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The political economy of budget reforms in Mozambique

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Abstract

The quality of governance and institutions has come to be seen as a fundamental factor in shaping the development prospects of poor countries. As a consequence, donor agencies have increasingly allocated resources to providing technical assistance for improving governance standards in such countries, with mixed results. This paper investigates the factors affecting the outcomes of reforms aimed at improving the quality of government budget institutions in Mozambique, over the last decade or so. Mozambique is a highly aid--dependent country that has enjoyed substantial economic growth and political stability, thus becoming the testing ground for new donor approaches linked to direct support to the government budget, alongside heavy investment in technical assistance to improve the quality of budget institutions.

The paper starts with a definition of the quality of budget institutions that can be measured and tracked over time using existing data, and develops an analytical framework that identifies the key factors at play in the political economy of budget reforms, both domestic and external. The analysis then looks at both the overall reform trajectory and three specific budget reform areas in Mozambique. It highlights how, despite some significant advances, these reforms have had limited impact. Weak government leadership and commitment has been a key factor limiting successful reform outcomes, alongside the lack of an effective and centralised reform coordination function. High levels of donor fragmentation, both in general and in the provision of technical assistance for budget reforms, have also contributed to Mozambique's ambiguous record.

Introduction

Over the past two decades, economists and political scientists alike have claimed that 'institutions matter' for development (North, 1989; Burki and Perry, 1998; Bardhan, 2005), or more boldly that they 'rule' (Rodrik *et al.*, 2004). The increasing focus on the institutional determinants of development is reflected in the gradual adoption of the term 'governance' by a large number of donor organizations (Leftwich, 2000: 116) since the early 1990s. "*For many reform-minded citizens in developing countries*," Merilee Grindle argues, "*as well as for academics and practitioners in the international development community, good governance has become as imperative to poverty reduction as it has become to development more generally*" (Grindle, 2004: 525). Such consensus has been reflected in the amount of resources that donor agencies have committed to supporting institutional reforms. According to the OECD's Development Assistance Committee, aid commitments for the broad 'government & civil society' sector have soared from US$ 1.2 billion in 1997 to more than US$ 16 billion in 2007[1].

Despite this existing consensus and the importance given to governance and institutions as determinants of development, research on how institutions develop and change over time is still incipient, especially in developing countries. Research on how donors' influence affects governance trajectories and processes of institutional change in aid-dependent countries is even more scarce. There are very few comprehensive studies of foreign aid's impact on governance and institutions to date, also because of the difficulties inherent in measuring and tracking the quality of institutions over time.

This paper contributes to these debates by attempting to explain the outcomes of institutional reforms related to the management of public finances in Mozambique, a country that is heavily dependent on foreign aid, over the period from 1997 to 2007. Government budgets are a key area of government action, through which policy objectives are chosen and acted upon, and the necessary resources are collected, allocated and spent. They have also became a crucial area being promoted by donors, as their quality is important to donors because of their role in guaranteeing fiduciary safeguards (e.g. ensuring that aid funds provided through direct budgetary support will not be misused)[2]. Funding for donor-supported budget reform programmes has increased ten-fold over the past decade (from US$ 170 million in 1997 to US$ 1.6 billion in 2007[3]), covering a range of initiatives aimed at strengthening the rules and procedures which underpin budget processes in aid-receiving countries. Mozambique, in particular, has been one of the countries that received some of the largest amounts of donor assistance in support of budget reforms. How has such external assistance worked? Were donors able to 'buy' better governance in Mozambique? What other factors shaped the outcomes of budget reforms?

1 http://stats.oecd.org/qwids/
2 World Bank (1997); World Bank (1998a); DFID (2004).
3 http://stats.oecd.org/qwids/

Definitions and analytical framework

In attempting to answer the questions above, the first necessary step is inevitably that of detailing how the quality of budget institutions can be defined and measured. Many have lamented, at different points in time, the lack of a comprehensive theory of budgeting (Key, 1940; Schick, 1988). This is partly due to the fact that scholars have approached budgeting from very different theoretical perspectives, which have never been properly integrated. The *public administration* perspective, linked to theories of public management, mostly looks at aspects of planning, accounting and inter-organisational linkages (Coe, 1989; Guthrie *et al*., 2005). It sees the budget as an instrument to organise the way in which public resources are managed, and it defines budget institutions mostly in relation to key budgetary principles (Sundelson, 1935). The *public finance* perspective draws theoretically from the discipline of public economics (Musgrave, 1959; Stiglitz, 1986). It sees the budget as an instrument to achieve fiscal policy objectives such as stimulating consumption, creating employment and maintaining fiscal balance, and it assesses budget institutions on the basis of those policy objectives. Finally, the *political economy* perspective draws on the insights of new institutional economics (North, 1990; Campos and Pradhan, 1996) and, to a lesser degree, of fiscal sociology (Schumpeter, [1918] 1991; Moore, 2004). It looks at the constellation of actors, interests and incentives involved in the budget process, and it sees the budget as an instrument to reconcile competing interests over the use of public resources.

The need to bring together principles, policies and processes in order to come to a better understanding of budget institutions was strongly put forward by Schick (1998). He highlighted how "*even when a government adheres to accepted budget principles, it may fail to obtain optimal fiscal outcomes*", and that "*to achieve its preferred outcomes, a government […] must create an institutional framework that enhances the probability that actual outcomes will conform to professed targets*" (1998: 2). It is therefore at the interface between principles, policies and processes that the quality and strength of budget institutions needs to be defined and tested.

Bringing together these different elements, I utilise a definition of the 'quality of budget institutions' that focuses on three dimensions:

1. *Transparency and comprehensiveness*. This dimension looks at the availability and quality of budget information, from the classification system used to organise budget items to the coverage and clarity of budget documents.
2. *Linking budgeting, planning and policy*. This dimension looks at the extent to which the budget can be considered as a reliable policy instrument, checking the extent to which budgets are implemented as approved, and whether they contain a policy perspective beyond the annual cycle.
3. *Control, oversight and accountability*. This dimension looks at what use is made of existing budget information, and whether adequate mechanisms are in place to gua-

rantee the respect of existing rules and procedures, and to promote overall accountability for the use of public resources.

This definition partly draws on Caiden's work on 'patterns of budgeting', which aims to identify some key elements of budgeting which "*are the result of a long and not entirely continuous historical development in which different strands of thought and practice finally fused into a generally accepted pattern*" (Caiden, 1978: 541). The three dimensions represent, in my view, the minimum common denominator of such 'generally accepted pattern', and they are related to three of the key functions that government budgets play, namely: (a) act as a source of information on government activities and finances; (b) translate government policy objectives into the allocation of resources and into concrete actions; and (c) provide a system to keep government accountable for its actions[4]. In this sense, they are universally relevant. Furthermore, the three dimensions are broadly consistent with long-established budgetary principles, and are compatible with different organisational practices and policy objectives. Additionally, as I will show below, they are amenable to operationalisation and measurement.

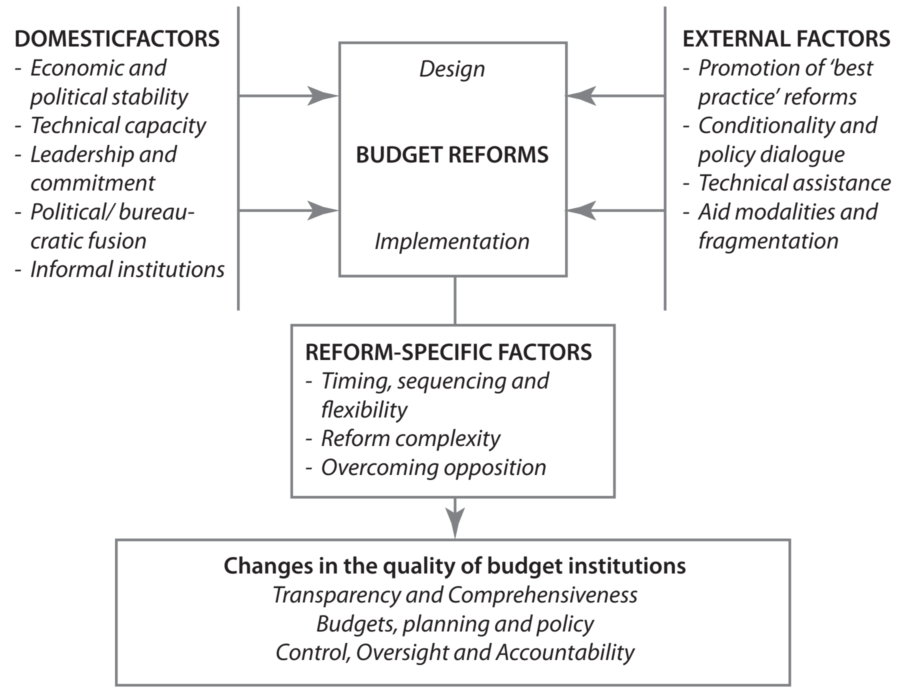
The second fundamental step is that of identifying some of the key factors, both domestic and external, that may affect the dynamics and results of processes of institutional reform, including budget reforms. Drawing on different strands of research looking at the political economy of reforms in developing countries, these factors are summarised in Figure 1. On the domestic side, the idea is to go beyond explanations of reform failure based on a poorly specified 'lack of political will' (Grindle and Thomas, 1991; World Bank, 2008). Relevant factors include economic and political stability, technical capacity and the level of government leadership and commitment to reforms. On the external side, I look at the various ways in which international agencies can influence reform efforts[5] and at some of the contradictions of donor interventions, linked for example to the choice of aid modalities. Some reform-specific characteristics also need to be taken into account, such as their timing, complexity and likelihood to generate opposition to their introduction and implementation[6].

4 The three dimensions are also consistent with the work carried out by a consortium of international agencies to formulate a common framework to assess the quality of budget systems across countries (PEFA, 2005).

5 According to the World Bank, these include: (a) providing technical advice; (b) bringing cross-country experience to bear; (c) providing financial assistance; and (d) imposing conditionalities linked to the adoption and outcomes of reform (World Bank, 1997: 14-15).

6 These factors result from an extensive review of the literature on the political economy of policy reforms (Grindle and Thomas, 1991; Nelson, 1990; Haggard and Kaufmann, 1992; Bates and Krueger, 1993; Williamson, 1994; Haggard, 2000); on foreign aid's influence on institutions and their reform (Mosley *et al*., 1991; Brautigam, 2000; Brautigam and Knack, 2004; Devarajan *et al*., 2001; Knack and Rahman, 2007); on so-called 'second generation' governance reforms (Burki and Perry, 1998; Geddes, 1994; Heredia and Schneider, 2003; Goetz, 2007; Robinson, 2007); and of budget reforms more in particular (Andrews and Turkewitz, 2005; Rakner *et al*., 2004; World Bank 2008).

