

General Budget Support: An Alternative Assistance Approach *Mozambique Country Case Study*

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General Budget Support: An Alternative Assistance Approach

Mozambique Country Case Study

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Summary

Donors worldwide employ a wide range of approaches to foreign aid, under the categories of “project assistance” and “non-project assistance.” These donors generally acknowledge that the projects they manage succeed, but once they leave, the projects tend to fail in part owing to a lack of host country ownership. Viewed in this light, donor efforts actively seek ways to encourage host country participation and ownership, and some donors believe that General Budget Support (GBS) offers a workable alternative. GBS is one type of non-project assistance which as a development tool has several applications. Other kinds of non-project assistance or “program aid” include food aid, balance of payments support, commodity import programs, sector assistance, and debt relief.

While most non-project assistance approaches depend on some degree of earmarking or policy conditionality, GBS relies on broad agreements and an acknowledgment that appropriate development policies are in place. Funds usually flow directly to the finance ministry. If a recipient government demonstrates its commitment to broad development goals and donors agree, GBS donors participate in a planning dialogue with central government officials and pool their aid resources to support the government’s development efforts. In applying this approach, the host country finance ministry allocates donor financing and uses its own procurement and accounting systems, which some donors argue is a manifestation of country “ownership” that can lead to sustainable development.

In Mozambique, a large group of donors has decided to move away from projects in favor of GBS, providing a good case study to examine the conditions under which this approach might be recommended. Donors in Mozambique have a long history of coordination, beginning with their humanitarian efforts during and after the civil war. Currently, donors coor-

dinate through a number of mechanisms, including a group comprised of all of the GBS donors plus the United States as an observer and donor sub-committees. A GBS program in Mozambique has particular appeal to some donors and has garnered their support because of the country’s well-designed development and poverty reduction plan.

In Mozambique there are many different donors with a variety of views about GBS. The proportion donor assistance provided using General Budget Support ranges from 10 to 50 percent. Donors also provide sector support as well as through traditional projects, technical assistance and support to the non-profit and private sectors.

While GBS may contribute to sustainable development, there are a number of risks inherent in its use. If government institutions and management capabilities are weak, development suffers. Mozambique has established good planning mechanisms, but still has extremely weak accounting and financial control systems. Public expenditures management is weak, and there is considerable fiduciary risk. These weaknesses contribute to a significant risk of inappropriate spending or outright theft.

The shift to GBS is relatively recent and there are some donors who prefer to wait until more experience is gained in its use. Though it is too soon to know whether improved government performance does result from GBS, this assessment examines the factors necessary for GBS to work successfully in Mozambique. Using the lessons learned from Mozambique, it is possible to identify key factors that should be examined in other countries where donors are considering General Budget Support. These lessons and recommendations are summarized in the Evaluation Brief: “The Conditions That Make General Budget Support Most Effective: Mozambique Country Case Study” (PN-ACU-999).

Background

Depending on development constraints and host governments' institutional capacity to implement development programs, USAID and other donors may choose from a variety of assistance approaches to suit a developing country's special conditions and needs. Brief descriptions follow of different types of interventions that USAID generally characterizes as non-project assistance. These include General Budget Support (GBS), a recently developed form of non-project assistance. (See Annexes 4 and 5 for a detailed discussion on the pros and cons of different types of assistance.)

Balance of Payment Support

USAID and other donors may provide resource transfers either in foreign exchange as a cash transfer or as a commodity import program. Balance of payment support is a modality designed to promote economic and political stability. It is short- and medium-term, and addresses immediate gaps in the country's balance of payments.

Sector Program Assistance

Program assistance focuses on sector constraints to sustainable growth and usually refers to a broad area such as agriculture, industry, education, health, exports. It may also refer to a sub-sector such as agricultural marketing, health care financing or child survival. It supports the implementation of reforms and other actions to overcome sector based development constraints. Sector program assistance relies on disbursements based on policy conditionality in separate donor agreements.

Sector Wide Approach (SWAp)

A SWAp is defined as multi-donor funding for a sector in support of single sector wide policy and

expenditure program. A SWAp coordinates all donor assistance in support of a common sector expenditure program that includes a variety of interventions: budget support, project aid and technical assistance, which may or may not be earmarked to specific expenditures or disbursed through the government's own budget process.

General Budget Support

This type of assistance is similar to balance of payment support since it supports structural adjustment and policy reforms and contains a local currency counterpart to foreign exchange. However, rather than using traditional conditionality, donors agree on an agenda of policy measures which the government plans to implement. Once donors are comfortable on overall budget priorities, as set out in a medium term budget and expenditure framework, GBS can be provided. With agreement on the budget as a whole, there is no need to earmark aid flows to specific country expenditures. Funds are channeled through the host government's national budget. Since support is for the budget as a whole, accountability depends on government audited accounts of its total revenues and expenditures.

Why the Interest in General Budget Support?

Foreign aid is usually provided through **donor-managed** projects, though some development practitioners question the success of this approach, noting that if development is to be successful and self-sustaining, the developing country has to have ownership of the development process. They say donors should provide aid funds to host governments and provide them the space to manage their own development programs.

This evaluation identifies the country conditions that led some donors to allocate a portion of their

foreign assistance to General Budget Support.¹ It examines the benefits and drawbacks of General Budget Support and the country conditions that underlie a successful program.

The Case for General Budget Support

If a donor runs its own aid project, host government ownership tends to be minimal, and that may explain why many donor projects fail. Donor-managed aid projects get the resources they need, and donors have a stake in the success of their projects. But a donor project can be an “island of development” that only reaches a small group of people. It often fails to strengthen local institutions or change institutional relationships, is not easily replicated, and benefits are not sustainable. General Budget Support, as some donors argue, is more consistent with the concept of building strong host-country ownership that may lead to a greater chance for sustainable development. Donors, the host government, and other country actors work in close partnership, as they reach a shared agreement on program and budget priorities. Donors then provide GBS to the finance ministry. Funds are not tied to any sector or project but support the overall development budget effort.

Donors assume that with a change in the process of delivering aid (from projects to budget support), governments will perform effectively in reducing poverty. Since the government is responsible for the program, it will identify the most critical development problems and make sure the problems are solved. Donors also assume that a developing country has the desire and ability to implement successful development programs. They expect that the key benefits of General Budget Support will be improved government efficiency and ownership since GBS will:

- Improve coordination among donors and harmonize and align aid with the government’s budget and policy system.
- Use policy dialogue to reform overall government policies and budget priorities, rather than narrowly concentrating on individual projects or sectors.
- Increase efficiency in public spending. The government directs its own budget allocations, instead of dealing with a large number of donor projects, which often reflect donor priorities rather than those of the developing country.
- Empower the government to administer its programs effectively.
- Make the government accountable to the people of its own country, and not just to the donors.
- Reduce transaction costs for donors in the long-term since donors do not have to manage a large number of projects.
- Reduce transaction costs to the recipient since it does not have to deal with a multitude of donor projects and reporting requirements.

The Problems with General Budget Support

In some countries where good governance and institutional capability exist, GBS makes good sense. It is less so in low-income developing countries that tend to have weak institutions and inadequate management and technical skills. Many donors have serious questions about making large cash transfers to countries that lack the essential capabilities to account adequately for funds. Specific donor concerns center on:

- Weak management and financial systems and a lack of budget discipline. Many governments typically have weak audit, monitoring and evaluation agencies.
- Corruption and misappropriation of funds.
- A lack of skilled managers and technicians.
- A finance ministry that often falls short when it comes to managing an efficient and transparent

¹ The U.K. Department for International Development defines General Budget Support as a form of non-project aid where: 1. Funds are provided in support of a government program that focuses on growth and poverty reduction, and transforming institutions, especially budgetary institutions. 2. The funds are provided to a partner government to spend using its own financial management and accountability systems. http://www.grc-exchange.org/g_themes/cc_budgetsupport.html

budget allocation process. GBS strengthens the hand of the finance ministry.

- A strong central government that has little interest in empowering civil society and the private sector. Donor funding to the central government could exacerbate this problem.
- The potential or tendency for General Budget Support to encourage centralization that may harm local, grassroots development—which many view as essential to sustainable development.
- The chances for success at pressing for policy reforms with a line ministry directly (such as agriculture or health).
- While some transaction costs may decrease, others may increase. For example, GBS requires improved policy and program design and management and months of analytical effort by highly trained staff from both the donor and government.

Mozambique's Political and Economic Overview

Political History

Mozambique is a nation of 17.6 million people, with a land mass twice the size of California. Located on the southeast coast of Africa, and bordering six countries including South Africa, Mozambique is well-placed for trade and commerce. The capital, Maputo, is located in the south.

The country became a formal colony of Portugal in 1890. In early 1962 Mozambican nationalist groups united, forming FRELIMO, the Front for the Liberation of Mozambique, and a war for independence started in 1964. The Portuguese turned over power to FRELIMO in 1974 after a ten-year war. Full independence came on June 25, 1975 with the formation of the People's Republic of Mozambique.

FRELIMO declared the country a Marxist-Leninist state with a centrally planned economy and one-party rule, spawning opposition led by a group known as the Mozambique National Resistance-Electoral Union or RENAMO. A devastating civil war resulted. By 1984 real per capita GDP had fallen by half compared with pre-independence levels, and half the population was internally displaced or in refugee camps. By October 4, 1992, FRELIMO and RENAMO signed a peace agreement.

