




# Evaluation

*Comparative Review of Austrian  
Development Cooperation's  
Budget Support Operations*

*Country Report Mozambique*



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Austrian  
 Development Cooperation



## **Imprint**

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This is an independent evaluation report. Views and conclusions expressed do not necessarily represent those of the contractors.

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## Table of acronyms

ADA	Austrian Development Agency
ADC	Austrian Development Cooperation
AWEPA	Association of European Parliamentarians with Africa
BS	Budget Support
CIAT	Centre for Tropical Agriculture
DAC	Development Assistance Committee
DFID	Department for International Development
EC	European Commission
GBS	General Budget Support
GDP	Gross National Product
GOM	Government of Mozambique
HOC	Head of Cooperation
HOM	Head of Mission
IMF	International Monetary Fund
MFA	Ministry of Foreign Affairs
MINAG	Ministry of Agriculture
MOU	Memorandum of Understanding
MPD	Ministry of Planning and Development
NGO	Non-governmental Organization
ODA	Official Development Assistance
OECD	Organization for Economic Cooperation & Development
PAP	Programme Aid Partners
PAF	Performance Assessment Framework
PARPA	Plano de Acção para Redução da Pobreza Absoluta
PFM	Public Financial Management
PPE	Pro Poor Expenditures
PSI	Policy Support Instrument
SBS	Sector Budget Support
SDC	Swiss Agency for Development and Cooperation
SECO	State Secretariat for Economic Affairs
TYP	Three Year Programme

# 1 Introduction

ECORYS Nederland BV (ECORYS) has been contracted to undertake a Comparative Review of Austrian Development Co-operation's Budget Support Operations.

The overall objective of the Review is to provide an assessment of the use of budget support<sup>1</sup> (BS) as an aid modality since 2005/6 to date, and how budget support creates synergies with other modalities used by the Austrian Development Co-operation (ADC). The Review aims to achieve this by (i) comparing ADC's policy documents, internal procedures and human resources regarding budget support with those of two other comparable European donors (Belgium and the Netherlands); and by (ii) assessing ADC's budget support operations in four case study countries (Cape Verde, Mozambique, Nicaragua and Uganda).

The purpose of this report is to present the findings from the review of ADC's operational experience with budget support operations in Mozambique since 2005/6, as part of the Review's second phase. Particular attention is paid to the value added of ADC's involvement in budget support operations and a review is undertaken of ADC policies, capacities and procedures as determining factors, by using the open-systems model. In line with the Terms of Reference, the review team focussed on analysing ADC's involvement with general budget support and sector budget support in support of Mozambique's National Programme for Agricultural Development (Proagri).

The field mission to Mozambique took place from 6 to 12 February 2010 and was carried out by one senior international expert (Ines Rothmann), accompanied by a national consultant (Aly Lala). In preparation of the field mission, the most relevant documentation of ADC policies, capacities and procedures were examined, as well as Mozambique's aid effectiveness context. During the mission, ample attention was paid to gathering the relevant information and perceptions of the Mozambique Coordination Office and representatives from government, development partners and civil society. A debriefing session took place on 12 February 2010, where the major preliminary findings were discussed with the Mozambique Coordination Office.

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<sup>1</sup> For the purpose of this report the term Budget Support will be used to denote both General Budget Support (GBS) and Sector Budget Support (SBS). If something applies specifically to either of these types of BS, this will be communicated accordingly.

## 2 ADC Country Programme

Austria has a long-standing engagement with Mozambique, dating back to the beginning of the 1990s. The Mozambique Country Programme 2002-2004<sup>2</sup>, which was extended till 2007, has governed the country programme from 2002 on. It evolved around two main pillars: (i) rural development, focusing on agriculture, economic development and water & sanitation and (ii) decentralization, concentrating on capacity building support to sub-national authorities in the area of planning & budgeting.<sup>3</sup> While there was no formal successor country strategy guiding the country activities between 2008 and 2009, the programme built in practice forth on the earlier strategy. Recently, a new country strategy has been concluded for 2010-2013 and sent to Mozambican partners for approval.<sup>4</sup>

Recommendations of the Mozambique country programme evaluation 2002-2004<sup>5</sup> have resulted in a changed focus of programme activities. In an attempt to improve the effectiveness of support, ADC decided to supplement its long-standing historical engagement at sub-national level in the Sofala province with a greater involvement at central policy dialogue level. This led to ADC joining the Programme Aid Partners (PAP) group of providing General Budget Support (GBS) and to supporting the agricultural sector with Sector Budget Support (SBS) in support of Proagri. ADC head office in Mozambique was moved from Beira (Sofala province) to the capital Maputo and roles and responsibilities of individual country team members have been revised as a result of the changed emphasis of the country programme.

Moreover, activities in Sofala province have successively been consolidated, also in line with the recommendations of the Mozambique country programme evaluation, and an increasing share of the bilateral country programme has been provided in the form of more programmatic approaches and aligned modalities. Today, the country programme focuses on budget support in addition to activities in decentralisation, such as rural water & sanitation and the joint support to municipalities in Mozambique.

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<sup>2</sup> The Mozambique Country Programme 2002-2004 and successor strategies will be referred to as country strategy in this report for consistency reasons with other country reports of the Review.

<sup>3</sup> Österreichische Entwicklungszusammenarbeit, Landesprogramm Mozambique, Dezentralisierung – Ländliche Entwicklung, 2002-2004, Beira 2002.

<sup>4</sup> Interviews with Austrian Ministry of Foreign Affairs; and Austrian Development Cooperation, Mozambique Country Strategy 2010-2013, 15 March 2010.

<sup>5</sup> Mandorff, H., Nöst, B., Reiter W., dos Santos José, E., Evaluation of the Country Programme Mozambique of the Austrian Development Cooperation, L&R Sozialforschung, Vienna, 28 July 2004.

## 3 The (sector) budget support programme(s)

### 3.1 General budget support

#### *The national development programme (PARPA I and II)*

Mozambique's national poverty reduction strategy is called the PARPA, which was first approved in 2001 and forms the basis for donor support in Mozambique. In May 2006 PARPA II was approved for the period 2006-2009 and it was subsequently prolonged till the end of 2010. The first PARPA focussed relatively more on social development and basic infrastructure development, while PARPA II has a stronger emphasis on employment creation, productive sector development and economic growth. PARPA II focuses on 3 main pillars:

- Governance (public sector reform, justice, legality and public order);
- Human capital (education, health, water & sanitation, social action); and
- Economic development (financial sector, private sector, agriculture, roads).

In addition, cross-cutting attention is being paid to rural development, HIV/AIDS, gender equality, science & technology, natural disaster management, demining, and food and nutritional security.

Currently, the Government of Mozambique (GOM) is undertaking a review of PARPA II. Early results, released in September 2009, indicated generally satisfactory progress in terms of the PARPA development outcomes, though with increasing concerns around inequality and governance.<sup>6</sup>

#### *ADC's general budget support operation*

In line with the objectives of ADC's Three Year Programme (TYP) 2006-2008, ADC decided in 2007 to join Mozambique's PAP group in providing funding to the GOM in the form of GBS. After having participated as observer as of March 2007, ADC signed the Memorandum of Understanding (MOU) on GBS in April 2007. A total of EUR 4.8 million was committed in 2008.<sup>7</sup>

Compared to other donors in the G19 GBS group, Austria is regarded as a newcomer to this aid modality.<sup>8</sup> Based on information provided by the PAP, Austria's share of GBS to the GOM of total GBS commitments was 0.47% in 2008, 1.02% in 2009, and 0.96% in 2010.<sup>9</sup> It should be noted that the share of ADC budget support as share of its total bilateral country programme is in line with the PAPs target of 40%. ADC ranked second

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<sup>6</sup> ITAD, DFID Country Programme Evaluation Mozambique 2006-2009, 2010; interviews with relevant stakeholders.

<sup>7</sup> ADA Statistics.

<sup>8</sup> ADA Statistics and information provided by the coordination office.