Figure 1. Factors affecting budget reform outcomes



In the rest of this paper I attempt to track and explain changes in the quality of budget institutions in Mozambique over the period from 1997 to 2007, looking at the broad trajectory of budget reforms and at donor interventions in support of such reforms. I also provide a more in-depth account of specific reform areas linked to the three dimensions of the quality of budget institutions mentioned above, namely (a) budget classification systems; (b) the adoption of the Medium Term Expenditure Framework (MTEF); and (c) the introduction of an IT-based Integrated Financial Management Information System (IFMIS).

Budget reforms in Mozambique: unclear trends and contradictory efforts

Unclear trends in the quality of budget institutions

Based on previous research (de Renzio, 2008), Table 1 brings together scores for different indicators related to the quality of budget institutions, grouped under the three dimensions of 'transparency and comprehensiveness', 'linking budgets, policies and plans' and 'control, oversight and accountability' identified above. For 2001 and 2004, scores were taken from the assessments carried out under the Highly Indebted Poor Country (HIPC) initiative (IDA/IMF, 2003). For 2005 and 2007, they were derived from a detailed analysis of the information included in two more recent assessments done using the Public Expenditure and Financial Accountability (PEFA) methodology (PEFA, 2005)[7].

Table 1. Indicators of the quality of budget institutions in Mozambique, 2001-2007

	HIPC indicator	2001	2004	2005	2007	Var.
Transparency & Comprehensiveness	1. Budget coverage	2	3	3	3	+
	2. Unreported extra-budgetary sources	1	1	2	2	+
	4. Inclusion of donor funds	2	2	2	2	=
	5. Budget classification	2	1	1	1	-
	Sub-total	**7**	**7**	**8**	**8**	+
Budget-Policy Linkages	3. Budget reliability	2	2	3	2	+ -
	7. Integration of medium-term forecasts	2	2	2	2	=
	10. Tracking surveys are in use	1	1	1	1	=
	Sub-total	**5**	**5**	**6**	**5**	+ -
Control & Oversight	8. Evidence of arrears	3	3	3	3	=
	9. Effectiveness of internal control system	3	2	2	2	-
	11. Quality of fiscal information	2	1	1	1	-
	15. Timeliness of audited financial information	1	1	2	2	+
	Sub-total	**9**	**7**	**8**	**8**	- +
	TOTAL	**21**	**19**	**22**	**21**	- +

Sources: IDA/IMF (2001); IDA/IMF (2004); Lawson *et al*. (2006); Lawson *et al*. (2008); author calculations.

Note: The number of each indicator corresponds to that in the original HIPC methodology. Score conversions based on de Renzio and Dorotinsky (2007).

As can be seen, overall changes in the quality of budget institutions in Mozambique show an unclear trend over the period 2001 to 2007, with some worsening of indicators between 2001 and 2004, followed by an improvement in all dimensions, except for a more recent decline in budget reliability. Improvements in the quality of available budget information were

[7] For further details on the underlying method used for calculating scores, see de Renzio and Dorotinsky (2007) and de Renzio (2008).

offset by unclear trends for budget-policy linkages and control and oversight arrangements and performance. The overall score also fluctuated without a clear positive or negative trend. More specifically, improvements in the quality of budget information were driven by better coverage of overall government operations, and a reduction in extra-budgetary funding (although this is by its very nature very difficult to gauge). Budget reliability (in terms of keeping outturn close to original budget projections) has been quite good although variable, rendering the budget a useful policy instrument despite the lack of clear progress on medium-term frameworks and expenditure tracking. And finally, improvements in oversight have been only partly offset by a continued problem with internal controls[8].

Some of these trends, however, need to be interpreted with a bit of caution. First of all, as I will show further below, focusing exclusively on the 2001-2007 period might give a misleading picture of the overall evolution of the quality of budget institutions in Mozambique, as it does not take into account some important reforms that were introduced before 2001. Furthermore, HIPC indicators cover a limited number of budget reform areas, and therefore might not give a full account of budget reform outcomes. The latest PEFA assessment (Lawson *et al*., 2008) includes a comparison of the results in 2005 and 2007, and finds some improvements in the areas of 'revenue collection and management', 'cash management' and 'payroll, procurement and internal controls' that are not or are only partly covered by the HIPC indicators. In order to come to a fuller and more precise picture, it is therefore necessary to complement this initial analysis with a more detailed account of how budget reforms unfolded in Mozambique, and how donor agencies intervened to promote (or prevent) them.

Contradictory efforts by government and donors

Mozambique is widely considered as a successful case of transition from civil conflict to peace, from autocratic to democratic rule, and from planned to market economy. After independence in 1975, Frelimo (*Frente para a Libertação de Moçambique*, the liberation movement turned government party) opted for a socialist model, nationalising most economic activities and extending its political organisation and mobilisation all the way to the grassroots level. Much of its efforts were hampered by a civil war waged by Renamo (*Resistência Nacional Moçambicana*) first with support from Ian Smith's Rhodesia and then from South Africa's apartheid regime. The mid-80s brought about a series of radical changes. A deepening economic downturn, the waning of support from the Soviet Bloc and a change in Frelimo leadership after Samora Machel's death in 1986 led the Mozambican government to seek the help of the Bretton Woods institutions, and to sign up for an Economic Recovery Programme (ERP) in 1986/7 that kick-started a period of intense structural

8 The worsening scores for indicators 5, 9 and 11 between 2001 and 2004 are, in fact, difficult to justify based on existing evidence. A discussion of changes in the assessment methodology in the Board paper summarising results for all HIPC countries covered (IDA/IMF, 2005) does not shed any further light on the possible reasons for the different scores.

reforms. In the following years, parallel shifts in the domestic and international political arenas brought about the end of the civil war, through a peace accord signed in Rome in 1992, and the introduction of a new Constitution in 1990 that paved the way for the first multi-party elections, held in 1994.

The early reform period, from the late 1980s to the mid-1990s, mostly focused on macroeconomic stabilisation and on structural reforms aimed at curbing the state's role in the economy through privatisation and liberalisation measures. So-called 'second generation reforms', including civil service reform, decentralisation and reforms in public financial management, were mostly introduced in a subsequent (although overlapping) phase. Some of the initial budget reforms that have been implemented in Mozambique were spurred by a Public Expenditure Review carried out by the World Bank during the early stages of the ERP, in 1989. The review highlighted key areas where improvements were needed to ensure that public investment could be directed towards post-war reconstruction efforts. Given the large increases in foreign aid flows coming into the country, there was a need to reconcile overall fiscal discipline with reallocation of resources to priority areas. For this purpose, a series of reforms were introduced, including setting overall limits for public expenditure, regulating the distribution of resources between recurrent and investment spending as well as across sectors, and implementing (from 1990 onwards) rolling three-year public investment programmes, as a way of introducing a medium-term perspective into resource allocation, both within and across sectors (Wuyts, 1996; Fozzard, 2002). In an attempt to consolidate some of these reforms, and bring responsibility for both investment and recurrent expenditure programming under a single roof, the Ministry of Finance and the National Planning Commission were unified under a single new Ministry just after the 1994 first multi-party elections.

During this early period, the two main donor agencies providing assistance to the government for budget reforms were the World Bank and the Government of Sweden[9]. The World Bank's Economic and Financial Management Project disbursed a total of US$21.7m over the period from 1990 to 1997, to support the Ministry of Finance and the Bank of Mozambique. In the finance ministry, assistance was provided to improve economic policy formulation, capital budgeting and accounting capacity. The Swedish government started supporting the Budget and the Public Accounting Directorates in the Ministry of Finance in the late 1980s through the State Financial Management Project (SFMP), providing technical assistance and training in a number of areas, mostly linked to the improvement and informatisation of budget formulation, execution and reporting. Over the period 1988 to 1998, the project spent about US$10m. Ex-post evaluations of these two projects provide unclear evidence of impact (World Bank, 1998b; SIDA, 2004). In particular, the SFMP evaluation notes that progress was particularly slow during the first years of the period under review (1994-1997), that often the focus was on processes rather than outcomes, and that government ownership and commitment varied over time (SIDA, 2004).

9 The United Nations Development Programme also assisted the Ministry of Finance, with support to the tune of US$ 2 million per year (Fozzard, 2002: 36), but I could find no further details on this project.

A second review of the system for managing public expenditure was carried out in 1995/6, always by the World Bank. In this case, according to Fozzard, the *Fiscal Management Review* "*stressed the importance of an appropriate institutional and legal framework for public expenditure management and the need for co-ordinated reforms to address weaknesses identified throughout the [budget] system*" (Fozzard, 2002: 28). In particular, much of the legal basis for public budgeting and accounting dated back to the late 19th or the early 20th century, and was therefore based on obsolete and arcane rules and procedures, which were often ignored. The Fiscal Management Review laid out a reform approach with three objectives. The first was that of creating a transparent, comprehensive and unified budget system. The second objective was that of improving fiscal management capacity to attain Government's development objectives through the development of a Medium-Term Expenditure Framework that improved allocation of public resources. Under the third objective, unit costs of public expenditure outputs (such as children educated, babies vaccinated, etc) would be assessed to enable the identification of key inefficiencies (World Bank, 2000).

The Government responded by pulling together an Expenditure Management Reform Strategy, and by drafting a Budget Framework Law (*Lei de Enquadramento Orçamental*), which was approved by Parliament in 1997 and followed by complementary regulations. The main measures included in the 1997 reforms were (Sulemane, 2006: 6-7):

a) The introduction of a new budget classification system (including administrative, economic, functional and territorial classifiers);

b) The integration of investment and recurrent budgets;

c) The introduction of a Medium Term Fiscal Framework (CFMP, *Cenário Fiscal de Médio Prazo*);

d) Improvements in budget preparation, accounting and reporting, developing IT-based solutions for both functions that were to gradually replace manual procedures;

e) Improvements in budget coverage, by incorporating items that were previously kept off-budget;

f) Improvements in debt management.

In many ways, the implementation of the reform measures included in the 1997 legislation transformed budgeting practices in Mozambique, and put them on a more solid basis. The content and detail of the annual budget documents was restructured, increasing its transparency and coverage, and clarifying institutional responsibilities; mechanisms were established for the production of year-end accounts reporting on executed expenditure that could be subject to external audit (the first ones were produced for 1998, and the audit report released in 2000); and new procedures for medium-term forecasting of public expenditure were introduced (the first CFMP was produced in 1998).

