

DAC General Budget Support Evaluation: Thematic Study on

**Learning from Experience with Performance Assessment Frameworks (PAFs):  
The Case of Mozambique**

Working Paper, June 2005

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**Executive Summary**

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## Acronyms

BdM	<i>Banco de Moçambique</i> (Bank of Mozambique)
BWI	Bretton Woods Institutions
CFMP	<i>Cenário Fiscal do Médio Prazo</i> (Medium-term Fiscal Framework)
CGE	<i>Conta Geral do Estado</i> (General State Accounts)
DAC	Development Assistance Committee (of OECD)
DFID	Department for International Development (of the British Government)
DNPO	National Directorate for Planning and Budgeting
DPG	Development Partners Group
GBS	General Budget Support
GoM	Government of Mozambique
G11/15/17	Group of 11/15/17 donors providing programme aid
HIPC	Heavily-Indebted Poor Countries
IDD	International Development Department (University of Birmingham)
IEO	Independent Evaluation Office (IMF)
IMF	International Monetary Fund
JA	Joint Agreement
JDP	Joint Donor Programme 2000-04 (for provision of budget support)
JR	Joint Review
JSA	Joint Staff Assessment (by IMF/ World Bank of PRSP implementation)
M&E	Monitoring and evaluation
MoU	Memorandum of Understanding
MDGs	Millennium Development Goals
MF	Ministry of Finance (created 2005)
MPD	Ministry of Planning and Development (created 2005)
MPF	Ministry of Planning and Finance (up to 2004)
MYR	Mid-Year Review
NEPAD	New Partnership for Africa's Development
ODA	Official Development Assistance (grants plus concessionary loans)
OED	Operations and Evaluations Department (World Bank)
OE	<i>Orçamento do Estado</i> (state budget)
PAF	Performance Assessment Framework
PAPs	Programme Aid Partners (signatories of MoU)
PAPPA	Programme Aid Partners Performance Assessment
PARPA	<i>Plano de Acção para a Redução do Pobreza Absoluta</i> (M'que's PRSP)
PES	<i>Plano Económico e Social</i> (Economic and Social Plan)
PFM	Public financial management
PGR	Procuradoria Geral da República (Attorney General Office)
PRGF	Poverty Reduction and Growth Facility (of IMF)
PRSC	Poverty Reduction Support Credit (of World Bank)
PRSP	Poverty Reduction Strategy Paper
SDR	Special Drawing Rights
seco	State Secretariat for Economic Affairs
SISTAFE	<i>Sistema Integrado de Administração Financeira do Estado</i> (Integrated System for State Financial Management)
SPA	Strategic Partnership with Africa
SWAP	Sector-Wide Approach
ToRs	Terms of Reference

## ***Executive Summary***

In 2004, a Memorandum of Understanding (MoU) was signed by the Government of Mozambique (GoM) and 15 donors for provision of General Budget Support (GBS) over five years, based on a partnership in the spirit of shared objectives, joint learning and mutual accountability. Signatories expressed their determination to work in the spirit of NEPAD, the Monterrey Consensus and the Rome and Paris Declarations on Harmonisation and Aid Effectiveness.

A key tool of the MoU-based GBS is the Performance Assessment Framework (PAF). It is a set of key policies, actions, output and outcome indicators with a three-year horizon. It serves multiple objectives, including to sharpen the focus of the reform process, to strengthen dialogue within the GoM and between the GoM and donors, to increase predictability and transparency in the aid relationship, and to reduce transaction costs for the GoM. Being based on the national poverty reduction strategy (PARPA/PRSP), and its operationalisation in the annual economic and social plan (PES), the PAF is fully embedded into the mechanisms of domestic accountability to parliament.

The PAF consists of 49 indicators, proposed by GoM, negotiated and agreed by the GoM and the PAPs. There are well-defined processes and institutional arrangements to monitor and revise the PAF. The PAF as the basis for dialogue is complemented by the underlying principles of the MoU on macro issues at the political and economic level to assess government performance.

### ***Observations:***

- The PAF process started with 40 pages of indicators; the PAF with less than 50 indicators is an achievement with great merits in particular on the side of the GoM.
- The ownership of the PAF indicators is supposed to be with the GoM. In practice, proposals are discussed with and substantially influenced by donors, with considerable variations across the areas covered.
- The PAF process is an opportunity to strengthen the reform-minded constituency within the GoM and to broaden ownership of the agreed policies across the GoM.
- The functionality of the PAF depends on the adequacy of its indicators, the quality and timeliness of the data.
- Outcome and impact indicators, being often beyond the Government's control and not available in a reliable and updated form, tend to be dysfunctional.
- There is a trade-off between harmonisation and a reduction of the PAF matrix on the one hand, and volatility of general budget support on the other.
- Informed negotiation on the PAF increases transaction costs for donors but also increases policy impact.

### ***Strengths and opportunities:***

- The PAF, based on an appropriate preparation process, is an effective instrument to tailor the move from imposed to agreed conditionality according to the local context.
- The PAF brings transparency into the aid relationship, which compares favourably to the often opaque conditionalities of bilateral donors in particular.
- It is important to complement the PAF exercise by value-for-money audits as reality checks in the field.

- A great part of the strength of the PAF is derived from its clear focus on a few crucial issues – though it still has an unsatisfactorily large scope.
- A strong link to the PAF cycle between central ministries (planning and finance) and the sectors is essential to induce appropriate policy responses.
- An increasing inclusion of decentralisation concerns in the PAF and the integration of provinces and districts in the process are major achievements.
- The PAF and GBS-related processes have strengthened domestic accountability of the GoM to parliament. There still are untapped opportunities for coordination and lowering the transaction costs.

**Weaknesses:**

- Making macroeconomic management part of the underlying principles instead of the PAF removes macroeconomic issues routinely from the G-16/GoM PAF oriented dialogue.
- The PAF contains a number of outcome indicators, in particular in education, beyond the strict control of the GoM.
- Donor-driven PAF elements may not distort GoM priorities but may just be over-ambitious.
- PAF indicators tend to become targets of their own because of their sheer importance, for donors as well as the GoM.
- The outreach of the reforms in the PAF is severely limited by extensive donor practices (G-16 donors and others) of delivering a large part of ODA off-budget.
- The agreed PAF with its 49 indicators is a big step forward but its focus remains too wide; more focussed priorities would add to the quality of the PAF indicators.
- Despite all efforts to produce predictable results, the PAF arrangement still involves considerable space for the judgement of individual donors.

**The PAPs' PAF**

In the spirit of mutual accountability, the Programme Aid Partners (PAPs) developed a PAF to assess their own performance in alignment, harmonisation, predictability, transparency, administrative burden, and capacity building against their MoU obligations and the Rome Declaration on Harmonisation. The PAPs' PAF is assessed annually as part of the JR process, based on reporting by independent experts. This unique experience of Mozambique provides the following lessons:

- The key issues of concern – ownership, use as a strategic tool for the reform of aid delivery, etc. – are essentially the same as for PAFs of the partner government;
- The GoM proposal of individual donor ratings was taken up and represents an innovation with considerable potential;
- A stronger government can also make pressure. The PAF process is intending to strengthen GoM ownership and power of negotiation.
- The basic asymmetry and power imbalance of the aid relationship cannot be overruled by a technical tool like the PAPs' PAF. Self-discipline of donors and peer pressure are among their main resources to produce tangible results.

The strength of the process is that the performance assessment is jointly done in order to have a common basis for donor decisions which are ultimately taken on a bilateral basis. The bilateral space for policies, to shape commitments and interrupt disbursements is considerably narrowed by the joint procedures.

## 1 Introduction

**Objectives:** This case study on the Performance Assessment Framework's (PAF's) experience in Mozambique does not aim to provide recommendations at the country level. Its objective is to map experience, list findings and to identify lessons that can be used to draw an overall picture comparing this experience to other countries. This case study is part of a thematic research undertaken under the auspices of the OECD-DAC multi-country evaluation of General Budget Support (GBS). The overall objective is to develop preliminary lessons for good practice in the development of) for GBS.

**Scope:** The research is based on the experience of four countries that have adopted harmonised PAFs – namely Ghana, Mozambique, Nicaragua, and Tanzania – and one that has not yet done so – Benin. Field missions are limited to countries that are not covered by the wider OECD-DAC evaluation: Benin and Ghana. These will be complemented with desk work on those countries as well as on Mozambique, Nicaragua and Tanzania. The analysis is undertaken as a limited thematic study to complement the overall on-going analysis of the wider OECD-DAC evaluation.

**Implementation:** The research proposal has been developed jointly by Oxford Policy Management (United Kingdom) and Gerster Consulting (Switzerland) in response to a request from the Swiss State Secretariat for Economic Affairs (seco). Oxford Policy Management and Gerster Consulting act as implementing agencies mandated by seco. It is envisaged that the country study oriented desk and field work will be completed by June 2005, culminating in a synthesis report by end July 2005, and feeding the product into the wider OECD-DAC evaluation process.

**Methodology:** Mozambique being a country included in the set covered by the wider OECD-DAC evaluation, it was possible to draw on an early version of IDD's country report<sup>1</sup>. The author of the present study, having been attached on behalf of the G-15 and the GoM to the Joint Review 2004 and the Programme Aid Partners' Performance Assessment (PAPPA) 2004 and 2005, had access to comprehensive documentation, which sometimes may not be quoted for reasons of confidentiality. Moreover, his attachment to the PAPPA mission in March 2005 made it possible to gather additional data and opinions through personal contacts.

**Acknowledgments:** The author would like to thank all those who have contributed to this case study. In particular, he is grateful to the contributions by Eamon Cassidy (DFID), Ivo Germann (seco), Telma Loforte (Swiss Development Cooperation), and Bernhard Weimer (consultant).

## 2 Context

**Aid context:** Mozambique is one of the most aid-dependent countries in Africa; hence the potential returns from improving aid effectiveness are high. There are 23 bilateral agencies, 23 multilateral institutions and an estimated 150 non-

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<sup>1</sup> IDD et alii 2005

governmental organisations providing aid to Mozambique<sup>2</sup>. There is a good working relationship between international funding agencies and the Government of Mozambique (GoM). Based on a positive track record, the volume of programme aid delivered mainly in the forms of general budget support, balance of payments support and sector support is increasing. At present, out of total Official Development Assistance (ODA) of approximately USD 700 million annually, the programme aid share can be estimated at 35-40%. The GoM welcomes all types of support but has indicated its desire to attain a programme aid share of two thirds of total ODA in the medium term<sup>3</sup>. Until then, project assistance will remain the dominant feature of the ODA landscape in Mozambique.

