

Mokoro Ltd

**Putting Aid on Budget:
A Case Study of Mozambique**

**A Study for
the Collaborative Africa Budget Reform
Initiative (CABRI)
and
the Strategic Partnership with Africa (SPA)**

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Abbreviations and Acronyms

ADE	(System of) Direct Support to Schools
AfDF	African Development Fund
AOB	Aid On Budget
ASA	Open Society Association
BER	Budget Execution Reports (REO – Relatório de Execução Orçamental)
CGE	General State Accounts (Conta Geral do Estado)
CPF	Commission for Planning and Finance
CPIA	Country Policy and Institutional Assessment
CRESCER	Programme for Refresher training and on-the-job training
CUT	Single Treasury Account (Conta Unica do Tesouro)
DAC	Development Assistance Committee (of OECD)
Danida	Danish International Development Agency
DCD-DAC	Development Cooperation Directorate
DFID	Department for International Development (UK)
DNA	The National Water Office
DNCP	National Budget Directorate
EIB	European Investment Bank
FASE	Education Sector Common Fund
FCM	Common Fund for Medicaments
FCP	Provincial Common Fund
EC	European Commission
GBS	General Budget Support
GDP	Gross Domestic Product
GFATM	Global Fund to fight Aids, Tuberculosis, and Malaria
GOM	Government of Mozambique
GTZ	German Technical Cooperation Agency (Deutsche Gesellschaft für Technische Zusammenarbeit)
IDA	International Development Association (WB)
IGF	Inspector General of Finance (Inspeção Geral de Finanças)
IMF	International Monetary Fund
IT	Information Technology
M&E	Monitoring and Evaluation
MOF	Ministry of Finance
MPD	Ministry of Planning and Development
MTFF	Medium Term Fiscal Framework
MOU	Memorandum of Understanding
NGO	Non-Governmental Organisation
OE	State Budget
OECD	Organisation for Economic Co-operation and Development

ODA	Official Development Assistance
ODAMOZ	Provides information on ODA to Mozambique
OP	National Poverty Observatory
OPEC	Organisation of the Petroleum Exporting Countries
FRELIMO	Mozambican Liberation Front
RENAMO	Mozambican National Resistance
PAF	Performance Assessment Framework
PAIGN	Programa de Apoio Institucional ao Governo do Niassa (Institutional Support Programme to the Provincial Government of Niassa)
PARPA-II	Mozambique's PRSP/Strategy for the Reduction of Absolute Poverty (II)
PAP	Programme Aid Partners
PES	Economic and Social Plan
PFM	Public Financial Management
PROAGRI-FC	Agriculture SWAp
PROSAUDE	Health SWAp
PRSP	Poverty Reduction Strategy Paper
Sida	Swedish International Development Cooperation Agency
SISTAFE	Integrated System for State Financial Management
SOE	State Owned Enterprise
SPA	Strategic Partnership with Africa
SWAp	Sector-Wide Approach
UN	United Nations
USAID	US Agency for International Development
USD	United States Dollar
UTRA	Customs Reform Organisation
UTRE	The Government of Mozambique's Privatization Centre
URTI	The Government of Mozambique's Tax Reform Unit
UTRAFE	Technical Unit for Reform of State Financial Administration
UTRESP	Technical Unit for Public Sector Reform

This case study is mostly based on a desk-based review of existing Mozambican literature on the topic and on the author's past professional experience in Mozambique in various capacities. The report greatly benefited from the comments given by Jolke Oppewal, economist at the Embassy of the Netherlands, and Alvaro Loveira, from the Ministry of Finance. Also from the support and comments received from Stephen Lister and Rebecca Carter at Mokoro Ltd. The usual disclaimers regarding responsibility for the content of this report apply.

1. Introduction

1.1. Coinciding with the signature of the Paris Declaration on Aid Effectiveness (OECD, 2005b), donor countries and aid recipient governments in the developing world have been working in recent years to bring official development assistance (ODA) to these governments on budget. That is, to channel, to the extent possible, ODA through existing planning, budgeting and public financial management systems, with the aim of aligning aid with country-led programmes, strengthening local government systems and, ultimately, increasing aid effectiveness in these countries.

1.2. In this context, this paper presents a case study of efforts undertaken in Mozambique in recent years to put aid on budget. The purpose of this exercise, as stated in the terms of reference to this study, is to produce lessons that can be useful for other countries in Sub-Saharan Africa, in terms of allowing them to lead country-level processes that ensure that external development assistance is properly reflected in national budget documents, both *ex ante* (e.g. in the budget presented to parliament) and *ex post* (e.g. out-turn accounts) terms. To this end, this case study provides evidence of trends and recent efforts to put aid on budget in Mozambique and tries to identify factors positively driving this process, as well as those hindering it. It also derives some recommendations on how donors and government can continue in their efforts to improve aid capture on budget in Mozambique.

1.3. With these aims in mind, the paper is organised into three main sections. It starts, in section 2, by presenting the general case of Mozambique. To this end, it briefly outlines the main traits of the Mozambican political and government systems. This is followed by an analysis of the current Mozambican aid context, examining recent aid flows to this country, its breakdown by donor/country of origin, aid modalities used, and the relative importance of these aid flows, both in terms of their weight on the local economy as well as in relation to Mozambique' aids position vis-à-vis other important aid recipients. This section also includes a presentation of the Mozambican institutional framework for planning and budget formulation and the main elements of its public financial management system. This later part of Section 2 also provides a short description of recent developments in this sphere as well as remaining constraints faced by the government to bring aid on budget. Finally, a brief note is made on the main institutional elements for aid management that exist in Mozambique.

1.4. Having presented the general case of Mozambique, Section 3 moves on to provide evidence of initiatives by the Mozambican government and donor agencies operating in Mozambique to put aid on budget in its different dimensions. This exercise follows the methodology described in the inception report to this study (Mokoro, 2007), which distinguishes between seven different dimensions of aid capture in national budget documents: aid (i) on plan, (ii) on budget; (iii) on parliament (or 'through budget'); (iv) on treasury; (v) on accounting; (vi) on audit and (vii) on report. Whenever possible, this section examines the quality of aid capture in each of these spheres and discusses plausible factors driving or hindering donor and government efforts in this sphere. It also examines in greater detail some specific events that have had a critical impact in shaping patterns of aid capture on budget in Mozambique, to further illustrate factors underlying these dynamics.

1.5. Finally the paper concludes with a third wrap-up section reflecting on key findings identified throughout this case study of Mozambique providing some concluding comments. It does this in terms of identifying key factors facilitating and constraining efforts to put aid on budget as identified in Section 2, suggesting areas for further analysis and work in this sphere, and deriving some lessons that can be used by government in other developing countries.

2. Country Context

Basic traits of the Mozambican political system

2.1. Mozambique is a multi-party democracy, with elections for the presidency and national assembly regularly being held since 1994, the year in which the first democratic elections took place. The current constitution dates back to 1990 and establishes the classic division of power into three separate branches: executive, legislative and judicial.

2.2 The head of the executive branch is the President of the Republic, who is also the head of State. The president appoints the prime minister and the members of the Council of Ministers, as well as other key figures in government and the Mozambican state apparatus (e.g. provincial governors, the rector of the Eduardo Mondlane University, etc.). The presidency is currently held by Armando E. Guebuza of the FRELIMO ruling party, who was elected president in December 2004.

2.3 The legislative power rests in the single-chamber Assembly of the Republic (*Assamblea da República*) formed by 250 national members of parliament, or deputies. This legislative body has the role of approving legislation and holding the executive power to account. Elections to the national assembly and the presidency are held, concurrently, every five years, the last elections having taken place in December 2004. At present the FRELIMO ruling party holds a majority in the Assembly of the Republic, with a total of 160 national deputies. RENAMO, the main opposition party, holds the remaining 90 seats in this assembly.

2.4. The judicial branch, on the other hand, is formed by the Supreme Court, which acts as the court of final appeal, and an array of lower-level and specialized courts. These include the Administrative Tribunal, which is the main independent audit institution, customs tribunals, maritime courts, courts martial, labor tribunals, etc. The Supreme Court is composed of professional judges, some directly appointed by the President, others by the National Assembly. In principle, the 1990 Constitution provides for a separate Constitutional Court. However, this body has never been established. In its absence, all constitutional disputes and cases are currently dealt with and resolved by the Supreme Court.

2.5. In relation to the executive power, the government operates at three different levels: Central, provincial and district. At present, there are a total of eleven (11) provinces constituted in the country, including the province of the City of Maputo, and 128 districts. Both provinces and districts are an integral part of the central government apparatus and, thus, hierarchically respond to the central bodies of the government (Presidency, Ministries, specialized agencies, etc.). In this respect, their creation responds more to a process de-concentration of government administrative functions, than to a process of true political decentralization.

2.6. In parallel to this administrative division of the government into districts, provinces and central agencies there are also several municipalities, or *Autarquias*. These bodies are organically independent from the central government and, therefore, not part of the state apparatus. They consist of municipal governments and local assemblies, with elections to both these bodies held in separate municipal elections every 5 years. At present there are 33 municipalities constituted in Mozambique, with an estimated total population of over four million people, representing approximately 20-25% of the Mozambican population, and concentrating around 60% of the country's Gross Domestic Product (GDP) (Métier, 2004).

General aid context

2.7. During the past decade Mozambique has consolidated its position as one of the largest recipients of aid in the world, both in *per capita* and absolute terms. During this period the country has seen the volume of ODA it receives steadily grow, with aid inflows into Mozambique increasing from around an annual average of just over USD 900 million during the 1990s to an annual average of over USD 1.3 billion between 2000 and 2005 (OECD, 2007). These volumes of aid are likely to increase significantly over the next decade, as the government of Mozambique attempts to meet the Millennium Development Goals by 2015 and commitments to this cause and, in particular, pressures to reduce absolute poverty levels in Africa increase in the developed world.

Table 1. ODA; basic international figures

	ODA, Average 2003-05 (USDm)	Aid / GNI (Average 2003-05)	Aid per capita, Average 2003-05 (USD)	Aid Concentration (Average 2003-05) ²
Burkina Faso	652.98	12.57%	51.01	81.63%
Ethiopia	1890.51	18.80%	27.02	80.86%
Ghana	1696.21	13.03%	78.29	85.30%
Kenya	812.65	4.00%	24.26	77.74%
Mali	714.99	13.07%	54.58	86.65%
Mozambique	1251.80	21.93%	64.41	71.46%
Rwanda	502.64	25.93%	56.48	81.93%
South Africa	694.67	0.33%	15.27	83.89%
Tanzania	1017.11	14.93%	27.05	80.37%
Uganda	1256.26	15.93%	45.13	82.44%

Source: OECD/DAC, 2007

2.8. This volume of aid is equivalent to 22% of Mozambique's gross national income, approximately USD 64.4 each year per person, in a country with a GNI *per capita* of barely 310 USD in 2005 (OECD, 2007), which gives an idea of the magnitude of these flows in the present Mozambican economic context. Similarly, at a government level, donor support to the Mozambican government currently accounts for over a quarter of total public spending (GOM, 2005). Yet, despite their magnitude, the degree of aid dependency in Mozambique is likely to be larger than these figures suggest, since in addition to its strong dependence on the funds made available by the international donor and financial community (the financial gap constraint) Mozambique has a strong dependence on foreign expertise in all areas of the economy (a capacity gap constraint), which within government is usually provided in the form of technical assistance programmes.

2.9. In this context, most aid that Mozambique receives continues to come from bilateral sources, with flows of this type accounting for over 60% of total aid to Mozambique between 2003 and 2005 (see Table 2). Still, the proportion of bilateral aid over total ODA has experienced a sustained and marked fall since the early 2000s. Conversely, multilateral funding has been steadily increasing during the last decade, with the proportion of aid coming from multilateral sources increasing from 27% in 2000 to over 42% of total ODA in 2005.

2.10. Despite the growing importance of multilateral aid, there continues to be a very large number of donor organisations operating in Mozambique, with up to 40 multilateral and bilateral donor agencies appearing in the OECD's International Development Statistics as providing aid to this country in some form or other during 2005. Amongst these, the United States, the United Kingdom, Sweden, Denmark, Norway, the Netherlands and Ireland emerge

as the most important bilateral donors, in terms of the volume of aid they provide to Mozambique. The list of multilateral donors, on the other hand, is headed by the World Bank, followed by the European Commission and by the African Development Bank.

Table 2. ODA to Mozambique by type and source

	ODA Total: Grants + Loans Extended							Average 2003-05
	2000	2001	2002	2003	2004	2005	Total 2003-05	
All Donors, Total	1,095.39	990.86	2,328.25	1,090.03	1,306.54	1,358.82	3,755.39	1,251.80
All Grants, Total	901.67	828.92	2,023.84	839.67	1,050.07	999.17	2,888.91	962.97
(Grants, % of total)	82.31%	83.66%	86.93%	77.03%	80.37%	73.53%		76.98%
All Loans, Total	193.72	161.94	304.41	250.36	256.47	359.65	866.48	288.83
(Loans, % of total)	17.69%	16.34%	13.07%	22.97%	19.63%	26.47%		23.02%
Bilateral, Total	797.87	740.19	1,757.82	715.36	747.87	784.05	2,247.28	749.09
(Bilateral, % of total)	72.84%	74.70%	75.50%	65.63%	57.24%	57.70%		60.19%
Multilateral, Total	297.52	250.67	570.43	374.67	558.67	574.77	1,508.11	502.70
(Multilateral, % of total)	27.16%	25.30%	24.50%	34.37%	42.76%	42.30%		39.81%

Source: OECD/DAC, 2007

2.11. The large number of donor agencies operating in Mozambique probably partly explains the relatively low concentration of aid in this country, with the ten most important donors accounting for 71% of total ODA, a proportion significantly lower than registered in other important aid recipient countries (Table 1). Whilst this large number of donors and relative aid dispersion could have potentially posed important challenges, in terms of coordinating donor strategies and programmes, harmonizing aid practices and, in general, maximising aid efficiency and effectiveness in Mozambique, there have been some important institutional developments in the sphere of aid management which appear to have positively impacted in all of the above areas. As described in more detail in the next section, these include the institutionalisation of several sector-wide approach (SWAp) arrangements in priority sectors, the creation of the Joint (government-donor) Review mechanism and the creation of the Programme Aid Partners (PAP) scheme, which groups all donor agencies providing programmatic aid to the government of Mozambique.

Table 3. ODA by modality, estimates on PAPs Sample

	2004	% Total Aid	2005	% Total Aid
1. BoP Support	60,071,616	6.64%	--	0.00%
2. GBS	183,274,000	20.27%	284,825,713	27.79%
3. Sector Aid	254,204,238	28.11%	254,268,471	24.81%
4. Project Aid	287,501,085	31.79%	372,448,019	36.34%
5. Private Sector Support	25,710,822	2.84%	21,214,666	2.07%
6. NGO Aid	57,911,057	6.40%	71,934,630	7.02%
7. Others	26,873,256	2.97%	16,387,926	1.60%
8. Decentralisation	8,780,213	0.97%	3,870,000	0.38%
TOTAL	904,326,287	100.00%	1,024,949,425	100.00%
Programme Aid (1+2)	497,549,854	55.02%	539,094,184	52.60%

Source: Ernst and Young (2006:24-25)

2.12. In this context, official development assistance to Mozambique has traditionally been dominated by grants (see [Table 2](#)), although the proportion of these over total ODA to Mozambique has experienced a gradual fall in recent years, from 82.3% of total ODA in 2000 to 73.5% in 2005. Donors make use of a variety of aid modalities when disbursing these funds. Whilst no systematic statistics are collected with a breakdown of ODA by aid modality covering the full spectrum of donors operating in Mozambique, the information provided by the group of 18 donor agencies¹ giving programme aid in Mozambique, whose programmes account for the bulk of aid to this country,² provides some insight of the relative importance of the various instruments used.

2.13. In this sense, data for 2005 indicates that 36.3% of aid disbursements by these groups of agencies was in the form of project aid, 27.8% in the form of sector aid funding,³ and up to 27.8% was disbursed in the form of general budget support (GBS) to the government of Mozambique. In total, programme aid absorbed 52.6% of total aid resources made available to Mozambique that same year. More recent figures for 2006 indicate that this proportion has actually increased to 55.3%, partly due to an increase of funds being disbursed through general budget support to 34% of total ODA (Castel Branco, 2007: 7). However, both these proportions – i.e. the shares of programme aid and of GBS over total ODA – remain below intended targets by the government of Mozambique and its PAPs for 2006, which were set at 70% for total aid disbursed as programme aid, and 40% of total aid channelled through GBS mechanisms (Castel Branco, 2007:7).