Towards the end of the 1990s, during the implementation of this first wave of reforms, more donor agencies became involved in supporting budget reforms, in parallel with the provision of debt relief linked to Mozambique's access into the HIPC Initiative, and with the agreement in 1999 by six 'like-minded' donor agencies[10] to start providing general budget support to the government, through what was called the 'Joint Donor Programme for Macro-Financial Support'. Sweden continued its support through the SFMP, though focusing more exclusively on the Public Accounting Directorate. The UK's DFID started the FoPoS (*Fortalecimento da Planificação e Orçamentação Sectoriais*, Strengthening of Sectoral Planning and Budgeting) project in 1998 in collaboration with the Budget Directorate, supporting in particular the design and implementation of a medium-term fiscal framework and a better integration of sectoral plans and budgets. The European Commission provided technical assistance to the Ministry of Finance's Treasury Directorate, while the World Bank approved in 2000 the Economic Management and Private Sector Operation (EMPSO), one of whose main objectives was that of supporting the implementation of actions identified by Mozambique's Poverty Reduction Strategy Paper (the *Plano de Acção para a Redução da Pobreza Absoluta*, or PARPA) in the area of public financial management.

Most of these interventions were based on an informal division of labour, with limited coordination. A Budget Working Group made up of the four main donors providing budget support plus the World Bank started putting pressure on the government to improve budgeting systems, but their demands were quite basic, and not tied to strict conditionalities[11]. Another weakness of such a fragmented approach was the lack of a clear government-owned budget reform programme. This is highlighted in a DFID evaluation, which states that:

> *The reform of planning and budgetary processes in Mozambique, which forms the core objective for the FoPOS continues to suffer from the lack of a well articulated reform plan which has the command of key stakeholders [within government]. As a result the FoPOS project has, over its duration, not been able to effectively support a reform process* (DFID, 2006: 236).

A series of further donor assessments carried out in 2001, such as a new Public Expenditure Management Review (World Bank, 2001) and a Fiscal Transparency ROSC (IMF, 2002), highlighted a series of gaps in the reform agenda, urging the government to fill them with additional reform measures. Some of the identified gaps included the need for improved rules and procedures for accounting and cash management, the lack of performance information that could link spending plans to development objectives, the unclear status of planning tools such as the CFMP and the need to upgrade the control and audit functions (Fozzard, 2002).

Many of these concerns were addressed in a new piece of legislation that was approved in 2002, the State Financial Management Law (*Lei da Administração Financeira do Estado*) and its subsequent regulations, which were all drafted with substantial inputs from the International Mone-

10 This original group included Sweden, Denmark, Norway, Switzerland, the UK and the Netherlands.

11 Interview with donor official, 23 October 2009.

tary Fund. The new law created the SISTAFE (*Sistema da Administração Financeira do Estado*), a comprehensive public financial management system with broader objectives than those set out in the budget framework law of 1997, from the establishment of an Integrated Financial Management Information System (IFMIS) and of a single treasury account, to the introduction of programme classifiers as means of linking policies and expenditures. Applicable to all state agencies and institutions, the SISTAFE established and harmonised rules and procedures in relation to the programming, management, execution and control of public resources. Following the principles included in the law, the introduction of e-SISTAFE, a sophisticated IT-based IFMIS, has dominated the budget reform agenda from 2004 onwards even if other reform areas have also witnessed important advances, such as revenue administration and external audit. The government also created a technical unit (UTRAFE, *Unidade Técnica para a Reforma da Administração Financeira do Estado*) in 2001 to coordinate and oversee the process of reforming the budget management system.

In the years between 2001 and 2004 things changed quite drastically in the way in which donors supported the reforms, too. The creation of UTRAFE in 2001 followed a model sponsored by the World Bank and the IMF in various other countries. The idea was to set up an entity, separate from but subordinated to the Ministry of Finance, that would ensure better coordination and integration of the various strands of budget reform taking place. In 2002, while the SISTAFE-related legislation was being drafted and approved, the government suggested that the various technical assistance projects supported by different donors and scattered across the various Directorates and Ministries be brought together under UTRAFE's coordination. UTRAFE's Management Plan, approved in 2002, included the creation of a Common Fund to channel donor support, and the creation of a Coordination Committee including the various contributing donors (UTRAFE, 2002; Warren-Rodriguez, 2008). Six donor agencies (Belgium, Denmark, the EC, Norway, Sweden and the UK) folded up their bilateral technical assistance projects and started providing direct support to the UTRAFE Common Fund. The World Bank also contributed, but indirectly via its Public Sector Reform project, while the IMF became the lead agency on the donor side, by providing the bulk of the initial technical inputs for the design of SISTAFE.[12]

These changes in the mechanisms of coordinating technical assistance in support of budget reforms went in parallel with a redesign of the wider relationship between the government and donors providing direct support to the budget. In 2001 the government approved its first PARPA (*Plano de Acção para a Redução da Pobreza Absoluta*), a comprehensive plan to reduce absolute poverty, and more donors became increasingly willing to channel aid resources through the government budget in support of such a plan. At the same time, concerns about governance and corruption brought donors to try and negotiate a stricter set of rules for policy dialogue and conditionality. These concerns were mostly linked to

12 In more recent years, the 'Common Fund approach' has spread to other areas related to budget reforms, with funds being set up in support of revenue administration reforms and of the external auditing function. Support to planning and budget elaboration, on the other hand, has remained somewhat fragmented (Ulens, 2006).

the assassinations of a journalist, Carlos Cardoso, in 2000, and of the head of banking supervision at the central bank in 2001, António Siba-Siba Macuacua, who were investigating a series of loans that two privatised banks gave to senior Frelimo party members and that were never repaid, creating a large hole in the budget that had to be partly filled with aid funds. These lengthy negotiations led to the signature of a Memorandum of Understanding in 2004, signed between the government and a group of 15 'Programme Aid Partners' that agreed to give more predictable budget support to the Treasury in exchange for government compliance with some basic governance principles and with a detailed set of indicators summarised in a Performance Assessment Framework (PAF), that became the focus of annual and semi-annual joint reviews, in a process widely held as international best practice, but also criticised for its burdensome nature and for the degree of 'penetration' it gave donors into the core of the policy-making process (de Renzio and Hanlon, 2009).

Since the first joint review in 2005, the annual PAFs have always included specific indicators that are linked to budget reforms. The main areas covered have not changed significantly over time. They include some aggregate indicators of budget outcomes (spending directed to PARPA priority sectors, overall budget turnout, revenue as % of GDP), some indicators on the gradual implementation of SISTAFE across government, some indicators on improvements in the coverage of internal and external auditing, and some related to reforms in procurement and revenue administration (the total number of indicators oscillates around 10). Such focus on specific budget reform measures and their outcomes, alongside the creation of a dedicated Budget Working Group composed of government and donor representatives as part of the joint review process, has certainly marked a step change in the dialogue between donors and government. Interviewed government officials have said that since 2004 they felt both an improvement in the quality and coherence of the dialogue, but also an increased pressure due to the constant monitoring of the PAF indicators, and a certain rigidity in the interpretation of the indicators themselves, which in some cases has hampered rather than helped the implementation of budget reforms[13].

These attempts at better coordination and integration, however, have often run parallel to sector-specific support, both in the form of so-called Sector-Wide Approaches (SWAPs) or sector budget support, and of technical assistance aimed at improving public financial management systems within a specific sector. Since the mid-1990s, the main sectors in Mozambique, including health, education, agriculture and infrastructure, have received substantial amounts of these kinds of assistance. Planning, budgeting and reporting mechanisms were often set up that were not synchronised or compatible with similar mechanisms in place at central level, or designed without taking into account ongoing central reform efforts[14].

In summary, budget reforms in Mozambique (summarised in Table 2 alongside other important events) show a certain mismatch between initiatives undertaken, both by government and by donors, and results achieved. While the data in Table 1 may underestimate

13 See the MTEF section below.
14 See de Renzio and Sulemane (2007), and Kizilbash Agha and Williamson (2008).

Mozambique's achievements, much of the evidence shows that despite at least two major new laws (in 1997 and 2002) that revolutionised the legislative framework for budgeting, and a host of other reform measures, from the introduction of the CFMP to that of e-SISTAFE, improvements in the quality of budget institutions have been limited. This, in the face of a donor investment in technical assistance probably exceeding US$ 100 million[15]. Efforts by both government and donors were at best contradictory. On the government side, limited leadership and commitment meant that reforms were mostly adopted as a consequence of donor pressure, but often not adequately followed through. On the donor side, large amounts of technical assistance and an increasingly sophisticated structure for policy dialogue were undermined by a multiplicity of fragmented interventions, that made reform implementation more difficult. More detail on these dynamics are provided in the following section, that takes a more in-depth look at three specific reform areas.

Table 2. Budget reforms and other important events in Mozambique, 1997-2007

Year	Budget reforms	Other important events
1997	Approval of Budget Framework Law	
1998	Introduction of Medium Term Fiscal Framework	
1999		General elections (Chissano is re-elected president) Beginning of budget support programme
2000	Production of first audit report on 1998 government accounts	Floods Assassination of journalist Cardoso Banking fraud scandal
2001	Creation of UTRAFE	Approval of PARPA (PRSP)
2002	Approval of SISTAFE Law	
2003	Establishment of e-SISTAFE (IFMIS)	Creation of UTRAFE Common Fund
2004		General elections (Guebuza becomes president) Signature of MoU for budget support programme
2005		
2006		Approval of PARPA II (PRSP)
2007	Introduction of programme budgets	

15 It is difficult to come to a clear overall figure for technical assistance in the area of public financial management for the decade from 1997 to 2007. Swedish support to the Ministry of Finance totalled about $12m (SIDA, 2004), while support to internal and external audit functions totalled about $14m (ODAMoz database). World Bank support through the EMRO and EMPSO programmes between 1998 and 2004 is likely to have provided at least US$10m in support, while up to the end of 2007, UTRAFE had spent around $60m from its Common Fund financed by several donor agencies (UTRAFE, 2009). Reliable figures for other programmes, including those financed by DFID, the IMF, the European Commission and UNDP and not channelled through the UTRAFE Common Fund, were not available in any sufficient level of detail. Overall, therefore, total external support to budget reforms over the past decade or so can be put at above $100m, which excludes support to reforms related to revenue administration.

Delving deeper into three specific reform areas

'Budget reforms' is a label that includes a number of quite different areas. While the previous section looked at the broad trajectory of budget reforms in Mozambique, in this section I use three specific budget reform areas as units of analysis, selected to represent the various dimensions of the quality of budget institutions. For 'transparency and comprehensiveness', I looked more specifically at reforms in budget classification systems. As far as 'linking budgets, policies and plans' is concerned, I focused on the adoption of a Medium Term Expenditure Framework (MTEF), while the introduction of an IT-based Integrated Financial Management Information System (IFMIS) was the key initiative I chose for the area of 'control, oversight and accountability'. I will look at each in turn, providing some background on the reform measures involved and looking at the key factors explaining reform outcomes.