**History of programme support:** Back in the 1990s a number of bilateral donors co-financed IMF/World Bank led structural adjustment in Mozambique. The design of a PARPA, as the poverty reduction strategy paper (PRSP) is named, created in 1999 a new context which facilitated a multi-donor arrangement known as the Joint Programme for Macro-Financial Support, underpinned by a joint agreement (JA), signed in 2000. Within two years, the group grew from six to 11 donors. The policy conditionality linked to the JA was not very specific. It required the GoM to prioritise poverty reduction along the lines of the PARPA. Explicit reference was made to Mozambique's on-track status with the IMF as the basis for a judgement about the state of the macroeconomic management. Signatories to the JA retained the right to add on their own policy conditions. This form of cooperation, given Mozambique's high dependency (40% of recurrent expenditure) on programme aid, did not produce the transparency and predictability of support required from the GoM's perspective. The banking crisis highlighted the problem in 2002.

**Programme Aid Partners (PAPs):** Today, the joint general budget support scheme represents the bulk of programme aid with a pledged bilateral volume of US\$166 million plus World Bank commitments in 2004. The basis of budget and balance of payment (BoP) support operations in Mozambique is the Memorandum of Understanding (MoU) between the Republic of Mozambique, Belgium, Canada, Denmark, the European Commission, Finland, France, Germany, Ireland, Italy, the Netherlands, Norway, Portugal, Spain, Sweden, Switzerland, United Kingdom, and the World Bank (G-17). The MoU was signed<sup>4</sup> on April 5, 2004 for five years and serves the provision of direct Budget and Balance of Payments Support based on a partnership in the spirit of shared objectives, joint learning and mutual accountability. Signatories to the MoU declare in § 3 that they are determined to work in the spirit of NEPAD, the Monterrey Consensus and the Rome Declaration on Harmonisation. Even if not (yet) mentioned, the 2005 Paris Declaration on Aid Effectiveness<sup>5</sup> can be considered as a further underpinning element of the international framework.

### **3 PAF contents**

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<sup>2</sup> Francisco 2002, p. 14

<sup>3</sup> Prime Minister Luisa Diogo in her address on the occasion of the signing ceremony of the Memorandum of Understanding on April 5, 2004

<sup>4</sup> Canada and Spain joined the group as 16<sup>th</sup> and 17<sup>th</sup> member in 2004/2005.

<sup>5</sup> In Art. 3, participating countries and organisations reaffirmed their commitment to accelerate progress especially by strengthening partner countries' strategies, including performance assessment frameworks.

### 3.1 Principles and objectives

A workshop on budget support in Mozambique in 2002 concluded that donors should enter into dialogue with the GoM to create a performance assessment framework (PAF) as a way of dealing with the perceived lack of transparency and predictability. The G-11<sup>6</sup> developed **principles** on which a PAF should be based. It should be: (1) limited to a range of critical issues, (2) proposed by GoM, negotiated and agreed between GoM and PAPs, (3) coordinated with other GoM planning instruments, (4) tied to an annual review cycle aligned with GoM and linked to the sectors, (5) linked with the up-coming PRSC policy matrix of the World Bank. These principles were agreed at the Joint Donor Review 2003 the GoM committed itself to developing a PAF along these lines over the coming months, and the World Bank agreed to ensure that the PRSC matrix would be broadly similar to the PAF. This commitment was taken up by the Minister of Planning and Finance, clearly stating that nothing but a single and limited performance matrix would be acceptable.

The MoU spells out as the **overall objective of GBS**<sup>7</sup> in Mozambique its contribution to poverty reduction in all its dimensions by supporting the evolution, implementation and monitoring of the PARPA. Intermediate objectives are:

- Building a partnership based on frank and open dialogue on the content and progress of Mozambique's poverty reduction strategy, as set out in the PARPA and made operational through the Medium Term Fiscal Framework (CFMP) and the Economic and Social Plan (PES), including priority indicators and targets as defined in the PAF, and the State Budget (OE).
- Providing financing to the public sector for poverty reduction, clearly and transparently linked to performance, in a way that improves aid effectiveness and country ownership of the development process, reduces transaction costs, allows allocative efficiency in public spending, predictability.

The PAF as the key tool captures the GoM's priorities across the areas of the PARPA and serves as the common basis for policy dialogue and performance monitoring with the PAPs. The assessment of past performance against the PAF provides the basis for decisions on donor support commitments for the following year. As part and parcel of the domestic planning, monitoring and reporting cycle, it is an element of the GoM's accountability to parliament. The PAF therefore serves a number of **objectives**:

- Strengthening poverty reduction efforts through a clear focus on a limited number of agreed reform priorities;
- Strengthening GoM accountability processes built on national accountability systems;
- Providing greater predictability and transparency in the link between GoM policy, implementation and allocations, conditionality and timing of GBS;
- Providing an agreed agenda for an effective and focused policy dialogue between GoM and GBS-donors;
- Reducing transaction costs by reducing the number and increasing harmonisation of donor conditions.

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<sup>6</sup> At that time 11 donors participated in the GBS scheme.

<sup>7</sup> Art. 6 and 7 MoU

This multiplicity of objectives may create confusion and raise questions on the priorities in case of conflicting interests. An independent “Learning Assessment” of the JR 2004 noted a wide range of different PAF understandings among donors as well as GoM representatives, in particular line ministries. A joint workshop to clarify the issues and lay common ground for the future working on the PAF was proposed<sup>8</sup>.

The above-mentioned intermediate objective of building partnership implies a relationship of mutual accountability. Whereas accountability of the GoM is part of the PAF objectives, the complementary accountability of the PAPs to the GoM is framed in a separate tool, the PAPs PAF.<sup>9</sup>

### **3.2 Scope**

It was agreed between the GoM and the PAPs that the PAF should not exceed 50 indicators. Such a ceiling had been a key concern of the then Minister of Planning and Finance. The PAF 2005-2007<sup>10</sup> enumerates 49 indicators. Preparing the MYR, the working groups had proposed 85 indicators for the PAF. An enlarged, comprehensive set of indicators (“long PAF”) is used at the sector level to track progress. From a GoM perspective, the agreed PAF does not add any new reform requirements; all these programmes are part of the Government’s agenda and have to be implemented anyway. The inclusion of an indicator in the short PAF rather increases the political pressure to get access to budgetary resources, underpinned by GBS funding.

The agreed PAF consists of two baskets:

- 19 sector-specific, MDG-related and result-focused monitoring indicators (output indicators). The areas covered are the PARPA priority sectors, in the form of MDG-related poverty reduction outcomes: education (2), health (3), HIV/AIDS (3), roads (3), water (1), sanitation (1), agriculture and rural development (6).
- 30 process-related indicators, measuring progress in key areas of reform: private sector development (2), financial sector (5), state financial administration (3), tax reform (2), procurement (1), auditing (2), planning and monitoring (2), public sector reform incl. decentralization and corruption (8), justice reform (4).

The process-related indicators directly link the PAF to policy reform. The PAF not only covers this wide range of areas but includes decentralisation. The part on public sector reform covers three indicators on decentralisation. The informal sector, which provides the livelihoods of the majority of Mozambicans, is only indirectly covered.

Macroeconomic management is not covered by the PAF but is part of the underlying principles<sup>11</sup>. This is far more than a technicality as the policy dialogue routinely focuses on the PAF and not necessarily on underlying principles. In case important concerns come up, the option remains open to include macroeconomic issues in the JR and MYR. The policy dialogue of the GoM with the IMF occurs separately from the G-17 and is not (yet) aligned. The treatment of macroeconomic issues is discussed further in chapter 5.4 below.

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<sup>8</sup> Harding/Gerster 2004, pp 21-22. This recommendation has not been implemented so far.

<sup>9</sup> See chapter 6.2

<sup>10</sup> See annex 2

<sup>11</sup> See below chapter 5.1

Equally, questions with a political dimension are not part of the PAF but are handled as part of the underlying principles in the MoU. Donors had hoped to have an indicator for free and fair elections in 2004. Such a political conditionality was rejected by the GoM. Politically hot issues can only be effectively addressed if the prioritisation of the issue is backed by political will on both sides.

### 3.3 Dynamics

Practical experience with performance assessments based on the PAF, with its revision and extension on a rolling basis, was gained on two occasions:

- On September 27, 2004, the GoM, the PAPs and observers concluded the Mid-Year Review (MYR) of the GoM's implementation of its PAF in the first half of 2004, and agreed on a revised PAF 2005-2007. The review was based on the GoM monitoring documents (first semestre PES and Budget Execution Report) and GoM plans.
- On May 12, 2005, the development partners concluded the Joint Review, assessing GoM performance based on the PAF 2004-2006, and PAPs' performance based on their PAF<sup>12</sup>. The results of the JR 2005 are summarised in the Aide Mémoire, which is a public document<sup>13</sup>.

On the occasion of the **MYR 2004**, there were no substantial revisions with regard to priority areas. However, the development partners agreed on a number of interesting, fine-tuned changes at the indicator level:

- Some indicators were replaced by others **more under the control of GoM**; e.g. in the area of agriculture, the promotion of a sustainable usage of irrigation techniques is no longer measured by the percentage of small and medium farms using irrigation techniques but by the area covered and rehabilitated with irrigation schemes using public resources;
- A number of indicators were replaced by **more appropriate** ones in relation to the objective in question; e.g. to simplify access to land, instead of taking the absolute number of processes authorised within 90 days this indicator was replaced by the percentage of processes received that are authorised within 90 days;
- In several cases, the targeted numbers were reduced to a **less ambitious** level; e.g. in the sub-area of tax reform the PAF indicator of budget revenue collection as a percentage of GDP was revised downwards. The 2004 indicators for the justice sector were considered too ambitious and unrealistic, and were changed accordingly;
- Policy measures to be taken involved a **more gradual phasing**; e.g. under macro financial policies, the increase of budget coverage is fine-tuned to conclude sector studies on the on-/off-budget situation, whereas the former indicator was much more straightforward focusing on implementation;
- **PAF priorities were transformed into non-PAF priorities**, still reflected in the PES and the Aide Mémoire; e.g. the PAF targets for the numbers of micro-credit clients were unrealistic and removed from the PAF; improved access to financial services remains an important issue but is dealt with in the financial sector (no

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<sup>12</sup> See below chapter 6.2

<sup>13</sup> See PAPs Website <http://www.scm.uem.mz/pap/>. At the time of writing (May 24, 2005) the Aide Memoire has not yet been posted.

longer under agriculture) and with a focus on forthcoming micro finance legislation;

- A **conclusion for future PAF revisions** was drawn without direct PAF changes; e.g. according to the MYR 2004, consideration should be given to disaggregation by sex, particularly for health and agriculture indicators, similar to the differentiation already in place in education;
- In exceptional cases **no agreement on PAF indicators** could be reached and the way forward was found later by a working group; e.g. the assessment of progress at the MYR related to external audit could not take place and no agreement was reached on the external audit indicator for 2005.
- Indicators for **decentralisation** (e.g. block grants to municipalities as a percentage of total revenue) were agreed and introduced for the PAF 2005

The PAF construction and review process is still new and can be a source of misunderstandings. The working group on public sector reform did not suggest alterations to the PAF indicators during the MYR, which is the only opportunity to suggest such alterations. The main reason was a lack of understanding of the process. However, the experience of the JR and MYR 2004 facilitated more efficient and effective planning of the JR 2005.

