

Final Report of the Consultancy to
Update the PAPs PAF
and the Rating Mechanism

Report by Ernst & Young Mozambique Lda.
(Prepared by
Carlos Nuno Castel-Branco)

Final Version (2.4)
(19/09/2005)

Table of Contents

Introduction	2
General Issues	3
Specific government perceptions	13
Specific issues regarding the matrix and ranking mechanism of donors performance	18
New PAPs' PAF matrix	21
New ranking system	26
Annexes	31
Annex 1: Interviews	31
Annex 2: Terms of Reference	32

Introduction

1. The Program Aid Partners group (PAPs group), currently also known as the G-17, comprises 17 donors signatories of the Memorandum of Understanding (MoU), which provide part of their development aid to Mozambique as general or direct budget support (GBS). These donors also provide aid through other modalities within the more general concept of program aid.¹

2. Through the MoU, which was established in 2004, the PAPs aim to coordinate and harmonize the principles of their operation in Mozambique and, in doing so, they have committed to some agreed principles and terms of predictability, alignment and harmonization, with the final objective of improving the effectiveness and efficiency of aid delivery and impact on poverty reduction and development in Mozambique. In this context, the PAPs Performance Assessment Framework matrix (PAPs' PAF matrix) reflects the donors MoU commitments.

3. The MoU requires a yearly joint assessment of the PAPs' performance against their commitments. This assessment is also an opportunity to monitor and encourage the harmonization and alignment of donor commitments in Mozambique to other international agreements, namely, amongst others, the recently approved Paris Declaration on Aid Effectiveness (PD). In line with the MoU, an updated PAPs' PAF matrix must be agreed by the mid-year review, which is scheduled for September 2005. This should also include an agreed mechanism of ranking donors performance on the basis of the agreed PAPs' PAF matrix.

4. This report makes recommendations to the PAPs on the updating of the PAF matrix and on the ranking mechanism, according to the Terms of Reference (ToR) that are attached (Annex 2). This report was produced by the independent, local consultant recruited by the PAPs, Ernst & Young Mozambique Lda..

5. The conclusions of the study are based upon 21 interviews (with the 17 PAPs and with representatives of the Government of Mozambique, GoM) (Annex 1); desk work with background reports (list attached to the ToR); and a few meetings with the troika and the full G-17 group.

¹ General Budget Support (GBS) is aid provided to the government budget that is fully programmable by the government (thus, it cannot be earmarked by the donor). Program aid typically includes GBS plus balance of payment support and earmarked pooled funds (sector/province budget support and basket funds). Program aid is an intermediary step between GBS and project aid (project aid is provided to specific projects, which can be aligned or not with government priorities).

General Issues

- 6.** The PAPs group comprises a large number of very heterogeneous donors, which:
- a. Have different histories and experiences of engagement with Mozambique;
 - b. Face different rules and political environments at home;
 - c. Represent a range from very large or strong, to smaller or weaker economies;
 - d. Have different views about the role of development cooperation and, therefore, also about the ways of delivering it.

Thus, the PAPs may share principles and commitment, but differ with respect to the degree of their belief in, and commitment to general budget support (GBS) as the best and most effective way of delivering development aid, as well as to their capacity to change quickly from a more project oriented to a more program oriented budget support.

The group originated from an association of like-minded donors that decided to provide budget support to the government of Mozambique to strengthen the government's ability to pursue and implement its own poverty reduction and development oriented policies. It grew over time partly because more donors understood the importance of budget support, but also because some donors understood the importance of joining the group to have access to privileged macroeconomic information and policy agreements between the government and the Bretton Woods institutions, as well as privileged influence on policy negotiations. As the number of donors increased, the group grew more heterogeneous. It is, also, claimed that the quantity and quality of privileged information received by the group evolved in inverse relation with the size and heterogeneity of the group.

- 7.** Thus, of many fundamental questions facing the group there are two that are crucial: whether it should maintain its composition; and whether it should be organized around the donors that are more enthusiastic for GBS, or seek to maintain and consolidate the cohesion of the group even if this means that progress towards GBS principles happen at a slower pace.

It has been argued, by most donors, that cohesion is a process and that it is very important to keep the group together.

In order to achieve this, it is important to understand where donors come from and the progress they have made.

On the other hand, it is at least equally important for donors to understand that having signed the MoU they have committed to at least its core principles.

Thus, donors may not be capable to move at the same speed in everything, but they have to **move in the same direction** and **comply with core commitments** they have signed to.

8. Although a couple of PAPs have stated that what matters most in Mozambique is government performance, not donors performance – such that assessment of donors performance may divert attention away from government performance – most PAPs agree that donors must have clear commitments and that their performance against such commitments should be jointly assessed, because of the following reasons:

- a. In the case of such aid dependent countries, like Mozambique, the performance of one party is related to, must support and be matched by, that of the other – government or donors cannot perform to their full capabilities if the other party falls short of its commitments; and the overall aims of development aid (effective delivery of resources and effective social and economic development) cannot be achieved if both parties do not perform well together;
- b. If the government is held to account in relation to its commitment, so should donors – double standards are not acceptable;
- c. If donors commit to principles they must implement them and, therefore, should have no reservations about assessing their performance against such principles and commitments.

9. Donors generally agree about some fundamental principles regarding performance assessment and ranking, namely:

- a. The main aim of the assessment and ranking system is to improve aid effectiveness and efficiency from the points of

view of delivery and economic and social development impact;

- b. Indicators should be agreed amongst donors and with government, and should be in line with the PAPs' PAF matrix;
- c. Controversial issues should be solved by adopting the indicators approved in the coming September Conference on Aid Effectiveness, which result from further work on the agreed principles of the Paris Declaration; and
- d. Identifying strengths and weaknesses and solutions for the weaknesses is the more important component of the performance assessment process. "Name and shame" may be important in extreme cases, but might otherwise be counterproductive particularly if the assessment falls short of identifying solutions for the problems faced by particular donors.