Country Profile

Since the civil war ended in 1992, Mozambique's growth has averaged 8 percent a year, with recent years even higher at 14.8 percent in 2001 and 10 percent in 2002. Inflation is back down to the single digits, 9 percent in 2002, after a spike to 22 percent in 2001. The currency is stable. Success, however, is fragile. Despite economic gains, floods in 2000 posed threats to sustained growth as does the current HIV/AIDS crisis.

Eighty percent of Mozambicans live in rural areas where agriculture employs a large portion of the population. Seventy percent of Mozambique's population lives at or below the absolute poverty level. Approximately 44 percent of children suffer from chronic malnutrition and 6 percent from acute malnutrition. Per capita income is approximately \$226 with regional variations.

About 48 percent of the population over the age of 15 can read and write, and less than 20 percent of primary school enrollees reach the secondary level. Life expectancy for men is low at 40 years and even lower for women at 38 years. Only 40 percent of Mozambicans have access to healthcare facilities. Consequently, maternal, infant and child mortality rates are high.

Mozambique's largest trading partner is South Africa. Growth in trade is expected to continue due to recent investments in an aluminum smelter and a gas pipeline. However, to promote trade, infrastructure across the board—road, rail, ports, airports, and telecommunication—needs strengthening.

Mozambique is a fledgling democracy with a weak civil society. Democratic processes are in place, but the executive branch has a disproportionate amount of power and FRELIMO dominates the country's leadership. Economic and democratic freedoms need to be strengthened if the government is to truly represent the needs of the people.

There is widespread corruption that potentially threatens Mozambique's development gains. A lack of legislative or judicial strength along with limited civil society means that there are few ways to control corruption. Archaic and overly complicated regulatory systems need reform, to minimize the penchant for corruption.

Donor Support

Donors fund approximately half of the government's total budget, which includes the entire investment development portion. At the October 2003 Consultative Group meeting donors pledged \$790 million. With massive donor funding, the country may soon face "Dutch Disease" whereby a large inflow of foreign currency disrupts prices and markets, generates inflation, causes the local currency to appreciate and decreases export competitiveness.

Donors employ budget support and project interventions as part of their financing programs. Their budget support follows two main approaches: sector specific assistance such as to agriculture, health, education or General Budget Support to the central finance ministry which decides resource allocation to various sectors in accordance with the World

Bank's motivated Poverty Reduction Strategy Paper (known as the "PARPA" in its Portuguese acronym) that states the country's development priorities.

General Budget Support is growing, both in the number of donors participating and in the amount that they contribute. The 2003 mix of donor support is provided in Table 1 below.

In certain instances, donor project financing can achieve host country ownership and avoid duplication, if the host country is involved in funding decisions. In certain instances, such as with construction projects, the donor's interests can be preserved with the employment of supervisory engineers. USAID has had success with this approach in Mozambique, working with the Ministry of Public Works and Housing to construct buildings or roads.

Table 1. Aid Approaches Used in Mozambique by Selected Donors
Percentage of Total Aid in 2003

Donor	General Budget Support	Sector Assistance	Project/NGO/ Private Sector
Netherlands	50%	25%	25%
European Commission	34%	19%	47%
Great Britain	33%	45%	22%
World Bank	33%	0%	66%
Switzerland	30%	n.a.	n.a.
Norway	25%	25%	50%
Denmark	20%	n.a.	n.a.
Sweden	17%	57%	26%
Germany	17%	30%	53%
Finland	15%	85%	0%
France	10%	10%	80%
Italy	10%	10%	80%
Portugal	0%	10%	90%
United States	0%	15%	85%
Japan	0%	0%	100%

n.a.= data not available

Source: Discussion at G-11 Economists Weekly Meeting, September 24, 2003, Maputo, Mozambique, supplemented by interviews with individual donors.

How General Budget Support Relates to Mozambique's Development Approach

Mozambique's Development Approach

In 1990, Mozambique adopted a poverty reduction strategy or PARPA as part of its national development plan. It updated the strategy in 1999 and titled it the “2000–2004 Action Plan for the Reduction of Absolute Poverty.” The World Bank and IMF have approved the strategy, as it meets the criteria for Poverty Reduction Strategy Papers (PRSPs) that are geared to host governments’ poverty reduction strategies. The PARPA’s goal is to reduce absolute poverty from 70 percent in 1997 to less than 60 percent by 2005.

The PARPA emphasizes economic growth, investments in health and education and rural infrastructure in reducing poverty. In the agricultural sector, it focuses on productivity, market access, and expansion of extension services, inputs and credit. In the health sector HIV/AIDS awareness and assistance is given prominence. However, little mention is made of measures to improve governance or to strengthen government service management.

For Monitoring and Evaluation, the PARPA is the basis for the Government’s Medium-Term Expenditure Framework. In addition, donors review the annual budget, along with the Annual Economic and Social Plan (PES), within the parameters of the Mozambique government’s Performance Assessment Framework (PAF). The PAF contains indicators and targets to measure progress.

The Role of Donors and the Role of General Budget Support

Donors who provide General Budget Support have formed the G-11 Group² who meet periodically or weekly, as a whole, in committees or informally. Since USAID does not provide General Budget Support, it has only observer status at the G-11 meetings. The Mozambican government and the G-11 meet jointly in May each year with 4 days of intensive technical and policy discussions. Through this review process, the G-11 has successfully used General Budget Support as a way to frame policy dialogues that have apparently resulted in better planning, budgeting and country ownership. Donors expect that policy discussions will lead to improvements such as reduced defense spending, elimination of phantom civil service employees and better health and education service delivery to the poor.

Donors who provide General Budget Support negotiate policy and budget issues in unison and achieve an impact that no single donor has. The fact that the Mozambique government recognizes donors’ concerns and is willing to negotiate with them makes the policy dialogue process succeed. A check with the G-11 donors reveals that they are very satisfied with a highly effective process in achieving policy reforms. This might explain why Italy, Germany and Portugal are adding budget support to their program as a way to gain a seat at the policy table. USAID has observer status since it does not provide GBS. USAID is a participant owing to its development knowledge and technical skills, but these attributes alone do not translate into influence on the policy debates in the G-11 forum.

² The G-11 started with 11 donors but now totals 14 and soon will call itself the G-14. It includes: Belgium, The European Commission, Denmark, Ireland, Finland, Netherlands, France, Norway, Sweden, Switzerland and the UK. Recent additions include Germany, Italy and Portugal

No single donor provides 100 percent of its assistance to General Budget Support. GBS ranges from a minimum of 10 percent to a maximum of 50 percent of individual members' total aid. Several donors expect to increase the proportion of their assistance devoted to General Budget Support in the near future, and some strive for what they consider an ideal mix—a 50/50 balance between General Budget Support and other types of aid. Still others, particularly the EU and the British, claim that budget support is their preferred mode, and they hope to move all of their aid to General Budget Support over the long term. Those who argue for a balance say that they are:

- a) minimizing their risks by not shifting entirely to General Budget Support;
- b) addressing a need for projects that assist with reforms in the planning and execution of the budget;

- c) addressing critical needs with the sector ministries, particularly in health and education;
- d) pushing additional funding out to the more remote and poorer provinces; and
- e) strengthening civil society and the private sector.

One unexpected result of GBS has been that government ministries now face a stiff internal debate on their development approach. Previously each ministry dealt directly with the donors and cut its own deal with a donor, often outside the government's budget. Now line ministries are compelled to articulate and defend the logic of their objectives and their approaches to the Ministry of Planning and Finance and other ministries. A healthy internal government debate can build a better overall program and promote stronger ownership among all ministries.

USAID's Approach to Development

USAID's Country Strategic Plan

In 2003, USAID approved a new Country Strategic Plan for assistance to Mozambique. The prior plan (1996–2003) operated in an environment of post-conflict reconstruction and emergency response to catastrophic flooding. The new plan, for fiscal years 2004–2010, was developed in the context of the country's current high growth, post-drought environment. It also acknowledges the strong degree of coordination within a large donor community and generally positive international assessments of the country's progress and capacity.

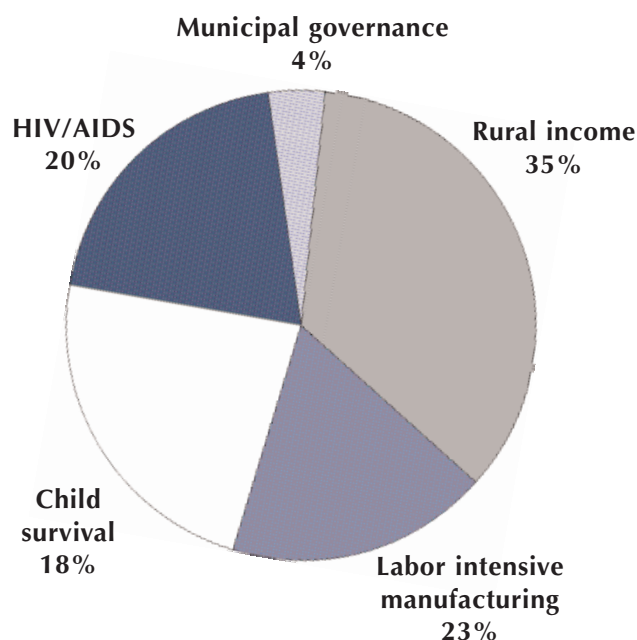
Program Structure and Areas of Emphasis

USAID's Country Strategic Plan is projected at about \$45 million per year over the next seven years, although additional funding is expected through Presidential Initiatives on hunger, trade and HIV/AIDS. Much of the additional funding will be earmarked for specific expenses, such as anti-retroviral drugs.

