

Study on Alignment of Sector Aid with the Government Planning and Budgeting Cycles

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1. Introduction

This study has three main components, namely: mapping of the alignment of the sectors with the official planning and budgeting cycles; mapping of the status and perspectives with respect to the implementation of the Paris Declaration; and the facilitation of workshop to share the information. The first two components are discussed in this report.

The sectors mentioned above are those where donors have significant impact in planning and budgeting allocations, this is, sector where sector aid is concentrated. The sectors elected for the study were the following:

- Health
- Education
- HIV/AIDS
- Water and Sanitation
- Roads
- Agriculture
- Justice

The study started with a meeting with the focal people (from donor and Government of Mozambique, GoM) of the selected sectors. After that meeting, a questionnaire was distributed to donor and GoM focal people to help to guide interviews and collect quantitative data. The distribution of the questionnaire was followed by interviews with all the elected sectors.

For reasons related to internal organization of the sector, we were not able to have any interview or any form of direct engagement with the Justice sector.

In all the interviews, except for the Education sector, donor and government focal people, as well as main donors of the sector, were present. In Education only the donor focal people and main donors attended because the senior *staff* of the Ministry of Education and Culture was busy finalising the education policy paper to be presented to the Council of Ministers.

The interviews were conducted in order to obtain the following generic information: the organization of the aid process in the sector and its evolution; main alignment problems; main donors; aid flows and volumes per modality and fund.

The study faced many difficulties related with timing. First, it was scheduled to start at the same time that the Program Aid Partners (PAPs) 2005 performance was being evaluated and the Joint Review of 2005 donor and government performance was being held. Second, at the same time several donors were having planning, monitoring and evaluation missions to prepare their new country strategies. Third, the DAC questionnaire on the Paris Declaration exercise started in the middle of this study. Fourth, this was an intense period of preparation of mid term policy and financial packages of the GoM, namely sector policies and the mid term fiscal framework (MTFF). Finally, there was the Pequenos Libombos GoM/Donor retreat on Aid Effectiveness. All of these facts affected both the time availability and the ability of the consultants, of the donors and of the GoM officials to fully engage with the study.

In addition, some of the groups are significantly less organized and coordinated than others, which is reflected in the quantity and quality of information that can be gathered, as well as the speed at which it can be gathered.

As a result, the study took much longer to be finalised than it was initially scheduled. The Ministry of Finance could only marginally participate in the study, although initially it was planned that a senior technician would participate in all the stages of the study. Donors were not always available for interviews (some even asked to be left out of the study because of being under pressure from elsewhere). The quantitative part of the questionnaire was answered only by a few donors, and it shows through the uneven reporting of the different sectors (health and education have provided relatively good information; the other sectors not so (this also reflects the level of articulation of donors in the sector). Data on the Paris Declaration is only available for a couple of donors and, in more aggregate terms, for the Education sector donors – therefore, and because the DAC exercise is under way, we considered that it would be of little use to discuss such data in the report.

2. Main Findings

2.1. Health

2.1.1. Funding of the sector

The sector is financed by the State Budget (OGE, US\$ 108 million in 2006), common funds (US\$98 millions) and vertical funds (US\$141.5 millions), for a total of US\$ 347.5 millions. On the whole, in 2006 aid represents 69% of the funds made available to the Health Sector.

In addition to the sector State Budget, which is an organic part of the OGE, in this sector there are three donor financed common funds, namely: PROSAUDE, Common Fund for Medicines (FCM), and Provincial Common Fund (FCP). More recently, a group of three

donors (Norway, Ireland and Finland) decided to provide funds that are not earmarked to any of the existing common funds. As a result, the GoM can allocate these funds across all the other funds according to its own allocative priorities.

PROSAUDE is recorded on the budget but is not organically integrated in the OGE or managed by the Treasury. It is still a separate common fund. *PROSAUDE* complements the OGE – its funds are allocated to a variety of programs according to the Ministry of Health (MISAU) operative plan. *PROSAUDE* funds are allocated as follows: basic medicines (approximately 15% of *PROSAUDE*), current expenditure including local expenditure related to the activity of the network of health centres (25%), and investment expenditure (60%). *PROSAUDE* is the largest of the Common Funds (approximately US\$ 47 million in 2006), and represents 47% of the total amount of the common funds and 13% of the total finance available for the sector in 2006.

Although this fund is financed by 10 donors, 97% of the fund is financed by 6 donors alone: the Global Fund (HIV/AIDS, TBC and Malaria), which provide 50% of the finance; DFID, Flemish Cooperation, CIDA, The Netherlands and the EU (approximately 47%). The remaining four (AFD, DANIDA, SDC and UNFPA) provide 3% of the funds.