<sup>9</sup> These figures may deviate from the statistics provided by ADA.

place from the bottom in 2008 within the G19, while moving up to the fourth place in 2009 and 2010. During 2009 and 2010 only Belgium, France and Portugal were committing smaller amounts of GBS to the GOM. The largest donors providing GBS are the World Bank (23% projected in 2010), DFID (15% projected in 2010) and EC (14% projected in 2010).<sup>10</sup>

#### *Contributions of general budget support*

GBS has contributed to poverty reduction through a number of avenues. First, it contributed to stabilizing the macroeconomic and fiscal environment. Budget support resources have enabled an expansion of credit to the private sector and created fiscal space to undertake essential investments in PARPA sectors. Economic growth has continued to increase and Mozambique remains on-track with the IMF Policy Support Instrument (PSI) Programme.<sup>11</sup>

Second, GBS played a significant role in supporting the continued rapid expansion of expenditures for pro-poor service delivery since 2000. The GOM has kept pro-poor expenditures (PPE) at or above 65% of the budget since 2002 and defense expenditure is low at around 2%. The domestic contribution to financing PPEs has consistently increased over time (also thanks to GBS) in spite of fluctuations in other aid modalities to specific sectors (e.g. health). Overall, priority expenditure has increased from \$792 million in 2001 to \$ 2 billion in 2008.<sup>12</sup> However, regional disparities and inequality are rising according to some recent assessments and there are still major gaps in improving the quality of service delivery.<sup>13</sup>

Third, budget support has contributed to harmonization and alignment. It has facilitated a platform of joint policy dialogue between government and donors through the G19 donor coordination structure and their respective dialogue mechanisms. Predictability of budget support has improved over time.<sup>14</sup>

Fourth, budget support has strengthened the budget process and Public Financial Management (PFM). It has contributed to strengthening the national systems, enabling transparent monitoring and improving links between plans, budget allocation and execution. The overall level of fiduciary risk in Mozambique is judged to be substantial but has continued to decrease since 2005. This is indicated by the overall positive trend in scores as measured by the PEFA in 2005 and 2007.

Fifth, domestic accountability has generally been strengthened, as an increasing share of aid has come under the scrutiny of the budget process, and hence of Parliament and the external audit office. However, the capacity of external scrutiny organs is still weak, which calls the quality and depth of the processes of domestic accountability into question.<sup>15</sup>

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<sup>10</sup> [http://www.pap.org.mz/financial\\_contributions.htm](http://www.pap.org.mz/financial_contributions.htm).

<sup>11</sup> IMF, Republic of Mozambique: Fifth Review Under the Policy Support Instrument, December 2009.

<sup>12</sup> IMF, Republic of Mozambique: Fifth Review Under the Policy Support Instrument, December 2009.

<sup>13</sup> See the recent Multiple Indicator Cluster Survey, 2009.

<sup>14</sup> IESE, Mozambique Independent Review of PAPs' Performance in 2008 and Trends in PAPs' Performance over the Period 2004-2008, April 2009.

<sup>15</sup> ITAD, DFID Country Programme Evaluation Mozambique 2006-2009, 2010.



While budget support has exerted some pressure to address good governance, and some improvements have been made in terms of legislation and public finance, progress on stemming corruption has been slow. In addition, human rights in the justice and security sectors remain a concern.<sup>16</sup>

### 3.2 Proagri Sector Budget Support

#### *The sector programme*

Mozambique's National Programme for Agricultural Development (Proagri) was developed in the mid-to-late 1990s as an attempt to build a common vision for national agricultural development. It was owned and led by the government and brought together all major partners in the sector under an integrated policy framework.

Proagri I (1999-2005) became the first sector programme in Mozambique. In May 2001, the MOU was signed to lay the foundations of a common fund mechanism, which later developed into a SBS operation.<sup>17</sup> Proagri I focused primarily on supporting institutional reform (policy formulation, planning, budgeting, financial management, etc.) at central government level. One of the main weaknesses of Proagri I is considered to be the limited attention that was paid to administrative and financial decentralization and capacity building at sub-national level (provinces and districts). The second phase of the sector programme tried to address these issues more thoroughly. Proagri II is largely in line with the PARPA objectives and there are current initiatives to develop a new more integrated vision on rural development, under the leadership of the Ministry of Planning and Development (MPD).<sup>18</sup>

The external component of the agricultural budget accounted for USD 60 million in 2009 which is similar to the 2008 level. Taking into account inflation and increased allocations of GBS to the Ministry of Agriculture's (MINAG's) budget, donor funding to agriculture has in fact decreased. External funds to Proagri through SBS accounted for USD 45 million in 2009 and for roughly 70% of external resources to MINAG's budget. In 2009, eight donors (Austria, Denmark, EC, Finland, Sweden, IFAD, Ireland and Canada)<sup>19</sup> financed Proagri, of which the EC was the largest donor, accounting for roughly 40%, and Austria the smallest donor, providing approximately 3% of Proagri SBS.<sup>20</sup>

#### *ADC's sector budget support programme*

ADC supported the first phase of the sector programme Proagri. With the changed focus of Proagri II towards promoting decentralization and capacity building of sub-national government functions and considering ADC's historical engagement in Sofala, ADC decided to continue supporting the second phase of Proagri, with an earmarking of SBS

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<sup>16</sup> See for example Amnesty International, Licence to Kill, Police Accountability in Mozambique, April 2008.

<sup>17</sup> Lídia Cabral, Sector Budget Support in Practice, Desk Study Agriculture Sector in Mozambique, ODI & Mokoro, November 2009.

<sup>18</sup> Lídia Cabral, Sector Budget Support in Practice, Desk Study Agriculture Sector in Mozambique, ODI & Mokoro, November 2009.

<sup>19</sup> As of 2010, Italy will also join with earmarked funding.

<sup>20</sup> ProAgri Partners, Analysis of the State Budget Proposal for 2008, from Agricultural point of view, not dated.

resources towards Sofala province. In 2008, the Austrian Development Agency (ADA) committed a total of EUR 3 million to Proagri SBS.<sup>21</sup>

#### *Progress of the sector programme*

Perceptions about the progress with Proagri II and experiences with SBS are mixed. Recent results of the agricultural performance highlight that the implementation of the GoM's agricultural sector programme has been relatively satisfactory with a particular positive trend in 2008. Despite the food price crisis in early 2008, the sector showed a surprisingly high growth rate, well beyond the national (real) GDP growth of 6.8 %. This is partly due to a significant shift in the political importance of the sector and the consequent operationalisation of the Green Revolution Strategy through the adoption of the Food Production Action Plan in mid 2009.<sup>22</sup>

Many problems still persist however, which relate to the general lack of public funding (and private capital) within the sector, late donor disbursements, lack of access to markets and credit, a weak usage of modern agricultural techniques by small scale farmers, a generally difficult business environment in Mozambique, and weaknesses in the area of PFM, which undermine progress at the developmental outcome level.<sup>23</sup>

A recent study undertaken on behalf of the Strategic Partnership with Africa Task Team on SBS highlights that through the provision of discretionary funding, dialogue, technical assistance, and strengthened donor coordination, the Proagri funding mechanism has produced important effects on the relationship of external assistance and sector processes. This has led to changes in sector policy, spending and management systems. Yet, the study also concludes that the GOM is disappointed that concrete outcomes are lacking despite the significant investments made (esp. as regards the capacity of MINAG). In addition, donors expressed their disappointment over the fragility of their relationship with GOM and that they are excluded from the key policy processes.<sup>24</sup>

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<sup>21</sup> ADA Statistics.

<sup>22</sup> ADC, Agricultural Sector Performance 2008, 22 April 2009.

<sup>23</sup> ADC, Agricultural Sector Performance 2008, 22 April 2009.

<sup>24</sup> Lídia Cabral, Sector Budget Support in Practice, Desk Study Agriculture Sector in Mozambique, ODI & Mokoro, November 2009.

## 4 Inputs

### 4.1 Policies

This chapter describes to what extent currently funded budget support and complementary activities of ADC's bilateral country programme, in Mozambique, are in line with ADC's policies provided in a) the Three-Year Programme (TYP) 2006-2008, b) the Budget Support Strategy 2009 and c) the conditions defined in the Mozambique country programme.

#### *Implementation of the TYP 2006-2008 strategic objectives*

The *Three-year Programme* sets some general principles:

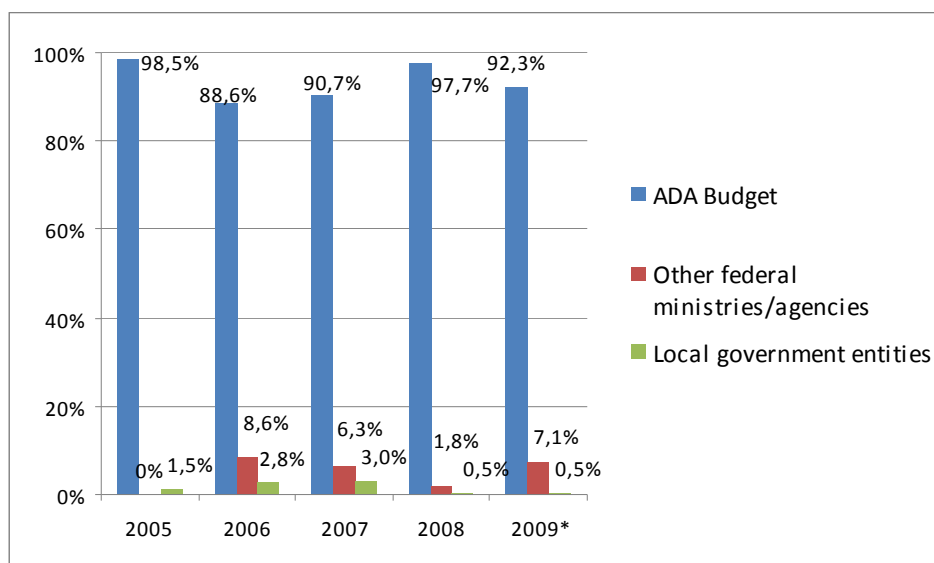
- the up-scaling of aid;
- the shift towards more aligned aid modalities;
- a thematic concentration; and
- a greater transparency and dialogue with the civil society organisations.

