

# Mozambique political process bulletin



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## ‘Disappointing’ performance means no extra budget support

Donors were prepared to give Mozambique increased budget support, but decided not to because of the government’s “disappointing performance” last year, particularly with respect to justice and economic development, according to Frank Sheridan, Irish ambassador and head of the G19 group of budget support donors.

He was speaking at an aid pledging ceremony on 28 May, and added that “a number [of donors] have specifically asked that we highlight that they had scope to increase their budget support for 2010 if the results had been better” and that “allocations are less than might otherwise have been possible”. Of 40 agreed targets, the government met only 20 – down from 24 in 2007.

Aid should “not be taken for granted,” warned Sheridan. “Some sectors really do need to improve their performance.”

In the strongest statement, Sheridan said: “We hope and expect that the actions promised in the field of anti-corruption will be fully carried out this year. These are issues which realistically cannot be raised routinely on an annual basis without having some progress to report.”

Donors also “encouraged” government to improve the business environment, “tighten up on the sustainable use of natural resources”, and take action regarding the application of the land law to communities.

In a contentious point, donors also call for government to apply the Labour Law “in as commonsense a way as possible”. This is apparently support for US embassy and business pressure to allow NGOs and companies to bring in more foreign workers.

Meanwhile, donors have only met 11 of their 18 targets, but there is no punishment for donors which do not keep their promises. (See page 5)

## 2010 budget support to be \$472 mn

One donor, Sweden, has reduced budget support, by 3%. Two donors have increased budget support. Canada doubled its budget support, in keeping with long term plans, and the World Bank decided to provide as budget support the extra \$40 million being given as support during the global financial crisis. The other 16 donors maintained their level of support, although some had planned increases.

The total budget support for 2010 will be \$472 million, compared to \$445 mn in 2009. The four largest budget support funders are the World Bank (\$110 mn in 2010), the UK (\$69 mn), the European Commission (\$67 mn), and Sweden (\$42 mn).

**Government afraid to question donors**

see page 5

**Are donors becoming a “shadow government”?**

see page 8

For the first time, the budget support donors and their two associate members, the US and UN, have also published details of sector support, which will be \$374 in 2010.

Tables of commitments for 2010 are on pages 3 and 4.

## Missed targets on governance & economy

Governance is top of the list of donor concerns, and five of nine agreed targets were not met. Two related to criminal justice – the number of cases tried by the courts and the percentage of criminal cases cleared up.

Donors were particularly critical that, as also happened in previous years, the Ministry of Justice failed to provide basic data until the last minute, preventing any effective discussion. Some basic legal instruments, including the Penal Code and Civil Code, continue to be delayed. Conditions in prisons are poor and the prison system is unable to spend its budget.

In terms of decentralisation, district consultative councils are being set up, but not fast enough to meet the target. Some of the budget has been decentralised, but the joint review agrees that too much is still controlled at central and provincial level. Donors are worried about the lack of transparency in the allocation of district development funds.

On economic development, six of nine targets were not met. Two of those are measured by the World Bank “Doing Business” ranking, where Mozambique fell rather than rose. Road maintenance did not meet targets – 67% of the road network is in good or reasonable condition, compared to a 2008 target of 70%.

On agriculture, the government moved too slowly in expanding irrigation and in giving communities land titles.

But government won special praise from G19 head Frank Sheridan for exceeding the target of peasants helped by agricultural extension workers, and for a significant increase in the number of extension workers. He did not mention, however, that it had been one of the G19, the World Bank, which had blocked Mozambican efforts to hire more extension workers in the past.

For “human capital”, government failed to meet six of ten targets, including vaccination, anti-retroviral therapy, pupil-teacher ratios (71 pupils for each teacher, which is an improvement on 73 in 2007, but did not meet the target of 69), and the level of 6-year-old girls in school (73%, just below the target of 74%). It is agreed that there is a serious problem with the quality of health and education services.

## Who are the G19?

Mozambique has the largest group of donors involved in the provision of general budget support in Sub-Saharan Africa. The 19 donors are known as the G19 or Programme Aid Partners (PAPs, *Parceiros de Apoio Programático*). They are: the African Development Bank, Austria, Belgium, Canada, Denmark, the European Commission, Finland, France, Germany, Ireland, Italy, the Netherlands, Norway, Portugal, Spain, Sweden, Switzerland, the United Kingdom and the World Bank.