The **JR 2005** had positive results overall. In a number of sectors, however, the assessment was outspoken and exposed unsatisfactory performance. The critical areas, such as the legal and judicial sector, external audit, corruption, procurement reform, revenue mobilisation, budget execution, and weaknesses in the environment for private sector development, produced weak results. A number of PAF-related elements are noteworthy:

- In the area of external audit, neither the assessment of progress towards the 2004 PAF target nor the discussion on the indicators and targets for 2005 – 2007 could take place. Serious disagreement ended in consensus on the way forward: GoM to propose an indicator by the end of May 2005. This proposal to be assessed by the PAPs before their confirmation of commitments for 2006.
- Performance in domestic revenue mobilisation was disappointing and the PAF target was missed by a percentage point (13.7% GDP instead of 14.7% GDP). Switzerland has linked part of its variable tranche<sup>14</sup> – 15% of its total GBS – to this trigger. As performance up until the MYR 2004 is critical, the full amount will be disbursed as pledged. However, because the target was missed by such a large margin, the pledging for 2006 may be reduced by 15%, from CHF 10 million to CHF 8.5 million.
- The need to provide meaningful targets and indicators for the PAF led to the call for strengthening the monitoring systems and the need to track the implementation of specific government policies, e.g. in the health and water sectors.

#### **4 PAF process**

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<sup>14</sup> See below chapter 5.3

## **4.1 Emergence**

Up to 2004, the GoM had to meet a large number of different and sometimes inconsistent performance indicators, originating from HPIC benchmarks, the PRGF, EC indicators, the PARPA matrix and actions agreed in the Aide Mémoire of the Joint Donor Review. Bilateral donors used varying benchmarks in an often unclear manner. The track record of these conditionalities was – at best – mixed.

The process to develop the PAF started in 2003. The lead was with the then Ministry of Planning and Finance (MPF), now split into the Ministry of Finance and the Ministry of Development and Planning. The basis was the PARPA and its operationalisation in the Economic and Social Plan (PES) listing more than 230 activities that the GoM has to implement anyway, irrespective of donor support. The GoM invited all PARPA-related line ministries as well as those responsible for cross-cutting issues to identify the policy priorities for the years 2004-2006. This unique exercise produced a policy matrix of 56 pages (“long PAF”). The MPF reduced it to the key priorities (“short PAF”, hereafter simply referred to as “PAF”) summarised on two pages – an MDG-related outcome page and a process-related reform page.

At the end of the Joint Review in April 2004, the first PAF was agreed, referring to the years 2004-2006. 2004 is to be considered a transitional period to take the PAF-system on board. The basic information from the PES had to be supplemented in PAF priority areas with information from recent GoM-donor sector, governance and system reform reviews.

## **4.2 Procedures**

The procedures are described in detail in the MoU Annex 2, out of which some excerpts are reproduced hereafter. While drafting the Economic and Social Plan (PES) for the coming year, GoM identifies from among its goals and targets a concise list of the highest priority indicators and targets in the areas of governance, system reform, and the priority poverty reduction sectors. This is done through a process of cross-governmental dialogue between line ministries and the Ministries of Finance and Development and Planning. The first PAF was reviewed indicator by indicator by the Council of Ministers. At the outset, there was no formal provision for the inclusion of provinces and districts in the process. As a first step, districts and municipalities were added during the MYR 2004 to the PAF 2005, with regard to block grants for municipalities and the development of a proposal for a resource-sharing formula between central government and sub-national governments. The JR 2005, moreover, started a process of gradual integration of provincial and district perspectives in the analysis of GoM performance<sup>15</sup>. The PAF also includes, as far as possible, indicative targets and indicators in the chosen areas for the succeeding two years, based on medium-term commitments made in the PARPA and the Medium Term Fiscal Framework (CFMP).

At the annual review meeting, the agenda and focus of discussion on GoM performance in the previous year is oriented around performance against indicators and targets of the PAF. The GoM is obliged to ensure in particular that its annual *Balanço do PES* report addresses the results achieved in the past year on all the

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<sup>15</sup> See Annex 2 of the Terms of Reference for the 2005 JR

items in the PAF. Performance against the PAF is assessed in the context of performance against the wider PES, as described in the Balanço do PES.

This assessment of performance provides the basis for decisions on donor commitments of budget support in the following year, made within four weeks following the Joint Review. In the context of this joint assessment, PAPs and the GoM discuss potential priorities for the PAF for forthcoming year. The PAF proposal will thereafter be defined during the annual process of cross-governmental dialogue on the PES. The PAF for the following year is then agreed in essence between the GoM and PAPs at the mid-year review meeting in August. The PAF is submitted to Parliament as part of the PES and is formally agreed between GoM and PAPs and annexed in its final version to this MoU at the annual meeting in December.

All formal performance assessments are undertaken jointly by the GoM and PAPs and not bilaterally, except when PAP legislation requires a national or institutional audit authority to become active. The joint view on performance may include divergent opinions, where these essentially are acceptable to all signatories. The GoM and PAPs have to arrive at a joint view on performance in the previous year by the end of the review. The most important factor in defining performance is measuring results against indicators and targets. This is seen in the wider context of a holistic analysis of performance against the PES and the state budget (OE). It is supposed to focus on trends and the direction of change.

### **4.3 Institutional arrangements**

The meeting frequency varies over the year, with a higher intensity when preparing the JR and the MYR. The institutional set-up is structured the following way:

- The strategic oversight is with the PAPs **Heads of Cooperation (HoCs)** who meet monthly to discuss, among other issues, the GoM's performance against the PAF.
- The effective lead of the PAPs machinery is, however, with the so-called "**Troika plus**" group that the HoCs mandated to act on their behalf. The Troika plus consists of the PAPs' previous, present and up-coming chairpersons plus the EC and the World Bank, and meets ad hoc once or twice a month.
- More technical issues are dealt with in an **economists' working group**, open to observers, and meeting every two weeks, to review the feedback of sub-groups, to have thematic discussions, to analyse performance and to identify key issues for the HoCs.
- The Troika plus meets periodically, usually twice a month, with the GoM (planning, finance, treasury) in a **Joint Steering Committee** to discuss strategic issues of cooperation, including PAF monitoring.
- Some 15 **working groups** are active throughout the year, reporting to the thematic groups (see below) of the Joint Review and the Mid Year Review on performance against the PAF. These working groups are joint with the GoM and open to all donors, including non-PAPs. They have a team leader or co-team leaders from the GoM, the PAPs, and/or non-PAPs. All working groups have to take care of the key cross-cutting issues HIV/AIDS, gender and environment.
- These working groups are clustered into seven **thematic groups** that report to the JR and MYR. They cover (1) poverty and macroeconomic overarching issues, (2) public finance management, (3) governance, (4) private sector

development/investment climate, (5) service delivery, (6) programme implementation, (7) PAPP and MoU implementation. All thematic groups have to take care of the key cross-cutting issues HIV/AIDS, gender and environment.

- Last but not least, a **PAF Coordination Group** meets about monthly to discuss performance and prepare the dialogue with the GoM on the PAF. It is also supposed to enhance harmonisation and alignment beyond the PAPs and plays an important role in broadening the understanding of the PAF. It includes the Troika plus and the chairs of the sector and cross-cutting working groups, including non-PAP chairs. Those working groups chaired by the GoM are represented by the co-chair from the donor community or the focal donor.

It should be noted that there are considerable institutional and political challenges to align non-PAPs (e.g. UNDP, USAID) into the PAF process. Whereas they play an important role in the technical working groups tasked with engaging the government on sector and reform issues and actually doing the monitoring for the JR, they are not part of the MoU and the harmonisation drive. As a consequence there are conflicts of interest, and strain in the Development Partners Group (DPG) of the HOCs and HOMs etc..

## **5 PAF Relevance**

### **5.1 Conceptual limitations**

The MoU mentions<sup>16</sup> as **underlying principles** of the provision of GBS the joint commitments of PAPs<sup>17</sup> and the GoM to: peace; promoting free, credible and democratic political processes; independence of the judiciary; rule of law; human rights; good governance and probity in public life, including the fight against corruption, the GoM's commitment to fight poverty (with reference to the Millennium Development Goals and PARPA), and its commitments to pursue sound macro-economic policies (with reference to IMF programme 'on-track' status or an equivalent judgement). Their violation is understood as being above and beyond concerns raised about under-performance against indicators and targets expressed in the PES/PAF. Each signatory can raise an issue and express its concern to the GoM. A violation of an underlying principle is the sole reason a donor may not disburse funds already committed. The separation between PAF and underlying principles is mainly to distinguish "pre-conditions" for budget support and general reforms and processes monitored in a regular way, and structure and focus the regular dialogue. If there are serious concerns in any area covered by the underlying principles, but not before risking to reach a level of breaching trust or impossible dialogue, they can be introduced as PAF indicator, following the normal process of agreeing on indicators.

