

Mozambique political process bulletin



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Budget support continues but worries grow on poverty & governance

Donors have pledged to continue budget support for 2011 at the same level as this year, but planned increases have been cancelled and two donors are reducing contributions because of worries over governance. The group of 19 (G19) budget support donors (Programme Aid Partners, PAPs) are also concerned about the failure to reduce poverty.

Donor and lender money accounts for 44% of the 2010 government budget, said Planning and Development Minister Aíuba Cuereneia, in a 16 June statement. This includes both direct budget support and donor common funds which go into ministry budgets, which total \$807 mn. About half of the aid from the G19 donors goes via budget support and common funds.

Britain and Italy increased budget support by 2% and 5%, while Switzerland cut budget support by 40% and Sweden by a token 2%. The largest budget funders will be the World Bank (\$85 million) and Britain and the European Union (\$71 mn each). Sweden is next at \$41 mn. Denmark and Portugal have not confirmed pledges, which are expected to remain at this year's level. That means 2011 budget support will be around \$445 mn (the same as 2010, excluding an additional \$25 mn for this year from the World Bank due to the global financial crisis).

Documents

Key documents are on the website of the group of 19 budget support donors (G19, PAPs, Programme Aid Partners, Parceiros para o Apoio Programático) in a section "Annual Review 2010" http://www.pap.org.mz/annual_review_2010.html

**Government's angry attack
on donors –** see page 3

Donors admit

Poverty fall too slow

Poverty is not falling as fast as had been previously claimed, and inequality is increasing, admitted the outgoing G19 head, the Finish ambassador Kari Alanko, in his statement on 16 June.

This admission contradicts earlier donor and government rhetoric trumpeting substantial poverty reduction. Donors and government backed a much-challenged interpretation of the national family survey (IAF, *Inquérito aos Agregados Familiares*) to claim that the percentage of Mozambicans below the poverty line had fallen from 69% in 1997 to 54% in 2003, and would drop to 45% by 2009. This dramatic fall in poverty never happened. Indeed, rural poverty and inequality are increasing, according to recent surveys reported in a paper "Poverty is not being Reduced in Mozambique" by the London School of Economics Crisis States Research Centre, and posted on <http://www.crisisstates.com/Publications/wp/WP74.2.htm>

The G19 has responded by calling for the rapid approval of a new poverty reduction strategy paper (PRSP, PARPA, Plano para a Redução da Pobreza Absoluta) which “guarantees a rapid economic growth that favours the poorest and least favoured through the creation and expansion of jobs, the rapid improvement of the business climate, and support for small and medium enterprises”. The promotion of jobs and support for small business reflects a small shift by the donors to a more interventionist economic strategy.

And the G19 makes clear that it expects to be deeply involved in drafting the new PARPA.

Sector funds down

Pledges for sectoral and common funds are significantly down, from \$335 mn for this year down to \$263 mn for next year. There are significant cuts in education (\$111 mn down to \$85 mn), health (\$86 mn to \$75 mn), agriculture (\$43 mn to \$26 mn) and roads (\$36 mn to \$10 mn), but with increases for water (\$11 mn to \$15 mn) and a new common fund for fishing (\$8 mn).

In part, said Alkano, this reflects a shift by some donors toward projects and away from sector funds,

reversing the trend of recent years. Some donors have not confirmed programme funds yet. But ambassador Alkano points to a problem which he admits “deserves more study”. Under the Paris agenda, donors are expected to be involved in fewer sectors, and in the recipient country each area is to have a smaller number of donors, each with more responsibility. But, notes Alkano, where donors have withdrawn from sectors, their money is not being replaced by increases in the spending in that sector of the remaining donors.

The sharp fall in agriculture spending continues a global trend; in 2005 aid to Mozambican agriculture was \$82 mn. But the cut is surprising because the G19 argue that “since most Mozambicans live from farming, we believe that the agriculture sector will play the predominant role in reducing poverty. Therefore we consider that rural development in general, and agriculture in particular, must receive more attention in the coming years.” Alkano suggests that perhaps some donors are waiting for Mozambique to approve a new strategic agriculture plan (Plano Estratégico de Desenvolvimento do Sector Agrário, PEDSA).

Finally, in health there is a problem that the government still has not presented the audit and report for 2008 on the Prosaude programme.