**General scaling up of aid.** ADA Official Development Assistance (ODA) accounts for the major part of total Austrian ODA to Mozambique. Its share of total Austrian ODA was 98.5% in 2005 and 97.7% in 2008. ODA allocations to Mozambique by other federal ministries and agencies was 0% in 2005 and 1.8% in 2008, while that of local government entities was 1.5% in 2005 and 0.5% in 2008 (see figure below).<sup>25</sup>

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<sup>25</sup> Authors own calculations based on ADA Statistics.

Figure 4.1 Total Austrian ODA to Mozambique by funding source, 2005-2009 (commitments)



Source: Authors own calculations and graph based on ADA Statistics.

Note: 2009 figures are provisional.

ADA's bilateral commitments to Mozambique increased from EUR 5.8 million in 2005 to EUR 11.9 million in 2008, equalling a growth of 103%. This growth is much higher than the rise in ADA's total bilateral ODA commitments of 5% over the same period.<sup>26</sup> It should, however, be noted that ADA's bilateral commitments to Mozambique have fluctuated substantially over the period analysed, see table 4.1. In 2008, 11% of ADA's total bilateral ODA was committed to the ADA country programme in Mozambique (see table 4.1).<sup>27</sup>

Table 4.1 ODA commitments of ADA to Mozambique

	2005	2006	2007	2008	2009 (prov.)
ADA's total bilateral commitments to Mozambique (in € million)	5.8	3.1	3.0	11.9	2.7
As share of ADA's total ODA commitments	6%	3%	3%	11%	N.A.

Source: Authors own calculations based on ADA Statistics.

**Qualitative shift of ADA's ODA to more aligned aid modalities.** ADA has successfully managed to rapidly phase budget support into the bilateral country programme, from 17% in 2005 to 66% in 2008 (see Table 4.2).

<sup>26</sup> Authors own calculations based on ADA Statistics.

<sup>27</sup> Authors own calculations based on ADA Statistics.

Table 4.2 BS as share of ADA's bilateral ODA commitments to Mozambique

	2005	2006	2007	2008	2009 (prov.)
ADA's BS commitments (in € million)	1.0	1.0	0	7.8	0
Total share BS commitments as share of ADA's bilateral ODA commitments	17% 32%		0%	66%	0%

Source: Authors own calculations based on ADA Statistics.

ADA's non-budget support portfolio<sup>28</sup> consists primarily of projects, but these have become increasingly programmatic. For example, although ADA does not channel its funds to rural water & sanitation through the existing pooled fund mechanisms, its support is in line with the policy priorities established by the government sector authorities. In the case of the Joint Municipalities Programme, ADA has joined forces with Denmark and Switzerland; a joint funding arrangement with the Mozambican government is in place and discussions are ongoing about a future programme.

The annual review of Mozambique's PAPs certified in 2008 that Austria has showed very good and solid performance against the Paris Declaration targets. Given its size and the fact that 2008 was the first year as a PAP, Austria progressed well against a set of 20 indicators measuring PAP performance (e.g. portfolio composition, H&A, predictability and capacity strengthening). ADA's budget support as share of its total bilateral country programme is in line with the PAPs target of 40%. Hence, despite being a 'small PAP', Austria performed well in terms of the portfolio composition.

In addition, Austria achieved all predictability, harmonization and alignment targets. On technical cooperation, however, it failed to achieve the targets (i.e. TC provided through coordinated programmes and sector-wide TC provided).<sup>29</sup> The most recent PAP Assessment 2009 also acknowledges Austria's good performance, highlighting that Austria (together with Switzerland) is the best performer according to the PAP assessment within the group of small donors.<sup>30</sup>

Overall, of ADA ODA to Mozambique between 2005 and 2008, an increasing share has been allocated to direct budget support (from 17% in 2005 to 66% in 2008), while the share of projects declined from 74% in 2005 to 5% in 2008 (see Figure below).<sup>31,32</sup>

<sup>28</sup> The term non-budget support portfolio in this context refers to all other support being funded by the country programme, which is not provided in form of budget-support.

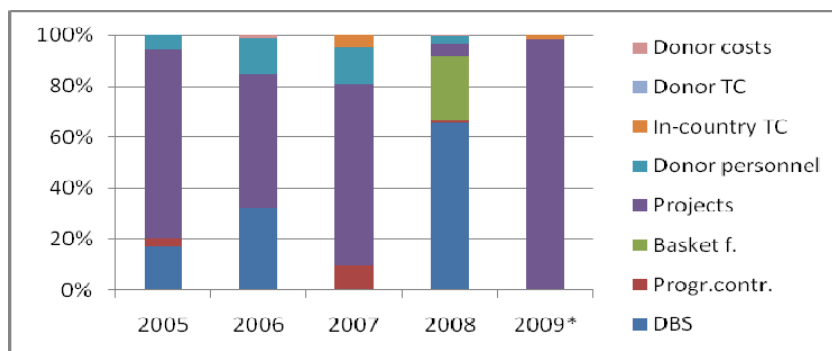
<sup>29</sup> For more detailed information, see the "Mozambique Independent Review of PAPs' Performance in 2008, IESE, Performance over the Period 2004-2008, April 2009.

<sup>30</sup> <http://www.entwicklung.at/aktuelles/als-kleiner-unter-grossen.html>.

<sup>31</sup> Authors own calculation based on ADA Statistics.

<sup>32</sup> It should be noted that these figures provided on budget support (based on ADA Statistics SB-055\_evalBH) deviate somewhat from the figures provided earlier in the text (based on ADA Statistics file: Budgethilfe 2009\_zeitreihe 05-09).

Figure 4.2 ADA ODA by modality, 2005-2009 (commitments)



Source: Authors own calculations and graph based on ADA Statistics.

Note: 2009 figures are provisional.

**Thematic concentration.** The Mozambique country programme was originally focussed at sub-national level, in the Sofala province, on decentralisation and rural development. In line with the recommendations of the Mozambique Country Programme Evaluation 2002-2004, activities in the Sofala province were consolidated and being supplemented by engagement with GBS and Proagri at central government level. This changed focus is also in line with the TYP 2009-2011.<sup>33</sup>

Funding of the agricultural sector through Proagri SBS has been in line with the TYP 2006-2008 focal sector on rural development. Activities in water & sanitation, economic development, demining, decentralisation, and media are in line with the TYP 2006-2008 focal sectors on water & sanitation, private sector development and good governance.<sup>34</sup>

**Greater dialogue with civil society.** The Mozambican civil society plays a key role in the GBS and SBS ProAgri operations (with regard to monitoring and analysis), based on joint agreements between donors and the Mozambican government. Moreover, ADC supports Non-governmental Organization (NGO) activities in Mozambique, for example, through the NGO co-financing scheme. This is managed and monitored primarily at ADA headquarters in Vienna, while implementation responsibilities lie with the respective NGOs.

The nature of ADC's engagement with civil society in Mozambique has changed over time as a result of the aid paradigm and the aid effectiveness agenda. While early support to Mozambique involved working with NGOs as organisations delivering public services, the focus now is much more on cooperating with civil society to promote a greater voice of the poor and vulnerable and to improve transparency and accountability.

ADC's support to the Association of European Parliamentarians with Africa (AWEPA)<sup>35</sup> provides a good example in this context. AWEPA aims to strengthen parliamentary democracy in Africa, to keep Africa high on the political agenda in Europe and facilitate

<sup>33</sup> Manndorff, H., Nöst, B., Reiter W., dos Santos José, E., Evaluation of the Country Programme Mozambique of the Austrian Development Cooperation, L&R Sozialforschung, Vienna, 28 July 2004.

