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MOZAMBIQUE: THE COSTS OF 'OWNING' AID

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SUMMARY

Mozambique has only recently emerged from a long civil war, the national political process remains uncertain and the government apparatus is weak. Since its origin as an independent state, the country has been heavily aid-dependent, but the donor community has come to regard Mozambique as a positive case with a government that is receptive of new policies. In the name of increasing local ownership and of reducing the costs or burdens of dealing with multiple donors, most bilateral donors are seeking to channel more of their aid directly through government into sector and national budgets, instead of bypassing government through donor-led projects. However, this article argues that the immediate effect may be neither to reduce the costs of aid nor to increase the ownership of government. Copyright © 2005 John Wiley & Sons, Ltd.

KEY WORDS — aid; costs; Mozambique; ownership

INTRODUCTION

This study raises questions about the distribution of the costs of aid between donors and recipients. The channelling of donor resources directly into government budgets (whether to the treasury or to sector ministries) has been introduced, at least partly with the purpose of reducing the burdens on government and increasing its 'ownership' of the aid process. The question is whether, given the imbalance of power and capacity between government and donors, donors really can let go the reins and allow government to assume control. There is the possibility of a paradoxical outcome where government does, indeed, take on more responsibility while also inviting donors into the heart of the governmental process. Increasing ownership is a more complex and longer-term process than improving aid coordination and shifting aid towards budget support. Moreover, it is not clear that harmonised aid is, in all respects, less costly to government than project aid. This article refers to most of the categories of cost referred to in the 'Overview' article: the transaction costs of coordination and administration, and of converting to new forms of aid; political and institutional costs relating to ownership and capacity; and also the costs of managing risk.

METHOD

The study was undertaken in 2002 by interviewing elected and unelected officials of the Government of Mozambique and officials of the local donor community, and also by studying available documentation. Forty separate interviews were undertaken, equally between people working in government and in bilateral or multilateral aid agencies (Table 1). A follow-up evaluation of 'general budget support' was undertaken in 2004 and 2005. While this is not the focus of the current article, it did provide a basis for updating information from publicly available sources.

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Table 1. Organisations interviewed

Government	NGOs	Donors
— Ministry of Agriculture and Rural Development	— Consilmo trade union congress	— IMF
— Ministry of Foreign Affairs and Cooperation	— Grupo Moçambicano da Dívida	— World Bank
— Ministry of Health	— Oxfam	— European Union
— Ministry of Planning and Finance	— Progresso	— UNDP
— Ministry of State Administration		— Embassies or aid agencies of
— Ministry of Transport and Communications		Denmark
— National Institute of Statistics		France
— Administrative Tribunal		Germany
— Unit for State Reform		Ireland
		Netherlands
		Norway
		Portugal
		Sweden
		Switzerland
		UK

THE SOCIAL AND ECONOMIC CONTEXT

The first 25 years of Mozambique's history after independence in 1975 were marked by civil war, social and political disruption and economic crisis. Upon the abrupt departure of the Portuguese, Mozambique was drawn into the independence struggles in South Africa and Rhodesia and into cold war alignments. The governing party, FRELIMO, supported the liberation movements, and, in turn, received backing from East European states. It adopted a Marxist-Leninist programme in 1977, establishing state-owned enterprises, farms and monopolies in external trade and domestic wholesale activity. The opposition, RENAMO, with its support particularly in the north of the country, emerged as a guerrilla resistance movement backed by the surrounding white régimes. Only in 1992 did the parties enter into a peace accord leading to multi-party elections in 1994. A legacy of political hostility and mistrust remains (Hanlon, 1991; Carbone, 2002).