The International Monetary Fund is a non-signatory but ex-officio member. The United States and the United Nations are Associate Members. This is a new status agreed in March for non-budget support donors, which came about because the G19 had largely taken over policy dialogue with the government, and two large non budget donors, the United States and Japan, objected to their marginalisation.

The G19 is governed by what it calls the “troika plus”. Each year a budget support donor is elected to the troika for three years, and is chair in the second year. The “plus” are the European Commission and World Bank, described in the MoU as the “two most influential PAP donors”.

The present troika is composed of Ireland (in its final year; ambassador Frank Sheridan was chair last year), Finland (with ambassador Karl Alanko as chair), and the UK (which has just joined, replacing Norway).

There is a Performance Assessment Framework (PAF) which currently contains 40 indicators, which are evaluated each year in a donor-government joint review. The results are published as an aide-mémoire with various background documents. This year there were 29 sectoral working groups which met frequently in March and April.

There is also a mid-year review in August and September which considers the plan and budget before it is submitted to parliament.

## Documents on the web

All of the key documents and speeches, the new memorandum of understanding, the review of 2008, and the pledges for 2010 are posted on: <http://www.tinyurl.com/mozamb>

The G19 has its own website, which has most of the documents <http://www.pap.org.mz/>

The website ODAMOZ has relatively detailed tables on aid to Mozambique, including the *ODAmoz Donor Atlas for Mozambique 2008* (In English only). <http://www.odamoz.org.mz/>

## General budget support commitments

Country/Agency	Currency	Commitments in May 2008 for 2009			Commitments in May 2009 for 2010			Trend in own currency 2009-10
		Own Currency Commitment for 2009	USD equivalent for 2009	MZM equivalent for 2009	Own Currency Commitment for 2010	USD equivalent for 2010	MZM equivalent for 2010	
African Dev Bank	BUA	20,000,000	30,060,155	808,038,000	20,000,000	26,677,796	799,000,000	↔
Austria	EUR	3,200,000	4,543,858	122,142,080	3,200,000	4,571,886	136,928,000	↔
Belgium	EUR	3,000,000	4,259,867	114,508,200	3,000,000	4,286,144	128,370,000	↔
Canada*	CAD	7,500,000	6,830,179	183,600,000	15,000,000	13,252,087	396,900,000	↑
Denmark	DKK	50,000,000	8,816,735	237,000,000	50,000,000	9,315,526	279,000,000	↔
European Commission	EUR	47,000,000	66,737,912	1,793,961,800	47,000,000	67,149,583	2,011,130,000	↔
Finland	EUR	7,000,000	9,939,689	267,185,800	7,000,000	10,001,002	299,530,000	↔
France	EUR	2,000,000	2,839,911	76,338,800	2,000,000	2,857,429	85,580,000	↔
Germany	EUR	15,000,000	21,299,334	572,541,000	15,000,000	21,430,718	641,850,000	↔
Netherlands	EUR	18,000,000	25,559,200	687,049,200	18,000,000	25,716,861	770,220,000	↔
Ireland****	EUR	11,500,000	16,329,489	438,948,100	11,000,000	15,715,860	470,690,000	↔
Italy	EUR	3,800,000	5,395,831	145,043,720	3,800,000	5,429,115	162,602,000	↔
Norway	NOK	160,000,000	26,427,883	710,400,000	160,000,000	24,787,980	742,400,000	↔
Portugal**	EUR	1,500,000	1,500,000	40,321,050	1,500,000	2,143,072	64,185,000	↔
Spain	EUR	7,000,000	9,939,689	267,185,800	7,000,000	10,001,002	299,530,000	↔
Switzerland	CHF	7,500,000	5,934,555	159,525,000	7,500,000	6,868,948	205,725,000	↔
Sweden	SEK	330,000,000	47,141,629	1,267,200,000	320,000,000	42,096,828	1,260,800,000	↓
United Kingdom***	GBP	42,000,000	81,638,499	2,194,500,000	44,000,000	69,489,149	2,081,200,000	↔
World Bank*	USD	70,000,000	70,000,000	1,881,649,000	110,000,000	110,000,000	3,294,500,000	↑
<b>Total</b>			445,194,416	11,967,137,550		471,790,985	14,130,140,000	

Notes: \* Canada and World Bank later increased their commitments for 2009 (+5 million CAD and +15 million USD).