The Mozambican framework for planning, budget formulation and public financial management

2.14. It is against this background of a growing importance of aid in the Mozambican context, including aid assistance to the government sector in the form of project or programmatic aid modalities, that the problem of *off budgets* arises. The existence of weak and unreliable public financial management (PFM) systems frequently lends donors to use financial channels different from those regularly used by the government to disburse and manage their aid to the government. Likewise, the lack of reliability in the administration of ODA funding often leads government agencies to prefer the use of parallel financial channels than official PFM systems. However, whilst *off budget* might provide a short-term solution to the financial constraints on local PFM systems, it undermines planning, budget formulation functions and national PFM systems in the long term and, ultimately, the effectiveness of government's own development and poverty reduction efforts.

2.15. In Mozambique planning, budget and public financial management operations are all governed by the Integrated System for State Financial Management (SISTAFE) legislation (GOM, 2002a,b,c,d). This legislation was approved in 2002 in an attempt to modernize the PFM architecture in place until the early 2000s. SISTAFE is defined along five core subcomponents, which have also constituted the main areas of PFM reform in recent years:

¹ These donor agencies and/or countries are: IDA, European Commission, United Kingdom, Sweden, AfDB, Denmark, Norway, Netherlands, Ireland, Germany, Canada, Spain, France, Switzerland, Finland, Portugal, Italy, Belgium.

² ODA to Mozambique by this group of countries amounted to a total of 1.16 billion in 2005, approximately 85% of total ODA to Mozambique that same year (OECD/DAC, 2007).

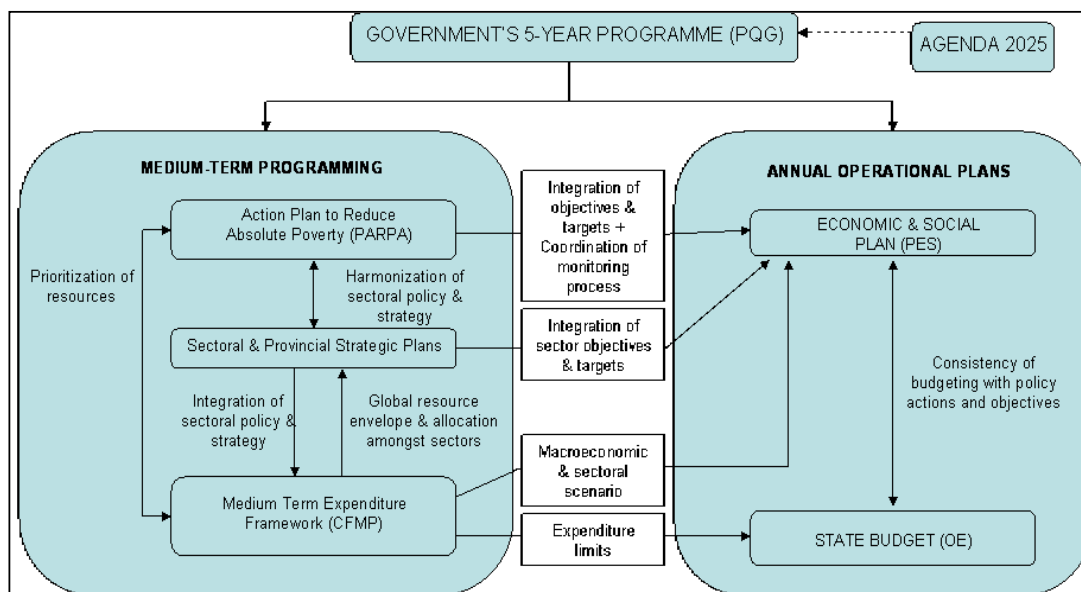
³ The 2005 PAP Performance review (Ernst & Young, 2006:9) is unclear about what exactly constitutes sector aid, partly as a result of the confusion that existed over this term among donors at the time this report was undertaken. In this respect, the report points towards likely inaccuracies in the figures on sector aid reported by PAP agencies, in the sense that, in some cases, 'sector aid' values also included project funding to sectors.

(1) state budget organisation and preparation, (2) public accounts, (3) treasury operations, (4) state procurement systems and (5) internal control.

2.16. With regard to planning and budget formulation functions, in theory, the government operates under a unified and integrated planning and budget formulation system (see Figure 1 below). Under this system all government interventions, at all levels –i.e. for all sectors, agencies and territorial levels of the administration, central, provincial and district– are formulated and captured within the general framework of the annual national economic and social plan (PES) and its associated state budget (OE).

2.17. The government’s PES and OE are prepared on the basis of the policy priorities defined in the government’s five-year programme, which, since 2006, is being operationalized through the Mozambican Poverty Reduction Strategy Paper (PRSP), the PARPA-II document. Hence, this document provides the breakdown of specific government programmes and policy interventions and the basic framework for government Monitoring and Evaluation. In addition, the preparation of both the PES and OE also takes into account the financial projections included in the Mozambican Medium Term Fiscal Framework (MTFF), which provides the medium term financial envelope for government programmes, as well as the link between strategic priorities defined in the PARPA-II strategic document, annual plans and yearly budgets.

Figure 1: Overview of Mozambique’s Planning and Budget System



Source: xx

2.18. Since 2005, planning and budgeting functions are the responsibility of two separate ministries: the Ministries of Finance (MOF) and Planning and Development (MPD). The MPD is responsible for all planning instruments, although the planning process follows a complex course involving all sectoral and territorial levels of the government. This ministry defines national strategic policy guidelines every five years in the government’s five-year programme, which essentially draws from the political manifesto of the incoming

government. It also coordinates the preparation of the medium term planning and budgeting instruments, PARPA and MTFF,⁴ which serve to operationalise the government's five-year plan. Finally, it compiles the PES and reports on mid-year and annual performance. In its current form, the PES is essentially a compilation of sector-level and provincial plans, the latter in some cases produced on the basis of district annual planning exercises.

2.19. The MOF, on the other hand, is in charge of preparing the annual budget and managing public financial systems. Since 2006, the former is prepared each year on the basis of the overall resource envelope defined in the MTFF, as well as on information on the availability of external funding. With this information the MOF defines budget ceilings for the main components of internally financed investment and recurrent expenditure: salaries, goods and services, etc. These ceilings are defined for each line ministry, provincial government, district administration and municipality and provide the basis for planning and budgeting exercises at each of these levels.

2.20. In principle, these planning processes are based on the preparation of annual operational or activity plans that capture all interventions that a given sector intends to undertake during the year. These annual operational and activity plans are then consolidated at the various levels into the respective district, provincial, sectoral and, ultimately, national PES. In this respect, it is important to note that provincial governments, district administrations and line ministries are simply a territorial extension of the national government at the provincial, district and sector level. Consequently, their budgets and annual plans should be viewed as an integral part of the national (consolidated) budget and PES, in line with the principle of budget universality, so that all the interventions undertaken at these levels are, in theory, captured in the national PES and budget.

Table 4: Mozambican Budget calendar (Fiscal year = January – December)

1. Update of the Mozambican MTFF, including: <ul style="list-style-type: none"> ▪ Projections of the internal and external resource components ▪ Expenditure strategic programming ▪ Submission of updated MTFF for approval by the Economic Council⁵ or the Council of Ministers 	February - April
2. Sectors, provinces and districts receive indicative budget ceilings, budget methodology and budget completion guidelines	Month of May
3. Preparation of sectoral, provincial and district budget proposals by line ministries, provincial governments and district administrations	May - July
4. Preparation of the consolidated budget proposal by the MOF	Month of August
5. Submission for approval of the budget proposal and the budget bill of law to the Council of Ministers	15th September
6. Submission for approval of the budget proposal and the budget bill of law legislation to the Assembly of the Republic	30th September
7. Deadline for approval of budget and annual PES plan by Parliament.	15th December

⁴ This latter document is prepared by the MPD in coordination with the Ministry of Finance (MOF).

⁵ The Economic Council includes only ministers holding economy-related portfolios.

2.21. After the ministries of Finance and Planning and Development have concluded this consolidation exercise, the budget and accompanying plan are submitted for discussion and approval to the National Assembly, with a legal deadline to do so before 15th December.

2.22. In theory, once the budget is approved and the budget year commences on the 1st of January, government are able to start executing their budget lines. However, in the past this has been problematic, in some cases due to delays in the approval of the budget, in others, due to liquidity problems affecting the central treasury. As a result, budget execution has been delayed by several weeks, or even months, into the budget year, except, on some occasions, for payments of salaries and essential goods and services.

2.23. In the past, treasury payments and accounting processes were based on the *duodécimo* system of monthly payments of a twelfth of each governmental agency's annual budget allocation, upon presentation of all the documentation regarding past expenditures. This system had been justified on the basis that it provided a very simple and transparent blueprint for financial management. However, these fixed monthly payments were made regardless of the actual financial (seasonal) needs of the various government agencies, introducing additional liquidity problems in the system on top of those derived from the general lack of financial resources available to the government. In addition, the burdensome accounting requirements upon which monthly budget funds were released together with the general lack of human and technical resources to deal with these accounting/documentary processes introduced further (financial and liquidity) constraints to the system. As outlined below, these problems are gradually being addressed with the introduction of e-SISTAFE and direct budget execution.

2.24. Accounting processes for all the levels of the Mozambican PFM system are regularly compiled and consolidated into the government's quarterly Budget Execution Reports – BER, or REO⁶– and the annual government consolidated account, known as the State General Account or CGE.⁷ Both these documents are subject to parliamentary analysis and control; the BERs twice yearly, in March and September, together with the document reporting on government performance against its annual plan – the Balanço do PES; the CGE on an annual basis, during the first quarter of the incoming year. (De Renzio and Sulemane, 2006).

2.25. In addition to this process of parliamentary budget execution analysis and control, since 2004 the CGE annual accounts document is submitted at the end of May each year for external audit to the Administrative Tribunal, the supreme audit institution in Mozambique, completing the Mozambican budget cycle process (de Renzio and Sulemane, 2006:17).

Recent developments in planning, budgeting and PFM

2.26. The various problems afflicting planning and budgeting functions and PFM systems in Mozambique,⁸ together with concerns over the impact that these shortcomings may have had on the effectiveness of the government's poverty reduction efforts, has led the government to place these issues at the top of its reform agenda in recent years. This has resulted in various reform initiatives being articulated in all of these areas.

⁶ Relatório de Execução Orçamental.

⁷ Conta Geral do Estado.

⁸ See the World Bank's 2001 Public Expenditure Review of Mozambique (World Bank, 2001) for an earlier detailed review of these problems.

2.27. Hence, in the sphere of planning and budget formulation the government has taken a number of steps to improve the links between planning and budgeting functions and ensure the consistency of planning instruments and cycles across different sectors and levels of the public administration. To this purpose, the government has developed a methodology of integrated planning and budgeting, known as the *Processo Único*. The MPD and the MOF have also developed a common methodology for budget and planning preparation for all levels of the public administration, which are broadly in line with the PARPA-II document.

2.28. Additionally, the Mozambican MTFE, first developed in 1998, was modified in 2006 to take into consideration policy changes contemplated in the PARPA-II document and take into account territorial considerations, with basic expenditure projections defined at a provincial, district and municipal level (GOM, 2006f).

2.29. The Government, together with its international cooperation partners, has also been working to bring all external funds ‘*on budget*’, to ensure the completeness and all-inclusiveness of the national planning and budget formulation process. To this end, the government together with several donors created in 2005 a specific *on-budget* taskforce to help establish better links between the different actors in the budget process, improve information flows between donor agencies and the government and increase the volume of aid reported in the budget and channeled through the government’s treasury system (Embassy of the Netherlands, 2007).

2.30. The modernization of the Mozambican PFM system has constituted another key area of public sector reform in Mozambique in recent years, and has contributed to efforts to improve aid capture on budget. Efforts in this area have been mostly directed at introducing modern PFM systems and providing the human, technical and managerial resources that can ensure the correct, timely and flexible allocation and use of financial funds throughout the Mozambican public administration. To this end the government set up in 1999 UTRAFE,⁹ a government management unit in charge of designing, implementing and overseeing reforms in this sphere. This was followed, in 2002, by the passing of the SISTAFE body of legislation (2002c).

2.31. Within this broad set of PFM reforms, the implementation of e-SISTAFE, an integrated IT financial application, has centered much of the government’s efforts in this sphere. e-SISTAFE is foreseen to simplify and systematize financial transactions as well as improve the management of treasury operations, therefore, improving the disbursement of financial flows throughout the Mozambican public administration. The rollout of this financial IT application started in 2006 and, at present, most government agencies down to the provincial level are capable of operating this system to directly execute most of its recurrent expenditure needs (GOM/PAP, 2007c: annex4, pp.29-30).

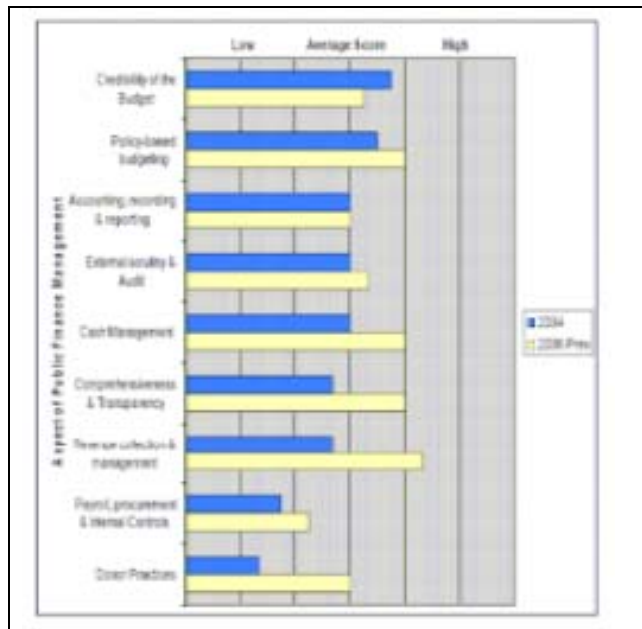
2.32. At the same time, the government, together with its aid partners, has also been working to merge all financial accounts into one single treasury account – *Conta Única do Tesouro*, CUT – and to bring all available sources of funding, both internal and external, under the umbrella of the Mozambican integrated budget and PFM system. In this respect, PAP donor agencies have agreed to disburse at least 60% of its development assistance to the government through the single treasury account system by 2009 (GOM/PAP, 2007c: annex4, pp.13).

⁹ Unidade Técnica da Reforma da Administração Financeira do Estado (UTRAFE).

2.33. Efforts have also been made to strengthen internal and external control mechanisms. In this area, the government has developed initiatives to extend the number of internal audit operations and improve the capabilities of the Inspecção Geral de Finanças (IGF), the Government's internal audit and inspection agency and the administrative tribunal, which is responsible for external audit.¹⁰

2.34. Overall, it is generally recognized that the government of Mozambique has made significant progress in this area of PFM reform. This is evidenced, for instance, in the recent PEFA assessment of Mozambique undertaken during 2006 (Lawson *et al*, 2006). This report considers that improvements have been made in various key PFM areas and that these were beginning to have an impact in the financial operations of the public administration, with the quality of the PFM system continuing to improve over many of the indicators considered in this assessment. Moreover, it foresees significant potential for further gains in PFM systems in the short term. Hence, 10 out of the 28 indicators under consideration in this assessment examining government performance in various areas of PFM reform received a score of B+ or higher in 2004, with an expectation that these would reach a total of 16 (57%) by the end of 2006. Moreover, all areas under examination are expected to register improvements by the end of this year (see Table 6).

Figure 2: Overview of 2004 PEFA scores and identified 'potential' scores for 2006



Source: Lawson et al, 2006

¹⁰ See the account on these issues found in the 2007 Joint Review documentation (GOM/PAP, 2007c).

