do Estado, UTRAFE*), was created in March 2001. It is directly attached to the office of the Minister of Finance and its mandate is to coordinate the reform of the budget management system. This is a very welcome development that fills an important lacuna.
87. Among the changes introduced by the Budget Framework Law, two important improvements stand out: (i) it unified the budget years for the investment and recurrent budget and shifted the fiscal year to correspond to the calendar year and (ii) it introduced a budget classification system-standardized along economic, functional, institutional, and territorial lines-to be used for revenues and expenditures, both recurrent and capital.
88. In addition, the law sets out the basic public finance principles that generally underpin budgetary policy: annuity, unity and universality (i.e. the budget must include all gross revenues and expenditures of State institutions, except those with administrative and/or financial autonomy, municipalities and public enterprises), non-earmarking of revenue (as a general rule, revenues cannot in principle be earmarked for specific

expenditures without legal exceptions 62), and specificity of both revenues and expenditures (the budget specifies the minimum projected revenues and the maximum limits on expenditures according to the classifiers).

89. In spite of these positive developments, the present legislative framework is incomplete and suffers from some critical weaknesses. The Budget Framework Law regulates only partially public finances. It does not offer a comprehensive normative basis for the effective integration of all the subsystems that are part of the fiscal management process—budgeting, accounting, cash and asset management, internal control and auditing. In particular, the law does not specify what are the exact stages in the expenditure process.
90. Recognizing this fact, the government has decided to prepare a new law, *Lei da Administração Financeira do Estado*, or Public Finance Management Law, aiming at regulating the whole financial administration of the State and providing the basis to move toward an integrated financial management system (*Sistema Integrado de Administração Financeira do Estado, SISTAFE*). UTRAFE was charged with the drafting the new law and the implementation regulations.
91. With the development of the new public finance management law, Mozambique is creating the basis for a new approach to fiscal management that integrates more closely the different functions of the fiscal process—budgeting, accounting, cash and asset management, and auditing.
92. This is a desirable objective since one of the problems with the existing system is precisely the lack of effective communication between these functions. Indeed, here lies the major challenge for the harmonization process in the next future. However good and successful schemes, such as the PROAGRI, may become, they need to become part of a comprehensive and coherent financial and administrative system. One expects that the SISTAFE will eventually provide the institutional framework for such a system, but when? The more optimists speak about three to five years, but others, such as one of the Government official from the MPF, believe that such a task needs at least a full decade.

4. **LEARNING FROM EXISTING HARMONIZATION EXPERIENCES IN MOZAMBIQUE – Main findings and conclusions**

93. The following general findings and conclusions may be drawn from the present study:

1. Donors' financing and technical assistance have been undertaken through programs and projects set up usually outside of, or at best, only partially integrated into Government's priorities and sector reform programs. The most widespread arrangement used by donors is to feed the money into project accounts from intermediary agencies, which are usually accountable to the donor only. This is the direct and most important source of the multiple and often diverse operating policies and procedures, which tax the administrative capacity of national institutions and multiply the transaction costs of development assistance. A rough estimate indicates that as much as 80 to 90 percent of aid assistance is still spent through an arrangement comprising stand-alone projects, uncoordinated and parallel forms of R&M.
2. Yet, poverty reduction has become central to the Government of Mozambique (GoM), particularly following the return of peace and consolidation of political stability from 1992 onwards. The *Action Plan for Absolute Poverty Reduction* (PARPA or the Mozambican PRSP) is a key operational document, which was approved by the Council of Ministers in 2001. While PARPA already reflects a substantial coherence, in terms of policy strategy and institutional reforms still envisaged, it is gathering a wide support from an increasing number of bilateral and multilateral donors. This particular document deserves to be singled out, among many other relevant documents, because PARPA provides the core development framework for many relevant aspects concerning many financial and non-financial R&M issues;
3. In spite of the widespread stand-alone, uncoordinated, multiple and parallel forms of aid assistance, over the past years Mozambique has experienced a significant shift in the way both the GoM and Donors approach aid assistance and partnership. From a direct management of aid financing and technical assistance, provided mainly as direct delivery of goods and services, there has been a shift towards a focus on building up the required institutions and the overall system needed to respond to the national priorities and needs of the country. This explains, among other reasons, the slow but consistent and increasing move away from stand-alone projects, uncoordinated and parallel financing and administrative arrangements, and tied aid.