<sup>34</sup> Federal Ministry for European and International Affairs, Three-Year Programme on Austrian Development Policy 2006-2008, Revised version 2006, Vienna.

<sup>35</sup> Support to AWEPA is not NGO co-financed nor financed by the Mozambique country programme.

African-European parliamentary dialogue. Considering the key role of parliament in the monitoring of budget support and ADC's pilot in GBS in Mozambique, Mozambique was chosen as a focus country for the AWEPA support.

AWEPA highlights that most interaction has taken place with ADA headquarters and that it has not yet cooperated directly with the Mozambique Coordination Office. Especially the Coordination Office involvement in the policy dialogue around PFM could have provided an ideal opportunity to work more intensively with the Budget and Public Accounts Parliamentary Committees supported in the framework of the AWEPA programme and increase the general dialogue around transparency & accountability between the Coordination Office and AWEPA.<sup>36</sup>

Generally, it seems that there is limited awareness of ADC's activities, strategy and profile across civil society in Mozambique.<sup>37</sup> Involving civil society more intensively during country strategy design processes and strengthening further links between it and the country programme, could facilitate greater dialogue between ADC and civil society in Mozambique. In addition, it could also raise awareness and foster complementarity with ADC activities.

ADC recognises the importance of structured dialogue with civil society and cooperation in the framework of supplementary measures to budget support (i.e. around transparency & accountability) and aims to reinforce relationships in the future.<sup>38</sup> But the nature of engagement will depend on the strategic focus of the country programme and will require long-term relationship building. For more information on complementary measures to BS see also the section below.

#### *Implementation of the ADC Budget Support Strategy*

The Mozambique country programme has well applied the major pillars of the ADC Budget Support Strategy but its implementation has highlighted a number of challenges. The box below repeats the major elements of this strategy.

##### **Box 4.1**    ADC's BS Strategy main pillars

- ADC will follow a phasing-in scenario for BS to achieve a target of 10-15% of BS to ADC's total operational bilateral aid, whereby not an entire country programme will be implemented through BS but that an appropriate, complementary mix of modalities is maintained;
- ADC will only consider BS in priority countries in order to employ the know-how and experiences gained through cooperation to date, and to participate actively in donor coordination and policy dialogue through local Coordination Offices;
- ADC will prefer to give BS in the priority sectors in order to promote a clear value added in the policy dialogue and cash-in on specific ADC expertise;
- ADC will only give BS in cooperation with other donors to handle the increased effort and transaction costs that come with engaging in BS, especially for a relatively smaller donor.

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<sup>36</sup> Information derived from interviews with AWEPA and the coordination office.

<sup>37</sup> Based on interviews with AWEPA and the G-20 organisation.

<sup>38</sup> In the recently completed preparation process of the new (draft) country strategy for Mozambique, many stakeholders in Mozambique have been involved and consulted.

Source: Austrian Development Cooperation, Budget Support Strategy, Vienna, December 2009.

As was discussed earlier, ADC has successfully managed to rapidly phase budget support into the bilateral country programme. ADC's Budget Support Strategy highlights that not an entire country programme will be implemented through budget support but that an appropriate, complementary mix of modalities is maintained. What an appropriate mix of modalities may mean for ADC is not sufficiently clear from the draft Budget Support Guidelines. Moreover, the Budget Support Strategy was only approved in 2009. In addition, the lack of a formally approved country strategy since 2008 undermined strategic objective setting with regard to Austria's aims in Mozambique. An effective country strategy design process following the ending of the Mozambique country strategy 2002-2004 in 2007, could have helped to clarify overall strategic objectives for ADC in the period beyond 2007 and determine the subsequent appropriate modality mix. As of March 2010, a new country strategy for Mozambique for 2010-2013 has been finalized.

In spite of the overall lack in strategic guidance, ADC has tried to promote complementary actions to stimulate greater effectiveness of budget support operations. ADC's support in the area of decentralization is seen as complementary to its engagement with GBS. The Coordination Office has also created synergies between its GBS and Proagri SBS operations by systematically cross-linking relevant experiences.<sup>39</sup> ADC is also the GBS focal point for Proagri and actively participates in the sub-working groups on PFM in both the GBS and Proagri aid architecture.<sup>40</sup> ADC promotes transparency and accountability through its support of the Mozambican parliament through the AWEPA project and its support to INTOSAI. Part of the SBS to Proagri is financing capacity building of sub-national government in the area of planning and budgeting. The Joint Municipalities Programme is aiming to promote this too.

Virtual earmarking of Proagri SBS funds to Sofala province were one avenue to ensure links between its engagement at central policy dialogue level and Sofala province. The government and development partners question, however, whether this is still good practice. The draft Budget Support Guidelines, in addition, also highlight that ADC prefers un-earmarked budget support, because it favours overall performance, recognises full fungibility, is based on genuine partner country ownership, and keeps transaction costs low.<sup>41</sup>

ADC also has also complied with the other requirements such as providing BS to priority countries and only in cooperation with other donors. In order to ensure an effective engagement in the policy dialogue, the Ministry of Foreign Affairs (MFA) and ADA defined a number of assumptions and obligations, which will be discussed in the section on outputs.

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<sup>39</sup> As defined by the document GBS Mosambik, Projektdokument Pilotprojekt.

<sup>40</sup> As defined by the document GBS Mosambik, Projektdokument Pilotprojekt.

<sup>41</sup> Austrian Development Cooperation, Internal Guidelines for Budget Support, draft 2009.



Finally, the in the BS strategy expressed preference to provide BS to priority sectors is also adhered to as the choice of the agricultural sector is in line with the TYP 2006-2008 focal sector rural development.<sup>42</sup>

#### *Implementation of budget support in line with the country programme conditions*

The Review's assessment period is 2005-2009. During this period there was no formally approved country strategy between 2008 and 2009. Since ADC's support to GBS and Proagri II SBS started in 2008, it is not possible for the review team to assess to what extent ADC's support would have been in line with country programme conditions.

## 4.2 Financial resources: commitments

In 2008, a total of EUR 4.8 million GBS and EUR 3 million Proagri SBS was committed. Because of satisfactory performance, ADC decided to scale up both GBS and SBS Proagri allocations beyond the originally agreed total amount, requiring an amendment of the financial agreements. As a result, total commitments for GBS and Proagri SBS has amounted to EUR 8 million and EUR 3.5 million respectively.

ADC's policy to commit<sup>43</sup> GBS funds is tied to the satisfactory achievement of the indicators defined in the Performance Assessment Framework (PAF) and the underlying principles defined in the MOU. The assessment of the PAF indicators takes place during regular annual Joint Reviews in which both government and development partners' representatives jointly participate.

ADC's policy for Proagri is that funding is triggered by a satisfactory achievement of the indicators defined in the Proagri MOU Matrix and the three PAF indicators that relate to agriculture. The evaluation takes place during an annual Technical Review, which includes a high level meeting in Maputo as well as the preparatory meetings for the Joint Review.

ADC follows formally the disbursement schedule identified in the MOU governing GBS and Proagri.

## 4.3 Human resources and technical assistance

#### *Staff profile and expertise<sup>44</sup>*

Since June 2009, there is one Head of Cooperation and one programme officer budget support located in the head office in Maputo and one programme officer rural development in the Beira office, in addition to a Head of Administration, a secretary and a driver. Until June 2009, there was one additional programme officer decentralization at

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<sup>42</sup> Federal Ministry for European and International Affairs, Three-Year Programme on Austrian Development Policy 2006-2008, Revised version 2006, Vienna.

<sup>43</sup> 'Commit' refers in this context to making a commitment regarding the amounts scheduled for disbursement in a respective year.

<sup>44</sup> Information provided by the coordination office.

the disposal of the Coordination Office in Maputo, whose position remains vacant ever since.

With the move of the head office from Beira to Maputo and ADC's engagement in budget support, the distribution of the roles and responsibilities have changed significantly. While previously all staff was located in Beira, all staff, except the programme officer on rural development, moved to the new head office in Maputo in 2006. With a shift of staff, the function of the Head of Administration was replaced in mid 2006 by a Programme Officer Budget Support, who was part-time responsible for administrative issues. In April 2009 the previous Administrative Assistant in Beira became the new full-time Head of Administration in Maputo, taking over all administrative functions from the Programme Officer Budget Support. A decentralization programme officer, responsible for decentralization issues was located in the Maputo office from 2006 to 2009 to participate at central dialogue level and monitor ADC projects in this area. The programme officer rural development remained, in the Beira office, responsible for the monitoring of ADC activities in rural development in Sofala. Until recently, he was mainly involved with the monitoring of ADC projects and agricultural development in Sofala and had limited involvement with Proagri SBS discussions in Maputo.