The development partners commit in the MoU and in their bilateral agreements to specified **reporting requirements**. In 2004/05, a debate started among the PAPs as to what extent unfulfilled contractual reporting requirements may prevent a donor

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<sup>16</sup> MoU § 8 - 10

<sup>17</sup> With the exception of the World Bank.

from disbursing as committed and scheduled. An outstanding financial audit<sup>18</sup> had been delayed several times and led to that debate as some donors were not prepared to fulfil their commitments if the GoM would not provide the report up to March 2005. The GoM delivered the report finally but the basic issue that the MoU does not specify a response mechanism for reporting problems remained unresolved<sup>19</sup>.

Most of the donors have bilateral multi-year agreements in place. None of them so far has a rolling arrangement. In practice, when a renewal of the bilateral agreement is due, there is **negotiating space** beyond the strict guidelines set out in the MoU. This negotiating space even includes the option to terminate the MoU framework. Individual PAPs may withdraw from the joint mechanisms and from the MoU by a notice of withdrawal<sup>20</sup>. This option provides strong leverage, which can be used to exert political pressure on other issues. PAPs not having a valid agreement with the GoM are not considered to be party to the MoU. In a recent case, however, the donor striving for a renewal of the bilateral agreement was not excluded from the PAPs' club.

The **Public Expenditure and Financial Accountability (PEFA)** secretariat developed a set of standard indicators to assess Public Financial Management (PFM) performance jointly with the Bretton Woods Institutions and a number of bilateral partners, including Switzerland. In Mozambique, PFM is an area of key concern to the GoM and donors<sup>21</sup>. The use of the PEFA standard indicators to assess PFM progress in Mozambique will be key for the future. PFM indicators in the PAF, however, are not identical to the PEFA listed proposals. The 28 PEFA indicators are taken as a crucial basis for dialogue, influencing the priorities in the PAF. At the Special Partnership for Africa (SPA) meeting in 2005, the African government representatives welcomed the PEFA initiative and asked the donors to implement it at the country level together with the governments.

The annual budget can be seen and used as a source of **input indicators**. The budget execution report measures the degree to which the inputs were delivered. The analysis of the Budget execution report is part of the JR. From this broader angle, one could visualise the integration of selected sectoral budget allocations as input indicators (e.g. for the "Big Four" PARPA priority areas) into the PAF. In fact, the NEPAD framework foresees annual minimum percentage allocations for selected sectors e.g. 10% for agriculture. Thus the PAF would also permit the monitoring of budget allocations and would force the sectors to report better to MDP.

## **5.2 GBS – sector linkages**

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<sup>18</sup> 2000-2002 MB10 financial audit

<sup>19</sup> The GoM and the PAPs agreed on the JR 2005 to discuss and agree on a response mechanism for dealing with MoU reporting problems.

<sup>20</sup> MoU Art. 37

<sup>21</sup> An independent assessment applying a preliminary version of the standardised PEFA approach, came to the conclusion that the overall PFM risk remains high in Mozambique while reforms are moving ahead in a structured and comprehensive manner; areas with less progress are the public sector reform, the judicial and legal sectors, and accountability of the state to civil society. See Scanteam 2004.

The sectors are the backbone of public service delivery and poverty reduction. In 2003<sup>22</sup>, 64% of total expenditure, excluding debt interest was passing through PARPA priority sectors: 18.5% education, 13.6% health, 13.6% HIV/AIDS, 7.3% roads, 4.1% water, 6.6% agriculture and rural development, 8.5% governance, security, judicial system, 5.1% other PARPA priority sectors.

The interest of sectors to learn from GBS experience varies a lot. Whereas education and health are much advanced, agriculture or even transport are much more at arm's length. Donor-GoM dialogue at the sector level often determines budget priorities more than the policy dialogue of the line ministry with Planning and Finance. This is not only a result of insufficient capacity in Planning and Finance but also reflects the power of proposals that have been negotiated with donors before being submitted to Planning and Finance. Moreover, budget ceilings may be ineffective as the GoM's budget is far from being comprehensive. Important sector ministries still tend to look outward to donors rather than inwards to deal with the planning, budgeting and monitoring mechanisms in place. There are estimates that in 2004 some two thirds of grants received by Mozambique are off-budget, and that more than 50% of overall public expenditure is by-passing the budget.<sup>23</sup>

A major move has been taking place in 2005 to align the sectoral planning, budgeting and review cycle to the overall GoM and GBS schedules. Therefore, in preparing their assessment of the Government's performance against the PAF of the previous year, for the first time sectors fed their regular input oriented towards the sector-specific PAF indicators into the overall JR 2005. More and more sector specialists realise the power of the PAF to impact on the reform process. The sector perspective becomes part of an overall country picture, which ultimately matters. Instead of striving for perfect "sector islands" in an ineffective country context, the vision focuses on sector contributions to an overall system that alleviates poverty. Against that background, GBS and its sector linkages become crucial to determining , inter-sectoral priorities and to move into a common strategic framework. The PAF is the vehicle to take forward an overall PARPA and PES oriented GoM delivery and reform agenda.

Sector representatives themselves are often unhappy with the small number of PAF indicators, as the sectors' activities go far beyond the PAF matrix. This sceptical perception of the PAF is shared by sector representatives from the GoM and donors as well. Far from being a complete mirror of a sector, the PAF should reflect the two or three reform priorities . The EC partly makes use of the GBS PAF sector indicators instead of the previous sector-specific matrices of bilateral cooperation for assessment purposes.

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<sup>22</sup> IMF 2004

<sup>23</sup> Pertinent questions can be addressed to donors, beyond the scope of this PAF-research: why do the same donors engaged in the GBS/PAF process continue to do SWAPs and give project aid, even off budget? Is there a lack of internal institutional alignment and harmonization, linked to a weak interest in the agenda of reform of aid delivery? Is it because of risk management – do not put all eggs into one basket? Is it a lack of conviction in GBS/PAF leading to a deliberate application of multiple standards? Is there a significant correlation between preference for GBS modality and the degree of institutional coherence and integration of national aid delivery systems and with foreign policy (Germen GTZ / KfW with little exposure to DBS on the one side and Sweden / SIDA on the other)?

### 5.3 Response mechanism

The majority of PAPs have a **single tranche response mechanism**. They use the annual JR of performance in the previous year to make bilateral decisions on the implications for their provision of Programme Aid in the following year. While having 49 PAF indicators in place, it is obvious that satisfactory performance by the GoM does not imply that all the benchmarks of every indicator are achieved – the PAF would become unmanageable. Based on the joint assessment, there is space for bilateral judgements here. PAPs have to make their commitments within four weeks of the end of the annual review and confirm commitments by August 31. In that period, the commitment can only be changed if an underlying principle is violated. Once commitments are confirmed, funds will be disbursed, except when PAPs believe that there has been a violation of an underlying principle, or as a consequence of a PAP parliamentary decision, or when one of the specific conditions for individual PAPs applies<sup>24</sup>.

The European Commission, Sweden and Switzerland have a **split tranche response mechanism** in place, which is explicitly anchored in article 5 of the MoU. Donors using a split tranche response mechanism aim to increase predictability while maintaining incentives for progress in selected areas.<sup>25</sup> The mechanism allows for partial disbursements in cases of partial fulfilment and can reduce the volatility of budget support by establishing an intermediate option between withholding all funds and releasing them. This involved the following amounts in 2004:

- European Commission: Euros 57.8 million<sup>26</sup>, out of it Euros 42.1 million fixed and Euros 15.7 million variable tranches;
- Sweden: SEK 100 million, out of it 70% fixed and 30% variable tranches;
- Switzerland: CHF 10 million, out of it 50% fixed and 50% variable tranches.

PAPs with a split tranche response mechanism commit the fixed portion as above on an all-or-nothing basis, depending on the fulfilment of relevant indicators. They make indicative commitments for the following year for the variable portion within four weeks of the end of the annual review and confirmed commitments not later than 31 August, subject to timely reporting. These commitments may change between indicative and confirmed commitments on the basis of further information about GoM performance on specific indicators in the past year and/or performance on specific indicators in the current year until the moment of the mid-term review. Variable portions are linked to the following targets and indicators selected from the PAF and agreed with GoM:

**European Commission:** The decision to disburse is based only on performance in the past year. In case not enough information is available at the annual review to make a commitment, an initial commitment will be made, to be confirmed after the mid-year review on the basis of further information about GoM performance on specific indicators for the past year. The variable portion is based on

- Outcome indicators for the social sectors: 50 % (Education 20%; Health 30%);

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<sup>24</sup> As described in MoU Annex 10.

<sup>25</sup> See OECD/DAC 2005 (Best Practices)

<sup>26</sup> These figures include the variable tranche 2003 of Euros 6.6 million lately disbursed in 2004, and Euros 12 million of extraordinary electoral support. The targeted split is 76.5% fixed share and 23.5% variable share. See EC 2005, p. 18

- Budget execution indicators: 50% (global budget execution/budget plan at central and provinces levels 20%; health, education and other PARPA priority sectors at central and province levels 30%.
- In 2004<sup>27</sup>, the EC budgeted a maximum of Euros 14 million as variable tranche, which was disbursed at a rate of 65% (Euros 9.16 million), due to mixed sector performance rates: budget execution 80%, PFM 100%, education 83% and health 63%.

**Sweden:** The variable portion is linked to financial sector and governance targets/indicators selected from the PAF for the following year and agreed at the time of the August mid-year review. For the PAF 2004, payment is linked to the indicator of having initiated a forensic audit of the Banco Austral commissioned through the Procurador General da República (PGR). These targets are linked to 30% of Sweden's total Direct Budget Support.

**Switzerland:** In making its assessment for preliminary confirmation of commitments at the mid-year review, Switzerland looks at performance in the past and in the present year. For the fixed portion (50% of total GBS), the assessment is based on the general performance against commitments in the PES/PAF, including in particular macroeconomic performance. This assessment also takes into account the discussions on headline information of PES and OE for the following year. The variable portion is based on the following PAF targets/indicators:

- Public Financial Management (linked to 20% of total GBS)
- Revenue mobilisation (linked to 15% of total GBS)
- Private sector development including the financial sector (linked to 15% of total GBS).

#### **5.4 PAF, PRSC and PRGF**

The PAF is neither an exclusive monitoring framework nor the only instrument determining commitments and disbursements of donors that are used in Government-donor relations. The relationship with the World Bank and its PRSC as well as the IMF and its PRGF are of importance.

The relationship between the **PAF and the Poverty Reduction Support Credit (PRSC)** reflects the World Bank's developing position on Budget and Balance of Payments support, having joined the donors' group in 2004 and as a signatory of the MoU.

