



# **Integrating Reporting of PRS and Budget Implementation: The Mozambican Case**

Paolo de Renzio and José Sulemane



## **Discussion papers**

No. 38E  
March 2007

National Directorate of Studies  
and Policy Analysis

Ministry of Planning and  
Development

Republic of Mozambique

The intent of the discussion paper series is to stimulate discussion and exchange ideas on issues pertinent to the economic and social development of Mozambique. A multiplicity of views exists on how to best foment economic and social development. The discussion paper series aims to reflect this diversity.

**As a result, the ideas presented in the discussion papers are those of the authors. The content of the papers do not necessarily reflect the views of the Ministry of Planning and Development or any other institution within the Government of Mozambique.**

The Logo was kindly provided by the Mozambican artist Nlodzy.

Contact:

**José Sulemane**

National Directorate of Studies and Policy Analysis (DNEAP)

Ministry of Planning and Development  
Av. Ahmed Sekou Touré n° 21, 7° andar

Maputo, Mozambique

Tel: (+258) 2 1 499442

Fax: (+258) 2 1 492625

Web: [www.mpd.gov.mz](http://www.mpd.gov.mz)

Email: [jsulemane1@gmail.com](mailto:jsulemane1@gmail.com)

**Paolo de Renzio**

Overseas Development Institute,  
United Kingdom

Email: [p.derenzio@odi.org.uk](mailto:p.derenzio@odi.org.uk)

# **Integrating Reporting of PRS and Budget Implementation: The Mozambican Case**

**Paolo de Renzio** (Overseas Development Institute, UK) and  
**José Sulemane** (Ministry of Planning and Development, Mozambique)

---

## **Table of Contents**

<b>LIST OF ACRONYMS</b> .....	2
<b>I. SUMMARY OF CONCLUSIONS AND LESSONS</b> .....	3
Main issues in Mozambique.....	3
Suggestions for improvement.....	3
Main lessons for other countries .....	4
<b>II. BACKGROUND AND COUNTRY CONTEXT</b> .....	4
Background and Objectives .....	4
Methodology .....	5
Country context.....	5
<b>III. THE FRAMEWORK FOR PLANNING AND BUDGET FORMULATION AND IMPLEMENTATION: SYSTEMS, DRIVERS, AND ROLES</b> .....	7
Strategic Planning and Budgeting .....	7
Predictability in Budget Implementation .....	12
<b>IV. THE FRAMEWORK FOR MONITORING AND REPORTING ON THE IMPLEMENTATION OF THE BUDGET AND PRS</b> .....	14
Building Blocks in PRS and budget reporting .....	14
Overall PRS and Budget Progress Reports .....	17
<b>V. ANALYSIS OF PRS-BUDGET LINKS</b> .....	22
Planning and Budgeting Stage .....	22
Reporting, Review, and links to Decision-making Processes .....	25
Domestic and External Accountability .....	27
<b>VI. CONCLUSIONS</b> .....	29
Main issues in Mozambique.....	29
Suggestions for improvement.....	31
Main lessons for other countries .....	31
<b>BIBLIOGRAPHY</b> .....	32

## LIST OF ACRONYMS

APR	Annual Progress Report
BdPES	<i>Balanço do PES</i> (Annual Report on PES Implementation)
CFMP	<i>Cenário Fiscal de Médio Prazo</i> (Medium Term Fiscal Framework)
CGE	<i>Conta Geral do Estado</i> (Final State Accounts)
CoM	Council of Ministers
CPO	<i>Comissão do Plano e Orçamento</i> (Parliamentary Planning and Budget Committee)
DNCP	<i>Direcção Nacional de Contabilidade Pública</i> (National Directorate for Public Accounts, Ministry of Finance)
GBS	General Budget Support
GDP	Gross Domestic Product
GFS	Government Finance Statistics
HIPC	Highly-Indebted Poor Countries
IFMIS	Integrated Financial Management Information System
JR	Joint Review
MF	<i>Ministério das Finanças</i> (Ministry of Finance)
MoU	Memorandum of Understanding
MPD	<i>Ministério do Plano e Desenvolvimento</i> (Ministry of Planning and Development)
MTFF	Medium Term Fiscal Framework
NGO	Non-Governmental Organization
OE	<i>Orçamento do Estado</i> (State Budget)
OP	<i>Observatório da Pobreza</i> (Poverty Observatory)
PAF	Performance Assessment Framework
PARPA	<i>Plano de Acção para a Redução da Pobreza Absoluta</i> (Mozambican PRSP)
PES	<i>Plano Económico e Social</i> (Social and Economic Plan)
PESS	<i>Plano Estratégico do Sector Saude</i> (Health Sector Strategic Plan)
PFM	Public Financial Management
POA	<i>Plano Operacional Annual</i> (Annual Operational Plan, Health Sector)
PQG	<i>Programa Quinquenal do Governo</i> (Government's Five-Year Plan)
PRS	Poverty Reduction Strategy
PRSC	Poverty Reduction Support Credit
PRSP	Poverty Reduction Strategy Paper
RAP	<i>Relatório Annual da Pobreza</i> (Annual Poverty Report)
REO	<i>Relatório de Execução Orçamental</i> (Budget Execution Report)
SISTAFE	<i>Sistema da Administração Financeira do Estado</i> (Mozambican IFMIS)
SWAP	Sector-Wide Approach

## I. SUMMARY OF CONCLUSIONS AND LESSONS

### Main issues in Mozambique

- Despite the significant improvements that Mozambique has seen in the last few years in the area of planning and budgeting, the existence of a **'double fragmentation'** problem (poor integration between sectors and central agencies, and between planning and budgeting institutions and mechanisms) is generating ownership problems in sector ministries, and a lack of results-orientation.
- This is partly due to **fragmentation in donor interventions**, including a large proportion which remains **'off-budget'**, increasing the autonomy of sector ministries and therefore undermining central planning and budgeting mechanisms. The recent decision to separate the planning and finance ministries may exacerbate some of these problems.
- The lack of adequate systems for results-orientation is also partly related to the existing **budget classification system**, which does not allow for a significant shift towards a program budgeting approach, preventing clearer linkages between expenditure and outputs/outcomes.
- Some ongoing reforms, aimed at bringing more aid 'on-budget' and at improving performance monitoring processes, are gradually strengthening central mechanisms and addressing fragmentations, but they risk being too invasive (in terms of donor involvement and administrative burden) and therefore possibly unsustainable.
- The nature of the Mozambican political system, especially the lack of serious challenge functions within Cabinet and in Parliament, does not easily promote accountability and integration. Further hopes for increasing domestic accountability could rely on civil society actors, academics/research institutes and the media, despite their current lack of adequate involvement and capacity.
- Generally speaking, the important improvements seen over the past five years are very encouraging, although their sustainability and consolidation will crucially depend on political stability and continued donor support.

### Suggestions for improvement

- The important limitations created by the separation between planning and budgeting instruments, both at the formulation and reporting stages partly reflect Mozambique's institutional history and the aid environment. Further integration of relevant short, medium and long-term planning and financial instruments through the *processo único* could generate improved institutional incentives. A unique document which brings together budget information and planned activities (OE and PES) would promote a more integrated approach. The *processo único* should result in a *documento único*.
- Central coordination mechanisms need to be further strengthened. A further shift towards budget support, combined with improved budget coverage can strengthen some of the incentives that are changing towards more integration.
- More open and independent policy debates and forums should be promoted, in order to inform public policy and involve a wider spectrum of domestic actors, including opposition forces. In this sense, the capacity of civil society, academia and the media to understand and analyze issues related to budgets and PRSs should also be strengthened.

Forums such as the OP can be useful, but are not sufficient. The strengthening of the technical/sectoral working groups, already utilized for the joint review process and for the formulation of PARPA-II, is an important development in this respect, and should be further pursued.

### **Main lessons for other countries**

- **Insist on not duplicating reporting mechanisms**, but rather focus on improving existing ones. The early adoption of the REOs and BdPES as donor reporting instruments for GBS related to PRS implementation contributed to the strengthening of domestic processes and promoted integration.
- **The pros and cons of different aid modalities**, including their side effects on incentives for integration and fragmentation are a fundamental factor in shaping how a country manages to gradually strengthen its budget and PRS processes and instruments. Countries should try to build the right linkages from the start, for example by correcting incentives generated by a strong sector-focus by donors, or by not allowing ‘off-budget’ funding to persist.
- **Coherent, comprehensive arrangements for policy dialogue with donors** are very important, especially in aid-dependent countries. When governments take the lead, and donors collaborate constructively, incentives can shift dramatically in a limited timeframe.

## **II. BACKGROUND AND COUNTRY CONTEXT**

### **Background and Objectives**

One of the central lessons of the 2005 Poverty Reduction Strategy (PRS) Review was the importance of better linking the PRS to the budget process in order to strengthen domestic accountability. Ideally, budgets are the comprehensive expression of a country’s priorities for a given year, and thus would translate PRS priorities into programmed expenditures and ultimately results. In many countries, however, the actual budget process falls short of this ideal. Recognizing the weaknesses of the budget process, the monitoring of the PRS initiative was designed as a separate process drawing from various elements of a country’s poverty monitoring system, through specific instruments called PRS Annual Progress Reports (APRs).

Despite their design as accountability mechanisms to provide information to a range of domestic and external stakeholders and as a source of policy learning, APRs have fallen short of their expectations. In some cases, in addition to creating additional burden for governments, they have tilted the accountability balance more toward external stakeholders worried with fiduciary concerns, rather than strengthening domestic accountability systems.

This paper is part of a series of case studies designed to describe, assess and provide wider lessons on how different countries have tried to address the challenges mentioned above, and improve existing (domestic and external) budget monitoring and reporting instruments and better align them with PRS reporting mechanisms. The three key areas of interest are:

- a) The linkages between planning (esp. PRS-related) and budgeting cycles, with a particular focus on integrating reporting mechanisms
- b) The introduction of results-orientation in both budgeting and PRS reporting
- c) The strengthening of domestic accountability mechanisms

In particular, rather than focusing on a technical description of the different mechanisms and instruments involved, the paper will focus on issues of ownership, incentives and accountability, in an attempt to describe the underlying forces and factors which allow for improvements in the integration of different reporting mechanisms, and for the strengthening of domestic accountability in aid-dependent countries.

## **Methodology**

This paper summarizes the experience of Mozambique in the areas highlighted above over the past few years, roughly between the late 1990s and the present time, or since the country has embarked in the formulation and subsequent implementation of its PRSP and in extensive public financial management reforms.

Much of the discussion is based on three main sources of information. Firstly, a review of secondary material from different sources, including mostly government documents, donor reports, and country analytic work related to the issues at play. Secondly, on a series of interviews with senior government officials, donor representatives, sectoral ministries, consultants working with different government departments, and members of parliamentary committees, held in February 2006<sup>1</sup>. Finally, on personal knowledge of the author, accumulated over the years lived in Mozambique.