10. Despite widespread belief that GBS *has the potential* to being a better and more effective way of delivering development aid, it was also emphasized by a significant number of donors that:

- a. The general case for GBS is still unproven. However, in response to that argument:
 - i. Some donors have emphasized that studies done in other countries, namely Tanzania and Uganda, help to sustain the argument for GBS...
 - ii. ...but unless GBS is implemented in larger scale it will be difficult to prove its advantages and correct for errors;
 - iii. Thus, unless donors commit to GBS to a larger degree, they will never be in a position to prove or disprove the advantages or disadvantages of GBS.
- b. Nonetheless, it is not completely clear that GBS is *always* the best option for donors and government alike:
 - i. GBS involves a process of confidence building and, in the meantime, is politically more sensitive and risky than other forms of program aid because it is more sensitive to collective donor responses to

government failure with respect to underlying principles;

- ii. GBS also requires more capacity at government level in terms of public finance management (PFM) and procurement systems, which can partly be built from shifting and consolidating the capacity that is dispersed through management of inarticulate aid flows to a harmonized framework of public systems and management. However, building efficient management and procurement systems at government level takes time, such that progress towards significantly higher shares of GBS is partly constrained by the rate and direction at which government management and procurement systems evolve.
- iii. More importantly, effective implementation of GBS for economic and social development and poverty reduction requires significantly more capacity at government level in information and policy development and analysis, policy articulation, implementation and monitoring, particularly in economic and productive areas. In the absence of such capacities, GBS may not result in sound government leadership of the aid process or gradual reduction of aid dependency brought about by economic and productive development. On the other hand, GBS may help to develop a better and more coherent policy framework to facilitate government policy leadership and provide the focus for capacity development;
- iv. Concentration on GBS is enabled by the significant strengthening of the capacity of cooperation agencies' field offices. This has obvious advantages (related to decentralization of decision making, direct and on-the-job technical assistance through exchange of ideas and stronger knowledge of the country by donors). However, it has also widened the capacity gap, in the field, between government and donors, thus adding to the pressure on government departments. This increasing asymmetry of capacities is not conducive to ownership and leadership, by government, of decision making and implementation.

On the other hand, the relationship between highly centralized donors and the government is also asymmetric and the impact of such an asymmetry might be worse than the on-the-field one, as decisions are being made by far flung headquarters.

Thus, asymmetric capacities are a serious problem, which have to be dealt with through medium to long term capacity building (training, technical assistance, reform of institutions, systems and methods, development of capacity in information and policy analysis, retention of skilled workers, etc.), as well as through immediate action regarding strengthening of predictable, simple, aligned and harmonized government/donor relationships.

This means that the solution for the capacity gap is not the reduction of donor capacity but the increase in government capacity. While it is important to take the capacity gap into account when looking ahead towards larger shares of GBS, it is also important to keep in mind that it is more likely that government capacity will increase and be less stressed under GBS than under other aid modalities.

- v. There is also a problem of coordination failure associated with GBS – before all major donors have committed very significant shares of total aid to GBS and limited on-the-side negotiation and financing of government institutions outside the central budget; and before all Ministries and provincial Governments have committed to defining policies and priorities through the planning and budgeting process and the number and scope of allowed on-the-side negotiation with donors is significantly limited through the budget and planning mechanism, there will always be an incentive for donors and government institutions, individually, to go outside GBS for more funds and build influences in particular areas.

Thus, progress towards more GBS (as a share of total aid to government) has to be carefully monitored and coordinated; nonetheless, it **should be done**, off course in line with agreed commitments with the government. Furthermore, such a move should be matched with, or preceded by significant capacity development of central and local government, on issues of public finance management

and procurement but also, and very crucially, on issues related to information gathering and analysis, policy making, and economic and social impact analysis of policy (more on capacity building later).

Donors and government representatives alike have mentioned that an interim stage of transition should involve the reporting of all bilateral and multilateral development aid flows in the budget, as well as the gradual extension of the guiding principles of the MoU to other forms of program aid (more on the overall portfolio later), together with a gradual increase in the share of GBS in total aid to government.

11. Donors and government representatives agree that a harmonized and articulated capacity building program is required.

Technical assistance (TA) is estimated to absorb at least 25% of total aid flows reported, and yet capacity building and, more specifically, technical cooperation, is still significantly fragmented; a very small number of donors still attach technical assistance to their aid packages as a conditionality; despite few examples of TA coordination (such as SISTAFE, UTRAP) very little has been done to articulate capacity building and technical assistance at any level; as a result, the capacities being built in the country do not form a system and a culture – at central and provincial levels, different cultures, systems and methodologies have been introduced, not always adapted to the reality of the country or in line with national strategies, and not always consistent between themselves. Deficiencies with respect to sector and local government leadership exacerbate this problem further. Moreover, such ways of “building capacity” tend to perpetuate aid and technical cooperation dependency and to be unsustainable over time.

The overall problem with disarticulation of TA is also reproduced at the level of project and other non-government cooperation – for example, different donors have recently adopted “private sector support” programs, but these programs are mostly fragmented in terms of objectives, methodological approach, focus and actions plans.

Donors have argued that having technical assistance in the field helps to improve aid effectiveness in many ways:

- a. Aid is also about the exchange of ideas and knowledge, not only money;
- b. Technical assistance helps to fill in capacity gaps;

- c. Presence in the field improves knowledge and helps donors to make decisions more in line with a better understanding of the country; and
- d. Technical assistance also helps to tackle information bias.

Irrespectively of how important and generally acceptable these arguments are, none of them justifies the level of fragmentation and disarticulation that characterize most of the capacity building or technical assistance programs in place. Besides, the few cases of successful articulation of TA have shown that it is possible (and desirable) to achieve the same goals in an articulated way and that coordination can help to increase the magnitude, scope and positive impact of TA.