Improving budget classification: the slow move beyond basics

Budget classification systems are the language of public finance, and "*one of the fundamental building blocks of a sound budget management system*" (IMF, 2009: 1). Coding and classifying budget items allows for the interpretation and analysis of what would otherwise be a large amount of unspecified numbers included in budget books and reports. The different levels and types of budget classification provide answers to the questions such as 'on what?', 'by whom?' and 'for what purpose?' public resources are being spent. In this sense, the more detailed the budget classification system used, the more transparent a budget will be, in terms of providing a comprehensive and useful picture of government operations.

Over the years, a set of common budget classification standards have been developed by international institutions, led by the International Monetary Fund who compiled a Government Finance Statistics Manual (or GFSM, see IMF, 2001), providing a benchmark for countries pursuing reforms in budget classification systems, and common guidelines for producing comparable international statistics on public finance matters. Donors, including the IMF itself, have been supporting governments in introducing GFSM2001-compliant budget classification systems across the developing world, with differing degrees of success.

Until the mid-1990s, budget classification in Mozambique was very rudimentary, indicating simply which government institution funds were being given to (administrative classification) and the main items of expenditure (economic classification). The purpose was the simple prioritisation and control of broad spending categories. The introduction of a revised economic, administrative, functional and territorial classification of expenditure and revenues, following international standards, was a key element of the reforms introduced in 1997/8 and, according to Fozzard, "*the focus of much of the training activities undertaken* *by the Ministry of Planning and Finance during 1997 and 1998*" (Fozzard, 2002: 32). The objective was to improve the transparency of public accounts, and to provide a better basis for analysing public spending, thereby improving both the allocation of resources according to priorities and strengthening expenditure controls. The most problematic area in implementing such new system related to functional classifiers. In the 1998 decree regulating their introduction, only 14 high-level functional classifiers were introduced (e.g. health, education, infrastructure, economic activities) that identified broad sectors, preventing any significant management and analysis of important sub-sectors, such as primary education, feeder roads or fisheries.

According to the budget directorate, functional classification based on international standards was never deemed appropriate by the government for its own purposes[16]. Nevertheless, in 2001 the government introduced an additional set of sub-functional classifiers based on UN COFOG (Classification of the Functions of Government) standards (Cabral and Fernandes, 2003: 35; World Bank, 2001), bringing the total from 14 to 25 classifiers. This was mostly done to respond to donor pressure. As noted in the 2006 evaluation of general budget support (Batley *et al*., 2006), a Joint Donor Review carried out in 2001 related to macro-financial aid (the precursor to GBS) indicated the implementation of the new budget classification as one of the key reform areas for the government to pursue. The World Bank's Public Expenditure Management Review of 2001 highlighted how "*problems associated with the functional classification have long been a recurring issue in the dialogue with the government", and how the introduction of more detailed classifiers was "a decisive move to improve donor's confidence in the budget*" (World Bank, 2001: 45-6).

Further (and very substantive) changes came with the introduction of SISTAFE and e-SISTAFE, which was based on a much wider and more detailed set of classifiers, including all previously existing ones plus others related, for example, to sources of funding, to particular spending programmes, and the possibility of creating sector-specific classifiers to respond to the management needs of various areas of government, and give them more flexibility. One of the results of the gradual automation of the system, with operators within all ministries having to specifically choose how to classify various budget items both at the formulation and reporting stages, and input them into the system, meant that budget classification was taken "*much more seriously*" than before, as a donor official claimed[17]. The area of programme budgeting, in particular, has been the focus of recent reforms, with the Ministry of Finance leading efforts to introduce a government-wide system of programme classifiers that could link resources allocated and spent with an indication of development objectives and outcomes. This initiative was taken as a result of the inclusion of programme budgeting in the SISTAFE Law (Arts. 18-20).

It is interesting to see how, despite the various changes introduced over the period between 1997 and 2007, the general situation in relation to the use of budget classification

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16 Interview with senior finance ministry official, 27 October 2009.

17 Interview with donor official, 1 November 2009.

systems does not seem to have changed substantially[18]. The two HIPC Assessments carried out in 2001 and 2004 use very similar language in describing the lack of proper implementation of functional and programme classifiers to complement administrative and economic ones. The 2001 Public Expenditure Management Review attributes this to the fact that ministries are only required to submit their expenditure proposals and reports according to the economic classification. This means that the functional classification is merely derived from the administrative one, losing any additional significance and informational value (World Bank, 2001: 46).

The two PEFA Assessments carried out more recently repeat a similar story. The 2006 report states that:

> *The new system of budget classification introduced in 2003 uses the standard COFOG functional classifiers. […] However, in the budget documentation, the functional classification is only presented for the 10 main COFOG functions. In the Conta Geral do Estado [the year-end report], a full breakdown by function and sub-function is provided, but with some inconsistencies which derive from the fact that it is not the executing agencies themselves but the DNCP, who determine (on an ex-post basis) the attribution of expenditure to sub-functional classifiers* (Lawson et al., 2006: 21).

While the roll-out of the SISTAFE system should have at least partly addressed this issue, giving sectors the opportunity to introduce functional classifiers themselves, this in fact led to another problem. In many cases, when sector operators introduce data in the e-SISTAFE system, a large percentage of spending ends up falling under the 'non-classified' sub-functional category, rendering sub-functional classification virtually meaningless. While this percentage varies, in some cases it can be as high as 80 percent[19].

The 2008 report simply reports the lack of any significant advances, and criticises the intention to introduce and utilise programme classifiers for being over-ambitious (given the rush to apply them government-wide) and inadequate (given that they ended up reflecting existing administrative divisions) at the same time. A similar view was expressed by a consultant who was involved in earlier attempts to develop a system for the introduction of programme classifiers, who stated that "*programme budgeting is not very useful in the way in which it is being done*"[20]. He claimed that little or no thought was being given to what constituted a programme and the objectives that could be achieved through public spending in a certain area, while all the focus was being put into finding a superficial link between the activities of a certain government unit and an existing objective in the government's existing 5-year plan.

[18] This candid assessment was confirmed in interviews with two senior finance ministry officials (27 October and 15 November 2010).

[19] Interview with senior finance ministry official, 15 November 2010.

[20] Interview with independent consultant, 28 October 2009.

In summary, despite significant donor pressure and the introduction of various reform measures, budget classification systems in Mozambique cannot be said to have improved substantially over the period under consideration. What can explain this? Four main factors stand out. First, government leadership in the reform process was weak. In general, the reform of budget classification systems was mostly driven by external pressure from donors, through policy dialogue and conditionality on one hand, and through technical assistance on the other. While a small group of senior bureaucrats within central ministries[21] showed interest and commitment, ownership of the reform programme was circumscribed to small parts of the civil service, despite the fact that it was meant to reach the whole of the public sector. This created some problems in the implementation of programme budgeting, the only instance where government leadership was clear. The idea developed straight from a three sub-sector pilot in 2007 (for the 2008 budget) to a government-wide initiative in 2008, in a process that even a senior MF official described as "*hurried and chaotic*"[22]. Many sectors saw the initiative as yet another centrally-driven reform that they had to comply with without having been involved enough in its design.

Second, sufficient technical capacity was lacking for the implementation of new and more sophisticated systems for classifying budget items, especially within sector ministries who are mostly in charge of formulating, recording and reporting on budgets. The frequent changes that were introduced in budget classification systems (initially in 1998, then again in 2001, 2002 onwards with the roll-out of e-SISTAFE, and in 2007 for programme classifiers) also meant that capacity had to be almost constantly upgraded, through training systems that were not always sufficient or adequate. For example, senior officials within the budget directorate claimed that SISTAFE training has been too narrowly focused on the use of the system itself, rather than on the more substantive and conceptual issues that would allow sector officials to understand how to make best use of available classification systems[23]. This is related to a broader lack of understanding about how to shift from an input-based budgeting system (for which administrative and economic classifications are sufficient) to one that is more strategic and policy-based (for which functional and programme classifiers are necessary). As a donor official noted, "*a shift to programme budgeting does not by itself change administrative culture*"[24].

A third factor relates to the role that sector ministries played in both the design and the implementation of reforms in the budget classification systems. Various interviewees claimed that sectors were not only not sufficiently capacitated, but also not 'on board' in term of reform ownership. Reforms have often been designed centrally, without seeking detailed inputs and buy-in from sector ministries. Various sectors, for example, complained about the lack of sector-specific classifiers in e-SISTAFE that could allow for a more analytic and

21 First within the Ministry of Finance and Planning and then, after its division, within the Ministry of Finance, where donor-financed technical assistance was based.
22 Interview with senior finance ministry official, 1 November 2009.
23 Interview with SISTAFE officials, 30 October 2009.
24 Interview with donor official, 1 November 2009.

strategic approach to sector planning and budgeting. The introduction of so-called *sectional* classifiers was seen as 'too little, too late' by some interviewees. In some sectors, the existence of too many classifiers for each budget item is also seen as a straight-jacket restricting flexibility in budget execution, leading to some of the distortions identified above.

Finally, delays and slow progress on reforming and upgrading budget classification systems were also brought about by contradictory messages and pressures coming from donor agencies. In particular, donors in Mozambique were never very coherent in their dialogue with government on whether a more detailed functional classification was preferable to a programme budgeting approach in promoting a more strategic approach to budgeting and links with results. Over the years, such lack of coherence may have caused unnecessary delays and confusion within government circles, in terms of how best to respond to donor pressure, and in which directions to take ongoing reform efforts. For example, most assessments, including the World Bank's Public Expenditure Management Review of 2001, the 2001 and 2005 HIPC Assessments and subsequent 2006 PEFA assessment only mention the need to improve the use of functional classifiers, despite the government's insistence on their inadequacy for the Mozambican context. On the other hand, the 2002 IMF ROSC already mentions the need to define and monitor budget programmes, and the 2004 joint donor review highlights the introduction of programme budgeting as an important issue to be considered in order to better link the PARPA, the medium-term fiscal framework and the annual budget. Yet, once the government finally decided to go ahead and implement a programme budgeting approach in 2007, donors criticised the initiative for being too ambitious and rushed, claiming it should be done much more slowly and cautiously[25].

Introducing medium-term frameworks: Weak capacity or weak commitment?