- The PRSC 2004 (USD 60 million) had been aligned to the PAF at the level of priorities and actions but not in terms of indicators. The PRSC matrix added to the PAF. As an example, in the regulatory environment for private sector development, the PAF included the submission of the commercial code to parliament as an indicator, whereas the PRSC provided the approval by parliament as a condition<sup>28</sup>.
- For the PRSC 2005, after the JR, the World Bank provides a PRSC II in the amount of USD 60 million, which is fully harmonised with the PAF. There is no longer a separate programme matrix or a separate appraisal mission. In terms of

<sup>27</sup> See EC 2005, p.83

<sup>28</sup> As a consequence, the GoM urged the parliament to accept because of the funds involved.

timing of disbursements, a full alignment is planned. This harmonisation effort was made possible by the new operational policy in Development Policy Lending of the World Bank.<sup>29</sup>

Mid-2004 a new IMF **Poverty Reduction and Growth Facility (PRGF)** agreement covering the period 2004-2006 was concluded (SDR 11.36 million, equivalent to US\$ 16.6 million). The IMF has observer status on the G-17 meetings. The PRGF quantitative and structural performance criteria are not fully harmonised with the PAF but can be considered as complementary<sup>30</sup>. In terms of content, there is potential overlap in the PAF-PRGF relationship, mainly in four areas:

- Macroeconomic policies: This area is pretty much left to the IMF, without a deeper G-17 day-to-day involvement, a positive track record being part of the underlying principles in the MoU;
- Financial sector: The G-17 have broader concerns but use IMF conditionalities to the extent possible;
- SISTAFE: Different schedules on SISTAFE in the PRGF letter of intent and the PAF. The final version of the PRGF was produced after the PAF matrix had been agreed in 2004. Therefore, later information was used to set different deadlines, which caused a lot of irritation between the G-17 donors and the IMF;
- Tax reform: The revenue figures used in the PAF and by the IMF are identical.

Beyond content, a number of unresolved procedural issues can be noted. The extent and form of participation of the G-17 in IMF missions and discussions with the GoM has repeatedly been a matter of discussion. The IMF/PRGF performance assessment is done separately from the G-17/PAF exercise despite the above-mentioned overlaps. There still is further scope for harmonisation and alignment.

## **6 Mutual accountability**

### **6.1 GoM accountability**

The PARPA I, covering 2001-2005, was presented to parliament for information only, not for discussion and approval. The HIPC-related PRSP initiative of the Bretton Woods Institutions (BWI) and this procedural weakness in Mozambique meant that the PARPA I had from the start the stigma of being a tool for external rather than domestic accountability.

In contrast to that difficult start, the MoU 2004 explicitly sets the building of **domestic accountability** as one of the objectives to provide GBS<sup>31</sup>. Therefore, GBS is based on planning, budgeting and reporting requirements that by law are submitted to the parliament. Donors negotiating an enhanced quality of these instruments indirectly improved the information parliament receives from government. This progress was

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<sup>29</sup> OP/BP8.60 which is effective since September 2004

<sup>30</sup> A recent joint IEO/OED case study on Mozambique noted since 1999 a significant streamlining in structural conditionality under the PRGF-supported program, transferring responsibility for areas vacated by the IMF to the World Bank. To what extent the burden of aggregate conditionality has been reduced remained open.

<sup>31</sup> § 3 and 7 MoU

clearly confirmed by a leading member of parliament<sup>32</sup>. The MoU explicitly states that the PAF is to be submitted to parliament. It has been one of the early principles to shape the PAF process in a way that it can become an instrument to strengthen domestic accountability of the GoM. The GoM performance measured against the PAF is reported annually and appended to the PES, which is transmitted to parliament. The PAF may, therefore, facilitate members of the national assembly holding their government accountable for its own targets. When fixing the PAF proposal, however, parliament is not involved.

The Aide Mémoire of the JR and the MYR are in the public domain (accessible on the GoM Poverty Observatory and on the PAPs websites<sup>33</sup>). The PES and, therefore, the PAF are publicly available. Civil society organisations are involved in the review process through the “Poverty Observatory”, and in 2005, through participation in the working groups. It remains to be seen whether they make use of the PAF matrix to monitor GoM performance.

The PARPA II will be designed / revised in 2005/06 in a more inclusive process than with PARPA I, which is likely to offer an active role for civil society and parliament. The MPD has commissioned studies on the content, process and functions of PARPA. The DNPO’s preferred option is a process built around the Poverty Observatory, including the establishment of provincial consultations, and the setting up of an advisory committee of eminent persons and councillors, the latter based on the experience of the strategic development planning exercise known as Agenda 2025, approved by parliament. An interesting question is that of the functional and structural relationship between PARPA and the new Government’s five-year plan 2005-09. As the PES and the PAF operationalise both the PARPA and the Five-Year Plan , the PAF will have to be reconstructed and adjusted.

Obviously, the PAF is also used as a yardstick of **external accountability** of the GoM to donors. In an aid-dependent country such as Mozambique, the Government is permanently tempted to focus attention on the external funding agencies, to the detriment of domestic stakeholders. Despite this inherent bias, parliamentary and civil society representatives in Mozambique prefer GBS, including the PAF, as an aid modality compared to project aid, which is largely off-budget and by-passes domestic accountability mechanisms.

## **6.2 Donor accountability**

### *(1) Domestic accountability of donors*

Formally, domestic accountability of donors to their home constituency (parliament, taxpayers) is not linked to the GBS mechanisms. A change of parliament and government, in particular to the right, may have serious implications for GBS. That raises the question of the status of the MoU in international legal terms. In practice, indirect links to the PAF can be traced. **Fiduciary risk concerns** co-determine

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<sup>32</sup> “The problem is no longer to get the information from Government but rather how the parliament can make use of it, facing capacity constraints at all levels.”

<sup>33</sup> <http://www.op.gov.mz/> (GoM) and <http://www.scm.uem.mz/pap/> (PAPs)

reform priorities of donors. “Insisting on the launch of a forensic audit as one performance indicator in the GoM’s PAF is also a legacy of the banking crisis and our strong public debate on aid effectiveness back home”, a donor representative said. Also the result-oriented indicators pushed by the EC may not only be an implication of an aid-effectiveness agenda. Performance against health and education criteria facilitates a link to the MDGs and the understanding of the EC’s domestic audience.

It is also possible that development NGOs in donor countries will criticise the **reform agenda** supported by their government as a donor. This happened frequently in the 1980s and 1990s in relation to structural adjustment, imposed by the BWI. The PAF, owned by the government and becoming a form of agreed conditionality, is less subject to that kind of domestic pressure. In the case of Mozambique no such pressure could be traced. GBS as an aid modality so far did not draw much attention from NGOs, either in a supportive or critical way.

## *(2) Accountability towards partners and their constituency*

Weak predictability of the early GBS programme and lack of transparency of the conditions attached were at the roots of the 2004 MoU and the PAF. In response to the banking crisis of 2001, and as an answer to human rights violations, a number of donors withheld or threatened to withhold GBS disbursements. The GoM, already depending to a considerable extent on GBS funding, was seriously challenged.

The MoU was prepared in the spirit of mutual accountability between the signatories. It systematically clarifies the performance and reporting commitments of the GoM as well as the PAPs. While the GoM is accountable based on the terms of its PAF, the G-16 have also signed up to a number of specific commitments concerning how they will provide programme aid in future. These obligations are an effort to implement effectively the concerns of the Rome Declaration on Harmonisation at the country level.

According to the MoU<sup>34</sup>, PAPs are committed to providing Programme Aid in a way that

- Is aligned with Mozambican instruments, processes and systems of financial management;
- Increases the predictability of the flow of donor funds, including by making multi-year agreements on programme aid;
- Ensures transparency of conditions and funding;
- Improves harmonisation by eliminating bilateral conditions and bilateral administrative and reporting requirements;
- Lessens the administrative burden of their assistance on GoM by increasingly mounting joint missions, undertaking joint analysis, using joint procedures and by reducing the number of visits and overlapping activities;
- Enhances the capacity of the GoM to meet its commitments by providing appropriate technical assistance and capacity building.

In order to monitor and stimulate PAPs’ progress in moving towards meeting these commitments and implementing best practice in Mozambique, the Programme Aid Partners Performance Assessment (PAPPA) framework was developed. Article 16 of

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<sup>34</sup> Art 13 MoU (reduced)

the MoU obliges the donors to provide an annual report on their efforts to implement these obligations. In 2004, the G-15 mandated an independent team to provide a baseline survey<sup>35</sup> for a 2003 PAPs' PAF proposal. On that basis donors negotiated among themselves and in interaction with the GoM the first PAP PAF<sup>36</sup>.

The agreed Aide Mémoire of the MYR 2004 related to the PAPPA Baseline Survey, "the need to apply the spirit of the MoU to the overall portfolio, rather than just general budget and balance of payments support. It was proposed that individual PAPs will indicate what contribution they will make to achieving the PAP PAF commitments, and that an effort be made to translating the spirit of the MoU to the sectoral and reform levels." In March/April 2005 again an independent assessment of PAPs' performance was made, including a proposal for an assessment of individual donor performance.<sup>37</sup>

On the occasion of the JR 2005, and with a view to strengthening PAPs performance, GoM and PAPs agreed to update the PAP PAF matrix by the MYR 2005. "Targets rather than monitoring indicators will be identified and further progress will be made in extending the outreach of the matrix to the overall G-16 portfolio. As per government request, disaggregated individual donor commitments will also be identified. Following the Government's suggestion that PAPPA exercises should result in a performance rating for each PAP, a criteria and weighting framework to assess individual PAP performance will be developed by the MYR at the latest".<sup>38</sup>

## **7 Observations and lessons learnt**

### **7.1 Observations**

***The target not to exceed 50 PAF indicators was a great achievement by the GoM.*** The PAF process started with a list of indicators covering 40 pages. A long process of priority setting followed. GoM demand of having not more than 50 indicators was an important upper ceiling. Ending up with an inflated number of indicators was a particular danger in view of accommodating different donor priorities. But it has to be noted that indicator no. 49 "Law Reform" is composed of five revisions of the law, listed. a. – e., to be submitted to parliament in 2005. Moreover, from a GoM perspective the underlying principles (good governance, PARPA-dedication, IMF-on track status) are similar to "sleeping" conditions, which may become vital in the case of their alleged violation. In terms of a reduction to a handful of key benchmarks, the present PAF approach has great achievements but still is far from the ideal.