Table 6: Mozambique PEFA Assessment

Scores	2004	2006 (p)
A	1	3
B+	2	3
B	7	10
C+	8	6
C	3	2
D+	7	3
D	0	1
Total	28	28

Source: Lawson et al, 2006

2.35. Similarly, the World Bank's Country Policy and Institutional Assessment (CPIA) of Mozambique gives Mozambique a 3.5 score (in a scale of 1 to 6) in its assessment of the quality and reliability of its public financial management system (OECD, 2007b: 67). Whilst this suggests there is significant scope for further improvements in this area, it remains above the average score of 3.4. registered by the 30 countries recently surveyed for the OECDs 2006 *Survey on Monitoring the Paris Declaration* (OECD, 2007a). In its country analysis this same study considers that if Mozambique is able to complete the implementation of the SISTAFE reform it will stand a good chance of meeting the target of increasing its PFM CPIA score to 4 by 2010 (OECD, 2007b:3).

Continuing constraints in planning, budgeting and PFM

2.36. Despite of these important steps, the Mozambican planning, budget and PFM systems continue to present important weaknesses that undermine planning and budget formulation processes in Mozambique, as well as the efficiency of the Mozambican PFM system. These reduce the coherence and effectiveness of government policy interventions and also undermine efforts to bring aid on budget.

2.37. Hence, the *Processo Único* still remains to be institutionalized and adopted as the methodology for planning and budget preparation, in terms of giving it legal status and streamlining it into the internal regulations and management procedures of the ministries of Finance, Planning and Development and line ministries. Similarly, the government still has to establish the institutional mechanisms that ensure inter-ministerial coordination in the planning and budget process. This has become an especially urgent matter in light of the recent break up of planning and budget formulation functions into two separate ministries.

2.38. On the other hand, although the most recent version of the MTFP has been approved by the council of Ministers, it is still not truly used as an instrument for strategic planning and budgeting, so that budget preparation continues to be largely undertaken on an incremental basis (Warren-Rodríguez, 2006).

2.39. Furthermore, the introduction of programmatic budgeting, which could address some of these issues, has again been postponed until 2008 due to, among others factors, the complexity of implementing this methodology of budgeting, as well as to technical and capacity constraints.

2.40. Moreover, planning and budgeting continues to be largely sector-driven. It also lacks a clear framing of territorial and crosscutting considerations and does not fully address the constraints that double subordination of sectoral sub-central government departments poses on decentralized planning at the province and district levels.

2.41. On the other hand, there is still not a clearly defined national monitoring, evaluation and reporting system, and the systems that exist are frequently inadequate and heterogeneous.

2.42. In the sphere of PFM reform, whilst the introduction of e-SISTAFE and other related initiatives has resulted in significant PFM improvements, there still remain important constraints that continue to affect its overall quality and reliability, and which undermine the Government's ability to ensure that resources are used correctly.

2.43. In this sense, the PEFA assessment of the Mozambican PFM system considers as especially worrying the prevailing weaknesses in internal and external control systems and in mechanisms regarding payroll, expenditure commitments and procurement processes (Lawson *et al*, 2006:2-3). These problems in PFM would appear to be more acute at a provincial and district level, as evidenced in visits to the provinces undertaken as part of the 2006 and the 2007 Joint Review exercises (GOM/PAP, 2006c, 2007a).

Institutional and financial framework for aid management

2.44. In this context, over the last few years several institutions and institutional arrangements have emerged and consolidated, providing the institutional framework for aid management in Mozambique. At a government level, these institutions include:¹¹

- The Bank of Mozambique through which all aid is channelled into the country,¹² and which is responsible for managing and regulating all financial transactions of this nature.
- The Ministry of Foreign Affairs, which is legally responsible for external relations, including those with bilateral donor agencies and international development organisations.
- The MOF, which is responsible for relations with international financial organisations, for overseeing the implementation of bilateral and multilateral cooperation agreements and for keeping account of all aid projects implemented in Mozambique; and the MPD, which also participates in the negotiation of international cooperation agreements in the sphere of economic and social development.¹³
- Ministries, provincial governments, district administrations and other government agencies directly receiving development aid, and which often have specific departments dealing with donors and aid funds.
- In addition, in certain line ministries, especially those in priority sectors, as well as in some provincial governments, a good rapport with donor agencies has led to the creation of sectoral and provincial common funds and SWAp arrangements, through which donor-government dialogue is articulated and aid funds pooled into these sectors' programmes. These include PROAGRI-FC in agriculture, PROSAUDE, FCM and FCP in health and FASE, ADE, and CRESCER in education. There have also been similar arrangements at a provincial level, for instance, the Niassa Provincial Common Fund, jointly funded by Irish Aid and Sida.

¹¹ See Batley *et al* (2005: 13-22) for a comprehensive review of the development of the Mozambican institutional framework for aid management.

¹² It is important to note that this refers to the fact that aid, as any other cross-border financial transaction, is processed by the Bank of Mozambique when entering the country. However, in Mozambique donors are free to hold their ODA funds in local private commercial banks, unlike other countries (e.g. Uganda) where they are required to hold their funds at the central bank to make aid more visible and to facilitate cash management.

¹³ The legal attributions of the Ministries of Finance and Planning and Development are established in the 22/2005 and 23/2005 Presidential Decrees of 27 April 2005.

- In specific areas of government reform the various project or technical management units set up by the government to manage key reform programmes and, also, to channel donors' aid contributions to these reform efforts. These technical units include UTRAFE, in the sphere of public financial reform, UTRESP, in the area of public sector reform, UTRA, created to manage the Mozambican customs reform project, URTI, UTRE, and many others. Similar arrangements exist at a provincial level, for instance, with the PAIGN¹⁴ programme for institutional reform in the province of Niassa set up by Irish Aid.
- There is also a myriad of donor-funded projects operating in the various ministries, and levels of government receiving donor financial and technical assistance.¹⁵
- Finally, over the years, and at a more informal level, several working groups have emerged in all the main priority sectors and crosscutting areas in which government, donors and, in some cases, civil society representatives participate. In many cases, these working groups are the same as those set up to oversee the sectoral common funding arrangements referred to above and those organised for the Joint Review annual exercise between the government and the PAP group of donors (see below).¹⁶

2.45. At a donor level, perhaps the most significant development in terms of creating an institutional framework for aid management has been the creation of the PAP. This 'partnership' is a coordination scheme currently integrated by 18 international development agencies providing programmatic support to the Mozambican budget. This scheme was set up to provide greater alignment, consistency and efficiency in donors' funding initiatives to directly support the government's poverty reduction efforts, in line with the principles of the Paris Declaration on Aid Effectiveness.¹⁷

2.46. Institutional developments in the sphere of programmatic aid have also included a number of procedural innovations for aid management. Whilst these only affect this particular modality and, thus, cannot be made extensive to other forms of aid (e.g. project aid, private sector aid, or NGOs), their importance should not be underestimated, given the growing weight that programmatic aid is taking in Mozambique, the fact that many donor agencies providing programmatic aid also support project-based initiatives, and the government's preference for this aid modality, as expressed in the PARPA-II document (GOM, 2006: 148-151).¹⁸ These 'innovations' associated to developments taking place in the sphere of programme aid include:

- a. The fact that the Mozambican 2nd PRSP (PARPA-II), which is the government's main medium term planning instrument, now constitutes the main reference document for delivering aid, consequently, providing for greater consistency and alignment of donor programmes with government poverty reduction policy efforts.
- b. The fact that programmatic aid disbursements, as well as donor and government commitments in this sphere, are now governed by a Memorandum of Understanding (MOU) between PAP agencies and the government of Mozambique clearly stating both these parties commitments and responsibilities.

¹⁴ Programa de Apoio Institucional ao Governo do Niassa (PAIGN).

¹⁵ Details on most of these projects can be found on www.odamoz.org.mz.

¹⁶ See <http://www.pap.org.mz/paf.htm>, for the full list of these working groups.

¹⁷ See www.pap.org.mz for information on institutional and operational arrangements created under this scheme.

¹⁸ See Batley *et al* (2005) for an exhaustive analysis of the impact of PAP and general budget support in the Mozambican economic, policy processes, aid and PFM context, among others.

- c. This MOU also includes a common Performance Assessment Framework (PAF) in which the government identifies its policy priorities and, jointly with the PAP, annually assesses performance against these priorities. It is important to note that progress in areas captured by these indicators influence donors' decisions regarding commitments for budget support and other forms of programmatic aid for the following year. Furthermore, since 2006, this instrument has been revised and harmonized to ensure consistency with the PARPA-II policy framework and with the government's own monitoring and evaluation system.
- d. Government and donors' performance under this MOU/PAF framework is formally examined and assessed in two sessions: the mid-year review, an exercise mostly aimed at setting targets for the following year, which also includes a limited assessment of performance during the first half of the year; and, more importantly, the Joint Review, a more exhaustive annual review of these issues, which serves to monitor and evaluate government and PAP's performance in the implementation of their respective programmes.

3. Evidence and Assessment of Aid Capture

3.1. It is in this general context of ongoing developments in the spheres of planning, budgeting and public financial management that this section examines current trends in bringing aid funds on budget in Mozambique.

3.2. It is important to note that the SISTAFE legislation (GOM, 2002a,b,c,d; 2004a) does not include any explicit provision on how aid flows into Mozambique should be managed. However, Article 14 of the SISTAFE law does state that any resource made available to the State, be it in kind or monetary form, and whatever its source and nature may be, should be considered as government revenue for all purposes and, therefore, should be managed under the same provisions than those established for other non-aid revenue sources (GOM, 2002c).

3.3. In this line, the MOF has recently developed detailed guidelines for donors on how aid disbursements for government projects should be made, so as to fully integrate these flows into the Mozambican planning and budget formulation cycle (GOM; 2006g). Among other things this document requires that donors should:

1. Supply the government with a projection of their expected medium term aid contributions by the month of March, in order to facilitate the update of the Mozambican MTFE.
2. Inform the government on expected annual aid disbursements under the various aid modalities by the month of May, so that they can be included in the calculation of budget ceilings for each line ministry and level of the Mozambican government.
3. Work with the government through existing dialogue mechanisms (e.g. working groups) to ensure that sectoral and provincial plans take into account donors' aid support in its various dimensions (funding, technical assistance, etc.).
4. Update on a regular basis the ODAMOZ database established by the aid community in Mozambique and currently managed by the government.¹⁹
5. Follow existing norms and procedures for public financial management, especially in relation to the use of the treasury single account, to channel all aid funds to government programmes, so as to ensure the efficiency and effectiveness of the Mozambican PFM system (for instance, in terms of extending the e-SISTAFE integrated IT financial application, or reducing the off-budget aid funding).
6. Inform about all donor-funded or assisted programmes and projects with government bodies within established deadlines.
7. Provide government with information, when available, on project and programme execution.

3.4. It is against this background that efforts to bring aid on budget are examined and assessed. This is done by examining aid capture on budget in each of the relevant phases of the budget cycle, namely: (i) during planning stages; (ii) during budget formulation; (iii) as part of parliamentary budget debates and reviews; (iv) in treasury operations; (v) accounting processes; (vi) in budget reporting mechanisms; and (vii) as part of internal or external audit efforts. For each of these analytical dimensions this section provides, to the extent that information is available, evidence of *off/on-budget* aid funding, an appraisal of its quality, as well as a brief analysis identifying factors promoting or hindering progress in bringing aid funding to the government of Mozambique *on budget*.

¹⁹ See www.odamoz.org.mz.

Aid capture on plan

3.5. A first dimension of aid capture *on budget* relates to the planning stages of the budget cycle, and refers to whether aid flows are captured on a systematic basis at the strategic planning stages of policy formulation and fully integrated into strategic planning exercises taking place at the various levels of government: national, sectoral, provincial, district or agency level.

3.6. In the Mozambican case significant progress has been made in recent years to bring *aid on budget* at this level. For instance, the Mozambican PRSP document, the PARPA-II (2006-2009), which constitutes the government's main instrument for strategic planning, includes in its macroeconomic scenario three different projections of the resource envelope which the government considers likely to be available during its implementation, based on variations of external ODA flows made available to Mozambique (GOM, 2006:40-4). These three scenarios were formulated in an attempt to capture discussions that took place during the preparation of this document between the government and its international development partners, bilateral and multilateral, on expected medium term ODA flows to Mozambique and on their likely economic and social impact. In this respect, the incorporation of these issues in PARPA-II reflects a process of aid capture at the more macro/strategic planning level.

3.7. In addition, for many donors the PARPA-II constitutes the main reference document for their country aid programmes in Mozambique. Hence, this document provides them with an indication of the government's policy priorities and medium term planned policy initiatives to tackle poverty incidence and promote economic and social development, guiding the aid disbursements planned in their country programmes for Mozambique.

3.8. Similarly, the macroeconomic framework model operated at the MPD (GOM, 2006g) includes three full spreadsheets with reasonably detailed projections of expected aid flows to Mozambique, including those disbursed to the government, covering a three-year period. Among others, it contains information on projected disbursement for (i) government direct budget support contributions for each of the main PAP agencies; (ii) government investment projects supported by donors; (iii) sectoral common funds operated under SWAp arrangements, such as the PROAGRI, FASE, PROSAUDE funds in agriculture, education and health, respectively; special reform programmes (e.g. UTRAFE, UTRESP); (iv) import of medical drugs; and (v) aid in kind. It also includes information on (soft) loans to the government by major lending institutions (e.g. IDA, EIB, AfDF, OPEC) and an indication of the general purpose of these loans (e.g. for the government, SOEs, etc.).

3.9. The public version of the Mozambican MTFE also includes a breakdown of medium term programmed investment expenditure, by source of finance, covering a three-year period, distinguishing between internal and external sources, the latter corresponding to ODA funds made available to the government by donor agencies (GOM, 2006f). In this respect, in the longer term the MOF intends to turn this document into a planning/guiding instrument also for donors, in the sense that medium term projections in this document (i.e. year 2 and year 3 values) will aim at reflecting the government suggested levels of external financing that are compatible with agreed targets, and which can guide donors in the preparation of their Mozambican programmes (Orlowski, 2006: 4).

3.10. However, the information on external funding currently presented in the MTFE is still somewhat limited. For instance, with the exception of some budget items, information on external funding is only given for the first year of the projection, 2006 (GOM, 2006f). This

lack of information on medium term external funding partly reflects donors' difficulties to supply such information and their inability to define pluri-annual aid commitments for all their programmes in Mozambique. On the government's side, on the other hand, it reflects coordination and communication problems between the Ministries of Finance and Planning and Development, on one side, and line ministries and provincial governments, on the other, as well as the weak integration of planning instruments at the various levels of government.

3.11. Beyond these more strategic levels of policy planning, the government also has and incorporates information on expected aid disbursements at lower levels of planning, including at the sector and provincial level. At a provincial level, this is the case of the annual plans produced by the provincial governments of Niassa and Inhambane (GPI, 2005, 2006; GPN, 2005, 2006), which take into account expected disbursements by the main donor agencies supporting these provincial governments: Irish Aid in both Niassa and Inhambane, GTZ in Inhambane and Sida in Niassa province.

3.12. At a sector-level, SWAp arrangements in health, education and agriculture have also contributed to strengthen donor-government dialogue in these areas and, therefore, facilitate the flow of information on planned ODA disbursements for planning purposes. For instance, the Ministry of Health and its aid partners have been working with the aim of increasing the proportion of ODA committed and disbursed to this sector's PROSAUDE common fund on a pluri-annual basis, so as to provide a more stable investment horizon for projects in the health sector (Warren-Rodriguez, 2006:14). At present two thirds of donors working with the government in this sector have committed to this pluri-annual disbursement system, so that funding to this sector is guaranteed at least until 2010 (GOM/PAP, 2007c: Annex4: 85).

3.13. Finally it is important to note international development agencies' efforts in Mozambique to systematically compile, report and publish information on the ODA projects they operate or support in Mozambique. This is now being reported on a regular basis in the ODAMOZ web-based database (see www.odamoz.org.mz), which includes detailed information for all projects funded by agents participating in this aid dissemination project and is an important source of ODA information for the government. Since 2006 this database is being managed by the MPD, whilst efforts are being made to encourage its use by both donors and government agencies (GOM/PAP, 2007c: Annex 4:14).

3.14. Overall, as can be seen from the evidence presented above of aid capture on planning in Mozambique, a key factor behind the considerable success reached in this sphere in Mozambique has been the reasonably strong and fluid dialogue that exists, at various levels, between the government and donor agencies operating in this country. This is evidenced in the numerous formal and informal institutional arrangements that have emerged over the past decade to which section 2.6 above made reference. These include the several SWAp arrangements that exist in key priority sectors such as health, agriculture or education; the Joint Review mechanism; the various joint government-donor working groups and taskforces, etc. all of which have provided a platform in which to address some of the problems of reporting aid during the planning stages.