There were, however, two positive features of this early experience. First, Mozambique built a strong relationship with the Nordic donors that supported its southern African strategy, gave aid and eventually with the Netherlands and Switzerland formed the 'like-minded group' which has remained at the hub of advances in aid policy. Together with the UNDP, they were the most important funders of post-war resettlement, demobilisation and elections (Rebelo, 1998). Second, the shift from a statist towards a market economy began, at least apparently, on the government's own initiative, in 1983, before Mozambique joined the World Bank and IMF in 1984 and received its first structural adjustment loan in 1987 (Harvey, 2002). Hanlon (1996) argues that this conversion was under pressure of donor 'strikes'. However, in regard both to economic policy and its poverty strategy, this is a government that at least claims 'ownership' of its reform.

Mozambique was one of the poorest countries in the world at independence, and income per head fell through the years of war. With a Gross National Income (GNI) per capita of $210, Mozambique is placed 171st out of 177 countries in the UNDP Human Development Index for 2004. High economic growth has reduced the incidence of poverty but from an extraordinarily high level. The National Household Survey shows that, of the population of 18.9 million, 54% live in absolute poverty (Economist Intelligence Unit, 2004). Life expectancy is just 42 for women and 41 for men, and expected to worsen due to AIDS. The incidence of income poverty and poor access to social services and economic infrastructure are particularly high in the rural areas where 80% of the population live. Social indicators show a poor situation by comparison with other least developed countries (Harvey, 2002; Economist Intelligence Unit, 2004).

Since the peace agreement in 1992, economic growth rates have averaged 8.3% annually, dipping only in 2000 due to floods. However, much of this is accounted for by the catching-up process after the war, some 'mega' investment projects (e.g. the MOZAL aluminium plant, port and gas-field development) which have little direct effect on the population in terms of employment and large scale donor assistance.

On the whole, the government has successfully maintained the conditions that have attracted the continued support of the multilateral and bilateral aid agencies, which remain the main funders of the government's budget and account for most public investment. These conditions permitted Mozambique in 1999 to become the third country to reach the completion point in the Heavily Indebted Poor Countries Initiative (HIPC) process. Since then, it has received the largest volume of debt relief. International financial institutions (IFIs) argue that this concession was due to the government following 'good' policies: liberalisation, macro-economic stability and improvements in financial management matched by a shift of public spending towards an anti-poverty focus (World Bank, 2001). Others argue that, at that time, the IFIs and donors 'desperately needed' a success case and were prepared to reward Mozambique, although there was little evidence of improved government performance or of poverty reduction (Hanlon, 2002b).

AID FLOWS AND AID DEPENDENCE

Table 2 presents the World Bank and OECD's estimates of net aid receipts (official development assistance—ODA). The figures are uncertain, for the reason that much aid is unrecorded and unknown to government, but Mozambique's heavy dependence particularly on bilateral donors is clear. Aid dependence was very high during the civil war period, reaching 87% of gross national income (GNI) in 1992 at the time of the Peace Agreement. In the late 1990s it dipped to below 30% and has continued at that level, except in 2002 when large-scale aid cancellations temporarily lifted aid to 60% of GNI. Mozambique remains the largest single recipient of foreign assistance in Africa. An indication of the significance of aid is that in 2003 donor support accounted for more than half of total public expenditure.

This level of aid dependence makes government particularly vulnerable to donor pressures but also presents dilemmas to donors. On the one hand, there is a danger of misusing power by dominating the policy discussion and reducing government's accountability to its own constituency. On the other hand, so high is the dependence that it is almost impossible for donors to impose conditions without creating macro-economic instability and putting the government budget into disarray, as the case of budget support set out below will show.

GOVERNMENT CAPACITY

The Mozambique Government confronts deep problems of national development and is also in a process of reform. Modelled on a combination of Portuguese administrative law and government structure together with a history of socialist ownership and planning, in the last 10 years the political system, public administration and policy have all been in a state of transformation. 'Reformitis' is said by some (Pavignani and Hauck, 2001) to beset the small group of reform leaders in government, overwhelming the capacity of a weak government apparatus. Another view (Hanlon, 2002b) is that government simply adopts the rhetoric of donors' reform objectives without really intending any radical change.