***A great part of the strength of the PAF is derived from its clear focus on a few crucial issues – despite its still unsatisfactorily large scope.*** The reform of the legal and judicial sector has received much more attention since it is part of the PAF.

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<sup>35</sup> Gerster/Harding 2004

<sup>36</sup> See Annex 3

<sup>37</sup> Killick/Castel-Branco/Gerster 2005

<sup>38</sup> Aide Memoire 2005, § 70

The PAF raises attention and increases pressure by making targets against which performance is assessed and disbursements are linked. Nevertheless, despite this prominence, in the 2004 MYR and the JR 2005 the GoM and donors concluded there was “weak performance” from the legal and judiciary sector.

***The ownership of the PAF indicators is supposed to be with the GoM. In practice, proposals are discussed with and substantially influenced by donors***<sup>39</sup>. The negotiations should be seen in the context of the GoM having rather weak capacities while donors can mobilise specialists. The Aide Mémoire 2005 says: “The PES/PAF indicators were said to reflect both government and donor priorities, albeit in an uneven negotiation playing field.”<sup>40</sup> The strong emphasis of the PAF related to fiduciary risk is a child of these negotiations, an emphasis that stands quite in contrast to the weight of these issues in the PARPA and PES. The independent “Learning Assessment” of the JR 2004 noted an initially rather prescriptive tendency of some donors during the PAF definition process<sup>41</sup>. As a civil servant puts it: “We assume the PAF is ours, and it goes to parliament.” It is, however, recognised also within the GoM that the PAF must be and is composed of milestones for reforms and genuinely reflects reform priorities that are broadly shared among GoM and donors.

***The PAF process is an opportunity to strengthen the reform minded constituency within the GoM and to broaden ownership of the agreed policies across the GoM.*** The GoM is not a monolithic bloc. There are obvious differences of opinion, competing interests and sometimes lack of trust between line ministries and the central ministries of Finance and Planning. Also within the central government there are different views on reforms, their needs, direction and speed. As far as donors adopt this perspective, their handling of the PAF requires them to exercise restraint in exerting influence and micromanagement, which hinder the development of commitment and domestic accountability.

***Beyond the formal procedures determining the PAF, effective influence by the GoM and donors on the PAF varies across the areas covered.*** In education and health dialogue is very well established and influence seems to be rather balanced. The debates on private sector development, on decentralisation, corruption and HIV/AIDS are said to be very much donor-driven. On the other hand, the GoM dominates in the sectors of agriculture and justice, with the GoM proposing mainly input indicators or the construction of buildings whereas donors primarily are interested in service delivery. From a donor perspective, this domination is often perceived as resistance to reform, which again is mirrored in less meaningful or less ambitious PAF indicators to measure progress.

#### **Observations on the PAPs PAF:**

- The PAPs PAF applies to the donors’ group collectively. This structural difference to the GoM’s PAF weakens the sense of ownership and responsibility that is being developed to stimulate improvements. In its feedback to the baseline study 2003, the GoM suggested a rating of the donors individually in future. In the PAPPA

<sup>39</sup> This view is not shared by the entire donor community. A donor’s voice: The PAF indicators are too much dominated by GoM which again is not looking for ambitious and clear but rather weak and blurred indicators.

<sup>40</sup> § 68 of the Aide Memoire 2005

<sup>41</sup> Harding/Gerster 2004, 22

report 2005, therefore, donors were categorised in groups of weak, medium, and strong harmonisers.

- The PAPs PAF is hardly used as a working instrument among the donors to further improve their individual performance. Similarly to the expectation that the GoM's PAF is an instrument to strengthen a reform process focusing on strategic key issues, the same expectation is justified towards PAPs' performance.
- The PAPs PAF consists of part I with "indicators on core MoU commitments" and part II assembling broader "monitorable indicators". Limiting the outreach of the PAPs PAF essentially to the GBS, instead of extending it to the overall portfolio, contradicts the very fundamental idea of GBS. Donors should construct a PAPs PAF covering their overall portfolio.
- The GoM was not involved in the construction of the PAPs PAF for 2004. The PAF matrix will hardly contain ambitious targets in the absence of a negotiation with a challenging partner. The donors should not take unfair advantage of a polite and time-stressed GoM but act more courageously when updating the PAPs PAF. The implementation of the Paris Declaration should really make a difference in the effectiveness of aid delivery to Mozambique.

***Making macroeconomic management part of the underlying principles instead of the PAF removes macroeconomic issues routinely from the G-17/GoM PAF oriented dialogue.*** Despite having the option to include them in the JR and MYR in case of disputes, the question remains whether this arrangement to separate an absolutely fundamental area from a not (yet) fully coordinated separate dialogue platform between the IMF and the GoM does not constitute a weakness.

***The PAF contains a number of outcome indicators, in particular in education, beyond the strict control of the GoM.*** The GoM is held accountable and its performance is measured against a set of indicators that is in part influenced by third factors. Outcome indicators are particularly attractive in the present debate on reaching the MDGs. The clear link of a part of the European Commission's GBS to outcome indicators left the GoM no choice in that respect. The system of the EC does not leave any room for interpretation. If targets are missed, there is an automatic deduction as regards the flexible portion. Most bilateral donors favour policy and process indicators fully under the control of the GoM. DFID, Switzerland and other donors are basing their decisions mainly on the second part of the PAF matrix with policy indicators.

***Donor-driven PAF elements may not even distort GoM priorities but just be over-ambitious.*** It is a well-known proposition that foreigners are not fully familiar with the local context and are possibly more demanding towards a partner government than they would be in their home countries. This may bias the PAF negotiation results occasionally. A number of PAF target figures have been revised downwards on the occasions of reviews. During 2004/2005 the risk of being too ambitious has been particularly acute as, due to the general elections and the far-reaching changes in the presidency and cabinet, political change slowed down – as it might have done in most countries. Missing (unrealistic) targets has serious

consequences not for the donors but for the GoM being held responsible<sup>42</sup>. Flexibility and openness are required to unearth the reasons for indicators being missed.

***The functionality of the PAF depends on the adequacy of its indicators, the quality and timeliness of the data.*** Do the indicators chosen really reflect the target to be achieved? Are the data required available in time? Is the data quality reasonable to make the figures meaningful? The system of quantitative indicators portrays an accurate picture of progress. To what extent the figures, however, can be taken as a yardstick for performance, depends on their quality. The quantitative targets for road rehabilitation and maintenance have been criticised as rather meaningless. The use of classifications such as good, reasonable and bad roads has been suggested. Another observer mentioned that, at the provincial level, some indicators are just routinely updated without a reality check, and finally added at the national level. A serious PAF requires investment into improving the monitoring mechanisms as well.

***PAF indicators tend to become targets of their own because of their sheer importance, for donors as well as the GoM.*** Methodologically, targets and indicators have to be carefully differentiated. The Government may be tempted to pour a disproportionate amount of resources into reaching a targeted indicator while neglecting the larger objective and picture.

***There is a trade-off between a precise PAF-based assessment and rather holistic performance monitoring which reduces again predictability of support.*** The MoU accommodates both views. There were donor concerns that the PAF would narrow policy dialogue to a small number of triggers instead of looking at the bigger picture. Similarly, there are GoM concerns that occasionally PAF negotiations are affected and biased by specific issues that absorb all attention. Even if it is an important aspect for the further development of Mozambique, the danger is there that the overall vision of development and the PAF as a holistic set of indicators get lost. In practice, so far these fears have not substantiated. This “honeymoon” has been facilitated by Mozambique’s overall positive track record in poverty reduction.

## **7.2 Lessons learnt**

The first PAF was adopted in Mozambique on the JR in April 2004 and revised in September 2004. There is only an extremely short period of experience, and, therefore, it is almost premature to map findings and identify lessons learnt.

***The PAF, based on an appropriate preparation process, is an effective instrument to tailor the move from imposed to agreed conditionality according to the local context.*** GBS and its PAF do not deepen aid dependency of the GoM nor are they more intrusive than previous forms of conditionality. However, the asymmetry in the aid relationship persists and needs to be carefully watched.

***The PAF brings transparency into the aid relationship.*** This is a major achievement and compares favourably with the situation previously, when different

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<sup>42</sup> See e.g. the target and actual figures of health sector coverage 2000 – 2002, in EC 2005, p. 86, leading in the case of the EC’s variable tranche to automatic reduction of disbursements if there is not a waiver (see EC 2005, p. 88 and 89).

systems and non-transparent conditionalities in particular of bilateral donors prevailed.

***The outreach of the PAF based reforms is severely limited by extensive donor practices (G-17 donors and others) of delivering a large part of ODA off-budget.*** The bulk of other aid components beyond GBS, even in sector-wide approaches, are at best only partly accounted for in the GoM planning, budgeting, accounting and monitoring cycle.

***The agreed PAF with its 49 indicators is a big step forward but remains too wide in focus.*** A broad coalition as is the G-17 has lost the original commonality of like-mindedness. When negotiating the PAF with the GoM, the danger is imminent that there is a proliferation of indicators responding to a lot of individual preferences and that consensus is found at the lowest common denominator only, leading to a large and conceptually weak PAF. A Government spokesperson says: "We have to go much further in streamlining the set of indicators used as conditionality. The GoM will continue to work on all targets but the proliferation of high importance indicators remains burdensome and distortive."

***Despite all efforts to produce predictable results, the PAF arrangement still involves considerable space for the individual judgement of donors.*** A minority of donors has identified a sub-set of the 49 PAF indicators to assess performance, be it for the full contribution or for the variable portion only. The majority takes an overall view and bases its individual judgement on the results of the JR. It is unlikely that the GoM will meet all performance indicators. What are the implications if the GoM misses 1, 10 or 20 out of the 49 indicators?

***There is a trade-off between harmonisation and a reduction of the PAF matrix on the one hand, and volatility of general budget support on the other.*** A small number of uniform triggers increases the risk of 'herd behaviour' and the volatility of disbursements.

***A strong link of the PAF cycle between central ministries (planning and finance) and the sectors is essential to induce appropriate policy responses.*** The sector-related PAF indicators should also be relevant indicators for sector support commitments and disbursements of donors. The PAF-based assessment strengthens inter-ministerial exchanges and learning processes , e.g. on microcredit between the financial sector and agriculture. This can be considered as an investment into cross-sectoral policy making.