Chapters III and IV are mostly descriptive, and give an overview of the current situation in Mozambique, including the main challenges and their contributing factors. They analyze, in turn, the framework for the formulation and implementation of plans (mostly the PRS) and budgets, and the system for monitoring and reporting on the implementation of both the PRS and the budget. Chapter V provides a more detailed analysis of the linkages and the degree of integration between the PRS and the budget at different stages, looking at issues of ownership of policies and programs, incentives to use information to improve performance, and balancing domestic and external accountability. Chapter VI offers some preliminary conclusions, suggesting ways to improve the integration of planning and budgeting, but also highlighting interesting lessons that other countries can learn from Mozambique.

## **Country context**

Mozambique is a low-income country with a population of about 19.8 million, and a per capita income of \$310 (using the Atlas method). Since the end of the civil war in 1992, Mozambique has experienced significant political stability and a sustained period of high real GDP growth,

---

<sup>1</sup> As all interviews took place at central level, the paper does not adequately cover issues related to decentralization and the role of local government in planning and budgeting, despite the fact that they are becoming increasingly important in Mozambique.

averaging about 8% between 1998 and 2004, becoming one of the fastest-growing economies in the world, despite from a very low base. Amongst other factors, such high performance has been based on macroeconomic stability, deregulation, privatization, market reforms and the effects of post-conflict recovery. These have created a stable environment under which foreign direct investment and private-sector-led economic growth have flourished, albeit unevenly across the country. Sectors previously devastated by the war have recovered, including agriculture, transportation, manufacturing and tourism. The large scale inflow of foreign aid has also played a key role, as has investment in a number of mega-projects linked, among others, to aluminum and gas production. As a result, poverty levels in Mozambique have decreased sharply. The first household survey, carried out in 1996/97, put 69.4% of the population under the poverty line. The second one, dated 2002/03, saw this percentage drop to 54.1%, putting Mozambique well within reach of meeting the first of the MDGs.

Since the first structural adjustment program in 1987, Mozambique has become a showcase of the growth and poverty reduction benefits of programs based on the 'Washington Consensus', with the implementation of a series of market-based reforms under the guidance of the World Bank and the IMF, which have transformed the role of government in economic policy-making. It has also been one of the first countries to benefit from debt relief under the HIPC initiative, supported by a PRSP (in Portuguese, *Plano de Acção para a Redução da Pobreza Absoluta*, herein PARPA) which was approved by the Government in April 2001 and endorsed by the Boards of the World Bank and the IMF in September of the same year. The government's medium-term strategy, reflected in the first PARPA, is based on maintaining macroeconomic stability, encouraging the private sector, promoting investment, rehabilitating infrastructure and developing human capital. The priority areas identified for public expenditure were education, health, agriculture and rural development, infrastructure and good governance. At the moment, the government has just finalized its second PARPA, which will cover the period 2006-2009. The document puts more emphasis on economic growth and its importance for poverty reduction than the first one, and was formulated with the help of a series of sectoral working groups with participation from government, civil society and donors, and of the national and provincial Poverty Observatories (*Observatório da Pobreza*, OP), a consultative forum where stakeholders are invited to discuss policy priorities proposed by government at different levels.

Since the late 1990s, the country has also embarked in a series of so-called 'second generation reforms', focusing on a more comprehensive public sector reform program designed to increase the capacity and effectiveness of the public sector in delivering services and promoting growth and development. Decentralization, improved Public Financial Management (PFM), pay reform, legal and judiciary reforms, and anti-corruption initiatives all fall under this agenda, which is progressing at a slower rate than expected. These reforms include areas relevant to this study, such as the strengthening of planning and budgeting systems, from the introduction of a Medium Term Fiscal Framework (*Cenário Fiscal de Médio Prazo*, CFMP) and of an Integrated Financial Management Information System (IFMIS, or in its Mozambican incarnation, *Sistema da Administração Financeira do Estado*, SISTAFE) to a clearer definition of the budget calendar, and of the roles and responsibilities of the different institutions involved. In a surprise move, the new government formed by Frelimo (*Frente de Libertação de Moçambique*) after the 2004 elections announced the separation of the Ministry of Planning and Finance into two separate ministries, with the risk of undermining some of the integration efforts that had started to bear fruit.

Finally, Mozambique's good performance as a reformer has attracted significant attention and good will from the international community. Mozambique's aid dependence peaked right after the end of the civil war, in 1992, when it reached 87% of Gross National Income (GNI). By the late 1990s it had fallen to below 30% of GNI, and is currently about 15% of GDP, but in recent years donor support still accounted for more than half of total public spending and most of public investment. Official aid disbursements totaled almost \$1.3bn in 2004, of which almost 20% was in the form of General Budget Support (GBS) directly channeled through the treasury, while the rest was distributed among sector programs and a large remaining proportion of fragmented and often unreported projects. An interesting characteristic of Mozambique's aid landscape is the sophisticated architecture of the agreement through which 18 donors currently provide budget support, based on a Memorandum of Understanding enshrining reciprocal commitments, based on bi-annual joint reviews and on reciprocal performance assessments. While government performance is monitored through a PAF (Performance Assessment Framework) matrix, which forms the basis for policy dialogue, a similar matrix exists to monitor donor behaviour and commitments, for example on harmonization and predictability.

### **III. THE FRAMEWORK FOR PLANNING AND BUDGET FORMULATION AND IMPLEMENTATION: SYSTEMS, DRIVERS, AND ROLES**

The existing framework for planning and budget formulation and implementation in Mozambique is a result of a series of recent reform efforts which culminated in the enactment and implementation of two key pieces of legislation: the Budget Framework Law of 1997 and the SISTAFE Law of 2003. The objectives of such efforts were to<sup>2</sup>:

- a) Improve the coverage and transparency of the management process of public finances (revenues and expenditures);
- b) Gradually assure effectiveness and efficiency of public spending according to policy objectives;
- c) Enhance and assure long-term sustainability of the fiscal policy and processes.

The Budget Framework Law established the budget structure using modern and universal classifiers, and introduced the CFMP as a medium-term instrument of fiscal policy. The SISTAFE Law had broader objectives, from the establishment of an IFMIS and of a single Treasury account, to the introduction of program classifiers as means of linking policies/plans and expenditures.

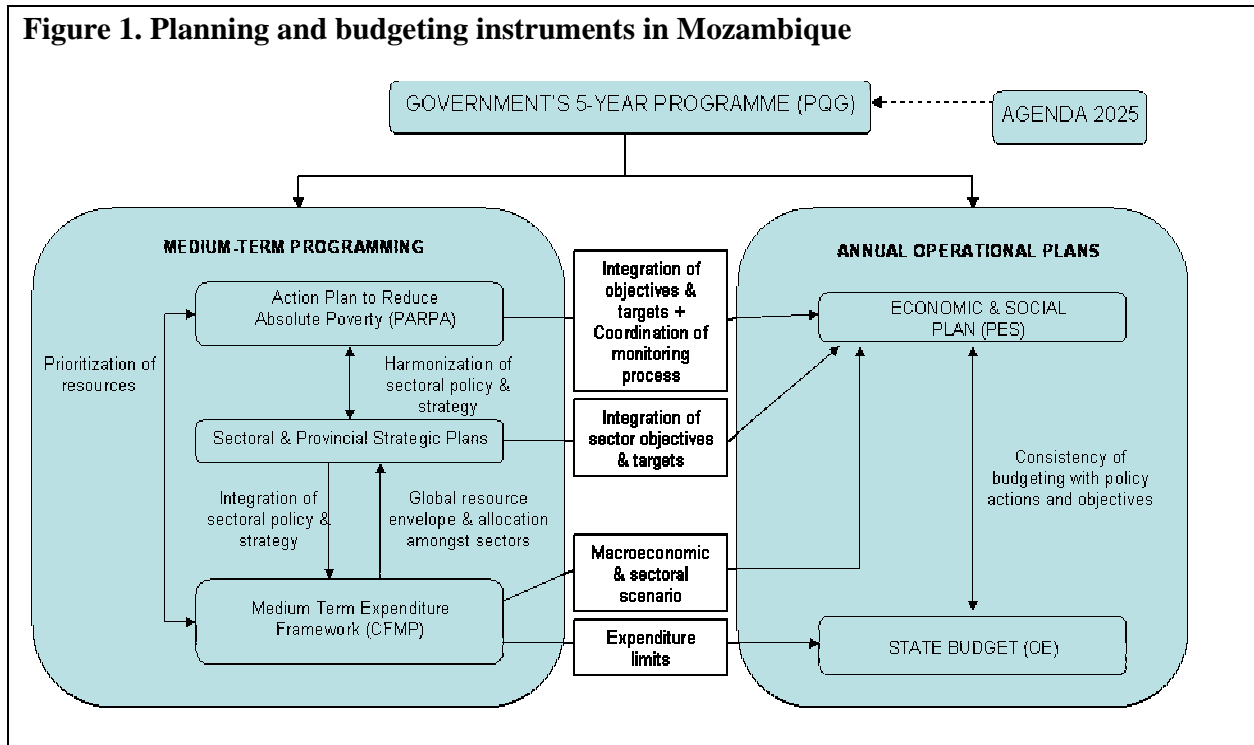
#### **Strategic Planning and Budgeting**

Figure 1 below summarizes the main planning and budgeting instruments in the Mozambican system, under what has come to be known as the *processo único*, the unified process that the

---

<sup>2</sup> See Sulemane (2005a:78).

former Ministry of Planning and Finance has been trying to implement consistently over the past few years.



Source: Sulemane (2005b)

As can be seen, the overarching long-term planning instrument is the government's five-year plan (*Programa Quinquenal do Governo*, PQG), which is approved by Parliament after the beginning of each legislature, and outlines government priorities for the five-year term<sup>3</sup>. PQGs in their present form tend to be very long lists of undertakings, without any clear implementation timetable and program prioritization, including indicators and targets, nor any link with resource frameworks for their implementation. This partly results from the fact that usually they are put together hastily as the new legislature and government take office after the elections, in order to have a general policy statement which can provide some guidance in terms of policy directions. As a consequence of such vagueness, other lower-level medium-term planning instruments serve the purpose of providing the link between the PQG and annual operational plans. The PARPA has been providing more focus to the PQG, coming to a better definition of priority areas and program, as well as providing more analysis and substance to the overall objective of reducing poverty, which also features prominently in the PQG.

The relationship between the PQG and the PARPA has been the subject of some recent controversy, however. The Government has been keen to insist that the overarching strategy document is the PQG, despite its obvious shortcomings, and has refused to submit the PARPA to

<sup>3</sup> At present, and in addition to FRELIMO's electoral program, the PQG draws inspiration from a document called 'Agenda 2025', which was the result of a national consultation exercise undertaken in 2001/02 to identify the key strategic objectives that the Mozambican people aspired to achieve by 2025. The Millennium Development Goals are also playing an increasing role in defining some overarching priorities for government action.