Table 2. Aid as a percentage of gross national income in Mozambique

	1990	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
Net ODA ($ m)	1,002	1,200	1,064	888	948	1,040	805	877	933	2,058	1,066
Bilateral share of ODA	43%	50%	33%	29%	28%	67%	43%	73%	75%	80%	66%
Net ODA as % GNI	47%	60%	50%	33%	29%	28%	21%	25%	30%	60%	25%
Net private flows ($ m)						87	85	103	115	70	−60

Sources: http://www1.oecd.org/dac/images/AidRecipient/moz.gif/http://devdata.worldbank.org/query

Among the deeper underlying issues that affect the government's capacity to direct policy and to integrate it into national systems and procedures are the problems of:

- A fragile democracy with a polarised party structure and a weak parliamentary system (Braathen and Orre, 2001; Carbone, 2002).
- A high level of political and economic centralisation, at the cost of the provincial and local governments of the northern and central regions.
- Governmental administrative hierarchies that operate in 'vertical silos' from national to local level, cutting across attempts to plan resource allocation within and between sectors.
- Extremely low levels of trained human resources. Fewer than 3% of all ministry officials are said to have university degrees (USAID, 2004), 6% in the Ministry of Planning and Finance and 4% in the Ministry of Health (Pavignani and Hauck, 2001), and the skill level falls sharply at provincial and district levels (Gustaffson and Disch, 2001).

In terms of aid management, important developments have been

- A poverty reduction strategy (known as the PARPA) was approved by the government in 1999, and endorsed by the IMF and World Bank in 2001. This is claimed by both government and donors as the principal basis for their policy prioritisation (Republic of Mozambique, 2001; Francisco, 2002).
- Within the framework of the PARPA, instruments of financial management are being developed by government with the support of donors, including a medium-term fiscal framework, agreed budgetary procedures and quarterly reports of budget execution.
- A joint process of target-setting and measurement was agreed by donors and government in 2004. This is based on a Performance Assessment Framework that sets out agreed targets (derived from the PARPA) that are the basis of decision by donors about their future disbursements of aid.

The poverty reduction strategy, the new financial management procedures and the joint performance assessment are not only supported by donors but are also essential to donors' own attempts to engage with government more strategically and systematically. Yet some donor practices continue to undermine government's capacity to plan and manage the allocation of resources. A large proportion of donor funding is 'off-budget', meaning that it is not applied through the Treasury but allocated direct to ministries, provinces, districts or to donor projects that completely bypass government. Only the external assistance that goes through the central bank (whether as Treasury budget support or to ministries) is fully known and recorded. Donors may hold accounts for funds that are committed to be used in Mozambique in overseas banks or in local commercial banks. There has been a systematic failure by most donors to pass comprehensive information on their planned and disbursed expenditure to the Ministry of Planning and Finance. Even the government's own revenues are difficult to trace: some is collected directly and retained by public bodies, and not passed to the Treasury. Thus, the accounting system is said to cover between a quarter and a half of the resources being spent by government institutions (Gustaffson and Disch, 2001).

Donors, sector ministries and public agencies have implicitly colluded in guarding their own funding, fearing that finance allocated through the Treasury will be diverted to other ends. This issue is at the heart of the debate about channelling aid through sectoral and general budget support. If funds could be channelled successfully through the budget, then this should not only improve budget management but also increase local control or 'ownership'. Donors and government have now committed themselves through the Performance Assessment Framework to addressing the problem.

DONOR HARMONISATION

A large number of donors operate in Mozambique. Francisco (2002) identifies 23 significant bilateral donors with a string of smaller partners that make specific contributions; together they contribute 55% of (known) disbursed aid funds. In addition, 23 multilateral agencies and up to 150 international NGOs offer grants, loans or technical assistance.