Aid capture on budget

3.15. A second dimension in the process of increasing the capture *aid on budget* refers to whether external aid financing to the government sector by donor agencies, including both programmatic and project aid, is reported in the official budget document and any other accompanying documents.

3.16. Again, considerable progress appears to have been made in the past decade in Mozambique by the government and donor agencies in bringing aid on budget at this level of budget reporting. In terms of donor efforts, the figures presented in the 2006 PAF assessment of the PAP scheme (Castel-Branco, 2007) of ODA funds disbursed to the government that were included and reported in the budget, are indicative of progress made in this area by donor agencies operating in Mozambique.

Table 7: ODA to Government reported in the Budget, 2005 and 2006 (USD).

PAP's	2005			2006		
	Total ODA to GOM	ODA to GOM reported in e budget	% of ODA to GOM reported in the budget	Total ODA to GOM	ODA to GOM reported in the budget	% of ODA to GOM reported in the budget
African Devpmt. Bank	118,710,690	44,584,500	37.56%	107,165,594	58,772,400	54.84%
Belgium	6,411,082	6,348,228	99.02%	6,209,950	6,033,960	97.17%
Canada	44,937,009	18,266,682	40.65%	38,596,799	24,222,489	62.76%
Denmark	49,991,857	21,540,960	43.09%	45,081,191	17,838,608	39.57%
DFID	71,597,418	55,301,020	77.24%	87,614,023	75,999,731	86.74%
European Union	140,274,368	--	0.00%	138,886,202	--	0.00%
Finland	22,099,788	12,350,761	55.89%	24,690,570	20,601,292	83.44%
France	16,014,853	12,006,490	74.97%	17,107,780	14,367,622	83.98%
Germany	37,448,136	5,028,300	13.43%	65,493,602	28,787,015	43.95%
Ireland	40,301,284	29,850,501	74.07%	43,215,008	40,686,117	94.15%
Italy	28,846,599	11,559,977	40.07%	32,455,210	13,475,873	41.52%
Netherlands	48,966,336	39,815,333	81.31%	48,750,307	43,494,792	89.22%
Norway	58,594,099	21,202,019	36.18%	53,708,255	34,887,422	64.96%
Portugal	21,082,111	1,479,492	7.02%	11,520,556	1,494,383	12.97%
Spain	23,498,893	4,989,901	21.23%	22,973,685	6,722,989	29.26%
Sweden	50,156,404	49,797,571	99.28%	72,259,319	64,777,328	89.65%
Switzerland	15,030,012	11,812,659	78.59%	11,179,358	9,451,038	84.54%
World Bank	253,270,000	253,270,000	100.00%	249,950,000	249,950,000	100.00%
TOTAL	1,047,230,939	599,204,393	57.22%	1,076,857,410	711,563,058	66.08%

Source: Castel-Branco (2007)

3.17. The figures presented in this review indicate that, by 2006 up to 66% of ODA to the government made by this group of donors, which includes most of the main international development agencies operating in Mozambique, was reported on budget. Furthermore, this proportion had increased by almost 10 percentage points from the share registered the previous year of 1996: 57%. By specific donor, this share was particularly low for countries such as Germany (44%), Italy (42%), Spain (29%), Portugal (13%) and Denmark (6%), whilst some other donor agencies have fared much better, as is the case of the World Bank (100%) Belgium (97%), Ireland (94%), Sweden (90%), the Netherlands (89%), the UK (87%), France (84%) and Finland (83%).

3.18. However, this figure of 66% falls well short from the target initially intended for 2006, set at a share of 80% of total ODA disbursements by this group of countries that should have been reported in the budget document. Still, it should be noted, that this 80% target for 2006 is just five percentage points below the 85% target established in the Paris Declaration for 2010 (OECD, 2005b: target no. 3). In this respect, it would appear that the objectives set out in the Paris Declaration in this sphere still remain achievable in Mozambique.

3.19. Whilst no recent data on aid reported on budget exists for countries outside the group of PAP donors, such as the UN agencies, USAID or the new vertical global funds, available evidence suggests that their share of their aid to the government that is reported on budget is well below that of PAP agencies. Hence, as discussed in sections 3.4. and 3.5 below, data for 2005 indicates that the use they make of national PFM systems, which often require funds to be recorded in the budget, remains below that of PAP agencies. Furthermore, these non-PAP donor agencies tend to make little use of programmatic modalities in their aid to the government, which, as discussed below, is an important driver of ‘aid on budget’ dynamics. In this respect, it should be noted that USAID only channels 2% of its aid to the government through programmatic modalities, Japan and the GAVI Alliance 0%, the UN 27% and, the GFATM global fund 100% (OECD, 2007b:9), proportions that, with the exception of this latter fund, are well below the 53% share achieved, on average, by PAP countries that same year of 2005 (Castel-Branco, 2007).

3.20. With such a variety of countries and outcomes, it is difficult to ascribe any single common factor as underlying this somewhat weak performance of PAP agencies and other donors in this sphere. For instance, Denmark’s record low share, particularly striking in a country which has traditionally led efforts to improve donor-government cooperation, mostly reflects Denmark’s decision of not disbursing three quarters of their committed GBS funding in response to audits carried out in various Danida funded projects, which it felt revealed cases of serious mismanagement, if not directly corrupt practices.

3.21. In other instances, the problem lies with the difficulties that sometimes donor agencies have in providing reliable and timely information on their aid programmes in Mozambique and accurate schedules of their expected aid disbursements. With regard to these problems, the OECD’s 2005 *Survey on Harmonization and Alignment* reports that, whilst the majority of donor agencies surveyed for this study were already making multi-annual aid commitments to the government, there still remain some very notable exceptions, such as that of UN agencies and, to a lesser extent Spain (OECD, 2005b: 90). Furthermore, only a small group of countries surveyed for this report were making these commitments on time for the budget (5 out of 14 countries surveyed were doing so without reservations (“YES!”), whilst 3 others received a ‘yes with reservations’ mark (“YES”) in this survey), while only Finland was making disbursements on a timely basis. Whilst it is likely that improvements in this sphere have been made since this survey was undertaken, reliability and timeliness in aid commitments and disbursement continue to remain problematic. In this respect, it is noteworthy that the 2007 joint review notes that one key area that deserves more attention by donor agencies is the ‘predictability of the disbursements of the partners (General Budget Support, but also funds and projects) so as to integrate them in the consolidated budget cycle’ (GOM/PAP, 2007c: 15).

Figure 3: Predictability of ODA disbursements to budget support

Is budget support predictable and aligned?				
Are budget support donors making:	YES!	YES	NO	NO!
Multi-annual commitments?	Finland France Germany Portugal Switzerland UK European commission	Belgium Italy Netherland s Norway	Spain United Nations	Austria
Timely commitments?	France Germany Italy Switzerland UK	Norway European Commission	Austria Belgium Netherlands Portugal Spain United Nations	
Timely disbursements?	Finland			Spain Switzerland

Legend: YES!: Yes without reservations; YES: Yes with reservations; NO: No with reservations; NO! No without reservations
 Source: OECD, 2005a:90

3.22. Finally, in other cases, it is donors' choice of aid modality that largely predetermines the degree to which they can report aid on budget at this and other levels of the budget cycle. For instance, some countries, such as Spain, disburse a large proportion of their aid to the government through local and home-country international NGOs, which are then responsible for implementing these aid funds and associated projects within the governmental sectors in which they operate. This adds another actor in the aid implementation process, setting additional hurdles to the process of bringing aid on budget. Other agencies, such as most agencies operating within the UN system, largely base their aid to the government on the provision of technical assistance, often financed by third-party agencies, which can sometimes be difficult to incorporate in the budget formulation process.²⁰

3.23. In this respect, a key driver behind the growing volumes of aid reported in the budget in Mozambique has been the increasing use that donors are making of programmatic aid modalities. The correlation analysis between PAP country's shares of aid to the government and aid reported on budget provides further evidence in this direction. Hence, correlation coefficients between these two data series report considerably high values of 0.5218 in 2005 and 0.5484 in 2006 (see table 7 below). Moreover, when considering growth rates between 2005 and 2006 for these same shares the correlation value increases to 0.9134, almost a one-to-one association. This would indicate that, value-wise, the growth in the share of aid on budget over total aid to the government between 2005 and 2006 has almost entirely been driven by the increasing use that PAP donors are making of programmatic aid modalities over other aid mechanisms.

Table 8: Aid on budget vis-à-vis programme aid, 2005 and 2006 (USD).

PAP's	2005		2006		Δ 2006/ 2005	
	% of programmatic ODA to GOM	% of ODA to GOM reported in the budget	% of programmatic ODA to GOM	% of ODA to GOM reported in the budget	% of programmatic ODA to GOM	% of ODA to GOM reported in the budget
African Devpmt. Bank	38.3%	37.56%	56.1%	54.84%	46.45%	46.02%
Belgium	58.82%	99.02%	60.7%	97.17%	3.24%	-1.87%
Canada	52.28%	40.65%	60.5%	62.76%	15.69%	54.39%
Denmark	88.38%	43.09%	82.4%	39.57%	-6.73%	-8.17%
DFID	91.59%	77.24%	91.9%	86.74%	0.35%	12.31%
Finland	55.89%	55.89%	84.2%	83.44%	50.68%	49.30%
France	45.13%	74.97%	38.1%	83.98%	-15.63%	12.02%
Germany	11.82%	13.43%	45.5%	43.95%	284.71%	227.35%
Ireland	92.73%	74.07%	99.2%	94.15%	6.98%	27.11%
Italy	42.69%	40.07%	12.5%	41.52%	-70.66%	3.61%
Netherlands	92.81%	81.31%	89.2%	89.22%	-3.85%	9.73%
Norway	68.46%	36.18%	71.5%	64.96%	4.44%	79.52%
Portugal	7.19%	7.02%	13.1%	12.97%	82.75%	84.84%
Spain	33.96%	21.23%	28.8%	29.26%	-15.13%	37.81%
Sweden	67.54%	99.28%	70.7%	89.65%	4.72%	-9.71%
Switzerland	85.23%	78.59%	84.5%	84.54%	-0.81%	7.57%
World Bank	26.26%	100.00%	25.6%	100.00%	-2.50%	0.00%
Correlation coefficient	0.5218		0.5484		0.9134	

Source: Own calculations based on Castel-Branco (2007)

3.24. These findings should not be surprising, given that, by its very nature, the use of programmatic aid facilitates its registration in the budget document, and largely reflect PAP countries' strong commitment to bring aid on budget. They are also consistent with the 2005 GBS evaluation study of Mozambique (Batley *et al*, 2005), which found that whilst the quantity of aid to Mozambique was not much increased by the use of general budget support aid mechanisms, significantly more of this aid was being brought on budget.

3.25. However, these results should not be read as suggesting that all that is required to bring aid on budget is a shift of aid modalities used by donors in their support to the Mozambican government from project-based initiatives to programmatic aid to the government. The increasing use of this latter type of modality is largely the result of the strong dialogue and cooperation that exists between the government and its international aid partners, as well as the implementation of a comprehensive agenda for public sector and PFM reform, which has increased donors trust and reliance on government planning, budgeting and PFM systems.

Box 1. Disincentives to bring aid on budget: The primary deficit target

In the past, an important factor undermining efforts to bring aid on budget in Mozambique and improve the quality of its reporting has been the (unintended) distortions generated by the inclusion of a domestic primary deficit target in the IMF's macroeconomic and fiscal support programme to the government of Mozambique.

The domestic primary deficit is defined as government revenue minus non-interest current expenditure, locally financed capital expenditure and locally financed net lending (IMF, 2005c). This indicator is typically used as a measure of the underlying structural fiscal deficit operated by government and, consequently, as an indicator of fiscal discipline and sustainability. However, in Mozambique the use of this indicator to assess the government's fiscal performance has hindered the process of bringing aid on budget by creating (unintended) incentives to underreport and misclassify aid funding to the government. Two main dynamics appear to have been in motion.

Firstly, the fact that increases in aid funding tends to increase the value of the domestic primary fiscal balance, unless these funds are entirely devoted to investment purposes. As a result, in the past the government had strong incentives to maintain off budget any unexpected surge in externally funded expenditure, previously not factored into the IMF's domestic primary deficit target. For example the Ministry of Finance would refuse the inscription in the budget of any externally funded expenditure item that was not backed by a signed commitment by donors. In this context, delays in donors' pledges often led aid-funded projects to remain off budget, even when information was fully available and both donors and beneficiary government agencies were willing to bring these projects on budget (Hodges and Tibana, 2005:61).

Secondly, the primary deficit target created strong incentives to misclassify budget expenditure, reporting as investment expenditure the full value of donor funded projects, even when a (often significant) proportion of these funds were destined for recurrent expenditure purposes (Cabral *et al* 2005). For instance, a 2003 study of the health sector found that around 77% of total resources available in this sector (and 66% of its external financing) were used to finance recurrent costs, a much higher value than the agreed rate of 50% approved in the budget by parliament (Batley *et al*, 2005: 71).

In recent years, both government and donors have been working to eliminate the distortions that this domestic primary deficit target poses on efforts to bring aid on budget and to report them appropriately. After several steps in this direction (e.g. a more flexible approach by the Ministry of Finance towards the registration on budget of externally funded projects, or a twice-yearly revision of the primary deficit target to incorporate new information on aid), the government and the IMF have recently agreed to drop altogether this target from the Mozambique new IMF Policy Support Instrument (PSI). In this document this target has been replaced by an asymmetric ceiling on net credit to the government from the banking system (IMF, 2007:13).

3.26. Outcomes in this area of putting aid on budget are also mixed with regards to efforts by the government to improve the quality and quantity of the information it reports in its annual budget on external financing mechanisms.

3.27. At this level, a first problem arises from line ministries, provincial and district governments and even donor agencies' fear that reporting the ODA they receive on budget will reduce the overall amount of budget funds made available to their departments by bringing to light the true level of resources they access. Put in other words, a concern that as 'new' externally funded projects come to light or, similarly, additional aid funding is made available, the Ministry of Finance will reduce domestic budget funding for these projects in the same proportion. This fear highlights the fungibility of budget funding (Orlowski, 2006). As a result of these concerns, these government and donor agencies are frequently reluctant to report the full extent of aid they receive/give.

3.28. In addition, weak inter-sectoral coordination and communication links between line ministries, provincial governments and the Ministries of Finance and Planning and Development together with the incomplete integration of planning and budgeting instruments results in the exclusion from the budget document of aid funded projects of which line ministries and provincial governments do have detailed information. This factor, partly explains the greater coverage in the budget given to sectors such as health, agriculture and education, with which the Ministries of Finance and Planning and Development have a long established working relationship and which have also developed reasonably robust planning, budgeting (e.g. sector MTFs) and aid management (e.g. SWAs) systems in recent years.

3.29. With regard to the quality of information on external funding received by the government, the budget document presented to parliament (GOM, 2006b) does presents a breakdown of investment expenditure by source of funding, distinguishing between internal and external sources, with the latter corresponding to ODA-financed government expenditure. However, there is no detailed breakdown of the exact source (i.e. donor) of funding. Similarly, the section in the budget document that presents resource availability also indicates government resources originating from grants and loans, yet with no detailed breakdown of the exact source of these resources or of their nature (e.g. GBS, common funds financing, project aid etc.), although the government has committed to improve the quality and detail of the information it reports on resource availability.

3.30. In some instances, such as in the case of general budget support aid, this lack of information is understandable, given that, by its very nature, this type of assistance is not earmarked for any specific expenditure purpose. However, in other instances this is not the case, as with project aid or even earmarked disbursements made under sector SWAp arrangements. Whilst, from the perspective of the government or parliament there may be no additional benefit in providing more detailed information of external budget financing, efforts in this direction provide greater transparency in the budget process and, in addition, could contribute to increase the amount of aid on budget at the various levels if, by doing so, donor agencies find that the Mozambican budget process, throughout its various stages, provides them with the various tools and mechanisms (e.g. M&E, audit, etc.) they require to properly manage their donor activities in Mozambique.