Parliament for approval, despite the insistence of donors. In the past, especially in the wake of approval of the first PARPA which in some sectors was seen as a donor-driven document, this dichotomy has created some difficulties and misunderstandings. In the future, the proposed solution is that from the next cycle (from 2009/10) the PARPA will be subsumed in the PQG as the ‘operationalization’ of the government’s medium-term policies and strategies, ceasing to be a separate document, and instead being fully integrated in the strategy that Parliament will approve. This is an important point which supports the view that Mozambique is taking concrete steps, as we will see for the APR, in ensuring that PRSP-related processes do not create or support separate accountability mechanisms especially designed to satisfy donor requests.

Apart from, and contributing to the PARPA, there are a number of sectoral, provincial and district strategic planning exercises which take place, but which often are weakly linked to the central *processo único*. They are more often designed either to promote inter-sectoral coordination at local government level (provincial and district strategic plans), or for fund-raising purposes linked to the implementation of sector-specific programmatic donor support, in the form of Sector Wide Approaches (SWAPs)<sup>4</sup>.

But the instrument which should, in theory, link the PQG and the PARPA to the annual planning and budgeting process is the CFMP, tasked with forecasting the overall resource envelope, as well as with laying out medium-term inter-sectoral expenditure allocations according to the policy priorities set out in the PQG/PARPA. In practice, however, this has not been the case. Not only the technical information on which the CFMP is based has not allowed for significant policy trade-offs to be assessed (e.g. in terms of expenditure details, identification of policy linkages and complementarities, etc.), but also it has been limited to an exercise internal to the Ministry of Finance, which was not submitted to Cabinet in order to generate the kind of discussions that should lead to strategic resource allocation decisions. An example is that sector budget ceilings have traditionally tended to be set on an incremental basis from the previous year, simply with a view to respect the overall resource constraints imposed by the macroeconomic framework. The existence of a large amount of ‘off-budget’ donor resources at sector level has further undermined the significance of the CFMP exercise. Very recent development, however, suggest a greater commitment on the government’s part to make improvements in this area. The latest CFMP has benefited from greater sectoral involvement, and was recently discussed and approved by the Council of Ministers.

The two instruments which are used for translating medium-term policies and strategies into annual operations are the State Budget (*Orçamento do Estado*, OE) and the Social and Economic Plan (*Plano Económico e Social*, PES), which are formulated according to the calendar shown in Table 1 below.

---

<sup>4</sup> This lack of integration between top-down, sectoral planning and budgeting systems, and bottom-up, territorial ones is an issue that has not been adequately addressed.

**Table 1. Budget Calendar**

<b>February - April</b>	Update of the CFMP, to determine the overall resource envelope consistent with the macroeconomic framework, and define the initial sector ceilings.
<b>May</b>	Budget ceilings are sent to sectors and other budget units, with the methodology for formulating proposals for the OE and PES.
<b>May - 31 July</b>	Sectors and other budget units prepare budget proposals and submit them to MF/MPD.
<b>August</b>	MF/MPD hold budget discussions, compile and consolidate overall proposals for OE and PES.
<b>15 September</b>	Draft OE and PES are sent to the Economic Council and then to the Council of Ministers for approval.
<b>30 September</b>	Draft OE and PES are submitted to Parliament.
<b>15 December</b>	Deadline for parliamentary approval of OE and PES.

The OE is the document which contains all revenue and expenditure information, and is accompanied by a statement which outlines the main fiscal policy initiatives and explains their impact on fiscal aggregates and revenue and expenditures projections. The PES makes a presentation of the state of the economy over the previous year and lays out the main priorities of government policy for the following year. It discusses the evolution of general macroeconomic indicators, and discusses sector priorities more specifically, with lots of details on matters which go well beyond its scope, such as projections for agricultural output. It only includes a chapter on budget policy, which only covers aggregate figures on revenues and expenditure, and highlights the percentage of public expenditure devoted to the priority sectors identified in the PARPA, with a view to assessing government performance in relation to the agreed target of devoting 65% of total expenditure to priority sectors.

As detailed further below, the existence of two separate documents which detail budget policy and programme objectives separately constitutes one of the main limitations of the Mozambican system in terms of integrating budget, planning and PRS content and reporting, and of orienting budget management towards results. In most sector ministries, the OE and the PES are formulated by two separate administrative units, the Finance and Administration Department in the first case and the Planning Department in the second one. The recent separation of the Ministry of Planning and Finance could mean that the same duplication will happen at central level, despite current efforts at promoting integration between the two new ministries<sup>5</sup>.

In order to better understand the dynamics of planning and budget formulation, it is useful to briefly list the main actors involved, with an assessment of their overall role.

**Table 2. Actors in the planning and budget formulation process**

<sup>5</sup> The separation of the two ministries has been interpreted in different ways, but was probably a move by President Armando Guebuza, shortly after his election, to state his political intention to strengthen Government's role and focus on development planning, which was reduced after the shift to a market system.

ACTOR	MAIN ROLE	ISSUES
<b>Parliament</b>	Parliament comments and approves PQG, PES and OE, and reports on plan and budget implementation.	<ul style="list-style-type: none"> <li>▪ Parliamentary Committee is quite active, but has limited means and capacity.</li> <li>▪ Nature of political system prevents constructive dialogue in Parliament, with block voting guaranteeing approval of government plans and budgets.</li> <li>▪ Opposition offers little constructive criticism.</li> </ul>
<b>Council of Ministers</b>	The Council of Ministers approves all government policies and documents before they are submitted to the Parliament for consideration.	<ul style="list-style-type: none"> <li>▪ CoM does not seem to play a large role in strategic decision-making.</li> <li>▪ CoM has not approved CFMP until 2006, but only budget when ready to be submitted to Parliament.</li> </ul>
<b>Government</b> <i>Central Agencies</i>	MF and MPD are the two main agencies tasked with strategic planning and budget formulation. They collect information and proposals from the sectors, coordinate efforts and compile main documents (PARPA, CFMP, PES, OE)	<ul style="list-style-type: none"> <li>▪ Lack of clarity in division of roles between MF and MPD, given recent separation.</li> <li>▪ Limited ‘challenge function’ <i>vis-à-vis</i> sector proposals.</li> <li>▪ Separation between detailed budget information and results information between OE and PES.</li> </ul>
<b>Government</b> <i>Sector Agencies</i>	Sector ministries provide all detailed inputs for central plans and budgets, but at the same time undertake sector-specific planning and budgeting exercises.	<ul style="list-style-type: none"> <li>▪ Often sector strategic plans and annual operational plans have not been fully consistent with PARPA and PES.</li> <li>▪ Sector incentives are not aligned with the objectives of integrated strategic planning and budgeting, mostly because of fragmented and specific funding sources.</li> </ul>
<b>Government</b> <i>Local Governments</i>	Limited role played by LGs, mostly limited to inputs into central sectoral planning and budget processes. Municipalities have full autonomy, but limited capacity for strategic planning.	<ul style="list-style-type: none"> <li>▪ Existing legislation gives little autonomy to Provinces and Districts, although this is gradually changing.</li> <li>▪ Full autonomy given to Municipalities prevents better integration of planning and budgeting processes.</li> <li>▪ Legal framework for local government finances is incomplete.</li> </ul>
<b>Civil society</b>	Until recently, the role of civil society in planning and budgeting processes has been extremely limited. The recent creation of the Poverty Observatory has increased	<ul style="list-style-type: none"> <li>▪ Variety of actors involved (trade unions, private sector associations, NGOS, media) means that there are many different interests at play, not necessarily compatible.</li> </ul>

	its involvement, but the content of its contribution is still limited.	<ul style="list-style-type: none"> <li>▪ Scarce capacity and interest in general policy and public finance issues.</li> </ul>
<b>Donors</b>	Group of 18 donors providing budget support play a very important role in the planning and budget process, through policy dialogue, financial support, technical assistance and conditionality frameworks (PAF).	<ul style="list-style-type: none"> <li>▪ Despite heavy influence of GBS donors, the co-existence of different aid modalities undermines coherence and skews incentives.</li> <li>▪ Donor influence might undermine domestic accountability.</li> </ul>

### Predictability in Budget Implementation

The Public Expenditure Review carried out by the World Bank in collaboration with the Government in 2002-2003 notes that 'overall, the existing system in Mozambique provides for good aggregate control of expenditures within years. There have not been significant over-runs of expenditures, and there is no apparent problem of expenditure arrears. The system suffers, however, from major weaknesses that hinder efficiency and transparency in the use of public funds' (World Bank 2003:53). A recent assessment of the PFM system (Lawson and de Renzio 2006) reaches the same overall conclusion, but notes the high variation in expenditure outturn for different administrative units (see table 3 below).

**Table 3. Expenditure variation in selected administrative units.**

	2002			2003			2004		
	Budget	Actual	Variance	Budget	Actual	Variance	Budget	Actual	Variance
10 <sup>9</sup> Mt									
Presidency	151.7	217.8	43.6%	211.7	262.6	24.0%	265.2	334.9	26.3%
Ministry of Foreign Affairs	109.7	115.4	5.2%	130.1	218.9	68.3%	154.7	222.7	44.0%
Ministry of Planning and Finance	115.6	175.3	51.6%	205.6	154.5	-24.9%	271.6	339.1	24.9%
Ministry of Agriculture*	271.5	297.3	9.5%	393.0	426.0	8.4%	485.8	375.4	-22.7%
Ministry of Health*	1,456.4	1,220.5	-16.2%	1,812.1	1,019.3	-43.8%	1,942.9	1,561.0	-19.7%

\* Central and provincial expenditure, recurrent plus domestic investment.

Source: Lawson and de Renzio (2006)

Similarly, a broader analysis carried out by Hodges and Tibana (2005) compares projected and executed expenditure in the PARPA priority sectors, finding great discrepancies (see table 4).

**Table 4. Expenditure in PARPA priority sectors (2001-2004) (as a % of total exp.)**

	2001	2002	2003	2004
<b>PARPA Objectives</b>	67.4%	65.0%	66.9%	66.7%
<b>Budget Laws</b>	64.1%	65.2%	63.2%	62.6%
<b>Execution (Balanço do PES)</b>	64.3%	62.0%	61.2%	
<b>Execution (Conta Geral do Estado)</b>		51.9%	60.3%	

Source: Hodges and Tibana (2005), pg. 57.