The phasing out of many activities in Sofala has provided the opportunity to review how existing programme office staff can get aligned more with the thematic niches Austria seeks both at sub-national and/or central level. Annex 1 presents the staff line for the Mozambique Coordination Office between 2006 and 2010.

With the change in roles and responsibilities, a different skill set became important for all staff at the Coordination Office. General experience with budget support operations across developing countries has highlighted that engagement in the various working groups requires a good understanding of sector-specific issues, cross-cutting themes (such as PFM and governance) and aid modalities. The programme officers have built good knowledge of the sectors the Coordination Office has been engaged with and of the financing modalities. The Head of Cooperation and the programme officers have benefited from trainings on PFM organised in Vienna, Addis Abeba and Maputo. The trainings in Vienna and Addis Abeba were organised by ADA and those in Maputo by other donors. The programme officer budget support has pro-actively taken the initiative for (joint-donor) training in country on relevant topics (i.e. on PFM or Capacity Building). Moreover, the current Head of Cooperation has previously been working in the Coordination Office Cape Verde and hence has in-depth knowledge of ADC policies, organisation and procedures. As a result, the Coordination Office has well qualified and actively engaged staff for conducting the political & policy dialogue around budget support.

The demands on the staff as a result of ADC engagement with budget support have increased dramatically. Austria's international commitments to the Paris Declaration requires an amplified engagement in the political and policy dialogue both at national, sector and sub-national level in support of government ownership. Staff no longer only monitor activities but also have to be a competent partner in the dialogue with government.

Having had national advisory staff (programme officer rural development & programme officer decentralisation) has helped to gain better insights into local circumstances and to get access to local networks and actors. It has also ensured the built up of institutional memory. The Coordination Office has had, however, no more national staff at the Maputo Office since the decentralisation officer left in June last year. This is seen as a missed opportunity by all external development partners interviewed.

#### *ADC as learning organisation*

Engaging with new aid modalities, requires systematic and regular exchange of knowledge and targeted capacity building measures across the entire organisation, in order to rapidly expand new ideas and working practices and develop a critical mass of experienced staff. Such capacity building should not be limited to technical advisory staff, but preferable benefit also support staff involved with budget support operations (e.g. administration, legal and finance departments).

Information sharing and knowledge exchange within the Coordination Office is generally good. Other donors recognise that strategic positions and decisions by the Coordination Office are consistent across the office and that these are quickly and transparently communicated. The small size of the office has contributed to this.

The current Head of Cooperation has long-term experience with Mozambique and other ADA partner countries (e.g. Cape Verde), which has brought valuable experience with ADC policies and procedures to the team in Maputo. Staff retention of the remaining staff at the Coordination Office has been good over time, keeping the same core team between 2006 and mid-2009. All this has contributed to continuity within the team and promoted institutional learning.

Experiences with knowledge exchange around budget support related matters between MFA and ADA in Vienna and the coordination office in Mozambique are somewhat more mixed. On the positive side, the programme officer budget support has provided regular reports, presentations and exchange sessions on the lessons with budget support, in Vienna, to staff of MFA and ADA. In addition, the Coordination Office feels that it has received good technical support from MFA and ADA headquarters. The recruitment of additional staff in Vienna on PFM related matters has helped to built systematic knowledge of PFM. The Desk Southern Africa has provided good technical day to day backstopping and played a key role in introducing new reporting procedures and formats around GBS and presented the case for piloting GBS in Mozambique.

Yet, there are a number of challenges. Joint exchange of experiences among staff of ADA in Vienna and in the field is limited. There is an annual Head of Cooperation event and recently a bi-annual event for programme officer staff has been launched, which has a particular thematic emphasis every two years. Exchange of experiences from implementation across various interventions is limited across staff from different Coordination Offices. Also, head quarter missions to the field are infrequent.

In addition to the trainings provided on PFM and gender-budgeting, there is a need for more sector-specific training and for trainings on topics related to the Paris Declaration (e.g. managing for results, mutual accountability, etc). For a small donor with limited

resources, joint donor trainings provide useful opportunities for additional capacity building. The advanced aid architecture in Mozambique has wide opportunities of this kind available for donor staff across all agencies, and the Coordination Office has made good use of these opportunities.

Strategic alliances with centres of excellence (e.g. academic research institutes) can be a potential avenue for strengthening the availability of specific expertise for ADA. Such alliance has been pursued with the Centre for Tropical Agriculture (CIAT) in the area of agriculture, but no such alliances exist in other areas of engagement like, for example, decentralization. The Coordination Office has, however, worked regularly with external technical assistance, i.e. around the Sofala activities. There has been technical advice on rural water & sanitation project, the drafting of the country strategy, and for monitoring various programme activities.

#### 4.4 Lessons learned from other donors

The bilateral programmes of other smaller to medium-sized donors are larger in financial terms than that of Austria and in general more staff resources are allocated per intervention. The share other donors have allocated to GBS is lower than the share Austria has allocated in 2008 and 2009. But other donors tend to allocate a higher share of their country programme to SBS.

For example, while total Belgian ODA to Mozambique is very comparable with that of Austria, it allocates a much higher share of bilateral ODA to Mozambique. Its general strategy is that it engages only in a country if it can allocate at least EUR 50 million over a four-year period. The share of GBS accounts for 25% of the country programme and, in line with the division of labour, Belgium will focus on two other sectors (Rural development & renewable energy<sup>45</sup>) plus some targeted, smaller multi-sector project engagements. In addition, 5% of the country programme will be allocated to delegated partnerships. The scaling up of overall Belgian ODA in recent years, has fully benefited the bilateral programmes. Belgium can, in general, not allocate more than 50% of the country programme allocation to budget support.

The Swiss embassy is also managing a larger country programme, of which CHF 15 million are allocated annually by the Swiss Agency for Development and Cooperation (SDC) and CHF 12.5 million by the State Secretariat for Economic Affairs (SECO). Between CHF 7.5-8 million are allocated yearly to GBS, which accounts for 50% of SDC activities and roughly 30% of combined SDC and SECO activities.

Finland is operating a country programme of EUR 30 million, of which 7 million is allocated to GBS (23%) and 15 million to three sectors (Health, Education, Proagri) in the form of SBS (50%). Ireland operates a programme of EUR 40 million, of which around EUR 11 million (28%) is allocated to GBS and EUR 20.5 million to SBS in Proagri, Health and Education (51%). The Netherlands is a larger donor in Mozambique and

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<sup>45</sup> Belgium is currently exiting the health sector.

finances a country programme of EUR 67 million, of which 27% is allocated to GBS and 52% to SBS operations in Health, Education and Water & Sanitation.

Table 4.6 Austria and other donors' share of GBS and SBS

	ADC <sup>46</sup>	Belgium	Switzerland	Finland	Ireland	Netherlands
Size of country programme <sup>47</sup>	EUR 5.33 mln	EUR 12 mln	CHF 15 mln (SDC) + CHF 12.5 mln (SECO)	EUR 30 mln	EUR 40 mln	EUR 67 mln
Share GBS	30%	25%	50%	23%	28%	27%
Share SBS	19%	n.a.	n.a.	50%	51%	52%

Source: figures provided during the interviews.

All donors are increasingly concentrating their support in fewer sectors in line with the requirements of the EU Code of Conduct on the division of labour.

Some donors are using delegated partnerships at sector intervention level. Although there are limited examples of delegating cooperation with GBS across developing countries, Belgium is currently experimenting with this approach in Mozambique. It has delegated its GBS support to the EC, but early experiences highlight that this has so far not worked well. Delegating financial resources to the EC has been costly, as the EC is charging a management fee, while at the same time Belgium stays engaged in the political dialogue. This delegation has not reduced the transaction costs for Belgium and created confusion among the G19 as to who is leading the policy dialogue (Belgium or EC).<sup>48</sup>

Most other donor agencies operate with a much higher level of staff than the Coordination Office in Mozambique, involving commonly one international and one national staff per sector engagement. Most agencies have also a resident ambassador in country. In terms of knowledge exchange between field offices and headquarters, most donors operate with regular staff rotation across country and head quarter offices.

<sup>46</sup> Based on 2009 figures of ADA's bilateral disbursements to Mozambique.

<sup>47</sup> Figures are estimates of most recent country programme funding.

<sup>48</sup> Based on interviews with the development partners.

