



European
Commission



Independent Evaluation of Budget Support in Mozambique

Executive Summary

2014

Evaluation jointly managed by the European Commission, the Ministry of Planning and Development of Mozambique, and the evaluation departments of Ireland, Germany, Belgium, Italy, Finland, the Netherlands and France

Executive Summary

This study has evaluated all of the Budget Support operations undertaken in Mozambique from 2005 to 2012. These operations amount to a resource transfer of US \$ 3,354 million - an annual average disbursement in excess of US \$ 400 million, some \$16 per annum per head of the Mozambican population, provided by 19 Development Partners.

In evaluating these operations, our study has addressed three questions:

- i. How successful has Budget Support been in providing the means to the Government of Mozambique to implement its national and sectoral strategies?
- ii. How successful has Budget Support been in facilitating improvements in the efficiency and effectiveness of these national and sectoral strategies?
- iii. As a consequence, how successful has Budget Support been in attaining successful outcomes and impacts on growth and poverty reduction?

Overview of Findings

The primary contribution of Budget support has been in the form of increased funding. In relation to financial inputs, Budget Support inputs have been important and efficiently delivered. Disbursements during the 8-year evaluation period were substantial both in fiscal terms – where they represented on average 15 % of public spending, and as a proportion of total ODA, where they comprised an average of 30 %. Annual predictability of budget support has been significantly better than other other aid modalities. The objectives of in-year predictability and of “front-loading” of disbursements were also largely fulfilled during the evaluation period.

The inputs provided by the four common funds supporting PFM & Governance functions, alongside funding lines linked more directly to Budget Support operations, amounted to a significant TA/ capacity-building input within the Budget Support package. Government stakeholders were positive in their appreciation of these inputs, both with regard to their relevance and the relative efficiency with which they were provided. Moreover, there is evidence that these inputs facilitated the production of the “induced outputs” targeted by Budget Support, notably with regard to PFM reforms and the strengthening of the capacities of the *Autoridade Tributária de Moçambique* (ATM), the *Tribunal Administrativo* and the *Inspeção Geral de Finanças*.

Budget Support is no longer exerting a significant influence on the overall effectiveness of aid. In the early years of the evaluation period and in the preceding years, the Budget Support process was instrumental in generating support for aid effectiveness principles. A key aspect of this was the commitment by the Programme Aid Partners to monitor their own performance through the PAPs’ Performance Assessment Framework, which was widely heralded as major step towards mutual

accountability and highly valued by the Government of Mozambique. However, since 2009, performance against these indicators has plummeted. A firm renewal of the commitment to these objectives and a re-investment by the Government of Mozambique and its Development Partners in the aid effectiveness principles, will be required for performance to improve again.

Budget Support has supported the creation of an effective structure for dialogue, based upon the definition of policy targets and a framework of annual monitoring, comprising sector reviews and a national level policy dialogue.

The Government Performance Assessment Framework (PAF) fulfils its intended purpose reasonably effectively and compares well with the PAFs used in other Budget Support recipient countries. It provides a relatively strategic set of measurable targets, which have worked as a focus for dialogue. The number of targets is broadly appropriate and the process of assessment does not entail excessive transaction costs. However, the PAF has inherent limitations, and requires complementary frameworks in order to work effectively: these complementary dialogue frameworks are in need of further development.

The main structural weakness of the policy dialogue process lies precisely within the policy development process, which should be situated at the sector and thematic level. There are several problems of strategic importance to the PARP agenda – such as low productivity in agriculture, high levels of malnutrition, a poor enabling environment for doing business - where effective policy responses have not been generated. GBS has had only a limited influence on policy development processes at this level.

Through its funding contribution, Budget Support had an important influence on macroeconomic management. Good macroeconomic management, combined with increased allocations to the priority sectors, allowed Budget Support to have an important influence on overall growth. GDP growth remained high throughout the evaluation period, averaging 7.3 % annual growth.