As one of the larger bilateral donors, USAID emphasizes local priorities, coordination with other donors, programs with Mozambican partners and impact on poorer and rural populations.

USAID's strategic plans aligns its priorities with those of the Mozambican government, including: increasing rural incomes, promoting labor-intensive manufacturing, expanding child survival and reproductive health services, curbing HIV/AIDS and improving democratic governance at the local level. In addition, gender equity, human capacity development and anti-corruption support USAID's overall objectives.

USAID Country Strategic Plan for Mozambique
Proposed Funding by SO (2004–2010)



Project assistance is USAID's primary means for delivering aid, though the mission also participates in a multi-donor, agricultural SWAp known as PROAGRI that provides the means to increase incomes in rural areas. Increasing rural incomes (see chart above) is USAID's highest development priority. USAID agricultural funds are allocated for technical assistance to the agricultural ministry and for private sector and NGO partners and activities.

Though USAID has not been formally a member of the G-11, its past experience in developing PROAGRI I and II provide useful lessons that inform programming decisions for future investments in General Budget Support. Donors agree that planning and implementation responsibilities for agriculture have been successfully transferred to the

Ministry of Agriculture and Rural Development and agree that the ministry still needs ongoing technical assistance to ensure that priorities are translated into measurable action. Some donors have decided to shift future PROAGRI funding to General Budget Support with the understanding that PROAGRI will receive the funds.

Competitiveness

Though Mozambique has successfully completed major economic reforms such as liberalizing its foreign exchange market and eliminating price and trade controls, it has an excessive system of regulations that harm economic growth and encourage corruption. Areas that need reforms include:

- The *formal sector* which faces a gauntlet of difficulties: lengthy and tedious company registration; restrictive labor laws and arcane tax and customs laws. With excessive and unclear controls, the regulators routinely demand bribes to clear away obstacles.
- The *informal business sector* that lacks access to finance, market services and contract enforcement. Firms stay small since they have difficulty expanding their product line or markets. The informal sector is reluctant to move into the formal sector since that means onerous regulations and government officials demanding bribes.
- *Land registration* that could benefit from an honest cadastral survey that would give farmers clear land ownership and an incentive to improve productivity. The government would have to change its policies to allow convertibility of land into money. That would mean that land could be sold or used as collateral for investments to increase productivity.
- *Trade capacity building and trade policy formulation* that is hampered by ingrained protectionism, excessive government red tape, slow customs clearance and corruption. The lack of needed infrastructure (roads, bridges, rail, ports, and telecommunications) also harms trade.

GBS may not be the way to solve Mozambique's competitiveness problems, since it requires a joint donor approach. It is always difficult to get all 15 donors to agree on GBS reforms, and donors have different philosophies on the ideal level of government regulation for the private sector. Many donors see GBS as a way to support poverty reduction efforts through government health and education programs. They do not focus as much on private sector development. USAID might better deal with private sector issues with its own bilateral program, using technical assistance and policy reform cash transfers.

There are also other parts of the USAID Mozambique program that are a poor fit with GBS. USAID's objectives relating to labor-intensive manufacturing, municipal governance, and the health sector do not lend themselves to GBS. Manufacturing has a private-sector focus and the Mozambique government strongly regulates the private sector, particularly private sector labor. This regulation mentality can be better addressed and changed through policy reform, technical assistance and training with performance-based conditionality rather than GBS. Improved municipal governance is also ill suited to GBS. In Mozambique, as in many countries, the government is not eager to encourage a participatory and democratic competing power at the local level which could harm the central government. And finally, the U.S. Congress requires health funds to be provided only through projects. That legislation blocks cash transfers to support health sector policy reforms.

Finance and Fiduciary Capabilities

Public Expenditure Management

A review of Mozambique's public expenditure management performance was released by the World Bank in December of 2001 and a second one in late 2003. The reviews identified a number of problems and included recommendations for budget formulation, budget execution, and budget evaluation and auditing. The IMF is working with Mozambique to address issues raised in the review.

A major problem for the government and donors is that Mozambique's budget gives only a partial view of revenue and expenditures and may be a key reason why GBS as currently practiced falls short of achieving broad budgetary reforms. In this context, it is not clear if resource allocations are properly aligned with development needs. Furthermore, the budget preparation process is not fully transparent, and details below sub-headings are not firm. The World Bank reviews call for more information in the budget on the government's own revenue sources, donor funded activities and tax expenditures. It also suggests using the Medium Term Expenditure Framework as an instrument of budget planning and to make it available to the public. It urges that macroeconomic stability should be an explicit objective of the budget formulation process. Additionally, to make the process more responsive to the needs of the country, the capacity of the National Assembly to analyze the budget and monitor its execution needs to be improved.

Budget execution suffers from poor accounting, partial reporting and weak cash management. Many donor projects are "off-budget" and need to be included in the government budget. In public accounting, the single-entry system is being replaced

with double-entry bookkeeping; the cash basis accounting system should be replaced with modified accrual accounting; and a new chart of accounts should be implemented. The reports currently used need better data on allocations, adjustments and expenditures and more information on donor-funded expenditures. Reports on debt, lending and on-lending, cash flows and tax expenditures need to be created. To improve cash management, the 12,000 government commercial bank accounts need to be consolidated into one treasury account and a new automated treasury payments system should be introduced. Financial planning should be improved, and revenue collection needs to be rationalized.

Both internal and external budget evaluations and audits are weak. Internal audits should be used as a management tool and should primarily be the responsibility of the spending units. The Ministry of Planning and Finance should oversee the quality of internal audits. For external audits, the Administrative Tribunal needs the flexibility to build its capacity in financial, human and operational means. Budget evaluations (to assess benefits against costs), are not a current priority. Such evaluations would improve budget management and should be a medium-term objective. Responsibility for the evaluations should fall to the spending agency, under the coordination of the Ministry of Planning and Finance.

Assessing Fiduciary Risk

There are differences among donors in their approaches and tolerances to fiduciary risk, but all are concerned about possible misuse of funds and corruption. Donors are designing ways to monitor fiduciary risk through an annual joint assessment. They advocate working with the government while systems to minimize risks improve. Some donors will not provide significant amounts of assistance

for General Budget Support until financial systems and controls have improved. There is no exact formula for making informed judgments about acceptable fiduciary risk Tolerance for risk can vary according to the impact expected and the amount of funds at stake.

DFID's review of 25 Heavily Indebted Poor Countries (HIPC), which includes Mozambique, revealed that none meet international codes and

standards for public financial management and accountability. As an initial step, benchmarks can be used to assess risks and to set targets for improvement (see Table 2). These benchmarks are considered temporary and will be replaced by codes and standards that are being developed by a joint effort of the multilateral development banks and the international financial management and accounting standards setting bodies.

Table 2. Principles and Benchmarks for Fiduciary Risk Assessments

Good Practice Principles

A clear set of rules governs the budget process.

The budget is comprehensive.

The budget supports pro-poor strategies.

The budget is a reliable guide to actual expenditure.

Current year expenditure tightly controlled.

Government procurement is in line with the principle of obtaining the best value for money spent and transparency in all transactions.

Expenditure reporting is timely and accurate.

There is effective independent scrutiny of government expenditure.

Benchmarks for Assessment

- A budget law specifying fiscal management responsibilities is in operation.
- Accounting policies and account code classifications are published and applied.

- All general government activities are included in the budget.
- Extra budgetary expenditure is minimal.

- Annual budget allocations are broadly consistent with medium-term sector expenditure plans or the overall budget.

- Actual budget results are consistent with the budget.

- Actual expenditures are reported in-year.
- Systems are operating to control commitments, accruals, expenditures, and arrears.

- There is appropriate use of competitive bidding rules.
- Decisionmaking is recorded and auditable.
- Effective action taken to identify and eliminate corruption.

- Reconciliation of fiscal and bank records is carried out on a routine basis.
- Audited annual accounts are submitted to parliament within the statutory period.

- Government accounts are independently audited.
- Government agencies are held to account for mismanagement. Criticisms and recommendations made by the auditors are followed up.

Source. Department for International Development, March 2002. "Managing Fiduciary Risk When Providing Direct Budget Support."

Fiduciary risk in Mozambique based on DFID's 2002 assessment is high, and thus major public expenditure management system reforms are needed. This is in line with an IMF and World Bank study of the financial management of 24 HIPC countries in which Mozambique and 14 other countries require substantial upgrading of their public expenditure management in order to track spending.

In Mozambique, the budgets of the line ministries are often a "plus-up" from previous years and not directly linked to the goals of the PARPA. Likewise, actual expenditures do not always reflect the approved budget. The World Bank's Medium Term Expenditure Framework is designed to link the annual budget and the long-term goals of the PARPA. With no policy or budget discipline, yearly expenditures often have little relationship to the Medium Term Expenditure Framework.

Budget breaking expenditures are further compounded by financial leakage via the country's procurement practices. These practices encourage corruption owing to the lack of a competitive and transparent culture, trained staff and independence from political pressure. The World Bank estimates a savings to the Mozambique government of 30 to 40 percent if the procurement system were reformed.

Quite apart from the foregoing discussion of risk, since funds for General Budget Support are deposited in a general fund, the money can easily be spent for non development related activities or disproportionately allocated to a particular region to the detriment of the country's poverty strategy. Approximately 70 percent of Mozambique's budget (including central government payroll and procurement) is spent in the Maputo Region which is relatively more prosperous than other provinces. Such unevenness is not surprising in light of strong, centralized governance and a weak civil society.