There are several important problems to deal with in order to articulate capacity building and technical cooperation as part of it:

- a. Capacity building needs, including technical assistance, should be identified on the basis of the mid-term government program and clearly defined policies and priorities. However, the government needs a lot more capacity and time to think in order to develop such programs and identify capacity gaps – this is, the government needs technical capacity assistance in order to develop a capacity building and technical cooperation strategy;
- b. Capacity building is also part of public sector reforms – it is associated with what the public sector is expected to deliver, with better systems and methodologies of work, and with the ability of the public sector to mobilize and retain capacity. A lot of work and, therefore, political willingness (related to the political economy of public sector reform) and technical capacity is required to make significant progress in this area;
- c. Articulation of capacity building is, ultimately, related to the overall planning, budgeting and aid process – it requires financial sustainability as well as articulation of interventions at central, sector and local levels of governance. It is not absolutely necessary to eliminate interventions at sector and local level (although some donors would argue, maybe correctly, that articulation of capacity building is better done through GBS). However, even if sector and local technical interventions are maintained, it is absolutely necessary to organize such

technical interventions according to an overall framework that depends upon and is responsive to the planning and budgeting mechanism;

- d. Donors do not always agree, amongst themselves, about the ways of doing things – approaches vary not only across donors, but also overtime with the same donor, according to changes in political power, public opinion and fashion at home. Thus, unless the power to decide on technical assistance is passed on to the government, it will not be easy to perfectly articulate technical cooperation. On the other hand, the government can only make proper use of such power if its policy making and management capacities are significantly increased;
- e. Fragmented technical cooperation has already created niches, entrenched interests, institutionalized dependencies and ways of doing things. Hence, it will not be easy to remove such entrenched obstacles and resistance to harmonized technical cooperation;
- f. To perfectly articulate and align capacity building and technical assistance, donors have to give up the prerogative to use technical assistance for other reasons beyond the immediate goals of technical assistance – such as, for example, building up pressure and influence. Unless donors harmonize the specific interest of their agencies and align them with government policy, it will be politically difficult to articulate technical assistance as part of capacity building programs; and
- g. Capacity has to be created mainly for government institutions to be able to lead and facilitate the development process in Mozambique more effectively, not only to report to donors on the use of resources delivered by donors. Thus, information and economic analysis, and strategy and policy development and evaluation (particularly in economic and productive areas and on how to relate these areas with education, health and infrastructures) should become a central focus of capacity development support. This requires a better understanding of the role of the state, and of the relationship between the government and the private sector, in economic and social development, that challenges and goes beyond the established (un)truths of neo-liberal economics.

It seems that the way to start is to provide the government with assistance to identify capacity gaps at central, sector and local level, in line with its mid-term development program, mostly aimed at improving information and policy analysis, economic and social impact analysis of policy (particularly in economic and productive sectors), and mobilization, analysis, allocation and management of resources.

In terms of the political economy of capacity building, the important aspects seem to develop around the ability to make progress in substantive public sector reform, as well as donors' commitment to significantly increase articulated and aligned capacity building programs aimed at strengthening governance capacities rather than only donors' influence or government capacity to report to donors. The problems to doing this, however, are of political economy dimension – how to challenge and change the interests that lie behind the *status quo* related to change in the public sector, as well as with donors' delivery of capacity development support?

12. Several donors have emphasized that the guiding principles of the MoU should be extended to the overall program aid portfolio. The reasons for this are:

- a. Signing of the MoU means more than committing to GBS – it means committing to an attitude and set of principles that should guide the partnership between donors and government at all levels;
- b. GBS is still a smaller share of program aid – thus, it does not make much sense to only align and make more predictable a smaller share of program aid, when the larger share may, or at least has the potential to, be creating a whole set of problems to improve aid effectiveness;
- c. Bringing the overall program aid portfolio into the guiding principles of the MoU could also help to address the dispute about the optimum share of GBS aid – as long as such share increases **and** other parts of the portfolio are predictable and aligned, aid effectiveness and government capabilities, ownership and leadership may increase significantly;
- d. Efforts have already been made to move sector aid towards the same set of rules and principles of predictability, alignment and harmonization set by the MoU and the Rome and Paris Declarations, particularly in

the cases of the education and health sectors: sector MoUs have been or are being established; funds have been integrated within the budget system and, therefore, have been subject to management by the Treasury; sector programs have started to integrate public investment and direct allocation of resources to local levels of governance; and attempts have been made to review and harmonize technical cooperation at sector level. Furthermore, where SWAPs have been established, overall information and policy analysis, as well as resource management, have improved.

There are differences amongst donors about how and how fast to proceed with the extension of the guiding principles of GBS to other program aid modalities, but such differences are mostly of emphasis and degree rather than of principle and substance.

Most donors have suggested that:

- a. Sector budget and project aid and aid to local governments should be brought into the same principles of predictability, alignment and harmonization;
- b. Sector aid, particularly, but not exclusively, in health and education, should be the starting point to improve predictability and alignment, as well as reduction of transactions costs on government and elimination of off-budgets;
- c. Project aid should be fully aligned and integrated;
- d. Equity should be guaranteed through overall coordination – such that sectors and provinces/districts do not get more resources only for being more attractive to certain donors; instead, government policies, strategies and priorities (this is, government leadership) should be the driving force behind resource allocation;
- e. Given that other donors, besides MoU signatories, operate at sector and local level, the PAF matrices at these levels should be entirely based upon the Paris Declaration in those aspects of the MoU that non signatory donors may not agree with;
- f. In this connection, it is necessary to put some serious thinking on how to deal with an integrate the Development Partners Group (DPG), led by the United

Nations Development Program (UNDP), as UN agencies are the least aligned, harmonized and predictable of the donor agencies, largely because of their own rules.

Specific Government Perceptions

13. Three meetings were held with government institutions: one joint meeting involving the Ministry of Planning and Development (MPD), the Ministry of Finance/Treasury (MF), and the Bank of Mozambique (BoM); and two separate meetings one in the Ministry of Education and Culture (MEC) and another in the Ministry of Health (MISAU).