***An increasing inclusion of decentralisation concerns in the PAF and the integration of provinces and districts in the process are major achievements and merit strengthening.*** Block grants for municipalities and fair resource sharing formulas with sub-national entities are the lifeblood of decentralisation. Equally important is the integration of provincial and district perspectives into the analysis of GoM performance, which started in 2005.

***The PAF and GBS related processes have strengthened domestic accountability of the GoM to parliament.*** The PAF and the Aide Mémoires of the JR are publicly accessible. This hardly translates into additional civil society activities holding the GoM accountable.

***There are still untapped opportunities for coordination and lowering transaction costs.*** A major step forward was the full harmonisation of the PRSC and the PAF matrix. However, even in an advanced environment such as Mozambique, alignment and harmonisation with the PAF matrix and processes can be enhanced further. It will be important to integrate the PEFA indicators as far as appropriate into the PAF for the PFM area.

#### **Lessons learnt on the PAPs PAF**

Despite the limited experience in shaping and operating a donors' performance assessment framework, the case of Mozambique demonstrates three lessons:

- The key issues of concern are essentially the same as for PAFs of the partner government: Do the donors individually and collectively have sufficient ownership of the PAPs PAF? Is it focusing on the key areas of "good donorship", as are predictability and transaction costs? Are the donors using it actively as a strategic tool for aid reform beyond GBS, meaning the implementation of the Paris Declaration on Aid Effectiveness in their overall portfolio?
- The GoM proposal of individual donor ratings was taken up in the PAPPA 2005 report. It enables the identification of strengths and weaknesses of all the PAPs at the country level. When being extended to the overall aid portfolio, this innovation contains considerable potential for progress in aid effectiveness.
- The basic asymmetry and power imbalance of the aid relationship cannot be overruled by a technical tool such as the PAPs PAF. A weak donor's performance is not followed up by sanctions comparable to the potential interruption of funding if the GoM does not perform well. Self-discipline of donors and peer pressure are the only resources, therefore, to produce tangible results.

***An informed negotiation on the PAF increases transaction costs for donors but policy impact is increased as well.*** At the same time, the GBS group dynamics lead to a redistribution of transaction costs by concentrating the burden on the "Troika plus" members and the leading focal donors of the sectors. Other G-17 members have the option to focus on selected fields of interest.

***Donors should differentiate between their needs to have outcome and impact data and the functionality of the PAF.*** It is undisputed that input and output indicators serve the different objectives of the PAF. Outcome and impact indicators, often being beyond the Government's control and not available in a reliable and updated form, tend to be dysfunctional. It is critical for the Government as well as the donors to know the outcome and impact of activities but this information should be disconnected from disbursement procedures. If outcomes and impacts are unsatisfactory, this should be the subject of an in-depth analysis.

***It is important to complement the PAF exercise by value-for-money audits as reality checks.*** The PAF monitoring and reporting system produces figures that have to be verified on an occasional and random basis. Mozambique started with the practice of value-for-money audits in the field, which are an important reality check.

***The bilateral space for policies, to shape commitments and interrupt disbursements is considerably narrowed by the joint procedures.*** However,

donors ultimately retain power under their individual bilateral arrangements. That is demonstrated by a number of cases that have been looming under very different circumstances. This is a fact with which the partner governments and the donor community have to live.

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## Annex 2: Performance Assessment Framework (PAF) – Short Matrix of Priority Actions

Government Program – PARPA			Priorities		Indicators	No.	PAF 2005 targets			
Strategic Objectives	Areas	Sub-areas	Objectives	Actions			2005	2006	2007	
Poverty reduction through privileged orientation of public services to the most needy populations	Education	Primary education	Universal education: - increase access and retention - increase quality of education - reduce gender disparities	Approve, implement and assess the strategic plan for 2005-2009  - Implement the program of low cost school construction - Implement the strategy of teachers formation taking into account the new curriculum - Approve and implement the gender strategy	EP1 net enrollment rate - total	1a	79%	83%	86%	
					EP1 net enrollment rate - girls	1b	77%	81%	84%	
					EP1 completion rate - total	2a	48%	58%	66%	
					EP1 completion rate - girls	2b	41%	52%	62%	
	Health	Mother & Child		Maternal mortality reduced	Increase offer of obstetric care	Proportion of institutional deliveries among expected births	3	49%	51%	51%
				Infant mortality reduced	Increase coverage of the Extended Vaccination Programme	T coverage <1 year DPT3 e HB	4	95%	95%	95%
				Increase access to basic health services	Spread access to quality treatment of transmitted and non-transmitted diseases	Utilization rate - consultations per inhabitant per year	5	0.93	0.94	0.95
	HIV-AIDS	MISAU/ CNCS		Prevention and mitigation of the impact on people infected and affected by HIV-AIDS	Reduction of vertical transmission	# HIV+ pregnant women and neonates receiving PMTCT Prophylaxis	6	15000	25000	35000
CNCS		Strengthen capacity and partnerships and spread institutional support to the programmes			Percentage of funds channelled by CNCS-SE to Civil Society Organisations, public and private (by type of organisation)	7	55%	65%	70%	

				Care and community and home based support (orphans and vulnerable children)	Percentage of community initiatives or CBOs supported by CNCS-SE to support orphans and vulnerable children in the country (% of total applications of OSCs, and institutions from public and private sector)	8	20%	23%	25%
Government Program – PARPA			Priorities		Indicators	No.	PAF 2005 targets		
Strategic Objectives	Areas	Sub-areas	Objectives	Actions			2005	2006	2007
Poverty reduction through privileged orientation of public services to the most needy populations	Infra-structures	Roads	National network improved	Rehabilitate and improve the national network	Kms. Rehabilitated	9	1091	705	
				Improve the execution of works and services	Kms Periodic Maintenance	10	1635	2001	
					Kms Routine Maintenance	11	14343	15247	
		Water	Access increased	Open well and make new connections	% Population with access to potable water	12	44.20%	45.8%	
		Sanitation	Access increased	Improved latrines, septic tanks	% Population with access to sanitation services	13	37%	39%	
Promotion of economic development, with priority to the rural areas and reduction of the regional unbalances	Agriculture and Rural Development	Agricultural Services	Promotion of agricultural production	Increase coverage of agricultural outreach services	% of farmers assisted explorations that adopted at least one new technique during the last 12 months	14	28%	30%	32%
				Improve coverage of animal health services	% of cattle farmers that vaccinated their livestock	15	70%	72%	75%
				Stimulate market mechanisms	% of cereal production (maize, sorghum and rice) commercialized by the formal sector	16	16.10%	16.20%	16.60%
				Promote use of irrigation techniques	Area (Ha) constructed and/or rehabilitated with public resources irrigation schemes	17	2'900	3'200	3'300
		Management of Natural Resources	Access to land	Simplify mechanisms of obtaining the rights for land tenure	% of processes received that are authorized in 90 days	18	90%	92%	95%

			Promotion of sustainable exploration of natural resources	Promote sustainable commercial management of Natural Resources	% of concessions with application plan approved	19			
							37%	45%	50%
Government Program – PARPA			Priorities		Indicators	No.	PAF 2005 targets		
Strategic Objectives	Areas	Sub-areas	Objectives	Actions			2005	2006	2007
Creation of a favourable environment for private sector action	Develop private sectors		Stimulate job creation in the formal sector, modernize commercial practice to improve economic activities, simplify the process of business registration and reduce corruption.	Amendment of the Labour Law and Submission to the Assembly of the Republic of the Amended Labour Law	20	Law submitted			
				Revision of the commercial code	21	Implementation (subject to Parliamentary approval)			
	Macro-economic and financial policies	Financial system	Strengthen accountability in the banking sector	Conduct a financial audit of BAu commissioned through PGR	22	Finalised	Measures taken		
				Improve financial intermediation including for micro, small, medium enterprises and unbanked households	23	Approval and issue of LICSF regulation			
		Improve insurance and social protection sectors	Improvement of social protection sistem	25	Submission of proposal of social protection law to Parliament				

					26	Beginning of actuarial study of social security system	Conclusion of actuarial study		
Government Program – PARPA			Priorities	Indicators	No.	PAF 2005 targets			
Strategic Objectives	Areas	Sub-areas	Objectives	Actions		2005	2006	2007	
Creation of a favourable environment for private sector action	Macro-economic and financial policies	Reform of the State Financial Administration System	Upgrade efficiency and effectiveness of the management of State funds	Expenditure in PARPA priority sectors is at least 65% of total expenditure excluding interest payments on debts. At least half of these 65% are related to education and health.	27	65%	Indicated in PARPA II	Indic PARPA II	
				Increase the coverage of the budget as a prerequisite for establishing budgeting by programs	28	Conclude the study on off-budgets in health sector and begin to implement the recommendations for the state budget cycle in 2006 in the health sector	Conclude the study for off-budgets in education and implement the recommendations for the state budget cycle in 2007	Remaining sectors (water, agriculture, and mineral resources)	
				Implement the Sistafe	29	60% of the state budget in SISTAFE (subject to confirmation after QAG mission)	100 % of state budget (subject to confirmation by QAG mission)		
		Tax Reform	Simpler and more covering, fair and balanced taxation	Strengthening tax administration and creation of the Revenue Authority (CRA) by 2006	30	Approval of regulations and procedures for CRA	Establishing of CRA		
		Total revenue as % of GDP	31	14.9%	15.1%	15.1%			