The World Bank (2001) estimates that ‘most externally financed outlays—an estimated 90 percent—are executed outside the normal budgetary procedures, following donor-specific disbursing channels, classifications, procurement and reporting requirements . . . ’. Of this 90%, Francisco (2002) found that about 70% was allocated to stand-alone projects, the rest being pooled in joint donor projects. The only external funding that was fully within normal budgetary procedures was the 10% which went as budget support through the national Treasury; these direct budgetary allocations have been an unsteadily and slightly growing proportion of the whole of aid since 2000.

There is a clear commitment, in principle, among most of the larger bilateral donors, supported by the IMF and World Bank, to move away from individually operated portfolios of projects and to ‘harmonise’ their aid with each other and sometimes with government. The spectrum of harmonised arrangements can be grouped into three broad forms:

1. General budget support where donor funding contributes to the overall national budget, and not earmarked for specific sectors, although government and donors may together agree on priorities.
2. Sector budget support where donor funds are made available through the national budget, but notionally earmarked for specific sectors (in a ‘sector-wide approach’ or SWAp). In Mozambique, the established case is in agriculture but joint donor funds in health and education (as in (3) below) are also being brought ‘on-budget’ since the beginning of 2004.
3. ‘Basket funding’ where donor funds are pooled and held in a special bank account for the exclusive use of a specific ministry (or part of a ministry’s or a specific province’s programme) outside the national budget and under the ultimate control of donors. Pooled support for the health and education sectors in Mozambique has been managed under this sort of arrangement.

The majority of bilateral donors in Mozambique now subscribe to the principle of ‘harmonization’ through some or all of these modalities. Many of the larger donors have committed 50% or more of their funding through various harmonised arrangements: Ireland, Finland, Norway, Sweden, the Netherlands, Switzerland, the United Kingdom and the EU. Together with seven other bilateral donors and the World Bank, they comprise the ‘Group of 16’ that offers general budget support in a formal partnership with the Government of Mozambique. However, even within this group there are differences of opinion about the pace of commitment to budget support.

GOVERNMENTAL PERSPECTIVES ON AID

This section asks how far alternative forms of aid reduce or enhance governmental ownership. For the meaning of ‘ownership’, this article will adopt the definition in the study by Pavignani and Hauck (2001): ‘ . . . based on domestically developed policies and rooted in national systems and procedures’. However, this definition leaves open the question—which this article will not address—whose ownership nationally is to be strengthened: Is it the executive or the legislative arm of government? Is it politicians or officials? Is it central or local government? Is it the Ministry of Planning and Finance or the sector ministries?

In the study on which this article is based, most government political leaders and officials and most leading donors argued the case against project aid and in favour of increased harmonisation of aid between donors and its alignment with government procedures. For these the aim is a ‘coordinated policy dialogue’ based on the government’s poverty strategy and the development of shared accounting and disbursement mechanisms that conform with the government’s own mechanisms of financial management, resulting in greater effectiveness and lower transaction costs. There is a counter-view: some donor and government officials argue that non-harmonised project aid is positive because it is more likely to be administered effectively by donors, impose fewer administrative demands on government, reach targeted poor populations and keep donors in touch with grass-roots realities. There may also be individual benefits from project aid: government officials employed on the project may receive increased salaries and perks.

Government officials (from middle managers to ministers) who were interviewed for this study overwhelmingly mentioned the ‘burdens’ presented by project aid that bypassed national systems and priorities, provided little information to government and required numerous reports to several donors (Table 3). The most fundamental

Table 3. The main burdens presented by project aid, according to government officials

Problems mentioned	Number of mentions
Lack of fit with national priorities and systems, undermining authority	8
Lack of information given to government especially on donor funding allocations	7
Excessive demands on time of multiple reports and meetings	6
Off-budget spending bypasses government	6
Inconsistency between donors	3
Unpredictability of aid flows	1
Exceptional salaries	1
Desire for attribution/visibility of aid	1

concern was that raised by all four Mozambican ministers who were interviewed; they emphasised the effect of project aid in fragmenting ministries, weakening national and ministerial identity and undermining authority. In an interview, the Minister of Health described the MOH as having become a 'ministry of projects' in which officials dealt with different donors, competing with each other and owing their loyalty to the funder. But interviewees were often reluctant to seem to 'complain' and risk future donor support. Basket, sector and budget support were their preferred solution in principle, but most respondents also accepted the possibility of making the best of stand-alone projects, and of trying to bring them within the framework of government strategy.