14. As expected, these government institutions insisted in some strong, common points, namely:

- a. Assessment of donors' performance should be done jointly, in the same way that the government's performance is also assessed;
- b. Assessment criteria should be agreed between government and donors, and results and implications of the results should also be discussed together;
- c. What matters most, for government, is that donors perform well on three fundamental areas:
 - i. *Predictability*, namely: disbursements according to agreed amounts and schedule, and multi-year agreements;
 - ii. *Alignment*, namely with the government systems and budget cycles, reporting and evaluation mechanisms, priorities and policies. It was also emphasized that alignment has two other dimensions, namely with common conditionality (no extra conditionality beyond what is agreed in the MoU); and harmonization between bilateral agreements and the MoU, and between the bilateral agreements themselves; and
 - iii. *Articulation and alignment of technical cooperation* within an overall framework of capacity building for governance, focused not only on public finance

management and procurement, but also on information and policy development and analysis.

- d. The level of administrative burden is mostly an inverse function of the degree of alignment and predictability, as defined above;
- e. The number of donors supporting one sector is not seen as a problem from the administrative burden point of view as long as the coordination mechanism works well – it might, however, be a problem from the point of view of donors' commitment to GBS. In the education and health sectors, for example, it was mentioned that government departments only hold a couple of short meetings per month with the coordinating team of the donor group, plus the joint reviews, despite the fact that there are many donors in the FASE and PROSAUDE programs;
- f. Despite the fact that progress has been happening at sector level with respect to predictability, alignment and coordination, some problems persist, namely:
 - i. Banks that operate at sector level insist on having their own systems of management, including some sort of Program Implementation Units (PIU);
 - ii. Some donors still have difficulties to accept priorities defined by the government when these priorities are not perfectly aligned with the ones favored by donors and with a donor preferred *modus operandi* – in these few cases, donors rhetoric favors government leadership but, in practice, they mean, by leadership, that “the government should decide to do what donors want the government to do before donors tell the government to do it”;
 - iii. Technical cooperation is highly fragmented and donor driven; and
 - iv. Still some significant progress has to be made with respect to predictability, alignment and coordination.
- g. Asymmetric capacity between donors and government departments creates pressure on government officials. It was said that often government officials approve proposals

or ideas not because they necessarily agree with them, but because they do not have the time or capacity to analyze the issue and think about their impact and about suitable alternatives; hence, government officials prefer to accept something to having nothing instead. Thus, for aid to be aligned with national strategies and priorities (rather than the latter being aligned with the former), a strong capacity building process is required;

- h. The overall portfolio of aid flows to government should be integrated under the same guiding principles as GBS. The major problems to achieving this aim were identified as follows:
 - i. Government lack capacity particularly in policy development, impact analysis and implementation. To guide resource allocation the government has to be much more proactive and capable of being so consistently and soundly;
 - ii. Individual donors and sector and provincial government institutions do not trust and, therefore, are not always enthusiastic about operating within the existing budget systems, and this tends to create parallel economies within the government.
- i. With respect to capacity building and technical assistance, the need for strong articulation and alignment was emphasized. It was also emphasized that technical assistance, besides being aligned with an overall framework, should also function under government authority rather than donor's. Capacity building should be aligned with public sector reform and the needs and priorities of the mid-term economic and social development program of the government. Three major difficulties were seen to be likely to disturb articulation of capacity building and technical assistance:
 - i. Lack of government capacity to identify gaps and lead the process;
 - ii. Donors' interests in keeping fragmented interventions for their own purposes; and
 - iii. Difficulties arising from lack of progress in substantive public sector reform due to the political

economy of the reform (associated with power, jobs, careers, and so on).

15. As expected, there were some similar positions but also some differences between these government institutions with respect to the issue of increasing the share of GBS in the total bilateral and multilateral portfolio. The main points raised were:

- a. While the MPD, MF and the BoM (for simplicity, the “central institutions”) insisted that the higher the share of GBS the better..., the sectors emphasized that the dialogue with the MF is not very good, open and transparent and that at the end of the day what matters is that the resources get to where they are meant to and needed;
- b. If GBS guarantees predictability and reliability of disbursements and at least the same level of financial resources to individual sectors, then line Ministries see no problem with GBS. However, they do not trust that these two pre-conditions will be met if the share of GBS increases. Thus, sectors with SWAPS in place are willing to join the overall pool of public resources, which includes GBS, as long as their resources are guaranteed and they do not have to negotiate policy and resource allocation against other areas of public intervention. This seems to be interesting evidence of entrenched interests and dependencies created by sector aid, apart from an indication of deficiencies in PFM;
- c. Sectors insisted that an increase share of GBS will probably work better as the government capacities in policy making, information and policy analysis, in finance management and in procurement improve significantly. In the absence of trust, proper dialogue and coordinated action within the government to prevent on-the-side negotiation with donors, sectors will always prefer sector support;
- d. Sectors acknowledge that this system may be unfair and inadequate, as it builds discrimination against certain sectors and imbalances that may perpetuate aid dependency rather than creating new productive capacities, particularly if sector programs continue to be mostly focused on social networks and services at the expense of increasing support to economic and productive sectors. Moreover, the inclusion of investment expenditure under sector aid, particularly if this is done

off budget, will ask serious questions about medium to long term fiscal sustainability of sector expenditure;

- e. Sectors would prefer to keep sector aid alive while aligning it with public mechanisms of budget management and procurement, making disbursements more predictable and aligning resource allocation with policies and priorities. As one government official put it, one cannot “wean” the sectors from sector aid suddenly;
- f. The “central institutions” acknowledge the problems posed by the sectors and the point that the share and the amount of GBS can only increase at the speed allowed by the process of building capacities and confidence in the system, but they insist that resources should be invested in the creation of such capacities and confidence rather than on creating an “informal economy” within the state budget. Moreover, these institutions point to the fact GBS strengthens policy negotiation and accountability within the state, and that allocation of resources should increasingly reflect overall and articulated government strategies rather than sector or donor preferences.