The *Common Fund for Medicines (FCM)* (approximately US\$ 31.8 million in 2006) is not recorded on budget and the funds are not managed by the Treasury. Its finances are allocated to finance imports of basic medicines and other small, basic equipment, thus complementing the OGE.

In 2006, non-earmarked funds finance approximately 80% of the fund, the EU provides 14% of the funds, and AFD provides 4%. Together, DANIDA and SDC provide 2% of the funds. Two donors have moved out of this fund: DFID, which has increased its contribution to *PROSAUDE*, and Finland, which has joined the non-earmarked funds.

The total amount available for medicines (approximately US\$ 74 million in 2006) is financed by the OGE (30% of the total available for medicines), FCM (43%), PROSAUDE (10%) and other, vertical, funds (17%).¹

The *Provincial Common Fund (FCP)* (approximately US\$ 20 million) is not recorded on budget, although its funds are managed through the Provincial Directorates for Planning and Finance (DPPFs) only as management agencies. The fund complements allocations from the OGE, and finances 23% of the Provincial current expenditures in the health sector.

The major contributors to the FCP are non-earmarked funds (approximately US\$ 10.7 million in 2006, the equivalent to 1/3 of the non-earmarked funds and 54% of the FCP) and six donors (SDC, AEIC, EU, DANIDA, Catalunya and AFD), which contribute to about 40% of the fund. Together, DANIDA and Catalunya contribute with less than 5% of the funds.

The *non-earmarked funds* (approximately US\$ 35 million in 2006) resulted from a decision of three donors (Norway and Ireland from 2005, and Finland from 2006) to provide finance not-earmarked to any of the three common funds that the GoM could use to cover any gaps across the other funds, according to GoM own allocative priorities.

Relative to 2005, in 2006 the amounts available directly to each of the common funds (PROSAUDE, FCM and FCP) were significantly reduced: FCM funds fell by 37%, PROSAUDE fell by 26% and FCP fell by 22%.² However, on the whole overall financing to the common funds only fell by 7% (a much lower rate than what we would expect given the magnitude of the decline in finances available to the each of the common funds). The chief reason for this difference of magnitude is the availability of non-earmarked funds.

¹ Vertical funds will be explained later in this chapter.

² These figures might be partly misleading because PROSAUDE in 2005 had an exceptionally high positive balance of US\$ 18.9 million transferred from 2004, in addition to the normal funds scheduled for 2005.

Non-earmarked funds were allocated to FCM (US\$ 24 million in 2006) and FCP (US\$ 11 million). These allocations allowed the FCM and FCP to record a significant increase in the amount of funds available, although direct financing of these funds fell.

On the whole, 16 donors contribute to the common funds in the health sector. Of these 16:

- 4 donors (Ireland, SIDA Global Fund, Norway and the EU) provide 54% of the funds available to the common funds;
- 7 donors (AFD, CIDA, Finland, Global Fund – Malaria, TBC – The Netherlands, SDC and DFID) provide 39% of the funds;
- 5 donors (AECI, Catalunya, DANIDA, Flemish Cooperation and UNFPA) provide the remaining 7% of the funds.

There is another modality of external funding of the health sector, which is classified as **Vertical Funds**.³ These funds (approximately US\$ 141.5 million) account for 41% of all funds available for the health sector in 2006, up from 38% in 2005. The bulk of these funds comes from bilateral organizations (US\$ 105 million, mostly from the USAID and the PEPFAR, both from the US Government), international financial institutions (US\$ 22.5 million, mostly from the World Bank), a range of UN agencies (US\$ 10.7 million) and some global initiatives (US\$ 3 million). These funds are off budget and are spent directly by the financing agencies or by sub-contracted agencies (such as NGOs, for example). The bulk of the funds is spent in projects that are aligned with the health sector strategic national plan.

³ Vertical funds finance projects; even if such projects are aligned with the health sector national strategic plan, each of them has, obviously, its own project implementation management system.

2.1.2. Alignment and predictability

The three common funds have Memoranda of Understanding (MoUs) that regulate the engagement between donors and the GoM in each case. The vertical funds are managed within the logic of projects.

The MoUs cover the issues related to operation of the fund, rules of engagement and public finance management matters. The sector is working with education and agriculture to improve the MoU, as well as alignment and harmonization.