To address some of the problems above, the newly developed State Integrated Financial Management System (SISTAFE) will track expenditures which can then be linked to the budget. The system has the potential to provide full transparency and

accountability in the use of public funds. SISTAFE was designed to be a user-friendly, computerized system that would eliminate paper financial records and improve the timing of reporting among ministries and provinces. Most of the weaknesses of the current system can be addressed by SISTAFE, but it needs strong political backing, qualified personnel and adequate equipment to ensure its success. Implementation of SISTAFE is beginning with the Ministry of Education with plans to roll it out to the rest of the ministries and the provinces by 2005. Although donors have much hope for the future success of SISTAFE, some expressed doubt that it could be implemented that quickly or that it would be effectively implemented, especially at the lower levels of the government.

Monitoring Fiduciary Risk

Denmark and Norway are leading an effort among the G-11 donors to design a joint fiduciary risk monitoring system to address their concerns over the present risks and to track changes that minimize risks. The G-11 economists group is working on a proposal and hopes to have a risk assessment system in place in 2004.

One approach to monitoring fiduciary risk is to ask a set of simple questions³:

- Is reporting accurate and timely?
- Do actual expenditures match budget allocations?
- Has value for money and transparency been demonstrated in procurement?
- Have the objectives for which funds were allocated been achieved?
- What progress has been made towards improving financial management?

The tools that can be used to answer these questions include the government's own reports, supplemented by other sources such as independent audits. Monitoring should tie into the government's budget and reporting cycle and its poverty reduction moni-

³ Department for International Development. March 2002. "Managing Fiduciary Risk When Providing Direct Budget Support."

toring framework. Appropriate government reports may include⁴:

- In-year financial reports
- Annual audited accounts of government expenditure
- Expenditure tracking surveys
- National statistical surveys
- Reports from the apex audit institution
- Reports from parliamentary scrutiny committees.

What happens if the results show weaknesses or system failures? Some donors warn against modifying

or stopping funding during the current fiscal year, as an interruption of funds would harm development momentum by sharply reducing government revenue. Regular monitoring should identify problems early so they can be addressed. If adequate progress is not made, then funding should be reduced in the following year. The key is to link future funding to the achievement of specific results in the current year. The approach only works if donors and the government agree on specific performance standards and if there are specific and painful penalties for failure to perform. The key to performance-based assistance is to have reliable and up to date financial accounting systems. Presently that information does not exist. Hopefully, it will be available through the integrated financial management system—SISTAFE.

⁴ Department for International Development. March 2002. "Managing Fiduciary Risk When Providing Direct Budget Support."

Development Management

Country management of donor assistance is complicated by the donors' relationships with their own headquarters. Some donors, notably the Nordic countries and the EU are very centralized and have limited decision-making power in the field. Other field offices are fairly independent, or serve as their headquarters' resource on planning, such as USAID, DFID and Dutch aid. In implementing General Budget Support, the British have a strict mandate to go forward and the operational freedom to take the lead among donors. Others, such as the Italians and the Portuguese, are very much in pilot mode, with a range of domestic policy and budget concerns to consider. Thus, despite an agreement in principle among donors to agree on common GBS procedures and assessment frameworks, political realities often require additional layers of accountability and reporting through separate bilateral agreements.

Staff Time and Transaction Costs

Whether General Budget Support or other non-project assistance approaches demand more or less host country and donor staff work is still a matter under discussion. Most analysts find that the switch to budget support increases staff time and costs for both the donors and government at least in the planning phases. For example, donors spend a great deal of time analyzing the macro environment, collaborating as a group, in discussions with government officials and working with outside experts on institutional reforms in procurement, human capacity development, oversight, and measures to reduce corruption. Equally important, government officials devote their time and effort to developing plans and agreements that work with individual donors' agendas, establishing the necessary reporting, monitoring and assessment capacities, and responding to donor concerns. To the extent that donors are able to har-

monize their requirements, perhaps using General Budget Support as a model, the host government's workload can be reduced.

Though the transaction costs to donors of managing multiple projects may be reduced by the switch to General Budget Support or other forms of non-project assistance, donors still need up-front policy, program analysis and financial analyses. However, unlike other assistance approaches, including project assistance, there is less of a need for donors to do audits, project management, engineering and logistics planning.

Country Ownership of the Development Process

The Dutch and the British development agencies are advocates of GBS and argue with other donors and with their own governments that General Budget Support will result in more rapid and permanent change. They hypothesize that once development activities are brought into the government's budget and planning processes, host governments will have the means to institutionalize their poverty reduction and development approaches. The country then takes ownership of the process and develops its own planning and implementation abilities. At the very least, budget support forces government ministers to work together to determine priorities and lobby for funding from the Ministry of Planning and Finance, rather than competing for different funding streams directly from the donors.

In Mozambique there are a number of tools for policy dialogue: the PARPA as a guide and economic plan, the Performance Assessment Framework as a monitoring tool, a proposed annual fiduciary risk assessment, an annual Joint Donor review, and ongoing technical assistance to improve capacity, among others. Technical assistance continues to be

devoted to reforming financial management, linking the budgeting and planning processes, improving procurement and solving ongoing corruption and financial sector problems. Several donors referred to the government's Performance Assessment Framework matrix as the best tool for assessing the outcomes of General Budget Support. The Joint Donor Review (the G-11's coordinating mechanism), recommends its adoption as a common framework for donors. As a government product, the donors view the Performance Assessment Framework positively. It was undertaken in close cooperation with them and other stakeholders.

Donor Coordination

When donors began to coordinate their humanitarian assistance during Mozambique's protracted civil war, foreign aid grew to more than half the country's GDP. In the years just after the war, when there were many donors, the country was known colloquially as the "Donor's Republic of Mozambique." Two of the reasons donor coordination works well in Mozambique may be the leadership capability of specific individuals and strong personal relationships between individual donors' representatives. Donors consistently cite their coordination and collective impact as one of the principal arguments in favor of participating in General Budget Support.

Donors also coordinated on disaster relief, balance of payments support and other non-project mechanisms. They parceled out responsibility for assistance to reach each of the country's ten provinces and for particular sectors. This division is still perceptible if one examines donor activity by province. Donor activities evolved into several coordinating mechanisms:

- the Development Partners' Group at the ambassadorial level;
- the Paris Consultative Group at the international headquarters level;⁵
- the G-11, which includes GBS donors at the operational and ambassadorial level; and

5 Consultative group materials for the 2003 annual meeting available at <http://www.worldbank.org/afr/mz/>

- various sectoral and thematic support groups, in agriculture, health, education, water, energy and roads generally centered around SWAp discussions, but also on budget, fiduciary risk, procurement, infrastructure, private sector development and disaster preparedness.

The G-11 has a continuing dialogue with the government on its development policies and budget and has successfully pushed for better policy planning; improved public financial management; establishment of process and outcome indicators for each sector; better budget execution; tax reform and; and procurement reform. The G-11 has not been as successful with financial sector reform or efforts to reduce corruption.

Despite their common agreement on the utility of General Budget Support and the progress made in monitoring and evaluation, G-11 members emphasize their different concerns about its practice and have not yet completely harmonized their coordination efforts. The Nordic countries and the US (in its "observer" capacity), for example, continue to be wary, focusing on corruption, the need to demonstrate results and fiduciary risks such as inadequate accounting systems, budget leakage and the ongoing banking scandals. Donors also have different approaches to measuring fiduciary risks and the degree to which they believe they should scrutinize budget and disbursement allocations. Finally, though there is a broad agreement between the government and donors, each donor employs different disbursement mechanisms, conditions and processes. Furthermore, despite a belief in harmonization, many donors have separate bilateral GBS agreements with additional issues addressed — usually in response to domestic policy concerns. This complicates the process and seems to run counter to the underlying philosophy of GBS.

Technical and Management Skills

Government technical capacity is not improving very rapidly, as new entrants into the labor pool prefer to enter the private sector or the NGO commu-

nity rather than government. In addition, with total university attendees at only about 11,000 nationwide, it is difficult to imagine how the pool of those with technical and management skills will be increased. Unfortunately less than 3 percent of Ministry employees have a university degree. In the provinces and districts, the proportion of government staff with advanced degrees is much lower. Unlike other African countries, there is no large pool of trained Mozambican expatriates living abroad that can be enticed to return and contribute to their country's development. In fact, most workers abroad were semi-skilled and unskilled workers in the South African mines or in East German factories. Their return, due to changes abroad, has put additional strains on the country's social system.

At the same time systems are being put in place that can be operated by relatively unskilled staff, as long as the infrastructure is in place to allow it to operate. On the expenditure side, the State Integrated Financial Management System (SISTAFE) is expected to improve accounting and reporting. Training will be organic, with users that adapt easily tapped to train additional users. Where there are insufficient computers or electrical power, the system can be followed on paper, and data can periodically be entered electronically at technology centers.

On the monitoring and evaluation side, the Performance Assessment Framework for the PARPA institutionalizes data collection in support of the development agenda. Ministries have clear responsibilities for data collection and reporting, and continue to receive some data analysis assistance from organizations such as The International Food Policy Research Institute.

Government Institutional Capabilities

Donors give the government high marks for doing an excellent job producing its Performance Assessment Framework. In addition, they applaud the efforts of the Government commission on civil service reform, but some doubt its ability to carry out its ambitious reform agenda.

The World Bank agreed to extend a Poverty Reduction Support Credit, in large measure because of improvements in the government's planning capabilities. This credit will provide \$50-\$60 million annually of General Budget Support and will replace much of the Bank's sector support. Likewise, the IMF worked with Mozambique to finalize a Poverty Reduction and Growth Facility, a General Budget Support mechanism that emphasizes macroeconomic stability and growth along with financial and public sector reform as tools in fighting poverty.