Confrontations continue over governance

Governance remains a fraught issue between the G19 and government, and within the G19, which is divided on the issue. This was made clear by the outgoing chair of the G19 (Programme Aid Partners, PAPs), Finland’s Kari Alanko, in a 16 June statement, when he noted that a majority of budget support donors “maintained their pledges at the same level as for 2010, which demonstrates confidence in government plans. Nevertheless, the fact that in some areas of governance performance is considered unsatisfactory has caused some PAPs to reduce their pledges in relation to what had been in their long term plans.”

In his statement, Planning and Development Minister Aíuba Cuereneia replied that Mozambique was making “remarkable progress” in governance, with new municipalities, a new salary policy, a new justice plan and an anti-corruption strategy.

Displeasure at misconduct in the 2009 national elections and failure to make progress on governance and anti-corruption measures led the G19 in December 2009 to go on strike, and withhold budget support (but not other aid). The strike was strongly backed by a majority of the G19, but was not supported by southern European countries, the World Bank, and the European Union. It was finally settled on 24 March, with the government making few concessions; the G19 accepted government promises to move more quickly on anti-corruption measures and revising the electoral law.

The annual review in May showed that the present compromise is being maintained. In the 4 May donor evaluation of government performance (Annex 1 of the Aide-Mémoire), the donors say that

“the PAPs consider the performance on governance as unsatisfactory”, and that there has been no improvement in recent years. Nevertheless, the G19 considers the performance of the government overall to be sufficiently “satisfactory” to continue with budget support. A delicate line is being walked, with governance only mentioned in donor statements and not the joint Aide Mémoire.

Economic performance and improvement in “human capital” continue to be more important than governance, although worries about the failure to reduce poverty could shift the balance.

Of 39 indicators agreed by government and donors, government met only 18 targets. Government and donors disagreed over one target, but it was a sensitive one, on procurement. Government says it met the target. Donor response was harsh, saying not only was the target not met, but there are growing problems with tendering, with direct negotiation with suppliers, and with a lack of transparency and integrity in procurement.

Only 2 of 9 economic development targets were met, although there was progress on the others. Government did particularly poorly in agriculture, and the G19 says it is “preoccupied” with this poor performance.

Nevertheless, Alkano in his 16 June statement stressed that donors are pleased with the expansion of services such as water and schooling, economic growth, inflation under control, and increased tax collection.

Political dialogue is a ‘cloak of confusion’

Government in angry attack on G19 over donor strike

Government anger at the donor strike exploded in the 4 May government evaluation of donor performance (Annex 2 of the Aide-Mémoire), in an unprecedented and bitter attack on the donors. Government says discussions “often degenerated into mutual accusations, suggesting that at some point the relationship between the GoM [government of Mozambique] and the PAPs ceased to be a partnership,” and that there has, in general, been a “gradual weakening of the partnership”.

G19 donors are attacked for “pursuing agendas not present in the MoU,” the memorandum of understanding on which budget support is based. “The partners surprisingly tried to change the dynamic of 2010 commitments according to their perception of what happened in 2009 [and their view of] the need for the GoM to change the electoral law, improve transparency in economic governance, [and] accelerate the legal reform.” This was in the name of political dialogue, but “‘political dialogue’ currently appears to be a cloak of confusion. ... The question remains: at what levels can the ‘political dialogue’ be made, with whom, when and on what, and how to integrate it positively in the partnership’s framework?”

Finally, government accuses the G19 of a “tendency to take an almost ‘biblical’ approach in the interpretations of concepts and paragraphs of the MoU without regard to a specific context.”

The donor strike clearly changed the relationship, and government concludes by demanding changes in the way targets are established and in the complex structure of the working groups, “simplifying the architecture [of the agreement] is a very substantial way.”

Some donors are concerned

Some donors expressed concern about the changed relations in interviews for the *Independent Evaluation of the PAPs’ Performance in 2009*. There was agreement that “the spirit of partnership has been weakened”. It was noted that the new Memorandum of Understanding (MoU) signed last year “is perceived by partners [donors] as being asymmetrically in favour of the PAPs, being produced under great pressure and being accepted by the GoM in order to ensure disbursements.”

Interviews with donors for the independent evaluation also point to the tensions within the group caused by the donor strike. “The increased weight of the political dialogue, as against the technical

Stop telling ministers what to do

“At this point it seems that any technical staff on the side of the partners can make political dialogue at any time, which is not admissible. Technical staff may not engage in this kind of dialogue, much less try to give instructions to national directors and ministers,” argued government in interviews for the *Independent Evaluation of the PAPs’ Performance in 2009*

“Partners continue to involve themselves in certain areas where they have no technical qualifications. Therefore, they want impossible things done in impossible times. Sometimes the dialogue is undermined by a lack of technical capacity to understand the questions. There is no coherence and unity among the donors on technical questions, with some saying one thing and others wanting something else,” government officials said.

dialogue, in the interactions between the PAPs and the GoM has had varying interpretations. Some partners have indicated this as a great success, but at least half of the PAPs and associates indicated that they had reservations about this development and see this change as a threat and a problem. Some partners mentioned that this issue is dividing the group and reflects the tensions and conflicts on the centres around which the political dialogue is structured. The polarization of positions is leading to a weakening of the unity of the group.”