16. Improvements that are happening at the sector aid level have been mentioned, and arguably demonstrate that aid effectiveness can be improved even if sector programs are maintained – although it can also be, rightly, argued that if the entire aid portfolio to the government is predictable, aligned with government mechanisms and priorities and harmonized, the obstacles to increasing the share of GBS will, by definition, be removed as will the arguments to keep sector aid alive:

- a. The SWAPs are no longer only financial mechanisms to cover financial gaps, as before, but are approved and recorded as part of the budget and the allocation of resources is negotiated within the sector budget negotiation;
- b. Resources are also being allocated, through sector aid, to the provinces and districts, although some ambiguities remain with respect to the real (delegated or devolved) power of local governments and scope of intervention;
- c. Coordination amongst donors and between donors and government at sector level has improved, such that the administrative burden on the government side has reduced;

- d. The number of donors operating in the sector or common fund is not a burden to the government, as long as the coordination of donors works;
- e. Nonetheless, technical assistance remains highly fragmented, donor driven and frequently misaligned.

Specific Issues Regarding the Matrix and Ranking Mechanism of Donors Performance

17. Despite the differences with respect to GBS, there is a basis for consensus in that:

- a. Government preference is for a cautious and steady increasing of the share of GBS, in line with increased leadership, policy and management capabilities of the government;
- b. Interventions at sector and local levels should be aligned, predictable and reported to the budget, such that fiscal sustainability is guaranteed and the budget performs its role in policy, priority and allocation decisions;
- c. Given the controversy that still exists amongst donors and government institutions about the share of GBS in total government aid portfolio, two indicators can be taken from the current work being done by the DAC Working Party on Aid Effectiveness (DCA-WPAE), that should be approved next September, namely:
 - i. The share of all aid flows to government reported in the budget should increase significantly, over and above 85% by 2010;
 - ii. The share of all program aid on the total aid portfolio to the government should go beyond 66% by 2010.
- d. It should, however, be pointed out that the PD indicators are not demanding for the PAPs group given the current structure of its portfolio. It is estimated that GBS, alone, accounted for about one third of the PAPs' aid to the government in 2004; and that all program aid may already account for as much as 70% of PAPs' aid to the

government.² Thus, the PAPs can easily go beyond the Paris Declaration on this issue.

18. With respect to predictability, the main issues raised are:

- a. Aid is disbursed in the fiscal year for which it was scheduled, according to timely confirmed commitments and the precise monthly disbursement schedule agreed with the government (the Paris Declaration sets the target of halving the proportion of aid not disbursed according to this principle). The implementation of this principle also requires that the government is capable of planning a disbursement schedule and apply an approved mid term scenario (Mid Term Fiscal Framework) in its management of public finances;
- b. Donors adopt multi-year programs of not less than 3 years. With respect to this indicator, it is important to keep in mind that the medium term vision and approach should not be bureaucratically limited to the duration of the bilateral agreement – the medium term programs should be rolling and the medium term perspective (of at least 3 years) should be maintained beyond the existing program and in line with the medium term fiscal framework.

19. With respect to alignment, the main issues raised are:

- a. Alignment with government priorities and policies;
- b. No extra conditionality beyond what is already established in the MoU, and encouragement to significantly reduce and eliminate exceptions (Annex 10 of the MoU), without adding those exceptions to core conditionality. Government officials have also pointed out the need to streamline existing conditionality.
- c. Compliance with government cycles: planning, budgeting, disbursing, reviewing and evaluation, and reporting;
- d. Utilization of government systems and institutions. The Paris Declaration targets are:
 - i. Reduction by 2/3 of aid to the government not using public finance management systems;

² Killick *et al.* 2005. Perfect Partners?.

- ii. Reduction by 2/3 of aid to the government not using public procurement;
 - iii. Reduction by 2/3 of the stock of parallel PIUs.
- e. Harmonization between bilateral agreements and the MoU and between the bilateral agreements themselves.

20. With respect to administrative burden (AB), the main issues raised are:

- a. AB is a cross cutting issue – significant improvements with respect to predictability and alignment (as defined above) may reduce AB to the government very significantly;
- b. External missions should be considered only when they involve the government, and when they can either be avoided or done jointly without affecting mobilization of resources and the quality of evaluation (the Paris Declaration target is that 40% of donor missions to the field are joint);
- c. Analytical work should be done, as much as possible, jointly and aligned to government priorities; or not involve government institutions (the Paris Declaration sets the target at 66% of country analytic work to be jointly done by 2010);
- d. Cooperation agencies' field offices may already be a burden on government, mostly due to asymmetric capacities. It is important to keep this problem (asymmetric capacity) in mind; dealing with it, however, requires a coordinated and successful approach to capacity building at government level. "Recentralizing" aid agencies is not a valid option to address asymmetric capacity, because it does not address anything – it only transfers the asymmetry from the field to the head-office at home, which may be a worse type of asymmetry. The answer lies on systematic and articulated capacity building.

21. With respect to capacity building and technical assistance, the main issues are:

- a. The Paris Declaration target is that 50% of technical cooperation flows are implemented through coordinated

programs consistent with national development strategies, by 2010;

- b. Technical assistance has been focused on public finance management and public sector reform, but increasingly it is required at the level of information gathering and analysis, policy making, economic analysis of policy and economic and social impact analysis of policy implementation, because otherwise the government cannot take the leadership in the aid process by lack of policy capacity to doing so. Furthermore, support to capacity development should be increasingly focused on the economic areas, and social areas in relation to some articulated national growth and development strategy, or aid dependency will tend to be consolidated rather than eliminated.³
- c. As part of the process of capacity building and reduction of administrative burden, donors should also commit to agreeing and establishing, with the government, a system of information flow that is accurate, timely and useful for statistical, analytical and policy work, as well as for the transparency of the aid process.