The sector has made significant progress to align the funding with the official budget and planning cycles of the GoM and to make sure that the application of all the funds is aligned with GoM priorities in the sector. The sector's Joint Review (JR) is in line with the PAPS' JR. The number of review meetings has reduced to the JR and the Mid Year Review (MYR). The donor group is coordinated by 1 focal donor and 1 vice-focal donor, and meetings with GoM officials are regular and mostly involve the troika and the focal person in the GoM. A system of mutual accountability and performance evaluation has been started in the sector.

However, crucial issues like aid modalities and portfolio composition and predictability (short and medium term) of commitments and disbursements are seldom discussed. This is reflected in two problems:

- The share of project aid in the sector has increased, mostly as a result of US organizations funding of Vertical Funds, and that of program aid has fallen over the last years, and off budgets are still huge:
 - Of the total envelope of financial resources available to the health sector in 2006, 56% (approximately US\$ 193.3 million) are not even recorded in the budget, up from 51% (US\$ 171.6 million) in 2005.

- Individual projects account for 41% of the external funding of the sector (US\$ 141.5 million), up from 38% in 2005 (US\$ 130.6 million), mostly as a result of funding from US organizations through the Vertical Fund scheme.⁴
- Relative to 2005, in 2006 the amounts made available through common funds fell by 7%, and those available through the OGE increased by 4%. However, external funds made available to projects (Vertical Funds) increased by 8%.
- ***Predictability (short and medium term) are still weak:*** for example, by February 2006, almost 30% of the external funding to finance 2006 operational plan were still not confirmed. Commitments have to be confirmed by September of the previous year, the latest, or they will not be recorded in the budget. On the other hand, the levels of uncertainty created by unconfirmed commitments of such significant scale are serious impediments to developing a more harmonised, aligned, reliable and effective financing of the health sector.

The sector intends to change the structure of its funding. The plan is to evolve to one single fund and one single MoU fully aligned with the principles of aid effectiveness as defined by the Paris Declaration. The following step would be to get that single fund fully recorded on the budget with a view to, eventually, create a real sector budget support system.

In order to move towards a consolidation of the funds, there are a number of obstacles to overcome in the process:

- Related to donors:

⁴ PROSAUDE is on budget, although it is not sector budget support (it is still a common fund), and the other two common funds are off budget. Non-earmarked funds are available for the GoM to allocate according to its own priorities, but are also off budget. These funds are allocated to the common funds and subject to the MoUs that regulate the common funds.

- Large number of partners: 25 as a whole, 17 in the common funds and 8 in the vertical funds (which are not included in the common funds). This problem makes it more difficult to articulate and harmonize. However, half of the sector donors account for 90% of the funds made available. One possible solution is to promote delegated cooperation; the other is to negotiate exit strategies for particular donors on the basis of criteria negotiated between the Ministry of Health (MISAU), the Ministry of Finance (MF) and the donors (for example, to negotiate a exit strategy for donors that are too small, or for donors that prefer general budget support, GBS).
- Preference for projects – this might be a bigger obstacle to evolving towards a single fund, single MoU and, eventually, sector budget support.
- Predictability: short and medium term predictability of aid disbursements is still very weak and donors need to make profound changes in the way they plan, commit and disburse funds.
- The three points mentioned above seem to indicate that the sector is not particularly concerned with public finance planning, as crucial issues like portfolio composition, predictability and whether funds are on or off budget have not yet been seriously addressed. This impression seems to be confirmed by the fact that donors and GoM officials in the sector say that these issues are seldom discussed.
- Idiosyncrasies of different donors with respect to procedures and processes, particularly those related to reporting, auditing, public finance management. Combined with the large number of donors, these idiosyncrasies are difficult to cope with unless peer pressure forces headquarters to change and harmonise (and this is not happening yet).

■ Related to the GoM:

- The operational relationship between the sector and the Ministry of Planning and Development (MPD) and the MF is not always good. MISAU complains that decisions regarding the allocation of OGE are taken by the coordinating ministries without consultation with the sector. There are also delays in OGE disbursements which affect the level of budget execution.
- Data recorded in the budget does not reflect the actual information provided by the sector (MISAU and donors). Often, the budget records agreements between the partners rather than commitments; and record disbursements but not necessarily expenditure. Hence, it is not always possible, from the analysis of the OGE, to reach a good idea of how much money has been actually made available; much more difficult, still, is to identify how, and how effectively and efficiently, the money has been spent.
- There are doubts related to possible loss of effectiveness and efficiency if the FCM is integrated in the budget. The fund finances imports, needs hard currency and cannot afford delays and exchange rate risk. Therefore, there is an incentive for the sector to keep this fund off budget and off Treasury.
- The sector is heavily supported by donors – it is the sector with more external finance support – and may have an incentive to keep the status quo.