Decentralization

The strongest institutional capacity, at least in planning and budgeting, resides in the Ministry of Finance, but this capacity may be limited to the most senior levels. Anecdotes abound about the Ministry's difficulties in coordinating with sector ministries, delays in allocating funds to the provinces and budgeting errors that take months to correct. Similar technical capacity, at least for planning, management and assessment does not appear to extend to the sector ministries (with the exception of the PROAGRI staff), and becomes even thinner at the provincial and municipal levels. There is also a serious concern about the central government's ability to move funds out to the provinces in a predictable and consistent manner. In addition, government processes, such as procurement and tax collection, are in the early phases of reform. Finally, some donors believe the national statistical agency lacks strong data gathering capacity at the sectoral level, petty and institutional corruption threaten outcomes, and contracting and procurement mechanisms still need improvement system-wide.

When an effective accounting system is in place, it will meet donor concerns regarding financial accountability and the predictability of funding. Even more important will be the benefit to government operations. As part of this assessment, there was an examination of financial transfers from the Ministry of Planning and Finance to the technical ministries and the transfer of funds from the technical ministries to provincial and district activities. There are major gaps and delays in funding. Sometimes no funds are received until the last few months of the fiscal year. Agriculture activities fol-

low a natural weather cycle and not a budget cycle. If funds are not available on time for planting or harvesting, a whole year may be lost. The disbursement problems for government health and HIV/AIDS lead to delays in health service deliveries increase illness and death rates. As a consequence, people have little confidence in the dependability of government services when they visit a health clinic that has no staff and no drugs.

The Government has succeeded in putting a monitoring and evaluation system in place at the macro level for the poverty plan's social indicators (the Performance Assessment Framework), but there is still no agreement on how to effectively track and measure spending as it flows through the whole system nor how to take corrective action when problems arise. SISTAFE may be the first step the government takes towards establishing an effective public sector financial accounting system.

The Future of General Budget Support in Mozambique

USAID/Mozambique provides project and sector support, but not General Budget Support. Some donors suggest that even a small (e.g., 10 percent contribution) toward budget support would give the U.S. a voice with the legitimacy to participate in the G-11's planning and budget discussions.

Participation would also allow the U.S. increased access to ministry documentation and a vote on the development of instruments such as the Joint Donor Agreement or the Performance Assessment Framework. Other donors are not as sanguine, perhaps because US support at 10 percent might not be viewed as a significant amount to warrant a place at the G-11 table.

Even the most ardent of donor supporters of General Budget Support, admit that their own aid ministries and parliaments are concerned about budget leakages and have slowed disbursements based on these concerns. They recognize that their central government can easily cut out budget support if Mozambique fails to improve its financial management.

At the same time, however, it took a few donors willing to brave the risk to begin a process that provides General Budget Support as a way to influence policies and budget decisions. How that translates to the individual farmer, mother, student or war veteran remains to be seen. If successful, Mozambique will be able to shed its label as the "Donor's Republic of Mozambique," reclaim its full sovereignty, and gain the ability to improve the status of its most vulnerable residents.

Annex 1: The Government's Sectoral Approach and the Role of USAID and Other Donors

Table 3. The Government's Sectoral Approach and the Role of USAID and Other Donors

Country Situation and Government Approach	USAID Program	Other Donor Programs	Role of Budget Support
<i>Sector: Democracy and Governance</i>			
Corruption. Transparency international ranks Mozambique high on its list of most corrupt countries. Local respondents report examples of corruption including high level bank loan corruption and pay-offs to government workers Decentralization. Government has pledged to decentralize and has put planning mechanisms in place at the provincial and sector levels that support this process. But the culture is strongly entrenched in centralized government with extensive service delivery responsibilities. Elections at national levels are generally perceived as free and fair, though with admitted irregularities. Provincial governors are appointed. Judicial weakness. Weakness is multi-dimensional and corruption is pervasive. There is no culture of judicial independence. Individual citizens cannot access lawyers, particularly for defense. There are human rights issues with police and prisons. Family law outcomes are generally perceived to be weighted heavily towards men Media. Media are generally perceived to have been relatively free, although some sectors (e.g. police) have been known to take action in response to critical press. There have been two high profile media-related assassinations and attempts (e.g., the murder of Carlos Cardoso, who was examining a banking scandal touching the highest levels of Mozambican society).	Through SO10, "Municipal Governance Increasingly Democratic," USAID will demonstrate how to repair the disconnect between Mozambican citizens and their governance bodies. This is a small SO for the mission, allowing a coordinating role with civil society. USAID will work in targeted communities to increase participation by citizens and civil society and increase democratic decision making of municipal governments. USAID will bring together municipal communities, including leaders, NGOs, individuals, and private enterprises, to identify and address agreed upon priorities. The lessons learned and models of good governance will be shared with other communities. In the area of corruption, all SOs will work directly with the private sector and NGOs to expose corruption and advocate for adequate and timely government response. SO teams will be able to call on SO10 resources and expertise in the design of anti-corruption efforts.	The World Bank, IMF and other donors are focusing on civil service reform and the SISTAFE financial management system. Others are focusing on eliminating corruption in the banking sector. Denmark is active in the legal sector. The Swedish are focusing on government auditing and oversight capability. Others are focusing on human capacity development, procurement reform, strengthening and expanding monitoring and assessment, the link between budgets and policy.	Strengthening financial management systems is critical to the future of budget support, as even the staunchest supporters must justify their spending to their own parliament and there is a perception that the society is quite corrupt. Support for NGOs is not compatible with budget support, which is provided to government entities. Corruption is a major barrier to unconditional budget support. Improving local governance capacity is crucial to the delivery of grass-roots anti-poverty programs as well as to creating an environment conducive to growth.

Table 3. The Government's Sectoral Approach and the Role of USAID and Other Donors

Country Situation and Government Approach	USAID Program	Other Donor Programs	Role of Budget Support
<i>Sector: Economic Growth, Agriculture, and Trade</i>			
In Mozambique, small family farms using traditional technology produce the majority of agricultural output. There is poor access to improved crop varieties, low use of fertilizers or other yield-enhancing techniques and low use of labor-saving devices or irrigation. To promoted trade, Mozambique needs to work on customs reforms, liberalizing labor laws, improving transport infrastructure, securing access to land, improving tax law and administration, reducing petty corruption, decreasing red tape and increasing access to financial services. Labor-intensive exports are showing an upward trend, reversing two decades of decline. The Government of Uganda, USAID and other donors are pursuing a two-pronged approach to stimulate economic growth and reduce poverty: (1) increase productivity in the traditional agricultural sector and facilitate its transformation; and (2) establish an environment where labor-intensive manufacturing exports can thrive. The first prong reduces absolute poverty in the short- to medium-term and the second sustains high levels of growth and creates employment alternatives to subsistence agriculture over the medium- to long-term. The PARPA highlights the importance of establishing the basic conditions that will accelerate the creation of non-agricultural employment by encouraging labor-intensive industry and small and medium enterprise. Over the last few years, the Government of Mozambique has promoted exports through implementing the SADC free trade area; preparing a Trade Mainstreaming report; building a strong investment promotion agency; taking significant steps in customs reform; implementing tax incentives, supporting export promotion zones; and reducing red tape.	USAID supports economic growth, agriculture and trade through two strategic objectives. <i>SO6 – “Rapid Rural Income Growth Sustained in Target Areas”</i> is the mission's priority SO. USAID will work to increase smallholder sales of agricultural production, expand rural enterprises and improve transport infrastructure. Through this SO, USAID contributes to the PROAGRI SWAp. <i>SO7 – “Labor-Intensive Exports Increased”</i> is the second major prong in the mission's strategy. USAID will work to increase exports, create jobs and improve economic freedom in Mozambique. It will do this by expanding markets for exports, improving the enabling environment for exports, and strengthening the capacity of labor-intensive industries.	Contributors to the PROAGRI SWAp in descending order by disbursements: USAID, EC, DANIDA, Netherlands, Ireland, Sweden, DFID, IFAD, Italy and the World Bank.	Some donors have stopped funding PROAGRI and have switched to General Budget Support. They prefer to see their money going through the Ministry of Planning and Finance, who then sends it to the Ministry of Agriculture and Rural Development, as determined necessary by the government.