New PAPs' PAF Matrix

22. The new matrix differs from the previous one in the following aspects:

- a. There is only one matrix, rather than part 1 (indicators on core MoU commitments) and 2 (monitorable indicators);
- b. It was meant to be simpler, although it may end up with more specific indicators;
- c. It is meant to be more focused on the priority issues raised by the government; and

³ In the meetings with the government officials, two other issues were raised with respect to capacity building and technical cooperation (CB-TC), namely: (i) CB-TC should also reach the economic and productive areas of government activity – industry, amongst others, as to help the creation of effective productive capabilities that will reduce, and eventually eliminate, aid dependency; and (ii) technical assistance should also be recruited locally, from the stock of national technical capacities. These issues, which are very important for capacity building effectiveness, are, however, dependent upon government policies and priorities and, therefore, should not, at this stage, become part of the PAPs' PAF matrix.

- d. Some of the specific indicators have been changed and more aligned with the ongoing work on the Paris Declaration.

23. The need to increasingly align the matrix with the ongoing work on the Paris Declaration means that the matrix may be adjusted after the September meeting on Aid Effectiveness.

24. The targets set for each year of the matrix represent donor commitments for that particular year. Donors will be assessed on their performance with respect to such commitments on the following year.

25. In the matrix below, most of the targets for 2006 are in line with the actual or expected results approved in the previous matrix.

26. There are several areas of the matrix that need further development. Generally, these areas are clearly identified.

27. Targets in the matrix (and the ranking system) should also be understood as indicators to work towards and to put pressure on donor performance. This means that targets should not be set only on the basis of what donors are already doing or on what donors can achieve without much of an effort. Targets should be realistic and take into consideration the political process involved and the performance of the government in the different areas, but they should also be challenging for both donors and government.

28. The underlying assumption of the PAPs' PAF matrix is that it should be matched and articulated with the government matrix and performance. For example, donors can only channel more resources through the public procurement system or eliminate extra reporting requirements if the procurement system is in place and the reports by government are of a minimum required standard.

29. Additionally, all targets have to be agreed together with the government, such that the two PAF matrices are aligned with each other and reflect government focus and priorities rather than only donors' (good, we assume) intentions.

30. Most of the aid ratios mentioned in the PAF matrix (and ranking system) refer to "PAPs' aid flows to the government". This definition includes all PAPs' program aid (see definition in footnote 1) and project aid that goes to the government and government institutions, and excludes only aid that is meant and goes to NGOs, private sector and other non-government agencies.

PAPs' PAF matrix of core commitments

Objectives	Activities	No	Indicators	2006	2007	2008	2009
Portfolio Composition	GBS	1	% of GBS in total PAPs aid flows disbursed to the GoM.	40% (A)	44%	49%	54%
	Program Aid	2	% of program aid in total PAPs aid disbursed to the GoM.	70% (A)	77%	85%	≥ 94%
Predictability	Commitment of funds	3	% of PAPs with multi-year agreements of not less than 3 years.	≥ 90%	≥ 95%	100%	100%
		4	Commitments of GBS for year n+1 within 4 weeks of the JR in year n	100%	100%	100%	100%
	Disbursement	5	Disbursement of confirmed GBS commitment in the fiscal year for which it was scheduled, according to precise quarterly disbursement schedule agreed with GoM	100%	100%	100%	100%
Harmonization and Alignment	Consolidation and harmonization of conditionality	6	PAPs adhere strictly to GBS common conditionality. ⁴	95%	100%	100%	100%
		7	% of PAPs not having OR significantly reducing Annex 10 exceptions, with a view of eliminating such exceptions.	Commitment by each donor with exceptions			100%
		8	Strict harmonization between bilateral agreement and MoU	BL (C)	SPA	SPA	SPA
	Utilization of government systems and reporting	9	% of PAPs aid flows to the government reported in the budget	Tbd	100%	100%	100%
		10	% of PAPs aid flows to the government reported in the budget execution report	Tbd			
		11	% of PAPs aid flows to the government included in the Treasury payment system	Tbd			
		12	% of PAPs aid flows to government using public procurement systems	BL (B)	BL*1.2	BL*1.2 ²	BL*1.2 ³
13	Implementation and evaluation reports required from the government outside established normal government reporting systems eliminated. ⁵	BL (B)	SPA	0	0		

⁴ GBS common conditionality is defined in the PES' PAF.

		14	While significantly reducing the overall number of missions for evaluation and appraisal undertaken by officials of donor countries AND involving meetings with government officials, significantly increase the share of those missions that are joint.	BL (B)			
		15	Analytical work at country level related to development, implementation and impact evaluation of government programs and policies AND involving government officials is undertaken jointly and aligned to government priorities and strategies.	BL (B)			
		16	Donors agree and implement “quiet period” with GoM.	(C) 100%	100%	100%	100%
Extension of predictability and alignment	Sector Provincial Aid	17	Share of sector and provincial aid with a MoU moving towards the same rules of predictability and alignment as defined above.	MoU for health education agriculture	SPA	SPA	SPA

⁵ “Established normal government reporting systems” include more aggregate reports (such as, for example, the balance of execution of the PES and the Budget) or sector and provincial reports – depending on whether the issue under analysis is more general, sectoral or provincial. The aim of the indicator is that donors use the existing reporting system that is required for the Government to govern and to be accountable to the Parliament, support capacity building for analysis and reporting and agree about common report formats that are simultaneously useful for government to govern and to report to donors. In the meantime, if the quality of GoM reports is too weak compared to required governance and donors’ standards, PAPs should decide collectively about requiring a better quality report as a group, not bilaterally, while helping capacity development. The idea is that government reports would improve not only for donors but, even more fundamentally, for the governance of the country. Thus, the grading of this indicator is also associated with progress in government capacity, and should be decided on a yearly basis. Donors would be discouraged from acting bilaterally and unilaterally in terms of requiring further reports, and would be penalized if they do so. It may also happen that specific analytical issues are not part of normal government reports but are required by donors. In this case, donors can ask for specific reports but such reports would not be part of this indicator as they are not part of “established normal government reporting systems”. However, donors should be encouraged to peer check that these extra requirements are jointly made (when more than one donor is interested), and are both unavoidable and not an informal mechanism to go around the spirit of the indicator. For example, it might be that the Health sector report does not cover HIV/Aids in a systematic way. Before donors require a specific report on HIV/Aids, they should check whether the relevant issues cannot be included in the normal Health sector report in a meaningful way. If it can, extra reports should be avoided. At the end of the day, what is necessary is that government focus on governing and reporting properly for governing purposes, rather than being focused on producing multiple reports because each one of them is weak in one aspect or another.