3.31. In any case, it should be noted that the MOF does collect far more information on ODA funding than that reported in the budget document. This is evidenced, for instance, in the forms that line-ministries, provincial governments and district administrations are required to complete as part of the budget preparation process. These include detailed information on investment projects financed with external funds, including the source of funding (donor agency), its nature (loan, grant), purpose, length and how these funds are managed through the Mozambican PFM system.²¹ In this respect there would appear to be significant scope to improve the quality and detail of information regarding ODA funding of government programmes in the Mozambican annual budget and accompanying documents.

3.32. Finally, there are also concerns on the quality of information on external funding for investment projects included in the budget that is passed on by line ministries to the MOF during the budget preparation process. For instance, the recent government audit of the Water Sector (GOM, 2006a) finds very important discrepancies between the reported values of

²¹ These forms can be downloaded from the Mozambican Budget Office's website at www.dnpo.gov.mz.

externally funded investment projects included in the 2005 budget and the actual or real funding available for these same projects, with discrepancies largely reflecting miscalculations involving the use of the wrong foreign currency exchange rates.

Aid capture on parliament

3.33. A third dimension in the process of putting aid on budget refers to how ODA funds given to the government are dealt with by parliament, as part of the usual budget parliamentary sessions to discuss, approve and review the budget. Assessing aid capture at this level requires examining whether aid to the government is fully part of the parliamentary appropriation process and, if so, how complete, credible and useful is the information given to parliament. Even in the event that parliament does not formally approve aid, it is also important to know how parliament engages with information on aid flows that appears in the budget or that is presented in other related documentation, the quality of parliamentary budget reviews, etc.

3.34. In the Mozambican context, the Assembly of the Republic has no legal authority to approve aid to the government. What it does approve is the national budget presented every year by the government to parliament. In this respect, inasmuch the budget proposal presented by the government to parliament incorporates, as part of its resource base, expected aid disbursements to the government (e.g. in the form of direct budget support, common funds, technical assistance, etc.) the Assembly of the Republic does play an indirect role in debating and sanctioning the use that the government makes of the aid it receives from the donor community in Mozambique.

3.35. In a similar way, the fact that the government's budget performance, including in its use of external resources, is also examined by the Assembly of the Republic, implies that parliament indirectly also plays a role in assessing the use that government makes development aid made available to the government and included in the budget document. This budget review process takes place twice yearly, at the middle and end of the budget year, during the debates organized to examine both the government's budget execution report – *Relatorio de Execucao do Orçamento* – and the implementation of the government's annual social and economic plan: the *Balanço do PES*.

3.36. However, the quality of both the approval and review of the budget and its accompanying documents is generally considered weak (See, e.g., de Renzio and Sulemane, 2006). This is partly because parliament's lack of technical, human and financial resources, undermines its ability to undertaking a thorough analysis and control of budget proposals and execution, including in its external component. Whilst some donors are, directly or indirectly, supporting capacity building initiatives for the Mozambican parliament,²² the small size of these projects and Parliament's very weak technical and human capabilities base suggest there is significant scope to work at this level and, this way, improve parliamentary oversight of the national budget, including in its external component.

3.37. In addition to parliament's weak capacity, the 'politicization' and the underlying tensions between the (FRELIMO) government and the main opposition party, RENAMO,

²² The ODAMOZ database only records one capacity building project for the National Assembly currently being implemented by the UNDP and with a budget of 500.000 USD. Indirectly, the Netherlands also funds a capacity building/exchange programme between the Dutch and the Mozambique parliaments (Communication with Jolke Oppewal, economist at the Embassy of the Netherlands in Mozambique).

impede an in-depth and more objective examination by this chamber of the government's budget proposals and subsequent budgetary performance. Ultimately, these tensions end up by affecting the quality of parliamentary budget debates. In this line, Hodges and Tibana (2005) find that: *'there is no real Frelimo budget policy different from that of the government. The content of the budget comes from the executive, not from the party. When the budget and PES proposals are submitted to the Assembly [...] deputies can raise questions or ask for further information, as long as this does not represent a challenge to the collective interest of the party'* (p134). Additionally, the main opposition party, RENAMO, *'has contributed little to a serious discussion of the budget in Parliament [and] the party has not presented alternative opinions over macro-fiscal matters or the sectoral and territorial allocation of expenditure'* (p136). In this respect, de Renzio and Sulemane (2006:19) argue that *'as a result of these political circumstances a serious review of reporting instruments does not usually generate any challenges to the government to improve its performance, as documents are usually approved in full by a 'blocked majority', and rejected in full by a 'blocked opposition'*.

3.38. Still, this situation of weak capabilities and poor parliamentary budget debates appears to be slowly improving. In this respect, de Renzio and Sulemane (2007:19) note that: *In a more limited way, Parliament, mostly through the Commission for Planning and Finance (Comissão do Plano e Orçamento, CPO), is putting increasing pressure on government to use public funds more effectively, despite its limited analytical capacity. The CPO regularly presents government with comments and requests on OE and PES proposals, questioning numbers, providing evidence from field visits, and pushing the government to provide better and more comprehensive information.'*

3.39. Finally, at this level of bringing aid on parliament it is necessary to reflect on the role and legitimacy of the Assembly of the Republic in the budget process vis-à-vis that of new accountability mechanisms that have emerged in the past few years in Mozambique, such as the Joint Review exercise between the government and the PAP donor agencies or the Poverty Observatory. Clearly, the creation of both these mechanisms has been instrumental in improving donor-government dialogue and accountability to civil society. Therefore, they have positively influenced donors' decisions to bring aid on budget. However, despite these benefits, it is necessary to consider whether the emphasis placed on government accountability to donors and civil society, which has led to the establishment of these parallel mechanisms, is undermining, or even supplanting, the parliament's role of ensuring democratic accountability and oversight of the government's activities.

Aid capture on treasury

3.40. A fourth key step in the process of bringing *aid on budget* relates to whether funds made available to the government by donor agencies in Mozambique are disbursed through the national treasury and managed through the government's existing payment systems, rather than relying on parallel deposit and payment systems that may exist at a sub-central level (e.g. in line ministries or provincial governments), or on those created *ad hoc* in specially established project management units.

3.41. Over the last decade, bringing *aid on treasury* has centered much of donors and government's efforts to bring aid on budget. In fact, improving aid capture at this level has been one of the main objectives of the donor-government on/off budget taskforce created in 2005 to increase the use of local planning, budgeting and PFM systems to manage aid-related funding.

3.42. In the past, a key factor deterring donors and recipient government agencies alike from using the Mozambican central treasury and payments system had been the lack of reliability, timeliness, flexibility and transparency of the Mozambican public financial management system and the associated problems of liquidity that frequently affected the central treasury (Cabral *et al.*, 2005:37-8).

3.43. In addition, the way the treasury system was originally conceived, made it burdensome and costly to process foreign currency payments for imports of goods and services, which were often an important component of these aid/development projects. In this respect, it was felt that disbursing and managing aid through the central treasury and payments system came at the cost of reducing the effectiveness of donor-funded projects in these areas.

3.44. Furthermore, in some specific instances, donor agencies are barred by their own governments from using the local public financial management systems to disburse and manage the payments associated to the programmes they operate in the field; or, similarly, their own financial management rules are not fully compatible with those operated by the Mozambican government (Cabral *et al.*, 2005:40).

3.45. In this sphere of the usage of the Mozambican treasury system to process aid-related payments, the figures reported in the 2006 PAP performance review (Castel-Branco, 2007) provide the most recent and comprehensive estimates of aid capture on treasury in Mozambique. At this level, the overall degree of aid capture on treasury for this group of PAP countries is estimated in this report at 43% for 2006. Whilst this proportion is significantly lower than that reported for aid reported on budget documents, it is only just slightly below the intended target set out by these groups of donor agencies for 2006, which was established at a level of 45%.

3.46. As with ODA reported on budget, there is considerable variability within this group of PAP agencies in the extent to which they make use of the government treasury and payments system. Donor countries or agencies such Belgium, DFID, Finland, the Netherlands or Ireland currently disburse most of their aid to the government into the treasury, with this share above the 75% mark in all five cases. Others, however, have been particularly laggard in meeting the PAP target of 45%, especially Spain (19%), Portugal (13%) and Denmark (6%), although in this latter its low share appears to respond to Denmark's concerns over the use the Mozambican government was making of its aid funds.

3.47. Outside this group of agencies, progress in using treasury systems to process payments of aid funds has been significantly slower. Hence, figures reported in the recent OECD 2006 *Survey on Monitoring the Paris Declaration* (2007) put the share of aid executed through Mozambican public financial mechanisms (i.e. disbursed through the treasury system) over total aid to the government of Mozambique at 14% for Japan, just over 1% for United Nations agencies and 0% for USAID and funds from the GAVI Alliance. In this context, the Global ATM Fund emerges again as an exception within this group of non-PAP agencies with all of its funds to the government disbursed through the Mozambican treasury system.

Table 9: ODA to Government through the treasury system, 2005 and 2006 (USD).²³

PAP's	2005			2006		
	Total ODA to GOM	ODA to GOM through treasury payment system	% of ODA to GOM through treasury	Total ODA to GOM	ODA to GOM through treasury payment system	% of ODA to GOM through treasury
African Dev. Bank	118,710,690	44,584,500	37.56%	107,165,594	58,772,400	54.84%
Belgium	6,411,082	6,348,228	99.02%	6,209,950	6,033,960	97.17%
Canada	44,937,009	16,013,659	35.64%	38,596,799	20,987,064	54.38%
Denmark	49,991,857	10,097,325	20.20%	45,081,191	2,524,331	5.60%
DFID	71,597,418	55,301,020	77.24%	87,614,023	74,156,364	84.64%
European Union	140,274,368	78,881,450	56.23%	138,886,202	64,538,225	46.47%
Finland	22,099,788	12,350,761	55.89%	24,690,570	20,601,292	83.44%
France	16,014,853	4,399,762	27.47%	17,107,780	4,228,096	24.71%
Germany	37,448,136	4,399,762	11.75%	65,493,602	12,570,749	19.19%
Ireland	40,301,284	16,612,095	41.22%	43,215,008	33,689,607	77.96%
Italy	28,846,599	8,045,279	27.89%	32,455,210	-	0.00%
Netherlands	48,966,336	39,815,333	81.31%	48,750,307	39,355,495	80.73%
Norway	58,594,099	17,954,503	30.64%	53,708,255	20,516,615	38.20%
Portugal	21,082,111	1,479,492	7.02%	11,520,556	1,494,383	12.97%
Spain	23,498,893	3,771,225	16.05%	22,973,685	3,771,225	16.42%
Sweden	50,156,404	18,893,387	37.67%	72,259,319	32,388,664	44.82%
Switzerland	15,030,012	8,460,418	56.29%	11,179,358	7,125,436	63.74%
World Bank	253,270,000	66,500,000	26.26%	249,950,000	63,990,000	25.60%
TOTAL	1,047,230,939	413,908,200	39.52%	1,076,857,410	466,743,906	43.34%

Source: Castel-Branco (2007)

3.48. Similarly to efforts to register aid on the budget, dynamics in the sphere of aid capture on treasury also appear to have been driven, to a considerable extent, by the growing use that donor agencies in Mozambique are making use of programmatic modalities of aid disbursement and management. (See Table 9 below).

3.49. Still, whilst the association between PAP country shares of programmatic aid over total ODA and the proportion of aid to the government disbursed through the treasury system is considerably strong and growing –with correlation coefficients of 0.6049 and 0.6609 in 2005 and 2006 respectively – the correlation between these same shares growth rates is, at 0.5009 somewhat weaker than with efforts to register aid on budget. These results suggest that whilst, in general, it is generally countries with a greater commitment to programmatic aid those that make most use of the Mozambican treasury system, increases in share of programmatic aid, whilst still important, have, statistically, been less instrumental in bringing aid on treasury in the last two years in Mozambique. They would also indicate that the ‘aid on budget’ benefits of using programmatic aid fade out as one moves along the budget cycle and the PFM requirements and/or constraints on financial management become more stringent.

²³ This data should be viewed with caution, since there are no clear and agreed definitions on what the ‘through the treasury payment system’ exactly means (Castel-Branco, 2007:41).

Table 10: Aid on treasury vis-à-vis programme aid, 2005 and 2006 (USD).

PAP's	2005		2006		Δ 2006/ 2005	
	% of programmatic ODA to GOM	% of ODA to GOM through treasury	% of programmatic ODA to GOM	% of ODA to GOM through treasury	% of programmatic ODA to GOM	% of ODA to GOM through treasury
African Devpmt. Bank	38.3%	37.56%	56.13%	54.84%	46.45%	46.02%
Belgium	58.82%	99.02%	60.73%	97.17%	3.24%	-1.87%
Canada	52.28%	35.64%	60.48%	54.38%	15.69%	52.59%
Denmark	88.38%	20.20%	82.43%	5.60%	-6.73%	-72.28%
DFID	91.59%	77.24%	91.91%	84.64%	0.35%	9.58%
European Union	66.92%	56.23%	54.47%	46.47%	-18.61%	-17.37%
Finland	55.89%	55.89%	84.21%	83.44%	50.68%	49.30%
France	45.13%	27.47%	38.08%	24.71%	-15.63%	-10.04%
Germany	11.82%	11.75%	45.49%	19.19%	284.71%	63.37%
Ireland	92.73%	41.22%	99.20%	77.96%	6.98%	89.13%
Italy	42.69%	27.89%	n.a	n.a.	--	--
Netherlands	92.81%	81.31%	89.24%	80.73%	-3.85%	-0.72%
Norway	68.46%	30.64%	71.50%	38.20%	4.44%	24.67%
Portugal	7.19%	7.02%	13.14%	12.97%	82.75%	84.84%
Spain	33.96%	16.05%	28.83%	16.42%	-15.13%	2.29%
Sweden	67.54%	37.67%	70.73%	44.82%	4.72%	18.99%
Switzerland	85.23%	56.29%	84.54%	63.74%	-0.81%	13.23%
World Bank	26.26%	26.26%	25.60%	25.60%	-2.50%	-2.50%
Correlation coefficient	0.6049		0.6609		0.5009	

Source: Own calculations based on Castel-Branco (2007)

3.50. It is in this context that the reforms that the government, with assistance of its international aid partners, has been pushing forward to upgrade and modernize its PFM systems should be viewed. Hence, these reforms have allowed the government to address some of the problems described above as constraining PFM operations and, therefore, have facilitated the process of bringing aid on budget at the treasury, public accounting and procurement system levels.

3.51. For instance, with regard to treasury operations, the government has been working to merge all financial accounts into one single treasury account (*Conta Única do Tesouro*, CUT), and to bring all available sources of funding –both internal and external– under the umbrella of the Mozambican integrated budget and PFM system. This process has helped to bring order and clarity to the treasury system and, consequently, increase its transparency and efficiency, encouraging donors to disburse a growing proportion of their funds to the government through the treasury system, and government agencies to rely on these systems more willingly. For example, since 2007 some of the larger sectoral common funds are now being managed through the CUT and are, therefore, on treasury (GOM/PAP, 2007c: Annex 4). These include the PROAGRI common fund in Agriculture, the FASE fund in education, PROSAUDE in the health sector, SISTAFE and ASA

Box 2: Aid on treasury and the single treasury account

A key step in government and donor efforts to bring aid on budget and, in particular, to process aid funded government payments through the treasury system – i.e. aid on treasury – was the creation, in 2003, of the Single Treasury Account, CUT in its Portuguese acronym.²⁴

The idea to set up a single account for cash management within the Mozambican public administration dates back to the World Bank's 2001 Public Expenditure Review of Mozambique. This document advocated the creation of a single treasury account defined as an account, or set of linked accounts, through which the government manages all inflows and all outflows of funds (World Bank, 2001:55). In this respect, it argued that its creation would facilitate a consolidated management of the government's cash balances and a consolidated view of all government cash holdings at any point in time (*ibid.* p.80).

In its current form, the Mozambican single treasury account follows the active single treasury account model, by which all payment orders are issued by spending government agencies within the limits of their cash ceilings, as established in the budget, whilst payments are made by the treasury (*ibid.* p. 63). In effect, under this active model the treasury acts, *de facto*, as the State banker centralising all payments linked to budgetary operations (*ibid.* p.67). The creation of the Mozambican single treasury account has been greatly facilitated by the implementation of the SISTAFE PFM reform and, in particular, the design and rollout of the e-SISTAFE electronic financial application, which underlies the Mozambican PFM system.