Table 3. The Government's Sectoral Approach and the Role of USAID and Other Donors

Country Situation and Government Approach	USAID Program	Other Donor Programs	Role of Budget Support
<i>Sector: Education</i>			
Government spending. Increased almost three-fold since 1999 (\$72 million to \$196 million) Literacy. Despite low achievements and major setbacks during the civil wars, Mozambique has made incredible progress since independence. In 1975, 3 percent of the population was literate. Currently, literacy stands at 48 percent and is increasing. Basic education. Education is compulsory for 7 years, but not enforced. It is free at primary level; not free at secondary, although even at the primary level, students pay a matriculation fee and for books and uniforms and school supplies. The government's plan focuses on a major school construction program, teacher training and combating corrupt activities such as demanding bribes or sexual favors for school entrance, grades or promotions. Secondary education. Nationwide, there is very low enrollment (around 4,100 12th graders in 2000) due to economic concerns, lack of secondary schools and teachers in rural areas, and significant gender disparity in the higher grades, all issues addressed by the national plan. Tertiary and technical education. Mozambique needs skilled people to build the society and the economy. This is addressed, but not strongly, in the plan. There is one large university. It lacks capacity and also lacks linkages with the technical schools. Nonformal education. Post-war, most students were in first grade — carrying some social stigma for older students. Need to address adult learners through non-formal education and vocational training. This is in the plan, but not elaborated upon.	USAID currently does not have a basic education program. USAID's program focuses on human capacity development and includes training in its programs as they relate to specific strategic objectives, such as HIV/AIDS education campaigns, extension worker training, etc. The mission assumes this remains a major part of the government's strategy. It also recommends that the government focus more on non-formal education, given the number of adults who have not been part of the education system, the number of repeaters and the need for vocational and life skills.	Individual bilateral donors are contributing to the education SWAp that is being developed, but also have projects in teacher training, school construction and curriculum development. USAID has been involved as an observer. Progress to date has disappointed the donors, who note a lack of quality in the planning and strategies.	Some donors have pooled resources for school buildings and are preparing an education SWAp. Most donors have considerable concern over slow program progress — centering on the Ministry of Education's lack of capacity to absorb and use funds effectively. SISTAFE is being piloted in the Ministry of Education because this is where the majority (52,000) of civil servants are found. It will not go out to the schools, but at least to the provincial directorates. Bringing education spending on budget and in line with the Poverty Reduction Strategic Plan (PARPA), as measured by the Poverty Assessment Framework, avoids the problem of schools being constructed without access to teachers or materials, an example cited by a World Bank source.

Table 3. The Government's Sectoral Approach and the Role of USAID and Other Donors

Country Situation and Government Approach	USAID Program	Other Donor Programs	Role of Budget Support
<i>Sector: Environment</i>			
Natural resources management. Mozambique's game parks were severely depleted by the war and had limited management capability. However, there are currently efforts to reintroduce elephants, rhinos, etc. (e.g., Gorongosa). Poaching and illegal logging continue to occur, due to inadequate monitoring and corruption. Many natural resources used by the population are not captured in any formal data systems, such as firewood, wild game, fish and medicinal plants. When war or natural disaster stresses the economy or the political situation, the country's natural resources provide virtually 100 percent of the rural population's energy, food, shelter and even clothing. Natural Disaster. El Niño-related drought and flooding in 2002-2002, Mozambique's plan includes improvements in disaster preparedness and mitigation. Regulation. The Poverty Reduction Strategy Plan mentions this, but environment is clearly not a focus in the poverty reduction and economic growth priorities of the government and the donors	USAID has no separate strategic objective for the environment. Environmental efforts are related to agriculture and health. The USAID Strategy has identified the environmental linkage with each new strategic objective, and several of the intermediate results targets. These range from considering the environmental sustainability of work in a specific export sector, to including environmental impact analysis in rural roads development to ensuring proper disposal of blood and blood products under the HIV/AIDS objective. In addition, USAID participates in the regional famine early warning system (FEWS), which was successful in dealing with the drought and flooding. At the program level, USAID provides some support for environmental efforts through private sector and agricultural programs. These include support for eco-tourism such as the linkage of Kruger National Park with Mozambique's national game park as well as re-stocking other game parks. PROAGRI efforts include a forestry component that aims to increase biological diversity, improve forest management and develop forest products exports.	The Nordic and Dutch programs have projects in fisheries, forests and game parks, water and sanitation.	Environment is only addressed in budget support as the government addresses these issues in its budget. Other than that, it is addressed by individual donor and NGO projects. There are few to no environment indicators in the Government's draft Poverty Assessment Framework.

Table 3. The Government's Sectoral Approach and the Role of USAID and Other Donors

Country Situation and Government Approach	USAID Program	Other Donor Programs	Role of Budget Support
<i>Sector: Health</i>			
Government spending: increased from \$59.7 million in 1999 to \$89.4 million in 2001 Primary Care. Lack of access to clinics, vaccinations, and basic care providers result in sobering statistics (e.g., 25 percent of children die before age 5). Corruption further hinders the delivery of the services that do exist. AIDS. Mozambique is one of 10 most affected countries, with 13 percent of the population infected and an estimated 1 million AIDS orphans. Overall life expectancy is now reported at 40 for women and 38 for men, and it is dropping. Lack of access to clean water. According to the UNDP, 37 percent of the overall population lacked access to clean water. Additional health sector problems include malaria, tuberculosis, leprosy, women dying in childbirth and malnutrition	USAID's strategy puts priority on health sector development, primarily maternal and child health and HIV/AIDS prevention, all of which are noted as priorities in the Government's poverty plan. In addition, the Mission will work to combat petty corruption among health care workers. USAID's program concentrates on technical assistance and public awareness and education campaigns. With the new Presidential Initiative on HIV/AIDS, pharmaceuticals will be provided. The strategy assumes donor coordination, and expects others to work on the assignment of additional technical personnel to the health sector along with their promotion of "healthy behaviors."	27 donor agencies or lending institutions providing pooled support of more than \$100 million to import drugs. And for provincial-level health efforts.	A newly established SWAp provides additional on-budget sector support (in local currency). The USAID program cannot contribute to this SWAp, but is providing technical assistance to develop stronger financial management in the sector (compatible with SISTAFE) and to maintain a forum with donors involved in the SWAp The Performance Assessment Framework for the PARPA contains multiple indicators to track progress in this sector, along with indicators to track spending down to the provincial level. Many donors continue to hedge their General Budget Support bets through provincial projects.

Table 3. The Government's Sectoral Approach and the Role of USAID and Other Donors

Country Situation and Government Approach	USAID Program	Other Donor Programs	Role of Budget Support
<i>Sector: Women and Gender Equity</i>			
In spite of attempts to foster greater gender equity in Mozambique, the majority of women, especially rural women, have not experienced significant positive impacts. The Government of Mozambique has demonstrated some commitment to the integration of women into the political and economic processes of the country. The PARPA has a focus on gender and gender working groups were created in both the agriculture and health sectors.	USAID will emphasize women and gender equity in all of its SOs. Interventions by USAID include: <i>SO6.</i> Women will be beneficiaries of improvements to family farming, and market information will be made accessible to women, <i>SO7.</i> Ensure that labor standards are applied and policy research conducted to support gender equality. <i>SO8.</i> Expand the concept of health to include the stages of a woman's life cycle. Include men and youth in reproductive and maternal health campaigns. <i>SO9.</i> "Community leaders" will include influential women as well as individuals who demonstrate an interest in contributing to behavior change at the community level. Gender issues will be a central part of advocacy campaigns. The disproportionate burden of community and home-based care falling on women and girls will be addressed. <i>SO10.</i> Address some of the reasons why women have less access to information about their rights and fewer opportunities to participate in decision making. Ensure that community councils effectively incorporate gender issues into their development plans and promote women's participation in the formulation, implementation and monitoring of the plans.		

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Annex 4. Alternative Assistance Approaches

Definitions And Typologies

Depending on the type of development problem being addressed, and the country situation, there are a number of different ways to deliver assistance. USAID can choose from a variety of assistance techniques to find the best mix that is suited to a developing country's special conditions and needs. Before doing that, it is important to define what each type of assistance includes and the benefits and drawbacks of different techniques.

Balance of Payment Support⁶

USAID provides a resource transfer, in the form of foreign exchange (cash transfer) or a commodity import program. It is designed to promote economic or political stability. It works best when it supports short- and medium-term economic or political stabilization through measures that address immediate gaps in the country's balance of payments or budget.

Filling a balance of payments or budget shortfall makes the most sense when the rationale is political, or when the shortfall is temporary. It must be linked to policy reforms that will close the gap by restructuring the national economy. Policy reforms have benefits but they also have costs. USAID resource transfer mitigates the possible short-term drop in consumption and production that sometimes occurs as policy reforms are adopted. While there are economic groups that will benefit from reforms, others may be hurt. Potential policy losers often try to subvert reforms. Balance of payments support is rarely successful over a long time period or in countries that are unwilling to change their policies and institutional environment.

⁶ "USAID Policy Paper on Program Assistance." PN-ACD-317, February 1996.

Sector Program Assistance⁷

A sector includes a set of economic activities unified by a common output narrow enough to have an analytical identity and broad enough to encompass significant investment and policy issues. It can refer to a broad area such as agriculture, industry, education, health, exports; or it can refer to a sub-sector such as agricultural marketing, health care financing or child survival. This type of assistance focuses on sector constraints to sustainable growth. It supports the implementation of reforms and other actions to break those constraints. Sector assistance enables the government to offset the short-term costs of sectoral policy reform. Disbursement of USAID resources is always linked to fulfillment of conditionality, previously agreed to by USAID and the host government.

Sector Wide Approach (SWAp)

A SWAp is an unusual acronym, with capital and lower case letters. It is also not the same as sector program assistance. Sector program assistance includes an agreed policy and expenditure plan for a sector. USAID disbursements are dependent upon the government meeting the agreed conditionality. An individual donor usually negotiates its own sector agreement. In contrast, a SWAp aims to coordinate all donor assistance in support of a common sector expenditure program. SWAp financing typically includes a range of donor budget support, project aid and technical assistance, which may or may not be earmarked to specific expenditures or disbursed through the government's own budget process. The defining characteristic of a SWAp is that donor funding for a sector supports a single sector policy and expenditure program. The govern-

⁷ Ibid.

ment provides the leadership and donors adopt a common approach to support the government's effort.