A possible first step to move towards funding and MoU consolidation is to start pooling together some of the funds, the less difficult ones. Perhaps PROSAUDE and the non-earmarked funds could be put together and transformed into a proper sector budget support fund that would complement the OGE within a development finance program.

MISAU is also thinking of including the FCP into this single fund.⁵ The two funds that are more difficult to consolidate are the FCM (given that its focus is on financing imports and, thus, it is dependent on readily available foreign exchange at a minimal exchange rate risk) and the Vertical Funds (project based and project focused, and implemented by financing agencies).

2.2. Education

2.2.1. Funding of the sector

Education is the number one priority sector for the GoM in terms of OGE allocations. The sector received from the OGE approximately US\$ 238 million in 2005 and US\$ 227 million in 2006, and is expected to receive approximately US\$ 251 million in 2007. Comparatively, the health sector received, for the same periods, approximately 48% of what the Education sector received.

With respect to external funding, Education received approximately US\$ 107 million in 2005 and US\$ 114 million in 2006, and is expected to receive approximately US\$ 135 million in 2007.

The share of external funding in total funding available to the sector has increased steadily during the period: 31% in 2005, 33% in 2006 and 35% in 2007.

The financing gap of sector (total investment planned in PEEC minus total available resources) has also increased steadily: 22% in 2005, 24% in 2006 and 28% in 2007.

The Education sector funding contrasts clearly with the Health sector's. Education is number one priority for the OGE and Health is the number one priority to donors. As a result, whereas the OGE makes two thirds of the available funding for Education, external aid makes more than two thirds of available funding to the Health sector. The

⁵ MISAU. 2006. Plano Operacional Anual 2006: Sector Saúde. Janeiro.

Health sector receives from the OGE a sum equivalent to 48% of what Education receives, and Education receives an amount of external funding equivalent to 45% of what Health receives. On the whole, the envelope of available resources (OGE plus external funding) for the Health sector in 2006 (US\$ 347.5 million) is slightly larger than that of the Education sector in the same year (US\$ 341 million). Hence, aid preferences and flows have the ability to change the hierarchy of public priorities in allocation of financial resources.

In Education, there is one common fund (FASE), recorded in the budget but still a separate common fund, which is fast becoming the most important channel through which donors deliver aid at the sectoral level. Aid delivered through FASE increased from approximately US\$ 29 million in 2005 to US\$ 40 million in 2006, and is expected to reach US\$ 57 million by 2007. Thus, while total external funding to the sector increased by approximately 25% between 2005 and 2007, external funding through FASE (a subset of total external funding to the sector) increased by 97%.

As a result, FASE's share of total external funding to the sector increased from 27% in 2005 to 42% in 2007. This also contrasts with the Health sector, where there are three common funds, and the fastest growing aid channel is project-based Vertical Funds.

2.2.2. Alignment and predictability

The sector operates on the basis of four, complementary planning instruments, namely: the PARPA (which decides about sector allocation of resources), the Education Strategic Plan (which decides what to do in the sector), the PES (which decides the general lines for the year), and the Annual sector activity plan (which decides about the detailed activities for the year in the sector). The priority within the sector, as far as alignment is concerned, has been to make sure that these instruments are complementary and consistent, and form a unified and coherent framework that relates global and sector, central and local, short and medium term. Starting from there, the next priority is to

make sure that aid is increasingly channelled through common and articulated mechanisms to support and help improve the existing strategies, plans and priority activities.

In order to improve alignment with the official planning and budgeting cycle, the sector has started its reviews earlier in the year. It has adopted an annual calendar for planning and budgeting that is consistent with official, GoM cycles. This has resulted in improvements with respect to alignment with the planning and budgeting cycle and predictability of commitments and disbursements within FASE. Most donors, including project donors, commit their funds by the end of June to ensure that they can be inscribed in the budget. As mentioned earlier, the weight of FASE in total external funding to the sector has increased significantly (from as low as 5% in 2003 to 42% in 2007).

However, mid-term unpredictability is still a major problem, as most donors cannot make firm pledges and/or commitments beyond one to two years in advance.

FASE, which is recorded in budget, is a common fund rather than sector budget support. Six bilateral agencies contribute to FASE⁶, and three more may join.⁷ This sector is the first one to have almost all funds, including projects, on budget as per 2006 (many projects were on budget before FASE was).

As a whole, the sector has between 20 and 25 donor agencies involved – it is not always possible to know the exact number – and only 30% of those agencies contribute to FASE. Even some of the agencies that contribute to the common fund (Canada, Germany) also run large projects.