The establishment of the single treasury account has been instrumental in the process of putting aid on budget in Mozambique and bringing its associated PFM benefits. Hence, its creation directly addresses one of the main causes behind the phenomenon of off budgets: the lack of transparency within the treasury system, which deters donors from using local public financial management systems. At the same time it is perhaps one of the most visible manifestations of the PFM benefits brought by aid capture on treasury, given the immediate benefits the government/treasury draws from having the number of accounts it uses for its treasury operations reduced to one.

3.52. On the other hand, the introduction of the e-SISTAFE electronic financial application is enabling government agencies operating at the various levels of the public administration to directly execute their budget lines, whilst processing and accounting for their financial operations in a more simplified way. Again, these initiatives are increasingly facilitating and improving the quality of payment processes done through the Mozambican PFM system, including those relating to ODA funds. This, in turn, encourages the use of local PFM mechanisms to channel and execute donor funds; in other words, to bring *aid on treasury*.

3.53. To further encourage and facilitate the use of the national treasury system to channel and disburse aid funds, the government has recently developed operational guidelines for donors on how to use the CUT system. It is also running some trial session for key donors on how the CUT operates, in order to increase donors' familiarity and understanding of how treasury operations and direct budget execution will work once e-SISTAFE is fully operational throughout the Mozambican public administration.²⁵

3.54. Still, whilst significant progress has been made in Mozambique at this level of treasury management, contributing to bring ODA funding *on treasury*, important challenges remain to be addressed within this sphere of PFM reform. Among others, the 2007 Joint Review

²⁴ Conta Única do Tesouro.

²⁵ Based on communications with Jolke Oppewal, economist at the Embassy of the Netherlands in Maputo and active member of the off/on-budget taskforce.

exercise (GOM/PAP, 2007) highlights the following problems and shortcomings as potentially undermining future progress in bringing aid on budget at this level:

- a. Direct expenditure execution through the CUT system is still limited and almost non-existent for projects. Hence, estimates for 2006 suggest that only 4.2% of budget transactions, corresponding to 2.7% of total budget expenditure) were directly executed through e-SISTAFE.
- b. The system still cannot manage multi-currency operations, which has long been identified as an important impediment in bringing aid funding *on treasury*, although concrete steps in this direction are expected to take place still within 2007 (IMF, 2007).
- c. There is still significant work to be done by both donors and government to achieve the PAF indicator of having at least 60% of external funds (ODA) channeled through the single account system by 2009; approximately USD 900 million.

3.55. In addition, there are still many agencies, namely at district level, that cannot operate e-SISTAFE to execute their budgeted funds, since they do not have the required facilities: regular electricity supply, IT systems or local banking facilities. On the other hand, not all components of the budget can be managed through this electronic financial application, undermining efforts to bring all payments, including those associated to ODA funding, through the government treasury system. Finally, not all client and contractors/suppliers' bank accounts have been included in the system. As result, a large proportion of the government's financial transactions continue to be undertaken under the old system of payments by cheque.

Aid capture on account

3.56. Within the sphere of public financial management activities, aid on accounting constitutes the next step in the chain of analysis of aid capture throughout the Mozambican budget cycle. Aid on accounting refers here to whether aid funds made available by donors to the government of Mozambique are processed using existing accounting systems, in line with the government financial classification system and making use of the same accounting procedures.

3.57. At this level, no precise and comprehensive estimates exist on the volume of aid funding to the government currently being processed through the Mozambican accounting system. By definition, all donor funds disbursed as general budget support are currently processed using accounting systems and, therefore, are captured *on account*. Also most aid funds channelled through common funding arrangements in agriculture, education and health, which, since 2007, are being disbursed through the CUT system.

3.58. In this sense, as discussed in Section 2.3, in Mozambique developments in the sphere of financial accounting have gone hand-in-hand with those relating to treasury management. Thus, as noted in relation to problems in this latter sphere, in the past, the excessively bureaucratic and rigid accounting system in place in Mozambique and the weak human and technical capabilities that existed in government at this level have acted as an important deterrent for donors to bringing aid on budget at the various relevant stages in Mozambique.

3.59. Thus, the very stringent documentary requirements associated with the duodécimo system of advance payments (see section 2.3.), combined with difficulties that government agencies often had with meeting these documentary requirements on a timely basis – particularly intense at a provincial and district level where the government's administrative capacity is still very weak – and the numerous problems of mismanagement and poor

accounting had led many donors to opt, altogether, for parallel and, consequently off-budget, accounting arrangements in their dealings with government agencies. In this sense, in the same way that liquidity problems affecting the Mozambican treasury system had been a critical factor behind the propagation of off-treasury payment arrangements as a way of circumventing the negative effects that these liquidity problems posed on project implementation, off-accounting arrangements have often emerged as a way donors and recipient government agencies have of overcoming the difficulties posed by these obsolete accounting systems, especially with regard to obtaining aid-related budget funding through the Mozambican treasury system.

3.60. In this context, reforms being undertaken under the SISTAFE reform package are seen as being instrumental in encouraging donors to bring aid on budget, also at the accounting level. Hence, these reforms are leading to the simplification of documentary and accounting procedures. For instance, once e-SISTAFE is fully rolled out, government agencies will no longer be required to process their requests for funds on a fixed date on a monthly basis, with fund disbursement conditional upon the presentation and approval of all the documentation relating to past expenditures, a system which in the past generated important delays and bottlenecks due to the lack of the human and technical resources required to deal with this volume of accounting processes. Instead, as long as funds are available in the treasury, agencies will be able to directly execute their funds whenever needed, whilst the weight of the accounting process will largely rest on post-payment accounting and audit systems.

3.61. Still, one important precondition for success in this sphere of bringing aid on account and, in particular, for warranting that the roll-out of e-SISTAFE and direct budget execution translate into concrete increases in degree of aid capture *on account* is the existence of strong internal control and audit systems. These systems are critical to ensure the correct use and management of all government funding, and that new accounting procedures introduce on account of the SISTAFE reform are met by all levels of governments for all types of funds, therefore assuring donors they can rely on national PFM systems. ‘Aid on Audit’ at this internal level is discussed in greater detail in section 3.7 below.

Aid capture on report

3.62. The next level of analysis of aid capture throughout the Mozambican budget cycle relates to efforts to include aid funding on report. Aid capture at this reporting level refers to whether aid is reported in official government *ex ante* and *ex post* financial and non-financial reports and to whether these reporting mechanism provide useful and credible information by which relevant stakeholders can assess how effectively aid has been spent by government.

3.63. With regard to developments at this level, the government of Mozambique has been working to improve its reporting on budget execution of external financing. In this line, the National Directorate for Public Accounts is now producing up to four quarterly BERs and an annual consolidated financial statement known as the Conta Geral do Estado (CGE), as already discussed in Section 2.3 above.

3.64. Both documents report on budget execution levels for externally funded investment projects, as accounted for by the Mozambican national accounting office, the DNCP.²⁶ In the case of the BERs, they do so following a similar structure to that used in the budget document, in terms of how information is organized and presented. For instance, investment

²⁶ Direcção Nacional de Contabilidade Pública (National Directorate for Public Accounts).

projects are presented by source of funding, according to the organic classifier, including whether investment is internally or externally funded (GOM 2006d).

3.65. Still, it is important to note that execution levels reported in these documents for the external component of investment refer only to externally funded projects registered in the budget and which have been processed through the public accounts system. Therefore, it continues to leave out a very significant amount of externally funded investment projects that are not reported in the budget or, simply, not captured in the public accounts system.

Table 11: Aid capture on Financial Reporting, 2005 (USD Million)

	Total ODA to GOM	ODA to GOM in Financial Reporting	% of ODA to GOM in Fin. Reporting
African Dev. Bank	113	43	38.05%
Belgium	6	2	33.33%
Canada	26	8	30.77%
Denmark	52	12	23.08%
European Commission	136	62	45.59%
Finland	22	7	31.82%
France	5	0	0.00%
GAVI Alliance	3	0	0.00%
Germany	38	21	55.26%
Global Fund ATM	15	15	100.00%
IMF	0	0	n.a.
Ireland	38	28	73.68%
Italy	20	8	40.00%
Japan	14	0	0.00%
Netherlands	42	22	52.38%
Norway	52	16	30.77%
Portugal	17	1	5.88%
Spain	10	4	40.00%
Sweden	64	18	28.13%
Switzerland	13	8	61.54%
United Kingdom	70	55	78.57%
United Nations	97	1	1.03%
United States	47	0	0.00%
World Bank	232	65	28.02%
Total	1133	396	34.95%

Source (OECD, 2007b)

3.66. In terms of specific evidence of aid capture on report the OECD's *2006 Survey on Monitoring the Paris Declaration* perhaps presents the most comprehensive and updated quantification of aid capture on report by all major donor agencies with programmes in Mozambique (see Table 10 above). Altogether, in 2005 aid capture on official financial reporting instruments for the 24 agencies surveyed for this study reached a proportion of almost 35% of total aid allocated to the government, with relatively similar shares for most countries and only three agencies having more than 70% of their aid to government included in these financial reporting exercises: Ireland, with a level of 73.7%, the UK (78.6%) and the ATM Global Fund, which had all of its funds reported by government.

3.67. At this level of aid capture on account the 2007 government-PAPs Joint Review reports that considerable improvements have been made in the quality of the budget execution reports

(GOM/PAP, 2007: 13). This is particularly the case in relation to the new format used, the transparency of information included in these reports, and in terms of their timely submission, with further improvements expected as the volume of budget expenditure directly executed through e-SISTAFE's direct budget execution module increases. In this respect, it is noteworthy that in 2006 the BER was produced on the basis of information generated by e-SISTAFE, which enabled many of the improvements outlined above. Still, at the same time it finds that greater efforts need to be put to increase the amount of information presented using the functional and programmatic classifier so as to increase the usefulness of these reports for government agencies and other stakeholders.

3.68. With regard to specific problems regarding reporting on external finance this same Joint Review exercise reports some problems in the water sector in the flow of information on aid disbursement between donors, the MOF and, ultimately, the agency responsible for this portfolio, the National Water Office (DNA), for projects which are currently being implementing directly by donors. Still, this same review appears confident that these informational problems will be solved once the SWAp in this sector is fully operational, as well as when the DNA starts making use of the information available on the ODAMOZ database on donor funded projects in this sector (GOM/PAP, 2007:94).

3.69. Finally in relation to the annual consolidated financial statement known as the Conta Geral do Estado (CGE) the 2006 PEFA report of Mozambique finds this report

[...] 'is prepared on a regular basis. The detail of information in relation to revenue, expenditure, bank balances and financial assets may not always be complete but the omissions are not so significant as to undermine its utility. The level of detail on income and expenditure could be much higher than it actually is and is expected to be expanded with the new classification system for e-SISTAFE. Since 2004, the Conta Geral do Estado has been submitted for external audit within five months of the end of the fiscal year. The statements have been presented in a consistent manner over the last few years with some disclosure of accounting standards used, but there are points of inconsistency with international standards. (Lawson et al, 2006: 37).

Aid capture on audit

3.70. A final dimension that needs to be examined in the process of bringing aid on budget refers to whether aid funding to the government is subject to the same auditing systems as other sources of budget financing. Also to whether existing audit systems generate valuable, complete, credible and timely audit outputs for their use by both government and international donor agencies, including outputs on how aid funding is managed by the government.

3.71. At this level, it is generally considered that the full implementation of reforms envisaged in these spheres of internal and external audit will be critical to accelerate the pace at which donors make use of local planning, budgeting and PFM systems and, therefore, to increase aid capture on budget at all relevant levels. Hence, in a context in which the growing use of programmatic aid modalities increases the fiduciary risk associated to this type of (more fungible) aid funding, donor agencies will only be willing to fully use local PFM systems to disburse their funds if they have assurance that: (1) internal audit and control systems can ensure the correct use and management of the external funding the government receives; and (2) the Tribunal Administrativo can provide a full audit of the use the government makes of its funding, including its external component.

3.72. In Mozambique the state audit system comprises two separate sub-systems: Internal audit, which is under the responsibility of the Inspector General of Finance (IGF), an agency organically dependent on the MOF; and external audit functions, which are undertaken by the Administrative Tribunal, which is wholly independent from the government and part of the Mozambican judiciary system.

3.73. In relation to the internal audit sub-system, at present the IGF carries out periodical internal audits of the government policy and administrative systems at its various levels: central, sector, provincial and district. These audits have also included exercises that have examined, separately or as part of wider audits, existing public financial management practices and systems. Some of these audit exercises have included detailed assessments of systems and mechanisms in place within the Mozambican PFM framework to manage aid funds to the government (e.g. see, GOM, 2006a and 2004b).

3.74. In some cases, these audits have actually been sponsored and partly financed by aid agencies operating in Mozambique and have included specific analysis of the use made by the government of funds made available by these donor agencies. This is, for instance, the case of the audit exercise of the provincial government system in Niassa (GOM, 2004), sponsored by Irish Aid, which runs an Area Based Programmed in that province. A similar case is that of the support received by IGF from the Netherlands in its audit of the water sector, in which the Netherlands is an important donor (GOM, 2006a). In both cases these audit exercises included an extensive and in-depth analysis of the use the government makes of funds made available by these two agencies, with recommendations for the government on how to improve the use of this external funding.

3.75. Overall, in this sphere of internal audit functions, the 2007 Joint Review exercise considers that there have been considerable improvements in the ability of the IGF to undertake its role of internal auditor. Furthermore, these improvements have taken place in a context in which the number of internal audits this agency undertook in 2006 has more than doubled those undertaken in 2005 (GOM/PAP, 2007: 3, 37). However, beyond this specific institution, the national internal control system, in the form of the various Internal Control Units established throughout the Mozambican public administration, remains weak, mainly as a result of lack of financial and human resources available to these institutions (GOM/PAP, 2007: Annex 4, 35).

3.76. With regard to external audit functions, the State's General Account report (Conta Geral do Estado, CGE) is being submitted to the Mozambican Administrative Tribunal for its external audit since 2004. This external audit exercise includes an exhaustive analysis of the use made by the government of external sources of funding for each of the main priority sectors (e.g. health, education, water, agriculture, etc.), with a full section of the report devoted to this purpose. Since 2005, this analysis is not limited only to external ODA funding included in the budget (aid captured on budget), with the Administrative Tribunal now also auditing financial information received from the government on externally funded investment projects directly executed by donor agencies or line ministries and which do not appear in the state budget. This external audit is a legal document and fully available to the public.²⁷

²⁷ See www.ta.gov.mz.

3.77. In this sphere external audit on aid funding to the government, the OECD's 2006 *Survey on Monitoring the Paris Declaration* provides again the most comprehensive and up-to-date figures of aid capture on audit in Mozambique (See Table 11 below). In all, according to the results of this survey, 32.9% of aid funding to the government was captured by the Tribunal Administrativo's annual external audit exercise of the 2005 CGE. With some few exceptions (e.g. Canada, Germany, GFATM) the degree of aid capture on audit follows similar patterns to those reported at other levels of efforts to bring 'aid on budget' discussed in preceding sections.

Table 12: Aid capture on Audit, 2005 (USD Million)

	Total ODA to GOM	ODA to GOM in Financial Reporting	% of ODA to GOM in Fin. Reporting
African Dev. Bank	113	42	37.17%
Belgium	6	2	33.33%
Canada	26	2	7.69%
Denmark	52	13	25.00%
European Commission	136	53	38.97%
Finland	22	5	22.73%
France	5	0	0.00%
GAVI Alliance	3	3	100.00%
Germany	38	5	13.16%
Global Fund ATM	15	0	0.00%
IMF	0	0	n.a.
Ireland	38	28	73.68%
Italy	20	8	40.00%
Japan	14	2	14.29%
Netherlands	42	22	52.38%
Norway	52	19	36.54%
Portugal	17	1	5.88%
Spain	10	6	60.00%
Sweden	64	18	28.13%
Switzerland	13	10	76.92%
United Kingdom	70	55	78.57%
United Nations	97	17	17.53%
United States	47	0	0.00%
World Bank	232	60	25.86%
Total	1133	373	32.92%

Source (OECD, 2007b)

3.78. Overall, in its review of the work undertaken by the Administrative Tribunal, the 2007 Joint Review exercise reports that important steps have been taken to improve the external audit subsystem in Mozambique. Hence, the Administrative Tribunal has recently concluded the preparation of its Corporate Plan for 2007-2010. There has also been a substantial increase in its external audit activities, with the number of financial audits increasing by 148% between 2005 and 2006, 55 audits being undertaken, for the first time ever, at the district level, and the number of audit pronouncements undertaken by this institution growing from a total of eleven (11) in 2005 to forty-five (45) in 2006. Furthermore, in 2006 it was able to submit its audit report of the 2005 CGE to the National Assembly within the time limit established by law.