The "*failure to link policy, planning and budgeting*", the World Bank's Public Expenditure Management Handbook claims, "*may be the single most important factor contributing to poor budgeting outcomes at the macro, strategic and operational levels in developing countries*" (World Bank, 1998a: 31). In the late 1990s, as a number of developing countries were developing comprehensive poverty reduction plans linked to the HIPC debt cancellation initiative, medium-term fiscal or expenditure frameworks (MTEFs) came to be seen as a way of reconciling aggregate fiscal discipline and public spending for poverty reduction. By projecting revenue and expenditure forecasts over a period of three to five years, MTEFs were seen as a tool to facilitate decision-making that could contribute to both the maintenance of macroeconomic equilibrium, by defining overall resource constraints and therefore avoiding excessive fiscal deficits, and to the creation of better linkages between the policies

[25] Donor officials recognise some of these issues. In fact, one of them observed that "government must be puzzled by the lack of donor enthusiasm for programme budgeting".

and plans that governments were pursuing and the annual resource allocation process, ensuring that it reflected the relative needs and priorities of different sectors and areas of government intervention.

The World Bank and the IMF pressed for and supported the introduction of MTEFs in a large number of countries, often helped by technical assistance provided by bilateral donors such as the UK's DFID. As recounted in a World Bank paper reviewing experience with MTEFs,

> *In the vast majority of cases [i.e. countries where an MTEF exists] the World Bank was involved in the decision to adopt and implement an MTEF, many of which came about as result of a public expenditure review. In fact, the MTEF has become a standard item in the Bank's public expenditure management (PEM) toolkit* (Le Houerou and Taliercio, 2002: 1).

In Mozambique, the introduction of an MTEF (or CFMP) was suggested during the Fiscal Management Review carried out in 1995, as a mechanism for improving the inter-sectoral allocation of expenditures (Muggeridge, 1997), and included in the government's Expenditure Management Reform Strategy. The first CFMP was introduced in 1998, alongside a string of other reforms linked to the Budget Framework Law. Similar to what happened with reforms related to budget classification systems, over the course of the following decade various assessments have recorded limited improvements in the capacity of the CFMP to improve the linkages between budgets, policies and plans as a key dimension of the quality of budget institutions.

Looking at the string of studies and evaluations carried out since its introduction, some of the main observations that appear regularly are:

a) The CFMP is not sufficiently embedded in the budget process to promote the desired linkages between plans, policies and annual budgets;

b) The information contained in the CFMP is at too high an aggregation level, turning it more into a technical document and limiting its usefulness as a public expenditure management tool;

c) CFMP documents are not published and do not have a legal basis;

d) The coverage of the CFMP is limited, as it does not adequately capture information on all sectors, on investment spending, especially for its externally-financed component, and on local governments;

e) Sector inputs into the CFMP are weak, with a consequent lack of reliable forecasts, of realistic sectoral strategies and of recurrent cost implications of investment decisions;

f) Government does not give the CFMP high priority[26].

[26] The 2001 PEMR quotes some high-level officials as saying that the MTEF "does not have much influence over the budget process because it is not seen as credible" (World Bank, 2001: 48).

In reality, and despite the repetition of the points made above, the history of the CFMP in Mozambique saw some important shifts and changes over time. The first attempts at developing multi-year expenditure projections in the health and roads sectors date back to the mid-1990s, leading the Ministry of Planning and Finance to develop some overall expenditure scenarios of inter-sectoral allocation, yet without any consideration of financial constraints on the revenue side. In 1997, a more comprehensive approach was developed, placing the CFMP as a central component of the ongoing reform process (Cabral and Fernandes, 2003: 22), linking considerations about macroeconomic balance to resource allocation issues. The first CFMP was produced in May 1998, based on a general equilibrium model of the Mozambican economy to forecast available revenues, detailing spending projections for five priority sectors (roads, health, agriculture, water and education), and including both recurrent and investment expenditure, and domestic and external financing. While this first version of the CFMP remained an internal document, the following year not only sectors were involved more deeply, but the resulting document was sent to the Economic Council, a Cabinet sub-committee, in order to promote a political discussion of fiscal policy options.

A study later carried out by the Ministry of Planning and Finance (Cabral and Fernandes, 2003) states that after 1999, sector involvement gradually waned, and the CFMP focused more and more on the macroeconomic framework and on the setting of aggregate fiscal limits, leaving aside issues linked to resource allocation and expenditure programming. This was in part due to the level of effort taken by the formulation of the PARPA in the same period (2000/1), which helped further define priority areas for government action, but also to the frustration of sectors, who "*never saw their proposals, discussed in the context of the CFMP, concretised in the annual budget*" (Cabral and Fernandes, 2003: 26). Moreover, the study notes that from 2001 onwards, the overall focus of budget reforms shifts from planning and budgeting to financial administration (SISTAFE), causing the CFMP process to lose steam and leading to a general discredit over the practical utility of the instrument. This, despite the fact that the PARPA identifies the CFMP as the main instrument for allocating resources to the various sectors, and that the 2002 regulations that follow the approval of the SISTAFE Law give the CFMP some sort of legal status[27].

In 2003/4, there was an attempt to provide the CFMP process with new impetus, also thanks to technical assistance provided by the UK's DFID through it FoPOS Project. In late 2003, a seminar was held and a new methodology introduced to revitalise the process. This effort, however, was short-lived, as in 2004 the holding of general elections meant that medium-term planning issues did not receive much attention, and in early 2005 the new government headed by Armando Guebuza decided to separate the Ministry of Planning and Finance in two separate entities. Responsibility for the CFMP process was given to the Ministry of Planning and Development, further weakening its linkages with the annual budget process.

[27] Cabral and Fernandes (2003), however, note that the regulations "do not specify the objectives and the technical and institutional characteristics of the MTEF", and therefore "do not seem to have had the desired impact in the revitalisation of the instrument" (38).

Despite the loss of a few key technicians in 2006/7, in recent years the CFMP has seen some improvements, with renewed involvement by the sectors, an extension of the process to provincial governments, and the submission of the document to the Council of Ministers for discussion and approval. Some of these improvements can be seen in the Budget Working Group reports linked to the GBS Joint Review process. In 2006, the report stated that "*there is not yet an elaborated Medium Term Fiscal Framework*" (PAP, 2006: no page), while the 2007 one noted significant progress, including stronger sector involvement. In 2008, further improvements were noted with regard to the timeliness and comprehensiveness of the CFMP, to the alignment of CFMP and annual budget allocations, and to the substantive discussions held at cabinet level[28]. For the two most recent years, however, cabinet discussions of the CFMP were delayed until September, at the time in which the draft budget has to be sent to Parliament, turning its approval into a mere formality rather than a substantive part of the planning and budgeting process.

This brief account of how an MTEF was introduced and of how it developed over time in Mozambique highlights two contradictory trends. The first one relates to the fact that since 1998, an MTEF has been produced on an annual basis without any significant interruptions, broadly following a regular calendar that sees macroeconomic and sectoral projections finalised by May of each year, in time to provide a basis for budget discussions. This points to a relatively high degree of institutionalisation of this medium-term policy instrument. The second one sees the MTEF suffering from persistent problems that reduce its usefulness and significance, despite its institutionalisation. How can such trends, especially the second one, be explained?

A first, fundamental factor, once again, is technical capacity within the government to undertake and successfully complete the complex tasks that an MTEF requires. Developing, updating and correctly utilising a macroeconomic model and framework, developing comprehensive sector strategies that rely on credible costing of future plans and activities, and presenting scenarios and trade-offs for politicians to consider, are all sophisticated activities that require advanced technical skills. A former consultant in the Ministry of Finance and Planning indicated how, due to capacity constraints, until today MTEF submissions from sectors are neither strategic nor justified, often consisting of tables with numbers with no explanatory text. Over the years, technical assistance provided by donors helped address some of these capacity constraints. The World Bank and DFID provided assistance to the National Directorate for Planning and Budgeting from 1998 to 2004. In 2004, their support was folded into the UTRAFE Common Fund, and partly reduced also because of the splitting of the ministry. Since 2006/7, and until the time of my fieldwork, the Ministry of Planning and Development has not received any specific assistance related to the MTEF, and functioned with a very small team.

A second important factor, quoted by many of the interviewees, relates to the weak political commitment to the CFMP as a policy instrument, in particular for allocating available re-

[28] These were linked to the impact of new policy measures such as the civil service wage policy and a food production plan.

sources across sectors, with a view to pursuing strategic policy priorities over the medium term. A technician stated that the government "*is not interested in the CFMP as a planning tool*"[29], as recent delays in its formulation and approval demonstrate. Another one spoke about the fact that political lobbies for the redistribution of resources across sectors and ministries continue long after the CFMP is approved, showing the scarce political commitment to the CFMP and its content[30]. The same point was stressed by a senior official at the Ministry of Finance, who blamed "*weak discipline*" in sticking to policy decisions, and the limited powers that the Ministry of Finance has *vis-à-vis* the sectors[31].

This last point is related to a third factor for the lack of considerable progress in the quality of budget institutions in the area of linking budgets, policies and plans. The lack of effective inter-institutional coordination, above and beyond the issue of limited technical capacity, hampered the quality and use of the CFMP as a planning tool. The separation, in 2005, of the planning and budgeting functions in two separate ministries certainly created a gap that has not been filled until today, as many observers have noted. While initially former colleagues in the two new ministries had less trouble working together and coordinating efforts, an official observed, as people change, institutional conflicts become stronger, and coordination suffers. Moreover, the poor quality of sector submissions is matched by the lack of a serious 'challenge function' within the central agencies. This has made sectors feel that their proposals are not taken very seriously, negatively affecting their effort and motivation.

A fourth and final factor that seems to have influenced the fortunes of the CFMP has to do, as for previous areas, with various aspects of donor behaviour. As seen above, for example, the role of the World Bank was fundamental in pushing for the introduction of the CFMP in 1997/8 and, alongside DFID, in providing technical assistance for its early implementation. The subsequent decline in donor support in this area, some interviewees observed, might have affected the quality and outcome of the CFMP process. Donors' lack of capacity to provide credible medium-term estimates of their support to various areas of government intervention is another contradictory aspect of donor behaviour that was mentioned by various people. This is particularly puzzling: on one hand, donors insist on government putting together three-year spending projections, while on the other they are not able to do that themselves. Moreover, since the introduction of the GBS MoU, the CFMP has not received much attention in the indicator matrix known as the PAF (Performance Assessment Framework). By some, this has been interpreted as a sign of scarce donor interest and pressure over the CFMP, with a consequent lower priority attached to it by government. The recent introduction of an indicator that looks at the congruence between figures in the CFMP and in the annual budget, on the other hand, has been criticised for providing government with the wrong kind of incentives, focusing on matching figures rather than improving the quality of the process.

29 Interview with planning ministry official, 4 November 2009.
30 Interview with planning ministry official, 4 November 2009.
31 Interview with senior finance ministry official, 1 November 2009.