Budget Support funds have enabled the government to increase development spending without recourse to domestic borrowing, and in this way has supported economic growth. Budget Support facilitated an expansion in domestically financed development spending from 3.2 % of GDP in 2005 to 6.1 % in 2012. By avoiding recourse to borrowing, the Government restrained its demands on the domestic banking sector and facilitated the increase in the ratio of private sector credit to GDP.

Total spending on the priority sectors designated in PARPA & PARP has more than quadrupled in nominal Meticais terms over the evaluation period, increasing by slightly more than 7 percentage points of GDP. As a percentage of total expenditure, these priority sectors have increased their share from 61 % to just over 67 % of total spending.

The major contribution of GBS funding has been to support the expansion of public spending in the education and good governance sectors, alongside a lesser contribution to the agriculture sector. We draw this conclusion from an analysis of trends in funding sources and sector expenditure shares,

making assumptions that reflect the processes of budgetary negotiation and decision-making in Mozambique.

By contrast the relative share of government funding (and thus of Budget Support funding) to the Health sector declined during the period, reflecting a rational response by Government to the increases in funding from vertical funds and, to a lesser extent, from the PROSAUDE common basket fund. These big increases in funding have brought important improvements in health outcomes but have also generated inefficiencies in resource management, whilst also raising concerns over the sustainability of the delivery structures and the large numbers of staff (in excess of 5,000 at end 2013) being financed outside of the national budget framework. Although the health sector has been a component of the GBS dialogue, evidence does not suggest it had any significant influence on health sector developments.

There has been continued progress made in PFM reform and, to a lesser extent, in governance. The fact that PFM reform and improvements in governance, especially the fight against corruption, were systematically discussed and reviewed on an annual basis through the Budget Support dialogue is likely to have been moderately important to the continued progress made in these areas.

There is strong evidence that the combination of GBS funding through the budget with targeted support to institutions of accountability such as the NAO, the Parliament, CSOs and the media has created more transparency. Targeted support through common funds has been fundamental to this achievement but Good Governance is one of two sectors that appear as the primary beneficiaries of Budget Support funds.

Education was designated as a 'priority sector' in PARPA/ PARP and has throughout the evaluation period commanded the highest share of the national budget. This has permitted dramatic improvements in education provision during the evaluation period:

40 % more children were in primary school in 2012 in comparison with 2004.

The largest gains in the observed increase in primary enrolment were for poorer households.

17.3% of children of the relevant age group were in secondary education in 2008/09, compared with a rate of 6.1% in 2002/03. Pupil numbers were 65 % higher in 2012 as compared with 2004.

In terms of provincial trends, progress was made across all provinces both in primary and secondary enrolment.

The primary enrolment rate for boys in 2008/9 was only 4% higher than for girls, indicating a small and gradually reducing gender gap at this level of schooling, although at secondary level the gender gap is much larger, at 40%.

Funding through Budget Support has played a key role in funding the expansion of the education sector. The expanded levels of provision could not have been financed in the absence of General Budget

Support. Funding through the FASE common basket funding also contributed, and FASE processes were instrumental in setting the policy framework for this expansion.

Our overall conclusion is that Budget Support has been fundamentally successful. It has made possible a major expansion in education provision, whilst also supporting economic growth and macroeconomic stability and facilitating steady improvements in the quality of public financial management and, to a lesser extent, in governance.. These are major achievements, which fully justify the risks which have been taken in providing Budget Support.

These achievements are still more impressive if one considers the difficult context for Budget Support. The first evaluation of Budget Support in Mozambique, which covered the period up to 2004, saw this new mechanism operating in a relatively favourable context. The period here evaluated – 2005-2012, presented a significantly more challenging context:

It has been a period of increasing scepticism over Budget Support from the side of the Development Partners and increasing disappointment with the aspirations of the Paris Declaration, with which Budget Support was associated. This has reflected itself in pressures to obtain quick results, to reduce investment in institutional development and aid effectiveness work, and to be increasingly risk averse.

It has been a period of increasing concentration of political power in Mozambique, which has distanced government from citizens and reduced the need (and perhaps the willingness) to listen to criticism and to alternative policy voices.