There are three main factors shaping the lack of predictability in budget implementation:

- a) Parliament grants the Minister of Finance great levels of **discretion in re-allocating budget resources** along the course of the year, both between lines and between different government institutions<sup>6</sup>. While this is seen as a necessary measure of flexibility to respond to changing circumstances, it also undermines the credibility of the budget, for two reasons. Firstly, it provides an incentive for sector ministries and other budget entities not to take the budget formulation process too seriously, knowing that there is a high degree of flexibility during implementation. Secondly, it provides the Ministry of Finance with the opportunity of significantly modifying budget composition during the course of the year without having to seek further parliamentary approval.
- b) The current **system for budget disbursements** is based on an advance payment mechanism (*sistema duo-decimal*) which requires budget entities to report on expenditure and ask for a replenishment on a monthly basis. This out-dated system, bound to be replaced within the broader SISTAFE reforms, has always caused inflexibility and delays in funds transfers, preventing budget entities from managing their budget allocations more effectively. Liquidity constraints, and delays in the submission and processing of accounts have compounded this problem, affecting rates of budget implementation.
- c) Further limitations are imposed by the **existence of large ‘off-budget’ expenditure**, in the form of donor-financed projects or of own revenues directly retained by spending agencies. A substantial part of investment expenditure is externally financed, as can be expected in an aid-dependent country like Mozambique. Much of this expenditure is either (i) off-budget in *programming*, meaning it never gets included in the OE, (ii) off-budget in *execution*, meaning funds are not channeled through the public Treasury, or (iii) off-budget in *accounting*, meaning expenditure is not recorded in budget reports<sup>7</sup>.

These three factors highlight the difficulties that exist in ensuring a better integration of planning and budgeting, and a budget implementation process that has concrete linkages with the policies and objectives stated in medium-term and annual plans. As can be drawn from the above discussion, the main weaknesses stem from some existing contradictions in the relationship between the Ministry of Finance and sector ministries and other budget units, in terms of the incentives that the existing system generates for budget formulation and execution, and for financing strategies, given the high levels of support that sector ministries such as health or

<sup>6</sup> Article 9 of the annual Budget Law has been determining the powers of the Minister of Finance on budget reallocations. While reallocations within broad economic categories are usually interpreted as a signal of managerial flexibility, large reallocations between administrative units are considered as poor budgeting practice, unless duly sanctioned by parliamentary approval.

<sup>7</sup> A study carried out in the health sector found that 29% of the total resources for the health sector remained off-budget at the programming stage, 60% at the execution stage and 44% at the accounting stage (Cabral et al. 2005).

education can generate by directly negotiating with donor agencies rather than rely on the national budget process. As a consequence, the existing links between, for example, the PES and annual sectoral operational plans are quite weak, even though such weaknesses are starting to be addressed through the improvement of reporting mechanisms, as discussed in the next chapter.

#### **IV. THE FRAMEWORK FOR MONITORING AND REPORTING ON THE IMPLEMENTATION OF THE BUDGET AND PRS**

##### **Building Blocks in PRS and budget reporting**

Any system of monitoring and reporting on government activities is based on information flows from decentralized executing units to central controlling units, which allow for the gathering of all necessary information to compile an overall picture of the degree to which implementation of programmed activities and budgets is proceeding as planned. In order to ensure effective reporting and monitoring, information flows need to be standardized, and follow precise procedures and calendars, linking local government units, sector ministries and central agencies in charge of producing consolidated reports. The different processes that allow for such information flows to effectively channel and summarize data at central level are what can be called the ‘building blocks’ for PRS and budget reporting.

In the case of Mozambique, as highlighted above, there are no significant ‘building blocks’ at the local government level, as the bulk of local governments (provinces and districts) are deconcentrated units of central government, implementing sectoral programs defined at central level, rather than having significant responsibility for policy design and resource allocation. Although this is likely to change in the future, as the government is gradually increasing the level of discretionary resources made available to provinces and districts<sup>8</sup>, at the moment there are no significant mechanisms in place to implement and report on local government expenditure, apart from those incorporated in sector systems. Provincial governments do prepare their own local budget and PES, and districts will increasingly do so, but these are mostly a collection of sectoral information, aimed at promoting inter-sectoral coordination rather than providing building blocks for national reporting and monitoring. Urban municipalities, on the other hand, do have full political and financial autonomy. However, not only they control a small percentage of overall government expenditure<sup>9</sup>, but they are only legally bound to report to the Municipal Assembly, sending their consolidated accounts and reports to central government only for information.

Quite clearly, then, sector instruments are the main ‘building blocks’ of the PRS and budget reporting system in Mozambique. Box 1 presents a brief analysis from the health sector, highlighting the existing systems and contradictions, and their overall contribution to central reporting and monitoring mechanisms.

##### **Box 1. Health**

<sup>8</sup> In 2006, for the first time, all 128 districts have been allocated a fund of about \$300,000 for investment expenditure, to be allocated through local planning processes.

<sup>9</sup> Possibly with the exception of large municipalities such as Maputo and Beira.

The health sector has had a strategic plan (*Plano Estratégico do Sector Saude*, PESS) since 2001, linked to a SWAP financing arrangement, with basket funding made available by a number of donors on the basis of a Memorandum of Understanding. The main instrument for operationalizing the PESS is an Annual Operational Plan (*Plano Operacional Anual*, POA), which details the main activities to be undertaken during a specific year, and the available inputs in terms of different financing sources (OE, SWAP, projects, etc.). The high level of donor financing for the sector has contributed to a fragmentation of instruments and a skewing of incentives. The Ministry has tended to view sectoral and central planning instruments (i.e. PESS and POA on one side, and PARPA and PES on the other) as partly competing documents, rather than complementary and part of the same national planning system, and serving different purposes. Because it obtains most of its funding through the PESS-SWAP arrangement rather than through the PARPA-funded national budget, the Ministry has tended to see the PESS, rather than the PARPA, as its main policy document. For the same reasons, the POA (which mainly covers donor-funded activities), is more important than the PES as the main annual document linking available resources with programmed activities and outputs.

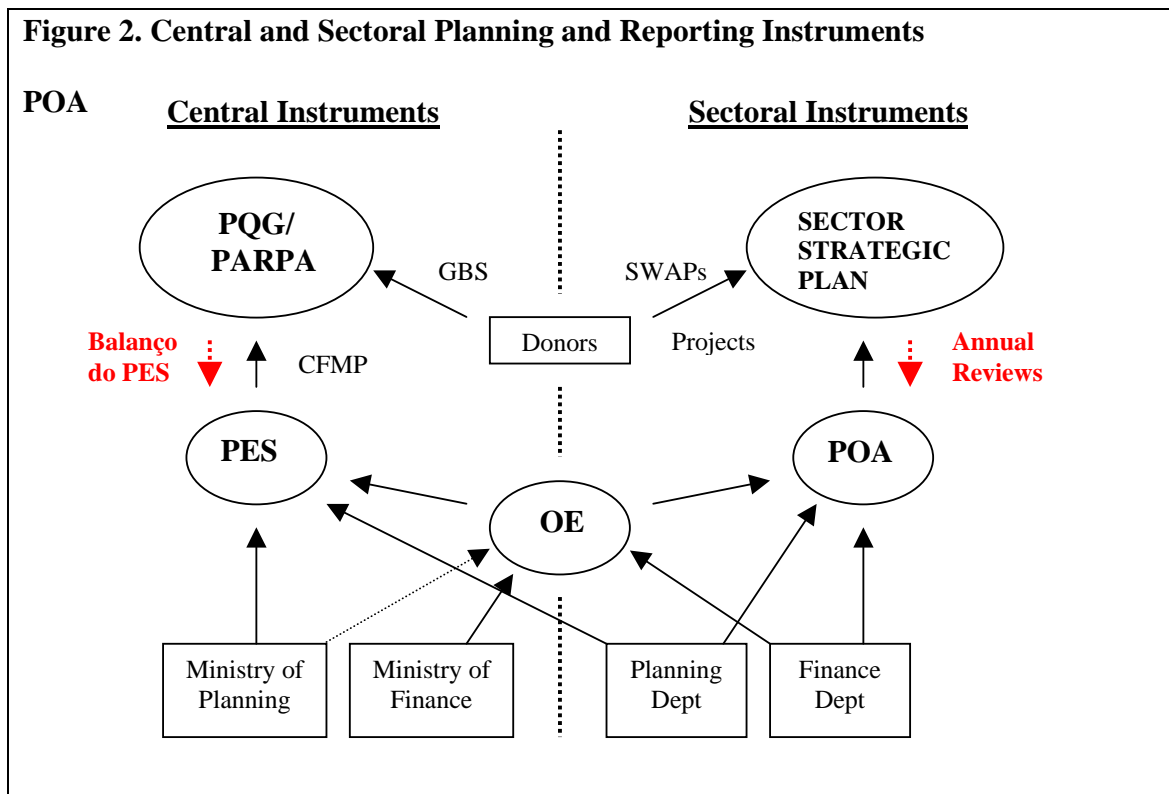
The fragmentation is highlighted by the fact that, for example, timing for the central and the sectoral instruments has been different. Whilst the PES, until last year, was prepared by the sector and submitted to the Ministry of Finance by the end of July, the POA was finalized only in November of each year. And while the *Balanço do PES*, the central annual reporting instrument, has to be ready by mid-February each year, the evaluation of the POA is only done towards the end of March. For 2007, the Ministry is trying to produce a single document by the end of July, complying with the central budget cycle. Timely reporting will be a lot more difficult, as the Ministry relies on data from the Provinces which are often not available until February-March.

The fragmentation, duplication and overlapping of sectoral and central monitoring and reporting instruments is coupled with a clear difficulty within the sector to link financial information with data about outputs and results. On one hand, the institutional separation, highlighted above, between the departments dealing with budgeting issues and those dealing with planning issues, does not promote an integration of the two kinds of information. On the other hand, the lack of clear data on activity unit costs, and a budget structure which tends to aggregate information according to economic rather than programmatic classification, also makes it more difficult to link expenditure to specific objectives and related activities, and these to impact on health indicators. Finally, as highlighted above, further problems arise with relation to the high level of off-budget expenditure, and to the lack of predictability in donor funding.

Existing mechanisms in the health sector are quite similar to others existing in the other main sectors (e.g. education and agriculture), and they highlight the existence of two parallel sets of instruments which the sectors follow when monitoring and reporting on their plans and budgets. As sketchily summarized in Figure 2 below, alongside central systems driven by medium-term instruments such as the PQG, the PARPA, the CFMP and the annual PES, each sector has specific instruments linked to SWAP arrangements, with Sector Strategic Plans which are operationalized through annual operational plans, often in accordance to a separate calendar and systems dictated by the specific agreement the sectoral ministry has reached with its main donors. Reporting mechanisms are equally separated, with the centrally-driven *Balanço do PES* being produced in parallel to sector-specific reports feeding into annual reviews of SWAP arrangements, again normally according to different calendars and formats.