Capacity Building	Technical cooperation	18	Agreement on guidelines for national capacity development support in line with government priorities and strategies, and subsequently adhere to it.	C			
	Transparent flow of information	19	PAPs and GoM agree on a system and format of information about aid programs and flows to the GoM, which is feasible, accurate, timely and useful for statistical, analytical and policy work, and subsequently adhere to it.	C			

Notes:

(A) Baseline (BL) to be **confirmed** by the end of 2005. Steady growth of about 10% per year from the level of the baseline.

(BL B) Baseline to be **established** by the end of 2005. Figure for 2006 is based on the agreed progress rate on the established baseline. After 2006, progress is steady and quick.

(BL C) Baseline to be **established** by the end of 2005. Figure for 2006 is based on the agreed progress rate on the established baseline. Steady Progress Afterwards (SPA) with targets to be agreed,

(C) Agreement to be reached in 2006 (for indicator 16, definition of "quite period", including of the period(s), to be reached by the end of 2005). Subsequent implementation targets (adherence to the agreement) depend on the concrete agreement to be reached.

(Tbd) To be defined in line with donors' commitments and the coming into operation of such budget management tools.

New Ranking System

31. The agreed principles for the ranking system are established in earlier sections of this report.

32. The ranking of donors' performance will be strictly based on the above PAPs' PAF matrix.

33. The assessment of donors' performance will be undertaken by independent consultants, contracted under Terms of Reference approved jointly by the PAPs and the GoM.

34. The assessment will cover each donor, individually, as well as a general evaluation of the performance of the PAPs group as a whole.

35. The report of the independent consultants shall be discussed by the PAPs and the GoM, and measures should be taken, on the basis of the report and its evaluation, to improve donors' performance.

36. The report shall identify the strong and weak point of each donor and of the PAPs' group as a whole, and shall point out to possible solutions for the problems identified (again, for each donor and for the group).

37. On the basis of the consultants' report and discussions that will follow, donors' will be asked to make specific commitments for the following year to address their weaknesses. Performance assessment in the following years will take into account the performance of the donors against the targets agreed in the PAPs PAF matrix and their own declared progress commitments, as well as against their actual improvement. Under the conditions established below, donors may receive points for improvement even if they do not fully achieve some of the targets established in the matrix.

38. Donors will be ranked into four areas – excellent, good, pass and below par performances. Excellent requires $\geq 80\%$ of the total points available; good varies between 70% and 79% of the available points; pass means that MoU principles are basically met and that the donor achieves between 60% and 69% of the available points; countries/agencies that receive less than 60% of the available points and/or violate underlying principles of the MoU will be in the below par area.

39. The maximum total number of points attributable to a donor is 40. This number has been chosen for convenience in terms of distribution amongst the indicators and given the number of indicators. There is no more “science” to it than “convenience”. If the number of indicators is changed significantly (increased or reduced), the maximum total number of points may be revised (particularly if the number of indicators is increased).

40. In order to calibrate the points more “scientifically, it will be necessary to make one round of assessment and ranking. After that round, the consultants and the G-17 should again look at the calibration, see how it works and adjust it.

41. The table below shows the points attributed to each indicator. An attempt was made to weigh areas of the matrix differently according to perceived priorities of the government. Thus, for example, predictability and alignment indicators receive three quarters of the points. The weights clearly reflect perceptions, not any scientific method beyond that. Hence, they are open to discussion. For example, portfolio composition has received 15% of the points – is it low or high? If we think that the PAPs are a group of donors committed to deliver budget support more effectively, and that this is the main characteristic that unites them, then we may conclude that “portfolio” is receiving a low weight. Thus, weights have to be analyzed carefully.

42. Another issue, which is also related to the weights, is that we may want to reduce the number of indicators in the ranking table. The table below matches one-to-one the indicators of the PAPs’ PAF matrix. However, we may wish to concentrate on fewer and more important indicators. We can, for example, eliminate half of the detailed indicators of the “harmonization and alignment” category. It would be worthwhile to have concrete ideas and proposals from the PAPs regarding this issue. Such a reduction, if considered, should be negotiated with the government for two reasons: (i) because of the need to align the two PAF matrices; and (ii) in order to reflect negotiated and agreed upon priorities in donor performance.

43. Points are only given to 100% achievement of the target per indicator established for each year. For example, for the first indicator (% of GBS in total PAP aid portfolio to government) in year 2006, 3 points are given only to those donors that reach the 40% share (provided that this is the accepted figure for that year).

44. Donors that have not achieved the target but have made significant progress relative to the previous year and have at least matched their own progress commitments (as mentioned earlier) for the specific target may receive up to half of the points attributable to the target, depending on its overall performance. If, however, the rate

at which the donor improves in the specific target in the following year is not higher than the rate at which the target improves, no more bonus points will be added. For example, a donor that cannot match the 40% target for the first indicator in 2006, but improves significantly on the 2005 performance and at least matches its own declared commitments for this target, may qualify to receive up to 1.5 points if its overall performance is reasonable. However, the target for first indicator increases 10% for year 2007; if the rate at which the donor performance with respect to this target improves is not higher than 10% relative to the previous year – hence, the donor is not catching up with the norm – than it gets no extra points even if its performance continues to improve.