\*\*Portugal's commitment for 2009 was in USD. \*\*\* UK added on 2 million GBP for 2010 to counteract exchange rate movements.

\*\*\*\* Ireland reduced to 11 million € in 2009 due to domestic economic stress

**G19 Commitments to SWAPs & Common Funds, US\$, 2010 - Compromissos do G19 para SWAPs e Fundos Comuns, em US\$, para 2010**

PAP	PROAGRI Agriculture Agricultura	FASE Education Educação	PROSAUDE Health	HIV/AIDS HIV/SIDA	Fundo de Estradas - Roads	ATA Tribunal Adminis- trativo	ASAS Water Águas	AAT Autoridade Tributária	PSA Subsídio de Alimentos	INE Estatística Statistics	UTRAFE Gestão Financeira	UTRESP Sector Público
Austria	714,357											
Belgium-Bélgica											1,428,715	
Canada	4,417,362	22,970,284	7,951,252	1,413,556						1,325,209		1,325,209
Denmark-Dinamarca	3,726,210	6,520,868	7,079,800	745,242						1,490,484	2,608,347	2,235,726
European Commission Comissão Europeia	14,001,402		10,001,002		14,287,145							
Finland-Finlândia	7,143,573	8,572,287	5,143,372			1,071,536						
France-França			4,286,144									
Germany-Alemanha		22,859,432		428,614		1,142,972		1,428,715				
Ireland-Irlanda	1,428,715	7,857,930	20,002,003	1,071,536								
Italy-Itália	5,757,005		1,142,972							1,428,715		
Netherlands-Holanda		10,001,002	10,001,002			1,142,972	9,286,644		1,857,329			
Norway-Noruega										2,014,023	2,323,873	
Portugal		357,179								357,179		
Spain-Espanha		2,857,429	4,286,144									
Switzerland-Suíça			3,480,267				915,860	732,688				
Sweden-Suécia	5,393,656					1,973,289					3,288,815	
United Kingdom - DFID		7,106,845	11,055,092	568,548	5,919,866		789,649	1,579,299	4,737,896			394,825
World Bank		21,000,000			12,000,000							8,300,000
Banco Mundial												
UNICEF		1,000,000	1,200,000									
<b>Total</b>	42,582,281	111,103,255	85,629,048	4,227,496	36,155,259	5,330,768	10,992,154	3,740,701	6,595,225	6,615,609	9,649,750	12,255,760

**Overall total 334,877,306**

## G19 donors say clean up elections

Following the government's failure to punish obvious electoral fraud in Tete in 2004 and Nampula province last year, donors have raised the issue. In his 29 May statement, G19 head Frank Sheridan said that the donors "wish to highlight the huge reputational potential to the country of making the elections in October the most free and the most fair in the country's history" – a very polite way of saying that unchallenged electoral misconduct gives the country a bad reputation and discourages investment. Incoming G19 head, Finland's ambassador Karl Alanko, also underlined the need for free and transparent elections.

Elections are not a formal part of the joint review process, but the review increasingly raises issues which do not have formal indicators. For example, the high cost of telephone connections and internet access is also raised by the joint review.

The review also notes that resource allocation does not reflect regional (north-south and urban-rural) and gender disparities in health, nutrition, and water. More money should be allocated where there is most need.

Sheridan in his 29 April statement noted that Mozambique's economic "growth still does not reflect itself enough in the daily life of the average citizen." The joint review notes that high levels of malnutrition remain a concern. Alanko cited the need to reduce poverty without increasing inequality.

The donors continue to pay special attention to the Banco Austral corruption case. Most bad debts were passed on to the new owners of the bank, who have recovered 59% of the bad loans. The government retained 70 politically sensitive loans and has so far recovered only 26%.

Finally, there is praise for the government in a number of areas, particularly fiscal management. Tax revenue in 2008 was 16.3% of GDP, compared to a target of only 15.5%. Health performance is praised, water and sanitation exceeded targets, and electrification is moving rapidly.

### Independent report says:

## Government afraid to question donors

"Many in the government believe that, in order to maintain the flow of aid, they cannot question the comportment and practices of the budget support donors", according to an independent evaluation of donor performance. "At a political level, the government is not prepared to endure the crisis that might result from this type of questioning."