The fragmentation in instruments is mirrored in the institutional fragmentation between organizations responsible for formulating and reporting on budget execution and on PRS

implementation, again as portrayed in Figure 2. This situation has created a number of difficulties in the integration of reporting mechanisms in recent years, in particular in terms of providing the necessary incentives for sectors to ensure that the information provided to compile the PES at the central level was of sufficient quality. Nevertheless, the gradual improvement of central mechanisms, along with a shift in donor practices towards increased harmonization are having an impact on the existing limitations and contradictions<sup>10</sup>.



Another, additional set of ‘building blocks’ is provided by the **poverty-related surveys** which are carried out on a regular basis by government entities such as the National Statistics Office (*Instituto Nacional de Estatística*, INE), the Ministry of Planning and development and by civil society organizations in the context of the Poverty Observatory (OP).

The main surveys that deserve mention are the household surveys carried out in 1996/97 and 2002/03, which documented Mozambique’s success in reducing poverty levels, and the poverty reports produced in 2004 and 2005 by civil society (*Relatório Annual da Pobreza*, RAP). Although the Mozambican household surveys are generally recognized as having been of a high standard, there are some important elements which limit their usefulness as a monitoring and reporting mechanism in relation to planning and budgeting<sup>11</sup>. These relate to the fact that the analyses done of the survey data so far have not assessed whether and how the changes which have taken place are linked to the implementation of government policies, and do not consider

<sup>10</sup> For example, in February of this year, the Minister for Planning and Development issued a directive with the aim of harmonizing the timing of central and sectoral reviews.

<sup>11</sup> See CMI (2005).

PARPA. The RAPs, on the other hand, gather opinions from as many parts of society as possible regarding their perceptions of the definition of poverty, the impact of government policies on poverty, and the evolution of the increase and distribution of wealth. They are based on extensive interviews and national and provincial seminars, and therefore mostly qualitative rather than quantitative in nature. Furthermore, the fact that they are more forward-looking than evaluative mean that they carry limited value as monitoring instruments. However, they contain a number of specific policy proposals that were put forward during the OP annual meetings, and were instrumental in discussions over the formulation of the PARPA II.

The Ministry of Planning and Development, on the other hand, is currently in the process of upgrading its poverty analysis and monitoring systems. Since 2002 it has a poverty monitoring unit/team in charge of establishing a national (poverty) monitoring system, liaising with other government departments at national, provincial and district level, as well as with civil society organisations through the Poverty Observatories. It is also giving greater weight to its analysis capabilities with the creation of a National Directorate for Research and Policy Analysis, which will replace the previous Research Unit (*Gabinete de Estudos*). Ensuring that enough capacity exists within MPD to establish an M&E framework which goes beyond the narrow monitoring of PAF indicators would not only promote more useful monitoring, but also allow the MPD to have a positive role and contribute to maintaining the necessary institutional linkages with the Ministry of Finance.

### **Overall PRS and Budget Progress Reports**

Despite the contradictions highlighted in the previous section, recent improvements in the central monitoring and reporting instruments are bringing about considerable changes in the functioning of the overall planning and budgeting system.

The Budget Framework Law and the SISTAFE Law laid the ground rules for a more comprehensive and predictable system of instruments for reporting, in particular on budget execution. Since 2001/02, the Public Accounts Directorate of the Ministry of Finance (*Direcção Nacional da Contabilidade Pública*, DNCP) has begun producing regular quarterly budget execution reports (*Relatórios de Execução Orçamental*, REOs) within six weeks after the end of each quarter, and year-end consolidated accounts (*Conta Geral do Estado*, CGE), which are submitted to the Supreme Audit Institution (*Tribunal Administrativo*, TA) by the end of May of each year for the previous year's accounts. Although the comprehensiveness and reliability of these reports is sometimes questioned<sup>12</sup>, the fact that reports that were not previously produced on a regular basis are now compiled on time and made available is a significant step forward. This came partly as a result of the new legislation being enacted, but also, as we will see later, thanks to the agreements that the Government signed with donors providing budget support, in order to allow for monitoring and reporting on how resources channeled through the treasury were being utilized.

In terms of PRS reporting, the Mozambican government has insisted throughout the PRSP process that PRS reporting mechanisms such as the APR should not duplicate existing ones. The *Balanço do PES* (BdPES), which is the annual document compiled by government and sent to

---

<sup>12</sup> For an assessment, see Lawson and de Renzio (2006).

Parliament in February of every year reporting on the implementation of the activities included in the PES for the previous year, was the obvious choice. However, its numerous shortcomings made it necessary to create a parallel document prepared for the first two years, 2001/02, and subsequently led to the establishment of a parallel monitoring mechanism, the Performance Assessment Framework (PAF), which will be discussed in greater detail below.

However, the government is currently working to improve its monitoring and reporting mechanisms, partly as an effort to align and unify PRS and national reporting systems. In this sense, while the original purpose of the BdPES was mostly linked to point c) in the box below, it started addressing point b) after the adoption of the PARPA and the increase in budget support, and is gradually moving towards point a), as its quality improves.

### **Box 2. Annual Progress Reports and Joint Staff Advisory Notes**

Governments are supposed to produce a Progress Report every year of PRS implementation to meet one or more of the following objectives<sup>13</sup>:

- a) Enhance government performance on poverty reduction;
- b) Meet donor reporting requirements (for budget support, HIPC, other IFI and bilateral support); and
- c) Support enhanced government accountability to citizens.

Guidelines on APRs issued by the World Bank and the IMF state that:

*While there is no required format for APRs, as part of the PRS Initiative, APRs are expected to have three basic elements: (i) an evaluation of performance and analysis of outturns relative to benchmarks, for monitoring and evaluation purposes; (ii) an overview of the coming year's policy intentions, particularly, but not exclusively, as reflected in the budget; and (iii) a report on how specific shortcomings identified in Joint Staff Advisory Notes have been addressed. In addition, the APR should indicate how annual reporting is being used to provide information on implementation progress to key domestic and external stakeholders.*<sup>14</sup>

The last assessment carried out by the Bank and the IMF of progress with the Mozambican PRSP expresses the following view on the BdPES:

*The 2004 APR is an improvement over the 2003 APR in that it better reflects the PARPA and PES implementation and responds to issues raised in previous JSAs. It could benefit, however, from more analysis (especially of the weak performance in some areas) and a closer linking to the central, sector, and provincial monitoring systems. The APR in Mozambique does not provide an overview of the coming year's policy intentions, which is set by the PES.*<sup>15</sup>

It is interesting to take these comments as a starting point to analyse some of the characteristics of the BdPES, and some of the reasons for its shortcomings. Clearly there is a gradual alignment taking place between the PARPA and the PES, in the sense of linking more directly the priorities

<sup>13</sup> See ODI (2004).

<sup>14</sup> See WB/IMF (2004).

<sup>15</sup> See WB/IMF (2005).

identified in the PARPA with the activities included in the PES and reported on in the BdPES. Analysis of weak performance is partly limited by the ‘political’ nature of the document, as the government has little interest in highlighting its own shortcomings in front of Parliament. The missing links with other monitoring systems is partly a consequence of the factors identified in the previous section, stemming from the fragmentation in sector instruments, and from the incentives faced by sector officials whose funding mostly depends on sector-specific mechanisms. This is also reflected in the lack of detailed budget execution analysis in the BdPES, and of any explicit linkages made between policies implemented, results achieved and funds spent. The part of the BdPES dealing with budget policy is limited to very aggregate information on general outturns according to economic classifiers, or for the PARPA priority sectors as a whole, without any further break-down.

Ongoing reforms are meant to tackle a number of these problems, and to strengthen the link between public spending and development results. The main pressure on the government to respond to these challenges comes from two main quarters. In a more limited way, **Parliament**, mostly through the Commission for Planning and Finance (*Comissão do Plano e Orçamento*, CPO), is putting increasing pressure on government to use public funds more effectively, despite its limited analytical capacity. The CPO regularly presents government with comments and requests on OE and PES proposals, questioning numbers, providing evidence from field visits, and pushing the government to provide better and more comprehensive information.

The greatest part of the pressure, however, has been coming from **donors**, especially through the so-called G-18, the group of donors providing direct support to the government budget.

### **Box 3. A brief history of Budget Support in Mozambique<sup>16</sup>**

Collaboration in General Budget Support (GBS) grew out of a long history of coordination between a ‘like-minded’ group of donors and collaboration with government through the civil war period. Two rounds of Heavily-Indebted Poor Countries (HIPC) debt relief from 1996/97 and approval of the PARPA in 2001 enabled the conditions for donor alignment on an agreed poverty reduction strategy. The bilateral donors began to formulate plans for a common programme of general budget support in 1998. Coordination of general budget support was agreed in 1999 and formalised in 2000 as a ‘common framework agreement’ in a Joint Donor Programme for Macro-Financial Support between the government and bilateral donors. A small group of six donors rapidly expanded to 10 in 2002, 15 in 2004, and 18 in 2006, including the World Bank and the African Development Bank.

In response to growing concerns regarding the use of budget resources to address a banking crisis in 2001, some donors temporarily withheld budget support disbursements in 2002. In the face of the damaging effects of unpredictability in macro-financial management, the government asked that the conditions for disbursement should be set out more transparently. This led to the re-design of GBS arrangements in a Memorandum of Understanding (MoU) which set out the objectives, basic principles and commitments on the part of government and donors, processes for reporting, monitoring and dialogue, dispute resolution and disbursement processes. It led to the establishment of a Performance Assessment Framework (PAF) as the shared instrument for policy dialogue, as the basis for assessing government’s performance and for deciding donors’ commitments for the following year. It committed the Programme Aid Partners to align with government systems, make their funding more predictable, strengthen domestic accountability and

<sup>16</sup> From Batley et al. (2005).

report on their own performance through a donor accountability framework – the Programme Aid Partners' Performance Assessment (PAPPA).

GBS increased from about 2.7% of net Official Development Assistance (ODA) in 2000 to about 14.4% in 2003 and 18.6% in 2004. However, the growing importance of GBS does not mean that all other forms of aid have disappeared. For most donors, GBS remains a complement to other forms of programme and project aid.

Two instruments introduced with the GBS MoU, in particular, have contributed to a shift not only in donor-government relations, but also in the use and effectiveness of government reporting instruments. Firstly, the PAF Matrix, which has proved to be an effective mechanism for focusing both the government's and the donors' attention on a limited set of agreed indicators. As a recent study on PAFs notes,

*Up to 2004, the Government of Mozambique had to meet a large number of different and sometimes inconsistent performance indicators, originating from HIPC benchmarks, the PRGF, EC indicators, and the PARPA matrix. 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 and during 2004/2005 the PAF evolved. Some indicators were replaced by others more under the control of the government. A number of indicators were replaced by more appropriate ones in relation to the objective in question. In several cases, the targeted numbers were reduced to a less ambitious level. Policy measures to be taken involved a more gradual phasing. Whereas in 2004 the World Bank PRSC matrix was additional to the PAF, since 2005 the PRSC and PAF matrices are fully melted into a single instrument.<sup>17</sup>*

Moreover, since last year, the PAF Matrix appears as an appendix to the PES document submitted to Parliament, and is expected to be subsumed in the new PARPA M&E matrix.