Government officials interviewed also recognised that harmonised arrangements, and particularly sector and general budget support, carried with them their own new demands. The agricultural sector-wide approach (SWAp) had taken around 5 years to develop; in health and education, negotiations about forming SWAps were concluded only after several years. The involvement of donors in budget support and SWAps had led them to make increased demands on government for consultation in policy-making, the reform of financial management systems, and improvements in government reporting and monitoring.

THE COSTS OF ALTERNATIVE FORMS OF AID

Aid is a benefit that carries costs, and there is a trade-off between the costs and the benefits of different forms of aid. *Harmonisation* between donors and government may not increase government ownership, and it may reduce some costs or burdens on government but increase others. Greater *ownership* does not necessarily reduce costs or increase short-term aid effectiveness. The trade-offs become clearer if costs are broken down into the following types:

– *administrative costs* of directly delivering aid
– *coordination costs* of negotiating with and managing relations with donors
– *conversion costs* of moving from one form of aid instrument to another
– *risks of failure* inherent in alternative aid instruments
– *costs of assurance management* to manage the risks.

Table 4 summarises the trade-off of benefits and costs, or risks to government between alternative forms of aid. The table is structured in a hierarchy from (at the top) aid instruments where individual donors act autonomously and outside government to increasingly higher levels of coordination and alignment with government practices. This culminates (at the bottom) in general budget support where donors collectively disburse their funds into the government budget rather than into separate projects. However, the table indicates that, while 'ownership deficiencies' and coordination costs may decrease, other costs may grow—at least in the short-term.

Deficiency of domestic ownership is likely to be highest where donors (individually or together) manage their own projects, and lowest where donors operate through sector or national budget frameworks. There are intermediary stages where donors set up a joint management arrangement, or where they pool their resources and coordinate with government allocations.

Table 4. Distribution of costs to government between alternative aid instruments

Aid instrument	Ownership deficiency	Coordination costs	Administration costs	Conversion costs	Risks of failure	Costs of assurance
Single donor-led projects	High	High	Low	Low	Low	Low
Autonomous donors in coordination	High		Low	Low	Low	Low
Donor cordination by common agent (e.g. UNDP)			Low	Low	Low	Low
Basket funding Donor support to sector budgets						
Donor support to general budget	Low	Low	High	High	High	High

Note: This table is a schematic representation of a complex reality.

Coordination costs, in terms of the administrative complexities of negotiating and reporting on multiple donor interventions, are clearly highest where donors operate separately from each other and from the government. The more they pool project support or put funds into budgets, the lower are these costs to government.

Administrative costs for government are lowest where the donors directly deliver project aid, whether alone, in coordination or managed by an agent. The more the government assumes ownership, the more it also acquires the costs of administering delivery.

Conversion costs are incurred where new forms of aid are developed, and donors and government have to work out new relationships. The government is familiar with established forms of project aid, but pooling arrangements, sector-wide approaches and general budget support may require a lot of planning and years of evolution.

Risks of failure grow as donors and government become increasingly interdependent. The concertation of aid between donors and with government makes each more vulnerable to changes of policy or failures to disburse, as the next section will illustrate.

Costs of assurance management: To cover themselves against these risks, donors and government make demands on each other for assurance that their side of the bargain will be kept. As they move away from the management of their own projects and instead seek to operate through the government’s own mechanisms, donors in Mozambique have become more aware of deficiencies in the government’s capacity of financial management, human resource and administrative systems. They have required reforms as a part of the package of general budget support. The government, in its turn, has demanded guarantees of the donors’ agreed conditions for disbursement.