### **Donors only met 11 of 18 targets**

The PAPs performance "improved significantly" in 2008 compared to 2007. In 2008, the donors met 11 of their 18 agreed targets, compared to only 8 in 2007. However, while the donors are not increasing aid because the government does not meet its targets, the independent report notes pointedly that there are no penalties for donors which do not keep their promises.

Performance was quite varied. Each donor was given up to 38 points. The UK was the only donor to score a full 38. Belgium, the Netherlands and Sweden scored 36, while Finland, Ireland and Spain scored 35.

The poorest performer by far was Portugal, which scored only 15 and is now the only donor considered "weak". It comes in for special criticism in the report, because its aid is mainly individual projects which are not linked to government policies and systems.

The issue is again raised about France claiming that cancelled debt should be counted as budget support.

The performance table of the PAPs is on p 6.

As part of the joint review process, an independent evaluation of donor performance was carried out by IESE (Instituto de Estudos Sociais e Económicos, Institute of Economic and Social Studies) headed by Carlos Nuno Castel-Branco. Donor criticism of government is made openly during the two month review process, but the report itself makes clear why a different method is needed to look at the donors. Government officials and even ministers will not criticise donors in public or to their faces, and instead will only speak anonymously to a trusted consultant.

But speaking privately, government officials say that "many donors continue to be reluctant to adjust their priorities and strategies to the necessities and requests of Mozambique." This was underlined in one of the few public comments by Finance Minister Manuel Chang who at the 29 April joint review meeting called on donors to "align foreign aid with the national development priorities."

Finally, government says privately that donors seem more worried about processes and rules than about the actual results of the aid they provide; evaluations are about process, not about the social and economic impact of aid.

## Conditions, projects and parallel channels

Donors “met none of the three targets on consolidation and harmonisation of conditionality,” according to the government-donor joint review Aide Mémoire. Speaking privately to the IESE team, government officials went further and claimed that while donors were simplifying conditions to meet this target, they were simply adding other new conditions. They also said donors were demanding additional reports on efficiency and effectiveness, and were being pressed to do so by their head offices. Government also objects to extra conditions and complex special audit and procurement systems of the World Bank and African Development Bank, and to new complexities being introduced by the European Commission. And they point to problems caused by the “difficult” relationship between the World Bank and the other donors.

The joint review cites the ongoing problem that many donors have bilateral projects which they implement and which do not enter into the

government budget or other government records and systems. Indeed, government does not even receive information about some NGO and small donor projects. The joint review notes that there are problems with donor bilateral projects in health, social action, water and sanitation.

Health is worst, with 56% of the budget coming from vertical funds managed by just two or three donors according to their own priorities, and the government has little say over their use. Other donors put their health money into common funds which are jointly administered by donors and government and follow government policy more closely. The joint review confirms public complaints last year by Health Minister Ivo Garrido that donor money arrived late; these complaints were denied at the time.

Another area cited by the joint review is the continued failure of donors to use the national audit system, despite promises to do so, causing more work for the government in dealing with aid. The IESE review points out that neither Ireland nor Canada put a high percentage of aid through budget support, but both score well because they still use national systems.

### PAPs - size & performance

#### Classification

	Very good	Good	Average	Low	Weak	Total
<b>Very large</b>	UK	Sweden	European Commission	World Bank		4
<b>Large</b>	Netherlands, Ireland	Norway, Canada, Denmark		Germany, ADB		7
<b>Average</b>	Finland			France		2
<b>Small</b>	Belgium, Spain, Switzerland	Austria	Italy		Portugal	6
<b>Total</b>	7	5	2	4	1	19

#### Size, ranked by total volume of aid

Very large = aid more than \$90 mn  
 Large = aid between \$50 and \$90 mn  
 Average = between \$20 and \$50 mn  
 Small = aid less than \$20 mn

#### Performance ranked by points in IESE independent evaluation

Very good = 34-38 points  
 Good = 30-33 points  
 Average = 25-29 points  
 Low = 20-24 points  
 Weak = less than 15 points

## Cannot plan

Nearly all donors have been on time with their budget support and programme money, although less with project funds. Indeed, two-thirds of budget support funds were given to government in the first third of 2008.