These factors have made more difficult the dialogue between government and the Budget Support providers by reducing the commitment – on both sides – to the joint process enshrined in the MoU for Budget Support.

Finally, the public policy agenda has been more technically and politically demanding.

Future prospects for Budget Support will depend critically on political developments during the 2014 election year but there are reasons to believe that the future context will be more favourable:

- Mozambique's forthcoming resource boom remains the biggest threat, opening possibilities for unsustainable foreign borrowing, and creating a potential incentive for less accountable and less transparent government. Resource extraction will not bring significant domestic revenues to Mozambique before 2020 but it has already opened up the opportunity for borrowing against these future earnings. The \$850 million recently borrowed by the Government for tuna fishing vessels for EMATUM and for naval patrol vessels is an indication of the sort of commercial loans potentially available. However, at an interest rate of 8.5 %, this is expensive financing and further borrowing at these levels could generate an unsustainable debt burden, particularly if the resulting investments did not themselves generate income. In addition, the investments associated with the resource boom will create significant opportunities for Mozambican businesses in the construction industry and in service activities. There are powerful incentives

for the political elite to secure preferential access to these opportunities, and to promote institutional arrangements, which avoid transparency and public accountability. To date, work on the design of the legal and fiscal infrastructure for the extraction industries has been undertaken in close partnership with the IMF and has drawn on a wide range of international advice. Laudable efforts have been made to reach EITI compliance. It is to be hoped that this approach continues and that government leaders, officials, CSOs and citizens can work together with their international partners to establish a mutually beneficial set of arrangements for managing the resource boom.

- Due to the rise of the MDM as a viable third party, the 2014 elections promise to be more tightly contested than in the past, potentially heralding a period of more responsive government. Frelimo as the incumbent government and the most established party will clearly hold the upper hand but it will need to be more mindful of voters' concerns than it has been in the past, if it is to avoid significant electoral losses.
- Steady economic growth and fast increases in domestic revenue have created a degree of fiscal space, which Mozambique has never experienced before. This permits the Government to contemplate an ambitious programme of public spending targeted on poverty reduction. Budget Support could allow such a programme to be quickly scaled up, without serious risk to long-term fiscal sustainability.
- The increasing demand for evidence-based aid strategies, combined with the availability of this evaluation creates a better framework for the design of effective Budget Support to Mozambique, building upon the favourable fiscal position.

Recommendations

The challenge for Mozambique and its Development Partners is to find ways of achieving more with Budget Support in the future – in particular to find ways of making a greater impact on poverty. There has been no statistically significant change in poverty between the early and the late 2000s, with 54.1% of the population reported below the poverty line in 2003 and 54.7% in 2009, according to the official poverty figures.

With this as the overarching goal, we make a set of recommendations for the joint consideration of the Mozambican authorities and its Development Partners. These recommendations need further refinement and development: their implementation will therefore require a shared dialogue between the Mozambican Authorities and the G-19, in which analysis and ideas are exchanged and a set of concrete actions is agreed and implemented. We recommend that this dialogue, and the resulting action plan, should be clustered around four objectives:

Renewing the commitment to the Budget Support process and the related aid effectiveness agenda based upon realistic expectations not only of what it may achieve but also of the investment of time and effort, which is required to make it work.

Revitalising the Budget Support policy dialogue, establishing a more streamlined central process for assessing and reviewing performance, and creating a stronger framework for sectoral policy analysis and dialogue, aimed at stimulating good policy ideas and actions in the areas where they are currently lacking.

Consolidating and deepening the progress achieved in education, in macroeconomic management, in PFM reform and in the improvement of transparency and accountability.

Focussing attention on poverty reduction through targeted programmes to reduce the incidence of childhood malnutrition, increase the access of small farmers to fertiliser and other inputs, and to create a conducive climate for business and employment growth.

Renewing the commitment to the Budget Support process

Within this objective, the basic goal would be to first stop and then reverse the disinvestment in the Budget Support process, identified by so many stakeholders in Mozambique. A potential way forward to obtain a renewal of the political commitment to Budget Support by the GoM and the G-19 members would be a structured campaign at the technical level by the GoM and the G-19 to present a more realistic message to their political leaders and supporting constituencies about what Budget Support can and cannot achieve.