Automating budget management systems: E-SISTAFE, the mother of all reforms

The automation and informatisation of budget management, from formulation to execution and reporting, has come to be seen as a necessary step in modernising the management of public finances across the world. International institutions supporting budget reforms have made the introduction of Integrated Financial Management Information Systems (IFMIS) a normal component of 'packages' of budget reforms promoted across the developing world (Diamond, 2002; Allen, 2009). This is meant to address many of the weaknesses of manual and outdated expenditure tracking and accounting systems, leading to mismanagement, overspending, and the build up of expenditure arrears that could undermine overall fiscal stability. With the spread of basic information technology infrastructure across the developing world, the introduction of an IFMIS came to be seen as an opportunity for poor country governments to 'leapfrog' intermediate stages of development (Wynne, 2005: 17), improving the transparency, integrity and efficiency of public financial management.

"*The benefits of an IFMIS*", an IMF document states, "*could be argued to be profound*" (Diamond and Khemani, 2005: 3), and include: (a) prompt and efficient access to financial data; (b) strengthened financial controls during each stage of budget execution; and (c) improved efficiency and effectiveness of government financial management. Moreover, an IFMIS can come in many different shapes and guises. Its core components (Diamond and Khemani, 2005; Dorotinsky, 2003) include a general budgetary accounting system for recording both revenue and expenditure items in government operations, to have an overall picture of government accounts at any moment in time, and produce financial reports. Additional modules can include budget formulation, payroll, procurement and asset management. The World Bank has been at the forefront of supporting the adoption of IFMIS across the developing world. A 2003 review (Dorotinsky, 2003) looked at 34 projects in 27 countries across six regions, indicating that the Bank had already invested more than US$ 1 billion over 17 years on the introduction of IFMIS. The complexity of such operations was highlighted by the finding that on average, IFMIS projects took seven years to complete, and had a cost of US$ 12.3 million. Furthermore, only 21 percent of all projects were deemed successful in terms of delivery, and one quarter of them were judged to be unsustainable.

Efforts to introduce automated budget management systems in Mozambique had already started by the mid-1990s, with support from Sweden and the World Bank. A system called 'SISORÇ' was installed in the National Directorate for Planning and Budgeting (DNPO) to facilitate budget formulation, while another one called '*Folha 17*' was introduced to help with recording expenditures during budget execution in the National Directorate for Public Accounting (DNCP). With these two systems in place, after the approval of the Budget Framework Law, the Ministry of Finance was able to start producing budget proposals and budget execution reports according to the new legal dispositions. In particular, the first set of State Accounts (*Conta Geral do Estado*) since independence, reporting on all spending executed in 1998, was produced in 1999, and sent to the Administrative Court (*Tribunal Administrativo*) for auditing. The reporting system was based on pre-designed spreadsheets that were filled in by sectors and provinces, sent to the Ministry of Finance on floppy disks, and compiled by the DNCP.

The following years saw an increasing debate on what model to follow to upgrade the existing system. While there was consensus that the 1997 Law had left considerable gaps in terms of how to structure and regulate broader financial administration issues, views on how to design and implement a new system diverged. On one side, ongoing Swedish technical assistance, by then a trusted partner within the Ministry of Finance, called for a gradual and incremental approach, building on existing systems and practices. Such view was reflected in the World Bank's 2001 PEMR which, despite criticising the weaknesses of the existing system, called for "*extreme caution*" in implementing a new, sophisticated IFMIS, as experience showed that this was "*a very demanding exercise and experience*", which needed a gradualist approach and required some important preliminary steps (World Bank, 2001: 77). On the other side other actors, and the IMF in particular, were pushing for a comprehensive and advanced solution that would overhaul the system as a whole. The approval of the SISTAFE Law, the creation of UTRAFE, donor interest in consolidating technical assistance, and heavy IMF pressure on the Ministry of Finance all contributed to opting for the comprehensive overhaul, which was sanctioned by the Government in October 2002. UTRAFE shifted its functions from reform coordination to reform implementation unit, housing a large Brazilian technical assistance team, paid for by UTRAFE donors and coordinated by the IMF, for setting up a custom-built IFMIS inspired by its Brazilian homologue, with dedicated data processing hardware to be acquired for the purpose.

Since the approval of the SISTAFE conceptual model in late 2002, and the launching of the e-SISTAFE (the name of the actual IFMIS) project, UTRAFE has become the predominant government actor as far as budget reforms are concerned, with an impressive budget that by 2008 totalled more than US$70m in spending (see Table 3 below). The focus of reforms, reflected in the discussions held in the annual Joint Reviews, has become the gradual implementation and roll-out of e-SISTAFE across government.

Table 3. Cumulative expenditure by UTRAFE (2004-2008)

	2004[a]	2005[a]	2006[b]	2007[b]	2008[a]
US$	13.7m	27.2m	~40m	~60m	73.5m

a) Data from UTRAFE Annual Reports (www.utrafe.gov.mz)

b) Data from 2009 QAG Report (Cavanagh and Gustafsson, 2009)

Many interviewees asked the question of what has been achieved with the large amounts of money spent on this "*Rolls Royce of financial management systems*"[32]. Some results are clear,

[32] Interview with donor official, 23 October 2009.

and have been indicated by both government and donor officials. They include: (a) the creation of the Single Treasury Account (CUT) in place of the plethora of pre-existing bank accounts, facilitating and tightening control over public spending, and reducing inefficiencies; (b) the improved timeliness of budget execution reports, as information is readily compiled by the system; (c) a reduction in cash transactions through direct execution, where payments are made straight from the CUT to the bank account of the service provider, therefore limiting the space for fraud and mismanagement; and (d) improved routines and a more rigorous application of existing rules, given the checks that are built into the system.

The 2009 report from the SISTAFE Quality Assurance Group, a team of international experts that carry out periodic assessments of reform implementation, provides some useful numbers to complement the considerations above (Cavanagh and Gustafsson, 2009: Table 4). Use of the Single Treasury Account can be considered a success, having achieved coverage of 80% or more of all receipts and payments, even though this includes 100% of domestic spending and only 30% of donor-funded expenditure. Roll-out to government entities covers all national-level ministries, all provinces and 50 out of 128 districts, but still needs to be extended to more than 400 other government entities, including autonomous institutions, public enterprises, municipalities, or more remote districts where conditions do not allow for an on-line system to be installed[33].

Table 4. SISTAFE reforms implementation and coverage

	2006	2007	2008
Percentage of all receipts/payments through CUT	71/75	72/75	80/83
Number of government entities on-line (out of a total of 769)	88	245	301
Percentage of expenditures via direct execution	4.5%	11.5%	23.6%

Source: Cavanagh and Gustafsson (2009)

Interestingly, however, the share of total government spending that utilises the direct execution modality is still very low, covering less than a quarter of total expenditure by 2008. Moreover, so far implementation has focused on a few key sub-systems (Treasury, Budget and Accounting), leaving many others linked to state assets, revenue collection, internal control and debt management (Cavanagh and Gustafsson, 2009) still pending, limiting the scope and functionality of the system as a whole. These issues, alongside looming 'donor fatigue' in sustaining the levels of financing that the system has required so far, have brought various interviewees to question the success of the SISTAFE reforms, despite recognising their irreversibility and intrinsic impetus.

33 Some key institutions for budget accountability are also still not linked to the system, including Parliament, the internal and external audit institutions, and the revenue agency.

How can such a mixed record be explained? Three main factors stand out from the material gathered. The first one relates to the adequacy of reform design. According to a senior finance official, "*SISTAFE was introduced without a previous careful analysis of issues with SISORÇ, but based on the Brazilian system that in many ways cannot be considered adequate*"[34]. It is unclear why the Brazilian model was chosen over other available options. Some interviewees repeatedly stated that the IMF was insisting on the Brazilian model, given that many of the key officials involved were Brazilian themselves. Once the model was adopted, further choices were made that have been questioned in terms of their adequacy. First, UTRAFE focused on a heavy hardware investment, leaving aside the 'softer' components of the reform, such as change management. In the words of a foreign consultant, this was a mistake, as "*reforms cannot be based on terabytes alone*"[35]. Also, the system was designed mostly to respond to the needs of the Ministry of Finance, without adequately taking into account the needs of sector users, who are key in ensuring that the system works effectively.

This is linked to the second main factor that explains the outcomes of the SISTAFE reforms so far. The issue of resistance to reforms was not tackled alongside the introduction of the new system. As a consequence, buy-in from many of the key actors responsible for making SISTAFE a success was limited. This is particularly true of sector ministries. Even the IMF recognised that there was "*huge internal opposition*" within government[36]. Resistance was (and still is) due to the fact that ministries inevitably lose a certain level of control over resources, as payments are made straight from the CUT, while before money used to sit in the ministry accounts and managed directly by ministry officials, while now with SISTAFE they only authorise electronic payments. This meant, in the words of an IMF official, "*fewer accounts, more transparency and less corruption*"[37]. While lots of effort was put into training lower-level officials in the use of the system, not enough attention was given to making sure that managers understood the advantages of using the system, such as more timely disbursements, for example, or provide them with tangible incentives, such as the recent initiative to allow for the carry-over of earmarked revenues from one fiscal year to the next. Finally, the fact that SISTAFE functionality so far did not adequately respond to sector needs, for example by developing a planning module, or introducing sector-specific classifiers, has led sectors to keep using or designing separate and parallel systems that better respond to their specific needs[38]. While some see this as an inevitable intermediate phase of the reforms, it certainly undermines their overall thrust, and highlights important unresolved contradictions.

A third explanatory factor relates to the unclear political backing that the SISTAFE reforms have counted on since their adoption. Despite the change in government after the 2004 elections, the key people that had been responsible for the introduction of the SISTAFE

34 Interview with senior finance ministry official, 27 October 2009.
35 Interview with consultant to Ministry of Education, 25 October 2009.
36 Interview with donor official, 23 October 2009.
37 Interview with donor official, 23 October 2009.
38 The education and agriculture sectors, for example, already run their parallel systems. The health sector is considering one, and has obtained donor funding for it.

reforms remained in key positions, ensuring continuity in leadership[39]. While commitment to SISTAFE was weak at the beginning, even with some parts of the Ministry of Finance, it then grew and remained strong, at least at the level of senior bureaucrats. This was partly linked to the growing role and power of UTRAFE which, as was uncovered, paid salary top-ups to most senior officials in the Ministry. The Presidency has supported the Ministry of Finance in its reform drive, even though it has highlighted the need to respond to sector criticisms. Yet, it is unclear how strong an interest there is within government to strengthen spending controls. An independent observer said that in recent years the boundaries between the party and the government have become more blurred, and that this does not bode well for the future of the SISTAFE reforms. In this sense, government sees budget reforms as a 'necessary evil' to keep foreign aid flowing into the country, but is likely to advance at the slowest possible pace[40]. This was confirmed by a member of UTRAFE, who explained the uneven progress with the various components of the reform by stating that the government was forced by donors to introduce SISTAFE, and that government "*started considering to do it only where it hurts less*", meaning that areas where vested interests are likely to be stronger, such as internal control, asset management and procurement, were left to lag behind in reform implementation.