		Procurement	Adoption of a transparent and efficient system	Implement a modern procurement system in accordance with the best international practices based on the new procurement regulation and in connection with e-SISTAFE	32	Beginning of implementation	Implementation	Implementation
		Auditing	Improve coverage and function of internal and external auditing	Implement priority components of the strategic plan in internal audit	33	√	√	√
				Revision of the functions of the external auditing institutions*	34			
		Planning and Monitoring	Harmonization of medium and long term instruments	PARPA revision concluded through a consultive process	35	√		
				Single process of CFMP, PES and state budget formulation.	36	Start	Start and sistematize the monitoring of CFMP/PES/State budget	
See Aide Memoire								
Government Program – PARPA			Priorities		No.	PAF 2005 targets		
Strategic Objectives	Areas	Sub-areas	Objectives	Actions		2005	2006	2007
Creation of a favourable environment for private sector action	Good Governance, Legality and Justice (combat corruption)	Public Sector Reform	Decentralization	Prepare policy and strategy of decentralization	37	Prepared	Approved	
				Establishment of criteria for the distribution of financial resources to districts	38	Proposed/Prepared	Approved/implemented	
				FCA transferred to each municipality (planning and execution) and total revenue of each municipality/person (planning)	39	Value and Value/Person available	Value and Value/Person will be available	Value and Value/Person will be available
			Rationalization of structures and processes	Government approval of the salary policy for the medium term (salary reform) and implementation begun, starting with the harmonized database	40	Approval	Implementation	
				Restructuring plans agreed in accordance with MTEF/CFMP and implementation begun in MISAU, MINED, MADER, MAE, MIC and MPF	41	Plans agreed and implementation begun	Implementation	
			Combat corruption	Study on good governance, corruption and service delivery completed and resulting anti-corruption strategy implemented	42	Strategy approval and beginning of implementation		
				A corruption survey in the justice system (with solutions proposed for procedural simplification and addressing other causes of corruption) and recommendations implemented	43	Publication of first study and identification of other institutions to be included	Follow-up of the study	
Increase government resources (especially better employment of personnel) for the anti-corruption units	44	√		√	√			
Consolidation of peace, national	Good Governance,	Justice Reform	Increase efficiency in the provision of	Increase number of judicial verdicts reached (subject to change) *	45	42% (Base year is 2002)	50% (Base year is 2002)	60% (Base year is 2002)

unity, justice and democracy	Legality and Justice (Fight corruption)	services by the justice system	Decrease in number of prisoners that await accusation and trial	Maximum % of prisoners awaiting trial	46	57%	50%			
			Simplification and faster processing	Presentation of a long term reform program that includes planning, budgeting and monitoring systems which give priority to services delivered in the sector	Law reforms	Approval of vision document by CM and revision of PEI and POPEI	47	√	Implementation	
						Consolidate through POPEI a harmonized system of M&E .	48	√		
						Revision of the Civil Process Code ,	49a)	Submission to Parliament		
						Revision of the organic law of judicial courts including commercial sections	49b)	Submission to Parliament		
						Revision of the Notary Code ,	49c)	Submission to Parliament		
						Revision of the Penal Code	49d)	Submission to Parliament		
						Revision of prison legislation	49e)	Submission to Parliament		
* See Aide Memoire										

### **Annex 3: Programme Aid Partners Performance Assessment Framework (PAPs' PAF) Matrix – September 2004**

This matrix, agreed at the September 2004 Mid-Year Review, is the result of a period of consultation with the Government of Mozambique and among the G15 PAPs. It is based on the results of the 2004 Baseline Survey of PAP performance in 2003, which was performed by an independent team of consultants<sup>43</sup>. The first section of the matrix reflects specific and broad commitments PAPs signed up to in the MoU. The second section reflects broader aid effectiveness objectives to be monitored, which are not specifically set out in the MoU but reflect the determination declared by PAPs in the MoU to work in the spirit of NEPAD, the Monterrey Consensus and the Rome Declaration on Harmonisation.

#### **1. Indicators on core MoU donor commitments**

<b>Areas of concern</b>	<b>Objectives</b>	<b>Activities</b>	<b>Indicators</b>	<b>2003 actual</b>	<b>2004 target</b>	<b>2005 target</b>	<b>2006 target</b>
<b>Predictability</b>	Short-term predictability of BS/BoPS improves	<ul style="list-style-type: none"> <li>• Donors agree with MPF on disbursement schedules for year n+1 by 31 December of year n</li> </ul>	1. Share of donors disbursing according to agreed schedule of disbursements and commitments (subject to no breach of underlying principles)	40%	>60%	>80%	100%
			2. Same as (1) but in terms of the % of total BS/BoPS		>60%	>80%	100%
			3. Number of instances of agencies NOT meeting these commitments as stated in the MoU (taking account of MoU exceptions)	n.a.	0	0	0
		<ul style="list-style-type: none"> <li>• Donors inform GoM of commitments within four weeks of the annual review and do not change the size of commitments afterwards</li> <li>• Donors confirm commitments for year n+1 by 31 August (exceptions exist in MoU Annex 10)</li> </ul>					

<sup>43</sup> Baseline Study on PAP Performance in 2003 – September 2004 – Report to the G15 Programme Aid Partners and Government of Mozambique by Richard Gester and Alan Harding.

Areas of concern	Objectives	Activities	Indicators	2003 actual	2004 target	2005 target	2006 target
	Medium-term predictability of BS/BoPS improves	<ul style="list-style-type: none"> <li>Donors commit funds on a multiyear basis</li> </ul>	4. Share of donors with a multiyear indicative commitment	60%	>70%	>80%	>90%
<b>Alignment &amp; Harmonisation</b>	Full alignment and harmonisation of BS/BoPS in the spirit of the 2004 MoU	<ul style="list-style-type: none"> <li>Reduction of bilateral conditions, bilateral administrative &amp; reporting requirements, and bilateral legal &amp; statutory requirements</li> </ul>	5. Share of donors strictly adhering to the common conditionality framework (PES PAF matrix)	87%	87%	>90%	>95%
			6. Share of donors with bilateral exceptions in the MoU (Annex 10)	n.a.	53%	<55%	<55%
		<ul style="list-style-type: none"> <li>Harmonise response mechanisms</li> </ul>	7. Number of donors NOT using the core MoU response mechanisms (disbursement in year n+1 based on performance in year n-1)	n.a.	3	3	2
<b>Administrative burden</b>	The administrative burden on GoM related to the number of visits on BS/BoPS and overlapping activities is reduced.	<ul style="list-style-type: none"> <li>The number of missions related to BS/BoPS is reduced</li> <li>Donors increasingly use joint missions</li> </ul>	8. Number of missions related to BS/BoPS is reduced	?	2 (JR & MYR only)	2	2
<b>Transparency</b>	PAPs fulfil their information requirements according to obligations (MoU Annex 3, §3)	<ul style="list-style-type: none"> <li>Provision of quarterly report on release of Programme Aid within 2 weeks of the end of each quarter</li> </ul>	9. Number of instances of donors NOT meeting these commitments	n.a.	0	0	0
<b>Capacity building</b>	Capacities to design, implement, monitor and evaluate GoM PARPA are strengthened	<ul style="list-style-type: none"> <li>Explore the possibility for a long term joint strategy for Technical Assistance</li> </ul>	10. An issues paper exploring the possibility for a long term joint strategy for Technical Assistance is drafted in 2005 and discussed with GoM	n.a.	/	yes	/

## 2. Monitorable indicators

Areas of concern	Objectives	Activities	Indicators	2003 actual	2004 target	2005 target	2006 target
<b>Predictability</b>	Short-term predictability of BS/BoPS improves	<ul style="list-style-type: none"> <li>Based on performance in year n-1 donors commit funds for year n+1 at the start of the GoM budget preparation cycle</li> </ul>	11. % Total BS/BoPS committed for year n+1 within four weeks of the year n Joint Review and for which disbursement in year n+1 is guaranteed unless there is a breach of underlying principles <sup>44</sup>	n.a.	55% (estimate)	tbm	tbm
	Medium-term predictability of BS/BoPS improves	<ul style="list-style-type: none"> <li>Donors commit BS/BoPS in line with GoM planning horizon</li> </ul>	12. Number of donors providing indicative multiyear commitments of BS/BoPS on a rolling basis in line with the MTFF	0	tbm	tbm	tbm
<b>Portfolio composition</b>	Donors make use of the most effective aid modalities	<ul style="list-style-type: none"> <li>PAPs and GoM evaluate the effectiveness of BS/BoPS as a modality in terms of the objectives stated in section 1 and 2 of the MoU</li> <li>Where appropriate donors increase volume of BS/BoPS and turn other aid modalities into BS/BoPS</li> </ul>	13. Share of BS/BoPS in PAPs' total aid (excl. aid to NGOs and private sector)	35% <sup>45</sup>	tbm	tbm	tbm
<b>Administrative burden</b>	Donors contribute to reduction of GoM burden	<ul style="list-style-type: none"> <li>Donors manage funds for other donors or conclude agreements to perform tasks for other agencies</li> </ul>	14. Number of examples of delegated cooperation among donors	4	tbm	tbm	tbm
		<ul style="list-style-type: none"> <li>Donors co-ordinate sector work</li> </ul>	15. Number of sectors with 10 or more PAPs is decreasing	3	tbm	tbm	tbm

<sup>44</sup> Taken to be total BS/BoPS minus the variable tranches and WB BoPS

<sup>45</sup> The percentage does not exclude aid to NGOs and the private sector as part of total aid because of a lack of data. Belgium, Germany and Portugal are excluded as they did not yet disburse budget support in 2003. Denmark is excluded from the calculation because the required information was not provided.

		<ul style="list-style-type: none"> <li>Donors pool project funding</li> </ul>	16. Pooled funding/ stand alone projects <sup>46</sup>	1.2 <sup>47</sup>	tbm	tbm	tbm
		<ul style="list-style-type: none"> <li>Sector aid is made more harmonised, aligned, and predictable</li> </ul>	17. Number of sectors with an MoU containing comparable donor commitments as the PAP's MoU	0	tbm	tbm	tbm
			18. Number of sectors with a donor performance matrix	0	tbm	tbm	tbm
		<ul style="list-style-type: none"> <li>Donors respect GoM core business</li> </ul>	19. Donors agree 'quiet periods' with GoM	/	tbm	tbm	tbm
<b>Transparency</b>	Donors' BS/BoPS related analytic work on Mozambique is shared with GoM	<ul style="list-style-type: none"> <li>GoM participates in study</li> <li>Analytic work is done in Portuguese or translated into Portuguese</li> </ul>	20. Share of studies timely available in Portuguese	69%	tbm	tbm	tbm
	Transparency on aid flows is improved	<ul style="list-style-type: none"> <li>Donors &amp; GoM negotiate &amp; agree on aid reporting standards</li> <li>PAPs report aid flows to DCI</li> </ul>	21. Share of PAPs reporting aid flows to DCI based on an agreed format and definitions	60%	tbm	tbm	tbm

tbm = to be monitored

na = not applicable

BS/BoPS = Budget support and Balance of Payments Support

<sup>46</sup> Ratio in financial terms

<sup>47</sup> To avoid definition problems, 'pooled funding' includes 'sector budget support' and 'basket funding'. 'Stand alone projects' refers to 'Project aid' in the baseline study. Due to data problems (particularly clarity around what is meant with 'Other') the ratio is calculated based on information from 6 donors only.