Secondly, the Joint Review process has allowed for a clearer focus on the government planning and budgeting cycle as a basis for common policy discussions and for overall monitoring and reporting. Under the MoU, there are two reviews which take place every year. The main annual one, in April/May, looks back at performance in the previous year (n-1), based on preliminary government reports (REOs and BdPES), and feeds into the first steps for planning for the following year (n+1), such as the formulation of the CFMP and the setting of sectoral ceilings and allocations. The mid-year review, which takes place in August/September, is meant to firm up funding commitments as the budget is submitted to Parliament, and take into account further available data on past performance after the publication of the *Conta Geral do Estado* and its review by the *Tribunal Administrativo*.

In the past few years, the combination of the reforms being introduced with the new legislation on public financial management and of the new arrangements related to GBS have brought about a gradual improvement in existing reporting mechanisms, providing a better link between budget policies and poverty reduction strategies. The quality and coverage of both the REOs and the BdPES, despite their many shortcomings, have been improving. Adding the PAF Matrix as an

---

<sup>17</sup> Lawson et al. (2005:65)

annex to the PES has allowed for a widening of the policy dialogue between donors and government, bringing Parliament more clearly into the picture, and gradually involving civil society actors, as will be described below.

More interestingly, the gradual evolution of the PAF as the main monitoring mechanism, along with the focus on bringing all aid ‘on-budget’, has provided stronger incentives for sectors to become more involved in centrally-driven policy and reporting processes, and not rely exclusively on sector-specific mechanisms and direct links with donors. The inclusion in the PAF of sectoral indicators, in order to monitor performance in priority sectors as defined in the PARPA, has meant that sectors saw much more clearly the benefit of being involved in the joint review process, to the point that sectors have been pushing to have ‘their’ indicators included in the PAF, as that gave them more visibility and legitimacy even when negotiating additional or separate donor funding<sup>18</sup>.

**Table 5. Overview of reporting instruments**

	<b>Instruments</b>	<b>Pros &amp; Cons</b>
<b>Budget</b>	Budget Execution Reports (REOs)	<ul style="list-style-type: none"> <li>▪ As a result of budget reforms, REOs are now produced on a regular and timely basis</li> <li>▪ Limited coverage, given large amount of ‘off-budget’ donor funding and other missing items on investment spending</li> <li>▪ Their format is not always accessible in terms of easiness to read and interpret the data</li> <li>▪ There are some difficulties in reconciling central data with information coming from sectoral or local government sources</li> </ul>
	Annual Accounts (CGE)	<ul style="list-style-type: none"> <li>▪ Similar to REOs</li> <li>▪ The fact that CGEs are submitted to Parliament and to the <i>Tribunal Administrativo</i> means that the exercise is taken more seriously, and brings more discipline</li> </ul>
	Sector instruments	<ul style="list-style-type: none"> <li>▪ More ownership by sector actors</li> <li>▪ Some confusion and fragmentation between central and sectoral mechanisms</li> <li>▪ Different clients and audiences</li> <li>▪ Organisational issues, with separate institutional responsibility for formulating and reporting on plans and budgets</li> </ul>
<b>PRS</b>	<i>Balanço do PES</i>	<ul style="list-style-type: none"> <li>▪ The deadline dictated by law prevents some useful information to be included in the BdPES</li> <li>▪ Concrete links between policies, resources and results are missing from the document</li> <li>▪ There is little feedback of performance information to the policy-making process</li> </ul>

<sup>18</sup> Interviews with sector officials.

	Surveys	<ul style="list-style-type: none"> <li>▪ Their periodical nature does not allow for more regular monitoring and update</li> <li>▪ There are few linkages between survey results and policy-making processes</li> </ul>
	Sector instruments	<ul style="list-style-type: none"> <li>▪ More ownership by sector actors</li> <li>▪ Some confusion and fragmentation between central and sectoral mechanisms</li> <li>▪ Different clients and audiences</li> <li>▪ Organisational issues, with separate institutional responsibility for formulating and reporting on plans and budgets</li> </ul>

## V. ANALYSIS OF PRS-BUDGET LINKS

Previous chapters have summarized available information and provided an assessment of existing systems for PRS and budget formulation, implementation and reporting in Mozambique, highlighting some of the limitations and contradictions that exist, both in terms of the instruments used and of the incentives that different actors face. On the basis of such analysis, this chapter will explore in more detail some of the defining characteristics of the linkages that exist between the PARPA and the budget, looking at the specific challenges that the Mozambican system faces in terms of integration, ownership, incentives and accountability. In this way, it will also serve as a summary of the main points on which the conclusions of this paper are based.

### Planning and Budgeting Stage

This section will look at integration between the PARPA and the budget at the planning and formulation stage, asking whether government ownership is really driving the process of priority-setting and resource allocation.

#### *Degree of Integration*

At the moment, there is little integration between budget information and performance information in Mozambique, especially at the central level. As we have seen, the separation of annual planning and budgeting instruments (PES and OE respectively) makes it quite difficult to link directly PARPA objectives with annual expenditure plans and priorities. As information about planned activities is presented in a separate document from budget information, it is difficult to understand in which way public expenditure is meant to contribute to specific objectives. Moreover, the fact that in the past the CFMP has mostly been used as an internal exercise in the Ministry of Finance to ensure that sectoral ceilings are compatible with the macroeconomic framework implies that resource allocation decisions are not usually taken on the basis of medium-term expenditure projections generated by the need to achieve policy objectives.

A better integration exists in some cases at sector level, where in the context of sector programs, ministries have made a more concrete effort at linking medium-term objectives with costed annual activities. In many cases, however, existing incentives generated by fragmented and ‘off-

budget' funding have meant that such sector-specific improvements have not been reflected in central systems, or linked to an overarching development strategy.

Another important characteristic which limits the capacity of the government to effectively link PARPA objectives and budget priorities is the existing budget classification system, which despite its significant improvements since the beginning of the reforms in 1997 does not allow for clear linkages of expenditure data with outputs and outcomes, being mostly based on administrative and economic classifiers which reflect the internal organization of most ministries. Functional classification has been introduced, but is still very incomplete. For example, budget documentation only contains a break-down for the ten broad GFS functional categories, without any sub-functional classification. The introduction of a more adequate functional classification system is foreseen as the new SISTAFE is being implemented, but it is likely that some years will pass before the new system starts generating the kind of information that can be effectively used for improving integration.

Related to this, during the formulation of the PARPA II, the Ministry of Finance and the MPD have been promoting a new approach to costing, with a view to build a clearer and more comprehensive picture of the resources needed to achieve planned objectives in the PQG/PARPA-II. The main idea has been to use this costing exercise as a first step towards updating, and at the same time improving, the current CFMP. A key measure in this direction has been to introduce a simplified version of program budgeting, which groups planned expenditure according to the main policy objectives defined in the PARPA-II, even if it doesn't link it directly to output and outcome indicators defined in the document. Some sectors, given the limitations of the current budget classification system, are finding it very difficult to comply with these instructions, even though there are signs that such push is creating the right kinds of incentives for improving the linkages between budget formulation and results-orientation<sup>19</sup>, as well as increasing ownership, scope, and hence effectiveness of the CFMP by involving sector ministries in its preparation.

### *Ownership*

The question of government ownership is a complex one in Mozambique, mostly because of the growing level of involvement of donor officials (especially the G-18) and of technical assistants in the formulation and implementation of budgets and plans. There are reasonable grounds to argue that PARPA I was mostly seen as a donor-driven exercise, with which the Mozambican government complied because it was a requirement in order to access HIPC debt relief. Despite a keen rhetoric of government ownership at the political level and within a restricted circle of senior officials involved in the process, at the sectoral level, but most of all at local government level, there was little involvement and therefore limited ownership. This was also due to the fact that consultations around the formulation of the first PARPA were limited and done in a rush, again in order to comply with comments from the Bretton Woods institutions that the process had not been inclusive enough.

The CFMP, as highlighted above, is an instrument that enjoys limited ownership, mostly due to the fact that it has traditionally been undertaken as an exercise internal to the Ministry of Finance,

---

<sup>19</sup> Interviews with sector officials.

with some involvement of the sectors, but until 2006 with no political seal of approval from the Council of Ministers. Annual budgets, quite understandably, enjoy a much higher degree of ownership, and are seen as the main government instrument for policy implementation. However, their legitimacy is undermined by the two issues of *credibility* and *comprehensiveness*. As shown in previous sections, the high variation in inter-sectoral reallocations along the course of the year, and the existing system of transfers and disbursements, limit the validity of the budget as a credible policy statement, and of the CFMP as an instrument of medium-term financial planning. Moreover, the fact that a considerable part of funding (mostly related to donor-financed projects) still flows outside the budget means that implementing agencies devote a significant amount of time and effort to executing activities outside the budget framework, which cannot but have a direct bearing on the level of ownership and importance that different actors 'feel' for the budget.

Another issue that has highlighted contradictions related to government ownership is the duplication between the PQG and the PARPA as medium-term development strategies. The government has repeatedly turned down donor requests for having the PARPA submitted and approved by Parliament, in order to strengthen its role as a planning instrument. The emerging consensus on eliminating the PARPA as a separate document after the present one is an important step in asserting government leadership, even though the different nature of the two documents (one political, general, and covering all sectors; the other more technical, specific and focused on priority sectors) might create some tensions. Also, the more inclusive nature of the formulation process for the PARPA II (see box below), with the use of broad sectoral working groups, and the involvement of the Poverty Observatory, has led to growing ownership from non-state actors.

#### **Box 4. The Process of Preparation of PARPA-II**

The elaboration of PARPA-II took place mostly during 2005 and was organized in four different stages. During a first phase, spanning from late 2004 to March 2005, the Ministry of Planning and Finance and, after the separation, the Ministry of Planning and Development, organized a series of workshops to define the methodology for the PARPA-II preparation process. After extensive consultation, the government opted to undertake PARPA-II as a government-led process, with participation of civil society and donor representatives through technical working groups, and consultation through existing mechanisms such as the national and provincial Poverty Observatories.

During a second phase, and following the working methodology of the 2005 Joint Review between the Government and the G-18 donor group, nineteen thematic working groups were set up around four main pillars: Governance, Human Capital, Economic Development and Cross-cutting issues. In addition, a Technical Secretariat was created at the MPD, with the task of coordinating the PARPA-II preparation process as well as providing technical support and representing the MPD in each of the thematic working groups. During this phase, the working groups were given the task of producing a preliminary report assessing the achievements in implementation of PARPA-I, and defining the medium- and long-term challenges in each of these thematic areas. They also prepared a preliminary action matrix for the PARPA-II implementation period, based on the policy objectives defined in the government's five year plan (PQG) in the area of poverty reduction, broadly defined. These documents were first discussed at pillar level by representatives of each working group, and later presented at the 3<sup>rd</sup> National Poverty Observatory, held in early August 2005.