The area of automating budget systems using IT solutions sums up some of the key contradictions in the political economy of budget reforms. The introduction of an IFMIS means tighter expenditure controls, and this inevitably affects the degree of transparency and flexibility in the management of public funds. Transparency increases and flexibility decreases, limiting opportunities for mismanagement and fraud. More than in other reform areas, this is where government commitment and leadership is fundamental, as it needs to tackle higher levels of opposition to reforms. This is also where donor effort needs to be most effective, in order to demonstrate that aid funds are not being wasted. The factors shaping reform outcomes in Mozambique tell an unfortunately common tale. The difficulties that e-SISTAFE ran into stem from heavy donor influence on the choice of a largely inadequate and overly sophisticated and expensive system, against a backdrop of reluctance and resistance from various parts of government, which was not adequately addressed. UTRAFE turned into a money-spending empire largely separate from government, paying off senior officials to ensure their backing. On the donor side, the 'lock-in' effect from the choice of IFMIS model meant that vast amounts of money were spent despite repeated implementation delays and evidence of mismanagement.

Explaining budget reform outcomes: Domestic and external factors

After having documented the development and dynamics of budget reforms in Mozambique, both generally and in some more specific areas, the evidence now needs to be brought

[39] In particular, Luisa Diogo, who was Finance Minister in 2000-2004, became Prime Minister in Armando Guebuza's government, while Manuel Chang, then Vice-Minister, became Minister for Finance.

[40] Interview with independent consultant, 2 November 2009.

together to see how budget reform outcomes in Mozambique can best be explained. As can be seen in Table 5 below, government leadership, technical capacity and levels of fragmentation within government and among donors appear in most or all of the three areas under analysis as key explanatory factors. Some of these factors are also clearly present in the more general account of the broad trajectory of budget reforms in Mozambique.

Table 5. Factors affecting specific areas of budget reforms

Reform area	Key factors
Budget classification	• *Weak government leadership* • *Weak technical capacity* • *Government fragmentation* • *Lack of donor coherence*
MTEF	• *Weak technical capacity* • *Weak political commitment* • *Government fragmentation* • *Weak donor pressure/support*
IFMIS	• *Inadequate reform design* • *Contradictory leadership* • *Strong resistance to reform*

In the remainder of this section, I will cover in more detail how different domestic and external factors have affected budget reform outcomes.

Domestic factors: Government leadership and commitment

A first fundamental factor that explains budget reform outcomes is the level of government leadership in and commitment to reforming budget institutions in order to improve their quality[41]. Evidence from Mozambique upholds the hypothesis that the passive attitude adopted by the government of Mozambique with regard to reform efforts contributed to preventing their success. Government leadership and commitment are very difficult to assess. However, there are some key signposts that can be taken into consideration. One of them is the existence and importance of specific government policy statements detailing an agenda for budget reforms, with its related implementation and monitoring mecha-

[41] In development debates, the term often used is 'ownership' (see, for example, OECD/DAC, 2005; Khan and Sharma, 2003), but I think that the term is problematic and difficult to operationalise (see Whitfield, 2009), while 'leadership' and 'commitment' better reflect what I believe are the key factors in the political economy of budget reforms. For a thorough and thoughtful discussion of ownership issues in Mozambique, see Castel-Branco (2008).

nisms. Another one consists of the perceived political weight of the office of the minister in charge of the reforms (often the Minister of Finance) and of the individuals who occupy it.

In Mozambique, the government has lacked (or refused to put forward) a clear strategy for reforming and improving the quality of budget institutions, relying instead on ad hoc reactions to donor pressure and requests. The relevance of the *Expenditure Management Reform Strategy* of 1997 was short lived, because no mechanisms were put in place to monitor its implementation, and because it was narrowly focused on reform measures within the Ministry of Finance, with "*little to say about line Ministries' budgeting processes, accounting structures or budget execution procedures*" (Fozzard, 2002: 28). Donors have been pushing government to produce a new budget reform strategy since at least 2005, with little success. At the time of my fieldwork, in late 2009, a draft version of such strategy existed, but it was formulated in very general language and written by a team of external consultants. In most reform areas, government leadership and commitment has been weak and often fragmented, or circumscribed to a small group of officials in some parts of government (often central agencies) without sufficient buy-in from other important actors.

The political leadership in the Ministry of Finance, though also composed of capable former bureaucrats, has not been seen to have sufficient political clout to ensure reform implementation, especially since 2004, after Armando Guebuza became president. At that time Luisa Diogo, the former finance minister and mastermind of previous budget reforms, became Prime Minister (a weak position in Mozambique where the President heads the executive), in a move that was seen mostly as a way to please donors keen to have a committed reformist at the heart of government. Diogo was a powerful figure within Frelimo but was seen not to belong to the Guebuza camp, becoming increasingly marginalised[42]. A former vice minister, Manuel Chang, took Diogo's place at the Ministry of Finance, but he has been seen as junior to many of his colleagues within Cabinet, and therefore not in a position to command compliance with budget reforms in other ministries[43].

Stating that leadership and commitment are important, however, immediately begs the question of where they come from. In my view, there are three possible explanations for the origins of Mozambique's low levels of leadership and commitment. The first one is related to past reform experiences and historical legacies in the relationship between governments and donors. The other two are linked to levels of technical capacity and the degree of politicisation of the bureaucracy.

The importance of historical legacies

The existing literature gives competing accounts of how past reform experiences and the history of donor-government relations have affected current patterns of government leadership and commitment in Mozambique. Despite the fact that the Bretton Woods ins-

42 In fact, she has not been confirmed in her post after the recent elections held in November 2009.
43 Interview with donor official, 15 November 2009, and with independent consultant, 2 November 2010.

titutions have always heralded Mozambique as a showcase of the benefits of structural adjustment programmes, and claimed that "*the government is increasingly owning the development process*" (Clément and Peiris, 2008: 256), in my view historical legacies have had a negative impact on government leadership and commitment. A number of authors question the role that donors have played in promoting early economic reforms in Mozambique. They highlight some of the unintended consequences of such reform efforts, which in turn may have had a direct bearing on the government's stance on budget reforms and their outcomes. Harrison (1999), Stasavage (1999) and Hanlon (2004), for example, all claim that the introduction of structural adjustment programmes went hand in hand with a marked increase in corruption. Different possible explaining factors are highlighted, including a drop in the real wages of civil servants, the weakening of structures for monitoring bureaucrats and holding them accountable, and increasing opportunities for the politically connected to profit from privatisations. All of these inevitably undermine the likelihood of the government successfully pursuing budget reforms in later periods.

Another interesting perspective is offered by Wuyts (1996), who talks about the effects of the increase in aid dependency that happened over the period 1980-1993. Over those years, aid became both quantitatively and qualitatively more important, promoting an "*increased fragmentation of control over public money between government institutions and donor agencies*" (Wuyts, 1996: 718). What structural adjustment did, according to Wuyts, is both 'squeeze' the state through macroeconomic stabilisation, and 'split' the state through fragmented donor interventions. Heavy aid dependence, coupled with the low levels of government capacity resulting from the long internal conflict, meant that during the early reform period donor agencies wielded large amounts of power over the Mozambican government. Plank (1993) notes how "*nearly all of the policy recommendations put forward by the IMF and the World Bank have been accepted and implemented. […] The Government has evinced little resistance to the various conditionalities that have been imposed*" (Plank, 1993: 419-20). In some cases, as with the liberalisation of the cashew industry, this was done in the face of clear domestic opposition, and with dire consequences (de Renzio and Hanlon, 2009; McMillan *et al*., 2002). In others, such as for the reduction of food subsidies, the government adopted a strategy of "*grudging compliance*" and foot dragging, "*in an effort to forestall public opposition while maintaining the flow of external assistance*" (Plank, 1993: 419).

This combination of heavy aid dependence, policy "*subservience*" (Killick *et al*., 2005) and growing corruption is part of what de Renzio and Hanlon have called a "*pathological equilibrium*" (de Renzio and Hanlon, 2009: 266) in which the formal compliance with reform conditionalities ensures continued donor assistance, while government and the bureaucracy informally pursue different objectives. In other words, early reforms seem to have weakened state capacity and promoted corruption, undermining subsequent efforts at pursuing second-generation reforms, including in the management of public finances. Hence the weak leadership shown by government not only in defining its own reform agenda, but also in negotiating and resisting at least some of the policies and reforms proposed (and often imposed) by donors.

Technical capacity

The concept of 'state capacity' is very difficult to pin down precisely[44], and often refers to a set of issues that go well beyond the scope of my research. What I am interested in looking at is the level of technical preparation of senior and mid-level bureaucrats responsible for designing and implementing budget reforms. "*Analytical capacity among implementing institutions*", comments Tsikata in a comparative study on economic reforms in Ghana and Tanzania, "*is crucial to the ownership of policies and programmes*" (Tsikata, 2003: 48). Similarly, Devarajan *et al*. (2001) find that government reform leadership requires "*able technocrats who can work out the details of reform*" (2001: 29). However, reliable data are also very hard to come by. I could not find reliable figures, for example, on the educational levels of civil servants and how those developed over time. My analysis of technical capacity is therefore based on limited hard evidence, and relies mostly on my own and my interviewees' impressions and opinions.

In Mozambique, the scarce levels of technical capacity within government were a very common feature in my interviews with various stakeholders. Back in 2002, Fozzard argued that "*the fundamental weakness of the institutional structure for public expenditure management lies in the acute shortage of qualified personnel. Only 6% of the MPF* [Ministry of Planning and Finance, author's note] *staff are graduates*" (Fozzard, 2002: 30). Certainly this was partly due to the high cost in human capital formation that the prolonged civil war claimed, but the situation has only partially improved. While nowadays many more educational opportunities exist for future civil servants, not only courses that cover public financial management issues are very scarce, but also the best graduates prefer not to work in the public sector, rather seeking employment with international agencies which pay much higher salaries, draining available human capital from where it is most needed.

Politicisation of the bureaucracy

The third and last element shaping government leadership and commitment to budget reforms is the degree to which the bureaucracy is shielded from political pressures, and is allowed to focus on managing public resources according to technocratic principles rather than political convenience. The presence of a de facto one-party state in Mozambique means that often the boundaries between politics and bureaucracy are quite blurred. Moreover, a less developmental and more predatory attitude seems to have taken hold within Frelimo over the years (de Renzio and Hanlon, 2009). Since the election of Armando Guebuza as president in 2005, the party has strengthened its hold on the bureaucracy, in many cases demanding that bureaucrats become party members, therefore limiting autonomy and reform incentives[45].