⁶ CIDA Canada, Ireland (IA), the Netherlands, Finland, Germany and the UK (DFID).

⁷ Spain is about to join. DANIDA and the World Bank may also join in the near future, as they have committed themselves to FASE although they have never actually paid

The Education sector has a MoU, which is focused on ensuring predictability as far as commitments and disbursements are concerned, and a number of guiding documents that set up behaviour in the sector. There are clear indications as regards to behaviour at least for the FASE donors, a ToR for the SWAp that lay out the ways of dialoguing with MEC. Once indicators around aid effectiveness are agreed, a time frame will be set out regarding more support to FASE and other harmonization issues.

There are a number of big challenges facing the sector in the near future, namely:

- GoM dialogue and articulation:

- The dialogue between the sector and the Ministry of Finance is developing. It is expected that the sector and the Ministry of Finance will be able to articulate and harmonise their positions better and find the methodologies that are more adequate to address issues like policy costing, resource allocation and management. It is important that disarticulated, unilateral decisions are eliminated.
- Within the sector, there is a feeling that Education may have been “punished” in terms of resource allocation for being “more on budget” than other sectors. This feeling can be erased if the MTFF is strengthened and institutionalised and, in the process, strengthens the GoM ability to reinforce its own priorities and ensure that resources are allocated according to defined priorities.
- The planning process needs to be consolidated and streamlined, such that the different dimension of the process, global and sectoral, short and medium to long term, are better integrated and articulated and provide the framework for a better aligned and more predictable flow of resources.
- Better planning needs to be complemented by more and better implementing capacity, costing and management of resources. Costing is

particularly important for medium term planning not only of desirable activities but, essentially, of decisions regarding resources and resource mobilization and allocation. Otherwise, planning, no matter how good and clever, stands little chance of being implemented or even utilised as a guide for making choices and allocating resources.

- Deconcentration and decentralisation have not yet been systematically addressed. There are valuable experiments yielding important lessons (for example, the funds allocated directly to schools), but this issue merits a more systematic approach within the overall policy of the GoM to deconcentrate and decentralise.

■ GoM/donor dialogue, harmonization and alignment:

- The guiding documents and principles on harmonization and alignment may need to be further developed, strengthened and consolidated. Particularly important is to set up indicators on aid effectiveness and a time frame for implementation (more support to FASE and other alignment and harmonization issues). As mentioned earlier, the sector is working with the Health and the Agricultural Sectors in order to improve its MoU and to make sure that all MoUs are in line with the MoU for GBS.
- Capacity development and technical assistance need to become more coordinated, transparent, streamlined and definitely better aligned with the GoM priorities, and its direction needs to be drawn from the sector's strategic plan. At the moment, there are three main types of technical assistance (TA); available with agencies that work with the Ministry of Education and Culture (MEC) but that is not directed at the MEC's needs; TA hired by the agencies and made available to MEC; TA hired by MEC from its own budget. However, there is no clear information about the status of TA. The partners have agreed to do a mapping exercise to get a

better picture and to put high in the sector dialogue agenda the need for better alignment of TA under the control of MEC.

- Information and knowledge need to be shared, but also utilised. It is important for information to be made available, but it is equally important to have an institutional framework that enables critical discussion and creative utilisation of such information. Only then can it become knowledge.
- One possible obstacle to achieving this new platform is the large and unstable number, and wide variety of agencies involved. There are obvious possible solutions to this problem, which should seriously be pursued at sector level. One of the solutions is to promote delegated cooperation, making sure that smaller donors to the sector or donors that have their focus elsewhere commit to delegating their cooperation to other donors more committed and focused on the sector. Another possibility is to negotiate exit strategies for a number of donors on the basis of criteria to be defined between MEC, MF and donors. Real progress in this area would need a clear understanding of the reasons and agendas behind the problem. It would, also, be important to see how donors are repositioning themselves per sector in the new country strategies, and the reasons underlying their enter/exit decisions.

2.3. HIV/AIDS

The HIV/AIDS common fund, recorded in the budget but still a separated common fund, is managed by the National AIDS Council (CNCS). A MoU approved in April 2006 establishes the rules of engagement and management of the common fund and only covers the relationship between the partners of the common fund. Approximately 95% of the funds available to the CNCS are financed by the common fund. The common fund is financed by the OGE, the World Bank, CIDA, DANIDA, DFID, Irish AID, SIDA and the Global Fund for AIDS, TB and Malaria.