During a third phase, working groups continued to work to complete these draft policy documents and sectoral action matrices, as well as to incorporate elements of the discussions held during the national and provincial Poverty Observatories. Finally, working groups started to work on the costing of PARPA-II programs, in close collaboration with a team from MPD and MF, on the basis of a costing methodology developed within these ministries. During this phase, a drafting team was created at the MPD to write up the draft PARPA-II document on the basis of contributions by working groups. A quality control mechanism was also established, with an internal peer-review of a first preliminary draft, followed by two independent reviews by the UNDP and a team of three independent Mozambican experts. A first draft of PARPA-II was publicly circulated in mid November 2005 and discussed at 4<sup>th</sup> National Poverty Observatory, held in Maputo in late November 2005.

Finally, during the fourth and final phase, the PARPA-II preparation process focused on finalizing the PARPA-II policy document, sectoral matrices and programmatic costing, and incorporating changes and recommendations derived from the discussions held at the 4<sup>th</sup> Poverty Observatory. A PARPA-II strategic matrix incorporating a reduced number of indicators was produced on the basis of sectoral action matrices, and aligned with the Joint Review PAF matrix and the Millennium Development Goals.

### **Reporting, Review, and links to Decision-making Processes**

This section shifts attention towards the reporting stage, looking at how monitoring and review of progress on PARPA and budget objectives feeds back into decision-making processes, promoting results-orientation.

#### *Degree of Integration*

Integration in reporting instruments is promoted by the fact that the system consistently relies on existing domestic processes and instruments, but limited by the fact that budget execution reports (REOs) are produced separately from PES implementation reports (BdPES). While REOs focus almost exclusively on detailed expenditure outturns, assessing the degree to which budgets have been executed as planned, all information regarding implementation of planned activities is reported separately in the BdPES, which only reports expenditure data at a very aggregate level, in order to assess whether the 65% target of expenditure in PARPA priority sectors has been achieved. It is difficult to see how this issue could be tackled without radically re-thinking the nature of planning and budgeting instruments, for example by merging the OE and PES.

Such fragmentation limits the results-orientation of the reporting system, along with the difficulties that the current budget classification system encounters in linking expenditure to programmatic objectives. On the positive side, however, arenas for discussing performance information have multiplied, even though they are still fragmented and are putting considerable strain on an already overstretched civil service. Apart from parliamentary analysis of the REO and BdPES, which takes place twice yearly, in March and September, the Joint Review has become a very active forum for discussion, gradually involving more and more civil society actors, despite their limited capacity to engage. The limitations of such discussions is that they either tend to focus on budget numbers, their consistency and coverage, or on outputs and outcomes, rarely linking the two together in meaningful ways. As highlighted above, the introduction of the PAF in recent years has contributed to a more focused debate, despite its complicated structure and heavy administrative burden on limited government capacity and time.

### **Box 5. The 65% Rule**

In order to operationalize the Government's commitment to reduce poverty levels, and to better link the PARPA with the annual budget, agreement was reached between the Government and the donors to monitor the percentage of total expenditure devoted to the priority sectors identified in the PARPA. These included education, health, infrastructure (including roads and water), agriculture and rural development, good governance (including justice), social action and employment. The Government committed to spend at least 65% of its total budget resources (excluding debt service) on these priority sectors.

This indicator has been criticized for a number of reasons. First of all, the basis on which this percentage was chosen and deemed to represent a 'good' or sufficient effort on the side of the Government is unclear. Secondly, given the large amount of donor resources spent in the priority sectors but not recorded in the budget, reporting is inevitably incomplete and therefore potentially misleading. Thirdly, its simplicity provides a strong incentive for government officials to 'adjust the figures' in order to attain the numerical value. Finally, and related to this, the 65% target focuses exclusively on inputs, rather than promote results-orientation. As a consequence, it hardly provides any insights on the content, success and actual impact of policies and programs intended to reduce poverty, also because it tracks broad sectoral allocations rather than identifying more specific actions that are most likely to lead to positive development outcomes.

Another possible avenue for strengthening the results-orientation of budget reporting discussions would be improvements towards the introduction and use of functional/ programmatic budgeting, which might become easier as the introduction of SISTAFE starts bearing fruit. However, this will crucially depend on the existing incentives for relevant actors to use information in a way that allows for a results focus to feed back into decision-making processes, and for central agencies to allocate financial, human and managerial resources, as well as clear incentives (rewards and sanctions) in relation to objectively measured results. Finally, it will depend on the administrative re-organization of ministries along programmatic rather than purely functional lines, also in the light of the gradual decentralization process.

#### *Incentives to use information*

While trying to understand the incentives that actors face to use existing information generated through budget and PRS reports for results-orientation, it is important to remember that such information has only been available on a regular and detailed basis at the central level since 2001/02. While at the sectoral level better mechanisms were being developed in earlier years, this still means that there currently is little experience of using information in a comprehensive and coherent way.

The use of information contained in REOs and BdPES for results-orientation depends crucially on the strength of the various 'challenge functions' played by different actors at different levels. At the moment, challenge functions are quite weak in Mozambique, both with regard to the role played by the Ministry of Finance *vis-à-vis* the sector, and to the role of Parliament *vis-à-vis* the executive.

The analysis made in Hodges and Tibana (2005) is quite insightful in this respect. For example, about the role of the **Council of Ministers**, they note that 'there seems to be little motivation at the higher political levels to think strategically about resource allocation, or to introduce

structural reforms in expenditure composition' (p141). They also observe that 'when the budget is presented to the Economic Council and the Council of Ministers, the discussion it generates [...] is mostly parochial. Ministers verify the proposed budget to compare the amounts allocated to their own ministries [...] and raise questions in case there are significant [negative] differences' (p142). Their argument is that 'it is likely that the lack of a strategic perspective on resource allocation [...] reflects a desire to avoid the need for difficult choices within the Council of Ministers. An incremental approach to budgeting is justified not only for the simplicity of its execution from a technical point of view, but also [...] for being less contentious and for better responding to the interests at play' (p144).

On the role of **Parliament**, they note that 'there is no real Frelimo budget policy different from that of the government. The content of the budget comes from the executive, not from the party. When the budget and PES proposals are submitted to the Assembly [...] deputies can raise questions or ask for further information, as long as this does not represent a challenge to the collective interest of the party' (p134). On the other hand, Renamo (the main opposition party) 'has contributed little to a serious discussion of the budget in Parliament [...] the party has not presented alternative opinions over macro-fiscal matters or the sectoral and territorial allocation of expenditure' (p136). As a result of these political circumstances, a serious review of reporting instruments does not usually generate any challenges to the government to improve its performance, as documents are usually approved in full by a 'blocked majority', and rejected in full by a 'blocked opposition'. This also allows the BdPES to be a non-controversial, stating facts but not focusing too much on areas of concern and possible improvements, as seen above.

A much stronger challenge role is played by **donors**, in particular the G-18 providing budget support, through the Joint Review process and the various thematic and sectoral groups that have been set up to accompany policy formulation and implementation. A sub-group of economists from the G-18 agencies regularly analyzes REOs and BdPES, providing detailed comments to government on areas where there seem to be inconsistencies or deficiencies. It is likely that such predominant role undermines the strengthening of domestic mechanisms and institutions. Yet, on the other hand, such involvement, together with the introduction of the PAF matrix as the main instrument to monitor and review results against government commitments included in the PES, is creating wider incentives for results-orientation, which are starting to spread across the system.

### **Domestic and External Accountability**

This section will examine the degree to which PRS and budget reporting processes are integrated with domestic and external accountability processes. It will also examine whether external accountability requirements serve to reinforce domestic accountability, or to undermine it.

#### *Degree of Integration*

In general terms, the instruments utilized at central level for reporting to donors are the same ones that are used for domestic accountability purposes. Budget support donors, in collaboration with the Bretton Woods institutions, have been working with the government to improve the quality and content of the REOs and the BdPES, in order to ensure that they can satisfy both internal and

external reporting requirements at the same time. While this has been an important result obtained by the government, who insisted from the beginning of the PRS process on not duplicating existing efforts, this has come at the cost of a heavy administrative burden on an already overstretched civil service. The joint review process, set up to provide a forum for policy dialogue around GBS, complementing existing domestic reporting processes to Parliament, is a complex exercise involving more than twenty working groups, which takes a heavy toll on the time and capacity of government officials.

There are also a number of separate reporting procedures still in place at sectoral level and for externally financed projects which do not flow through the budget system. As we saw before, this situation still provides distorted incentives in terms of ensuring full government ownership of existing programs and budgets. This is also true for local governments which receive substantial donor support directly at local level, which in some cases constitutes a large part of resources available at local level. The current situation therefore sees weak internal government capacity being stretched to serve a number of accountability ‘audiences’: GBS donors (increasingly involving civil society actors) through the joint review process, Parliament through the regular reporting processes involving the BdPES and the CGEs, and sector-specific processes and reviews in sectors where SWAPs exist.

Over the past few years there has been a gradual move towards more integrated systems, thanks to ongoing budget reforms and to a gradual shift in donor assistance to direct budget support, which has started addressing the problems of fragmentation generated by the sectoral focus of aid. The signature of the MoU with the G-18 donors, and increasing efforts at bringing more aid ‘on-budget’ are likely to further strengthen such integration. Some observers argue that this process has mostly been donor-driven, and has allowed donors increasing access and control in the inner sphere of government decision-making. At the same time, such processes have proved instrumental in strengthening domestic accountability, for example with regard to the role played by the *Tribunal Administrativo*, to increasing transparency and access to budget information, and to its comprehensiveness and coverage.

#### *External vs. Domestic Accountability Mechanisms*

As discussed in previous sections, Mozambique still suffers from some serious distortions in domestic accountability due to heavy reliance on external assistance, to the fragmentation of instruments used by donors, and to the extent of donor involvement in central policy processes, including the PRS and the budget. Donors are among the main ‘consumers’ of budget and PRS reporting information, and donor-government Joint Reviews have become a major arena for performance reviews and (more limitedly) policy debates. Despite the side-effects that these processes are having on domestic accountability, there is a question of sustainability of the stronger central mechanisms that are being put in place. Their ‘institutionalization’ will still take a few years, and during such period much of the burden for making sure that they continue to be strengthened will fall onto a small circle of government and donor officials, with a risk that a political crisis, such as a major instance of corruption, or a shift in donor priorities decided at headquarters level might undermine the whole process.