BUDGET SUPPORT

As the last section showed, there is no definitive ‘good practice’ that does not present some disadvantage in terms of costs or demands on government (or on donors). Mozambique has effective cases of aid coordination, basket funding, common support for sector budgets and general budget support. This section will illustrate the opportunities and costs of general budget support, which is seen by its advocates as the highest form of harmonisation between donors and alignment with the government—the only way of truly working through core government processes.

A Joint Macro-Financial Aid Programme was agreed in 1999 between the Government of Mozambique and nine bilateral donors—Belgium, Denmark, the European Commission, Ireland, the Netherlands, Norway, Sweden, Switzerland and the UK. In November 2000, the donors and the government signed a 'common framework agreement'. The written nature of the donor commitment and the way that this has evolved to clarify the mutual obligations of government and donors was said by several donors and the IMF to make this a particularly positive case by comparison with other African countries. Within Mozambique, this 'programme aid partnership' has become the focus of all donor dialogue with the government. By the end of 2004, a further seven donors had joined the club: Canada, Finland, France, Germany, Italy, Portugal and the World Bank. Other donors—the UN, African Development Bank, IMF, USAID, Japan and Spain—collaborate with the budget support partners but as observers.

The roots of this partnership can be traced back to the 1980s when some donors organised import support programmes for essential goods. As the economy was liberalised and controls on importation and on access to capital were abolished, donors replaced specific import support with debt relief and balance of payments support to meet the general gap in external payments. With the move to a market-determined exchange rate, balance of payments support, in its turn, became inappropriate since the exchange rate would now operate as the ultimate balancing mechanism.

The next step was to shift to the direct injection of resources first into sector ministry budgets and then into the government's general budget with the overall goal of 'contributing to poverty reduction'. The approval by the government of its full poverty reduction strategy in April 2001 and governmental commitments to improved budgeting and financial management made this possible. In return for their core budget support, the donors place expectations on the government: progress in the poverty reduction programme, appropriate reforms in government budgeting and financial management, a process of 'dialogue' about reforms and policies, and joint review of performance.

The mechanisms of the engagement go in an annual cycle.

- April: Annual Review of performance over the previous financial year and up to the point of the review against the government's economic and social plan, the joint performance assessment framework (PAF) and the state budget. The review leads to a joint Aide Memoire assessing performance and making recommendations. Assessed performance is the basis for future donor commitments regarding support for the following year's budget.
  — June: follow up meeting
- August/September: Mid-year Review focusing on forward planning and budgeting for the next financial year, and agreement on the basis of the following year's performance targets. This takes place in time to influence the submission of the government's social and economic plan and the state budget to parliament. Progress of the government against the current year's economic and social plan, PAF and budget, and of the donor partners against their commitments are also reviewed.
  — December: follow up meeting. Donors confirm their disbursement schedules
- A joint Budget Working Group of donor and government economists meets, in combination with these review meetings, to discuss budget execution and donor disbursement performance.
- Donor groups meet fortnightly or monthly throughout the year: the heads of cooperation, a steering group of the 'programme aid partners', an economists working group, sector working groups, and a PAF coordination group.

In principle, donors and government regard this partnership as beneficial. It reduces the burdens on the government by coordinating donors' conditions and demands, information requirements, performance measures and standards for reporting and audit. Bilateral donors' coordination is extended by the participation of the IMF and World Bank in partners' meetings. While the international financial institutions concentrate on issues of macro-economic stability, the bilateral donors focus on the other conditions required of government—better financial management, redirection of spending to social sectors, revenue mobilisation, and decentralisation. From the government's point of view, there are clear benefits in the greater conformity of donors with national priorities and in the common voice with which donors speak.