4. The above shift is leading to the emergence of pooling aid arrangements or schemes and an increasing coordination and harmonization of procedures among donors and within Governmental institutions themselves. This experience can be traced to back early 1990s, initially more associated with issues concerning the process of pledging and reimbursement and, more recently, focused to the very implementation, execution, monitoring, reporting and evaluation of specific aid financing and technical assistance.
5. Experiences of harmonization processes existing currently in Mozambique can be found in three main planning and finances, agriculture and rural development, and education. The former is associated with budgetary support, namely the Macro Financial Support Scheme, supported by a group of 10 donors – for this, it is called the « G10 »-, which includes the implementation of a new and integrated financial management system (SISTAFE). The other two schemes are part of has become known as the Sector-Wide Approach (SWAP).
6. These three schemes offer interesting insights and solid empirical basis for discussions in the DAC Task Force. The harmonisation process is particularly advanced in the National Programme for Agricultural Development (PROAGRI), a SWAP scheme in the agricultural sector, which has already led to a Memorandum of Understanding, between the GoM and a group of 11 donors; it includes a common flow of funds mechanism and detailed principles regarding R&M;
7. In the educational sector there is a similar, but not as advanced and detailed scheme as PROAGRI: the Five-Year Education Sector Strategy Plan (5Y-ESSP). Collaboration is now considered as being established on firmer ground. A common pool fund, intended to finance a broad range of expenditures contemplated in the strategic plan, has not yet been established. Substantive preparatory work, however, has been done and the launching of the pool should be imminent. This pool should remain off-budget until proper measures are put in place to channel external funds in an effective, yet flexible, way through the state budget;
8. In the health sector there has been talks aiming at establishing some sort of a pooling scheme, but so far nothing like PROAGRI or the 5Y-ESSP has yet been achieved. In other sectors, such as in public works (water, housing, roads) no experience of harmonization and pooling scheme has been found;
9. Overall, among interviewees and also in existing documents, nobody seems to have strong arguments against the need and usefulness of

harmonization. On the contrary, there is a widespread consensus among Government officials and donors that harmonization leads to lower transaction costs and administrative burdens placed on national partners, at least in the long run;

10. In the short run, harmonisation seems to entail a first stage in which increased investment and spending, in terms of negotiation, time consuming and concertation among stakeholders, are necessary. This is so until agreement on common objectives, procedures and arrangements are set up. The question raised during the interviewees and debates was whether such an initial investment pays off later on. From what has been possible to find out it seems that really does pay off;
11. A crucial factor for a successful harmonisation is a signed agreement encompassing policies, strategic objectives, common flow of fund mechanisms, and donor's coordination principles on R&M procedures. Such an agreement provides the basis for mutual obligations and therefore enhances mutual trust and commitment between the Government and Donors. PROAGRI appears, in this regard, as the model with most potentials to be replicated and applied in others sectors;
12. Agreements on harmonised procedures engage government and donors in implementing them and can therefore boost the institutional reforms regarding aid management on both sides;
13. Harmonisation takes place mostly in the framework either of sectoral pooling of resources, or of general budget support, or both. That harmonization is likely to lead to more centralization, if it is reduce to uniformization, is a risk. This, in part, contradicts the ongoing decentralization efforts and is a matter of concern, because of the weak institutional capacity to channel aid resources to the provinces and the districts, in thus reach the poorest of the poor;
14. From what some interviewees have indicated, any attempt to channel the overall ODA currently provided to Mozambique through the existing on-budget governmental system would most probably lead to a collapse of the financial system. This does not mean that Mozambique has more aid than it needs. On the contrary, what it means is that Mozambican public institutions are unable to hand significant amounts of aid financing properly and effectively. In any case, while a mix between harmonised and non-harmonised schemes is likely to continue, the trend is clearly towards more harmonisation of operating policies and procedures;