An obvious problem in the past has been that the expectations held for Budget Support have been unrealistically high. What Budget Support can do is firstly to provide funding for areas, which are clear shared priorities and where tried and tested service delivery strategies exist – such as expansion of education coverage and quality – and secondly to support and guide those institutional reforms for which there is a government commitment.

Awareness also needs to be re-established regarding the commitments which Budget Support entails both for GoM – in terms of transparency, exchange of information, an openness to dialogue – and for the G-19 – in terms of a commitment to predictable funding, to consistency in expectations, consistency in the treatment of problems, and to aid effectiveness principles. The on-going revision of the MoU for Budget Support provides an excellent opportunity to lay down common rules, regulations and procedures more carefully.

As a part of this process, there will also need to be a commitment – and a related set of actions – to revitalise the processes of coordination across the G-19. An internal examination of the reasons for the deterioration in the effectiveness of coordination is recommended, based on a participatory process – potentially managed by an external facilitator.

Revitalising the Policy Dialogue process

Policy dialogue lies at the heart of Budget Support. It is essential that it should be structured to be strategic, problem-solving and efficient. At present, the combined structure of central-level, sectoral and thematic groups within the dialogue structure is not achieving these three objectives as effectively as it

might. Again, we would recommend an internally led, participatory diagnostic process, focused at two levels:

At the sectoral level, mechanisms need to be found to support effective processes of research, debate and policy development. These mechanisms need to be structured so as to strengthen policy development processes in the strategic areas, where they appear to be weak – such as in the design and implementation of agricultural policy. A structured, multi-annual programme of research and evaluation guided through the Budget Support process should probably be created as part of this mechanism. In addition, some facility could be created for bringing into problematic sectors external facilitators, who might help to bring a greater problem-focus into debate. Tanzania’s “Big Fast Results” initiative, led by the President’s Office provides a good example of such a facility.

At the central level, efforts need to be made to streamline processes and increase efficiency. Attention should be given to correcting the three areas of inefficiency in the current arrangements, which relate to (i) the annual review framework created to mirror the PARP structure, which has inadvertently introduced new transaction costs and over-complicated the dialogue structures; (ii) the continued lack of precision in the definition of underlying principles and the methods to be used to assess and monitor them; and (iii) the size of the PAF and the overly ambitious targets established in the recent past for these indicators.

Consolidating and deepening gains

Continued attention must be given to the success areas identified by this evaluation, while adapting to the new challenges with regard to macroeconomic management, PFM reform, governance and education.

For macroeconomic management, it will mean greater attention to the framework for investment selection and management and to the creation of the legal and institutional framework for managing future revenues from the extractive industries.

In relation to governance, the challenge is to convert gains in transparency into tangible gains in accountability.

For PFM reform, the challenge is both to strengthen the design of the PFM Reform Vision and to reinforce the institutional arrangements for the coordination of reforms and for the provision of support to reforms.

In relation to education, the challenge is to strengthen the degree of attention given to education quality issues and to dedicate more attention to poor-performing schools.

Focussing on targeted programmes to reduce poverty

Finally, we recommend an expanded programme of Budget Support focused on specific expenditure programmes and policies that might impact on poverty in the short to medium term. The main

shortcoming of Budget Support in the evaluation period has been the failure to reduce income poverty. However, this is not just a failing of Budget Support but of government policy as a whole.

The fiscal space now available to Mozambique permits the Government to contemplate an ambitious programme of public spending targeted on poverty reduction. Expanded provision of Budget Support could allow such a programme to be quickly scaled up, without serious risk to long-term fiscal sustainability. In addition to expanded social spending and investment in physical infrastructure as in the past, we would recommend new programmes of spending and policy reform focused on three areas:

A programme of social transfers and educational inputs targeted to address malnutrition.

A programme to improve availability of fertilisers and inputs for small and medium farmers.

A programme of policy measures, conducted in close collaboration with the private sector, aimed at improving the business environment and promoting employment growth.