3.79. Still, this same Joint Review exercise makes a call to improve the dialogue between the government and the Administrative Tribunal in order to solve the critical points repeatedly brought up in the TA reports. This review also finds that the work undertaken by the Administrative Tribunal continues to present important delays and the reports on the CGE are only made public after a lengthy legal process, reducing the transparency of this audit exercise (GOM/PAP, 2007: Annex 4; pp.40).

4. Reflections and concluding comments

4.1. The previous sections have served to provide evidence of aid capture throughout the Mozambican budget cycle and identify specific initiatives undertaken by donor agencies and the Mozambican government to put aid on budget, at the various relevant dimensions. Looking back on this review exercise, some key issues can be identified as driving the Mozambican experience with putting *aid on budget* and shaping current patterns of aid capture at the various stages of the budget cycle.

→ On the role of donor agencies ...

4.2. First of all, it is important to highlight that the process of bringing aid on budget requires the direct and active involvement from both the government and donor agencies, and concerted efforts on both sides. In this sense, the Mozambican experience shows that, whilst in many instances it is the existence of weak local planning, budgeting and PFM systems which leads both donors and government agencies to set up parallel systems to those already in place to manage aid funding to the government, problems in the way donor agencies operate or regarding donor disbursement cycles and procedures have also helped to keep aid funding outside the budget cycle in Mozambique.

4.3. In this sense, the fact that donor practices and, in particular, disbursement procedures, are usually determined at headquarters-level in donor countries suggests that the process of bringing aid on budget will also require out-country efforts, either in donor headquarters offices, where the more strategic decisions regarding aid modalities (e.g. programmatic aid vs. project aid, tied import credits, etc.), country portfolios, etc. take place, or international aid forums (e.g. OECD's DAC), which can complement initiatives undertaken in this sphere by recipient governments and donor agencies operating in the field.

4.4. In this context in which efforts to bring aid on budget requires a strong commitment and involvement of donor agencies, one important lesson to be drawn from the Mozambican case, as well as a valuable experience that should perhaps be extended elsewhere, relates to the role that the Programme Aid Partnership scheme has played as a mechanism to promote best practices within the donor community in Mozambique. Hence, beyond its formal role as a coordinating device of agencies giving programmatic aid, this scheme operates, *de facto*, as a peer review and dissemination mechanism among donors, through which member agencies can assess and learn from other members' best practices and aid experiences in Mozambique. This has been particularly true of efforts to put *aid on budget*, a prime objective for this group of countries.²⁸

4.5. The creation of the PAP scheme has had other important positive spin-offs for efforts to bring *aid on budget*. One of these is the creation of the ODAMOZ database of aid projects which, starting off as a donor-led initiative, is currently being directly managed by the government of Mozambique. Still, whilst ODAMOZ has been an important step in improving information flows between donors and the government, worthy of being exported to other countries, efforts to put *aid on budget* should not be seen as limited only to a process of greater information generation and sharing. Thus, putting aid on budget requires, among other things, a strong dialogue between donors and government, the production and dissemination of timely and accurate information and a long-term commitment from all parties.

²⁸ See Batley *et al* (2005) for a comprehensive review and evaluation of PAP budget support programmes.

4.6. Finally, from this donor perspective, as discussed in section 3.2 a key factor underlying the considerable success achieved in Mozambique in bringing aid on budget has been the growing use of programmatic aid by donor agencies. Hence, in recent years, aid capture on budget in Mozambique has more or less evolved at a par with the increasing use by donors of these types of aid modalities. Still, this should not be seen as a sign that all that is required to bring aid on budget is a simple shift in aid modalities, from project-based initiatives to programmatic aid. In practice, this move has coincided with and been facilitated by the implementation of comprehensive agenda for PFM and general public sector reform, which has increase donors' trust and reliance on local planning, budgeting and PFM systems.

→ *On the role of government-donor dialogue...*

4.7. In this respect, a key factor underlying Mozambique's considerable success in bringing *aid on budget* has been the existence of a strong and fluid dialogue between the government and donor agencies. One prime example of this, and perhaps its maximum exponent, has been the establishment of the Joint Review mechanism, which has been taking place on an annual basis since 2002. Yet, beyond this specific institutional arrangement, donor-government dialogue in Mozambique also includes an extensive network of sector-level working groups, several taskforces set up to address specific issues, project management units or SWAp arrangements.

4.8. In the Mozambican context, this dialogue has helped to identify *off budgets* as a critical problem affecting aid effectiveness and has helped to develop response mechanisms to address the problem of off budgets; for instance the 'on budget' donor government taskforce. This is perhaps most evident in the health sector, where at least two studies (Cabral *et al*, 2005; Pavignani *et al*, 2002) have been commissioned in recent years by the Ministry of Health and its donor partners to specifically examine the issue of *off budgets* in this priority sector. More generally, this dialogue has enabled donors to align their programmes with the government's policies, encouraging them increasingly to use government systems.

4.9. Still, whilst Mozambique has been considerably successful in establishing a positive partnership and dialogue between government and the donor community that has been decisive in concerting efforts to bring aid on budget some important issues remain to be addressed in this sphere. Two would appear as of being of particular importance.

4.10. Firstly, there is a need to improve the cooperation and dialogue on these issues with the NGO sector, with the objective of bringing on board, as much as possible, those actors in the process of improving aid capture in the budget cycle. NGOs are clearly not part of the Mozambican government system, yet, frequently, they are responsible for implementing donor-funded projects within the government administration, making use of aid funds destined to the government. This, for instance, is typically the case of the health sector. In other cases, international NGOs raise their aid funds directly in their home countries. Yet, they still provide services that otherwise would be provided by government (health/AIDS advisory services, education programmes, sanitation projects, etc.). In this respect, whilst it is unlikely that any of these NGOs would want to fully integrate their programmes in Mozambique within existing government financial administration systems, this does not impede a greater level of cooperation between them and the government to improve the information that the latter has of ongoing NGO projects in priority sectors and, consequently, increase aid and policy effectiveness by reducing potential inconsistencies or the risk of duplicating efforts.

4.11. Secondly, the government and its aid partners should ensure that the consolidation of donor-government dialogue in Mozambique, as well as efforts to establish similar mechanisms with the NGO sector do not come at the cost of undermining other existing consultative institutions or interlocutors, such as the parliament or trade unions, which perhaps have greater legitimacy or implantation in Mozambique. In the specific case of the National Assembly, it is important to note that this institution plays a very precise role in the budget cycle of providing budget parliamentary approval, oversight and accountability. Consequently, this institution should be involved in the process of putting aid on budget. In this respect, efforts should be aimed at improving the capacity of this institution of effectively undertaking these budget-related tasks.

→ *Aid on budget and government led PFM reform ...*

4.12. One critical lesson that can be drawn from the Mozambican experience with capturing *aid on budget* is that initiatives of this kind at the various relevant levels need to be accompanied or be undertaken in line with efforts to reform existing planning, budgeting and public financial management systems and build local skills and capabilities in these areas.

4.13. Hence, the problem of putting aid on budget largely stems from donors' and government agencies' perception that local planning and budgeting processes and public financial systems are weak and inadequate. For government agencies these processes and systems are inadequate because they cannot assure the timely disbursements of the funds required to finance the activities and projects they run. For donors, in addition to these shortcomings, which undermine the effectiveness of their aid programmes in Mozambique, there is the added factor that the problems afflicting local planning, budgeting and PFM mechanisms reduce the transparency of these systems and, consequently, increases the level of fiduciary risk associated to the funds they make available to the government.

4.14. In this respect, in the Mozambican context the process of bringing aid on budget has coincided with and been facilitated by the implementation since the late 1990s of a comprehensive reform package of the Mozambican public financial administration framework, SISTAFE. It is at this level that the government can continue to contribute to increase the volume of aid capture on budget in Mozambique, by pressing for the necessary PFM reforms.

4.15. However, although important progress has been made in Mozambique in key areas of PFM reform, such as in improving planning and budget formulation processes and capabilities, treasury management, etc., in others reform has advanced at a slower pace, as in the case of internal and external audit, or with regard to the role of parliament in the budget process. Greater progress in these areas may not only help improve aid capture at each of these specific levels (e.g. aid on parliament, aid on audit), but might also boost progress in other spheres, given the strong interdependencies that exist between different stages of the budget cycle.

Box 3. Bringing aid on budget in Mozambique: Some good and bad practices

Good practices

- ✓ The existence of a *strong donor-government dialogue*, and its articulation through a wide network of specific dialogue mechanisms (Joint Reviews, SWAps, etc.), which have facilitated donor alignment with government-led programmes and the coordination of efforts to bring aid on budget at its various levels.
- ✓ Donors' *increasing use of programmatic aid* modalities, which, by their very nature facilitate efforts to bring aid on budget at the various relevant levels.
- ✓ The adoption by the Mozambican government of an unequivocal *agenda for PFM reform* which has underpinned efforts to bring aid on budget in Mozambique.
- ✓ The establishment of the *Single Treasury Account*, which has added transparency to the treasury system and simplified the management of treasury payments.
- ✓ The setting of *specific AOB targets* as part of the Joint Review mechanism between the government and donors.
- ✓ The creation of a joint government-donor *off/on-budget taskforce* specifically to address the problems undermining efforts to bring aid on budget.
- ✓ The creation of the *ODAMOZ database* of donor projects, which has helped systematize and improve information on aid and donor activities in Mozambique.
- ✓ Recently, the elaboration of specific guidelines for donors on how to disburse their aid funds to the government through the Mozambican PFM system.

'Bad' Practices

- ✗ The *misalignment of donor aid disbursements with government budget cycles*, which impedes reporting aid on the budget document.
- ✗ The difficulties donors have in making *predictable and multiyear commitments*, which would help improve aid capture on plan.
- ✗ The *inability to get some key donor players*, such as the UN agencies or USAID, *on board* donor and government efforts to put aid on budget.
- ✗ The *incomplete operation of key PFM systems* introduced as part of the SISTAFE reform, such as the *e-SISTAFE* financial IT module, which remains to be fully rolled out, or the *CUT*, which is still unable to manage multi-currency operations.
- ✗ In the past, the government's *lack of flexibility with the registration of aid-funded projects in the budget*, which undermined the inclusion of these projects on budget.
- ✗ *Liquidity problems* in the central treasury that discourage the use of local treasury systems by both donors and government agencies.
- ✗ The IMF's *domestic primary deficit* target, which created strong disincentives to put aid on budget and misclassify it.
- ✗ The *parliament's weak capabilities* and the little attention that these institutions have received in budget-related reforms, which undermines aid capture on parliament.
- ✗ An excessively *fragmented approach to PFM reform*.

4.16. Additionally, whilst typically being presented under the umbrella of the SISTAFE reform, the current outlook of donor and government practices in the sphere of PFM appears excessively fragmented, with a myriad of projects running in the various spheres of the budget process (Ulens, 2006:4-6). Although no specific analysis has been made to examine the problems that this may pose for aid effectiveness and bringing aid on budget, evidence from other sectors and countries suggests that fragmentation undermines both aid and policy effectiveness.²⁹ In this sense, it might be worth considering devising a more integrated aid approach to support PFM reform in Mozambique, for instance in the form of a specific SWAp arrangement for this sector that brings together all donor projects operating in this area, improves aid and policy consistency and, eventually, may help to bring aid on budget in Mozambique. Movements in this direction would be in line with the “Strengthened Approach” to PFM that has been developed by the PEFA partners,³⁰ which calls for country-led PFM capacity building and reform programmes that are supported by donor agencies in a coherent, co-ordinated, and programmatic way, among other things (OECD, 2006: 75-79).

➔ *Some final considerations ...*

4.17. Finally, two more general considerations should be made with regard to this process of bringing aid on budget. Firstly, it is important to note that, *off-budgets* have long been identified in the Mozambican context as a critical problem undermining aid effectiveness, alignment and country ownership of development efforts in Mozambique. Hence, monographic studies on this issue date back at least to Austral’s 1999 work on off-budgets in the Mozambican budget system (Austral, 1999), with other studies following on this topic (e.g. Pavignani *et al*, 2002, Cabral *et al*, 2005). The key point to be made here is that, given its structural and overarching nature, the process of putting *aid on budget* is likely to require time and a long-term perspective from all parties involved, and a gradualist approach that takes into account the many interdependencies that exist between the various policy spheres if these objectives of bringing aid on budget at all levels of the budget cycle are to be achieved.

4.18. Secondly, it is also necessary to reflect on the urgency and necessity of bringing all donor funds *on budget at all levels*, especially given the recentness of some of the key reforms undertaken in Mozambique in the sphere of public financial management, and the ongoing challenges that still need to be address in this sphere. Hence, in some instances, for example in the case of large infrastructure projects with a high development impact, such as the construction of roads, bridges or large water and energy infrastructures, the benefits of maintaining ODA off-treasury (although not necessarily off plan or off budget) may outweigh the potential costs of processing aid these project’s funds through national PFM systems. This may be the case, for instance, if existing PFM systems are weak and unreliable and, thus, incapable of managing the funding and accounting requirements associated with this type of projects with the reliability and quality necessary to ensure their timely undertaking.

²⁹ See, for instance, Warren-Rodríguez (2007) on how policy fragmentation has undermined efforts to improve the science and technology content of the Mozambican government’s poverty reduction and growth efforts.

³⁰ The World Bank, European Commission, UK Department for International Development, Swiss State Secretariat for Economic Affairs, French Ministry of Foreign Affairs, Norwegian Ministry of Foreign Affairs, the International Monetary Fund, and the Strategic Partnership with Africa.