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[44] See, for example, Fukuyama (2004), Fortin (2009), Robinson (2008), Soifer and vom Hau (2008)

[45] Interview with independent consultant, 2 November 2009; see also OSISA (2009).

Other domestic factors

Two more domestic factors are worth mentioning as potentially influential in budget reform outcomes. The first one relates to the degree of fragmentation in budget institutions within government, or more specifically to the relative power of the Ministry of Finance *vis-à-vis* sector ministries[46]. This is important because while the finance ministry is usually in charge of designing and coordinating budget reforms, their implementation mostly happens in other ministries. As a consequence, the finance ministry's capacity to convince, coerce or cajole sector ministries into complying with budget reforms is a crucial factor for budget reform success. In Mozambique, Fozzard lamented "*the fragmentation of the public expenditure management system and the considerable autonomy granted to line agencies in managing their internal affairs*" (Fozzard, 2002: 28). One of the key determinants of this is the fact that sector ministries control resources such as earmarked revenues and off-budget donor funding that are not directly under the Ministry of Finance's control. This not only limits the power of the finance ministry to impose reforms on sector ministries, but also means that in many cases sector ministries will have an interest in maintaining the status quo rather than comply with reform measures that might limit the resources under their direct control.

The second additional factor has to do with the way in which processes and mechanisms for coordinating and implementing budget reforms were set up. UTRAFE was created in 2001 with the purpose of coordinating budget reforms. However, its remit was somewhat confused since the beginning, as around the same time the government also created another technical unit (UTRESP, *Unidade Técnica da Reforma do Sector Público*) in charge of overall public sector reform, of which budget reforms were considered to be part. Also, as e-SISTAFE started taking shape, UTRAFE's role quickly changed from reform coordination to project implementation, with increasing staff and budgets, and a focus on procurement, training and roll-out of the carious components of e-SISTAFE, rather than monitoring and coordinating overall reform efforts.

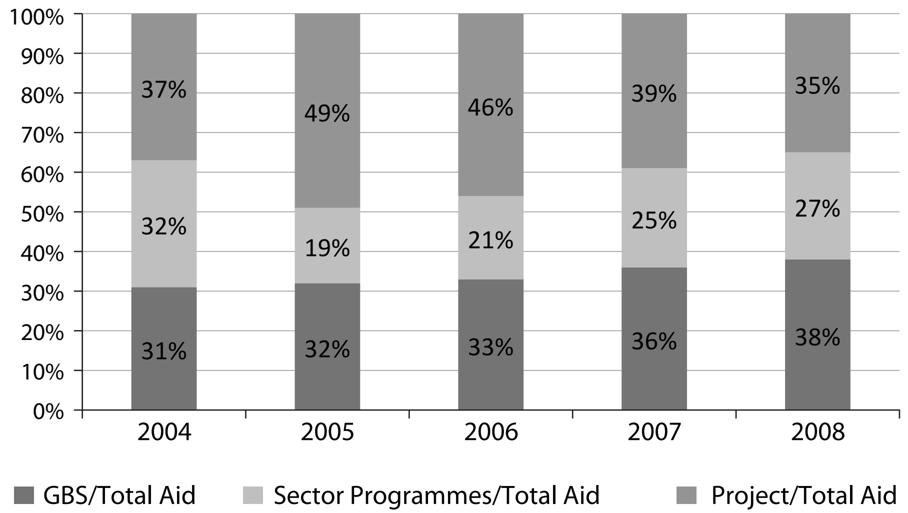
External factors

In aid-dependent countries, donor agencies play an important role not only because they finance a large share of public spending, and of public investment in particular. The different modalities of aid delivery they adopt, their dialogue with country authorities, and the technical advice they provide, all influence to a certain extent reform processes in recipient countries.

[46] A somewhat similar finding is reported by Andrews (2009), who found that reforms that only involve a few concentrated actors are on average more successful than those that involve a larger number of deconcentrated ones.

Over the decade under consideration, the composition of aid flows to Mozambique has shifted substantially, mostly as a result of donor efforts to increasingly coordinate and harmonise their interventions. Most of the important sectors saw the establishment of sector programmes in the late 1990s, even though these had varying degrees of integration within government systems. Budget support operations also started in the late 1990s, and quickly grew from 5% to almost 40% of total aid to the Government of Mozambique (Batley *et al*., 2006: 41). Data on sector programmes is less readily available, but the graph in Figure 2 below shows how, despite such growth in GBS, projects remained the predominant aid modality until 2007. There is therefore no uncontroversial link between shifts in aid modalities and budget reform outcomes in Mozambique.

Figure 2. Composition of aid flows to Mozambique, 2004-2008.



Source: Castel-Branco *et al*. (2009)

Also, while the figures above indicate that the aggregate sum of programme aid modalities has formed the majority of aid flows over the years since 2004, a similar survey carried out by the OECD/DAC in 2005 and 2007 (OECD/DAC 2008) actually found that they constituted only 46% of total aid flows in both years. This indicates that the quality of these data cannot be taken for granted.

Another trend that can be noted over the period under consideration is that issues related to the coordination of donor interventions, policy dialogue and conditionality around budget reforms became increasingly prominent and sophisticated. This is mostly due to an increased awareness and emphasis on budget reform issues within donor circles, linked to the gradual introduction and expansion of budget support as an aid modality, which in both countries grew over time, at least in nominal value. A detailed Memorandum of Understanding was signed in 2004 between the government and donors providing budget support, increasing coordination leading to unified conditionality frameworks that included budget reform measures in 'policy matrices' that were the focus of regular monitoring and dialogue. Interviewed officials mentioned this as a positive development facilitating more coherent dialogue. At the same time, however, this was not associated with successful reform outcomes.

Two other external factors seem to hold the key to explaining why budget reforms in Mozambique had limited success. The first one relates to aid fragmentation, rather than aid modalities. The presence of a large number of donor agencies implementing a wide range of activities, independently of the types of aid modalities that they utilise, can put a severe strain on efforts to improve budget systems in an aid-dependent country. Lack of transparency and coordination, a multiplicity of implementation and reporting mechanisms, and high levels of volatility and unpredictability can all have a negative impact on the various dimensions of the quality of budget institutions. Moreover, fragmentation on the donor side can generate fragmentation in government systems as well, as sector ministries which rely on donor funding are able to bypass normal budget procedures. One way of measuring donor fragmentation is to check what share of total aid flows is provided by the three largest donors. Over the period 1997-2007, Mozambique's three largest donors (the World Bank, the European Commission and the United States) provided only 32 percent of total aid flows. Using another measure of donor fragmentation, which captures not only the overall number of donor agencies present in a country, but also their relative size, Mozambique shows, the highest rate of fragmentation over a sample of 33 low income countries over the same period[47]. In fact, the issue of donor fragmentation was raised by a number of government officials in Mozambique as being key in creating perverse incentives against budget reforms within different parts of government[48]. In this sense, some of the gains linked to better donor coordination are of a contradictory nature. Donor-supported budget reforms conceived and implemented within central agencies have often been undermined by sector-specific interventions supported by the same donors, which were in contradiction with central ones.

A similar argument holds for the provision of donor-funded technical assistance to support budget reform processes. In Mozambique there have been at least half a dozen donors heavily involved in supporting budget reforms. These include the IMF, the World Bank, the European Commission, Sweden, Switzerland, DFID and Denmark. This is partly a consequence of the fact that the GBS group of donors in Mozambique is the largest currently in existence. The common fund in support of UTRAFE got off the ground in 2005, and had six donors until the end of its second phase. At the same time, however, separate common funds were created more recently for the Audit Court (four donors) and tax administration (four donors). Such multiplicity of support channels, coupled with the lack of an overall budget

47 See Knack and Rahman (2007) and Acharya *et al*. (2006).

48 Interview with senior finance ministry officials, 30 October and 15 November 2009.

reform strategy, not only created imbalances in technical assistance resources available for various reform areas (e.g. too much for the IFMIS, too little for the MTEF), but also inevitably promoted a series of conflicting priorities and advice for the government to follow.

Reform-specific factors

Another interesting aspect arising from the evidence gathered is the relevance of some of the reform-specific factors highlighted in the analytical framework in Figure 1. More specifically, for reform areas characterised by technical complexity and longer time-horizons, such as MTEF and IFMIS reforms, issues of sequencing become relevant. In Mozambique, the choice of ambitious reform approaches ended up undermining their implementation as they did not adequately take into account the need to adopt a step-by-step approach based on available technical capacity. The same holds for the issue of overcoming opposition to more politically controversial reforms, like introducing an IFMIS. Limited attention was given to addressing opposition to reform in the early stages of e-SISTAFE, with resulting problems in more recent years mostly due to resistance from key sectors.

Conclusions

Mozambique represents a very interesting case of donor efforts to promote reforms aimed at improving the quality of budget institutions. Over the period 1997-2007, substantial donor resources for technical assistance in support of such reforms (probably surpassing US$100m) were coupled with shifts in aid delivery modalities towards direct budget support and other types of programme aid. A number of reforms were undertaken that substantially changed the legislative and technical basis of budgeting in the country. Despite this, indicators show that the quality of budget institutions stagnated, and remained below that of other countries. How can this be explained?

The evidence highlights a very delicate interplay between domestic and external forces. Heavy donor influence in the aftermath of the civil war meant that the government, besides its serious capacity limitations, has shown limited interest and willingness in leading and coordinating reform processes, including budget reforms. Most reforms were introduced in response to donor pressure, and often suffered delays and set-backs during implementation. Weak government leadership, however, is also linked to internal dynamics within the ruling party, as can be seen with the re-politicisation of the bureaucracy in recent years, or through the resistance to give the Ministry of Finance sufficient political status and backing to ensure reform coordination and implementation. As a consequence, the interests and incentives of various parts of government, including sector ministries, were not in line with the overall thrust of budget reform efforts.

High levels of donor fragmentation, both in general and in the provision of technical assistance for budget reforms, have also contributed to Mozambique's ambiguous record. In a number of cases, donor-supported sector-specific initiatives ended up going against government-wide reforms. In the area of budget classification systems, donors' contradictory messages undermined the government's initiative to promote programme budgeting. A different choice of IFMIS model, besides avoiding contradictory efforts at sector level, could also have allowed for the strengthening of limited existing government commitment in the face of reform opposition.

In summary, donor efforts at 'buying' better governance in Mozambique do not seem to have been particularly successful, at least in the area of budget reforms. Despite very large amounts of technical assistance, and additional efforts related to aid modalities and policy dialogue, results have been disappointing in a number of reform areas. While domestic factors largely beyond donor control help explain these results, high levels of donor fragmentation and inadequate reform choices also contributed to them. These elements could be useful in the better design of donor assistance to budget reform efforts, both in Mozambique and in other countries.

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