Daily donor visits

A donor mission arrives in Mozambique every working day. The G19 sent 167 missions to Mozambique in 2009, compared to 165 in 2008. The

target for 2009 was just 100, of which 40 were supposed to be joint, between two or more donors. Of the 167 missions, 25% were joint. In addition the UN sent 129 missions (30 joint), for a total of 296 donor missions – meaning more than one mission every day.

Of the G19, the World Bank sent the most missions, 43 (of which 18 joint), followed by the

African Development Bank (27, 5 joint) and Germany (21, of which 13 joint). Next comes Finland, then chair of the G19, with 16 missions, none of which were joint with other donors.

The government in its comments on the G19 stressed the donors continued failure to meet the agreed targets and the “negative impacts on transaction costs for the Government”.

G19 countries grouped by aid size and performance

(performance) (aid size)	Very good	Medium Upper	Medium	Medium Low	Low	Total
Very large	UK, EC		Germany, World Bank			4
Large	Netherlands, Sweden	Canada	Denmark, Norway	ADB	Portugal	7
Medium	Spain	Ireland	Finland, France			4
Small	Switzerland, Austria	Italy	Belgium			4
Total	7	3	7	1	1	19

From: *Mozambique: Independent Evaluation of the PAPs' Performance in 2009*

Donors also miss targets & are not improving

For the past six years, the budget support donors have also had agreed targets, and these are evaluated independently, in recent years by the Institute of Social and Economic Studies (Instituto de Estudos Sociais e Económicos, IESE) in Maputo. It's *Independent Evaluation of the PAPs' Performance in 2009* reports that donor performance was only “medium”, identical to 2008 and similar to 2006 (following significant improvements in 2004 and 2005).

Seven donors are rated as very good: Britain and Switzerland (each with 36 of a possible 38 points), the European Commission, the Netherlands and Sweden (33) and Austria and Spain (32). As last year, former colonial power Portugal is the only “low” performer, with 13 points. Portugal is also the smallest contributor, spending only \$1.5 mn in budget support to buy a seat at the table. It also has the highest percentage of aid (96%) going on projects.

The evaluation finds an improvement in donors using the national audit system and coordinating technical cooperation, and a slightly increased share of aid as “programme aid” – going to budget support, sector programmes and ministry budgets, rather

than to donor defined projects. But predictability of aid was actually worse, and five donors failed to disburse at least one payment on time: Canada, Finland, Ireland, Portugal and Belgium.

The study does note, however, that the G19 are much better than other donors who are not part of group.

Government calls for independent evaluation

“It will be necessary to modify how the evaluations of partners and of the GoM are carried out for the annual review. The two evaluations (the partners’ and GoM’s) should be made by independent teams (rather than the partners’ assessing the GoM and an independent consultant evaluating the PAPs)”, suggests the government in its comments on the independent evaluation.

Government also complains that donors don’t pay attention to the independent evaluation. “The report has been produced but is not sufficiently studied and used. Each group reads the part that interests them (their own agency) and pays little attention to the whole report and its

The G19

The 19 budget support donors (G19) are Austria, Belgium, Canada, Denmark, European Commission, Finland, France, Germany, Netherlands, Ireland, Italy, Norway, Portugal, Spain, Switzerland, Sweden, United Kingdom, and the World Bank. In addition, the United States and United Nations are associate members of the Programme Aid Partners. The IMF is an ex-officio member.

recommendations. The report is often quoted, but more often to justify a position, but is not sufficiently detailed and used by partners and by the GoM.”

“The recommendations are repeated from report to report, sometimes without visible impact.”

In their comments, the donors accept the criticism. “Overall, the report continues not to be revised and studied in detail and its findings and recommendations considered for further analysis. With rare exceptions, the PAPs do not receive responses from their countries’ governments to the results of the study, do not exchange information and views among themselves about the study, and do not use the study to influence their action plans and approaches.”

And donors add a new point: “Some PAPs are, intentionally or not, contributing to the study becoming a dispute about words, sentences, paragraphs and interpretations of other similar

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aspects, which renders the process irritating and exhausting and contributes to diversion from its objectives and main functions.”