But speaking in private to the IESE team, government is very concerned about the lack of any medium term aid projections, which is made worse by the fact that many donors are reconsidering the aid strategies this year, which makes it impossible to plan.

The government would like to use its Medium Term Financial Plan, a rolling three year plan, for development planning and would like to be able to include aid, but is unable to do so.

The IESE independent review is quite forceful on this issue, saying that the medium term plan should set spending priorities according to government policy. It should stop being a plan that “responds only defensively” to aid announced by donors. Government should stop simply altering its budget to

accommodate the interests of individual donors, and instead use the medium term plan as a guide for donors as to where money is needed.

## How many missions?

Donors promised to reduce the number of missions to Mozambique and to do more of them jointly, but are not meeting their targets. In 2008 there were 165 donor missions against a target of 120. Probably only 24% of the missions were joint, compared to a target of 35%. But the independent review says it is impossible to be sure, because some agencies have said that other agencies participated in “joint” missions, but the other agencies did not mention those missions – so, either some agencies are not reporting all of their missions to Mozambique, or they are claiming missions to be collective which are not.

The donors are also failing to meet promises to coordinate technical assistance. The joint review admits that “many donors insist in maintaining ... uncoordinated and earmarked technical cooperation.”

## New MoU with more stress on corruption

The failure to increase budget support follows the signing of a new five year memorandum of understanding (MoU) on 18 March which puts new emphasis on corruption, and responds to donor complaints that each year government promises to act on governance but fails to do so.

Budget support is governed by an MoU agreed by donors and government, and the new 90-page MoU is not significantly different from the previous one signed five years ago. The various review and planning processes remain immensely time-consuming and complex. But there are three important subtle changes – donors have increased their scope to put pressure on government and to be even more deeply involved in government planning processes, but individual donors have accepted a reduction in space for unilateral action.

In the 2004 MoU, in the case of serious misuse of funds or large-scale corruption, the government simply promised to try to recover the money. In the new MoU, “In the case of serious misappropriation or misuse of state budget funds or acts of large-scale corruption by members or structures of the GoM [Government of Mozambique]”, donors have the right to individually or collectively withhold funds. This is a major hardening of the donor position on corruption.

In the diplomatic world, a change of a single word can carry substantial weight, and this has happened in the new MoU. Evaluation of government performance is done through a set of targets in a Performance Assessment Framework (PAF, Quadro de Avaliação de Desempenho, QAD). Both MoUs stress that what counts is an improving trend in government performance. But in the 2004 MoU, donors said they would “take into account the extent

to which performance difficulties are being addressed”. This time, the phrase “performance difficulties” [“dificuldades de desempenho”] is replaced by the much stronger “performance shortcomings” [“falhas do desempenho”]. In other words, excuses about “difficulties” will no longer be accepted by the donors, particularly in areas such as justice and governance.

On the other hand, although the G19 have reserved the power to cut off funding, individually or collectively, in the event of major corruption or where the “underlying principles” of the agreement are violated, they have made an important concession to stop donors acting unilaterally. The new agreement forces donors to work through the G19, even when there is disagreement within the group, before taking any unilateral action.

## Donors deeper in government policy setting

Budget support was supposed to give recipient governments more power over how aid money is spent, but one of the most controversial aspects of budget support throughout Africa is that the opposite has happened. Donors have demanded to be deeply inside the policy formulation process.

The 2004 MoU already required that donors have access to planning documents, reports, and other information, and that government must meet donors before submitted the budget to parliament (making a joke of parliamentary approval – how could parliament reject a budget after it has been approved by donors). But the new MoU also requires the government to show early drafts of the budget to the donors.

In his statement on 18 March at the MoU signing, then G19 head Frank Sheridan stressed that “budgetary policy” is the donor priority. Sheridan said that “financial support to the national budget is the financial equivalent of adding water to a reservoir, where it is impossible to indentify individual contributions and what becomes important is how the total funds are used.” In other words, whereas project support means only watching how small amounts of money are spent, budget support means detailed donor control over all government spending.

But some donors are concerned about this trend, at least in private. The IESE evaluation of donor performance talked to both government and donors, and notes that: “Some programme aid partners mentioned that there is a real risk of transforming some of the organisations of the PAPs into a shadow or parallel government, because of the way they are tending to become too heavily involved in management and decision-making and in the development of policies at the micro level.”