The MoU addresses issues of predictability, alignment, common trigger mechanisms, administrative issues, and other fundamental requirements.

The common fund finances HIV/AIDS related activities in all government institutions and departments. CNCS provides technical and methodological support to these institutions and departments, in addition to financial support.

The common fund also finances related activities within the civil society.

There are also earmarked funds financed by UN Agencies (three) and the USAID. The relationship with these partners is regulated by a code of conduct. This code of conduct underlines the principle of the 3 One's: one coordinating unit, one strategic plan and one unified system of monitoring and evaluation. However, the implementation of the principles seems to be on a voluntary basis. These funds are less predictable, in the short and medium term, than the funds committed and disbursed by the common fund partners who have signed the MoU.

The overall HIV/AIDS strategy is aligned with the PARPA. The CNCS annual plan of action is aligned with the PES and the budget policies and cycles.

This sector is small, has only a few, large donors, and most of them operate through the common fund. Therefore, harmonization, alignment and articulation are less difficult goals to achieve in this sector than in other sectors.

2.4. Water and Sanitation

The sector is financed in three different ways: OGE (including GBS); sector budget support; and individual projects and off budgets.

The sector budget support (SBS) is regulated by a MoU, and includes only one donor, The Netherlands. This SBS represents only a very small part of the external funds made available to the sector. The vast majority of aid financing is channelled through projects.

The MoU is quite flexible for donors. The only conditionality for donors is that they have to subscribe to commitments and channels of delivery. Otherwise, donors can add any specific conditionality for the GoM on the MoU, which is an odd looking approach to a MoU that aims to improve harmonisation, alignment with GoM policies and priorities and aid effectiveness and efficiency.

Although other donors (DFID and SIDA) are considering joining this SBS, most donors consider that this funding mechanism is still at an early stage and need to be improved for planning and monitoring before using it for channelling more funds.

Other reasons why donors are not adhering to sector budget support and the MoU are as follows:

- Some donors, who already provide GBS, consider that the funding mechanisms should be balanced between budget support and project approaches.
- The project approach allows supporting innovative approaches, private sector and civil society that are not always well taken into account in Government programs.

- Some donors consider that individual civil engineering works of a relatively large scale and technical complexity may be more adequately managed as projects.
- UN agencies and some other partners favour harmonization of policies but not of financial mechanisms and procedures because each one of them has its own rules.

In addition to the Netherlands, the sector is supported by three large multilateral organizations (the World Bank, the EU and AfDB), UN agencies, one dozen bilateral donors and many small agencies and NGOs (France, India, Ireland, Canada, Italy, Japan, Switzerland, Austria, MCC, SIDA, DFID and others). As mentioned before, all of them, except for the Netherlands, finance individual projects.

MCC, the implementing agency of the Millenium Challenge Account (MCA), has started a very large project in the north of Mozambique, which is by far the largest one of the sector. Due to the lack of a proper planning for the water and sanitation sector and its difficulties to implement such a large project, the initial definition of the project was somehow chaotic. After a phase of feasibility studies and dialogue with other donors and government institutions, MCC is achieving the definition and planning of its future activities in the water sector for the next five years.

The coordinating mechanism in the sector includes a Water Working Group made of donors and Government representatives, which benefits from the inputs of three sub-groups: institutions and human resources, hydraulic resources and water and sanitation. This group was created in order to coordinate relief support during the 2000 floods.

The sector has developed and is developing strategies for different sub-areas, which become the basis for alignment, resource allocation and analytical work in the Water Working Group including donors and Government.

Given that the bulk of the sector funds are allocated to individual projects, financing in the sector is more in line with project cycles than with state budget cycles. However donors and the Government have expressed their intention to progress in 2007 towards a

better harmonized support to the sector by improving planning and monitoring, seeking the use of common reporting, auditing and procurement procedures.

2.5. Roads

The financing of the sector is organized by projects. Thus, the flows of finance are, naturally, more in line with project cycles than budget cycles per se. However, donors have subscribed to a letter of intentions which mentions donors' willingness to create a common fund..

The sector is producing an information system (assessment framework) to guide, monitor and evaluate implementation, organization, efficiency and policy development and analysis. The framework should be ready by the mid of 2006, and will be the basis to implement a sector wide approach to road financing. The assessment framework will enable the GoM to take more sound policy, management and capacity development decisions on a better basis.

The sector decided to change from isolated projects to a more articulated, sector wide approach, for a number of reasons: time and efficiency gains and reduction of transaction costs; more power to the GoM over the control of resources and more flexibility in the allocation of such resources; organization and implementation of a common procurement system; and better predictability of the flow of funds in the short and the medium run.