Structure of the aid portfolio 2009, with shares for different aid modalities

Donors	Aid to government						Total ODA not to government	Total 2009 ODA for Mozambique
	Programme aid			ODA Projects for the GoM	Provincial Budget Support	Total ODA for the GoM		
	General Budget Support	Sectoral Programmes	Total Programmatic ODA					
ADB	40%	0%	40%	60%	0%	100%	0%	\$78 mn
Austria	46%	14%	61%	32%	0%	93%	7%	\$10 mn
Belgium	0%	14%	14%	30%	0%	44%	56%	\$10 mn
Canada	19%	56%	76%	14%	1%	90%	10%	\$59 mn
Denmark	11%	26%	37%	38%	0%	75%	25%	\$83 mn
European Commission	55%	19%	73%	22%	0%	95%	5%	\$155 mn
Finland	27%	61%	88%	9%	0%	97%	3%	\$38 mn
France	13%	19%	32%	65%	0%	97%	3%	\$22 mn
Germany	19%	39%	58%	33%	0%	91%	9%	\$112 mn
Ireland	28%	56%	84%	0%	5%	90%	10%	\$53 mn
Italy	24%	10%	34%	17%	0%	51%	49%	\$22 mn
Netherlands	28%	46%	74%	13%	0%	87%	13%	\$92 mn
Norway	38%	18%	55%	30%	0%	85%	15%	\$68 mn
Portugal	3%	1%	4%	95%	0%	99%	1%	\$56 mn
Spain	27%	19%	46%	10%	5%	62%	39%	\$37 mn
Sweden	48%	18%	65%	25%	0%	90%	10%	\$90 mn
Switzerland	38%	27%	65%	13%	0%	78%	22%	\$18 mn
UK	59%	29%	88%	2%	0%	90%	11%	\$119 mn
World Bank	43%	17%	60%	40%	0%	100%	0%	\$255 mn
TOTAL PAPs	35%	25%	61%	29%	0%	91%	10%	\$1,376 mn
United States	0%	0%	0%	100%	0%	100%	0%	\$263 mn
United Nations	0%	3%	3%	82%	3%	88%	13%	\$107 mn
TOTAL PAPs + UN + USA	28%	20%	48%	43%	1%	92%	8%	\$1,746 mn

From: *Mozambique: Independent Evaluation of the PAPs' Performance in 2009*

Commitments for 2011 (million US\$)

Country/ Agency	General Budget Support	Public Sector Reform UTRESP	Tribunal Administrativo ATA	Education FASE	Health PROSAUDE	HIV/AIDS CNCS	Water ASAS	Social Action INAS	Agriculture PROAGRI	Tax/Autoridade Tributaria TAA	National Statistics INE	Roads PRISE	Sistafe UTRAFE	Fisheries PESCAS	Decentralization PNPFD	Rural Water and Sanitation Pronasar	TOTAL
Af Dev Bank	26.7																26.7
Austria	4.6								0.7								5.3
Belgium										1.4			1.4				2.9
Canada	13.3	1.3		23.0	8.0	1.4			3.5		1.3					0.4	52.2
Denmark		2.2		11.0	7.0	0.7					1.1	2.6	6.5				31.1
European Commission	71.4				10.0												81.4
Finland	10.0		0.7	10.0					9.8								30.5
France	2.9																2.9
Germany	21.4		1.1	22.9		0.7				1.4							47.6
Netherlands	25.7				10.0		1.4	1.9							1.4	6.4	46.9
Ireland	15.7	0.4		6.3	19.3	0.9			1.1						0.4		44.1
Italy	5.7				1.1				8.4		0.7		0.4				16.4
Norway	24.8										1.7		2.3	7.9			36.7
Portugal				0.4							0.4						0.7
Spain	10.0			2.9	4.3					0.5					0.7	1.6	17.1
Switzerland	4.1				4.3												11.3
Sweden	41.5		2.1						2.6			4.0					50.2
United Kingdom	71.1			7.1	11.1	0.6		3.2				2.9				3.9	99.8
World Bank	85.0														9.0		94.0
UN/Unicef				1.0	1.2											1.0	3.2
UN/UNFPA					0.5						0.3						0.8
Total	433.8	4.0	4.0	84.4	76.7	4.4	1.4	5.0	26.1	3.4	5.5	9.5	10.7	7.9	11.6	13.4	701.8

Belgium's budget support of \$4 mn goes via the European Commission and is included in that total.