There are some encouraging signals coming from the increasing role that Parliament is playing, especially in encouraging budget transparency, although the nature of the political system limits

its effectiveness, as Frelimo MPs tend to vote in block in favour of the executive budget proposal. Unless opposition forces become able to present more concrete and constructive criticism, there is limited hope of seeing substantial improvements in the quality of parliamentary input into the budget and PRS process. Actors until recently largely absent from these debates, such as civil society and the media, are gradually becoming more involved and gaining capacity to hold government accountable. The creation of a secretariat for civil society participation (the G-20), and of the Poverty Observatory, although largely dominated by Government, has at least opened a forum for information sharing and debate on government policies and priorities. The increasing transparency and availability of information also bodes well for an enhanced role of media scrutiny over budget/PRS formulation and implementation, further strengthening domestic accountability mechanisms.

#### **Box 6. The G-20**

In order to promote and improve their inputs into policy processes, in particular through the *Observatório da Pobreza*, civil society organizations, including NGO networks, private sector associations, trade unions, church groups and others formed a secretariat called the G-20, which functions as a coordination mechanism for participation in sectoral working groups, sharing information, collecting civil society inputs on various policy issues, and drafting common positions and papers to be presented to Government, such as the RAPs.

The creation of the G-20 represents an important step forward in institutionalizing civil society participation in the policy process, despite the fact that overall capacity remains low. This includes not only technical capacity to carry out policy-relevant research, but also advocacy capacity to successfully lobby government and mobilize broader civil society around important policy issues.

## **VI. CONCLUSIONS**

Mozambique represents an interesting case of a PRSP country with high degrees of aid dependency which has made great strides in upgrading its PFM systems through a phased reform program, attempting to link resources with objectives and gradually addressing some of the imbalances created by donor intervention. This has been made possible thanks to the degree of confidence that the Government has been able to elicit from the donor community, which in turn has been quite responsive and collaborative. Despite the considerable progress over the past few years, without doubt there exist a series of gaps and obstacles that still need to be addressed. These concluding remarks highlight some of the main issues for consideration in Mozambique, some suggestions for improvement, and the main lessons that Mozambique brings to international experience in promoting the integration between PRS and budget reporting.

### **Main issues in Mozambique**

Despite the significant improvements that Mozambique has seen in the last few years in the area of planning and budgeting, systems still suffer from the existence of a ‘**double fragmentation**’ problem. On one hand, there is poor integration between sectors and central agencies, in terms of a duplication of planning and budgeting systems due to the different sources of funding that tend

to predominate at sector level (i.e. SWAP-type arrangements and projects). On the other hand, planning and budgeting institutions and mechanisms are also separate, mirroring the co-existence of two main government documents (OE and PES) which annually cover policies and budget distribution, and their separate reporting (REO and BdPES). These fragmentations generate ownership problems in sector ministries, as sectors don't have a strong incentive to fully participate in the central planning and budgeting cycle, and a lack of results-orientation, given the lack of integration between budget information and information on policy implementation in two separate documents.

One of the main reasons for such fragmentation is a corresponding **fragmentation in donor interventions**, which range from General Budget Support to sector-specific instruments and a large number of stand-alone projects, a good proportion of which remain 'off-budget', and therefore go unrecorded in central government documents and statistics. The recent decision to separate the planning and finance ministries may exacerbate some of these problems. While this is by no means inevitable, once separate institutions are created with distinct responsibilities, coordination can easily fall victim of 'turf battles', and fewer incentives clearly exist that promote integration.

The lack of adequate systems for results-orientation is also partly related to the existing **budget classification system**, which does not allow for a significant shift towards a program budgeting approach, preventing clearer linkages between expenditure and outputs/outcomes. Budget classification is not a prerequisite for performance orientation, however. In Mozambique, this would also require a clear shift in the mindset of the majority of public officials, who are not much used to being assessed on the basis of their performance, let alone performance on results and impact of government policies. While ongoing public sector reform programs are starting to address this issue, there is still a long way to go.

Some ongoing reforms linked to SISTAFE and broader PFM improvements are aiming at bringing more aid 'on-budget' and at improving performance monitoring processes. This is gradually strengthening central mechanisms *vis-à-vis* sectoral ones, and addressing existing fragmentations. However, the mechanisms put in place to implement and monitor these reforms are putting a lot of pressure on limited government capacity and political will. The high degree of donor involvement in policy processes, through the G-18 and the Joint Reviews, and the complexity of the reforms at stake, call for a more careful approach in order to ensure the sustainability of the results achieved.

The nature of the Mozambican political system, especially the lack of serious challenge functions within Cabinet and in Parliament, does not easily promote accountability and integration. While Parliament has been playing an increasing role, this has been limited by party dynamics, which guarantee a block positive vote whenever legislation is discussed. The Council of Ministers, in turn, has so far not been an effective forum for policy discussions on priorities. Further hopes for increasing domestic accountability could rely on civil society actors, academics, research institutes and the media, despite their current lack of adequate involvement and capacity.

Generally speaking, the important improvements seen over the past five years are encouraging, although their sustainability and consolidation will crucially depend on political stability and continued donor support.

## Suggestions for improvement

The important limitations created by the separation between planning and budgeting instruments, both at formulation and reporting stage, partly reflect Mozambique's institutional history and its existing aid environment. Further integration of relevant short, medium and long-term planning and financial instruments through the *processo único* could generate improved institutional incentives, despite all the obstacles highlighted above. A step that deserves some attention is looking at bringing together the OE and PES in a unique document which brings together budget information and planned activities. This would promote a more integrated approach not only in the formulation phase, but also in the reporting phase, allowing for better linkages between resources and results. In other words, the *processo único* should result in a *documento único*, an integrated budget policy document and framework bringing together the previous separate instruments.

Regardless of the instruments used, central coordination mechanisms need to be further strengthened. A further shift towards budget support, combined with improved budget coverage can strengthen some of the incentives that are changing towards more integration. In particular, they would shift focus and incentives from sector ministries to central agencies (MF and MPD), strengthening a unified planning and budgeting cycle. It is important, however, not to focus excessively on a shift in aid modalities as the only solution. Integration, although more difficult, can be promoted even in the case of SWAPs and projects, if central mechanisms and monitoring controls are effective enough.

The degree of transparency and participation in public policy has improved a lot in Mozambique in recent years, partly as a consequence of PRSP-related processes. Nevertheless, more open and independent policy debates and forums should be promoted, in order to better inform public policy choices and involve a wider spectrum of domestic actors, including opposition forces. In this sense, the capacity of civil society, academia and the media to understand and analyze issues related to budgets and PRSs should also be strengthened. Forums such as the OP can be useful, but are not sufficient. The strengthening of the technical/sectoral working groups, already utilized for the joint review process and for the formulation of PARPA-II, is an important development in this respect, and should be further pursued.

## Main lessons for other countries

- **Insist on not duplicating reporting mechanisms**, but rather focus on improving existing ones. The early adoption of the REOs and BdPES as donor reporting instruments for GBS related to PRS implementation allowed for strengthening domestic processes and promoting integration. While these mechanisms had to be coupled with additional measures to reassure donors, the main focus remained on bringing Parliament and civil society increasingly into the picture, which was made easier by the existing degree of ownership of home-grown mechanisms and instruments.
- **The pros and cons of different aid modalities**, including their side effects on incentives for integration and fragmentation are a fundamental factor in shaping how a country manages to gradually strengthen its budget and PRS processes and instruments. Countries which receive

large amounts of aid resources through a range of modalities (GBS, SWAPs, projects, etc.) should try to build the right linkages from the start, for example by correcting incentives generated by a strong sector-focus by donors, or by not allowing 'off-budget' funding to persist. This also implies addressing political economy constraints linked to the role played by the Ministry of Finance *vis-à-vis* the sectors.

- **Coherent, comprehensive arrangements for policy dialogue with donors** are very important, especially in aid-dependent countries. The Mozambican case shows that when governments are involved at the top level, and donors collaborate constructively, incentives can shift dramatically in a limited timeframe. Attention should however be given to the heavy burden on limited government capacity that aid management can generate, and on recognizing the limitations to the political feasibility of the reforms being promoted.

## BIBLIOGRAPHY

- Batley et al (2005) *Evaluation of General Budget Support: Mozambique Country Report*. Birmingham: International Development Department.
- Cabral et al. (2005) *Estudo sobre os Off-Budgets no Sector Saude: Relatório Final*. Maputo: Ministério das Finanças.
- Cabral et al. (2003) *Experiência com o Cenário Fiscal de Médio Prazo em Moçambique e Opções para o seu Desenvolvimento Futuro*. Maputo: Ministério do Plano e Finanças.
- Committee of Counselors (2003) *Agenda 2025: The Nation's Vision and Strategy*. Maputo.
- EIU (2005) *Mozambique Country Report*. London: Economist Intelligence Unit.
- Falck et al. (2003): Mozambique, *Development Policy Review* 21(2).
- Fozzard, A. (2002): *How, When and Why does Poverty get Budget Priority? Poverty Reduction Strategy and Public Expenditure in Mozambique*. Working Paper 167. London: Overseas Development Institute.
- GoM (2001): *PARPA I (2001-2005)*. Maputo
- GoM (2005): *PARPA II (2006-2009)*. Maputo.
- GoM (2005): *Programa Quinquenal do Governo*. Maputo.
- Hodges, T. and Tibana, RJ. (2005) *A Economia Política do Orçamento em Moçambique*. Maputo: Principia.
- IDA/IMF (2005) *PRSP Progress Report Mozambique – Progress Report. Joint Staff Advisory Note*. Washington DC.
- IMF/IDA (2003) *PRSP Progress Report Mozambique*. Washington DC.
- Isaksen et al. (2005) *Poverty in Mozambique: Discourse, Analysis and Monitoring*. Bergen: Christen Michelsen Institute.
- Lawson, A. and de Renzio, P. (2006): *Assessment of Public Financial Management in Mozambique 2004/05. Final Report*. Maputo: SAL and ODI.
- Lawson, A. Gerster, R. and Hoole, D. (2005) *Learning from Experience with Performance Assessment Frameworks for General Budget Support*. Synthesis Report.
- MPF (2003-2006) *OE, PES, BdPES* (various years). Maputo: Ministério das Finanças.

- ODI (2004) *PRSP Annual Progress Reports and Joint Staff Assessments – A Review of Progress*. Briefing Note 9, PRSP Monitoring & Synthesis Project. London: Overseas Development Institute.
- OP (2005) *Meeting Reports*. Maputo.
- Sulemane, J. (2005a) *Mozambique: Better Budget Machinery – First Focus of Reform*, in ‘Budget Reform Seminar: Country Case Studies’. Pretoria: CABRI
- Sulemane, J. (2005b) *Towards Integrated Planning and Budgeting: The Mozambican PRSP Experience*. Presentation to Tunis Workshop on Pro-Poor Growth, November 2005.
- World Bank (2003) *Mozambique Public Expenditure Management Review*. Washington DC: World Bank.
- World Bank (2004) *Mozambique PRSC Program Document*. Washington DC: World Bank.
- WB/IMF (2004) *APR Guidelines*. Washington DC.