45. Several donors have asked for the inclusion of bonus points for performance associated with specific indicators. Rather than including bonus, we suggest that indicators are looked at in a more integrated way. For example, donors that get 2 points for indicator 7 will fall into two possible categories: (i) those that have **never had** or have eliminated any exceptions to the common conditionality; and (ii) those that have made significant progress towards eliminating exceptions. The first group will also get maximum points for indicator 6 (strict adherence to common conditionality), whereas those in the second group will not. Thus, if we look at **these** indicators together, we can see that a donor that have eliminated, or have never had, exceptions will get 5 points from these two indicators; whereas those that are still in progress will get, at most, 3.5 points (2 for indicator 7 and, at most, 1.5 for indicator 6, depending on the donor's overall performance, as defined in the previous paragraph).

Ranking Table: Indicators and points

Objectives	Activities	No. ⁶	Indicators	Points
Portfolio Composition (15% of total points)	GBS	1	% of GBS in total PAPs aid flows disbursed to the GoM.	3
	Program Aid	2	% of program aid in total PAPs aid disbursed to the GoM.	3
Predictability (30% of total points)	Commitment of funds	3	% of PAPs with multi-year agreements of not less than 3 years.	3
		4	Commitments of GBS for year n+1 within 4 weeks of the JR in year n	3
	Disbursement	5	Disbursement of confirmed GBS commitment in the fiscal year for which it was scheduled, according to precise quarterly disbursement schedule agreed with GoM	6
Harmonization and Alignment (45% of total points)	Consolidation and harmonization of conditionality	6	PAPs adhere strictly to GBS common conditionality.	3
		7	% of PAPs not having OR significantly reducing Annex 10 exceptions, with a view of eliminating such exceptions.	2
		8	Strict harmonization between bilateral agreement and MoU	1
	Utilization of government systems and reporting	9	% of PAPs aid flows to the government reported in the budget	2
		10	% of PAPs aid flows to the government reported in the budget execution report	2
		11	% of PAPs aid flows to the government included in the Treasury payment system	2
		12	% of PAPs aid flows to government using public procurement systems	1
		13	Implementation and evaluation reports required from the government outside established normal government reporting systems eliminated.	1
		14	While significantly reducing the overall number of missions for evaluation and appraisal undertaken by officials of donor countries AND involving meetings with government officials, significantly increase the share of those missions that are joint.	2
		15	Analytical work at country level related to development, implementation and impact evaluation of government programs and policies AND involving government officials is undertaken jointly and aligned to government priorities and strategies.	1
16	Donors agree and implement “quiet period” with GoM.	1		

⁶ The number for each indicator in the ranking matrix is exactly the same as in the PAPs’ PAF matrix.

Extension of predictability and alignment (5% of total points)	Sector and Provincial Aid	17	Share of sector and provincial aid with a MoU moving towards the same rules of predictability and alignment as defined above.	2
Capacity Building (5% of total points)	Technical cooperation	18	Agreement on guidelines for national capacity development support in line with government priorities and strategies, and subsequently adhere to it.	1
	Transparent flow of information	19	PAPs and GoM agree on a system and format of information about aid programs and flows to the GoM, which is feasible, accurate, timely and useful for statistical, analytical and policy work, and subsequently adhere to it.	1

Annexes

Annex 1: Interviews

Date	Hours	Organization	Person(s)	Location	Notes
03-08	10.00	Swiss Cooperation	Adrian Hadorn/T. Loforte	Swiss Embassy	
	12.00	Banco de Moçambique	António P. Abreu	Av. 25 de Setembro	
04-08	09.00	Norway	Lars Ekman	Embassy	
	10.30	The Netherlands	Peter Flik, J. Vogelaar, T. Pas	Embassy, Av. Kwame Nkrumah 324	
	14.30	European Commission	José Pinto Teixeira, Inês Teixeira, Debora Marignani	Embassy, Av. Julius Nyerere 2820	
05-08	09.00	German Cooperation	Ronald Meyer	Embassy, Damião de Góis 506	
	10.30	Italian Cooperation	Andrea Cilloni	Embassy, Damião de Góis 381	
08-08	10.30	Portugal	Paula Cepeda/Cristina Pucarinho	Embassy, Julius Nyerere 720, 15º andar	
	12.00	Canadian Cooperation	Heather Cameron	Embassy, K.Kaunda 1138	
09-08	09.00	Irish Cooperation	Bridget Walker-Muiambo	Embassy, Julius Nyerere depois da entrada da UEM	
	10.30	Belgium Cooperation	Nora de Laet, Wim Ulens	Embassy, Av. K. Kaunda 470	
10-08	12.00	DFID	E. Cassidy, S.V.Broake, P. Brown	DFID, Jat Building	
11-08	09.00	Danish Cooperation	Neils Richter, A. Schouw	Danish Embassy	
	10.30	Swedish Cooperation	Anton Johnston, Karin Anette-Andersson	Embassy	
12-08	09.00	Finish Cooperation	Lotta Valtonen	Julius Nyerere 1128	
	10.30	Spanish Cooperation	Jaime Puyoles, Carlos Botella	Av. Eduardo Mondlane	
15-08	14.30	French Cooperation	Laurent Estrade	A. 24 de Julho 1500	
16-08	14.30	Ministry of Planning and Development, Ministry of Finance and Banco de Moçambique	José Sulemane, António Laice, Waldemar de Sousa and Geoff Handley	MF Sala 14 (Laice)	
23-08	16.00	Ministry of Education and Culture	Manuel Rego	MEC – 10º andar	
25-08	14.30	World Bank	Greg Binkert	Country Office	
26-08	09.00	European Commission	Alexandre Bohr (data base)	Embassy	
30-08	10.00	Ministry of Health	Gertrudes Machatine	MISAU – 6º andar	