Table 4.7

Staffing profile of other donor agencies

	ADC	Belgium	Switzerland	Finland	Ireland	Netherlands
Size of country programme	EUR 5.33 <sup>49</sup> mln	EUR 12 mln	CHF 27.5 mln	EUR 30 mln	EUR 40 mln	EUR 67 mln
Staff levels: political and technical roles	1 non-resident Ambassador 1 HOO 1 PO BS (int) 1 PO Rural Develop. (nat)	1 non-resident Ambassador 1 HOO 3 inter. advisors (Belgian embassy + BTC)	1 resident Ambassador 7 int. staff 7 local staff	1 resident Ambassador 1 HOO 4 int. advisors 2 nat. advisors	1 resident Ambassador 1 HOO 2 int. advisors 7 nat. advisors	1 resident Ambassador 1 HOO 20 (policy advisors & (programme/ financial management)); usually 1 int + 1 nat staff per sector
Provision of GBS	✓	✓	✓	✓	✓	✓
Number of focal sectors	2 sectors	2 sectors	3 sectors	3 sectors	4 sectors	4 sectors

Source: interviews.

<sup>49</sup> Provisional figure for 2009 (disbursements).

## 5 Outputs

### 5.1 Financial resources: disbursements

ADA has disbursed to Mozambique a total amount of EUR 7.2 million in the form of budget support between 2005 and 2008.<sup>50</sup>

Since 2005/6 the Joint Reviews and the Proagri Technical Reviews have certified a positive assessment of the progress by the GOM with respect to GBS and Proagri, triggering full disbursement of ADC funds until today.<sup>51,52</sup>

### 5.2 ADC and the policy dialogue

An important part of assessing ADC's role in the policy dialogue is reviewing the assumptions and obligations defined by MFA/ADA to ensure effective engagement of the Coordination Office in the policy dialogue on GBS. These are described in detail in the Project Document<sup>53</sup> on GBS in Mozambique and a summary is given in the box below.

#### Box 5.1 GBS Assumptions and Obligations

There were two **assumption** defined:

1. ADC uses the opportunity to gain practical experience with GBS and access to information which otherwise it would not have had;
2. ADC improves its influence at the national programme and strategic level contributes actively with a clear profile, which is in line with ADC aims and principles, international commitments (i.e. Paris declaration and EU Code of Conduct) and ADC country programme in Mozambique.

The following six **obligations** were defined:

1. There need to be sufficient personnel resources, both quantitatively and qualitatively, in order to achieve ADC objectives in GBS. The programme officer for budget support in the coordination office will have to be turned from a part-time to a full-time position;
2. ADC will have a clear focus in the GBS dialogue in accordance with ADC country programme and where possible will aim to have at least partial thematic leadership in the decentralization working group;

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<sup>50</sup> Authors own calculations based on ADA Statistics.

<sup>51</sup> Government of Mozambique, Joint Review 2009, June 2009.

<sup>52</sup> ADC, Agricultural Sector Performance 2008, 22 April 2009.

<sup>53</sup> ADA, Generelle Bugethilfe (GBS) Mosambik Projektdokument Pilotprojekt, 10/12/2007.

3. ADC will comply with the PAP requirement that GBS should be 40% of the country programme budget line in order not to weaken ADC representation in the political and policy dialogue. This volume accounts for EUR 1.6 million of the current country programme of EUR 4 million;
4. ADC will actively engage within the PAP group and be regarded as a competent and engaged partner, by positioning itself with a clear profile which takes into account personnel resources and a to be identified thematic niche;
5. Sufficient backstopping by ADA headquarters will be provided to the Coordination Office. An important step by strengthening ADA headquarters with a PFM expert has been made;
6. There should be a good and well structured reporting system with continuous information exchange between the Coordination Office and the MFA and ADA in Vienna.

Source: Generelle Bugethilfe (GBS) Mosambik Projektdokument Pilotprojekt (10 December 2007).

Overall, the Coordination Office has been able to comply with most of the assumptions and obligations, but a challenge has been to define the strategic objectives, profile and contributions of the Coordination Office in its engagement with budget support more clearly.

ADC's support of GBS in Mozambique complies with the main ADC policies and principles and its commitment to the Paris Declaration. GBS is the most aligned aid modality and supports the implementation of the PARPA as the main strategy to address poverty reduction in Mozambique. ADC's focus on decentralisation combined with its engagement in budget support (GBS and Proagri) is in line with its commitment to the EU Code of Conduct to reduce the number of sector engagements.

Through its engagement in key dialogue mechanisms, ADC has been able to build networks and gain access to crucial information and the main political & policy dialogue tables. The Head of Cooperation in Mozambique regularly participates in the Head of Mission (HOM) and Head of Cooperation (HOC) meetings. The programme officer budget support is actively engaged in the economist working group, the Proagri working group, the GBS sub-working group on PFM and the Proagri sub-working group on PFM. The programme officer on decentralisation was engaged with the decentralisation working group and lately the Head of Cooperation has taken over this task.

These platforms provide the opportunity to get easy and structured access to strategic discussions and monitoring & evaluation information on implementation progress. The participation of the Head of Cooperation and programme officers in regular joint review missions at GBS and Proagri level and the good participation in Mozambique's budget process and the work around budget analysis, more in general, have provided useful insights into the workings of Mozambique's public administration. Engagement in PFM has facilitated the Coordination Office's understanding of budget support and related fiduciary risks and imbedding into Mozambique's government processes.

ADC is generally considered as an equal and competent partner in the budget support dialogue mechanisms and its focus on agriculture (Proagri) is recognised. Another obligation was that Austria would aim to have at least partial thematic leadership in the decentralization working group. Unfortunately, the TOR of this field mission asked only to look at ADC's involvement in GBS and Proagri. It is therefore difficult to derive in



depth conclusions as regards ADC's thematic leadership on decentralisation. A number of things should be noted however, which hint towards the fact that ADC has most likely not been able to fulfil this assumption. First, ADC has never been leading the decentralisation working group since the Coordination Office engagement with budget support since mid-2007. Second, the position of the programme officer on decentralisation remains vacant since July 2009. Third, most development partners find ADC more visible in its contribution to the Proagri dialogue than in decentralisation. The government appreciates ADC's support in Sofala, although most value added seems to have been derived from its interventions before 2005. Overall, ADC seems to have been more successful in positioning itself vis-a-vis Proagri than vis-a-vis decentralisation.

It should be noted that engagement with more aligned modalities has reduced ADC's visibility in Mozambique. In the past ADC was quite visible because of targeted project interventions in a well-defined geographic area (i.e. Sofala province). Attribution is no longer possible in an aligned financing environment. Therefore, it is important for ADC to define better what contribution it can make to budget support, what profile it seeks to develop, and how this can be translated into clear objectives and results.

As a newcomer it takes time to test established practices in budget support. However, it does allow for a fresh critical assessment thereof. The Coordination Office has been able to elevate the discussions around more efficient and effective functioning of the G19 PAP aid architecture. It has joined the Task Force on Reforming the Working Group and most development partners underwrite that Austria's voice is heard. However, it is also pointed out that an evenhanded view on such reform efforts needs to be taken, balancing well the pro's (WGs are too time consuming, too bureaucratic) and con's (WG structures allow for managing conflict, promote inclusiveness of development partners, and help to delineate roles and responsibilities at different levels of hierarchy).<sup>54</sup>

Recently, the GOM has started an intensive political dialogue following concerns about good governance issues. This highlights the increasing political nature of the dialogue between government and development partners. The absence of a resident ambassador does not seem to have negatively impacted budget support implementation and the Head of Cooperation is respected within the political dialogue, like in the HOM meetings. The Harare –based ambassador undertakes regular visits to Mozambique and this is appreciated by GOM. Yet, a resident ambassador may facilitate easier access to higher levels of government.

One of the obligations was that more staff resources were made available for the engagement in budget support. As a result, the Programme officer budget support who simultaneously was active part-time as Head of Administration became a full-time programme officer for budget support, while another team member (previous administrative assistant) took over the job of Head of Administration. This transition took only place in April 2009, while the Coordination Office became a full-time member of the G19 PAP Group already in April 2007. An earlier staff transition could have potentially strengthened experiences and profiling of the office with budget support.

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<sup>54</sup> Based on interviews with various development partners.

Feedback from government and development partners recognise that Austria was sometimes too stretched across various dialogue mechanisms.<sup>55</sup>

The Coordination Office has kept ADA HQ regularly up to date about the developments on budget support, by means of quarterly, event-based, and financial reporting, and also where relevant about political developments. Experiences with monitoring & evaluation of budget support in Mozambique have also helped ADA to develop standardised reporting formats and procedures which will become integral part of the final Budget Support Guidelines document.

### 5.3 Lessons learned from other donors

A key lesson learned is that smaller donors, in spite of their lower levels of financial contributions, can have a major value added in the policy dialogue evolving around budget support. But this requires clear determination of the strategic objectives, profile, and expected contributions, combined with systematic monitoring of progress.