The sector has now engaged in a process to developing a roads policy and legislation, and a mid term plan of action, to consult with the civil society, work on the institutional capacities, improve coordination with donors and implement a system of monitoring and evaluation (M&E).

Although the sector has clearly stated its intentions to move towards a more sector based planning, budgeting, implementation and M&E, some projects will be maintained

because of the specific characteristics of the activities (for example, large and crucial regional road or bridge projects).

2.6. Agriculture

The sector is financed by three different mechanisms: sector budget support from the so-called PROAGRI donors, which is managed by the Treasury; General Budget Support; and direct financing of individual projects. The African Development Bank (AfDB), which support PROAGRI, have specific mechanism for channelling their funds.

There is a MoU subscribed by all the partners that support MINAG through sector budget support. The MoU is under revision to bring it more in line with the principles of the Paris Declaration and the PAPs' MoU. The planning, budgeting and reporting procedures established under PROAGRI are aligned with the official cycles.

The sector has pushed the review system to start earlier to be aligned with the PAPs' JR and the overall public finance cycle. However, there is a problem associated with the agricultural season cycle, which cannot be aligned with the official financial cycle. This means that the evaluation that the sector performs prior to the JR is very preliminary because data will only be available later in the year. This has implications for the confirmation of commitments because the full evaluation of the GoM performance measured by PAF indicators can only be done later. The sector is discussing how to schedule trigger mechanism to take into account this factor.

There is another problem with timing and cycles. For some donors, disbursement schedules are defined only after the budget is approved by the Parliament, which only happens in December; hence disbursements are always delayed and often do not start before the second quarter of the year. In addition, some donors define and implement

their disbursement schedules according to their own convenience, rather than with the needs of the Treasury and of PROAGRI.⁸

The number of donors operating under the MoU and PROAGRI has fallen significantly. DFID and The Netherlands have shifted to more GBS and away from direct support to the agriculture sector. The World Bank defined the agriculture sector as an *analytical* as opposed to a *lending* sector. The USAID and Italy have also withdrawn from PROAGRI.

The policy and planning process in the Ministry of Agriculture is not very clear. A *Vision for the Development of the Agriculture sector* was formulated in 2004 to guide the formulation of PROAGRI II, but has seldom been used. *PROAGRI II* was approved within the Ministry of Agriculture but not by the GoM. In the meantime, the Ministry started the formulation of a *Strategy for Agriculture Development* even before PROAGRI II is approved and starts being implemented. The big questions are: how are these processes and documents related? What is the role of each one and which ones is the programmatic and pragmatic tool for decision making and resource allocation? Is this process helpful to promote articulation of interventions, capacities and resources or, instead, is it confusing the Ministry's and donors' staff?

It is to be noted, however, that MINAG is the first sectoral Ministry to start the preparation of the Mid Term Expenditure Framework (MTEF) for the next three years. This exercise may assist MINAG in setting up programmes of action according to priorities and objectives, and related costing of expenditures under these programmes.

⁸ Although these problems may not be specific to the agriculture sector, they were emphasised in some of the interviews in the sector.

3. Conclusions And Looking Forward

In all sectors interviewed, a considerable effort has been made to align the flows of aid and the mechanism of aid management (planning, reporting, auditing, etc.) with the general planning and budget cycles. As a result, in most sectors the sector JR have been moved to start earlier in the year for the sector planning exercise to coincide with the general planning cycle.

However, in most sectors the weight of project aid is still huge and dominant and in some sectors (such as Health and Agriculture) it is increasing. Of course, project aid requires its own cycles and managing systems related to the nature of the projects, which are not necessarily aligned with GoM financial cycles and procedures. The difficulty to change from projects to sector wide approaches may be related to different problems: institutionalised entrenched interest (of different agencies, donor and GoM alike); sector limited capacities to manage a SWAP; and/or nature of the activities to be financed that may be more efficiently managed as projects (as are some of the cases in large infrastructure projects such as in roads and water).

Hence, sector aid is still strongly characterised by off budget project aid and unpredictable flows of aid (with exclusion of Education). This means that while progress has been achieved with respect to harmonization and alignment at sector level, a lot more needs to be done. Sector coordinating groups need to become better organized and to play a bigger coordinating and peer pressure role, and basic issues of public finance planning (such as portfolio composition, predictability, number of donors...) need to move to the top of the sector agenda dialogue.