15. In Mozambique the harmonisation process usually seems to be donor-driven. However, the general and sectoral agreements that are emerging enhance a higher level of transparency, coordination and coherence of development policy in Mozambique (particularly with respect to conditionalities and empowerment of national institutions), which enable the government to have a better overview of the development process in the country and strengthen its leadership and ownership;
16. Harmonised practices reduce the quantity of information needed for monitoring and managing aid, and actually improve its quality due to the already mentioned enhanced transparency and coherence on agreed policy objectives and mutual obligations;
17. In the existing agreements and schemes set up between the Government and Donors an enormous emphasis has gone to financial R&M regulations. Only recently the non-financial dimension of R&M on aid handling and spending started to be dealt with. The focus is going to the identification of indicators and information mechanisms needed for an adequate impact assessment and general evaluation of performance and achievements. This is so with respect to the ongoing monitoring of PARPA, on the one hand, and the Management Information System (MIS) under preparation in the context of PROAGRI, on the other;
18. The ongoing Public Sector Reform and the additional support capacity building and human resource development need appear to become crucial for the success, and above all, sustainability of existing and new harmonization arrangements expected to emerge soon;
19. There is still a long way to go regarding harmonization of operating policies, mechanisms, principles and arrangements associated with financial and non-financial R&M. While national institutions suffer from several limitations, as far as institutional capacity and managerial leadership are concerned, some donors also lack enough willingness or authority to operate with others, according to the specific conditions of the country rather than to stand-alone and unilateral objectives. For these reasons, among probably others, there seems to still be scope for certain parallel channels of aid assistance.
20. However, if the new partnership approach to development around achieving development goals, rather than pursuing unilateral and stand-alone objectives became dominant, the existence of alternative donor-funded activities, rather than a burden, may become a useful and healthy complement to the harmonized schemes. The more so, if such projects and activities are framed within the government's sector policy framework and priorities, even though they remain somewhat

alone and relatively independent from one another (e.g. relying on bilateral management systems, R&M, etc.).

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ANNEX 1: TERMS OF REFERENCE

REPORTING AND MONITORING (R&M) EFFORTS IN MOZAMBIQUE

For ANTONIO FRANCISCO

Introduction

The following TORs are based on the work programme of 7 September, 2001, of the Sub-Group on Reporting and Monitoring of the OECD/DAC Task Force on Donor Practices, a programme which was elaborated by representatives of partner countries, including Mozambique, at the meeting in Paris on 6-7 September, 2001.

Objectives

The main objective of the consultancy is to report to the Sub-Group on Reporting and Monitoring on the efforts and experiences in Mozambique regarding R&M.

Specific Objectives

First, to identify and map the range of different R&M systems and information requirements that donors and partners have in Mozambique for managing existing aid transactions.

Second, to map the burden placed on the recipient partners by R&M, and to identify the problems and damage caused by multiple R&M practices for partners by various forms of aid (projects, sector programs and budget support).

Third, to identify why, despite of evident problems, donors and recipient partners have been unable to change practices so as to reduce the burden of high transaction-costs, and improve aid reporting of national authorities.

Tasks

First, to conduct structured interviews with all bi- and the main multilateral donors as well as with government authorities focussing on their experiences, opinions and requirements with different forms of aid and R&M.

Second, analyse the problems and damage caused in Mozambique by different R&M systems as well as the resistance to harmonising procedures, and conclude on improved R&M systems and possibilities of donors and partners to improve them. Identify the obstacles from the donors and partners in using the partner's national system and procedures.

Third, analyse the usefulness of the PRSP approach regarding R&M and identify to what extent donors and partners are willing to harmonise procedures around results-oriented performance management systems.

Forth, document good practices and experiences of R&M systems.

Results

A report of 15 pages, in English, with 2 pages executive summary will be presented by March 31, 2002. A preliminary version of the report should be submitted by March 05, 2002 and will be discussed with several donors and partners and with the Mozambican representative of DAC Sub-group on Reporting and Monitoring.