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<sup>55</sup> Including, for example, the HOM and HOC meetings, and the GBS working groups on PROAGRI, the economist working group, the GBS sub-working group on PFM and the Proagri sub-working group on PFM, the decentralisation working group.

## 6 Institutional set-up and operational procedures

### 6.1 Programme cycle of budget support operations

The programme cycle for all Austrian financing modalities, except for budget support, are governed by the “Prozessbeschreibung” January 2009. There are now draft Guidelines for Budget Support which describe the programming cycle for GBS and SBS operations. The programming cycle for GBS and Proagri SBS are described in more detail below.

#### *General budget support*

The identification and country analysis, in particular of the eligibility, was thoroughly done. This process was facilitated due to the fact that an already mature and well-structured GBS operation was entered. The request for programming started in September 2006 and approval for joining GBS was taken by the MFA, in March 2007, and the ADA Advisory Board, in May 2007. While having observer status for a short period of time, Austria requested admission to the G19 PAPs in April 2007, with signing the MOU in the same month. Although the Financial Agreement was signed off by the GOM within a month, the signing of the Financial Agreement by ADC took place almost eight months later. This was due to the fact that ADA was not allowed to sign the agreement in 2007 due to binding constraints stemming from ADC’s internal regulations. Thus, while, overall, the identification and programming phase took place in reasonable time, the signing of the Financial Agreement by ADC was late due to particular arrangements at ADC.

Regular monitoring of the implementation of GBS takes place through the in the MOU agreed Joint Reviews. Joint and Mid-term reviews were generally on time and satisfactory. The financial audits of GBS have been satisfactory, granting disbursements by the G19 PAPs. While a draft version is usually available in time for the Joint Review, the PAPs have urged the GOM to intensify efforts to finalise the financial audits in time. Annex 2 presents a more detailed overview of the programming cycling for ADC’s GBS operation in Mozambique.

#### *Proagri SBS*

Identification and programming started in parallel with the GBS programming cycle in September 2006. Final approval for joining Proagri II was taken by the MFA, in March 2007, and the ADA Advisory Board, in May 2007. The amended MOU was signed in June 2007 and the Financial Agreement in May 2008. Due to the late signing of the Financial Agreement, the 2007 allocation was only paid in 2008 together with the 2008 allocation. This continued the trend of late disbursements of ADC funds for Proagri I since 2005. MINAG raised its dissatisfaction with ADC’s late disbursement to Proagri I

and II, especially because funds were earmarked to Sofala and a reshuffling of funds had to take place to ensure funding to Sofala.

There are different tools to monitor the performance of Proagri, including the MINAG Annual Report, the agriculture sector assessment of the Joint Review, the MINAG Financial Management Report, the Audit Report and the Audit Action Plan. The Financial Audits for Proagri were consistently provided late between 2005 and 2008. Donors have raised the issue and there are efforts to improve PFM and MINAG is responding to the findings of the audit by an Audit Action Plan. Annex 3 presents a more detailed overview of the programming cycling for ADC Proagri operation in Mozambique.

#### *Strengths and weaknesses of programme cycle for budget support operations*

ADC programme cycles allow for the flexibility to align with the partner country budget cycle and jointly agreed standards, principles and procedures. ADC has been able to sign the MOU for GBS and Proagri without imposing exceptions to the principles and procedures. ADC has also been able to disburse budget support funds in line with the disbursement schedules agreed between the GOM and other development partners, improving predictability (i.e. of Proagri SBS funds).

Engagement with budget support has been thoroughly assessed and using existing analyses is appropriate and in line with the spirit of Paris and the financial and staffing resources available at the Coordination Office.

One major weakness in the programme cycle of ADC is, however, the difficulty to plan country programme funding, irrespective of the modality, beyond one year. MOUs for GBS and Proagri usually require multi-annual commitments and financial agreements with the GOM. While financial agreements are signed for periods of 3 years, ADC has rather cumbersome internal procedures due to budgetary restrictions and the problem of making binding fund allocations internally. These problems, in addition with the use of within-year tranches, undermine the predictability of medium-term financial planning and budgeting of the partner government and increase transaction costs for all parties involved.

## 6.2 Lessons learned from other donors

Experiences by other donors show that it is crucial that PAPs can give firm multi-annual commitments to government budget funding and that adherence to the in the MOU defined disbursement schedules is essential to maintain predictability of aid.

Other donors seem to have a clearer understanding of the modality mix. Smaller to medium-sized donors aim to maintain a mix of funding mechanisms and often set a maximum share for budget support to the total country programme. For example, Belgium cannot fund more than 50% of the country programme through budget support.

Also, most development partners have an embassy in the countries where they provide budget support, whereby the ambassador in cooperation with the Head of Cooperation

engages in the political dialogue and the Head of Cooperation takes the lead on the development cooperation policy dialogue with the government and the other development partners.

Compared to other budget support donors, ADC currently operates in a relatively centralised manner, with limited financial delegation to the field offices. The ADA Work Programme 2009 has recognised that aid effectiveness, donor coordination and the policy dialogue with partners requires more decentralised structures and authorities.<sup>56</sup>

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<sup>56</sup> The OECD DAC Peer Review, 2009, also indicated the room within ADA for further decentralisation to the field.

## 7 Conclusions

The major question for the field mission was to review ADC's operational experience with budget support operations in Mozambique since 2005/6. Particular attention was paid to the value added of ADC's involvement in budget support operations including a review of ADC policies, capacities and procedures as determining factors, using the open-systems model.

The value added of ADC in the budget support operations of the GBS and Proagri is mixed. On the positive side, ADC is generally considered, by GOM and the development partners, as an active, vocal, and competent partner in the budget support dialogue mechanisms and its focus on agriculture (Proagri) is recognised.

In addition, it is considered to be a partner with no hidden agendas and is valued for its commitment to the Paris agenda and the European Code of Conduct. ADC has largely followed national budget procedures and jointly agreed policies and standards, which has contributed to it being perceived as a like-minded, constructive partner.

ADC is, furthermore, valued for its active participation in regular joint reviews of GBS and Proagri and the sub-working groups on PFM. This performance is appreciated also by the recent Independent Review of PAPs' Performance in Mozambique for 2009.

These achievements are thanks to the commitment, determination and capacities of individual staff at the Coordination Office, ADA headquarters, and MFA. ADC's policies, capacities and procedures, however, have in the past few years insufficiently supported ADC to systematically play this important role. This will be explained in more detail below.

First, ADC's overall strategic objectives for its country programme in Mozambique were never explicitly formulated because of the lack of a country strategy since 2008. In addition, ADC's Budget Support Strategy has only recently been approved and the draft Budget Support Guidelines are still in the process of being refined. The role budget support was to play within the wider country programme portfolio and the question how budget support in conjunction with other aid modalities and supplementary measures were meant to support the achievement of ADC's country strategy was not spelled out. Yet, the assumptions and obligations formulated by ADA and MFA for the Mozambique budget support operations highlighted the need for Austria to position itself with a clear profile and to take (partial) thematic leadership.

In practice, budget support was very rapidly phased into the country portfolio. Although ADC is well appreciated within the policy dialogue of the two budget support operations, it has not managed to take (partial) thematic leadership. The uncertainties around the

general scaling up of ADC aid put pressures on the country programme as a whole and the very limited financial and staff resources available amplify the need for more strategic and operational guidance on budget support, clear objective setting, and profiling for ADC (e.g. mix of modalities, approach to supplementary measures, exit and response strategies).

Second, it is generally recognized by other development partners in Mozambique that smaller donors can have an important value added in the policy dialogue regardless of the level of their financial contributions, if they are willing to invest heavily in terms of staff capacities and time and specialize thematically in the policy dialogue. Yet, sufficient financial volumes give a donor a more “natural” weight or leverage in the policy dialogue. Especially in highly aid-dependent countries with a large number of donors, it is important for a smaller donor to review carefully the cost-benefit considerations for engaging with a partner country and what difference one expects to make, taking into account the spectrum of historical, political, economic, and development ties. With the current size of the country programme ADC remains a very small donor to Mozambique, while with higher financial volumes it could probably have exponentially raised its profile and leverage. Major constraints in this context are the low share of Austrian aid allocated to bilateral cooperation and in favour of priority countries. Also the relatively high number of priority countries adds to further fragmentation of ADC’s financial aid volumes.

The transformation towards using more aligned modalities and the increased participation in the central policy dialogue lead to increasing demands on staff time as well as changed needs of skills and expertise. It requires an appropriate staff volume and specific technical expertise in the sectors of engagement, especially if ADC aims to take thematic leadership. With one programme officer budget support in Maputo, one programme officer rural development in Beira and one open vacancy for a programme officer decentralization, staff capacities have been quite limited and too spread, for ADC to take a sector or thematic lead.