Many donors that are part of the PAPs' group and do budget support at central level prefer project support at sector level. Donor strategies with respect to the aid portfolio are not well understood yet, but they clearly define the possibilities for greater harmonization, alignment and budget support. This point was raised in the report about the PAPs performance in 2005, and may need further analysis. A starting point for this

analysis would be the conclusions of the analysis of the 18 donor new country strategies in order to understand better how far and how fast donors are prepared to improve in these issues and the reasons behind their choices.

Notwithstanding, all sectors have some sort of MoU – or are developing one – and there are efforts in place to move the MoU closer to the terms of the PAPs' MoU. Health, Education and Agriculture are working together to learn from their combined experiences and to develop and improve their sectoral MoUs to make sure that they are in line with the MoU for GBS. The roads sector has adopted a code of conduct, and they plan to move from project to sector budget support. In the water sector, there is only one donor working under the MoU, The Netherlands, although two other donors (SIDA and DFID), out of more than a dozen, are considering joining the MoU.

Donor preferences and sector aid flows have the potential to pervert some of the government priorities. There is a clear difference between the structure of central government budget allocation and aid allocation, particularly when off budget aid flows are included. This means that off budgets have the potential to change the hierarchy of approved priorities. The Education and Health sector cases are a good example of this.

Most sectors referred to a difficult relationship with the Ministry of Finance. All have problems with the information reported in the budget, which is incomplete and sometimes wrong altogether. Some have mentioned that ceilings and allocation processes followed by the Ministry of Finance are often arbitrary and unilateral, with very little sector involvement or consultation.

There are strong capacity constraints at sector level that affect the quality of policy development and analysis, planning, costing, budgeting, implementation and M&E. It is important to consider that lack of harmonization and alignment worsens the constraints on capacity; and more consistent progress and on harmonization and alignment help the development of capacities and reduce the strain on existing scarce capacities. Hence, although capacity constraints shape the real possibilities for the harmonization and

alignment process to develop further and faster, such constraints can only be properly and systematically addressed within the process of improving harmonization and alignment.

Looking forward, there are a few issues that donors and GoM need to think about and address in a very clear manner. These are:

- Large number of donors in some sectors, particularly when: the number becomes an obstacle to aid effectiveness and efficiency, and when some of the donors are too small in the sector and have little to contribute. GoM and donors should consider the possibility of different strategies to cope with this problem, namely through delegated cooperation and exit strategies organized under criteria to be defined by the sector, the MPD and the MF, and donors. It will be interesting to look at this issue again within the context of development and harmonization of donor new country strategies. Preliminary evidence shows that donors are repositioning themselves: overall, the share of GBS may increase, the share of sector aid may fall slightly, and the number of donors per sector may reduce as there is evidence of far more cases of donors leaving sectors (26) than entry into sector (5). It would be important to understand the reasons behind each donor's choices and the engine behind the changes that are happening.
- Public finance and planning issues needs to move to the top of the sectors agendas, particularly in areas like analysis of portfolio composition, predictability and moving from off budget to on budget. Each sector, according to its specific circumstances, needs to devise a strategy and plan and set specific commitments to change the current situation dominated by projects, off budgets, many common funds. One first step could be to prevent new funds from being created (hence, new donors and new money should go into existing funds, particularly those that directly support and complement the OGE); and guaranteeing that all new money accruing to the sector should go into sector budget support (with exception of cases that are well justified, such as some large construction works, for example).

- MoUs should be consolidated and sectors may need to share their experiences and information more actively, regarding the principles and rules adopted and the behaviour of GoM and donors in different sectors. From the interviews, it is clear that some donors do not behave consistently in the same manner in all sectors, and often this has little to do with the sector idiosyncrasies and more to do with donor strategies. The experience of the Education, Health and Agricultural sectors (working together to improve their sector MoUs and align them with the MoU for GBS) is an interesting one that may be important to extend to other sectors. A sector workshop is one way, although clearly not the only way, of sharing these experiences and trying to harmonise sector experiences, processes and rules at sector level, while maintaining the sector specificities that need to be taken into consideration.
- Another issue that is crucial is to improve the dialogue and consultation between the coordinating, central ministries (MPD and MF) and the sector ministries, in key areas like portfolio composition, schedule of resource flows, decisions on resource allocation, information, on and of budgets, budget ceilings, and other issues.
- The issue of technical assistance and, more generally, of capacity development support, needs to be looked at very seriously. Sectors need not only better planning and more resources, but also more, better organized and motivated policy, implementation and monitoring capacities. These capacities cannot be fully utilised and developed outside a clear public finance planning and management framework; and this framework cannot be implemented and positively affect the development of the sector without such policy, implementation and monitoring framework.