However, there are also costs. First, the demands on government for improved financial management and reporting, however valid, are certainly heavier. Second, donors' common voice can become a 'common front' in an unbalanced power relationship, especially where donors agree together to withhold disbursement. Since the government has no spare financial capacity, the joint withholding of support by donors would immediately threaten the government's entire budget and the country's financial and economic stability (Fozzard, 2002).

The issue arose in 2001 when the partnership donors agreed briefly to suspend disbursement in response to a crisis in the banking sector. Two previously government-owned banks—the *Banco Comercial de Moçambique* and *Banco Austral*—were part-sold to the private sector, and then became insolvent under the weight of bad debts incurred mainly when they were in public ownership. The government borrowed to re-capitalise the banks; it re-possessed the *Banco Austral*, arguing against liquidation on the grounds that this would prejudice the 340,000 depositors, but then made slow progress in recovering the debts. There followed assassinations of a journalist who was investigating the scandals and of the acting head of the *Banco Austral* who was seeking repayment of debts (Hanlon, 2002a). The donors demanded prosecution of the criminals, improved bank supervision and a series of specific conditions regarding loan recovery. In the face of continued failure to recover non-performing loans and to address human rights issues, certain donors—particularly the Nordic countries—held out for continued suspension of disbursement. The Nordic donors revived this demand in 2002, but were overridden by the others.

There are other risks and uncertainties for the government. While donors disburse into a common account, their individual timing for doing so is not entirely predictable. For example, in the case of the EC in 2001, administrative problems in Brussels led to a four-month delay in disbursement. In the face of the damaging effect of late and uncertain disbursement on macro-financial management, the government supported by the IMF called on the donors to provide clear and agreed criteria against which disbursement would be decided. In response, at the beginning of 2004, a new Memorandum of Understanding was drawn up between government and donors. A central tenet is that, once funds are committed for the financial year, disbursements should follow as scheduled unless there has been a fundamental breach of agreed basic principles to do with human rights, probity, independence of the judiciary, democratic political processes, poverty focus and sound macro-economic policies. However, these principles still leave plenty of room for interpretation.

There is a debate among donors about the speed of advance towards fuller budget support. The British, Dutch, IMF and EU are more inclined to place trust in the capacity of the government to manage budget resources, and to risk failures—'We can only improve the budgetary system by using it'. The Nordic nations and the Swiss aim in the same direction but anticipate a longer period (5 to 10 years) of transition as government performance improves—the 'building-blocks approach' in which budget support and sector support go hand-in-hand towards a future in which both are integrated into a national financial management system. The concern of this second subgroup is that too rapid a commitment to budget support will stretch the capacity of the government and present problems of fiduciary risk.

CONCLUSIONS

Mozambique is a special case, both in terms of its history of close association with some donors and in terms of the level of donor coordination and collaboration that has been achieved. It is seen by many donors as a trial case for approaches that could be applied elsewhere. The objectives of new forms of aid management are to 'harmonise' the practices of donors and donors with government, and thereby to reduce the costs of aid management and increase local 'ownership' of the aid process. However, the indications of this study in Mozambique are that harmonisation, ownership and reduced costs are not necessarily compatible goals, at least in the short-term.

Harmonisation through pooling, sector and budget support may reduce certain costs to government but increase others. It is clear that the Government of Mozambique wants to move gradually towards sector and budget support, on grounds of ownership and the reduced transaction costs of dealing with multiple donors. Budget support does, at the very least, align the policies and management procedures of government and donors. It may also increase local control in the sense that it channels resources through regular budgetary processes which are then subject to national political systems. However, with these possible advantages come certain risks and costs. Depending on the strength of the national system, budget support may increase 'ownership' by government or it might be seen rather as introducing donors more deeply into the heart of government. It is likely that the immediate effect on government is to impose new costs of administration, of conversion to new approaches, and of responding to the enhanced demands of donors on government for even deeper reform. There is also the increased risk of collective donor decisions to withhold aid. Working out the arrangements for mutual assurance becomes a major focus of aid management under budget support.

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