General budget support

This type of assistance is much like balance of payment support since it supports structural adjustment and policy reforms. But in contrast to balance of payments support, it focuses attention on the local currency counterpart to the foreign exchange, rather than the foreign exchange itself. The main focus of conditionality is on an agenda of policy measures which the government has agreed to implement. They typically include agreement on overall budget priorities, as set out in a medium term budget and expenditure framework. With agreement on the budget as a whole, there is no need to earmark specific aid flows to specific country expenditures. Funds are disbursed to the host government's national budget. Since support is for the budget as a whole, accountability is based on government audited accounts of its total revenues and expenditures.

Project aid

A project focuses on a limited set of activities where inputs can generate outputs and achieve a higher order purpose or goal. It identifies a problem such as low crop yields. It then analyzes the problems that are holding back productivity: inadequate technology, lack of trained manpower, limited markets, high transport costs and lack of needed inputs.

It then identifies the most critical problems and devises solutions: development of high-yield seed, training agriculture extension agents, and providing fertilizer. It may decide that other projects will have to deal with markets, transportation, policies and regulatory reform. The project may provide technical experts, manpower training, fertilizer and a research farm to develop new seed varieties. USAID works closely with the government as it designs and implements the project. USAID usually uses its own procurement, disbursement and accountability procedures. The project may or may not be included in the government's budget. The project may be implemented by a U.S. institutional contractor, a U.S. PVO or a local NGO.

Projects are closely monitored by USAID officers in the particular country. USAID has a set of tools that protect development assistance funds from financial irregularities and corruption. Projects are implemented through contracts, grants, or credits to recipient government agencies, private voluntary organizations, consulting companies, or other private sector institutions. This form of assistance is in contrast to the direct transfer of funds to a country government, whether through block grants, balance of payments assistance, or direct budget support.

Which approach to use? "It all depends upon the situation, other things being equal."

"The appropriate mix of aid instruments depends mainly on the degree of consensus on policies and the capacity of the recipient to implement them. Policy is understood to refer to actions rather than merely words, and capacity is understood to encompass not just technical capacity but the ability to adhere to standards of good financial management and good governance."⁸

The choice of aid instruments depends upon the confidence USAID has in the developing country government's management and development policy framework. When the government lacks skilled managers, has weak financial controls, poor accountability, corruption, and weak policies and institutions — then projects make the most sense.

8 Foster, Mick and Leavy, Jennifer. "The Choice of Financial AID Instruments." Overseas Development Institute, London. October 2001.

Annex 5. USAID Experience With Non-project Assistance

Projects are donor-run and donor-managed. They provide technical experts and training to solve a specific development bottleneck. Projects are fine but if there are problems with institutions and policies, another approach may be needed. A road can be built but if transport policy fails to stop overloaded trucks, fails to raise funds and does not maintain the road, the road will wash away. If nurses are trained but healthcare financing, drug supplies and clinics are not available, the trained nurses will not solve health problems. When USAID provides project assistance it is not part of the host government's broader program decisions or budget process. In contrast, with program assistance it gains a seat at the policy table and can work with the government on the many interrelated problems that harm development. Program assistance can solve problems that individual projects can not address.

Over the years, USAID's portfolio has included a substantial share of non-project assistance — cash transfers, budget support, policy reform grants, sector support, PL-480 Title I and commodity import programs. They have supported both macroeconomic policy reforms (foreign exchange, credit, investment, and privatization) and sectoral policy reforms in agriculture, education and health. In the last 15 years non-project assistance has been used extensively by the Africa Bureau. The Development Fund for Africa (late 1980s) is a good example of balance of payments support. USAID provided cash transfers to African governments that implemented policy reforms. This was a dramatic change from the previous use of USAID managed-projects. There have been a number of policy-based programs in other regions. A review of 60 USAID evaluations covering sector, budget support, and cash transfer programs in several regions generated a number of helpful insights.

1. Staff requirements. Projects rely on project managers and a number of technical experts to design and implement development activities. One of the key assumptions about budget support was that it would reduce staff requirements for both USAID and the host government. Giving a check to the government to implement policy reforms should be simple. But in fact, both the design and implementation of policy reform programs proved to be very staff-intensive for both USAID and host governments.

Since policy reform is designed to change institutions, it requires extensive technical, economic, social, political and institutional analysis during planning and implementation of the reforms. There is also a need for senior level staff to both analyze the development problems and to design reform programs. As the programs were implemented new questions and problems usually came to the surface, requiring new analysis and new solutions.

A 1991 CDIE evaluation of Africa cash transfers supporting policy reform found that: "Policy reform was staff-intensive for both A.I.D. and host governments. Compared with traditional projects, it required more senior management time and attention and placed greater demands on professional staff for more sophisticated monitoring of policy reform implementation." A 1999 world-wide health policy reform assessment found that: "...the analysis needed to design a health policy reform program was much more extensive than project assistance." A 1997 Africa Bureau evaluation of non-project assistance found that: "Experience with a wide range of sectoral programs indicates that management burdens have been underestimated. There is also a lack of host country ministry institutional capacity to address the managerial and technical requirements of non-project assistance."

2. Donor coordination. Coordination was a problem when donors had different ideas about policy issues. Even with high level strategic agreement, donors often had different agendas that created implementation problems. A 1996 Africa Bureau review of non-project assistance found that: “A key aspect of success or failure in program design is the degree of harmonization among donors and host country officials in setting clear and consistent sectoral objectives. Multiple donor agendas and bilateral special country interests are often counterproductive.” The 1991 CDIE evaluation of Africa policy reform found that: “Every donor is in favor of improved donor coordination. However, agreements reached among donors at donor meetings in Paris may not provide the answers to in-country implementation issues. Donors at times had differing agendas and were pressing for inconsistent and conflicting policy changes.” A final problem was identified in an Africa education sector review. When there are a number of donors and it is difficult to get agreement on a set of policies, there is a tendency for conditions to become diluted and watered-down.

3. Donor funding. USAID operates with an annual budget. It usually forward-funds a 5-year project to cover construction, equipment and contract staff. Cash-transfer policy reforms are also funded over a number of years. But it is much easier to reduce or stop a planned series of cash transfers when performance or politics are a problem. A developing country is expecting multi-year support for a series of institutional and manpower changes. A vote in the U.N. that goes against U.S. interests or problems with a neighboring country may bring a political halt to U.S. aid flows. Or, after a year or two, USAID may move on to other priorities or other approaches. That happened in USAID’s Africa program. In the late 1980s, USAID planned to switch its whole Africa program from projects to policy-based cash transfers. However, by the early 1990s the opposite happened — it was moving back to projects.

When donors provide their agreed budget support they expect the host government to provide its share. However, an inefficient tax-collection system

or economic troubles may mean that it fails to provide its share of the budget. That puts USAID in a quandary. Does it cut back or stop funding, and lose the momentum and development benefits, or does it try to negotiate a revised approach with the government. USAID had never been able to develop universal guidance to deal with this problem.

4. Fiduciary capabilities. A developing country needs to use funds effectively and be able to account for all of the money provided by the donor. In particular, donors are concerned about corruption. Large cash transfers to a government budget can be risky if the host government has weak accounting and performance standards. Embezzlement is the most visible. But there can also be a large discrepancy between budgeted amounts and actual expenditures — where funds mysteriously evaporate on the long bureaucratic journey to a rural classroom or health clinic. And finally, there is the quality of expenditure results. What if teachers rarely show up to teach, roads are poorly constructed and health centers lack drugs and trained staff. The next section looks at measurement of results.

5. Measuring results and impact. With basic recordkeeping, aid projects can demonstrate benefits. A project can show that so many children were vaccinated; students graduated; or so many miles of roads were built and annually maintained. In contrast, even with a good monitoring system, with a policy reform program, it is difficult to measure the overall level of impact let alone beneficiary benefits. The linkage or causality of aid and results is difficult to establish. Did the change in credit policies generate increased agricultural output or was it the availability of inputs, weather, or changes in commodity prices?

The 1991 CDIE Africa evaluation found that: “Policy reform is a continuing process requiring constant monitoring and adjustment as unexpected effects of each new policy emerge. Developing countries need to develop their own internal capacity to analyze and set their own policy reform agenda. A.I.D. technical assistance can help develop that capacity. The political-economy of policy reform is critical to success. Since reforms are designed to

change institutions and structural relationships, it is important to have a monitoring system that will demonstrate the benefits of reform while also helping reformers respond to complaints and arguments that come from those who are hurt.”

In most countries monitoring and evaluation capability was weak, particularly when it had to link policy changes to beneficiary impact. That meant that both the country and donors failed to fully understand the problems and were often unable to measure success or make adjustments to correct problems. There were evaluations of programs that included a successful monitoring effort. The 1997 Zimbabwe grain marketing reform program noted that sustainability was supported by institutionalizing monitoring capability within the recipient country. A 1995 evaluation of child survival in the Philippines found that: “Service-delivery indicators need to be selected with care and investments made at the start of the program to obtain accurate baseline measures that are comparable and reliable.”

6. Demonstrating results to Congress. USAID’s 1980s Development Fund for Africa used cash transfers to support policy and institutional reforms. It was a major departure from the traditional project approach. The first step was convincing Congress that monitoring and evaluation systems at the sector or macro level would be able to provide indicators of performance. Congress accepted the approach. However, not everyone was completely willing to support this approach. Many congressional staffers were used to projects and the types of results that projects produced.

Macro and sector level impacts could be measured but it was difficult to provide tracking to the grassroots level. In several countries there were many donors and it was impossible to assess a single actor’s contribution.