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Relevant resources on the Internet

ODAMOZ: Development Assistance to Mozambique Database. <http://www.odamoz.org.mz>

PAP: Programme Aid Partners webpage: <http://www.pap.org.mz>

Ministry of Planning and Development (MPD): <http://www.mpd.gov.mz>

National Budget Directorate (DNPO) <http://www.dnpo.gov.mz>

Technical Unit for PFM Reform: www.utrafe.gov.mz

National Poverty Observatory (OP): <http://www.op.gov.mz>

Grupo Moçambicano da Dívida (Mozambican Debt Group): <http://www.divida.org>

OECD: Development Co-operation Directorate (DCD-DAC): <http://www.oecd.org/>

Appendix 1: Bringing Aid on Budget in Mozambique: Summary Matrix of Recent Evidence and Country Experiences

	Dimension	Evidence of Capture	Quality of Capture	Explanations
B1	On plan	<ul style="list-style-type: none"> ✓ The Mozambican PRSP, the PARPA-II, which constitutes the government's main instrument for strategic planning, includes in its macroeconomic scenario 3 projections of the expected resource envelope, based on variations of external ODA flows made available to Mozambique. ✓ The government's macroeconomic framework model includes three spreadsheets with reasonably detailed projections of expected aid flows to Mozambique, including those disbursed to the government, covering a three-year period. ✓ The public version of the Mozambican MTFF also includes a breakdown of medium term programmed investment expenditure, by source of finance, covering a three-year period, distinguishing between internal and external sources, the latter corresponding to aid funding to the government. ✓ The government also has and incorporates information on expected aid disbursements at lower levels of planning, including at the sector and provincial level. 	<ul style="list-style-type: none"> ➤ The information on external funding currently presented in the MTFF and macro-framework is still limited as a result of: <ol style="list-style-type: none"> 1. Donors' difficulties to supply such information and their inability to define pluri-annual aid commitments for all their programmes in Mozambique. 2. Coordination and communication problems between the Ministries of Finance and Planning & Development, on one side, and line ministries and province governments, on the other, as well as the weak integration of planning instruments at various levels of government 	<ul style="list-style-type: none"> ▪ A key factor behind the considerable success in this sphere is a reasonably strong dialogue that exists, at various levels, between the government and donors. This is evidenced in the numerous formal and informal institutional arrangements that have emerged over the past decade. ▪ The creation of the ODAMOZ database of aid funded projects, which has detailed information for all projects funded by donors participating in this aid dissemination initiative and is an important source of information for the government

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	Dimension	Evidence of Capture	Quality of Capture	Explanations
B2	On budget	<ul style="list-style-type: none"> ✓ 66% ODA to the government made by PAP donors, which includes most of the main international development agencies operating in Mozambique, was reported on budget in 2006. ✓ By specific donor, this share was particularly low for countries such as Germany (44%), Italy (42%), Spain (29%), Portugal (13%) and Denmark (6%), whilst some other donor agencies have fared much better, as is the case of the World Bank (100%) Belgium (97%), Ireland (94%), Sweden (90%), the Netherlands (89%), the UK (87%), France (84%) and Finland (83%) ✓ Whilst no recent data on aid reported on budget exists for countries outside the group of PAP donors, such as the UN agencies, USAID or the new vertical global funds, available evidence suggest that their share of their aid to the government that is reported on budget is well below that of PAP agencies. 	<ul style="list-style-type: none"> ➤ With regard to the quality of information on external funding, the budget presented to parliament does presents a breakdown of investment expenditure by source of funding, distinguishing between internal and external sources, with the latter corresponding to ODA-financed government expenditure. However, there is no detailed breakdown of the exact source (i.e. donor) of funding. ➤ Similarly, the section in the budget document that presents resource availability also indicates government resources originating from grants and loans, yet with no detailed breakdown of the exact source of these resources or of their nature (e.g. GBS, common funds financing, project aid etc.), although the government has committed to improve the quality and detail of the information it reports on resource availability. ➤ In any case, it should be noted that the Ministry of Finance does collect far more information on ODA funding than that reported in the budget document, suggesting there is significant scope to improve the quality and detail of information regarding ODA funding of government programmes in annual budget and accompanying documents. ➤ There are also concerns on the quality of information on external funding for investment projects included in the budget that is passed on by line ministries to the Ministry of Finance during the budget preparation process. e.g., the recent government audit of the Water Sector finds very important discrepancies between the reported values of externally funded investment projects included in the 2005 budget and the actual or real funding available for these same projects, with discrepancies largely reflecting miscalculations involving the use of the wrong foreign currency exchange rates. 	<ul style="list-style-type: none"> ▪ In the past a key factor hindering efforts to bring aid on budget were the (unintended) distortions generated by the inclusion of a domestic primary deficit target in the IMF's macroeconomic and fiscal support programme to the government. ▪ Individual donors' decisions. e.g. Denmark's decision of not disbursing three quarters of their committed GBS funding in response to audits carried out in various Danida funded projects, which it felt revealed cases of serious mismanagement, if not directly corrupt practices. ▪ Difficulties that, sometimes, donors have in providing reliable and timely information on their aid programmes in Mozambique and accurate schedules of their expected aid disbursements. ▪ Donors' choice of aid modality, which largely predetermines the degree to which they can report aid on budget at this and other levels of the budget cycle. ▪ For instance, some countries disburse a large proportion of their aid to government through NGOs, which are then responsible for implementing these funds and associated projects within the government sectors in which they operate. This adds another actor in the aid implementation process, setting additional hurdles to the process of bringing aid on budget. ▪ Other agencies, such as most agencies operating within the UN system, largely base their aid to the government on the provision of technical assistance, often financed by third-party agencies, which can sometimes be difficult to incorporate in the budget formulation process. ▪ In this respect, a key driver behind the growing volumes of aid reported in the budget in Mozambique has been the increasing use that donors are making of programmatic aid modalities.

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	Dimension	Evidence of Capture	Quality of Capture	Explanations
B3	On parliament	<ul style="list-style-type: none"> ✓ In the Mozambican context, the Assembly of the Republic has no legal authority to approve aid to the government. What it does approve is the national budget presented every year by the government to parliament. In this respect, inasmuch the budget proposal presented by the government to parliament incorporates, as part of its resource base, expected aid disbursements to the government the Assembly of the Republic does play an indirect role in debating and sanctioning the use that the government makes of the aid it receives from the donor community in Mozambique. ✓ Similarly, the fact that budget performance, including in its use of external resources, is also examined by the Assembly of the Republic, implies that parliament indirectly plays a role in assessing the use that government makes of development aid made available by donors and included in the budget. This budget review process takes place twice yearly during the debates organized to examine both the government's budget execution report –Relatorio de Execucao do Orçamento – and the implementation of the government's annual social and economic plan: the Balanço do PES. 	<ul style="list-style-type: none"> ➤ The quality of both the approval and review of the budget and its accompanying documents is generally considered weak (e.g. de Renzio & Sulemane, 2006). 	<ul style="list-style-type: none"> ▪ This is partly because parliament's lack of technical, human and financial resources undermines its ability to undertake a thorough analysis and control of budget proposals and execution, including in its external component. ▪ In addition to parliament's weak capacity, the 'politicization' and the underlying tensions between the (FRELIMO) government and the main opposition party, RENAMO, impede an in-depth and more objective examination by this chamber of the government's budget proposals and subsequent budgetary performance. Ultimately, these tensions end up by affecting the quality of parliamentary budget debates.

	Dimension	Evidence of Capture	Quality of Capture	Explanations
B4	On treasury	<ul style="list-style-type: none"> ✓ During the last decade, bringing aid on treasury has centered much of donors and government's efforts to bring aid on budget. In fact, improving aid capture at this level has been one of the main objectives of the donor-government on/off budget taskforce created in 2005 to increase the use of local planning, budgeting and PFM systems to manage aid-related funding. ✓ The overall degree of aid capture on treasury for PAP agencies is estimated at 43% of aid funding to government by this group of countries in 2006. ✓ As with ODA reported on budget, there is considerable variability within this group of PAP agencies in the extent to which they make use of the government treasury and payments system. Donor countries or agencies such Belgium, DFID, Finland, the Netherlands or Ireland currently disburse most of their aid to the government into the treasury, with this share above the 75% mark in all five cases. Others, however, have been particularly laggard in meeting the PAP target of 45%, especially Spain (19%), Portugal (13%) and Denmark (6%), although in this latter its low share appears to respond to Denmark's concerns over the use the Mozambican government was making of its aid funds. ✓ Outside this group of agencies, progress in using treasury systems to process payments of aid funds has been significantly slower, with the share of aid executed through Mozambican public financial mechanisms (i.e. disbursed through the treasury system) over total aid to the government of Mozambique estimated at 14.3% for Japan, just over 1% for United Nations agencies and 0% for USAID and funds from the GAVI Alliance. In this context, the Global ATM Fund emerges again as an exception within this group of non-PAP agencies with all of its funds to the government disbursed through the Mozambican treasury system 	<ul style="list-style-type: none"> ➤ Direct expenditure execution through the Single Treasury Account (CUT) system is still limited and almost non-existent for projects. Hence, estimates for 2006 suggest that only 4.3% of budget transactions, corresponding to 2.7% of total budget expenditure) were directly executed through e-SISTAFE. ➤ The system still cannot manage multi-currency operations, which has long been identified as an important impediment in bringing aid funding on treasury, although concrete steps in this direction are expected to take place still within 2007 (IMF, 2007). ➤ There is still significant work to be done by both donors and government to achieve the PAF indicator of having at least 60% of external funds (ODA) channelled through the single account system by 2009; approximately USD 900 million. ➤ In addition, there are still many agencies, namely at district level, that cannot operate e-SISTAFE to execute their budgeted funds, since they do not have the required facilities: regular electricity supply, IT systems or local banking facilities. Similarly, e-SISTAFE cannot manage all components of the budget, undermining efforts to bring all payments, including ODA funding, through the treasury system. Finally, not all client and contractors/suppliers' bank accounts have been included in the system. As result, a large proportion of the government's financial transactions continue to be undertaken under the old system of payments by cheque 	<p>Past Constraints:</p> <ul style="list-style-type: none"> ▪ In the past, a key factor deterring donors and recipient government agencies alike from using the Mozambican central treasury and payments system had been the lack of reliability, timeliness, flexibility and transparency of the Mozambican public financial management system and the associated problems of liquidity that frequently affected the central treasury. ▪ In addition, the way the treasury was originally conceived, made it burdensome and costly to process foreign currency payments for imports of goods and services, which were often an important component of these aid/development projects. In this respect, it was felt that disbursing and managing aid through the central treasury and payments system came at the cost of reducing the effectiveness of donor-funded projects in these areas. ▪ In some specific instances, donor agencies are barred by their own governments from using the local public financial management systems to disburse and manage the payments associated to the programs they operate in the field; or, similarly, their own financial management rules are not fully compatible with those operated by the Mozambican government <p>Drivers of aid capture on treasury:</p> <ul style="list-style-type: none"> ▪ Similarly to efforts to register aid on the budget, dynamics in the sphere of aid capture on treasury also appear to have been driven, to a considerable extent, by the growing that donor agencies in Mozambique are making use of programmatic modalities of aid disbursement and management. ▪ SISTAFE's PFM reform package which has allowed the government to address some of the problems constraining PFM operations and, therefore, have facilitated the process of bringing aid on budget at the treasury, public accounting and procurement system levels. ▪ The government has been working to merge all financial accounts into one single treasury account (CUT), and to bring all sources of funding –internal and external– under the umbrella of the Mozambican integrated budget and PFM system. This has helped to bring order and clarity to the treasury and, thus, increase its transparency, encouraging donors to disburse their funds through the treasury, and government agencies to rely on these systems more willingly.

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	Dimension	Evidence of Capture	Quality of Capture	Explanations
B5	On account	<ul style="list-style-type: none"> ✓ At this level, no precise and comprehensive estimates exist on the volume of aid funding to the government currently being processed through the Mozambican accounting system. ✓ By definition, all donor funds disbursed as general budget support are processed using accounting systems and, therefore, are captured <i>on account</i>. ✓ Also most aid funds channelled through common funding schemes in agriculture, education and health, which, since 2007, are being disbursed through the single treasury account (CUT) system. 		<ul style="list-style-type: none"> ▪ The stringent documentary requirements associated with the duodécimo system of advance payments, which, combined with difficulties that government agencies often had with meeting these documentary requirements on a timely and the numerous problems of mismanagement and poor accounting had led many donors to opt, altogether, for parallel and, consequently, off-budget, accounting arrangements in their dealings with government agencies. ▪ In this context, reforms being undertaken under the SISTAFE reform package are seen as being instrumental in encouraging donors to bring aid on budget, also at the accounting level. Hence, these reforms are leading to the simplification of documentary and accounting procedures. ▪ Still, one key precondition for success in this sphere and, in particular, for warranting that the roll-out of e-SISTAFE and direct budget execution translate into concrete increases in degree of aid capture on account is the existence of strong internal control and audit systems.

	Dimension	Evidence of Capture	Quality of Capture	Explanations
B6	On audit	<ul style="list-style-type: none"> ✓ In relation to the internal audit functions, at present the Inspector General of Finance (IGF) carries out periodical internal audits of the government policy and administrative systems. These audits have also included exercises that have examined existing public financial management practices and systems, and in some cases have included detailed assessments of systems and mechanisms in place within the PFM framework to manage aid funding. ✓ With regard to external audit functions, the State's General Account report (Conta Geral do Estado, CGE) is being submitted to the Mozambican Administrative Tribunal for its external audit since 2004. This external audit exercise includes an exhaustive analysis of the use made by the government of external sources of funding for each of the main priority sectors (e.g. health, education, water, agriculture, etc.), with a full section of the report devoted to this purpose. ✓ Since 2005, this analysis is not limited only to external ODA funding included in the budget (aid captured on budget), with the Administrative Tribunal now also auditing financial information received from the government on externally funded investment projects directly executed by donor agencies or line ministries and which do not appear in the state budget. This external audit is a legal document and fully available to the public ✓ According to the OECD (2007b), in 2005 32.9% of aid funding to the government was captured by the Tribunal Administrativo's annual external audit exercise of the 2005 Conta Geral do Estado (CGE). With some few exceptions (e.g. Canada, Germany, GFATM) the degree of aid capture on audit follows similar patterns to those reported at other levels of efforts to bring 'aid on budget'. 	<ul style="list-style-type: none"> ➤ In this sphere of internal audit, the 2007 Joint Review considers that there have been considerable improvements in the ability of the Inspector General of Finance (IGF) to undertake its role of internal auditor. Furthermore, these improvements have taken place in a context in which the number of internal audits this agency undertook in 2006 has more than doubled those undertaken in 2005. ➤ However, beyond this specific institution, the national internal control system, in the form of the various Internal Control Units established throughout the Mozambican public administration, remains weak, mainly as a result of lack of financial and human resources available to these institutions. ➤ In its review of the work undertaken by the Administrative Tribunal, the 2007 Joint Review reports that important steps have been taken to improve the external audit subsystem: <ol style="list-style-type: none"> 1. Hence, the Administrative Tribunal has recently concluded its Corporate Plan for 2007-2010. 2. There has also been a substantial increase in its external audit activities, with the number of financial audits increasing by 148% between 2005 and 2006, 55 audits being undertaken, for the first time ever, at the district level, and the number of audit pronouncements undertaken by this institution growing from a total of eleven (11) in 2005 to forty-five (45) in 2006. 3. Furthermore, in 2006 the TA was able to submit its audit report of the 2005 CGE to the National Assembly within the time limit established by law. ➤ Still, the Joint Review makes a call to improve the dialogue between the government and the Administrative Tribunal in order to solve the critical points repeatedly brought up in the TA reports. ➤ This review also finds that the work undertaken by the Administrative Tribunal continues to present important delays and the its reports on the General Government Account (CGE) are only made public after a lengthy legal process, reducing the transparency of this audit exercise. 	<ul style="list-style-type: none"> ▪

Putting Aid on Budget: Mozambique

	Dimension	Evidence of Capture	Quality of Capture	Explanations
B7	On report	<ul style="list-style-type: none"> ✓ The government has been working to improve its reporting on budget execution of external financing. In this line, the National Directorate for Public Accounts is now producing up to four quarterly Budget Execution Reports (BERs) and an annual consolidated financial statement known as the Conta Geral do Estado (CGE). ✓ Both documents report on budget execution levels for externally funded investment projects, as accounted for by the Mozambican national accounting office, the DNCP. In the case of the BERs, they do so following a similar structure to that used in the budget document, in terms of how information is organized and presented. For instance, investment projects are presented by source of funding, according to the organic classifier, including whether investment is internally or externally funded. ✓ According to the OECD, in 2005 aid capture on official financial reporting instruments reached almost 35% of total aid allocated to the government, with relatively similar shares for most countries and only three agencies having more than 70% of their aid to government included in these financial reporting exercises: Ireland, with 73.7%, the UK (78.6%) and the ATM Global Fund, which had all its funds reported by government. 	<ul style="list-style-type: none"> ➤ Still, it is important to note that execution levels reported in these documents for the external component of investment refer only to externally funded projects registered in the budget and which have been processed through the public accounts system. Therefore, it continues to leave out a very significant amount of externally funded investment projects that are not reported in the budget or, simply, not captured in the public accounts system. ➤ At this level of aid capture on report the 2007 Joint Review exercise reports considerable improvements in the quality of the budget execution reports. This is particularly so in relation to the new format used, the transparency of information included in these reports, and in terms of their timely submission, with further improvements expected as the volume of budget expenditure directly executed through e-SISTAFE's direct budget execution module increases. In this respect, it is noteworthy that in 2006 the BER was produced on the basis of information generated by e-SISTAFE. ➤ Still, at the same time it finds that greater efforts need to be put to increase the amount of information presented using the functional and programmatic classifier to increase the usefulness of these reports for government agencies and other stakeholders. ➤ in relation to the annual consolidated financial statement known as the Conta Geral do Estado the 2006 PEFA report of Mozambique finds this report: [...] <i>'is prepared on a regular basis. The detail of information in relation to revenue, expenditure, bank balances and financial assets may not always be complete but the omissions are not so significant as to undermine its utility. The level of detail on income and expenditure could be much higher than it actually is and is expected to be expanded with the new classification system for e-SISTAFE. Since 2004, the Conta Geral do Estado has been submitted for external audit within five months of the end of the fiscal year since 2004. The statements have been presented in a consistent manner over the last few years with some disclosure of accounting standards used, but there are points of inconsistency with international standards.</i> (Lawson et al, 2006: 37). 	