Building a comparative advantage in a particular area does not depend only on the focus and associated capacities in one Coordination Office, but will require more broad-based institutional learning and capacity building within ADA and MFA. Major bottlenecks in this context are the limitations to staff rotation across ADA headquarters and field offices, which undermine common understanding and lessons learning, career opportunities and staff commitment and continuity for programme officer and heads of cooperation. Capacity development, in particular training opportunities on aid approaches & modalities, PFM, (macro-)economic skills and sector specific expertise, has been limited so far and requires a more strategic approach in line with ADC’s comparative advantages and particular country programme objectives.

Moreover, there are a number of generic weaknesses at procedural and organizational level which have hampered the role of ADC in the policy dialogue. For example, engagement in budget support highlights the need for more decentralised aid management in order to create more responsive services in an environment which demands greater donor coordination, harmonisation and alignment and stronger engagement in the policy dialogue. But ADA is currently a highly centralised organisation with very little

delegation of financial and technical roles & responsibilities to the field offices. The limited staff resources at the Coordination Offices also reflect this highly centralised nature.

The ADA Work Programme 2009, however, recognises that aid effectiveness, donor coordination and the policy dialogue with partners requires decentralised structures and authorities. It will be essential that any future strategy takes into account the needs arising from ADC's role in the policy dialogue around budget support.

Finally, another procedural weakness is the difficulty of ADC to plan and commit country programme funding, irrespective of the modality, beyond one year. This problem, and the use of within-year tranches, undermine the predictability of medium-term financial planning and budgeting of the partner government and increases transaction costs for all parties involved. Especially for budget support, predictability and mutual accountability are crucial features for success.

Overall, we see a mixed picture regarding the value added of ADC in the budget support operations in Mozambique. Austria is generally considered as a competent and very reliable partner. The commitment, determination and capacities of individual staff at the Coordination Office, ADA headquarters and MFA has contributed strongly to its positive achievements. But there are a number of generic weaknesses at procedural and organizational level which have hampered the role of Austria. This amplifies the need for more strategic and operational guidance and the exchange of lessons learned on budget support.



## Annexes

## Annex 1 Staff line Mozambique Coordination Office, 2006-2010

Staff & role	International/National	2006	2007	2008	2009	2010
Head of Cooperation (IN)	International FT		FT	FT	FT (till 6/09)	
Head of Cooperation (EK)	International				FT (from 6/09)	FT
Head of Administration (MB)	International	FT (till 8/06)				
Head of Administration (RK)	International	PT	PT	PT	PT (till 4/09)	
Head of Administration (DC)	National				FT (from 4/09)	FT
Programme Officer Budget Support (RK)	International		PT	PT	PT (till 4/09) FT (from 4/09)	FT
Administrative Assistant in Beira (DC)	National FT		FT	FT	FT (till 4/09)	
Programme Officer Rural Development (ES)	National FT		FT	FT	FT	FT
Programme Officer Decentralisation (ZZ)	National FT		FT	FT	FT (till 6/09)	
Administrative Assistant (CS)	National	FT	FT	FT	FT	FT

Note: FT = full time, PT – part-time.

## Annex 2      Programming Cycle GBS

Phase	Steps	Details
<b>Programming &amp; Analysis</b>	Identification & country analysis	Programming request (20/9/2006) Recommendation for Joining GBS (16/2/07)
	Approval & commitment	Approval by MFA (21/3/2007) Request for admission to PAPs (17/4/2007) Approval by ADA Board (29/5/2007)
<b>Formulation &amp; implementation</b>	Signing of Joint / Bilateral Agreement	Signing of MOU 2004 (30/4/2007) Signing of MOU 2009 (18/3/09) Signing of Financial Agreement (16/1/2008)
	<b>Payment:</b>	
	• Amount committed:	Total commitment : EUR 4.8 mln between 2008-2009, top-up of EUR 3.2 mln for 2010
	• Amount disbursed:	EUR 1.6 mln (06/08) -> 2008 allocation EUR 1.6 mln (12/08) -> 2009 allocation, 1st tranche EUR 1.6 mln (6/09) -> 2009 allocation, 2nd tranche EUR 3.2 mln (disbursement scheduled for 06/10) -> 2010 allocation
<b>Follow up</b>	M&E (e.g. sector reviews)	Under the MOU 2004: Joint Review in March/April & Mid-term Review in September. Under new MOU 2009: Annual Review in March/April & PAF Planning Meeting in September.
	• Timeliness acc. to MOU:	✓
	• Results of sector review:	Satisfactory
	Financial audit	The financial audit of the flow of programme support should be concluded by the end of the Joint Review in April of FY.
	• Timeliness:	Usually a draft , but not a final version is available for the Joint Review in April. The PAP requested in 2009 the GOM to conclude the audit in due time, as this was already the second consecutive year in which the final report is not delivered within the agreed deadlines.
	• Results of financial audit:	Satisfactory
	Regular Reporting (Quarterly reporting, event-based reporting, Financial reporting, etc)	✓
<b>Exiting</b>	Withdrawal decision	No

## Annex 3      Programming Cycle Proagri

Phase	Steps	Details
<b>Programming &amp; Analysis</b>	Identification & country analysis	Programming request (20/9/2006)
	Approval & commitment	Approval by MFA (21/3/2007) Approval ADA Board (20/5/2007)
<b>Formulation &amp; implementation</b>	Signing of Joint / Bilateral Agreement	Signing of MOU Proagri II (01/07), amendment signed in (06/07) Financial Agreement signed 20/5/2008
	<b>Payment:</b>	
	• Amount committed:	EUR 3 mln for 4 years (2007-2010)
	• Amount disbursed:	EUR 1 mln (06/08) -> 2007 allocation EUR 1 mln (06/08) -> 2008 allocation EUR 1mln (06/09) -> 2009 allocation EUR 500.000 (disbursement scheduled for 06'10) -> 2010 allocation
<b>Follow up</b>	M&E (e.g. sector reviews)	MINAG Annual Reports; Aid Memoire Joint Review, including sector assessment; MINAG Financial Management Report; MINAG Audit Reports and Audit Action Plans; ADC Financial Control Report
	• Timeliness:	✓
	• Results of sector review:	Satisfactory
	Financial audit	MINAG Audit Reports within six months, MINAG Audit Action Plans within a month, ADC Financial Control Reports
	• Timeliness:	MINAG Audit Report 2005 (21/2/07) -> late MINAG Audit Report 2006 (29/10/07) -> late MINAG Audit Report 2007 (12/08) -> late MINAG Audit Report 2008 (12/09) -> late MINAG Action Plan for Audits are usually provided within a month after publication of the audit report Financial Control Report 2006 (7/09) Financial Control Report 2007 (7/09) Financial Control Report 2008 (7/09) Financial Control Report 2009 (7/10)
	• Results:	Satisfactory
	Regular Reporting by Coordination Office to ADA HQ	There are annual performance and technical reviews reported to HQ.
<b>Exiting</b>	Withdrawal decision	Decision under review

## Annex 4 List of interviews conducted

Name	Function	Institution
<b>Coordination Office</b>		
Eva Kohl	Head of Cooperation	Austrian embassy and Coordination Office
Roswitha Kremser	Programme Officer Budget Support	Austrian embassy and Coordination Office
<b>Government of Mozambique</b>		
Dr. Vitorino Xavier	Director of Planning (DE)	Ministry of Agriculture
Fernando Songane	Coordinator Proagri	Ministry of Agriculture
Celia Cumbe	Director of Finance	Ministry of Agriculture
Eneas Comiche	President	Parliamentary Commission for Planning and Budgeting
Ester Jose	Director Investment & Cooperation	Ministry of Planning and Development
Alberto Manhusse	Director Monitoring & Evaluation	Ministry of Planning and Development
Domingo Lambo	Director Budgeting	Ministry of Finance
<b>Donors</b>		
Paul Litjens	Head of Cooperation Dutch	Embassy
Marc Deneer	Head of Cooperation	Belgian Embassy
Sylvie Tabesse	Head of Cooperation	European Commission
Thomas Litscher	Ambassador	Swiss Embassy
Lotta Karlsson	Head of Cooperation	Finnish Embassy
Patrick Empey	Head of Cooperation Irish	Embassy
Bridget Walker	Economist	Irish Embassy
<b>Civil Society</b>		
Paulo Cuinica	Secretary General	G 20
Marilia Mutemba	Head of Office	AWEPA
Lidewij Helmich	Project Officer	AWEPA

## Annex 5      References

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