Congress wanted to know how many people were benefiting from the changes and how they benefited. They wanted a link to U.S. assistance. Initially they asked for a few procurement, implementation and results measures. After a few years, concern about benefits increased. Congress became steadily

more demanding, asking for a detailed accounting of results. Within a few years cash transfer programs became more and more like regular USAID projects. The lesson seems clear. If USAID is to provide cash transfers it needs to develop an agreement early-on with Congress on the types of indicators that can be provided to show results. If Congress wants to see micro-level changes and impact linked to U.S. assistance, projects may be the preferred route.

7. Supporting technical assistance and training.

Reform is most successful in countries that already embrace policy reforms and where there is a well-developed institutional capability for analysis. In countries facing human resource constraints and dysfunctional bureaucratic procedures and systems, program assistance stands little chance of success. Programs failed where governments lacked the institutional capacity to design and implement programs. Where the country had the will but lacked the skills, technical assistance often solved the design and implementation problems. However, sustainability could still be a problem if indigenous analytical capabilities were not institutionalized.

Evaluations repeatedly found that the amount of technical assistance needed to assure successful policy and institutional reforms was directly related to the capacity of the host government to design and implement reform programs. Programs that recognized the need for TA and training were much more successful. A 1999 evaluation of USAID’s Zimbabwe Basic Education and Skills Training sector assistance found that significant long-term training and staff development (over a decade) helped assure that policy reforms and improved government capabilities were successfully adopted. A 1997 sub-Saharan Africa girl’s education assessment urged other programs not to skimp on technical assistance. It also recommended assisting governments to pursue research at the design stage of new programs — rather than waiting until the programs were nearly finished. In a 1996 review of USAID non-project assistance in Benin, Ghana, Malawi, Uganda and Zimbabwe the evaluation stated: “Although the centerpiece of sectoral assistance is a generalized resource transfer, USAID’s programs in Africa typi-

cally include corresponding technical assistance and training (capacity building) components. The highly effective use of non-project and project instruments addresses the very issue of sustainable development.”

There can be a problem of dependency. When technical assistance ends, it is important to make sure that skills have been transferred. The 1991 CDIE evaluation of policy reform in Africa found that: “Programs that developed the internal policy reform capacity of the host country helped build long-run policy reform sustainability.” Technical assistance by itself is not enough. In the case of Uganda, the Export Policy Analysis and Development Unit became dependent upon a long-term policy advisor. At the end of his assignment he left the country. His skills were not transferred and the unit was not able to carry on.

8. Policy reform performance and conditionality.

At the start of the policy reform process the government and donors need to mutually agree upon performance conditions that reflect the policy framework and country strategy. An Africa girl’s education assessment urged: “...donors to use very specific language to define performance criteria. Vague or multi-targeted approaches just create problems.”

While stressing the need for specific performance measures, it also called for flexibility. It recommended using a “letter of intent” approach that sets conditions on a rolling basis rather than establishing them at the design stage for a five-year period.

Economic and political conditions change and USAID needs to avoid locking in conditions that may be inappropriate in just a few years. A 1996 CDIE evaluation of world-wide investments in agriculture *recommended against using non-project assistance to force policy change*: “USAID should provide non-project assistance to support economic policy reform only in countries where it will be used to facilitate a policy reform processes *already underway*.” A 1995 basic education evaluation found that “Conditioned budgetary support has leveraged significant changes in resource distribution and basic education policy. But it is questionable whether the new changes are sustainable without outside assistance and pressure.” A 1995 child survival evaluation in the Philippines found that “Performance-

based non-project assistance can achieve health sector goals in the Philippines since there is broad donor-host government consensus on needed reforms, sincere commitment to implementing these reforms and a highly capable and trained implementing agency.”

Annex 6. General Budget Support Interview Protocols

Questions for Donors

General Questions:

Please describe the assistance you give to (country name).

What share is GBS/sectoral/project assistance?

Why was this method (or combination of methods) of delivery chosen?

General Budget Support Questions:

Development Policy and Planning

How can general budget support increase country ownership?

What is the best way to increase country ownership?

How do you measure country commitment?

How do you ensure that critical development issues (child survival, HIV/AIDS, education, democracy and governance, civil society, private sector development, trade, investment, etc.) are included in government plans?

Are economic growth and private sector development (including investment and trade) included in government programs?

If yes:

Are they effective?

Do you press for policy reforms when providing general budget support?

If yes:

How do you work with other donors to influence policy reform?

How do you work with the government to influence policy reform?

What policies do you target?

How do you select policy reforms?

How do you press for these reforms?

How do you monitor progress towards the reforms?

What happens if the reforms are not achieved?

What is the role of technical assistance and training in making GBS more effective?

How do you and the host government determine what assistance is needed?

Is sector or project assistance more appropriate? Why? Under what conditions?

Finance

How are you assured that your general budget support is additional, and not in place of existing government funding?

How timely and predictable is government (and donor funding) under GBS?

What has happened to military and other non-development funding? Does GBS allow the government to divert its own funds to non-development uses?

What financial skills do the host government officials need?

What minimum level of audit and financial control are necessary?

What methods have proven most effective at improving financial transparency?

What indicators of corruption and misappropriation of funds do you use to assess performance?

Development Management

Does GBS require more or less staff time than project or sector assistance (from both donor and government perspective)?

Does GBS reduce donor and government transactions costs?

What are the necessary host country technical skills for staffing development programs in a wide range of technical fields (agriculture, health, HIV/AIDS, education, etc.)?

How do you measure and assess capabilities?

Beyond individual staff and skills, do government organizations have other problems that hamper their capacity to effectively deliver services to the people?

If yes:

Please describe the problems.

What alternative approaches should donors pursue to address the problems? (For example, use local NGOs or U.S. PVOs and contractors?)

How do you measure general budget support performance and beneficiary impact?

What monitoring and evaluation systems are required?

How do you measure the impact on poverty?

How do you demonstrate results to Congress (or parliament)?

What performance standards are appropriate for each development sector?

Do you involve local organizations in monitoring government performance?

If a country is not yet ready for general budget support, would sector assistance or other approaches provide an interim step?

What direction do you see aid delivery taking in the future?

Sector Support or Project Aid Questions:

Why do you provide this type of assistance instead of (or in addition to) general budget support?

Are you moving towards providing general budget support in (country name)?

If yes:

Please describe what needs to be accomplished before general budget support is granted.

What is your time frame for the transition to general budget support?

If no:

Why not?

What is your opinion of the movement towards providing general budget support in international aid?

What are the advantages of general budget support?

What are the drawbacks of general budget support?

What direction do you see aid delivery taking in the future?

What happens to donors that do not provide budget support?

Do they really miss out on policy discussions?

Do they really miss out on donor coordination?

Are there benefits for both the donor and country of not providing budget support?

Questions for the Government

General Questions:

Please describe the assistance you receive from bilateral and multilateral development agencies.

What share is GBS/sectoral/project assistance?

What kind(s) of assistance do you prefer?

Why?

General Budget Support Questions:

Development Policy and Planning

Does general budget support increase your ownership over your country's development process?

If yes:

Why/How?

Is GBS the best way to increase country ownership?

If no:

Why not?

What is the best way to increase country ownership?

Which development issues (such as child survival, HIV/AIDS, education, democracy and governance, civil society, private sector development, trade, investment, etc.) do you include in your development plans?

If economic growth and private sector development (including investment and trade) are included:

Are they effective?

Do donors press for policy reforms when providing general budget support?

If yes:

What policies are targeted?

How do you select policy reforms?

How do you monitor progress towards the reforms?

What happens if the reforms are not achieved?

Do you receive technical assistance and training along with general budget support?

If yes:

What kind?

How do you and the donors determine what assistance is needed?

Is sector or project assistance more appropriate? Why? Under what conditions?

Finance

How do you make sure that general budget support increases and does not replace existing government development funding?

What has happened to military and other non-development funding? Is there a problem?

How dependable or timely is donor (and government funding) under GBS?

What has happened to military and other non-development funding?

What financial skills does your government need to administer general budget support?

Are there areas where your financial skills need to be strengthened?

What level of audit and financial control are required by donors for general budget support?

Do you think this is necessary?

Should there be more or less auditing and financial control?

What methods have proven most effective at improving your government's financial transparency?

How do you monitor corruption and misappropriation of funds?

Do donors have any requirements on monitoring corruption?

Development Management

Does GBS require more or less government staff time than project or sector assistance?

Does GBS reduce government (and donor) transactions costs?

What technical skills do you feel you need to staff development programs in a wide range of technical fields (agriculture, health, HIV/AIDS, education, etc.)?

How do you measure and assess capabilities?

Are there any areas where your technical skills need to be strengthened?

Beyond individual staff and skills, are there other problems that hamper your government's capacity to effectively deliver services to the people?

If yes:

Please describe the problems.

What should your government do to address these problems?

What should donors do to address the problems?

How do you measure general budget support performance and beneficiary impact?

Do any of your monitoring and evaluation systems need to be strengthened?

How do you measure the impact on poverty?

What performance standards are appropriate for each development sector?

Do you involve local organizations in monitoring government performance?

Are sector assistance or other assistance approaches, such as project aid, good interim steps before receiving general budget support?

Sector Support or Project Aid Questions:

Why do you receive this type of assistance instead of (or in addition to) general budget support?

Are you moving towards only receiving general budget support from all donors?

If yes:

Please describe what needs to be accomplished to achieve this goal.

What is your time frame for the transition to general budget support?

If none :

Why not?

What is your opinion of the movement towards providing general budget support in international aid?

What are the advantages of general budget support?

What are the drawbacks of general budget support?

What direction do you see aid delivery taking in the future?

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